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An Investigation of Governance in Scottish Charities

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DECLARATION

I declare that this is my own work.

Signed: ....V. lambert...............

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ABSTRACT

This thesis investigates governance in large Scottish charities. In particular, the focus is on internal aspects of governance, predominantly the functioning of the board. The influence of business on charities is also investigated through considering the impact of individuals with business expertise on the boards of charities. Charity governance in the Scottish context has been under-research, this thesis attempts to fill this research gap. A multi-method approach was employed, encompassing both quantitative and qualitative research. The study utilised a survey in the form of a self-completion questionnaire, and three case studies to examine governance in Scottish charities. Social construction provides the framework of the analysis. This thesis provides an insight into the functioning of the boards of Scottish charities, in-line with previous research in other countries, governance issues are apparent. However, in relation to the impact of business expertise in charities, there is evidence that business members of charitable boards make contributions to the governance of these organisations, and charities can gain considerable value from having outside specialists on the board.

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PART ONE: RESEARCH CONTEXT

CHAPTER 1

INTRODUCTION

1.1 The Charity Sector in Scotland

The charity sector of many economies has assumed increasing significance as a provider of services (Bradley et al, 2003; Weisbrod, 1988). The United Kingdom is no exception to this trend, particularly in light of the current Governments idea of 'the Big Society' which aims to present a greater role in public services to the voluntary sector (Cabinet Office, 2010a, 2010b). In Scotland, the charity sector represents a significant proportion of the economy, with approximately 23, 114 charities generating an annual income of approximately £10.9 billion (OSCR, 2008). As a result of the considerable economic contribution and the increasing expectation placed on these organisations in the delivery of public services, the importance of good governance in charities has been recognised as key (OSCR, 2008; Crawford et al, 2009). However, it also presents itself as a considerable challenge.

Over the past decade, the charitable sector in Scotland has undergone significant change. The context of this change has been at a time when in Scotland, similar to other countries, the sector has been rocked by a number of high profile scandals; most notably that of Moonbeams, and Breast Cancer Research. These very public failures have led to serious questions of trust within the sector. Moonbeams was an Edinburgh based Cancer charity which raised money by selling confectionary in order to send seriously ill children from underprivileged backgrounds on holiday. This charity was closed down after it emerged that only £70,000 of the £3 million raised actually went to help these children (Davidson, 2003). Similarly, with the case of Breast Cancer research, only £1.5 million of the £13 million raised went to charitable causes (Robertson, 2003). These incidents had a serious impact on the

Scottish charity sector, with charity donations from the Scottish public falling by 30 per cent (Horton, 2006).

Failures such as these have raised concerns over the governance of these organisations, and have resulted in a tighter regulatory regime for charities which has sought to increase transparency and rigour in the sector, and to fix defects which were apparent under the previous framework. A new charity regulator – the Office of the Scottish Charity Regulator (OSCR) - was established in December 2003 as an Executive Agency and took up its full powers as a non-ministerial department of the Scottish Administration when the Charities and Trustee Investment (Scotland) Act 2005 came into force in April 2006. OSCR was set up as the independent regulator and registrar of charities, and is charged with ensuring that charities comply with legislation. OSCRs responsibilities include the following:

- Maintaining the Scottish Charity Register
- Granting charitable status
- Granting consent to proposed changes to a charity
- Monitoring charities' compliance with the new legislation, and
- Investigating apparent mismanagement or misconduct

(OSCR, 2006b)

In Scotland, only if an organisation has been entered into the Scottish Charity Register, can it be deemed to be a charity. In order to become a charity, organisations must pass the charity test, which means they must have one or more specified charitable purposes, and provide public benefit in Scotland or elsewhere. [1] Charities are governed by a board of volunteers, generally referred to as either trustees, board members or directors.

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[1] For the purpose of this study the term charity, nonprofit and voluntary will be used interchangeably

OSCR sets out the following role of these charity trustees:

> *Charity trustees are responsible for the governance and strategy of their charity. They are responsible for making sure that their charity is administered effectively, and is able to account for its activities and outcomes both to us (OSCR) and to the public (OSCR, 2010).*

The duties of charity trustees are set out in Section 66 of the Charities and Trustee Investment (Scotland) Act 2005. It sets out four general duties which are deemed to be fundamental to the trustees of the charity, and a number of specific duties which the trustees must comply with. The general duties are outlined in the Act as follows, trustees must:

- Act in the interest of the charity.
- Operate in a manner consistent with the charity's purposes.
- Act with due care and diligence.
- Ensure that the charity complies with the provisions of the 2005 Act and other relevant legislation.

A number of other duties outlined include: updating the charities details with OSCR; reporting to OSCR; financial record keeping and reporting; controlling fundraising; and providing information to the public. Charity trustees must fulfil these duties without remuneration.

Despite these regulatory changes, governance issues in Scottish charities still appear to be at large. A recent failure in the sector was that of One Plus, a charity providing support to one-parent families, this was a large charity with a turnover of £11m in 2005. In 2007 it went into liquidation, with OSCR launching an inquiry into the underlying causes of the financial problems which led to this. The governance of the charity was identified as a major cause of it's failure, such issues were particularly attributed to a lack of business expertise on the board, and included: the lack of skill of the board to run a multi-million pound 'business', particularly in the area of

finance; heavy reliance on the Chief Executive who had control of both strategic objectives and day-to-day management; and out-of-date and incomplete financial information being presented to the board.

The Scottish context therefore presents itself as an interesting and relevant setting for the study of governance in charities. As demonstrated above, despite regulatory changes, governance failures are still apparent. In addition, a need has been identified for charities to become more business-like in governing their organisations, however, the future governance and management of charitable organisations and their ability to adopt and deploy specialist business-related functions, while preserving their distinctive ethos, represents a fundamental challenge (NCVO, 1999; Sergeant et al, 2000; Storey, 2001; Bradley et al, 2003). As outlined above, the notorious scandals which have occurred in the last decade have placed increased scrutiny on charities, with the ultimate question in this situation being: where was the board?

1.2 Overview of Research and Contribution

This research examined governance in Scottish charities. In particular, the focus was on the specific governance issues in charities, particularly in relation to the functioning of the board. The impact of external expertise, particularly business expertise was also investigated by considering the presence of business people on charity boards. These areas were explored using aspects of social construction – isomorphism and legitimation. A multi-method approach was employed, encompassing both quantitative and qualitative research. The study utilised a survey in the form of a self-completion questionnaire, and three case studies to examine governance in Scottish charities.

Despite the interesting study setting which the Scottish charity sector provides, there has been a surprising lack of academic research into the governance of these organisations in Scotland, this thesis attempts to address this gap. This research will contribute to the further understanding of governance in charities, and also the role of

external expertise – particularly business expertise – on charity boards. This thesis also aims to make a theoretical contribution to the literature by exploring these issues using social construction, particularly the ideas of Isomorphism (Di Maggio and Powell, 1983; Meyer and Rowan, 1977) and Legitimation (Berger and Luckmann, 1967; Meyer and Rowan, 1977). It is envisaged that this research will be of interest to academics; charities, particularly managers and trustees; policy makers; and the Scottish charity regulator.

1.3 Structure of Thesis

This thesis is structured into a further ten chapters. The following four chapters present the context of the research. Chapters two and three provide an overview of the extant literature in this area. Chapter two focuses specifically on issues in charity governance, by first providing a definition of governance in charities and an overview of four key 'internal' aspects of governance in charities: the role of the board, the relationship between the board and management, board and organisational effectiveness, and the composition of the board. Chapter three then examines the impact of business practices and expertise on charities, initially it examines the specific research which focuses on the impact of business practices and expertise on charity boards, before considering literature which looks at this impact more broadly in the management of these organisations. Chapter four provides an overview of the conceptual framework of the study – social construction. This chapter begins by considering some seminal contributions in this area and draws specifically on two key aspects – legitimation and isomorphism. Initially, applications of these ideas are considered in the broader organisational literature, before looking specifically at non-profit organisations. This chapter concludes with a discussion of how the framework will be applied in this study. Chapter five provides a rationale and justification for the design of this multi-method study of charity governance. The research questions are outlined, along with the research methods and data collection instruments. The design of the research is also considered with regard to the mobilisation of the conceptual framework.

The next section of the study presents the findings. Chapters six and seven focus on a survey of the largest section of Scottish charities. Chapter six examines governance aspects including: the role of the board, the division of strategic and operational tasks, board effectiveness, and regulation. Chapter seven focuses more specifically on the impact of business expertise on charity boards. Chapters eight, nine, and ten present findings of three case studies; a Housing Association, a Social Care charity, and a Further Education College. Finally, chapter eleven draws together the key findings of this research, and offers some conclusions and suggestions for future research.

CHAPTER 2

GOVERNANCE IN CHARITIES

2.1 Introduction

Governance in charitable organisations has traditionally focused on the functioning of the Board. Such areas are classified by Ostrower and Stone (2006) and Stone and Ostrower (2007) as focusing on the role of the Board, the relationship between the Board and staff, the composition of the Board, and the link between Board and organisational effectiveness. This is also noted by Hyndman and McDonnell (2009), who classify these as 'internal aspects' of governance. They also consider the relationships charities have with donors, regulators and beneficiaries which are termed as 'external aspects' of governance. Hyndman and McDonnell (op cit.) report on the lack of a clear definition of charity governance, and propose a broad definition of charity governance as encompassing both internal and external aspects. They define charity governance as:

> *Relating to the distribution of rights and responsibilities among and within the various stakeholder groups involved, including the way they are accountable to one another; and also relating to the performance of the organisation, in terms of setting objectives or goals and the means of attaining them* (Hyndman & McDonnell, p.9; 2009).

This chapter will consider the key aspects of charity governance as identified above. Due to the nature of this study, it will focus on 'internal aspects' of governance, namely: 2.2 the role of the Board; 2.3 the relationship between the Board and staff, particularly management; 2.4 the structure and composition of the Board; and 2.5 Board and organisational effectiveness.

2.2 The Role of the Board

A key aspect of good Governance is widely regarded as being the clear documentation and articulation of the roles and responsibilities of the Board. These are laid down in a variety of publications which outline guidance for the sector, such examples for Scottish charities include OSCR *Guidance for Charity Trustees* (OSCR, 2006) which provides guidance for trustees of Scottish charities on the expectation placed on charity trustees under the Charities and Trustee Investment (Scotland) Act 2005. Although this is aimed at trustees of small to medium sized charities (with an income of below £500 000) because they make up the greatest majority of charities in Scotland, it is also perceived as a useful tool for trustees of larger charities. Charities are also covered in the *Good Governance Standard for Public Services* (CIPFA, 2004). Such guidance is also issued on a sectoral basis, with the Regulatory Code of Governance for Housing Associations issued by the Scottish Housing Regulator (Scottish Housing Regulator, 2008), and the *Guide for College Board Members* issues by Scotland's Colleges (2006).

The above guidance places clear emphasis on the importance of clear roles and responsibilities to ensure effective charity governance. The emphasis of such guidance is that the nature of the role is strategic, this is mirrored in the academic literature where a plethora of studies exist in defining what the key roles and responsibilities of the board are (Houle, 1990; Axelrod, 2005). Prescriptive lists such as this include Houle's (1990) widely cited list, which includes: determining mission and purpose; appointing, supporting and appraising the Chief Executive; approving and monitoring the services and programmes of the organisation; raising money; ensuring effective fiscal management; strategic planning; enhancing the public image of the organisation; developing itself as a board, from recruitment to assessment of its own performance; understanding the relationship between staff, board and volunteers; organising itself so that it operates effectively; and ensuring sound risk management policies. A similar group of roles is also outlined by Ingram (2002). Axelrod (2005) lists four primary responsibilities that a Board should carry out, namely; definition and advancement of the mission of the organisation, development

and conservation of the organisation's resources, ensuring oversight of management and assessment of the organisation and developing relationships between the organisation and its stakeholders.

The importance attached to such prescriptive Board roles has also been investigated. One such study is that of Brown & Guo (2010), who investigate how chief executives of U.S. community foundations perceive role importance. The key roles identified included: fund development, such as securing donations for the organisations; strategy and planning, where executives talked about setting the direction of the organisation through long-range strategic planning and attending retreats; financial oversight; public relations; Board member vitality, which was defined in terms of the commitment and engagement of board members; policy development and monitoring; and the board relationship with the executive, particularly in terms of monitoring the executives performance. Key influences that shaped the Boards role were also identified, for example, organisations that reported the Board role as one of resource development were found to operate in environments that were resource constrained. Focus on a strategic role was related to organisational complexity, with the oversight role typical of large diversified organisations.

Further investigation of the importance attached to these various Board roles has been investigated by Leatherwood and O'Neal (1996), who considered both corporate and nonprofit boards in the U.S. They found that members of nonprofits reported that their Boards were more responsible for what they termed service than for strategy or control. Service was described as looking after the organisations reputation, advising top management, and selecting new board members.

