

Governance Challenges for Not-for-Profit Organisations: Empirical Evidence in Support of A Contingency Approach

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ABSTRACT

This article presents empirical evidence of the governance challenges faced by Australian not-for-profit (NFP) organisations. There is a dearth of academic research in the not-for-profit sector on issues of governance. Using survey and interview data, we explore what NFP leaders believe are key governance challenges, and what this means for theory and practice of NFP governance. We demonstrate that the effectiveness of governance systems is influenced by internal and external contingencies that NFP organisations face, such as variations in board roles, stakeholder and membership demands, funding arrangements, board member recruitment processes, skills of board members, and resources for training and development. We argue for a shift of focus away from prescriptive and normative NFP governance models, and contend that generic best practice governance standards for NFPs ought not to be further pursued, and that a contingency approach is more promising.

Keywords: Governance, Not-for- Profit sector, Contingency Theory

INTRODUCTION

There are numerous definitions of not-for-profit (NFP) organisations and the NFP sector. In this article we follow Hansmann, who describes an NFP organisation as an organisation that is barred from distributing its net earnings, if any, to individuals who exercise control over it, such as members, officers, directors, or trustees (Hansmann, 1980). The Australian NFP sector comprises more than 600,000 non-commercial and non-governmental organisations with purposes ranging from hospitals to community services, universities, sports clubs, aged care facilities and environmental groups. They also differ in size, with nearly three-quarters being small organisations that depend on the voluntary efforts of members (Australian Productivity Commission, 2010). In 2012-2013, the sector employed 1,081,900 staff (Australian Bureau of Statistics, 2014a) or 8.75 per cent of total Australian employment (Australian Bureau of Statistics, 2014b). The Australian NFP sector has a turnover of approximately \$100 billion per annum and has 5.2 million volunteers (Pro Bono Australia, 2014). Half of this turnover comes from services, membership fees and investments, one-third from federal, state or local government grants and the remainder is generated through fundraising, donations and sponsorship (Australian Bureau of Statistics, 2014a). Despite its size and complexity, there is a dearth of academic research in the not-for-profit sector on issues of governance.

Ostrower and Stone (2006) observed that governance is rarely unambiguously defined in literature concerning NFP organisations and that research has focused on boards of directors. Indeed, most studies of NFP governance have concentrated on boards and their composition, the roles and responsibilities of their members and the relation between board effectiveness and organisational effectiveness (for example: Herman & Renz, 2000; Callen, Klein, & Tinkelman, 2003). BoardSource (2010) defines NFP governance as the board's legal authority to exercise power and authority over an organisation on behalf of the community it serves. The board is authorized to establish policies, make decisions that affect the working of the organisation, and is accountable for the actions that follow those policies and decisions. We contend that this definition fails to capture the intricacies of the sector, which manifest in the different purposes, services, beneficiaries, funders and other internal and external factors influencing NFP organisations. Indeed, these varying characteristics may well be why NFP governance is difficult to define. This research has as its objective to shed additional light on the different characteristics of NFP organisations and their environment, and the manner in which these properties influence governance systems. We ask the following research questions: what are the governance challenges faced by NFP organisations, and what are the theoretical and practical implications of these

challenges? We conducted an online survey and interviews with NFP officers in order to uncover these governance challenges, the findings of which we discuss in the context of NFP governance literature. We argue for a shift of focus away from prescriptive and normative NFP governance models and best-practice standards and towards a contingency approach.

LITERATURE REVIEW

BoardSource describes the roles of NFP boards as follows: (1) setting organisational direction and strategy, (2) monitoring or providing oversight of the CEO, assets and programs of the organisation and (3) ensuring necessary human and financial resources (BoardSource, 2010). Accompanying these specific roles are several theoretical perspectives. For example, in relation to the first role, a stewardship theory perspective would be most relevant as stewardship theory highlights the role of the board in increasing organisational performance by contributing to the organisation's strategy and top decision-making (Cornforth, 2001). The second role, which states that it is the board's role to monitor management, is closely aligned with agency theory, founded in finance and economics. This theory sees the board as the instrument to ensure that management acts in the best interests of shareholders or members, as it assumes that management is likely to act in their own interests rather than to the benefit of investors or beneficiaries (Miller, 2002). Thirdly, the board's role to provide human and financial resources aligns with resource-dependency theory. Resource dependency theory argues that organisations depend on other organisations and actors for resources and survival (Cornforth, 2001, citing Pfeffer & Salancik, 2003). Resource-dependency theory sees the board as a means of finding or providing these resources.

