

**Governance and leadership challenges for third sector organisations:  
Core purpose vs. end purpose**

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## INTRODUCTION

Within a broader debate of the role of the third sector in the New Zealand society (Grant Thornton 2011, McMorland & Erakovic 2013, Tenbenschel, Dwyer & Lavoie 2014), this research examines the challenges that non-profit organisations (NPOs) face in defining and defending their core purpose. Many of these organisations “willingly” become service providers and implementers of state policies. Often, their voice of community is lost in or subjugated to the contractual arrangements with the government (Elliott & Haigh 2013).

In this paper, I investigate the work and capabilities that non-profit leaders and governors require to ensure the sustainability of their organisations. Changes in social and economic policies, competing demands, financial viability, cross-cultural issues, and increasing impact of social networks are just some of the factors which urge NPOs to re-evaluate their core purpose. This study examines the following research questions: (a) What are major challenges that NPOs need to address in formulating their core and end purposes? (b) How to hold an organisation responsive to its mission and principles (core purpose), while meeting the requirements of its members, funding agencies and the government for financial stability and sustaining service delivery (end purpose).

At the heart of this paper is the notion that governance structures and practices need to be responsive to the changes in the environment. Governance is neither a static concept nor definitely prescribed framework existing independently of contextual and temporal developments. Organisations are always contextually situated in time and place. Interaction with context stimulates the emergence of complexity within organisations. In turn, increasingly complex organisations engage with their contexts to modify and change them. This is especially true in NPOs with commitment *sui generis* to enhancing the common good. Dynamic interaction amongst organisational arrangements (capacity), skills and knowledge of individuals (capability), context, and work complexity creates momentum for change.

This paper is structured as follows. It first provides an overview of the literature which considers various governance challenges in contemporary NPOs and outlines the theoretical foundation of the research. The next section describes the empirical study and reports its findings through a discussion of common themes which emerged from data. The final section offers concluding comments.

## CONCEPTUAL FRAMEWORK

The theoretical uniqueness of this research is in integration of governance and leadership ideas. A theoretical rapprochement between the two fields has positive repercussions in terms of fresh

empirical insights (Erakovic & Jackson 2012). Organisational governance provides the framework for the relationships among organisational core stakeholders (boards, beneficiaries, managers, donors, community in NPOs). Leadership, on the other hand, provides the motivation and drive to make these relationships effective towards achieving organisation's goals (Davis 2006).

The transition of governance roles from organisational guardians to organisational leaders has been described as a positive development by many governance researchers (see Chait, Ryan & Taylor 2005; Cornforth & Brown 2013). NPOs' stakeholders expect from their governors to represent and act – not just define problems and control solutions. These expectations demonstrate a radical shift from orthodox components of governance to potentially more powerful features – value creation (Huse 2007). Championing a vision of the organisation (formulating and holding the core purpose) and steering the organisation through challenging times (strategically coordinating the end purpose) are in the essence of the board's value creating activities. 'Discovering' the board's value creation as a leadership activity can enhance stakeholders' trust and commitment to the organisation.

The traditional (corporate) governance research has tended to emphasise a static, one-dimensional view of governance that narrowly emphasises the central importance of developing a normative approach to research rather than a more expansive, dynamic and thickly descriptive approach to its subject. Consequently, there is a general feeling that corporate governance research has failed to exploit its full potential in terms of its potential scope and practitioner impact (Filatotchev & Boyd, 2009), and to offer constructive input to other types of organisations such as non-profit organisations. Part of the reason for this has been the field's preoccupation with agency theory as a conceptual framework (Daily, Dalton & Cannella, 2003; van Ees, Gabrielsson & Huse, 2009).

Some researchers, however, have discovered new ways of conceptualising governance by breaking away from the theoretical frameworks that have historically dominated the field and, have applied new approaches (e.g. contingency, behavioural and evolutionary) in an effort to generate some fresh understanding of the complexities inherent to governance processes. In one such shift, researchers bring to the fore the investigation of actual rather than supposed board behaviour. This involves viewing the board through a behavioural perspective lens (Huse, 2005).

The fundamental principles of behavioural theory assume that the purpose of the board is to add value to the organisation by aiding it, not in the sense of maintaining control over it, but through communication and collaboration, "engaging in collective processes of search and

discovery” (van Ees et al., 2009: 308). Legislation may serve a purpose in realigning the intentions of directors and executives “straying from the path of good governance” (Kocourek, Burger & Birchard, 2003: 6), but good governance in the real sense will only occur when the individuals concerned consciously *choose* to govern well. In the situation where the governance is reduced to a check-list exercise, the potential for leadership is lost; there is no space for leadership to express itself through discernment, discussion and good decision making. It is through the lens of behavioural theory that researchers have started to explore the board’s value adding processes (Huse, 2009).

