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**Where has the Strategic Thinking Gone in the Non-profit Board Room?
A Study of Board Member Perception and Reality.**

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Where has the Strategic Thinking Gone in the Non-profit Board Room?

A Study of Board Member Perception and Reality.

ABSTRACT

As a practitioner working closely with independent school boards the researcher observed that many boards of small to medium sized independent schools were operationally focussed to the detriment of strategic thinking. Much of the literature on board governance effectiveness stresses the importance of strategic thinking, yet some empirical studies suggest not all non-profit boards are strong in this area. Research however is limited, especially in the independent school sector. This paper therefore presents an empirical study of the extent of strategic thinking in seven independent school boards. The study reveals an alarming picture as to the extent their strategic thinking.

This paper begins by initially setting the scene, highlighting the importance of strategic thinking in the relevant literature before presenting the study and its findings. The reality revealed in these case studies serves as a wake-up call to all non-profit boards. Unless a non-profit board thinks strategically, it will never maximise its governance effectiveness.

Keywords: Strategy, Not-for-profits and Governance

The need for strategic thinking.

The importance of strategic thinking in the non profit board room is supported by many definitions of non-profit governance and empirical studies identifying of features of effective non-profit boards. Strategic thinking in the board room is ultimately based on seeking mission achievement. Mission achievement is acknowledged and or directly included in many definitions of governance. If governance is therefore about mission achievement it is also about thinking strategically. To achieve the mission boards need to be forward thinking. Both the definitions and empirical studies suggest the concepts of mission, vision and strategic planning are interrelated and compliment and support each other. Ingram, president of the American Association of Governing Boards of Universities and Colleges, and a member of a secondary school board, also asserts that setting the mission statement is an essential area of focus that should guide organisational planning.

The board should assess program activities against the mission to ensure the organisation is not drifting away from its original purposes...The mission sets the stage for... strategic planning as well as the boards many other responsibilities” (Ingram, 2009, p. 1)

Grace (2003, p. vii) presents a similar view stating that “among all the many duties of not for profit board members, setting and advancing mission is perhaps the most important”. Brinckerhoff (2009) also asserts “in the business of doing mission...mission must ALWAYS be first in a non profit organisation” (p1). Advancing mission is therefore at the heart of what non-profit boards do. To advance the mission boards must think strategically. Strategic thinking that is not based on a solid foundation of mission and vision, however, has the potential to take the organisation in the wrong direction.

The majority of texts on the subject of strategic planning emphasise that the process must begin with identifying the mission and vision. Once these are clear they then discuss the linking of strategy these elements (Dalglish & Miller, 2010; Waddell, Devine, Jones, & George, 2007). Coulsen-Thomas (1994, p. 29), pointed out that not all non-profit boards had understood this stating “Many boards fail to give their companies a sense of purpose, a compelling vision, or a distinctive reason for existence. Without a clear vision and mission, a company is rudderless”. If non-profit boards are not focussed in these vital important elements (mission and vision) then it raises a concern that the strategic planning, if it does occur, could be ill-founded.

Some empirical studies of small non-profit organisations highlight a lack in their strategic thinking. One such study was a study of New Zealand Football Association board involvement in strategy by Ferkins, Shilbury and McDonald (2009). This study found when boards were focussed on strategy there was a positive impact on many other areas of their governance. They found that “greater board involvement in strategy advanced the board's ability to perform its strategic function” (Ferkins, Shilbury, & McDonald, 2009, p. 245). This study drew attention to the link of board strategic thinking to other governance areas including their context, board member inputs (e.g., board member skills and experience), and board processes.

Various explanations have been offered in the literature as to why non-profit boards have at times failed to have a strong strategic focus. Coulsen-Thomas (1994) for example suggested the problem

may be related a lack of effort in ensuring the necessary building blocks were in place to advance the mission of the organisation. Essentially his argument is that non-profit boards need to seek out what needs changing to better implement strategy that serves to advance their mission. He goes on to suggest that one of the main building blocks lacking was the strategic competence of individual board members.