Cornforth and Brown (2013) identify the board of directors as the body with the main responsibility for governance, but emphasise that other stakeholders also play an important role. For Cornforth, key actors such as managers, members and advisory groups also contribute to the governance of a NFP organisation. The need to involve the stakeholders of NFP organisations in governance processes has been increasingly recognised in scholarly research (Freiwirth, 2013). In these cases, stakeholder theory is most relevant to governance, as it states that the board's role is to mediate among stakeholders and balance their interests (Freeman & Evan, 1991). Governance theories that emphasise the membership and stakeholders of NFP organisations are described as democratic models and stakeholder models. The democratic model states that the central role of the board of directors is to act on behalf of the membership, balance the interests of different member groups, and set the policy of the organisation. A crucial

element of this model is the notion of a board to which anybody can be elected, regardless of expertise (Cornforth, 2001). Stakeholder theory posits that by including diverse stakeholders on boards, organisations are more likely to address broad societal interests rather than the interests of a single group (Hung, 1998).

Young (2011) has argued in favour of membership models of governance where board members are elected from the membership. Young also explores how the composition of the governing board and its method of selecting its members may influence the ability of the organization to tap into the different sources of funds. Further, Young argues that there is natural independence on the part of NFP directors due to their volunteer status, while recognising that this status provides little financial incentive to exert effort. Indeed, because of this volunteer status, the process of recruiting new directors is completely different in a NFP compared to a commercial organisation (Hendricks & Wyngaard, 2010). The difference between NFPs and their commercial counterparts means that governance standards designed for commercial entities cannot simply be imported into the NFP sector. NFPs are often challenged when it comes to ensuring the board has the right skills to fulfil its responsibilities (Spear, Cornforth, & Aiken, 2009).

Perhaps the most common NFP governance challenge identified in the literature is the need to balance different stakeholders' interests. Unlike a commercial entity whose aim is to create profits for shareholders (arguably whilst also taking other stakeholder interests into account in order to ensure long-term sustainability), a NFP organisation may have several competing aims. A board will have to choose among the needs and desires of different groups of beneficiaries, funders and managers. For example, donors to charities can impose limitations on ways in which money can be spent by designating specific themes, which may not be in the interests of all beneficiaries. This forces NFP organisations to 'go where the money is', thereby creating a situation where donor dependency can undermine the organisation's mission (Alymkulova & Seipulnik, 2005). This can result in asymmetric accountability, a potential pitfall for NFP organisations described by Jordan and Van Tuijl (2000) and Schepers (2006). When the goals of funders are not identical to those of the recipient organisation, upward accountability towards donors can become misaligned with downward accountability towards recipients of services.

Considering the variety of NFPs and their stakeholders, Cornforth (2001) identifies key paradoxes in NFP governance: (1) the dynamic among board members as representatives for specific stakeholders and as experts required to drive the organisational performance, (2) the dynamic between the role of the board role in driving organisational performance and safeguarding conformance – in other words,

ensuring that the organisation acts in a responsible and prudent way, (3) the dynamic between the role of the board to control and support management, and (4) conflicting situations that arise as a result of accountability to different stakeholder groups. These tensions have implications for regulation as well as for theoretical perspectives. It has often been suggested that the use of a single theory describing NFP governance might be inadequate, as it is an untenable view that best practices exist for a wide range of non-profit governance situations (Salipante, 2013). The intricacy of the sector and the distinct governance challenges that NFP organisations can encounter also explain why corporate governance codes can be inappropriate for NFP governance (Spear et al., 2009) and why there is no agreement on an ideal NFP governance model (Miller-Millesen, 2003; Ostrower & Stone, 2006).

Cornforth and Brown discuss the forces driving innovative approaches to governance, asserting that the growing significance of the sector and its increasing reliance on public funds have resulted in increased concerns about accountability and performance of NFP organisations (Cornforth & Brown, 2013). This development has manifested in the guise of formal inquiries and political debate. Basic questions are whether current governance arrangements are adequate, for example to safeguard the independence of NFP organisations in light of growing reliance on government funds, and whether NFP organisations are sufficiently accountable for their actions. Amidst the focus on innovation of NFP governance, Bradshaw cautions that a move away from “one best way” or normative approach to NFP governance can turn into “anything goes” (Bradshaw, 2009).

Contingency theory has received growing recognition in organisational literature. The usefulness of adopting a contingency approach in relation to governance is the acknowledgement that governance processes are likely to work differently according to changes in the nature of an organisation and its circumstances, and consequently effectiveness is connected to the ongoing refinement of governance systems in line with these contingencies (Bradshaw, 2009). Bradshaw suggests emphasising the contingencies that are at work in the NFP sector, commenting that what is missing from the literature is a change management process that boards can use to help them reflect on their choices regarding governance configurations in a coherent fashion which provides direction on the contingency factors that the boards might take into account. Board members are usually told that board self-assessment is a core responsibility and that they should reflect on their governance practices in an annual board retreat. However, they have not been given much guidance on what factors to take into account when engaging in this type of process (Bradshaw, 2009).