The board’s leadership role (or value adding role) has not yet been properly ingrained in common understanding or theoretical conceptualisations of governance literature. Chait, et al. (2005) have addressed the issue of leadership in governance by creating a framework to address the problem. The authors (2005: 6-7) suggest a framework with three ‘modes’ of governance: (1) the fiduciary mode, where boards are concerned primarily with the stewardship of tangible assets; (2) the strategic mode, where boards create a strategic partnership with management; and (3) the generative mode, where boards provide a less recognised but critical source of leadership for the organisation. It is suggested that when trustees (or board members) operate in all three of these modes, the board achieves a state of ‘governance as leadership’ (Chait et.al., 2005).

The essence of the generative mode is to move beyond the boundaries of “performance and conformance functions” of the board (Tricker, 1994) and to look towards the future. It is in this mode that leadership is most likely to be able to develop. It is fundamentally collaborative and relational and it occurs in the interactions between the board, management and other stakeholders. Each actor is vital to the governance process, as each has its own views to offer in developing a comprehensive, multi-dimensional picture of the organisation’s future. In this way, the board’s focus moves away from “aggregating different interests towards sharing the commitment to develop the [organisation]” (Christnesen & Westenholz, 1999, p. 274). This position complements an emerging perspective in governance research according to which governance structures and processes develop interdependently within distinctive organisational contexts.

Once board members understand the organisational context and their purpose, the hope is that they may conceive ways in which they can individually and collectively contribute to adding value to the organisation. The board’s contribution to the NPOs core purpose (mission and strategy) is an important value adding activity and something that is genuinely considered to be the purest demonstration of the board’s leadership role. Although this is widely

recognised in conventional governance practice, the nature of and extent to which the board should be actively involved in shaping strategy is still hotly debated within the governance literature (Pugliese, Bezemer, Zattoni, Huse, Van den Bosch & Volberda, 2009).

The prevailing view as noted by Chait et al. (2005) remains unchanged -- the board members are still not utilised anywhere near as much as they could and should be as strategy shapers. The authors (2005) assert that many boards are ineffective because board members are dissatisfied with their role and are only formally engaged in the organisation's affairs. Researchers and practitioners argue that it is of vital importance for any organisation to have an active and engaged board. A number of studies considering NPOs (e.g., Brown & Guo, 2010; Edwards & Cornforth, 2003; Inglis, Alexander & Weaver, 1999) have indeed revealed that increased involvement on the part of trustees in strategy formulation, strategic decision making, and strategic restructuring leads to higher levels of organisational performance especially in the situation of environmental uncertainty (Brown, 2005; Green & Griesinger, 1996).

Taking a 'leadership' perspective, the board can and should provide active support to management in strategy formulation and implementation (Huse, 2007). There is a growing demand by donors and management of NPOs for board members to play an active rather than a passive role in guiding an organisation's future development. By drawing upon their external knowledge and expertise, the board members are in an excellent position to advise management on important strategic issues for the organisation to face and to provide them with the access to external resources that management would otherwise not be able to have. Through these activities board members add value to the organisation's end purpose and contribute to the overall mission.

## **RESEARCH DESIGN**

To address the study research questions I undertook a qualitative study with a diverse group of participants representing a variety of New Zealand NPOs. Participants were selected with the intention of securing knowledgeable individuals and multiple perspectives. The study included board members and chief executive officers (or general managers) from sports, arts, community development, social service, health service, environmental, and religious organisations and associations at the national and regional levels. It also involved respondents from NPO funding agencies as well as third sector consultants, researchers, and public policy makers. The study aimed to provide a broad view on the pressing issues faced by boards in the

non-profit sector in New Zealand. Considering this, I believed the selected range of organisations (and participants) would provide valuable information.

In total I conducted 40 semi-structured interviews. The major topics were developed prior to the interview, but I used the opportunity to further discuss the areas which arose during my conversation with participants. I would begin the interviews by asking the participants about their view on the roles and responsibilities of board members in NPOs. This was followed by more specific questions on board's role in developing and maintaining relationships with the government (contractual arrangement) and other stakeholders, participants' stance on advocacy activities, the influence of different sources of revenue on the role of governing bodies, and conflict of interest at the board level. The further set of questions explored major skills and leadership values in the NPO board settings. The interviews concluded with the set of questions about the major challenges that the boards of NPOs will face in the next five years. The interviews were 45 to 90 minutes long. All interviews were recorded and fully transcribed by a professional service. Data was collected in late 2014.

Data collection and data analysis proceeded concurrently. Each new interview further explored particulars about critical issues revealed in the preceding interviews. The interview data was analysed using thematic analysis (Huberman & Miles 2002). The first level, thematic, categories were identified inductively from the data, whereas the second level, emergent, themes were informed by established concepts. The process of analysis was iterative. The developed categories/themes were constantly re-checked. The final themes represented the salient issues in governance relationships from the perspective of my respondents.

## **EMPIRICAL FINDINGS**

My research examined the work and capabilities that non-profit leaders and governors require to ensure the effectiveness and sustainability of these organisations in the future. Figure 1 illustrates the final data structure, showing the themes and indicating relationships between them.