There has been consistent debate in the non-profit literature in the area of board competence. This debate is fuelled by the fact that board members are often volunteers. Balduck, Erakovic and McMorland (2009) undertook a study of non-profit board member perceptions of the skills they believed they brought to their board. This was part of a study into the 'perceptions' of good governance in New Zealand non-profit organisations. These results suggest that board members do arrive at the board table with relevant some skills and competencies. Eighty percent of respondents believed they brought leadership skills to the board room. Organisational planning, however, was among the lowest category with only half of the respondents perceiving they had skills in this area. Importantly, this study suggested that many board members lacked the competence to develop and implement strategic plans. If board members are not competent in an area they are less likely to want to work in that area and may be more inclined to put their efforts into areas where they are more competent. McDonnell (2010 para. 1) asserts "The single biggest determinant of the quality and competence of governance is who you have serving as directors". She later explains that to make the board more effective you need to work on one board member at a time. She also believes that boards need to build a 'competency profile' for itself. This would contain "the competencies needed on a board of directors based on both what current board members believe are important skills, attitudes and knowledge areas and what the organization requires to meet future challenges" (para.6). She goes on to further outline the main elements of this profile with 'thinking strategically' one of the main elements emphasised (McDonnell, 2010 para 9-13).

There is a tendency for many non-profit boards to be overly focussed on the operations of the organisation. Bartlett and Campey (2010) for example state that boards "invariably direct

management, meddle in day to day issues, and provide little in the way of longer term planning and leadership". They also believe the distractions of legal and fiduciary issues result in too much time being spent at board meetings on these accountability issues and because of this little or no time left to invest in strategic thinking.

Accountability is viewed as a central role of boards. Board focus on accountability, like all areas of board work, boards need to be appropriately balance their focus in this area. Get the focus wrong and it can serve as a distraction from implementing strategy and other important areas of board work. Andringa and Engstrom (2002) are among those who believe that striving for accountability in the non-profit board room often detracts from the organisations focus on the tasks necessary to achieve mission (i.e. strategic planning). They believe that as an organisation grows it tends to put more bureaucratic structures in place to ensure accountability, but in doing so the focus is often too much on the accountabilities often to the detriment of strategic thinking and other task related to achieving mission.

Yet another explanation for diminished strategic thinking in some non-profit board rooms is the delegation of strategic thinking to those entrusted to run the organisation operationally. Not all non-profit boards could honestly say that they own the setting of the strategic direction that goes on in their organisations. Instead it appears some boards are happy to delegate this to management. According to a recent study by Resolve (2011), the development of vision and mission statements was handled by the non-profit board as a whole in only 60% of cases. Their study also found that the CEO had the overall responsibility for this in just over a quarter of non-profit organisations (27%). This indicates that many boards appear to be content to merely rubber stamp the strategy developed by senior management, rather than being an integral part of strategy development. Such boards would be less likely to own and be committed to their organisations strategic direction because they were not active participants in the strategic thinking.

Strategic thinking is an important element of non-profit board work and is strongly linked achieving the organisation's mission. Yet it appears that not all organisations have a strong focus on strategic thinking. The reasons for this, as revealed above, include a lack of board planning and competency, having an unbalanced focus on the operations and accountability, and the delegation of the strategic thinking to management. There is only limited research into the extent of strategic thinking of non-profit boards, particularly within the independent school sector. Further research in this area in this area is therefore warranted.

Methodology and Methods

To address the lack of research into strategic thinking of boards of independent schools the researcher studied seven boards from small and medium sized independent schools in Australia. All board members and the school principals participated in the study. Using a qualitative case study approach the study identified the extent participant boards were strategically focussed. It looked at both individual perceptions and what the data appeared to reveal as the reality looking for consistencies and differences.

The case study approach is often used in qualitative research. According to Phophalia (2010, p. 19), "the case study is an intensive, integrated and insightful way of studying a social phenomenon". As pointed out by Davies (2005) it involves the analysis of real life where the researcher is an observer or joining in. Ellinger et al (2009, p. 331) stated that "Generally case study analysis begins with 'within' case analysis followed by 'cross-case' analysis". This study followed this two-step approach. Eisenhardt (1989, p. 533) states that the within case analysis allows the researcher to "gain familiarity with the data and preliminary theory generation" and the cross-case analysis "forces investigators to look beyond initial impressions and see evidence through multiple lenses". Yin (2012) indicates that a feature of case studies is the use of 'multiple' methods (which also serves to strengthen reliability). The methods adopted in this study included surveys, semi – structured interviews, observation of board meetings, and a review of documentation.

Surveys are commonly accepted as being economical, providing a rapid turnaround time in data collection, and of being able to identify attributes of a large population from a small group of individuals (Babbie, 1990; Cresswell, 2003). Surveys were distributed to all board members from the participating boards. The researcher designed survey questions seeking board members perceptions of the focus on mission, vision and strategy. They were asked about when and how strategic planning occurred and what were their strategic goals. Follow up surveys were also issued and in many cases the board chairperson encouraged the board members to complete the surveys.

