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Challenges and future directions for third sector governance research

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Challenges and Future Directions for Third Sector Governance Research

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Abstract

This paper examines some of the main limitations of research on the governance of third sector organisations. It argues that there are limitations in both the way governance has been conceptualised and the ways in which it has been researched. It suggests that research has focussed too narrowly on the boards of unitary organisations, and ignored both the wider governance system and the more complex multi-level and multi-faceted governance structures that many organisations have evolved. It also argues that the dominant research designs employed have been cross-sectional and positivist in orientation. As a result too little attention has been paid to board processes and change and how they are influenced by contextual and historical factors. Based on this analysis some new directions for third sector governance research are briefly mapped out.

Introduction

In many countries the third or non-profit sector has grown rapidly in size and significance in recent decades. In the UK, for example, this growth has been stimulated by the contracting out of public services and the desire of successive governments to see third sector organisations (TSOs) play a greater role in public service delivery (Reichart et al, 2008). The increasing significance of the sector and its growing reliance on public funds has also attracted increased scrutiny. In particular, paralleling developments in other sectors, the spotlight has focussed on governance arrangements and whether they are adequate to ensure that TSOs are effective, responsible and accountable for their actions.

It is not surprising therefore that the governance of TSOs has become an increasingly important (and popular) topic in third sector research. At an organisational level an organisation's governing body or board has the legal responsibility to ensure that

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governance functions are carried out. Perhaps as a result the main focus of third sector governance research has focussed on boards. In a review of the North American literature on non-profit governance, which has tended to dominate the field, Ostrower and Stone (2006) suggest that the main topics for research have been: the composition of boards, the relationship between boards and managers or staff, board roles and responsibilities, and board effectiveness and the link with organisational effectiveness. This contrasts with earlier research on non-profit boards in North America that focussed primarily on their role as boundary spanners between the organisation and its operating environment (Middleton, 1987).

While this research on boards has made an important contribution to understanding board behaviour the paper argues it also has important limitations. The purpose of this paper is to examine these limitations and to begin to sketch out some new directions for research. In particular the paper argues that the focus on boards has been unduly narrow, and has not adequately kept up with the changing context in which many TSOs operate or the complexity of governance arrangements that are common in the sector.

The paper presents four inter-related criticisms of third sector governance research. First, it argues that equating governance with what boards do ignores the influence of other important actors who can legitimately influence the organisation's direction and to whom the organisation needs to account, such as regulators, audit and inspection bodies, members and donors. Instead it suggests that more attention should be paid to the broader governance system of which boards are just an important part. Secondly, it argues that most research has focussed on the boards of unitary organisations and

has largely ignored the more complex governance structures that have evolved in many organisations. As a result the governance systems of many TSOs are increasingly multi-level and multi-faceted, so that research needs to pay much more attention to how different levels of governance interact with each other. Thirdly, and related to the last point insufficient attention has been paid to how different actors besides board members contribute to the carrying out of governance functions. Fourthly, much research has tended to be positivist in orientation looking for general principles or relationships with respect to boards, it has tended to ignore the heterogeneous nature of the third sector and the influence of historical and contextual factors on governance structures and processes.

Finally the paper sets out some new directions for third sector governance research that can help overcome these limitations.

The changing context

Since the 1980s the delivery of public services in the UK (and many western countries) has changed dramatically, which has had important consequences for organisations in the third sector. Two inter-related government reforms underlie these changes. First, has been the creation by government of many quasi-autonomous organisations to deliver public services by devolving certain powers, for example to schools and hospital trusts, or in some cases completely 'handing over' services to new third sector organisations, such as housing associations, that took over public housing stock (Mullins, 2006) or leisure trusts, that took over recreation services . The second has been the creation of quasi-markets through separating the role of 'purchasers' of services, who have the responsibility for meeting public needs and planning provision, and the 'providers' of service, who are responsible for delivering

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the service, and introducing a degree of competition by getting public, private and third sector providers to compete for contracts.