In trying to understand the major challenges that board members and executive officers in NPOs face, my analysis generated evidence related to four prevailing themes: *Environmental drivers*, *Acting in public interest*, *Organisational capacity*, and *Board's role*. In what follows, I illustrate these themes by presenting, and commenting on, the notable quotes from the interviews.

## Theme 1. Environmental drivers

The environmental factors that surround a NPO determine the strategic opportunities available to it. These factors are major moderators in strategic capabilities of organisational governance bodies, as some participants see them as constraints and others as opportunities.

Both the board and management have to be familiar with the environmental factors that shape an NPO's work. Being vigilant about, and responsive to, these influences requires capacity (people, time and effort) and capability (clarity of vision, political acumen and an extended time horizon). Five major factors identified in our study are: *governmental pressures, importance of social media, donors' expectations, and outside perspective on the non-profit sector.*

**Governmental pressures.** When the government changes after an election there is an inevitable policy shift to left or right. Existing national strategies and their respective implementation plans are all likely to be reinterpreted by successive cabinets. Government policy determines what activities a government ministry will contract, and constrains agencies that receive government funding by requiring them to adhere to these policies. Boards need to be aware of such political eventualities, and the financial repercussions of new political directives, and use this knowledge to guide their own planning. As one of the participants noted:

*"Funding, funding, funding. Government policy, we have to keep right on top of that because I think there's a danger now that we've got a third and possibly a fourth term of the current Government actually pushing and pushing the sector in a direction that the sector will not like. That's by way of turning it into a servant to Government. I think there's quite a lot of signs of that." (Chair, a social service NPO)*

**Importance of social media.** An emerging body of literature on social media and non-profit sector (e.g., Guo & Saxton 2014; Lovejoy & Saxton, 2012) demonstrates an importance of social media for the NPOs' sustainability. Social media is claimed to help organisations to develop better relationships with their stakeholders (beneficiaries and donors), to mobilise resources in almost real-time, to rich and enhance their communication with much larger audiences, and to influence public policy (to implement their advocacy strategies). Almost all participants in my research highlighted the influence of social media on their organisations or board functioning. Below are some examples:

*"I think obviously social media's going to change a huge amount of things for people [board members]. I think you've got a little bit of a double whammy there because you've got an awful lot of 'snail mail' board members who don't really appreciate the impact that social media has. It's got phenomenal reach but it isn't deep. So you can end up with enormous awareness but actually not specifically a great deal more commitment or depth of understanding. I think all not-for-profit organisations are going to have to develop a really*

*strong social media strategy. It's going to be critical. Otherwise if they don't, they're just going to lose their intention.”(CEO, an educational NPO)*

*“I think with the prevalence of social media that you have to be really careful about what's a personal issue that you're advocating for through social media and what's the representation of the organisation. I've sort of been aware of that and advised about caution around that myself as well as probably advising in that space.” (CEO, a community funding agency)*

*“Board members are probably not as focused on developing and maintaining relationships with other organisations from their wider environment as they might be. I do see kind of a changing demographics because if you take Facebook and LinkedIn and the new social media channels, the networking opportunities and delivery channels are quite different. Social media, is a two-edged sword and that will probably govern a lot of behaviours 'cause you can only do so much through the digital world; you actually do in fact need to sit in front of people as well and stare them down and share the passion which is an important factor as well. I would say that whole networking dimension is one to be monitored and I think past behaviours may not be a good indication of future behaviours in terms of the agendas of not-for-profits are changing in terms of their outreach.” (NPO consultant)*

As demonstrated above, my research participants identified various facets of the use of social media, such as building relationships with other organisations, promoting the organisational mission and aims, and advocating for social change. They also point out that the majority of NPO board members do not understand the opportunities social media offers, and the threats and deficiencies it bears.

**Donors' expectations.** The 'strategic' elaboration of the core purpose is particularly important when NPOs are dependent on the generosity of philanthropists and public donors and vulnerable to swings of fortune when other causes catch the public's attention. This puts NPOs in the game of jostling for recognition and, in some cases, of marketing for emotional appeal (babies and puppies), rather than the actual causes behind the 'brand' (poverty or disability).