Some academics have taken a contingency approach in NFP governance research. They argue that it is necessary to take into account the contextual factors that shape NFP board characteristics and influence the ways in which they operate (Cornforth, 2003); (Brown & Guo, 2010; Iecovich, 2005). (Ostrower & Stone, 2001) created a framework modelling the internal and external contingencies that influence board characteristics. They include as external contingencies power in society, turbulence and the legal and institutional environment – labelled as ‘broad’ dimensions because they are the same for all NFPs. External contingencies such as stakeholders, industry and funding sources are labelled as ‘specific’ dimensions because they will be unique to each NFP. Internal contingencies are age, size, phase of development, and complexity of the organisation.

Cornforth has since adapted and used this model to map contextual influences on boards found in other studies. It features social pressures, government legislation and policy, regulation, and the sector of the NFP as broad external contingencies, while the field of activity of the NFP is labelled as a specific external contingency. Cornforth identifies the size of the organisation and relationships with management as internal contingencies. It is argued that all contingencies influence the characteristics of the board, specifically its composition, relationships, and processes, all of which affect board roles and effectiveness (Cornforth, 2003). Others scholars such as Iecovich (2005) and Brown and Guo (2010) also found links between functional characteristics of NFP boards and the environmental conditions of the organisation. Freiwirth’s Community-Engagement Governance™ model advances the contingency approach by moving beyond the board of directors towards a framework where the community purpose or missions of the NFP is at the very centre of the governance system, while stakeholders such as staff, the membership and the community share responsibility for governance (Freiwirth, 2013).

RESEARCH OBJECTIVES AND METHODOLOGY

We answer the call for additional empirical research into governance challenges and contingencies in the NFP sector (Spear et al., 2009). Based on survey and interview data, we ask the following research questions: what are the governance challenges faced by NFP organisations? What are the theoretical and practical implications of these challenges? The findings will demonstrate that NFP organisations are influenced by internal and external contingencies that affect governance systems and processes. We put forward theoretical and practical suggestions arguing in favour of governance models that take a contingency instead of

a normative approach, demonstrating the value of taking context into account in establishing fitting governance arrangements.

Data gathering consisted of an online survey and semi-structured interviews, authorised by the University's Human Research Ethics Committee. The survey and interview questions were based on the characteristics of NFP organisations and the resulting governance paradoxes, as discussed in the introduction and literature review, which concern the purposes, services, beneficiaries, funders and other contextual elements that influence NFP organisations. The survey was conducted by research partner CompliSpace, a provider of governance, risk and compliance services, which circulated a survey through its network of NFP professionals. For the purpose of this research, we included a select number of survey questions which will be addressed further below. Using survey data is a proven method to perform research into governance in the NFP sector (O'Regan & Oster, 2005). Fifty-three representatives of NFP organisations completed the survey, each in a different professional roles but all involved in governance.

Case studies and in-depth methods to research non-profits and their boards are common (Bradshaw, Hayday, Armstrong, Levesque, & Rykert, 1998). The survey data was therefore complemented with twelve interviews with executives and/or board members from an NFP organisation. The interviewees either contacted the researchers after hearing about the study or were referred by other NFP representatives. Semi-structured interviews were conducted over the phone or in person, during which a template of questions (see appendix) was used with the possibility to delve into specific topics. The interviews were recorded, transcribed and sent to the interviewee to reflect on the content to ensure accuracy. After receiving feedback from interviewees, the transcribed interviews became a source of qualitative data which was coded in NVivo.

The number of survey and interview respondents is not large compared to the number of NFP organisations in Australia. It will therefore be difficult to extrapolate the findings to the broader sector and conclusions must be made with caution. The data does however provide evidence of the variety of NFP organisations in Australia, the diversity of the sector, as well as the accompanying differences in circumstances and resulting governance challenges.

DESCRIPTION OF SAMPLE

The International Classification of Non-Profit Organisations (ICNPO) was used to categorise the online survey respondents. Figure 1 shows the response to the survey question “*Select the sector which best describes the primary area within which your organisation operates.*” It can be seen that most sectors are represented in the survey, but with higher proportions in the categories Education and Research and Social Services.