Inglis et al (1999), surveyed community nonprofit organisations, asking them to rate the importance of fourteen roles and responsibilities and the extent to which they were currently being fulfilled in the organisation. A gap between role importance and fulfilment was found to exist; the results showed that the most important roles were perceived as being roles associated with responding to community needs and

ensuring a mission and vision for the organisation, however the fulfilment ratings were found to be lower than the ratings related to importance, pointing towards a need for improvement in the fulfilment of role outcomes – only a satisfactory level of performance was reported. A framework was developed for roles and responsibilities which consisted of three areas: strategic activities, operations and resource planning. A further study by Inglis and Weaver (2000) considered whether applying this framework to the design of Board agendas would result in increased fulfilment of these key roles; the findings here reported that both board members and the executive felt that the framework allowed them to keep their focus on important items relating to their key roles, therefore enhancing their ability to govern. Similarly a study by Green et al (2001) reports gaps between perceived and actual behaviour, with differences reported as to what functions and activities boards and chief officers believe the other should and does perform.

In a similar study to Inglis et al (1999), Iecovich (2004) considers fulfilment of Board roles in an Israeli nonprofit. In this study, nine board roles and responsibilities were examined and perceptions of these roles and their fulfilment by chairs and executive directors were sought, the roles investigated were: annual budget allocations, fundraising, change in top management, hiring decision on paid senior staff, change in general admin procedures, job descriptions for senior staff, changes in specific programs or services, connections with local and national agencies, and advocacy and lobbying. Here, fulfilment of Board roles were reported, and three major groupings of these roles were uncovered: internal focus, such as HR; external-internal focus, such as fiscal management and policy making; and external focus such as maintenance of relationships with the task environment. There was also a general consensus between the chairs and the executive directors in terms of the boards level of involvement in various roles and responsibilities, this was specifically in terms of fiscal issues and the relationship with the task environment, with chairs perceiving higher levels of involvement in these roles than the executive directors.

Specific focus is given to the role of the Board in Strategic Planning and Monitoring by Cornforth and Edwards (1999), Stone, 1991, Parker (2003) and Miller (2002).

The specific contribution of Boards to strategy is investigated by Cornforth and Edwards (1999), who consider this issue in public and voluntary organisations. The findings from this study show that the strategic contribution of boards varies widely between organisations; in the cases in this study, it was found that only slight strategic contributions were made by the Board of the local voluntary organisation and the Local Authority School, in contrast to the national voluntary organisation and College, where the contribution was much larger. This was the result of the interaction of a number of issues, these were found to include: regulation and legal responsibilities, which meant that the compliance role was dominant in all organisations and tended to move the focus away from strategic issues; the traditions of the sector and norms of governance; the way that board members are chosen; the skills and experience of board members, for example, the requirements placed on the College to recruit people with business experience meant that the Board saw strategy making as part of its role and were more able in dealing with strategic issues; the size and status of the organisation; and the way that Boards are organised and run. In addition, it is also reported that wider institutional factors which have an impact on these issues can leave boards experiencing tensions and trade-offs that can result in the strategic role being overshadowed by other roles. Issues surrounding the way certain governance processes were managed impacted on the strategic contribution of the board. Another important finding was the lack of clarity of the role of the board, highlighting the need for greater clarification of this role within organisations.

More specifically, Strategic planning is investigated by Stone (1991) who found that a focus on high level policy issues were present in nonprofits with clearly understood missions, and clearly structured boards. Formal planning was also dependent on clearly structured boards. Parker (2003) considers the Boards role in the financial management strategy of a community welfare organisation. The commitment to the organisations core philosophies shown by the directors was a key influence on the financial management strategy of the organisation. Issues of balance between the level of attention given to social, welfare, operational, and financial strategy issues were found, and as a result, financial management strategy dominated board discussions. Findings show that governance in the community welfare organisation is

predominantly financially focussed in terms of both strategic orientation and predominance of boardroom discussions.

The importance of monitoring as a Board role is recognised in the literature (Houle, 1990; Carver, 2006; Axelrod, 2005) and is the subject of specific investigation by Miller (2002). Findings from this study of twelve nonprofit boards show that board members carry out the monitoring function in relation to their personal or professional competencies rather than considering measures that would show progress in achieving mission related goals and objectives, examples given include accountants concerning themselves with organising financial documents and lawyers focusing on legal or contract issues, this is at the expense of aspects related to progression of goals and initiatives that are related to the organisations mission.

The literature above has highlighted the existence of issues surrounding clarity and perception of board roles, and also highlighted instances where prescribed roles are not always carried out (Leatherwood & O'Neal (1996); Cornforth & Edwards (1999). Parker (2003) also uncovered ongoing differences of opinion between the executive and the non-executive directors as to the appropriate role of the board on his study of community welfare organisations. Other studies consider these issues in more depth, Widmer (1993) considers role conflict, role ambiguity and role overload in US human service organisations and finds that there are differences in the way that board members perceived or carried out their roles. Three situations were found to exist: some board members carried out the role of trustee which is described in the prescriptive literature; some members also carry out additional roles alongside this trustee role, these were identified as the role of worker which was the most dominant role, an expert, representative and figurehead; and some members carry out other roles to the exclusion of their trustee role. Similar conflicts are found to exist by Harris (1989) as a result of gaps between formal roles outlined in organisational documents, and role perceptions of staff and governing body members.

The above issue of role clarity is considered by McAdam and Gies (1985). This paper describes a situation where nonprofit board members are neither given, nor

develop, clear expectations of their roles and responsibilities. To assist clarification, three key areas of questions are proposed for members to ask within their first year of joining a board: firstly, administration and management information such as ascertaining whether the objectives of the organisation are stated in writing; secondly, questions about fiscal information such as whether the financial statements of the organisation are both accurate and complete; and finally, ask questions about human resource management, such as whether there is an adequate human resource development program for the staff. It is proposed that this process of asking relevant questions will stimulate improved institutional behaviour.

This section has considered the role of charity Boards, and has highlighted the emphasis on the strategic role of the Board in both governance guidance, and the prescriptive literature. Although such roles are deemed important, a gap appears to exist between importance and fulfilment, in particular there is evidence that operational tasks are also carried out by the Board. The next section specifically considers this issue of the distinction between strategic and operational roles, and also how this relates to the relationship between the Board and management.

2.3 Relationship Between the Board and Management

The distinction between strategic and operational activities presents itself as a fundamental challenge in all organisations (Baysinger & Hoskisson, 1990). The ability of the board to fulfil its strategic roles and responsibilities without straying into managements role of implementing the strategy is widely observed (Helmer, 1996; Ingley & Van der Walt, 2001; Lorsch, 1995; Parker, 2007). A recurrent theme of the literature on the role of charity Boards is that they should have a strategic focus, as discussed in the previous section. However, in charities, Boards are found to engage in activities of an operational nature (Leatherwood & O'Neal, 1996; Steane & Christie, 2001; Cornforth & Edwards, 1999), this can be alongside, or at the expense of such prescribed strategic roles (Widmer, 1993). An example of such a situation is highlighted in a study of Australian Nonprofits by Steane & Christie

(2001), they report they way that boards engage in day-to-day issues as well as strategic activities. Similarly, Parker (2007) reports this challenge in Australian nonprofits, where boards have a tendency towards 'micro-management'.

The involvement of Boards in operational/ day-to-day issues is reported to be a fundamental cause of tensions between the Board and management (Chait and Taylor, 1989; Taylor et al, 1996; Cornforth, 2003). Chait and Taylor (1989) describe a situation whereby instead of governing, boards concern themselves with administrative activities at the cost of issues crucial to the survival of the organization. A number of consequences arise from this, including; the loss of perspective of these trustees when they concern themselves with daily management tasks which detracts their attention away from the overall goals of the organisation. The heavy involvement of trustees in admin affairs also has a negative effect on administrators, leaving them feeling undermined and discouraged. In addition, the more time trustees spend on operational matters, the less they have to spend on important policy and strategy matters, they also become less knowledgeable about the organization as a whole which may result in missed opportunities and loss of credibility. Reasons given for this tendency towards management rather than governance for these trustees, included special interests that some trustees may have in specific parts of an organization. Additionally, CEOs are reported to purposely feed the Board management information in order to deflect the Board attention from specific questions. This is also reported to cause tensions between the Board and Management.

Similar tensions are highlighted by Taylor et al (1996), in order to combat such situations, it has been proposed that a more partnership approach to governance should be adopted (Taylor et al, 1996; McClusky, 2002). Although Taylor et al (1996) believe the work of the board should be strategic and not at a lower more operational level, they also advocate a more partnership orientated approach to governance between management and the board. They highlight a tendency for board members to deviate towards more low-level operational matters, with reasons for this occurrence including the presence of a strong chief executive who is reluctant to

fully engage with his board and the presence of board members who lack understanding of both the organisation and its context. To rectify this recurrent situation, Taylor et al propose a framework which emphasises strategic issues through focusing on the board and management working together and focusing on issues that are of key importance to the organisation, which they term the 'new work' of the board. They describe the 'new work' as having four basic elements; it focuses on issues which are key to the success of the organisation, it is results driven, has clear success measures and requires engagement from the internal and external constituencies of the organisation, these elements contribute towards increasing interest and participation among board members. They propose that the board and management should work together on identifying important issues, determining the agenda, and setting and implementing policy. The important thing here is that they should act on what matters rather than dividing issues into policy and administration as they argue that implementation of policy can have bigger consequences than formulation. In addition, committees should be structured around the strategic priorities of the organisation rather than functions and board meetings should be goal driven.

Similarly McClusky (2002) also challenges the prescriptive literature which tries to draw a line between the work of the Board, management and other staff (such as Carver, 2006). Although McClusky agrees that Boards should always govern, he also feels that they should share in managerial and sometimes operational activities. The author disagrees with the one size fits all governance structures and the proposal in this paper is that the division of roles and responsibilities is dependent on a number of factors, including: the size of the organisations budget, staff and Board; the number of volunteers and the roles they perform; the stage of the organisations life cycle; the level of trust and confidence between the Chief Executive and the Board; Executive transition; the presence of organisational crisis; and environmental factors such as the nonprofits relationship with primary funders.

The different perceptions of senior management and the board regarding the boards involvement in strategy are investigated by Siciliano (2008) and Green et al (2001).

Siciliano (op. cit) differences in the extent to which the board and top management rate the boards involvement in strategy. In particular, the board viewed its participation at higher levels at all stages of the strategic management process. Similar findings were apparent from a study by Green et al (2001), where board members also rated their involvement in strategy as higher than top management, here tensions were uncovered between the board and management with the board believing they lacked credit for their strategic participation.

2.4 The Composition of the Board

The composition of the board of trustees is extremely significant to charitable organisations, the organisation must make sure that it has the right mix of people on the board to enable the organisation to achieve its mission. A number of studies have been undertaken which consider the impact of board composition on a number of aspects of the organisation.

One such study is that by Austin and Woolever (1991), who consider the board composition of a US international voluntary association. They find that the composition of the board was influenced by characteristics of the local community and that the membership of the organisation was related to the composition of the board. Membership tended to have a higher proportion of lower-status occupations than the board members. Racial minorities tended to represent an approximately equal percentage of membership and board membership and board membership was predominantly male. A positive relationship was found between minority membership and minority board composition and also between community status, status of members and status of the board members. Community and membership racial compositions are related to board characteristics and boards tend to be more representative of the community and membership in relation to race than relation to social class.

Siciliano (1996) investigates the diversity of board membership in YMCA organisations and developed an index of board member diversity. The findings showed that when board members had greater occupational diversity, this resulted in higher levels of social performance and fundraising results. Gender diversity compared favourably to the organisations level of social performance but there was a negative association for the level of funds raised. Higher levels of donations were linked with diversity in board member age. The importance of board representation was dependent on the type of performance being examined with the strongest impact on board diversity being on the organisations social performance. The findings suggest that boards with a greater diversity in member backgrounds and gender were able to keep their social agency purpose in the forefront. Regarding the level of donations, all composition variables were related to this measure. Board member occupation, age diversity and, to a lesser extent, board size appeared to enhance donations, gender diversity did not.

O'Regan and Oster (2005) conducted a survey of executive directors of New York nonprofits. They explored the way in which the functioning of nonprofit board members in the areas of philanthropy, monitoring and work – varies by several features of that board; namely, the independence of the board against director strength and the size of the board. The findings include that large board size and executive director control are both associated with positive performance features, as are long tenure and multiple board service.

Abzug and Galaskiewicz (2001) consider the inclusion of a specific group of individuals of the board; the recruitment of trustees with college education and/ or professional managerial occupations. The findings show that trustees with college education, managers and professionals continue to have significant representation on nonprofit boards. Also, many boards are also increasingly less exclusive with respect to gender, race and religion. Some select nonprofit boards, however, continue to be dominated by different gender, racial and religious identities, suggesting that nonprofit boards also serve the purpose of different identity and/ or interest groups in the community.