As a result of these changes the boundaries between the public, private and third sectors have become increasingly blurred, and new hybrid organisations, such as social enterprises that pursue both social and commercial goals have emerged. Many voluntary and non-profit organisations have moved from providing services that supplemented public provision to being direct providers of public services. At the same time there has been a shift in much government funding of TSOs from grants to contracts, accompanied by increased performance monitoring and inspection. This has led some commentators to question how independent many voluntary and non-profit organisations are that are heavily dependent on government contracts (Harris, 2001). The move from government grants to contracts and a desire by many voluntary and non-profit organisations to develop new sources of income through commercial activities has lead to a large growth in earned income (Wilding et al, 2006; Reichart et al, 2008). As shall be discussed in the following sections these changes have important implications for the governance of TSOs.

There has also been a growing recognition by government that many social problems can not be addressed by government alone, and an increasing emphasis on 'joined up' government through partnership working with both the private and third sectors (Newman, 2001). As a consequence many voluntary and non-profit organisations have been increasingly involved in inter-organisational partnerships with government at both local and national levels. These have taken a variety of forms from informal networks to formal partnerships with agreed terms of reference and structures. Indeed

Renz (2006) has suggested many social issues can now only be addressed at these higher levels and so some governance issues can no longer only be addressed within organisations.

Changing focus from boards to the governance system

As Ostrower and Stone (2006) note the term governance is seldom explicitly defined in the literature on non-profit or third sector governance. However, the focus is very clearly at the organisational level and on boards and their behaviour. This literature has largely ignored the fact that governance has become an important concept in a variety of different disciplinary and practice arenas including management, economics, public administration, public policy and politics.

The word governance has its roots in a Latin word meaning to steer or give direction. However, as Kooiman (1999) notes in a useful review article the term is used in a number of different ways both within and between different disciplines, which can lead to confusion. He suggests one useful way of distinguishing between different usages is in terms of levels of analysis. The focus in this article is primarily on the organizational level and how organizations are governed. The term corporate or organizational governance is often used to refer to governance at this level, and can usefully be defined as the *structures, systems and processes concerned with ensuring the overall direction, control and accountability of an organization* (Cornforth, 2004).

It is important to distinguish organizational governance from political governance, at a higher level of analysis, where it is often used to refer to new patterns of government and governing. In particular the shift away from a unitary state to a more fragmented and arms-length system of government where a range of non-

governmental bodies participate in the delivery of public services and policy formulation (Rhodes, 1994). Of course these new, more network-like patterns of political governance and public service delivery are an important part of the context in which many TSOs operate. This is reflected in the contracting out of public services to TSOs and the increasing involvement in 'partnership' arrangements with public and other bodies.

The body with the main responsibility in an organization for carrying out governance functions is the organization's board or governing body. However, the corporate or organisational governance system is wider than this and includes the framework of responsibilities, requirements and accountabilities within which organizations operate, including regulatory, audit and reporting requirements and relations with key stakeholders. It is important to remember that regulatory requirements on TSOs vary depending on the legal form they take and whether or not they are registered with the Charity Commission or have another primary regulator. Regulatory requirements may also vary between different jurisdictions.

A couple of examples illustrate why it is important to examine the impact of this wider governance system as well as focusing on boards. Until recently housing associations in England had their own specialist regulator, the Housing Corporation (HC), that also acted as public funder to subsidise new social housing. The regulatory and inspection regimes for housing associations were much stronger than those faced by many other TSOs and often shaped a good deal of the agenda of the boards of housing associations. For example the decision by the HC to channel money for development through a limited number of housing associations, called development

partners, was influential in further encouraging many housing associations to enter into collaborative agreements, group structures or merge completely with larger associations (Mullins and Pawson, 2010). More recently the regulatory and funding roles of the HC have been split between two new bodies, and the National Housing Federation, the membership body that speaks on behalf of housing associations, has been campaigning for a new regulatory regime that gives more responsibility and power back to boards.