In many NPO organisations donors play a powerful role, and definitely have more control than the recipients of their donations (Ostrander, 2007). Some actively participate in NPOs programmes, others sit on the board or facilitate partnerships with other organisations. Increasingly donors encourage the board and management to establish proper monitoring systems by designing a set of performance measures that monitor intermediate outputs (end purpose) as well as ultimate outcomes (core purpose). The following example describes this requirement:

*“Donors drive major changes in governance. I believe the big movement coming in from offshore and the bit that we've adopted is: impact. I think donors should be able to see impact statements. What difference are we making? To me, that is the most significant movement that's going on in the not-for-profit. The questions being asked repeatedly by funders is funding has got tougher since '08 with the recession. The question is, what*



*difference are you making? I don't think many of the not-for-profits spend enough time measuring the difference they make. That should be measured. The funders should know what the difference is. That's probably, to me, one of the most important things. I still think that one of the difficult areas is the thinking about who should be on the board and the process of getting competent people there."* (Chair, a social service NPO)

**'Outside' perspective on NPOs.** A number of authors have discussed current prevalent perspectives on NPOs and the non-profit sector. Most of them emphasise their increasing role in the delivery of publicly funded services (e.g., Eikenberry & Kluver, 2004; Suarez, 2011; Tenbensel, Dwyer & Lavoie, 2014) which was attributed to the spread of new public management approaches in contracting out the public services. This perspective is exemplified in my research as per comments below:

*"Some people see the sector as a source of cheap labour, a source of actually delivering services and that's the beginning and end of it. So, we then have a debate about contracting, about tendering, about fair payment for services. ... [We need] to reclaim our space as a sector, reclaim our dignity, our role as the third sector alongside the state and the market and as an essential part of a healthy and vibrant and democratic society."*(General Manager, a national umbrella organisation)

*"Certainly government decision makers see the sector in that way. It is seen as a safe way for the government to be able to pass over responsibility for service delivery activities to someone else without the dangers of passing it over to the for profits sectors."*

*"I am a bit flummoxed by this because I have always seen the role of members in NGOs to work for social change and that the delivery of services is purely a mechanism for doing that, but other people are coming at it as a way of creating a business. Then similarly I think there are people on boards of many of our NGOs who also have now slipped into that framework of thinking that the main function of their organisation is to run a business and to earn money and to get contracts because that's the paradigm that many board members are inducted into."*(CEO, a community-funding agency)

The 'outside' understanding of the sector in many ways determines the balance between the core and end purpose in NPOs. If these organisations are perceived as services providers (end purpose), as many of my research participants claimed, then their civic engagement (core purpose) might be restricted. What are then the responsibilities of the board members in re-establishing this balance? This question determines the composition of NPO boards, board members formal and informal actions, and their relationships with outside stakeholders (Guo 2007; O'Regan & Oster, 2000).

## Theme 2: Acting in the Public Interest

The title of Stone and Ostrower's (2007) article serves well as a descriptor of this second theme, which embraces issues in the board members' ability to recognise, reason, and act in the public interest.

**Understanding changes in social needs.** The cultural mix of New Zealand's population is a significant factor in determining what services are needed, as are the demographics of urban and rural communities, and the geographical distribution of particular populations. An important task of NPO boards is to understand the needs of their members and beneficiaries. This task requires individual and collective capability of boards to read and evaluate the signals of change, and to craft the rationale for their choice of action. The following comments illustrate this challenge:

*"One of the things that have happened in the city in the last 20 years is the city around us has completely changed. Where there was pretty much no one living here 20 years ago, there is now 20,000 people within a few blocks; and we haven't noticed here about that. Most of the people who come to church here come from all over Auckland, some of them drive an hour to come to church because of our very liberal theology and our beautiful music. And in the meantime all these people have moved in next door and we haven't really noticed. So my main focus for next year is going to be hiring a person whose job is going to be to figure out who our neighbours are, and what they might want and need from us. And do that kind of connection with those people. They are going to be immigrant groups, Chinese groups, students – all of that – so that is going to be a major piece of work for us in the next year."* (a church vicar)

*"I certainly feel that most of our discussions are in the here and the now, so we're making a decision because it's the right thing to do right now. That would probably be reflective of maybe a third or a quarter of our board. I think the business, the appointed, members would very much be decisioning for the greater good of New Zealand. We spent a lot of time over the last couple of years helping the elected members understand that their board role is not to represent the families of their own town, their branch or their region. It is to respect those views but to reflect the views of New Zealand Inc., so all the families of New Zealand, irrespective of where they live, and where they come from."* (Chair, a social service NPO)

These two quotes exemplify typical issues that New Zealand NPO board members experience. Many boards are not sensing, or are ignoring, rapid changes in the demography and needs of the larger community. Their understanding of social needs is often parochial and partial.

**Making societal impact.** Every purposeful organisation is based on one or more theories of action (Argyris & Schon, 1978). That is, board and management believe that by undertaking certain activities they will bring about certain outcomes. Theories of action help boards explore and choose between strategic choices. A board's strategic choices express leadership based on mindful and explicit statements of intent. The assumption is that most NPOs are working (to a

greater or lesser degree) for social change. Boards are accountable to either their members or, as trustees, to a wider moral sense of some aspect of the common good. They need to determine where the organisation stands on certain values and how far it should go in its efforts to bring about its mission and objectives (McMorland & Erakovic, 2013). The lack of attention to societal impact and an overemphasis on programmes and organisational operational survival are exemplified in the following quotes:

*“The national nonprofits have that common good aspect, but I think a lot of them are entrenched in their local environment and they don’t really think about that bigger picture. If you’ve got a small sports board in Whangarei, they may not see a need to think of the common good that they’re addressing.” (CEO, a regional sport NPO)*

*“It’s all about that the only way of measuring success is in monetary dimensions. In actual fact if we were prepared to redefine success and profit we would be a completely different society. Just our measures, I’d question are they sustainable? Are they really fulfilling and are they really the things that matter? And that for such an intelligent species, we’re actually quite thick when it comes to really figuring out what it’s all about.” (Chair, a social service NPO)*

*“Sometimes very professional people on Boards, very corporate people on Boards can just not understand their stakeholder group at times. I will give you an example: On our Board we’ve got a lot of people who are investment experts from the corporate side. At the moment we’ve got a bit of a furore about whether we’re investing fossil fuels. Our Board members have a kind of almost dismissive attitude around it. The most important thing is for us to get the best return and that will bring the best social dividend for everyone; not appreciating would have a stronger view than a corporate would have if you took our broader community. They’re [investment experts] coming with a totally professional mind set but not a full appreciation of stakeholder values. That’s a pretty obvious example but that happens on a lot of Boards.” (board member, an educational NPO)*

**Engaging in advocacy.** NPOs are frequently invited to engage actively with government on various issues of social and economic policy (be they measures for child welfare, gambling or water pollution reform), but are denied the right to actively advocate for their causes as part of their charitable mission. Advocacy activities for governance bodies in NPOs that are greatly reliant on governmental contracts become a significant issue. The research has shown that NPO boards become less involved in campaigning for a mission as the revenues from governmental contracting grow (see for example, Schmid, Bar, & Nirel, 2008; Stone, 1996). The responses of my participants on advocacy ranged from a high support for board members’ active engagement in social issues to a cautious approach. Below are three illustrations of typical responses:

*“My personal belief is that the board of a [NPO] should be involved in advocacy, if it’s not then I suspect that it’s probably just becoming a business by any other name. If all we do in*

*not-for-profits is run social services, I don't believe we should really be in 'business'. It's my personal belief system that you don't just carry on looking at the ambulance at the cliff and all that sort of stuff. You can't just carry on dealing with symptoms. You really have to try and do whatever you can to deal with the problems that create them. Of course, that's a difficult one to translate into deeds and charitable status. From the point of view of governance and people who want to control the work that we do, you have to be very careful about the way you put all that."* (Chair, a social service NPO)

*"You don't know where your money's coming from, so you gotta be extremely careful about who you stand up and lobby for or criticize. ... You've gotta be very careful about the public position you take. You're there for an end purpose not to push necessarily a barrel on something. That end purpose can be quite interesting."* (Chair, a social service NPO)

*"Advocacy is very dangerous. In their advocacy role some people can become bigger than the organisation. I feel that you can be an advocate but you should be an influential advocate at the back, but you should be supporting the people who actually drive the change, not standing on the soap box yourself."* (Board member, a social service NPO)

### **Theme 3. Organisational capacity**

Organisational capacity refers to the purpose, roles, structures, processes and systems that constitute the organisation. It also refers to the scope of action an organisation can undertake and the resources needed to deliver on its mission (McMorland & Erakovic, 2013). In increasingly uncertain and complex environments, organisational capacity needs to match new challenges. Current organisational structural arrangements need to be reviewed, and new processes and systems developed. My respondents stressed two major challenges associated with organisational capacity: sustainability of the current business system and inter-organisational networking.

**Challenges to the current 'business' system.** An organisational business system comprises of activities, resources and products/services by which an organisation accomplishes its goals and creates value for its clients (de Wit & Meyer, 2005). Majority of NPOs have a particular business system based on dependency on external funding, voluntary work, and dual bottom lines. This system has been challenged recently as sources of funding have become scares and competitive, and the tension between the mission and financial results more accentuated. To be sustainable NPOs need to be profitable; that is, they need to be able to invest and reinvest in the development of their services and people. Consequently, the diversification of funding sources becomes a priority for NPOs and it usually leads to the diversification of 'business' activities. The following quotes illustrate some of the business challenges that my respondents emphasised:

*"Adapting to the casual Internet based society; that's whether it's harnessing participants into a form that produces revenue and enables the existence of the organisations to continue,*

*or garnering donations, or having predictable and regular audiences. ... The model that we have needs to change so that people aspire to greater contact with the national organisation rather than see them as the rent collector that only ever comes along with their hand out. Finding opportunities to turn that around is one of the big things I want to try and achieve.”* (Chair, a national sport NPO; former Chair, an art NPO)

*“We don’t have a very good culture through our not-for-profits of stewardship. So we seem to be able to get the money in a lot of cases but we’re not very good at saying thank you or maintaining ongoing involvement of people. We put far more effort in the front end than we do in that stewardship side* (CEO, a regional funding agency)