Other papers specifically focus on the impact which business people have on nonprofit boards. Austin (1998) conducts a series of surveys of Harvard MBA graduates and finds that business people have a positive impact on nonprofit boards; nonprofits feel that they benefit from both their expertise and their distinct managerial and business perspective. Bowen (1994) also advocates the inclusion of business leaders on nonprofit boards; believing that they have much to learn from those individuals. In particular; routine use of benchmarking and monitoring of results against planned outcomes. A similar view is taken by McCambridge (2004). However, both Bowen and McCambridge highlight potential pitfalls in the inclusion of business people as charity trustees, this will be considered in greater detail in the next chapter.

2.5 Board and Organisational Effectiveness

The challenges to the governance of nonprofit organisations have resulted in a number of studies which aim to understand what factors contribute to the effectiveness of the board and the organisation. Relatively few studies consider the relationship between both board and organisational effectiveness, however, two studies identified which do investigate this relationship are Green & Griesinger (1996) and Bradshaw et al (1992). Green & Griesinger (1996) explore this relationship between board and organisational effectiveness via a series of interviews and questionnaires with board members and CEOs of 16 social service organisations. The findings report the existence of a significant relationship between board performance and organisational effectiveness; the activities of the board which were strongly related to organisational effectiveness were found to be policy formulation, strategic planning, program monitoring, financial planning and control, resource development, board development and dispute resolution. Bradshaw et al (1992) consider the impact of board structure and processes in organisational and board effectiveness. Through a survey of Canadian nonprofits, they report a positive relationship between the perception of board effectiveness and the use of the most

widely advocated prescriptions on how a nonprofit board should operate, in particular, strategic planning was found to account for 30 percent of the variance in perceptions of board effectiveness.

A similar study to Bradshaw et al (1992) is that of Cornforth (2001) who also considers the impact of board structures and practices, but in relation to board effectiveness on nonprofits in England and Wales. The findings of this study suggest that board effectiveness is dependent on whether: board members have the time, skills and experience to do the job; clear roles and responsibilities; the board and management share a common vision of how to achieve their goals; and the board and management periodically review how they work together. Board effectiveness is also investigated by Brown (2005) who looks specifically at six dimensions of effective board performance, as suggested by Taylor et al (1991), namely; contextual, political, strategic, analytic, educational and interpersonal. The results suggest that strategic contributions from the board are more robust in organisations with higher financial performance. In addition, organisations that are judged to be higher performing also reported having high-performing boards across all dimensions. In particular, the interpersonal dimension provided a unique explanation of judgements of organisational performance.

Herman and Renz (1997, 1998, 2000) and Herman et al (1997) have reported on a number of findings from their study of stakeholder judgements on nonprofit organisational effectiveness. Herman and Renz (1997) report on findings from a series of focus groups with practitioner-experts and questionnaires which were sent to key individuals. The two main conclusions from this study were that: practitioner-experts do not rely on bottom line outcomes as meaningful indicators of objective organisational effectiveness, preferring instead evidence of following correct procedure or doing things right; and all stakeholders seem to use some socially constructed evidence of board effectiveness in forming judgements of organisational effectiveness. Board effectiveness is the most important determinant of organisational effectiveness for all stakeholders. Herman et al (1997) investigate the relationship between the extent to which nonprofit boards use prescribed practices

and stakeholder judgements of the effectiveness of those boards. The findings suggest that there is wide variation in the use of the prescribed board practices, that judgements of board effectiveness can differ substantially, and that chief executives' judgements of the effectiveness of their boards is moderately related to the extent of use of recommended board practices.

Herman and Renz (1998) focus on a subset of especially effective and less effective NPOs from a larger sample and find that the especially effective organisations have more effective boards (as judged by various stakeholder groups), have boards with higher social prestige, use more practitioner-identified correct management procedures and use more change management strategies. Herman and Renz (2000) review evidence in support of the hypothesis that NPO's effectiveness is related to the effectiveness of their boards of directors. It also asks whether various recommended board practices and processes affect board effectiveness. The study focuses on a subset of especially effective and less effective nonprofit organisations from a larger sample. The results show that the especially effective organisations have more effective boards and that the more effective boards use significantly more of a set of recommended board practices. The results also show that nonprofit organisations using more of the prescribed board practices are also more likely to use other correct procedures.

Nonprofit organisational effectiveness is considered by Herman and Renz (1999) and (2008). Herman and Renz (1999) review the literature on organisational effectiveness and nonprofit organisation effectiveness to advance six thesis about the effectiveness of public benefit charitable NPOs, namely: nonprofit organisational effectiveness is always a matter of comparison; nonprofit organisational effectiveness is multidimensional and will never be reducible to a single measure; boards of directors make a difference in the effectiveness of NPOs, but how they do this is not clear; more effective NPOs are more likely to use correct management practices; nonprofit organisational effectiveness is a social construction; and programme outcome indicators as measures of NPO effectiveness are limited and can be dangerous. This paper is advanced by Herman and Renz (2008), this includes the initial five thesis

plus an additional four: it is unlikely that there are any universally applicable 'best practices' that can be prescribed for all NPO boards and management; responsiveness is a useful overarching criterion for resolving the challenge of differing judgements of NPO effectiveness by different stakeholder groups; it is useful to differentiate among different types of nonprofit organisations in assessing the merits of different approaches to understanding nonprofit effectiveness; and level of analysis makes a difference in understanding effectiveness, and it is important to differentiate effectiveness at program, organization and network levels.

Herman and Tulipana (1985) conduct a study of board-staff relations and perceived effectiveness in nonprofits, with a specific emphasis on the internal role of the board. The main findings here were that: participants experience less actual influence than they think they should have; board members' influence is positively related to the frequency of board meetings and the extent to which board members feel informed of their duties, though neither is very strong.; ratings of organisational effectiveness are positively related to board member ratings of staff educational efficiency and the extent to which board members feel informed of their duties; and at the organisation level of analysis, organisational effectiveness is strongly related to the amount of total influence in the organisation. The relationship between board effectiveness and trustee motivation in Colleges is investigated by Taylor et al (1991), they find the motives of trustees to be both institution-specific and institution-centred, coming from a deep affection and a sense of connection to the College; this is found more among the members of effective rather than ineffective Boards.

The relationship between the structure and composition of the board and the effectiveness of the organisation is investigated by both Provan (1980) and Callen et al (2003). Provan (1980) looks at the importance of an externally powerful board of directors to the effectiveness of human service agencies. Findings – drawn from published data - suggest that by having a 'powerful' board of directors, an agency will be effective in terms of its ability to obtain large amounts of funding if these amounts are consistent with what has been received in recent years. However, as a means of enabling an agency to be effective in its efforts to acquire funding, the

results of the study strongly suggest that a powerful board of directors may be less important than previously believed. Callen et al (2003) investigate the relationship between nonprofit board composition and organisational efficiency. The results here show a significant association between the presence of major donors on the board and indicators of organisational efficiency.

Board effectiveness in the Scottish third sector is considered by Kakabadse et al (2009), who sought perceptions of the effectiveness of the performance of the board, the chair, and the chief executive, the main areas reported to inhibit board effectiveness were the relationship between the chair and the chief executive, the role of the chair in encouraging peer appraisal of board members and evaluating the performance of other board members; and the chair encouraging feedback of their own performance.

There are also studies which seek to develop tools to assess effectiveness; two such studies are Jackson & Holland (1998) and Brown (2007). Jackson and Holland (1998) develop the Board Self-Assessment Questionnaire (BASQ) to assess performance in six areas that previous research has shown to characterise highly effective boards, namely; contextual, educational, interpersonal, analytical, political and strategic. Data from board members was used to examine the instruments reliability, validity and sensitivity, including the relationship between board scores and selected indicators of the organisations financial performance. The results indicated that the BSAQ is a sound and useful tool for evaluating board performance. Similarly, Gill et al (2005) develop a Governance Self-Assessment Checklist; this is designed to identify strengths and weaknesses in the governance of organisations, to educate board members about the essentials of good governance and improve the organisations governance practices. The instrument consists of 144 items that assess the main factors in the performance of a nonprofit board of directors that are thought to influence the effectiveness of the organisation.

The impact of board development practices are investigated by Holland and Jackson (1998) and also Brown (2007). Holland and Jackson (1998) conduct a study of ten

nonprofits that did participate in development interventions and compared them with fourteen nonprofits which did not receive interventions. The intervention group showed significant improvements in board performance, the other group did not. Brown (2007) develops a model to determine if using recommended recruitment, board member orientation, and evaluation practices resulted in more competent board members and if the presence of these board members led to better board performance. Both CEOs and board chairs of nonprofits were surveyed and the results were found to support the contention that board development practices lead to more capable board members, and the presence of these board members tends to explain board performance. Brudney and Murray (1998) consider intentional efforts to improve boards and how many boards accept advice and intentionally change the way they operate; they surveyed Canadian nonprofits. The results show that three-quarters of the sample did report that they had made intentional efforts to change the way they operate. In particular, this was due to dissatisfaction with roles and responsibilities, committee structures, relationships with management and meeting dynamics.

2.6 Conclusion: Governance in Charities

This chapter has highlighted a number of key aspects surrounding the governance of charitable organisations. In particular, the focus was on what was classified as 'internal aspects' of governance (Hyndman & McDonnell, 2009), four key issues were considered, namely the role of the board, the relationship between the board and management, board composition, and board and organisational effectiveness.

In relation to the role of the board, importance of the strategic role of the board was emphasised in both professional guidance and academic literature (Axelrod, 2005; Cornforth & Edwards, 1999; Houle, 1990). There is a widely available literature outlining what the role of the board should be, however there are reports that such prescribed roles are not always carried out, with issues of role conflict and ambiguity apparent (Cornforth & Edwards, 1999; Leatherwood & O'Neal, 1996). Lack of

clarity and understanding of the role of the board were also reported (Harris, 1989; McAdam & Gies, 1985; Parker, 2003; Widmer, 1993). Role importance has received attention (Brown & Guo, 2010), with gaps identified between role importance and fulfilment (Green et al, 2001; Inglis et al, 1999). Factors which shaped board roles were found to include the environment and organisational complexity (Brown & Guo, 2010) and size – with the boards of larger organisations being more involved in strategy (Cornforth & Edwards, 1999).

The division of strategic and operational tasks was seen as a fundamental cause of tensions between the board and management (Chait & Taylor, 1989; Cornforth, 2003; Taylor et al, 1996). Such a distinction between strategy and operations is seen as a fundamental tension in all organisations (Baysinger & Hoskisson, 1990). Despite the emphasis on the boards strategic role, charities were reported to engage in activities of an operational nature (Cornforth & Edwards, 1999; Leatherwood & O'Neal, 1996; Steane & Christie, 2001). To combat such tensions arising from difficulties in role definition, a more partnership approach to governance between the board and management is suggested by Taylor et al (1996) and McClusky (2002).

With regard to the composition of the board, this has been investigated in relation to the performance of the organisation, with a particular interest on the representation of business people on nonprofit boards. Board composition was found to be related to the membership of the organisation (Austin & Woolever, 1992). The impact of board member diversity was also considered – boards with a greater occupational diversity in member backgrounds and gender were able to keep the main focus on the social purpose of the organisation (Siciliano, 1996). Attention has also been paid to the recruitment of business people onto nonprofit boards, Abzug & Galaskiewicz (2001) reported significant representation of trustees with college education and/ or professional management occupations. However, they also found a set of nonprofits still dominated by different gender, racial and religious identities, suggesting that boards also serve the purpose of different community interest groups. Other papers focus on the impact of business people on nonprofit boards, with a positive impact of Harvard MBA graduates on nonprofit boards reported by Austin (1998). Bowen

(1994) and McCambridge (2004) also consider the inclusion of business people on nonprofit boards.

Finally, the relationship between board and organisational effectiveness was considered, with a number of studies reporting a positive relationship between the performance of the board and the organisation (Green & Griesinger, 1996; Bradshaw et al, 1992). Other studies look specifically at what factors impact on the effectiveness of the Board (Brown, 2005; Cornforth, 2001). Herman & Renz (1997) consider the views of stakeholders, who consider board effectiveness to be the most important determinant of organisational effectiveness.

The above consideration of the literature on governance in nonprofit organisations highlights a number of key issues which are present in this area. However, with the exception of Cornforth (2001 & 2003) and Cornforth and Edwards (1999), this research is focused outwith the UK. Furthermore, the studies that do consider the UK are focused specifically on England and Wales, and only one study (Kakabadse et al, 2009) considers Scotland. This clearly highlights a significant gap in research on charity governance, and the need to consider whether such issues are apparent in the Scottish context.

The next chapter will consider in detail one specific aspect outlined above, that of the impact of business professionals on the governance and management of these organisations.