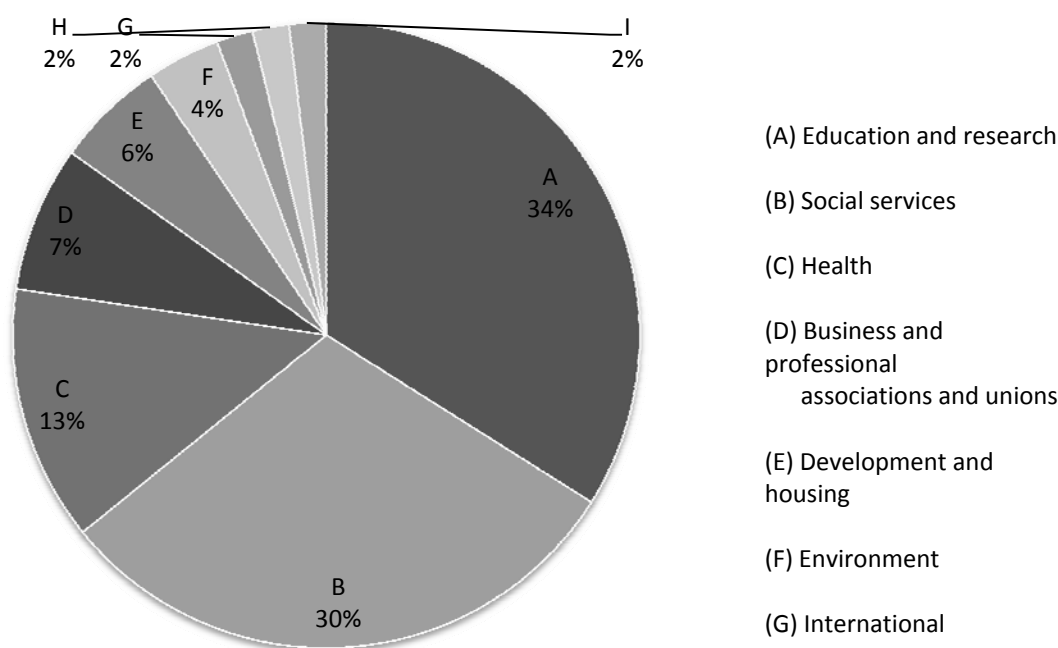


Figure 1 Breakdown of Survey Sample by Sector.

The twelve interviewees represented the following sectors: Social Services (n=4); Development and Housing (n=3); Law, Advocacy and Politics (n=2); Education and Research (n=2); and Business and Professional Organisation, Unions (n=1). Two industry sectors that were not represented among the survey and interview respondents were Culture and Arts and Religion.

RESEARCH FINDINGS: GOVERNANCE CHALLENGES FOR NFPS

Board Roles

Both the interview and survey data confirmed the role of all boards in setting strategy, also revealing that some boards struggle with this role. Other board responsibilities that were mentioned were monitoring, as well as attracting resources:

“Really their main job is a combination of thinking strategically on behalf of the organisation and monitoring performance [...]” [INT1]

“It is monitoring decision making. I would like to be more strategic [...]” [INT5]

“Strategy and attracting sponsors.” [INT6]

“The role of the board is to set the strategic directions for the organisation. It’s quite clear.” [INT8]

“The board plays a role in accountability, so the checks and balances around the finances. They provide a role in development of strategy [...]” [INT12]

“It’s monitoring and advice, not strategic.” [INT11]

The answers to the survey question “How important to the organisation is the board’s role in performing the following functions?” confirmed the multi-faceted role of the board, with no single role standing out as more important than to others (Figure 2). On a scale of 1 (not important) to 7 (very important), all board roles averaged between 3.8 and 4.2. However, the standard deviation for the importance of board roles fell between 1.6 and 2.7, indicating considerable variation in the importance of particular roles for individual boards.

The differing importance of particular board roles for each NFP shows why a contingency approach to governance is desirable. For example, the following interview quote demonstrates that board members can have little experience in organisational planning or strategy while the fulfilment of this task is deemed important. To remedy this situation, board members with these skills will either need to be recruited or existing directors will need to be trained.

“What I find is, as a board member [...] I have to end up doing a lot of stuff, so I write the asset management plan and I have also written the strategic plan, because the CEO could do it, but we are not able to kind of pay the big bucks for a high-powered CEO so I could probably do it better, and there is just not a lot of time when you only have three staff and you have tenancies happening all over the place. Whereas say if I was on the board of [a large NFP], you wouldn’t do any of that, you would purely be focused on governance in the sense of reviewing the work that your staff has done and giving that direction, and that is a whole different ball game.” [INT2]