It is also important to remember that many TSOs have other bodies as part of their governance structures. TSOs are often structured as membership associations where members elect or select board members, and the board is accountable to members at annual or extraordinary general meetings. In essence these organisations have at least a two tier governance structure the membership and board. (Later the paper will discuss still more complex governance structures.) Now it is true that in some organisations the membership is limited to board members, so these two tiers are collapsed into one, but nevertheless many organisations have a much broader membership. The Charity Commission (2004) estimated that about 80,000 charities, or roughly half those on in its register, have voting members, (and a further 20% of charities have non-voting members). Of course these figures exclude the very many voluntary and community groups that are not registered as charities; by and large these are likely to be small organizations without paid staff, such as residents or sports associations, and are also likely to be membership associations.

Membership can raise distinctive governance challenges. Research by the Charity Commission (2004: 9-11) suggests that there is more scope for governance disputes in

membership associations, for example: if membership records are not kept up to date and so it is unclear who are voting members, member relations are not managed effectively, the membership lacks diversity or is dominated by particular interest groups.

Many TSOs have also constituted other groups that feed into governance decisions, such as advisory groups, users groups or members forums. Again the functioning of these groups and how they related to the governance of TSOs have received little attention in research literature, with a few notable exceptions (e.g. Saidel and D'Aquanni, 1999). Based on their research into the role of advisory groups in US non-profit organisations Saidel and D'Aquanni (1999) suggest that advisory groups can 'add governance capacity' by bringing in new expertise, helping connect organisations with their different communities of interest, and enhancing advocacy and ambassadorial roles.

Looking beyond the boards of unitary organisations
Not only has research on third sector governance focussed primarily on boards, it has focussed dominantly on the boards of unitary organisations, that is organisations that have a single governing body or board. In practice many TSOs have more complex governance structures with boards operating at different levels. There are a number of reasons why these more complex governance structures have evolved over time.

In the UK if a charity wants to engage in significant trading that does not directly further its charitable objects it is required by law to establish a trading subsidiary (illustrating again the importance of regulation in shaping governance practices at the organisational level). Charities may also decide to set up trading subsidiaries as a way

of protecting their charitable assets from commercial risks and for tax reasons
(Sladden, 2008). As a result many charities have established trading subsidiaries, with
their own separate boards, to undertake commercial activities. Some organisations,
like a number of housing associations, developed group structures, with group and
subsidiary boards, in order to amalgamate with other associations.

Interestingly a number of social enterprises that were established to trade in the
market have 'moved in the opposite direction' by establishing charitable subsidiaries,
where they have social goals that qualify as being charitable (Spear et al, 2007). This
has the advantage of helping social enterprises to protect their social mission and the
added benefit that their charitable activities are able to attract tax relief and grants
(Social Enterprise Coalition, 2007:15).

TSOs may also join together to form more complex structures at the inter-
organisational level. Brown et al (2007) examined the governance structures that had
evolved among international advocacy non-governmental organisations (IANGOs) in
order to better co-ordinate their activities and campaign at an international level. They
distinguish between *federations*, with relatively centralized decision-making (e.g.
Amnesty International and Greenpeace); *confederations*, where 'national'
organisations have greater autonomy and concentrate more on local action (e.g.
Oxfam International); *networks* of largely autonomous organisations that share
common values and information (e.g. CIVICUS), and *support* organisations that
provide advice and support to a larger movement or networks (e.g. Association for
Women's Rights in Development (AWID)). Hence there is a new level of governance

at the inter-organisational level that may take a variety of forms, but can constrain or influence what happens at the organisational level.

Interestingly similar multi-level governance structures can be found among TSOs that operate at both local and national levels. A number of UK charities operate federal or confederal structures, where there are independent local charities supported by a national charity that provides a range services, for example Mind, Citizens Advice, Age UK (formed out of a merger of Age Concern and Help the Aged) and Samaritans. These organisations often have some form of democratic member involvement at local, regional and national levels. For example, the mental health charity Mind has a complex democratic structure where local groups are able to nominate two people to district committees, two members from each district are elected to regional and country committees, and all regional and country representative and trustees form a national assembly.