**Building collaborative networks.** Within a turbulent political and economic context, organisational sustainability becomes a strategic imperative. NPOs 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. Many attempt to make strategic choices which reach beyond organisational boundaries. These strategies need to accommodate individual and organisational needs for cooperation, collaboration and partnership. However, collaborative efforts in building inter-organisational relations require different resources, which the organisations often do not have or are unwilling to contribute. The following quotes illustrate the issues related to building inter-organisational relationships within the sector:

*“We’re all patch protecting between education, sport, health and social development. If those four sectors alone got together we wouldn’t need to worry about money. The difference that we could make together would just be massive. If I’ve got any frustration it’s the people that could make change between health, sport, education and social development are not sitting around the table together looking at the bigger plan. They’re still focused very much and maybe looking for little connections but it’s just tiddlywinks compared to what the game we could be playing here. What’s needed? It comes back to leadership; I just think it all comes back to leadership.”* (CEO, a regional sport NPO)

*“The only people who will be able to cope are people who understand community development. They understand that communities are chaotic. Our environment is always unstable and so what we do is, again going back to the basic sets of values. What is it that we’re trying to do? Who with? What do we need to do to bring those people on board? How can we collaborate on this? How can we connect that project to that project and get people to understand? If you keep on doing that, you will be able to get through because community is the answer. My whole basic thing is how do you build strong communities and it doesn’t matter what organisation I’m working with on that.”* (Chair, a social service NPO)

#### **Theme 4. Quality of governance relationships**

Governing bodies play multiple roles in NPOs. They are not only responsible for ensuring that the public interest is served by the organisation (core purpose), but they are also expected to help the organisation succeed (end purpose). Boards are, therefore, expected to have strategic capacity (knowledge, commitment, social capital, and time) to invest in building a collective

capability in their organisations. Themes associated with the quality of governance relationships are presented below.

***Uniting board members' skills, knowledge and commitment.*** The skills a board requires depend on the context it works within: some skills are sector specific, while others are generic to strategic thinking. These skills on their own are insufficient to create an effective governing body. However talented or diverse its members, without the ability and will to work well together, a board will not be able to maximise its collective potential and work effectively towards the common good. Often board members are not able or willing to transcend their personal interest and their individual interpretations of mission for the wider cause. Many of my respondents highlighted this problem:

*"I don't think people actually see their role [contributing to the common good]. Most of the people see it about something that does good here [in the NPO]. They feel they're doing good here rather than doing good out there. In fact, it's sometimes very hard to connect the not-for-profit board with the community they're serving. So many directors just mean that end purpose, not core purpose. As long as they feel good here, they'll come and sit around a table and talk once a month and go away happy. It makes them feel good. Whether it does anything is another thing altogether. That becomes one of the problems on not-for-profit boards." (General manager, a social service NPO)*

*"I think, it comes back to how much board members are aligned with the higher purpose of the organisation; how much they let their own other roles, other places, spaces, that they've come from influence the thinking. You, typically, would have someone who's a lawyer or an accountant, those sorts of skill sets on the board and so they think from those perspectives. Often what's not there is the social emotional intelligent stuff, it is often not weighted, not looked for, not even valued just because it's not even acknowledged as being important. Just people who have the ability to ask the right questions and cause the board to be reflective on themselves as much as reflective on what they're there to do, they have to actually also be reflective on themselves and how they're practising." (CEO, a regional sport NPO)*

*"[NPOs] need more professional people than passionate people. Passion can be quite dangerous. You need committed and earnest people who have got credibility and you need professional people who have got the right skills. They've got to be in the same person. You can't have committed people and professional people. You've got to have committed professional people." (board member, an umbrella community NPO)*

There is an increasing demand for NPO board members to be environmentally aware and externally focused, and to have a 'global' understanding of a broad range of issues that an NPO deals with. As many of my respondents stressed, the work of governing bodies in NPOs is not just about getting more people to join or provide funds to the organisation. There is the common (public) good aspect, there is the commercial aspect, and there is the leadership (strategic direction) aspect to their work.

**Developing stakeholder networks.** Stakeholders play an important part in determining where an organisation sits. Identifying who one's stakeholders are, and the nature of their interests, is an important part of the board's (and management's) organisational knowledge. Changing or developing an organisation's position and reputation within a sector, and hence its stakeholders, can take time, but is of major strategic importance. For some NPOs, for example, church affiliation and church politics play a big part in providing members or a supportive constituent donor base. For others, part of an organisation's capacity is knowing where commercial sponsorship money might be found, or what services will meet the criteria of philanthropic bodies.