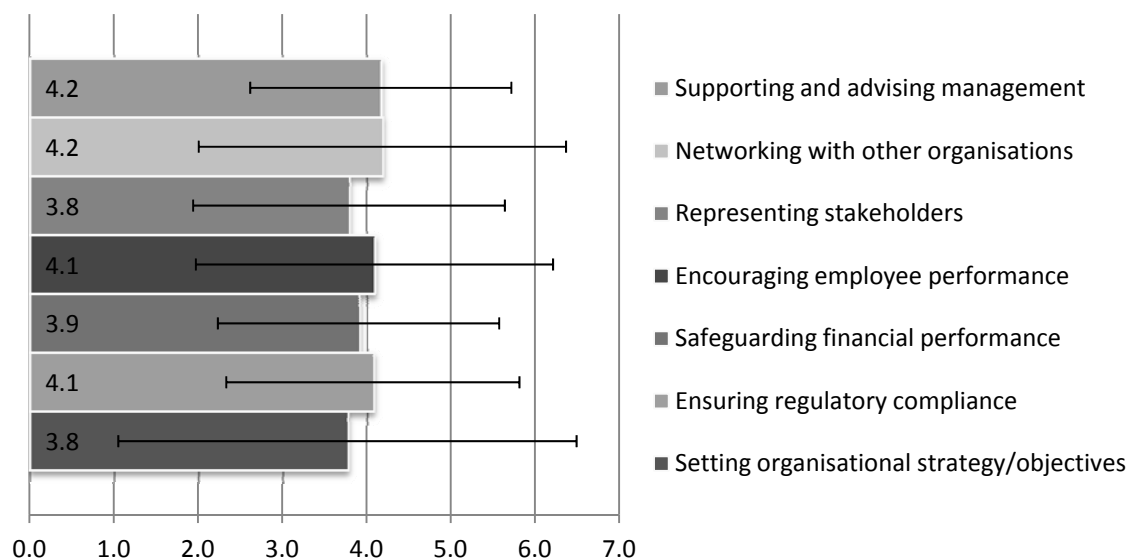


Figure 2 Importance of The Board in Performing The following Functions
(1) Not Important to (7) Very Important

BOARD COMPOSITION, RECRUITMENT AND SKILL SETS

Our research provides evidence that recruitment of suitable directors is a significant challenge for NFP organisations, particularly those with membership-based governance models. The interview questions “how do you recruit board members” and “who qualifies for board membership” proved to be closely related because the constitution of NFP organisations often prescribes a specific pool of individuals from which board members must be sourced.

“Our board is elected from amongst the membership, with no capacity to co-opt or appoint other experts other than to fill a casual vacancy, so it is an election model. Because our members are organisations rather than individuals, it is the organisations that can nominate and vote, but it is actually independent individuals, either from those organisations or more generally from the industry that actually stand.” [INT1]

Interviewees were asked about the skills required of board members. The majority indicated that the process through which people become directors, as dictated by the constitution or policies, can result in a limited pool of potential directors which limits the range of skills represented on the board.

“[Our governance arrangements] are very inflexible, the constitution and the incorporation requirements are really premised on you being a community-based organisation that is run by members, where there will be a vibrant contest for positions that govern the organisation, and it doesn’t really work for the sort of work we do. We need people with skills and particular expertise, it is quite hard to do that. We have been very fortunate that we have good people that have great expertise, but that is in spite of the governance, not because of it.” [INT11]

“There is a set of criteria in the constitution which talks about the skills they should have. So the constitution sets it up as a skills based board [...] In actual practice, because we are only a small organisation, with a lot of them it is like “who will join”, and they are elected by the members who are mostly tenants. If you look at the skills list and you look who is actually on the board, a lot of the skills are missing and quite a lot of the board members probably don’t have any of those skills to any great degree.” [INT2]

Ironically, there is evidence that governance arrangements in NFP organisations can impose constraints on the recruitment of suitable directors to enforce governance. This results in a situation where governance systems can have perverse and undermining effects. The incapacity of a number of NFP organisations to recruit directors based on skills, as well as the absence of financial incentives to join NFP boards, clearly sets NFP boards apart from their commercial counterparts. As a result, training and development of sitting board members is vital to NFP organisations.

DEVELOPMENT AND TRAINING

Research shows that risk management, legal compliance, strategy and business planning, financial management, and directors duties were the most desired governance training topics among Australian community organisations (Nicholson, Newton, McGregor-Lowndes, & Sheldrake, 2008). In our survey, 72 percent of respondents answered affirmatively to the question *“Does your organisation provide continuing professional training for its non-executive board members?”* Interview respondents were also asked about initiatives that enable director skill development:

“No one has actually asked. We do try to be very proactive on the board, so we have a number of sub-committees that we use to help people, they can participate in a sub-committee with more experienced board members that would then facilitate the understanding of development. And every couple of years the board has had someone external come in to talk about process, strategy and governance.” [INT7]

“[...] we do have board workshops that look at governance and other issues.”
[INT4]

Other respondents mentioned that although they were open to skills development of their directors, practicalities such as time, money and lack of interest on the part of board members had prevented any structured approach to skills development:

“We have, kind of on paper, the ability to skill up directors, but in practice I don’t believe that it happens very much, we don’t spend a lot of time sending directors to courses or bringing in professional development people or any of those sorts of things. If a director came on and said ‘look I have been elected but I really don’t understand financial reporting, how can you help me’, we would definitely respond to that but it would be relatively informal or ad hoc rather than formal.” [INT1]

“I think they do the best that they can [...] but we’re running on no money, the board all have full-time jobs as well have given their time, some of them, for many years. So to the best of their ability, I don’t think we are going to take days out to develop, or pay for, board members to go to courses.” [INT12]

As can be seen in the findings, although 72 percent of the survey respondents claim that training and development is provided for directors, the interview evidence suggests this training may not always be comprehensive. The reasons for this relate to a lack of funding as well as timing, factors that are likely to disproportionately affect small and modestly sized NFP organisations. Variance in the number of resources available for development can affect the functioning of the board and represents a contingency that can influence each NFP organisation differently.