In other cases TSOs have come together in looser networks or alliances to develop support or umbrella organisations to provide advice and support to their members, or campaign on their behalf e.g. BASSAC, Community Alliance, ACRE.

The co-production of governance functions

In research on the governance of TSOs there has been a growing recognition that (in those organisations that employ staff) the role of boards and management are interdependent (e.g. Harris, 1993 and 1999; Middleton, 1987). Both boards and staff contribute to carrying out governance functions. For example, while it may be the responsibility of boards to decide strategy or make major financial decisions, it is

usually staff that are in the best position to develop strategic options and proposals for the board to consider. So at the organisational level governance functions are carried out through the interaction of boards with staff. As Harris (1999) notes the relationship is 'negotiated and renegotiated as circumstances and personalities change'.

However, one corollary of the analysis above is that it is not just boards and managers that contribute to or co-produce governance functions but a range of different actors. For larger organisations external audit is a regulatory requirement and both external and internal audit procedures may be important in assisting boards to carry out their monitoring function and ensure that resources are being used appropriately. It is also quite common for TSOs to establish consultative bodes such as member, user or advisory groups that feed into governance decisions.

Different actors may also contribute to governance functions at different levels. Subsidiary boards may not only play an important governance role within their subsidiary, but feed into governance processes for the organisation as a whole. At the inter-organisational level an organisation's participation in wider organisational networks or structures through being part of a federation, partnership or some from of strategic alliance may mean that certain aspects of the organisation's governance have moved to higher organisational level. For example being part of a federation may mean accepting certain goals or standards that constrain what boards at lower organisational levels can do.

Limitations in research methodologies used to study governance

As well as weaknesses in how governance has been conceptualised, narrowly equating it with what boards do, there have also been limitations arising from the dominant methodologies employed to conduct research.

The majority of research has been carried out using cross-sectional research designs, either surveys or case studies, with a broadly positivist epistemology. However, as we have seen above organisational governance arrangements will often evolve over time to meet changing demands and circumstances. A charity may set up a trading subsidiary, an advisory body or members forum may be established, organisations may come together to form some sort of federation or looser alliance, an organisation may join a partnership with other public or private bodies. Inevitably by there very nature cross-sectional research designs are not good at capturing these changes or the factors that drive them.

The surveys that have been conducted also tend to focus on organisations that employ staff in limited geographical areas or fields of activity, and so the degree to which generalisations can be made are limited. For example, much of the North American research has focussed on larger organisations that employ staff in the field of human services (Ostrower and Stone, 2006).

In particular there has been a shortage of research on the governance of organisations that employ few or no staff, which in fact make up the vast majority of organisations in the sector. Interestingly the research that has been done suggests board characteristics and the challenges they face do vary with organisational size. For

example, Cornforth and Simpson (2002) in a survey of UK charities showed that governance structures, board size, formalisation and various board problems varied with size. Rochester (2003), based on case study research the UK, suggests that organisations with few or no staff face a number of distinctive challenges in developing and maintaining an effective board. Similarly Kumar and Nunan (2002) suggest these organisations have distinctive support needs. Ostrower (2008) in a survey of the boards of mid-size non-profits in the US identifies a number of distinctive weaknesses and challenges they face.

As Ostrower and Stone (2006) note the field of governance research in North America lacks panel data on a representative sample of organisations so that the characteristics and behaviour of boards can be tracked over time. Similar problems are evident in research in other countries. However, the problems in securing the long-term funding needed to enable longitudinal panel studies of third sector governance may mean this is likely to remain an ideal to aspire to rather than a practical reality.

Nevertheless, some of the potential benefits of building a longitudinal element into research are illustrated by a number of studies. Cornforth (2001) and Cornforth and Simpson (2002) were able to replicate aspects of earlier surveys of charities in the UK and show how various board characteristics and behaviours had changed over time. Abzug and Simonoff (2004) in an ambitious study were able to use historical data to examine how external institutional factors had influenced board composition in five American cities.