The importance of board members' own networks should not be underestimated when considering stakeholders. Potentially these networks can be tapped into for the wider good of the organisation – as a source of membership, funding, encouragement, professional advice and so on. Many of my respondents, however, have highlighted how the development of stakeholder networks is one of the neglected or ill-defined board's roles. A CEO of a NPO in the educational sector pointed out:

*“If you look at a not-for-profit board in the US the expectation is that the board will be able to bring along potential supporters, financial supporters and make introductions; take part in cultivation; take part in stewardship activities with current donors. I don't think there's any real clarity here [in New Zealand]. I didn't really have that much clarity around that.”*

**Engaged leadership.** In addition to having skills and commitment, board members should develop a shared vision that is inspirational and translatable into actions which emotionally and intellectually move people (Goleman, Boyatzis & McKee, 2002). A wise board is one where the group can both individually and collectively 'interrogate their own thinking'; that is, reflect on what they think and why, and understand the implications of their collective interpretation of the leadership role that they are called to exercise. The leadership role of the board is emphasised by almost all respondents.

*“I think you need analytical thinkers who really like people and are focused on the objectives of the organisation and aren't distracted from that. ... Finding ways to build from an idea to a pilot to a wide spread and then national initiative is something that you need to be patient about; its almost always in years rather than days and you can gradually build the momentum. ... We can do these things and big changes can be made but you've got to be strategic, patient and not resist too many instant gratification outcomes.” (CEO, a national NPO)*

*“I firmly believe that board members are the champions and ambassadors of the organisations they represent and that their duty of care is to be as up-to-date with what's going on within the organisation as much as possible to be able to walk and talk the organisation when they're engaging with external organisations, but also their duty is to*

*bring that external organisation back into the one they're representing. They could be that broker and that facilitator which is a really valuable role they hold and it's also bringing the IP in 'because usually we're under resourced in terms of staffing so they become by extension that gatherer of information that can help and inform the organisation itself.'* (General manager, an art NPO)

The importance of the board chair is particularly emphasised and evidenced by the following comment:

*"The role of the chair is absolutely critical. A good chair is the single most important thing around the operation of the board. There's only so many of those. I think as much as developing really great trustees, we should think about how we develop great chairs ... The chair needs to be committed to that model of outward looking, contextual thinking and he/she needs to be able to structure the meetings."* (board member, a regional sport NPO)

**Summary.** The evidence from my interviews with long-standing board members and executives from a very diverse pool of New Zealand NPOs indicates a number of key leadership challenges that the governance body must attend to. These key findings are organised into twelve categories and four themes (Figure 1).

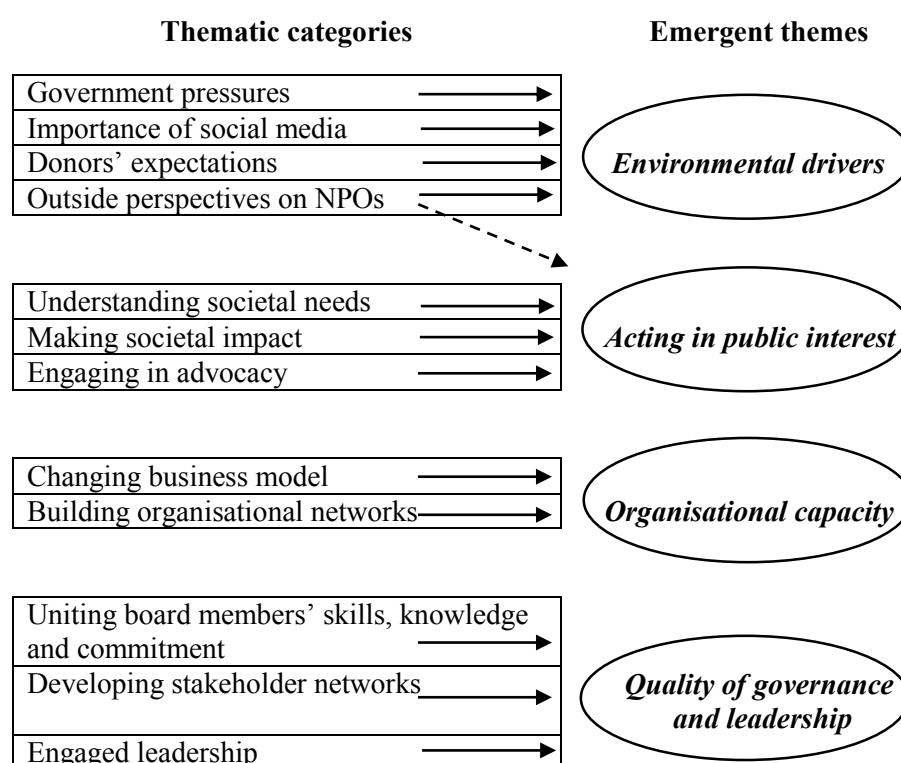


Figure 1. Research findings structure



## **DISCUSSION AND CONCLUSIONS**

Increasing complexities prompt NPOs and their governing bodies to find new ways to address issues of sustaining funding, avoiding political dependency, and adapting to more radical changes in economic and social conditions. Amongst the participants that I interviewed, several belong to organisations which are on the cusp of moving to the next stage of development – merger with other organisations or establishment of commercial activities. For their organisations, complexity emerges and is embraced with the creation of new services, the reaching out to new types of clients/beneficiaries, or a much greater inclusion of community voices in determining the strategic direction. Additionally, the challenge of self-funding and sustainability of service leads to the divergence of the mission and the need to hold the common good intentions strongly in balance with commercial realities.