ACCOUNTABILITY AND STAKEHOLDER INTERESTS

Public scrutiny following use of government funds and growth in delivery of public services by NFPs has driven innovation of governance in the sector (Cornforth & Brown, 2013). The table shows the response to the survey question *“From which source does your organisation receive the majority of its funding?”* and displays dependence on government funds by NFPs in the sample. We argue that funding sources represent contingencies that, for accountability reasons, need to be considered in any governance model.

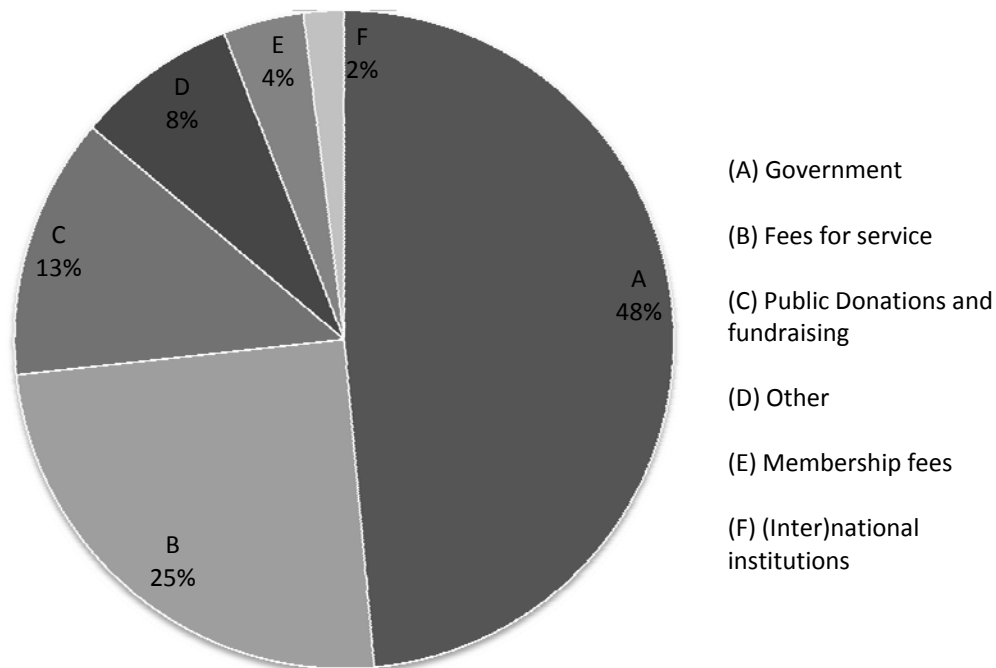


Figure 3 Sources of majority of funding.

The importance of service delivery in the decision to financially support a NFP organisation was evident in the survey sample. When survey respondents were asked to “Rank, in order of priority, the factors that influence your donors/financial supporters to back your organisations to rank the factors influencing donors to back the organisation”, the activities of the organisation were by far considered the most important. The importance of these activities in obtaining funding also became apparent from the interviews:

“But it’s our activities and our output that get people to support us and want to stay engaged with us.” [INT2]

“I think people like our work and they are prepared to join. They want to support the organisation.” [INT11]

“So beyond our members we also have customers and clients of this organisation who buy our services or attend our training and those sorts of things.” [INT1]

The survey respondents were asked to “Rate each stakeholder group in order of importance.” As shown in figure, the recipients of services, clients and/or beneficiaries are considered the most important stakeholders of NFP organisations. Yet, the fact that the majority of NFPs rely on government funding creates a problematic dynamic: as governments are often the main funder, but are unlikely to be the direct recipients of services, donor dependency and asymmetric accountability

form potential pitfalls. These issues are likely to present a problem for all NFP organisations part of this research, albeit to different degrees depending on sources and quantity of funding. In reporting on activities and justifying spending, organisations are accountable to funders as well as to recipients of services, clients and/or beneficiaries. These groups will display varying degrees of overlap for each NFP organisation, which leads to different accountability mechanisms, suggesting that variations in funding circumstances represent contingencies that can affect governance.