Interviews were conducted with board members and the principal of each participating school. According to Gillham (2010, p. 62) “the overwhelming strength of the face to face interview is the richness of the communication that is possible”. The interviews addressed similar areas to the surveys but drew out more detailed information.

Where documents existed, board policies, agenda, minutes, plans were sought from all participant boards. The information in this documentation was used to corroborate the evidence obtained from other sources. This was consistent with the approach recommend by (Tellis, 1997) and Yin (2012). Yin (2012) states that in case studies, documentation review in is extremely important to ensure validity and consistency.

According to Yin (2012), direct observation is one of the most common methods used in case study research. He states “if nothing else, the opportunity to make such observations is one of the most distinctive features in doing case studies” (p11). I attended at least one board meeting from each participating board as a silent observer. It was noted when board members engaged in future oriented and strategic discussions and when they also engaged in operational and non-strategic discussion.

Are boards thinking strategically in the board room?

As strategic thinking in the board room ideally should be a natural part of seeking to achieve its mission, I initially sought to discover if boards had a strong focus on mission. Data was collected to ascertain where boards put their focus. The data was then separated into what appeared to be ‘reality’

and what appeared to be the board member 'perception'. The 'reality' analysis drew mostly on the data from the factual evidence obtained from observations and documented mission statements. In five of the seven cases board members overwhelmingly indicated they had a strong focus on mission. In the same five cases, however, the factual evidence did not support their perceptions. The factual evidence indicated that the focus on mission (purpose) was much more evident than the focus on vision (a vision for the future). Four of the seven boards did not have any form of documented vision. Where a vision statement existed there were clear inconsistencies between board members in their understanding of what this vision was. The factual evidence also revealed that these boards had an overwhelmingly operational rather than strategic focus.

Values varied between the cases and were typically strongly linked to the organisation mission. These values underpinned the very existence and purpose of these cases were often viewed a main distinctive by them. The underlying ideological values that underpinned their mission were apparent in subtle ways and there were obvious signs these values infiltrated the organisational culture. It was observed, for example, that some of the boards of the religious schools spent time in prayer and reading of their religious books (e.g. the bible) at meetings. Some of these boards also prayed before making some of the more important decisions. This emphasised their underlying religious values which were for them underlined their very existence and purpose. It indeed infiltrated both the 'why' and 'how' aspects of their governing roles.

As stated by one interviewee "our values infiltrates everything we do as board members" (case E board interviews). For many board members values were not only entrenched in their mission, they were also a fundamental motivator for joining and serving on the board. Others talked about their mission and values interchangeably. Their perceptions were mostly consistent with the mission statements, although few could cite their mission statements as written.

The interviews and surveys contained a number of questions targeting board member perceptions of the extent of strategic planning by boards. Despite boards having a strong sense of values, and having

a sense of purpose, there was little evidence of a strategically formulated view of where these organisations should be heading. Documented evidence revealed that boards in this study, despite some perceptions otherwise, did not have documentation that demonstrated their strategic planning or the application of strategic thinking. Very few boards had documented strategic plans, vision statements or appeared to be moving forward in a strategic and planned manner. A review of minutes indicated the overarching focus in the board room was strongly 'operational' rather than 'strategic'. This finding was consistent with the observation from Bartlett and Campey (2010) who warn that non-profit boards can easily be overly focussed on the operations to the detriment of strategy.

Some boards in the study, however, acknowledged a need to change their focus. The boards of two cases were in a period of transition and were, to varying degrees, demonstrating initial signs of attempting to change their approaches to be more strategic and future focussed. In one of these cases the board chair acknowledged it was time to work on a strategic plan. Another case had allocated an annual meeting in their board calendar devoted to strategic planning, however a focus on overcoming a financial crisis event led to the board delaying this strategic planning day. Perhaps continuing with this day would have been very appropriate for this board in planning how overcome their crisis. In another case, a skeleton planning document had also been created a few years earlier. Little work had been undertaken, however, on that plan however since it the initial draft of this document. The document remained on the backburner. There was some strategic thinking discussed at the meetings but this appeared ad-hoc and based on pursuing opportunities that were brought to their attention rather than coming out of a strategic planning process based on mission and vision. This board had as a main area of internal focus the enhancement of their governance approach and admitted they had been putting off visioning and the development of the strategic plan until there new governance approach had been implemented.