CHAPTER 3

THE IMPACT OF BUSINESS EXPERTISE ON THE GOVERNANCE AND MANAGEMENT OF CHARITIES

3.1 Introduction

The previous chapter considered issues which related to internal aspects of governance in charitable organisations. Board composition was identified as an important issue, with a specific aspect of this, which has an impact on both the governance and management of these organisations, being the impact of business practices and expertise on charities. This is a highly topical and highly contentious issue (Landsberg, 2004; McFarlan, 1999), with a divergence of views in terms of the impact which this has on individual organisations, and the sector as a whole. However, unlike other aspects of charity governance, the issue of the impact of business practices and expertise on governance has received significantly less attention, despite its topicality. In terms of this business influence on charities, significantly more attention has been paid to the adoption of business practices in the management of these organisations, and the increasing commercialisation of the sector, rather than the effect it has on governance practices and structures. There is a limited amount of empirical data on these issues, and as with the literature on charity governance, there is also a lack of studies which focus specifically on the UK, particularly Scotland.

Historically, the management and administration of charities was derived from the specific ethos of the organisation (Bush, 1992). However, the complex world in which modern day charities operate has resulted in increased competition from both government, the for-profit sector and also from other charities in a bid to raise the funds required to survive (Lapsley, 2004; Frumkin & Andre-Clark, 2000). In addition to the competition from private donations and government funding, there is

also increasing expectations from the general public and the government in terms of what the charities deliver and also that they account for their actions. This has increased the pressure on charities to be managed in a more business-like way (Dart, 2004; OSCR, 2008), adopting various business techniques as they strive to become more efficient in a bid to survive. However, this issue of the adoption of private management techniques by charities is one which is steeped in controversy. Some scholars believe that this is the only way that these organisations will survive the growing pressures and expectations of the sector (Bradley et al, 2003), others however, believe that it could have severe negative impacts on the sector and on the distinctive ethos which these organisations are built on (Landsberg, 2004).

This chapter will consider the previous work on the influence of business practices and expertise in charities in two ways; firstly, the impact on governance will be addressed, by looking at papers which consider the impact of business expertise on charity boards, and also the adoption of a more business-like approach to governance. Secondly, studies which examine the impact of the adoption of business practices in charities will be considered to further explore the impact they have at various levels within these organisations.

3.2 The Impact of Business Expertise on Charity Governance

Despite the universal acknowledgement that the adoption of business practices in charities is a significant issue, there is a considerable lack of research on the impact this has on governance, in particular the impact that business professionals have on charity boards, which, coupled with the increasing emphasis for charities to recruit these individuals to their boards (OSCR; 2008, Abzug & Galaskiewicz, 2001; Cornforth & Edwards, 1999), is surprising.

This issue of business people joining charity boards is considered by Bowen (1994), who ponders the divergence of performance of business executives on charity boards. Several factors are identified here which may impinge on the success of these

individuals in their role as charity Trustees, such examples include, that professional staff in charities may be quick to dismiss business professionals as they may feel they will not understand the unique qualities and professional norms of the organisation, or may be insensitive towards them. Another problem identified is that there may be an amount of hostility directed towards business professionals from those within the organisation. Although in practice, this paper appears to highlight a clash between business professionals and those from within the charity, Bowen (op cit.) is still supportive of the idea of business people serving on the boards of charities, and notes that these organisations have a considerable amount to learn form their for-profit counterparts and the operations of corporate boards, calling for the adoption of certain business practices such as the routine use of benchmarking and monitoring discrepancies between results and planned outcomes. Another paper which looks at the impact of business professionals on charity boards is McFarlan (1999), who highlights the significant differences between nonprofit and for-profit boards; an issue raised here is that business professionals underestimate and are not fully aware of what being a charity trustee actually involves, as a result, this lack of understanding of the role, and it's time-consuming nature results in a high board turnover. The success of business people on charity boards, according to McFarlan, requires them understanding the differences between the nonprofit and private sectors and the realisation that not all their skills and expertise are appropriate for application in the nonprofit sector.

Dees (1998), in considering ways in which nonprofits can effectively become more business-like, highlights the importance of recognising that board members from business are a valuable resource. Dees notes that if nonprofits are to become more business-like, managers must be trained in business methods, although he still recognises the problematic nature of direct transfer:

> *One way to gain such training is to reach out for help. Nonprofit managers can begin in their own backyards by finding more effective ways to draw on board members with relevant business experience. The resulting exchange will be a learning experience for both parties. Business board members are often an underutilised source of management expertise, and they need coaching and coaxing to adapt*

their business frameworks to the context of a social enterprise (Dees, 1998, p.66)

An empirical study of this issue is conducted by Austin (1998), who considers the involvement of business-people on charity boards in the USA. In considering the benefits to nonprofits, it was found that nonprofits benefited significantly from the expertise of business people, and their distinct managerial and business perspective, in addition, 80% of business people were found to be 'as or more effective' and 90% 'as or better prepared' than other board members. There was a tendency for them to be viewed differently to their counterparts, due to their skills, knowledge and experience, and the way they enriched board discussions.

The above studies – although highlighting potential issues with the involvement of business people on charity boards – are largely positive about their involvement and the impact that it has. In contrast, there are also studies where this is not deemed to be the case. An example of this is Landsberg (2004), who conducts a case study on a US mental health centre, and highlights that the result of more business people being recruited onto nonprofit boards is a greater emphasis on financial concerns in place of issues related to mission. This point can be seen from Siciliano (1996) who considers the relationship between board member diversity and organisational performance. Here, an example is given where the Board is considering a long-standing YMCA program, Siciliano describes the discussion:

> *The program had not been cost-effective for several years and was beginning to drain on other sources of revenue. Several board members with business backgrounds were strongly opposed to its continuance. However, viewpoints of other board members tended to stress the program's benefit of building family relationships. After hearing both sets of arguments, the board voted to continue the program for another year.* (Siciliano, 1996 pp. 1318).

This example highlights Landsbergs concern that business people tend to focus on finance, however it also shows that a variety of knowledge and views can help organisation make difficult decisions. Similarly, Miller (2002) reports that board members carry out the monitoring function relating to personal/ professional

competencies rather than considering measures that would show progress in achieving mission related goals and objectives e.g. accountants concerning themselves with financial documents.

The impact of legislative requirements, and private sector philosophies has been found to have an impact on the strategic and compliance role in nonprofits. In a study of Australian nonprofits, Steane and Christie (2001, p.48) note that the boards of nonprofits 'are expected to mimic their corporate peers'. This is viewed as a result of legislative requirements pressuring nonprofits to place more emphasis on compliance than strategy. This is similar to findings of Cornforth and Edwards (1999) who find that the compliance role is emphasised by the legal responsibilities of the board. In the case of a further education college, they highlighted how new legislation and regulation had placed a requirement on colleges to recruit people with business experience onto their boards. As a result there was a growing view of 'the College as a business' (p. 358) with governance changing from one which emphasised local political accountability to a more managerial view of governance. There was also evidence of a desire to mimic businesses.

Parker (2003) considers the boards role in the financial management strategy of a community welfare organisation, here governance is predominantly financially focused in terms of both strategic orientation, and predominance of boardroom discussions. Parker (op cit) also considered the roles of those with accounting and non-accounting backgrounds, finding no distinction between their focus on financial versus operational strategies, attention to monthly budgetary control reports, level of participation in financial strategy deliberations, or general emphasis upon financial aspects of board meeting agenda. The aspects of accounting which were identified as key to directors' financial management strategising were central, whether they had an accounting or non-accounting background.

An additional piece of empirical research, which takes a negative view on such business influences is that by Alexander and Weiner (1998), they move away from the specific focus of business people on charity boards and consider the adoption of a

for-profit model of governance for charities, the 'corporate governance model'; this solution is not seen as viable for the sector.

The above section has considered the existing literature which relates to the influence of business people and practices on charity governance. This is clearly a topical issue, but one in which there is a serious lack of empirical research. The next section will look more broadly at the adoption of business practices by charities and the increasing commercialisation of the sector.

3.3 The Adoption of Business Practices by Charities

A number of commentators consider the broader impact of the adoption of business practices on charitable organisations. There are a many who provide a balanced overview of such practices and their impact on the sector (Foster & Bradach, 2005), some who strongly advocate this approach in the sector (Bradley et al, 2003) and others who are strongly against such practices (Landsberg, 2004). This section will outline each of these views in turn.

The changing environment in which nonprofits operate has led to the increasing tendency for them to adopt more business-like practices. Historically, the management and administration of nonprofit organisations was steeped in the tradition of charity and philanthropy, where nonprofits were managed in a way that would encourage volunteerism and collective engagement of community problems (Bush, 1992). However in todays environment, the nonprofit sector faces a number of challenges which threaten these traditions.

Dees (1998) highlights a number of reasons why nonprofits are turning to more commercial sources of funding: firstly, there appears to be a growing acceptance of these practices via a new pro-business zeitgeist; many nonprofits want to be able to deliver goods and services in a way that does not create dependency in their communities; commercial activities are seen as more reliable sources of funding than

donations and grants; and there is increasing opportunities to make money on a more-commercial basis, where competition is increasing for traditional charitable funding.

In considering the debate surrounding the adoption of business management practices in nonprofit organisations, one of the most significant arguments of those who oppose such practices is the consideration of the nature of the sector. Jeavons (1992) highlights the importance of relating values to the management of these organisations and notes that the approaches to management that nonprofits employ send a message and they therefore need to be conscious about what that message is. Jeavons stresses the importance of understanding the differences between nonprofits, business and government in terms of managing the organisation; he notes it is essential to be aware of and to understand the context of the sector. He stresses that the fundamental difference is that these organisations are led by their values and that the effectiveness of promoting the values of the organisation will be dependent on the way in which the organisation operates; it must be seen to honour basic human, social and professional values. Jeavons highlights three areas which he sees as essential in terms of how the structure and functions of the organisation reflect the commitment of the organisation, namely: the honesty and accountability of the organisation; concern for the public good, not just immediate stakeholders and also concern for the personal welfare of employees and volunteers. Jeavons notes that the importance of these three areas means that it is not acceptable for nonprofit managers to think like other managers – especially about their organisations relationship to the public – they also must be able to analyze some of the issues facing their organisations in historical, cultural and moral terms that can go largely unconsidered in other managerial settings. If nonprofit managers fail to take into account these issues then the privileges and support from the public may be withdrawn which may threaten the existence of the organisation and in order to communicate their values they must be credible in the eyes of the public, this can only be achieved by honouring societies expectations.

The divergence in attitudes of the impact of business on the charity sector has been noted above. There are a number of commentators which view this influence as positive for the charities sector; in considering the possibilities that could evolve for the sector should they become more business-like, Bradley et al (2003) estimate that the US charities sector could increase income by $100 billion if they made such changes. In terms of the increasing commercialism in charities, Young (1998) attempts to understand the growing trend of commercial practices and sales income in national nonprofit social service associations in the US. Through a series of case studies, Young highlights that these commercial initiatives do make direct contributions to the mission of the organisations, as well as producing revenue; although this does tend to be helped by missions being defined in very broad terms. Furthermore, necessary steps were found to be taken by the leaders of these associations to avoid engaging in activities that may damage their association's reputation and their abilities to pursue their missions. This is in contrast to Bush (1992) and Landsberg (2004) who highlight a detrimental effect on the nonprofits image as a result of the adoption of business practices.

In an exploratory study of the effects of commercialization on human service nonprofits, Guo (2006) looked at whether commercialization had a positive impact on the organisations. It was found that high levels of commercial income did contribute significantly to an organisations self-sufficiency, its ability to attract and retain staff, and it's reputation. However it did not contribute to its ability to attract donors and volunteers, mission and service delivery.

In contrast to the above views, there are a number of commentators who approach the issue of charities adopting business practices with a greater degree of scepticism. One such example, is that of Foster and Bradach (2005), they highlight the increasing trend for managers of US charities to launch commercial ventures, in a bid to shake off the tag of 'passive bureaucrats' and instead be viewed as 'active entrepreneurs'; such schemes also tend to be supported by board members, especially those with a business background. In addition to this, Foster and Bradach (2005) highlight additional pressures from foundations and other funders, who they note have been

'zealously urging nonprofits to become financially self-sufficient and have aggressively promoted earned income as a means to 'sustainability'' (p. 94), contributing even more pressure on nonprofits to succeed in launching such commercial ventures. However, Foster and Bradach (2005) cast doubt over the viability of such schemes; they note that earned income is only a fraction of funding in most nonprofit domains, that few ventures do actually make money, and that nonprofits tend to be a lot more optimistic about these ventures than they should be. Greater cause for concern can be seen in their view that:

> *commercial ventures can distract nonprofits' managers from their core social missions and, in some cases, even subvert those missions. We're not saying that earned-income ventures have no role in the nonprofit sector, but we believe that unrealistic expectations are distorting managers' decisions, ultimately wasting precious resources and leaving important social needs unmet'* (Foster & Bradach, op cit. p. 94).

However, Foster and Bradach do conclude that should a venture allow the enhancement of a nonprofits mission, while allowing it to recover some of the costs, the venture may be feasible even if it never breaks even.