1	(1.7)	Recipients of services/clients/beneficiaries
2	(3.0)	Employees
3	(4.9)	Government
4	(5.3)	Executives
=	(5.3)	Directors
5	(5.5)	Financial Supporters
6	(5.9)	Volunteers
7	(6.6)	Regulators
8	(7.7)	Suppliers/contractors
9	(9.4)	Other

Figure 4 Stakeholder Groups in Order of Importance
(1) Most Important to (10) Least Important

The question of NFP accountability is closely related to the balancing of stakeholder interests. In the literature, balancing of stakeholder interests is identified as one of the key challenges for NFP boards (Young, 2011; Dawson & Dunn, 2006; Spear et al., 2009). Our interview findings confirm that NFP boards often have to balance the needs of multiple important stakeholders. The members and funders of the organisation are generally classified as being of the highest importance.

“[...] two main ones are our core members and our government funding body here in NSW” [INT1]

“[Tenants and] obviously the Department of Housing because they funded all the properties. They would probably be the two main ones.” [INT2]

“So to me the two critical stakeholders are our funders and our members.” [INT7]

“We have staff, our board of directors, government, both federal and state government, all our contractors that provide maintenance services to our properties, the communities we operate in, we have a number of support agencies who work in partnership with us.” [INT8]

The interviews indicate that the diversity of stakeholder groups and their differing expectations do indeed pose challenges for NFP organisations. When asked to identify the main challenges are that different stakeholder groups present, interview participants responded:

“Primarily the diversity of it. It is a constant challenge for this organisation to identify what business we are in and what our members and stakeholders expect of us, and how to respond to that [...] Our job is to identify that our stakeholders are diverse in their expectations and can change almost on a daily basis, but certainly on a weekly basis; to make prioritising decisions and strategic decisions about what we actually do and how we respond to our members and stakeholders’ expectations; what work we can do; and how much they have to pay for it.” [INT1]

“Expectations, the balance between a national focus and a state focus, and the challenge of local priorities taking precedence over national initiatives.” [INT6]

In order to balance stakeholder interests, Young (2011) suggests the establishment of membership-based boards with equal stakeholder and donor representation, while Freiwirth argues in favour of Community-Engagement Governance™, in which responsibility for governance is shared across the organisation rather placed entirely on the board (Freiwirth, 2013). Our findings concerning board composition, recruitment, skill sets, and development demonstrate that membership-based boards and stakeholder-based boards, despite having the advantages advocated by Young and Freitwith, also have disadvantages, particularly in relation to the skill sets of board members, as recruitment and director development have been shown problematic for NFP organisations.

DISCUSSION OF FINDINGS

We set out to answer the following research questions: what are the governance challenges faced by NFP organisations, and what are the theoretical and practical implications of these challenges? Using theory, survey data and interview quotes, we have demonstrated that NFPs face distinct internal and external contingencies that determine the most effective governance systems (Figure 5). The data reveals several contingencies that have consequences for governance processes. For instance it was found that, on average, no particular NFP board role stands out from the others. Rather, the empirical data indicates considerable variation in the importance of particular roles for individual boards, whether this concerns strategic direction, monitoring or obtaining funding. This in turn has consequences for theoretical perspectives that are applied to NFP governance, as the usefulness of stewardship theory, agency theory, resource-dependence theory and stakeholder theory varies according to the different directives of NFP boards. This provides empirical evidence in favour of taking a contingency approach towards theories concerning NFP board roles.

Our study also provides evidence that recruitment of suitable directors is a significant challenge for NFP organisations, particularly concerning those NFPs with membership-based board models, as the constitution often determines the specific pool of individuals from which board members must be sourced. This can result in a situation where NFP organisations are unable to recruit directors based on skills and increases the importance of training and development of existing board members. While nearly three-quarters of the survey respondents stated that the organisation facilitates professional training for directors, interview responses indicated that, in practice, lack of time and resources are obstacles for director development. Considering the demonstrated importance of skills development on NFP boards due to recruitment complications, we contend that any lack of resources for training and development of directors represents a specific contingency that can interfere with the functioning of the board as the main governance body.

Our findings furthermore indicate that funding circumstances represent contingencies that can affect the governance model of a NFP organisation. The data suggests that funding dynamics can undermine accountability and governance. Specifically the fact that the government is the largest donor of NFPs in the sample, while the recipients of services are classified as the most important stakeholders. The balancing of stakeholder interests is closely related to this finding. Some scholars argue for donor and stakeholder representation on NFP governance bodies (Freiwirth, 2013; Young, 2011), which may help mitigate the negative elements associated with

donor dependency and asymmetric accountability. However, our study finds that NFPs that currently have a membership-based board are often unable to recruit directors with appropriate skills, while it also finds it can be difficult for NFPs to facilitate the development of the skills of their directors due to the lack of available resources, resulting in a conflicting dynamic between the demand for skills and stakeholder representation on governance bodies.