Participants were asked to indicate in the survey if their board had a strong focus on strategic goals. They were also asked to list these goals. The survey data indicated that the majority of board members perceived their boards to have a strong focus on strategic planning, but the observations of board

meeting, reviews of agenda's and minutes and of strategic planning documentation revealed a reality different to their perceptions. There were also a number of individual board members from across the cases who expressly stated that strategic planning was not a strong focus of their board. Five of the seven cases did not have any evidence of documented strategic plans or goals. Despite this evidence, most of the respondents from these boards still believed that their boards were focussed on strategic goals. Perception and reality differed. Further probing revealed that these perceptions were mostly based on 'common understandings' rather than documentation.

While survey and interview responses indicated variations on the view of what a 'strategic goal' was, the 'common understandings' were clearly evident from the within case analysis (although some common understandings also were apparent in the cross-case analysis). The 'desire to grow student numbers' was the most prevalent 'common understanding' across the cases. Other common understandings related to the instilling of values and improving the organisations financial position. These common understandings were often viewed as their actual strategic goals even though they were not expressly stated in writing in a formal strategic planning document. The agenda's and minutes confirmed these common understandings were discussed. They appeared, however, in these documents in an inconsistent and ad-hoc manner.

A surprising result within the data with regards to strategic focus was that the two boards with the most evidence of documented strategic plans, also scored among the **lowest** in terms of board perception that the board had a strong focus on strategic goals. The reason for this was perhaps because both boards had 'intentionally' decided to put their strategic plans on the backburner and board members were aware of the decision to do this. One of these boards put their plans aside while they focussed on resolving a financial crisis and the other case wanted to focus on its governance model first. This showed that the existence of strategic planning documentation does not necessarily mean therefore that boards had actually implemented these plans or had a strong strategic focus.

The observations of board meeting confirmed that all cases spent most of their board meeting time on operational matters (particularly receiving and discussing principal reports) rather than engaging in strategic thinking. The evidence across the cases also showed that size impacted on whether a school was more operationally or strategically focused, with the smaller schools significantly more operational in the board room.

The boards from the medium sized schools appeared to be more 'strategically organised' as they grew in size. What appears to have happened in the medium sized schools is that with the extra students came extra staff and resources devoted to the operations, freeing the board to be more strategic in its own focus. Yet it appears even the medium sized schools in this study were not as effective as they could or should be in have a future oriented mindset.

It is time perception became reality.

This study revealed that non-profit boards in the independent school sector are very aware of their mission and values. For the boards in this study this did not translate, however, into strategic thinking in the board room. While there were common understandings as to some goals, few boards had documented strategic plans. No board in this study demonstrated they were effective in their strategic thinking targeting mission achievement.

Boards in this study while having strong awareness of mission and values did not demonstrate this translated into proactive strategic thinking. Perception and reality did not match. There were, however, signs that as the organisations grew in size so did the awareness of the need to be strategic. The study also suggested these boards would benefit from a more balanced focus where their focus moved from an operational to a strategic focus. This requires a new way of thinking.

This study not only confirms that boards in the independent school sector are among those that lack strategic thinking in the board room, it also suggests that this may be an issue elsewhere in the non-profit sector. Their existing focus on mission and values must be maintained, but boards need to proactively drive a stronger focus on the direction they want to take the organisation. They need and

to be intentional in setting a strategic direction and adopting a formalised approach to their strategic planning.

The key to all this is adopting an intentional mindset. A mindset that says we are going to govern with a focus firmly on the future. This involves a change in mindset from the current mindset focused on 'the present' and 'the operations'.

Conclusion

Strategic thinking is required to advance mission. Some studies and research showed that strategic thinking was not as strong as it should be in non-profit organisations but there was little empirical evidence relating to this in the independent school sector. This study provides empirical evidence for this non-profit sub-set. It found that perceptions of strategic thinking rarely translated into actual strategic thinking in the seven non-profit boards studied. The findings revealed mission achievement was greatly hindered by an over-emphasis on their operational focus. There was evidence that strategy was viewed as something boards would 'eventually get around to' or as something that could be 'delegated to management'. It was not embraced as an integral and ongoing part of board life. While the literature makes it clear strategic thinking is required, this study confirmed that not all non-profit boards have got this message. Academics have an important role in assisting boards to adopt a much needed intentional strategic mindset focussed on mission achievement.

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