A similar cautionary view is taken by Dees (1998), who highlights the same shift towards commercial funding as Foster and Bradach (2005). Dees also highlights issues with a reliance on commercial funding, such as the danger that it may shift focus away from the nonprofits original mission, potential for clashes of culture, lack of skills to succeed in commercial markets, and possible negative impact on the relationships which the nonprofit has with its local community. However, Dees does believe that there is a place in the nonprofit sector for more commercial approaches to funding and highlights that if programs do exist that can generate income on their own, this would allow the allocation of other philanthropic funds to activities that have more requirement for subsidies. The fundamental challenge for nonprofits here is the ability to adopt a 'financial structure that reinforces the organisations mission, uses scarce resources efficiently, is responsive to changes, and is practically achievable, Dees concludes that ultimately:

commercial operations will not – and should not – drive out philanthropic initiative. Many worthwhile objectives cannot effectively be pursued by relying on market mechanisms alone (Dees, 1998, p. 67).

Other studies, such as Myers and Sacks (2003) and Harris (2001) consider the influence that business practices can have on the nonprofit sector, however, both stress that these practices must be adapted in some way to account for the complex nature of the sector. For example, Myers and Sacks problematise this issue, and note that;

> *It is important to consider that although the voluntary sector can learn and interpret systems for improved organisation development from the private and public sectors, there are difficulties in importing ideas wholesale without interpreting the context and the culture of the sector and taking into account the internal relationships within individual organisations* (Myers and Sacks (2003) p. 289).

The importance of adapting these techniques is echoed by Harris (2001) who notes that due to the complexities of nonprofit organisations:

> *…business management techniques and theories developed for the for-profit or governmental sectors are likely to require substantial adaptation before they can be applied to the voluntary sector* (Harris, 2001, p. 102).

There are a number of commentators which after examining the impact of various business practices adopted by charities, conclude that they do not have a place in the voluntary sector. Bush (1992) notes the danger inherent with an over-reliance on business practices being a shift away from the mission as the primary focus of activity for the nonprofit. Dangers of increasing competition are noted as the basic philosophy of competition is secrecy and information which is ultimately bad for the sector. Another danger of this business-like approach is that the public may perceive the organisation in a different way. Bush calls for parameters to be set which would allow the sector to borrow, adapt, and use business techniques without undermining the unique character and traditions of these organisations.

Pressures for nonprofits to become increasingly more business-like is considered by Ryan (1999) who looks at the increasing level of competition which US social service nonprofits face from for-profit firms who now compete for government contracts; and the ability of the nonprofit to adapt to this changing environment without damaging their unique character. The resulting actions which nonprofits have taken in order to compete with for-profit firms has included subcontracting, partnership and at the extreme end, conversion to for-profit status; Ryan (op cit.) highlights his concern that:

> *the distinctions between these organisations will continue to be blurred.*
> *It is precisely this blurriness that could endanger nonprofits as they are*
> *forced to adapt – and perhaps abandon – the very qualities that enabled*
> *them to advance social causes in the first place'* (Ryan, 1999, p. 134).

Similarly, Backman and Smith (2000) also consider the impact that more commercial forms of funding has on US nonprofits. They highlight the changing nature of these funding changes; traditional commercial sources of funding such as fees for products and services have made way for business income which is not mission-related, where government funding has shifted from grants to contracts, and where traditional philanthropy has shifted towards strategic philanthropy, where corporations are using philanthropic funds to contribute to corporate profits. Backman & Smith (2000) conclude that although this trend towards a more commercial approach to raising income may have a positive impact in terms of increased revenues and financial stability and may make the nonprofit a 'healthier organization'. The opposite effect may be seen in terms of the relationships the organisation has with key stakeholders and may actually undermine their capacity to create social capital, therefore resulting in 'less healthy communities'.

The views of Ryan (1999) and Backman & Smith (2000) are also echoed by Eikenberry and Kluver (2004). They highlight four ways in which nonprofits are becoming more business-like; increased generation of commercial revenue, shift from grants to contracts and vouchers which results in nonprofits behaviour becoming increasingly competitive; emergence of venture philanthropists who treat charities like potential business investments; and social entrepreneurship resulting in

the reluctance of nonprofits entering into unprofitable mission-related activities. The impact of these practices is seen as compromising the impact on the nonprofits contribution to civil society in terms of their key roles as value guardians, service providers and advocates and builder of social capital.

However, possibly the most extreme view of the impact of charities adopting business practices comes from Landsberg (2004) who believes that:

> *the business practices the nonprofit embraces to assure its survival threaten to undermine its culture, mission, and public image. In an effort to save its bottom line, the modern nonprofit risks losing its soul.* (Landsberg, 2004, p. 1).

Landsberg believes that the for-profit business model, which places emphasis on quality, efficiency, flexibility, innovation and a focus on the financial bottom line cannot be directly transferred to the nonprofit sector; these organisations have more complexities than their for profit counterparts including the need to manage a diverse range of constituencies and stakeholders. These complexities result in multiple bottom lines rather than the single profit motive of businesses, therefore, Landsberg argues that these for-profit models may actually be too unsophisticated for nonprofits. He investigates the impact of a more business-like approach in a large US community mental health centre and finds that the introduction of business-like practices such as; restructuring, recruitment of business professionals, introduction of new financial management techniques and IT systems, the adoption business practices in all areas of administration and an emphasis on accountability and profitability, led to a number of problems within the organisation. In terms of the board, they were unsure of their role, there was low morale among clinical staff who were uncomfortable with the changes, and the public image also suffered with implications for donations, there were also questions over whether finance was overshadowing mission.

3.4 Conclusion: The Impact of Business Expertise on the Governance and Management of Charities

This chapter has considered the main issues surrounding the impact of business people and practices on the governance and management of charities. The impact of business expertise and practices on the management and governance of charities has presented itself as a highly contentious issue (Landsberg, 2004; McFarlan, 1999) with differing views on the impact this has on both individual charities, and the sector as a whole. However, unlike other aspects of charity governance presented in chapter 2, the impact of business practices and expertise at board level has received considerably less attention. Within this area, the focus has tended to be on the broader adoption of private sector practices in the management of charities, and the increasing commercialisation of the sector.

With regard to governance, benefits to be gained from the presence of business people on charity boards are recognised by Bowen (1994), Dees (1998) and McFarlan (1999) – although importance of the recognition of differences between the sectors is also highlighted. One of the few empirical studies in this area by Austin (1998) specifically considers the involvement of business people on charity boards in the USA, with a positive impact reported. In contrast, Landsberg (2004) cautions that individuals with business expertise focus on financial concerns over mission, with similar situations reported by Miller (2002) and Siciliano (1996). Of the few studies that focus on the adoption of the corporate governance model in nonprofits, Alexander and Weiner (1998) report that this is not transferable to the nonprofit sector.

The broader impact of business practices is more widely considered, with differing opinions as to their applicability. For example, the positive impact of such practices is reported by Bradley et al (2003), Dees (1998) and Young (1998). However, the problematic nature of such practices are reported by Bush (1992), Backman & Smith (2000), Eikenberry & Kluver (2004), Foster & Bradach (2005), Harris (2001), Landsberg (2004), Myers & Sacks (2003) and Ryan (1999).

The above consideration of the literature on the impact of business practices and expertise in the governance and management of nonprofit organisations presents this area as one of considerable complexity. However, such research is focused outwith the UK. This clearly highlights a further gap in research on charity governance, particularly relating to the impact of business practices and expertise in this area within the Scottish context.

After consideration of the extant literature of both charity governance, and the specific impact of business practices and expertise of the governance and management of charities, the following chapter will develop a theoretical framework for this study.

CHAPTER 4

CONCEPTUAL FRAMEWORK: SOCIAL CONSTRUCTION

4.1 Introduction

The previous two chapters have highlighted the various issues that charities face in Governing their organisations, and also the tensions which exist when business people become involved in charities, particularly on their Boards. This chapter will look at Social Construction and how it can help to interpret and understand the behaviour of charitable organisations in relation to these issues. This chapter is structured as follows: (4.2) an overview of social construction, and the key concepts of legitimation and isomorphism will be given; (4.3) examples of previous studies which have drawn on these ideas will be discussed before turning to (4.4) examples specific to the nonprofit sector. Finally, (4.5) the importance of these ideas in relation to this study will be outlined.

4.2 Social Construction

This section focuses on three influential contributions to the literature on social construction; Berger and Luckmann (1967), Meyer and Rowan (1977) and Di Maggio and Powell (1983). The seminal contribution to the literature on social construction was made by Berger and Luckmann (1967). The fundamental argument which they put across is that 'reality is socially constructed and that the sociology of knowledge must analyse the process in which this occurs' (Berger and Luckmann, 1967, p.13). Within this, 'reality' is defined as a quality relating to the phenomena that we recognise as having a being independent of our own volition (we cannot 'wish them away'). Knowledge is defined as the certainty that phenomena are real and that they possess specific characteristics. Although they highlight that there have been numerous definitions of the sociology of knowledge in terms of its nature and scope, there has been a general consensus that this sociology of knowledge is

'concerned with the relationship between human thought and the social context within which it arises' (Berger and Luckmann, 1967, p.16).

A more detailed description of this concept is outlined below:

> *The reality of everyday life maintains itself by being embodied in routines, which is the essence of institutionalization. Beyond this, however, the reality of everyday life is ongoingly reaffirmed in the individual's interaction with others. Just as reality is originally internalized by a social process, so it is maintained in consciousness by social processes. These latter processes are not drastically different from those of the earlier internalization. They also reflect the basic fact that subjective reality must stand in a relationship with an objective reality that is socially defined (p. 167, Berger and Luckmann, 1967).*

As described above, a key aspect in understanding the way in which reality is socially constructed is through the process of institutionalization, which aides the understanding of the way in which social order emerges, is maintained, and is transmitted. Preceding this process of institutionalization is habitualization, this occurs when an action is so frequently replicated, that it evolves into a pattern, as a result, future performances of that action require a reduction in effort, however, the performer still holds this as the same pattern. A resulting implication of this is that future performances of the action will be identical in terms of manner and amount of effort required; they will become embedded. There is also a psychological aspect attached to habitualization, Berger and Luckmann (1967) term this 'psychological relief' (p. 71) whereby choices are reduced to one and the burden of decision making is removed, time and energy saved through habitualization facilitates deliberation and innovation.

Institutionalization is defined more specifically by Berger and Luckmann as follows:

> *Institutionalization occurs whenever there is a reciprocal typification of habitualized actions by types of actors. Put differently, any such typification is an institution. What must be stressed is the reciprocity of institutional typifications and the typicality of not only the actions but also the actors in institutions. The typifications of habitualized actions that constitute institutions are always shared ones. They are available to*

all members of the particular social group in question, and the institution itself typifies individual actors as well as individual actions (p. 72, Berger and Luckmann, 1967).

In essence, the key to understanding what constitutes an institution are shared characterizations of these habitualized actions by types of actors.

Neo institutionalists draw on these key ideas of Social Construction, and specifically Berger and Luckmann (1967). Meyer and Rowan (1977) challenge previous assumptions of the rational organisation with clear, measurable objectives and managers who identify with the accomplishment of these goals. Institutional theorists propose that the formal structures of organisations reflect myths of the external environment of the organisation, as opposed to the actual work activities within the organisation. In addition, these activities which are core, are decoupled with the face of the organisation which is presented to the outside world (Meyer and Rowan, 1977).

Two key concepts which are central to Social Construction and Institutional Theory are Legitimation, and Isomorphism. These will be discussed in turn below.

4.2.1 Legitimation

A key aspect of social construction is legitimation, which attaches credibility to institutionalised actions (Berger & Luckmann, 1967; Meyer & Rowan, 1977), this is defined as follows:

Legitimation produces new meanings that serve to integrate the meanings already attached to disparate institutional processes (p. 110, Berger and Luckmann, 1967).

Legitimation is not necessary in the first phase of institutionalization, it is required when the objectivations of the (now historic) institutional order are to be transmitted to a new generation. Here, legitimation is necessary in order to explain and justify

important elements of the institutional tradition, as the character of the institution can't be maintained by the individual's own recollection and habitualization.

This process is described below:

> *Legitimation 'explains' the institutional order by ascribing cognitive validity to its objectivated meanings. Legitimation justifies the institutional order by giving a normative dignity to its practical imperatives. It is important to understand that legitimation has a cognitive as well as normative element. In other words, legitimation is not just a matter of 'values'. It always implies 'knowledge' as well (p. 111, Berger & Luckmann, 1967).*

This further describes the process whereby 'credibility' is attached to these institutionalised actions by attributing validity.