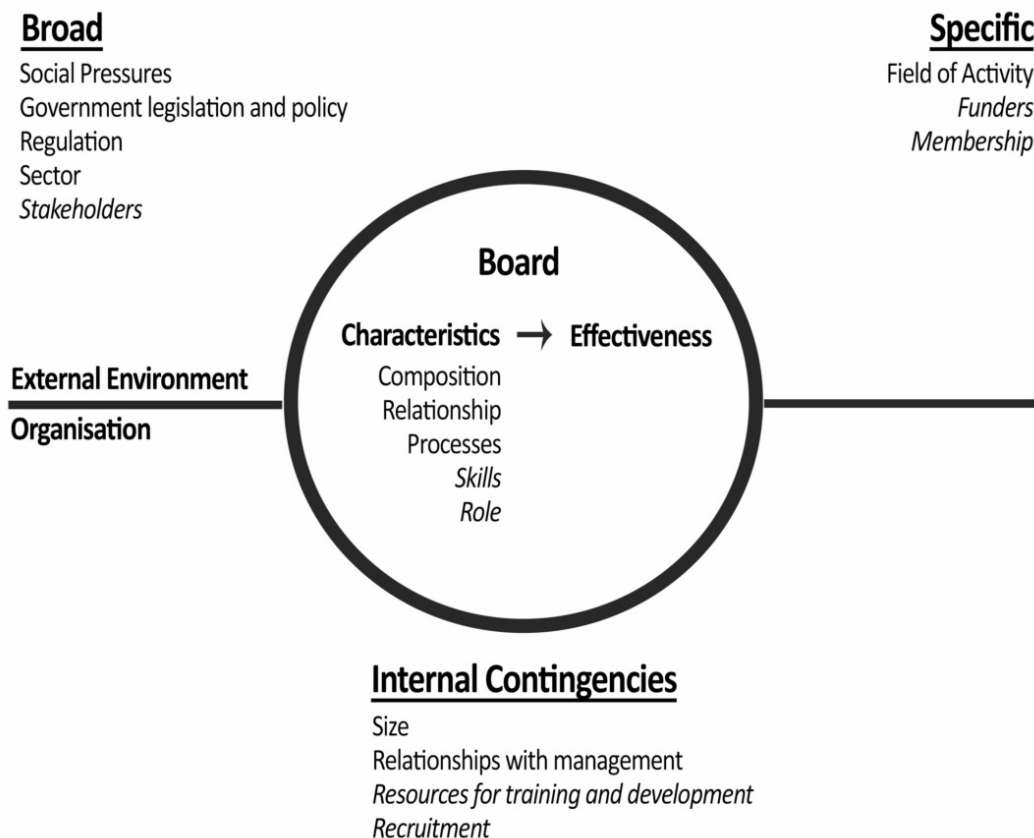


Figure 5 Contingency Framework (Empirical Findings in Italic).

CONCLUSIONS AND RECOMMENDATIONS

Through our research, we provide evidence that generic best practice governance standards for NFPs ought not to be pursued. Our research finds that broad governance standards are likely to be too non-specific to provide substantial guidance. Instead the advancement of governance research will depend on working inductively from research findings towards theory and vice versa. In practice there are great benefits in considering contextual elements of governance. NFP organisations should be able to choose how to model their governance frameworks according to different circumstances. This signals a move away from a strictly normative approach to governance.

While this research identifies contingencies that form governance challenges for NFP organisations, further research could systematically address these hurdles and develop appropriate processes through which to adapt governance models. In other words, best practice governance in the NFP sector should not take the shape of broadly defined standards, formulated by organisations or regulatory bodies, but should instead be given form in an analytical tool that assists in identifying the contextual factors influencing the organisation, and contributes to the adoption of fitting governance responses. Such a process would translate contingency theory into a useful practice.

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APPENDIX

INTERVIEW QUESTIONS

General

1. Which sector is your organisation in? (i.e. education, health, environment, etc.)
2. Can you describe the purpose or mission of your organisation?
3. How many employees and volunteers work for the organisation?

Stakeholders

4. Who are your organisation's most important stakeholders? (i.e. beneficiaries, financial supporters, government.)
5. What are the factors that influence your supporters to back your organisation? (i.e. activities, location, ethos, transparency).
6. Can you elaborate on the ways in which you engage with stakeholders?
7. How often do you engage with these stakeholders?
8. What are the main challenges that these stakeholders pose?

Board Structure

9. How many board members does the organisation have, and is this optimal?
10. How many of these board members are employees and how many are volunteers?
11. Does the board have sub-committees? If so, which areas do these cover and are they useful?
12. Who qualifies for board membership (criteria for selection). How do you recruit these board members?

Board Role

13. How would you describe the primary role of your organisation's board? (i.e. decision-making, monitoring, finding funding, or giving advice.)
14. Does your organisation regularly evaluate board performance and how does the organisation develop directors as effective board members?
15. What skills and experience does the board need from its directors?
16. Is there anything else you wish to add?