More generally there has been insufficient attention in research design to examining the influence of internal and external contingencies on boards (Ostrower and Stone, 2006, Cornforth, 2003) and governance systems more generally. Existing research and experience suggests some of the contingencies that are likely to be important. As well as organisational size other important candidates for internal contingencies are stage in the organisation's development or life cycle (Wood, 1992) and whether the organisation is in 'normal' times or experiencing some sort of crisis (Mordaunt and Cornforth, 2004). Candidates for external contingencies include: field of activity (Abzug and Simonoff, 2004), so for example, as noted earlier, many INGOs have over time developed inter-organisational governance arrangements to enable them to co-ordinate activities and carry out campaigning work at an international level; legal, and regulatory requirements, and resource dependencies, such as the growing reliance of many UK TSOs on government contracts and involvement in different partnerships.

Case study research on boards has tended to focus on the internal workings of boards and their relationships with management within quite narrow time periods. There is a need for more comparative and longitudinal case studies that examine in a more holistic way how board structures and processes change over time and how these are influenced by both internal and external contextual factors. Such research has the potential to identify important contingencies and develop new theory about the multiple, interacting factors that shape governance structures and processes.

Conclusions

This paper has examined some of the main limitations of research on the governance of third sector organisations. It has argued that there are limitations in both the way

governance has been conceptualised and the over reliance on cross-sectional research designs, which pay to little attention to the influence of contextual and historical factors on board structures and processes.

Much research on the governance of third sector organisations has not explicitly defined governance and implicitly equated it with boards and what they do. More attention needs to be paid to defining and conceptualising organisational governance, and a working definition was put forward as the *structures, systems and processes concerned with ensuring the overall direction, control and accountability of an organization*.

Structurally an organisation's board has the main responsibility for ensuring governance functions are carried out. However, other actors such as management, audit, membership or advisory bodies may contribute to governance processes, and governance functions may be undertaken at other organisational levels and in a variety of different fora. Indeed many organisations have developed more complex governance structures to meet new demands and challenges. A further weakness of current research is that it has focussed almost exclusively on the boards of organisations with a single board, and has largely failed to examine more complex governance structures.

In many situations it is important therefore that governance is conceptualised as *multi-level* and *multi-faceted*, involving the contribution of range of actors beyond the board itself. In the paper a number of examples have been given to illustrate this point. At the inter-organisational level organisations may join together in a variety of different

ways, for example they may form federations or looser alliances, or become part of a partnership with public or other bodies to help plan and services. Hence some decisions that shape what they do and how they operate may be taken at higher organisational levels.

Internally many organisations have more complex governance structures that extend beyond the main board. Some organisations have established subsidiaries with their own boards. Others have evolved consultative structures to involve different groups such as members, users and advisors that feed into decisions taken by boards and management.

This suggests some important new research questions:

- How do governance structures evolve and change over time, and what factors influence these changes?
- How are governance functions influenced by regulators, funders and other key stakeholders that can exert performance and accountability requirements?
- How do governance 'mechanisms' at different levels interact? For example how do main and subsidiary boards divide up responsibilities between themselves and manage their relationship, and particularly any tensions and disagreements that occur, or how does being part of a partnership, alliance or federation both constrain and enable governance at the organisational level?
- What role do consultative bodies, such as member, user and advisory bodies play in governance processes, and again how can any resulting tensions and disagreements managed.

Another limitation of third sector governance research has been the reliance on cross-sectional research designs using a broadly positivist epistemology often on a relatively narrow range of organisations. The emphasis has been on seeking broad generalisations. Yet as Ostrower and Stone (2006) note research suggests boards defy easy generalisations. Insufficient attention has been paid to how governance structures and processes may develop and change over time, and how these changes are influenced by contextual factors. In the paper we have highlighted some of these contextual factors that research and experiences suggest are important, for example field of activity, regulatory requirements, organisational size and stage of development, whether the organisation is facing a crisis or normal times. There is a need therefore for longitudinal and comparative research designs that not only focus on board characteristics and behaviour, but explicitly examine how these change over time and are influenced by external and internal contingences.

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