Meyer and Rowan (1977) also advance the significance of legitimation. They propose that the formal structures of organisations reflect myths of the external environment of the organisation, as opposed to the actual work activities within the organisation. In addition, these activities which are core, are decoupled with the face of the organisation which is presented to the outside world, resulting in the creation of gaps between formal structure and actual work activities. Meyer and Rowan (1977) describe this as follows:

> *To maintain ceremonial conformity, or organisations that reflect institutional rules tend to buffer their formal structure from the uncertainty of technical activities by becoming loosely coupled, building gaps between their formal structure, and actual work activities* (Meyer and Rowan, 1977, p. 341).

Meyer and Rowan (1977, p.352) suggest that decoupling enables organisations to maintain standardized legitimating, formal structures while their activities (the 'core') change in response to practical considerations. They describe the process of legitimation where organisations adopt practices that do not necessarily improve the efficiency of their organisation, but will allow the organisation to present itself as modern and up-to-date.

Meyer and Rowan (1977) believe that formal structures of organisations are adopted ceremoniously and function as myths:

> *Technologies are institutionalised and become myths binding on organizations. Technical procedures of production, accounting, personnel selection, or data processing become taken-for-granted means to accomplish organizational ends. Quite apart from their possible efficiency, such institutionalized techniques establish an organization as appropriate, rational, and modern. (Meyer & Rowan, 1977, p344)*

Such technical procedures, for example accounting, are therefore seen to be adopted in order to establish organisations as 'modern' and therefore legitimate.

4.2.2 Isomorphism

Another aspect of the social construction of organisations is Isomorphism. Di Maggio and Powell describe isomorphism as a:

> *Constraining process that forces one unit in a population to resemble other units that face the same set of environmental conditions* (Di Maggio and Powell, 1983, p. 149)

Furthermore, Meyer and Rowan (1977) argue that the structure of organisations reflects their institutional environments, where organisations become isomorphic with them. They draw on the work of Berger and Luckmann (1967) to explain that the reason for this is that organisations structurally reflect socially constructed reality.

In terms of isomorphism, Meyer and Rowan (1977) highlight the importance of organisational language:

> *A most important aspect of isomorphism with institutional environments is the evolution of organisational language (Meyer and Rowan, 1977, p. 349).*

DiMaggio and Powell (1983) are concerned with the considerable homogeneity of both organisational forms and practices. They consider what drives structural change in organisations, they suggest that is it decreasingly driven by competition or by the need for efficiency, and instead attribute it to processes which make organisations more similar, without necessarily making them more efficient. They argue that similarities in organisational forms arise out of the structuration (Giddens, 1979) of organisational fields. The organizational field is defined as follows:

> *Those organizations that, in the aggregate, constitute a recognized area of institutional life: key suppliers, resource and product consumers, regulatory agencies, and other organizations that produce similar services or products* (Meyer and Rowan, 1977, p. 148).

Di Maggio and Powell (1983) further explain that the:

> *Highly structured organizational field provide a context in which individual efforts to deal rationally with uncertainty and constraint often lead, in the aggregate, to homogeneity in structure, culture, and output* (p. 147).

Di Maggio and Powell (1983) outline three different mechanisms which bring about isomorphism. The first of these is coercive isomorphism, which is a result of political influence and also legitimation. Di Maggio and Powell (1983) also discuss how this coercive isomorphism can result in legitimation (Meyer and Rowan, 1977). Here, both formal and informal pressures on one organization by other organizations which they are dependent and by cultural expectations in the society within which organizations function. Such pressures may take a variety of forms and may be forceful, persuasive, or in the form of an invitation. This organizational change can include responses to government mandates, for example Di Maggio and Powell (1983) describe a situation where nonprofits maintain accounts, and hire accountants to enable them to meet them requirements of tax law. Another issue which can affect the behaviour and structure of an organization include the presence of a common legal environment.

Meyer and Rowan (1977) discuss how the organisational environment, including the influence of the state, can result in organisations coming to mirror rules which have been institutionalized by and within the state. This results in organisations becoming increasingly similar within the sector, and conforming to the rituals of wider institutions. By structuring themselves according to their environments, these organisations become structured less around technical activities, and output controls. These pressures are not however limited to the Government, they can also come from outwith.

The second type of isomorphism discussed by Di Maggio and Powell (1983) is mimetic isomorphism. The cause of this form of mimicry is uncertainty, including situations where: there is a lack of understanding of organisational technologies; goal ambiguity; or when the environment creates symbolic uncertainty. One solution which organizations turn to in times of uncertainty is modelling, where one organization borrows practices from another. In terms of the diffusion of these models, this can be unintentional, or can occur indirectly through employee transfer or turnover, or openly by consulting firms or industry trade associations. Innovation can also be attributed to modelling. A considerable amount of the similarity of organizational structures is a result of the lack of variety of structures to be selected from. Under the above circumstances, organizations will tend to mimic similar organizations in their field which they believe to be more legitimate or successful. The universal nature of these mimetic processes is attributed to high presence of certain kinds of structural arrangements, rather than to any evidence that the adopted models enhance efficiency.

The final isomorphic pressures which are discussed are normative pressures which are predominantly the result of professionalization. Di Maggio and Powell (1983) identify two aspects of professionalization which result in isomorphism: the first is formal education; the second is the development of professional networks crossing organisations, facilitating the uptake of new models.

Meyer and Rowan (1977) describe three consequences of isomorphism:

Isomorphism with environmental institutions has some crucial consequences for organizations: (a) they incorporate elements which are legitimated externally, rather than in terms of efficiency; (b) they employ external or ceremonial assessment criteria to define the value of structural elements; and (c) dependence on externally fixed institutions reduces turbulence and maintains stability. As a result...institutional isomorphism promotes the success and survival of organizations (Meyer and Rowan, 1977, p. 348)

These consequences will now be further explained. The first is that organisations adopt structures which are legitimated externally, rather than in terms of efficiency, this helps the organization to secure its survival. Meyer and Rowan highlight the importance of organisational language as a key aspect of isomorphism within institutions, both the way in which the organizational chart is labelled and also the terms used to define the goals, policies and procedures of the organization equate to myths that help to explain and interpret the actions of individuals. Such language relating to structure, isomorphic with institutional rules provides legitimacy. The importance of language is also emphasised by Berger and Luckmann (1967) with regard to the process of social construction. They describe language as 'the most important sign system of human society' (p.51), as understanding the reality of everyday life. The ability of language to become detached from its origins means that it is capable of accumulating and storing meaning and experience which it can preserve and then pass it on to future generations. It allows the build up of symbolic representations and schemes of classification.

Isomorphism also results in organisations employing external or ceremonial assessment criteria to define the value of structural elements, such examples include endorsements by important people, or the prestige of personnel. In addition, they also adopt structures with a high ceremonial value, such as those that are viewed as prestigious or those which reflect the most up-to-date expert thinking.

Finally, isomorphism results in and depends on the way in which organisations conform to and also become legitimated by their external environments. When such isomorphism occurs, organisations gain the legitimacy and resources they need to

survive. Meyer and Rowan (1977) therefore argue that this institutional isomorphism promotes the success and survival of organisations.

Meyer and Rowan (1977) however highlight two issues facing organisations that are dependent on isomorphism with institutionalised rules. The first is a situation where there may be conflicts and inconsistencies between the demands of technical activities and efficiency, and conforming to ceremonial rules. The second issue is that ceremonial rules may conflict with each other, this is because such rules are transmitted by myths which arise from different parts of the environment.

This section has given an overview of the conceptual framework adopted in this thesis. A broad overview of social construction has been outlined and two specific ideas of legitimation and isomorphism have also been explored. The next two sections will consider how these ideas have been applied, firstly in relation to organisational research, and secondly in relation to governance in charities.

4.3 The Use of Social Construction in Organisational Research

As will become apparent, social construction has been widely used in research on organisations. Later in this chapter the application of social construction in research on nonprofits will be considered. However, firstly some wider examples of this approach within organisational research will be considered. These examples have been specifically selected due to the nature of how the authors use these ideas to interpret the results, as will become apparent in section 4.4, some studies are more limited in their application of social construction. This section will begin by considering a broad social construction approach (Perren & Grant, 2000), before focusing on more specific aspects of this approach, namely Legitimation (Arnaboldi & Lapsley, 2004; Meyer, 1994, and Mouritsen & Skaerbaek, 1995).

Perren and Grant (2000) use a social construction perspective to investigate the development of management accounting in small firms. The authors argue that

concepts developed by Berger and Luckmann (1967) provide a framework which allows the exploration of management accounting within the context of small businesses. Here, management accounting in small businesses is viewed as being socially constructed by individuals interacting to share understanding, interacting within or outwith the 'micro-world' of the owner-managers business. A framework is developed for analysis based on the key processes of social construction. The authors consider the life history of these owner-managers, from their prior experience of macro-level objectified management accounting knowledge before the start-up of the business, to the acceptance by the employees of the owner-managers habitualized routines as management accounting 'facts', and finally the development of the habitualized accounting routines of employees which may also be interpreted as management accounting facts.

There were three sources of macro-level objectified management accounting knowledge from outside the owner-managers 'micro-world', these were: the owner-managers previous personal experience, external management accounting expertise and accounting software, and management accounting knowledge gained from the previous experience of employees. The primary motivation for many of the management accounting actions was the owner-managers fear of failure. This led to externalization and some routines becoming habitualized prior to influencing the actions of the employees. There were only a few examples in the cases where an employee had taken action which resulted in an habitualized management accounting routine that then resulted in an objectified management accounting 'fact'.

The social process as described by Berger and Luckmann is found to be in existence in this research, where the owner-manager or employer takes actions which are 'externalized' and may become habitualized. The occurrence of the habitualization of management accounting actions are deemed to take place so, as Berger and Luckmann note they 'can be reproduced with an economy of effort' (p.71). The fear of the owner-managers of failure is seen as a key motivation for many of the management accounting actions which were personally instigated – these led to externalisation and the habitualization of routines. Some of the habitualized routines

appear to have become objectified into management accounting 'facts' within the 'micro-world'.

In contrast to the broad social construction approach from Perrin and Grant (2000) there is also a wide literature which considers more specific aspects of this approach. There are a number of studies which consider how organisations legitimate themselves. One such study is Arnaboldi and Lapsley (2004) who examine the introduction of activity based costing (ABC) – an accounting tool which eminates from the private sector - into a healthcare organisation which is undergoing change. The specific nature of this organisations activities are concerned with the transformation of donated blood into a range of healthcare products. The adoption of this accounting technique has been initiated by the organisation itself, this is specifically relevant within this study, as accounting practices are generally set by central government in the UK. The specific concepts drawn on in this paper are that of legitimacy and mimicry. This paper considers the pressures of the organisation to become what Brunsson and Sahlin-Anderson (2000) term the 'complete organisation', whereby public sector organisations begin to mimic organisations from the private sector. This paper considers the various stages of the implementation of ABC, and finds that it is closer to an exercise in legitimation than a practical tool which enhances efficiency.

Throughout this paper, examples are identified which link back to the conceptual framework. For example, the way in which the healthcare organisation portrays itself as a 'complete organisation'. One such instance is the use of business language where it identifies its core business the blood 'supply chain'. This business language is identified as an attempt by the organisation to portray itself as legitimate (Meyer and Rowan, 1977). The results further identify the pressures which the organisation faces to become akin to a business, and therefore present itself as a complete organisation. An example included the discovery of AIDs, the impact of which resulted in a reorganisation whereby support and analysis services were centralized at the headquarters, this was identified as being consistent with the construction of a

'complete organisation', where the public sector organization establishes an authorative centre (Brunsson & Sahlin-Anderson, 2000).

In the organisation, the interest in ABC has been recurrent since the 1980s, however, previous implementation attempts had failed. One such failure was due to the realization that the organisation was not structured in an appropriate way to allow the achievement of economies of scale in the manufacturing and testing of blood. This was linked to what Brunsson and Sahlin-Anderson (2000, p727) call the construction of rationality, whereby top management discovered that the structure of the organisation was not appropriate to the change in context. Most of the interviewees were not able to justify the choice of ABC. The selection of this technique was identified as being more related to the presence of a champion of ABC in the organisation, and the desire of management to use techniques that were 'modern' than to evaluate the costs and benefits of the approach.

The ideas in this paper by Arnaboldi & Lapsley (2004) are particularly relevant to this study. Charities face similar pressures to public sector organisations such as the NHS to portray themselves as modern. Here, the adoption of a private sector tool has been identified as a legitimating device that was 'adopted' to portray the organisation as 'modern' rather than implemented for reasons of technical efficiency. Also of interest in this paper is the idea of the 'complete organization', as outlined in chapter 3, charities are increasingly adopting private sector practices which may be a result of pressures to appear 'complete'.

Another study which has a specific focus on Legitimation, is that of Mouritsen and Skaerbaek (1995). This is a study of the interplay between accounting and management and art as part of civilisation. Mouritsen & Skaerbaek undertake a detailed study of the history of the Royal Theatre in Denmark which demonstrates the complexity of organisational forms. They show how management and rational practices have been deployed over the life of the theatre. Within this they particularly focus on accounting as a device for improving management, they demonstrate that accounting has a major legitimating function in ensuring the continuation of the

entity. This goes beyond management of resources to include the attraction of resources. The authors deploy issues of institutionalism in particular where the organisation is embedded in society. The environment is important in shaping behaviours of organisations. In this way the authors draw on key concepts of social construction – legitimation, symbolic behaviour and role of language (accounting). It develops the idea of accounting as a language and how accounting and art fit together in order to legitimate the organisation on two levels.