To respond to these challenges in a generative way, trustees and board members should have the ability to understand complexity in relationships amongst different parts of the system (e.g., understanding the impact of demographic changes on organisational policies or conflicts of interest in sourcing funds) and the ability to juggle information three-dimensionally and consequentially: across different time frames and levels of input (e.g., seeing what has to be done today, to start processes of change that inter-relate and impact on other changes that are already in train, or are mooted for some distant opportunity). In the other words, they should be able to make strategic choices in congruence with the organisation's values and mission (Bradshaw, 2009). These choices call for more proactive social-change agendas, and evaluation of the congruence between what an organisation espouses to be and what it actually is. My encounters with many trustees, board members and CEOs during this research show that generative thinking at governance level in NPOs is under-developed. Paradoxically, however, because of the complexity found in NPOs and the fluidity of the environments in which they operate, these are the very organisations which can most easily nurture such abilities. Developmental opportunities abound for courageous action, discernment and leadership in both governance and management. None of these activities work in isolation: engagement in relationships is essential. Herein lies the greatest challenge: such relationships need to be open to novel ideas and designs, not role- or tradition- bound.

Board members need to actively engage (within the boardroom, with management and with stakeholders) in a debate about their organisations' strategic choices (end purpose vs. core purpose). The major question they should ask themselves is: How we can create value for this organisation? The question of board's value creation is at the core of Quality of governance and leadership. Once board members understand environmental drivers and stakeholders'

needs, and are clear about the organisation's purpose, the hope is that they may conceive ways in which they can individually and collectively add value to the organisation. The board's contribution to deciding on the theory of change and strategic choice is an important value adding activity and something that is genuinely considered to be the purest demonstration of the board's leadership role.

Another important issue, which board members should address, concerns the best governance configuration. This is a question of organisational capacity. In order to be responsive to continually evolving needs of the organisation, governance structures need to follow flexible patterns of tasks and structures. The governance configuration should be guided by the strategic choice (theory of change) selected by the board and management, and their evaluation of the intensity of environmental drivers. Many of my research participants reason that NPOs need to find a new governance paradigm based on the characteristics of the third sector, rather than one that is based on either the private enterprise model of the board of directors or the public sector organisation paradigm.

Having sound leadership and governance processes are vital to the long-term health and vitality of NPOs. However, there is an insufficient understanding of how these processes should best be maintained and properly balanced and what roles board members and managers should play in orchestrating and participating in them. The board's role in not only promoting good governance within the organisation but also good leadership is finally being recognised by some scholars (Chait, et al., 2005; Coombes, Morris, Allen & Webb 2011, Ronquillo, Hein & Carpenter 2012), but significant theoretical and empirical research is still missing. In this explorative study, I highlighted managers and board members' perceptions on leadership and governance processes as response to environmental challenges.

The resulting research findings point out to the need for specific future research. First, I would like to propose integrative research efforts in investigating leadership and governance. These two are an integral part of the governance discussions, as board members in NPOs cannot operate without providing leadership to the organisations to which they are elected or appointed to guard, support and advise. In such a study, as in any other organisational analysis, the importance of contextual factors needs to be taken into consideration. Roles of boards, relationships between the board and management, and the board and outside stakeholders are different in the different stages of the organisational life cycle and in various legal NPO arrangements. These factors definitely shape discussions on leadership and governance. Therefore, comparative and longitudinal studies investigating the changing nature of board

members' leadership roles over time may contribute to a better understanding of effective governance forms and practices in the different stages of organisational development.

Second, the conceptual integration of leadership and governance highlights the need for research on individual and collective capabilities of NPO board members in strategic and generative thinking. The third sector researchers have already emphasised that generative thinking is not adequately developed through current organisational practices (see for example Chait, et al., 2005; Petrescu, 2013). NPOs offer enormous opportunities for innovative management and courageous governance. Therefore, research into the use of strategic imagination in devising novel responses to old problems and reframing problems as opportunities for effective action in NPOs may provide interesting insights into boards' direct and indirect value adding activities.

In addition to the concerns of the academic community for the third sector, future research should pose important questions for policy makers. Government agencies (as funders, policy makers, and receivers of services) need to understand challenges that NPOs contend and responses which they are required or willing to make. An important question for public policy is concerns the 'right' balance between NPOs' service provisioning activities and their contribution to the common good (representation and protection of community interests). Currently, the impact of political will on the scope of NPO action is not matched by a commensurate NPO ability to influence government policy. NPOs need the full attention of both public and private sectors to respond to new environmental challenges, and to prepare for future generations whose way of life will be different from the present.

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