A further study by Meyer (1994) is concerned with the institutional and organizational rationalization in the mental health system. The study adopts a case study approach of a specific mental health organization, these are organizations which tend to be not for profit. The study focuses heavily on legitimation, but also considers institutionalization and decoupling. The study considers the impact of the environment of rationalized organizations and the function of legitimacy – a concept discussed by both Berger and Luckmann (1967) and Meyer and Rowan (1977). They explore the issue of legitimation both in terms of the issue of crisis in the mental health sector and the influence of organizational environment which provides legitimacy. The findings in this study show that mental health organisations in America are more internally decoupled than other systems. This follows on from Meyer and Rowan (1977) who describe decoupling as a function of legitimation where external activities and formal structures are separated.

In terms of mental health, Meyer states that:

> *'Formal structures must be adopted to a complex and changing environment…Yet at the same time reasonable coherent systems of internal activity must go on – there are obvious practical problems of daily activity. The organizational solution in such situations is decoupling (Meyer, 1994, p.225)*

This study is particularly interesting as it focuses on a nonprofit organisation and identifies an example of how these organisations decouple their external façade from their core activities.

This section has considered studies which have drawn on social construction (Perren & Grant, 2000) and more specifically legitimation in organisational research (Arnaboldi & Lapsley, 2004; Meyer, 1994; Mouritsen & Skaerbaek, 1995). The next section will look at research which has drawn on these ideas in research on nonprofit organisations.

4.4 The Use of Social Construction in Research on Nonprofit Organisations

This section will consider some examples which are more specific to the issues investigated in this research with regard to nonprofit organisations. Papers will be drawn on which have a focus on nonprofit governance and which draw on social construction. The table below gives an overview of these papers, the key area of their investigation and the aspects of social construction which they draw on. These papers are split into five key themes: the role of the board; the composition of the board; board behaviour; board and organisational effectiveness; and organisational structure.

Table 4.1 The Use of Social Construction in Nonprofit Research

Study	Focus	Perspective
The Role of Board		
Cornforth & Edwards (1999)	Looks at contribution that boards make to organizational strategy in the public and nonprofit sector.	Institutionalization, Isomorphism (Di Maggio & Powell, 1983)
Steane & Christie (2001)	Investigates patterns of governance on Australian nonprofit boards	Isomorphism (Di Maggio & Powell, 1983)
Parker (2007)	Examines strategic decision-making at the boardroom level of two nonprofits.	Legitimation & Isomorphism (Meyer & Rowan, 1977; Di Maggio & Powell, 1983)
The Composition of the Board		
Abzug & Galaskiewicz (2001)	Whether nonprofits legitimate their board through recruitment of educated professionals or	Legitimation (Meyer & Rowan, 1977) Isomorphism (Di Maggio

	community representatives	& Powell, 1983)
Board Behaviour		
Wood (1992)	Proposes a model of nonprofit board behaviour.	Social Construction (Berger & Luckmann, 1967)
Board & Organisational Effectiveness		
Herman & Renz (1997)	Board & org effectiveness	Social construction (Berger & Luckmann, 1967)
Herman et al (1997)	Board effectiveness	Social construction (Berger & Luckmann, 1967)
Organisational Structure		
Leiter (2005)	Examines similarity of organizational structures of Australian nonprofits.	Isomorphism (Di Maggio & Powell, 1983)
Leiter (2008)	Examines organizational structures of nonprofit organizations in Australia and the US, and the extent to which they are similar.	Isomorphism (Di Maggio & Powell, 1983)

The first set of papers by Cornforth & Edwards (1999), Steane & Chistie (2001) and Parker (2007) focus on the specific role of the board. The idea of institutionalization is used in a study by Cornforth and Edwards (1999). They focus on the contribution that boards make to organisational strategy in the public and nonprofit sector and focus on four cases; a local voluntary organisation, a school, a national voluntary organisation, and a college. The authors state that their research draws on new institutional theory (Di Maggio and Powell, 1983; Scott & Meyer, 1994), they consider the impact of the institutional environment on board roles and how ideas become institutionalised, particularly through coercive, normative and mimetic pressures. In the cases, coercive, normative and mimetic pressures were identified which shaped the nature and the role of the board. For example, one of the cases was a Further Education College, the three isomorphic pressures were identified as follows (1) coercive pressures came in the form of government legislation requiring Colleges to recruit people with business experience to their boards, and also forcing FE Colleges into competition with other educational organisations (2) this results in

normative pressures, with a more managerial view of governance, and the idea of the College as a business (3) mimetic pressures were also apparent, where the senior management of the College wanted to mimic successful businesses that they viewed as role models. The findings of this study are particularly pertinent to this thesis. Of specific interest is the consideration of how these different isomorphic pressures shape the role and structure of charity boards, and also the findings surrounding the pressures for the organisations to become more business-like.

Isomorphism is also used to understand the nature of nonprofit governance and the role of the board by Steane and Christie (2001). This study investigates similarities in Governance of Australian nonprofits, via questionnaire to the chair of the board. The findings here suggest that although nonprofits do mimic some aspects of the for-profit, or 'shareholder' governance model, the majority of boards are more similar to the traditional nonprofit 'stakeholder' approach. At the beginning of the paper, Steane and Christie (2001) summarise their findings, and note that:

> *Australian nonprofits manifest features that are alike in appearance to practices of the corporate sector, but with some differences. Similarities can arise due to coercive or education forms of mimicking (Di Maggio and Powell, 1983), but some features remain distinct despite the influence of legislative and governmental changes on directors.*

Although at the outset of their paper they make reference to Di Maggio and Powell (1983), and the idea of isomorphism, this concept is not developed throughout the paper to understand why similarities exist, this is in fact the only point that the term isomorphism is used, and reference is made to Di Maggio and Powell, 1983. For example, in the introduction, Steane and Christie highlight the pressures on Australian nonprofits from Government to become more like the corporate sector, however investigating this in terms of ideas of coercive isomorphism is not carried out. The findings show an uptake of corporate practices is typical of boards with members with management, law or marketing expertise, however these findings are not discussed in terms of normative isomorphism which is facilitated through formal education and networks of professionals which encourage the uptake of new models (Di Maggio and Powell, 1983). Although they do highlight that some nonprofits

'mimic' their for-profit counterparts, they do not explain these findings with reference to the work of Di Maggio and Powell (1983). Finally they do not explore the possibility that isomorphic tendencies towards the corporate model of governance could be a form of legitimation. This is surprising as the pressure for these organisations to appear more like the corporate sector is highlighted in the paper. Despite the limited use of the ideas of Di Maggio and Powell to explain the results of this study, the findings are still of interest in relation to this thesis. In particular, that a high presence of business expertise on nonprofit boards results in the mimicking of for-profit boards, particularly in relation to aspects such as the increased focus on policy and strategy over program management.

A further study which uses ideas of Legitimation and Isomorphism to explore the role of the board is Parker (2007). This paper investigates strategic decision-making at the boardroom level of two nonprofit organisations. They find the existence of normative, mimetic, and coercive isomorphic pressures. Normative pressures were found in the common educational and business background of board members. This business presence was found to result in mimetic isomorphism, with the documentation of the equivalent of private sector company missions, strategic plans, business plans and annual budgets. Coercive isomorphism came from the national office of the nonprofit in the form of a national business plan and budgetary control, where the branches came to be aligned with a more commercial philosophy as demanded nationally. As noted below, formal and strategic business plans were found to be adopted ceremoniously, legitimising the organisation:

> *Formal strategic and business plans largely served as a legitimising role of matching the expectations of major shareholders such as national board and membership in general. For both boards the formal strategic plan played no major role in boardroom strategizing but appeared to play a legitimising ceremonial role of presenting the rational planning and control imagery expected of corporations in the private sector* (Parker, 2007, p. 1473).

This is relevant in highlighting various isomorphic pressures for nonprofits to become more business-like, particularly the recruitment of business people onto nonprofit boards and the resulting mimicking of private sector organisations. Also of

interest is the finding that nonprofits adopt formal structures and blueprints, in this case in the form of formal plans, to legitimate the organisation.

Legitimation (Meyer & Rowan, 1977) and Isomorphism (Di Maggio & Powell, 1983) are used by Abzug and Galaskiewicz to explore board composition in nonprofit organisations. At the outset they highlight the importance of the board, and its composition as a legitimating device:

> *The boards of nonprofit organisations perform important governance and legitimation functions. They have the responsibility of ensuring that the organization lives up to its mission and expends resources in a fiscally responsible manner. Because of this oversight role, the board often comes to symbolize or represent the organization to the broader community. Given that stakeholders often cannot know if nonprofits are faithful to their mission or use funds wisely, they judge the organization by seeing who is on its board of trustees. Board members come to represent the organization and become a basis for its legitimacy claims. The composition of boards, then, is of central importance to nonprofits* (Abzug and Galaskiewicz, 2001, p. 51).

In this study, two perspectives on legitimacy are considered: (1) the credentials and expertise of trustees which communicate the organisations commitment to efficiency norms and the business model (Di Maggio & Powell, 1983) (2) legitimacy in terms of constituent support, where an organisation is legitimate if it represents the identities or interests of different constituencies in the community – an aspect neglected by neo-institutional theory. This paper examines the composition of US nonprofits boards at three points in time – 1931, 1961, and 1991 – to consider (1) whether the percentage of directors with professional and managerial backgrounds has increased over time and (2) if boards have become representative of different community interest groups. The findings of this study produced mixed results. In support of neo-institutional theory, over the time period investigated, there was an increase in the proportion of board members who achieved high educational credentials, and also those with managerial backgrounds. However, the findings also suggest that there are still a select number of nonprofits who were found to legitimate their boards on the basis of community representation, rather than with the presence of highly educated managers. The idea of nonprofits legitimating their boards

through the recruitment of individuals with a business/ management background is central to this thesis. However, Abzug and Galskiewicz (2001) highlight a limitation in neo-institutional theory, which is that it does not recognise that in addition to legitimacy from above, some nonprofits are required to show they represent or serve their community below.

Social construction is also used to explore board behaviour. Wood (1992) proposes a cyclical model of board behaviour. The focus of this study is human service agencies, and interviews were conducted with key individuals involved in governing the organizations. Prior to the development of this model and its various stages, Wood states that:

> *Implicit in my argument is the assumption that reality is a social construction (Berger and Luckmann, 1967). Empirically, this means that events internal and external to an agency are subjectively interpreted by individual members and by the board as a group (p. 143).*

Wood then goes on to describe the various stages of the model, however for the rest of the paper no other references are made to Berger and Luckmann or to social construction. Opportunities are available in the paper to draw on ideas of Berger and Luckamann, or other work which develops similar ideas. For example, one of the stages described here is the 'Corporate Phase', during which 'an unambiguous signal is given to the executive director to assist the board in mimicking the Fortune 500 model of oversight' (p. 147). Mimicking behaviour such as this is outlined above as 'isomorphism' (Meyer and Rowan, 1977; Di Maggio and Powell, 1983), however this work is not drawn on in this paper. Di Maggio and Powell outline three isomorphic processes (see above), but these are not drawn on to understand this behaviour. Furthermore, it is also noted that during this stage 'the corporate style becomes entrenched and highly routinized', this routinization is another key aspect of social construction, however Wood does not develop this idea or explain its importance in social construction. Another stage in the board cycle is described as the ratifying stage where ritualization is key: 'Processes for decision-making are ritualized; the ritual itself becomes more important than its content; and staff recommendations are ratified without question, sometimes without comment' (p.

148). Ritualization is also discussed as a key element of social construction by Berger and Luckmann (1967). This paper is limited in its discussion of the use of social construction to explore board behaviour and would have benefited from drawing more extensively on the work of Berger and Luckmann to explain the behaviour of nonprofit boards.

Board and organisational effectiveness is also explored through social construction. The study by Herman, Renz and Heimovics (1997) is concerned with organizational effectiveness, in particular the effectiveness of the nonprofit board and is driven by social construction. This study takes the form of a survey of various stakeholders of two specific nonprofit organisations. The key concept employed in this study is that of myths. Under social construction, 'there is no independently real board (or organizational) effectiveness' (p.375). Another implication in the social constructionism approach is that it states that 'there is no true or valid interpretation' (Crotty, 1998, p.47), this therefore implies that there may be variations in the judgements of the stakeholders which were surveyed in terms of their views on effectiveness and also the different kinds of information which they use in informing their judgements.

A study based on a survey of stakeholders is by Herman and Renz (1997) this study however is concerned with overall effectiveness of nonprofit organisations, not just the board. This study is driven by social construction and the authors assume under this perspective that organizational effectiveness is a set of judgements by stakeholders this resulted in varied judgements by stakeholders of the same organisation. They find that all stakeholders use socially constructed evidence of board effectiveness when they form judgements of organizational effectiveness.

The final two papers explore organisational structure, isomorphism is the key focus of Leiter's (2005) study of Australian nonprofit organisational structures. In this paper the level of isomorphism in Australian nonprofits is considered, along with the specific factors which are deemed to cause isomorphism, as outlined by Di Maggio and Powell (1983). In terms of the analysis, emphasis is placed on the variations in

organizational characteristics, where the lower the variation is, the greater the isomorphism. The focus on variation is suggested by Di Maggio and Powell (1983) who note that 'the best indicator of isomorphic change is a decrease in variation and diversity, which could be measured by lower standard deviations of the values of selected indicators in a set of organizations' (p. 155). The findings do not show evidence of isomorphism among Australian nonprofits, instead, they suggest a variety across the sector. Furthermore, the findings do not show support for the application of Di Maggio and Powells explanations for isomorphism to Australian nonprofits as an organizational field. Despite these findings, Leiter recognises the influence of the work of Di Maggio and Powell (1983) in the organization studies literature, and notes that the failure of the results to follow the theory may not necessarily reflect the absence of isomorphism in nonprofits, but the difficulty of detecting it within the data. Due to the nature of the these unexpected findings, Leiter places emphasis on the limitations of the study and highlights the importance of exploring different specifications of the organizational field.

Another study which uses Isomorphism is that of Leiter (2008) which looks at the extent of isomorphism in the organizational structures of nonprofit organizations in Australia and the US. The findings report the level of isomorphism; with the extent of isomorphism almost the same for 6 out of the 8 characteristics investigated, namely: departmentalization, hierarchical levels, formalization, autonomy, work intensity, and organizational age. However, specific reasons for this isomorphism is not discussed, in particular the specific isomorphic process of coercive, mimetic, and normative isomorphism are not developed throughout this paper, despite being discussed in the introduction. This paper would have benefited from discussion of the possible reasons for such isomorphism, such as similarities in government legislation. The author also highlights another limitation of the paper in that the potential consequences of such isomorphism is not considered.

This section has provided an overview of research on nonprofit governance which draws on aspects on social construction. The following section will consider the relevance of these studies, and those in the preceding section in relation to this thesis.

4.5 Conclusion & The Relevance of Social Construction to this Study

This research investigates Governance in large Scottish charities. As outlined above, the conceptual framework of this study will draw on two specific aspects of social construction: legitimation and isomorphism. This chapter began with an overview of these ideas and then considered their broad application in organisational research, and then their use in nonprofit governance. This section will further consider the relevance of these studies in this research and also how the key concepts of legitimation and isomorphism will be used.

The use of social construction in organisational research was considered in section 4.3. These papers were identified for their in-depth use of key ideas of the conceptual framework. Arnaboldi and Lapley (2004) provided an insight into how a public sector organisation adopted a private sector accounting technique in order to appear 'modern' and therefore legitimate. They also introduced the idea of the 'complete organisation', where public sector organisations adopt private sector practices in order to resemble these organisations which are seen as 'complete'. This is particularly useful in relation to this study, where it has already been identified that charities face pressures to become more 'business-like'. The literature presented in chapter 3 gave examples of how charities have adopted practices from the private sector. Mouritsen and Skaerbaek (1995) developed the idea of accounting as a language and how it is used to legitimate the organisation. This is particularly useful in this thesis as the use of business language by charities will be considered. Finally, Meyer (1994) describes a situation where a nonprofit organisation as decoupled its external activities from its core in order to maintain legitimacy.

Section 4.4 considered specific studies which explored various aspects of governance through the use of social construction, these have provided useful insights for this thesis. They provided examples of the various isomorphic pressures which nonprofits face, and how these shape various aspects of nonprofit behaviour and more specifically, the behaviour of the board. These studies are particularly useful with regard to the aspect of this study which focuses on the impact of business expertise

on nonprofit boards. For example, Cornforth and Edwards (1999) and Steane and Christie (2001) find the existence of coercive pressures for charities to become more business-like resulting in them mimicking private sector organisations. In addition, Abzug & Galaskiewicz (2001) find evidence of the use of business people on nonprofit boards being used as a legitimating device.

It has been reported that pressures to become more business-like are apparent in the charity sector in Scotland. One example of such a pressure is for the increase of business skills, such as finance, on charity boards, for example from the Scottish Charity Regulator (OSCR, 2008) – this could be seen as coercive isomorphism (Di Maggio and Powell, 1983). The adoption of business people onto charity boards may also be a form of mimetic behaviour, where charities attempt to present themselves as 'modern' by copying the practices of other charities in the same 'organizational field' which they see as legitimate (Di Maggio and Powell, 1983).

Within the context of governance, this study will look at the specific isomorphic pressures faced by these organisations and the extent of isomorphism in the governance structures in these organisations within the charity field and the recruitment of business people onto charity boards. Governance is a crucial element of the legitimating function of charities. It sends signals to the external legitimating environment that all is well, that individuals with up-to date expertise have been recruited. Abzug and Galaskiewicz (2001) emphasise the importance of the board as a legitimating function. Also considered therefore, is whether the recruitment of business people onto the boards of charities is merely a legitimating exercise, as charities look to portray themselves as modern and up-to-date.

This study aims to build on the ideas and studies presented above. For example, although Abzug and Galaskiewicz (2001) consider whether boards recruit members with management backgrounds, this study is limited due to the historical nature of the data. This present study will gather primary data from Scottish charites, with a survey to investigate the incidence of these individuals on charity boards, and a

series of in-depth case studies which will allow investigation of whether the role of these individuals is merely symbolic.

This research also considers the importance of the language of business in the social construction of charitable organisations. The importance of language is highlighted by Berger & Luckman (1967), Meyer & Rowan (1977) and Di Maggio & Powell (1983). Meyer and Rowan (op cit.) note that language can function as myths that interpret and explain the actions of individuals. In the context of this study, such an example would be where the myths of accountants and other business people on boards explain organisational activities. In terms of business people such as accountants and management consultants, people will say that they will perform certain tasks or solve specific problems, without actually knowing the specific individuals or exactly what they will do. However, in such a case, both the speaker and the listener understand such statements to describe how certain responsibilities will be carried out.

Considerable research has been undertaken on public sector organisations with regard to the implementation of private sector practices, with numerous studies identifying the adoption of such practices as legitimating devices (see Arnaboldi & Lapsley, 2004). However, such a situation has not received significant attention in relation to charities (with the exception of Abzug & Galskiewicz). This situation is particularly pertinent in the context of charities, who face increasing pressure to become more business-like. Of particular interest is the recruitment of business people onto the boards of charities, this may be part of the social construction of the organisation, as charities seek to portray their organisations as modern and up-to-date. They may recruit business people in order to maintain legitimacy, with their role being more symbolic and ceremonial. In addition, chapter 3 presented examples of charities adopting private sector practices, however there is a lack of research which considers whether the adoption of such practices is merely a function of legitimation.

CHAPTER 5

METHODOLOGY

5.1 Introduction

In chapters two and three the research context was considered, it was evident from this that there has been a significant lack of research into charity governance in the UK, particularly in Scotland. It was also highlighted that this existing research has largely overlooked the phenomenon of business expertise on charity boards, and its associated impact. The general influence of business on charities has been considered in chapter 3, presenting itself as a contentious issue, with polarised views as to the appropriateness of charities engaging with and adopting business practices and expertise. When this research commenced, there was a clear lack of studies considering these issues in the Scottish context. A need was therefore identified to examine governance in charities in Scotland, particularly in terms of internal governance relating to the functioning of the board, and externally, to assess the effectiveness of new regulatory measures, such as OSCR to see if they overcome the defects of prior arrangements. Furthermore, a deeper understanding of the incidence and impact of business expertise on charity boards is required, particularly in the context of increasing pressure from the charity regulator for charities to become more 'business-like' (OSCR, 2008). The ability to adopt sophisticated practices – while preserving their distinctive ethos represents a fundamental challenge for these organisations. This research aims to address these gaps.

This chapter sets out the research questions of this study and the research approach employed. It will be structured as follows: (5.2) will outline the research questions this study seeks to address; (5.3) outlines the research methods and data collection; (5.4) considers how the research was structured with regard to the conceptual framework; (5.5) outlines the limitations of the research; and (5.6) finally this chapter will be concluded.

5.2 Research Questions

The aim of this research is to examine Governance in Scottish charities. This study will contribute to our understanding of internal governance, particularly in relation to the functioning of the board, encompassing the role of the board, the relationship between the board and management, board and organisational effectiveness, and the composition of the board. Externally, the impact of the new charity regulator, OSCR, will be considered. In addition, the impact of business expertise on charities will also be investigated by considering the presence of business professionals on charity Boards. Specifically, this is a study of the largest section of Scottish charities on the basis of annual total income.

This study will seek to address the following research questions:

1. What kinds of governance issues do charities face in achieving their missions? Why is this the case?
2. What impact does external expertise, particularly business expertise, have on the governance and management of charities?

5.3 Research Method

This research was undertaken using a multi-method approach – encompassing both quantitative and qualitative elements, with the use of both a survey and a series of case studies. Utilising a variety of methods to study a phenomenon has been seen to improve the validity and overall reliability of the research, as weaknesses of particular methods can be counter balanced by the strengths of others (Denzin, 1978); research such as this is espoused by Morgan (1998).

Such an approach is outlined by Yin (2003):

> *Multimethod studies can pose complimentary questions that are to be addressed by different methods. Most commonly, case studies are used to*

gain insight into causal processes, whereas surveys provide an indication of the prevalence of a phenomenon (Yin, 2003, p. 151).

The benefits of using preliminary quantitative methods to contribute to a principally qualitative study are outlined by Morgan (op. cit.):

The knowledge provided by an initial small-scale use of quantitative methods helps to guide the decisions that the researcher makes in the larger qualitative research project. The classic example is a preliminary survey or census of a field setting either to guide the selection of sites and informants or to provide a context for understanding the contacts that one does make. Preliminary quantitative results can also help to focus the analysis on large amounts of qualitative data (Morgan, 1998, p.369).

Arnaboldi and Lapsley (2003) provide such an example of a preliminary quantitative study which then contributes to a principally qualitative study in their investigation of the implementation of a private sector accounting technique – activity based costing (ABC) – in local authorities in Scotland. Initially, a survey was conducted of all local authorities in Scotland, in order to establish the incidence of ABC use. Following this, case study sites were selected on the basis of the answers to the survey, allowing a more in-depth exploration of the use and rejection of ABC.

This thesis followed the two-stage approach outlined above. Initially, a survey was conducted of the largest section of Scottish charities, followed by a series of more in-depth case studies. The design of this study allows for triangulation. Triangulation is advocated by Denzin (1978) who describes it as the combination of a range of methodologies to study the same phenomena. Denzin (op cit.) outlines triangulation as follows:

Triangulation, or the use of multiple methods, is a plan of action that will raise sociologists above the personalistic biases that stem from single methodologies. By combining methods and investigators in the same study, observers can partially overcome the deficiencies that flow from one investigator or one method (Denzin, 1978, p.294).

Denzin (op cit.) outlines four types of triangulation: data, investigator, theory, and methodological triangulation. This study employs methodological, or more specifically, between method triangulation through the use of a survey and case studies, utilising interviews and documentary evidence. With regards to this strategy, Denzin (op cit.) highlights:

> *The rationale for this strategy is that the flaws of one method are often the strengths of another; and by combining methods, observers can achieve the best of each while overcoming their unique deficiencies* (Denzin, op cit. p. 302).

Further rationale for the choice of this approach and methods will be outlined later in this chapter. Firstly, however, attention will be turned to the specific context of the research – the Scottish charity sector – and on how the population was defined.

5.3.1 Defining the Population

As outlined above, this research employed both a survey and also case studies. Before defining the population for this study, it was necessary to consider the specific nature and context of the study, and the essential attributes the population must have. This research centred around the Governance and Management of charities and the interaction between the two. There was also a distinct focus on the impact of business expertise on these organisations which was investigated by considering the impact of those individuals with business expertise that sit on charity Boards, and challenges arising from this in these organisations where traditionally mission and values take priority.

When considering these factors in terms of defining the population for this study, it became clear that the essential characteristics these organisations were required to have made it unfeasible to include small charities in this research. Firstly, there needed to be a distinct boundary between the management/workers of the organisation and the Board in order to understand the relationship between the two. In smaller charities, the boundary between the Board and management/workers tends

to be blurred, with few, if any directors that are external to the organisation. Another condition which needed be met is that external directors must be present on the Board, and in particular business professionals – as noted above, smaller charities may not have external directors, and those which do may find it difficult to attract business professionals onto their Board. In addition, there was a requirement that organisations must be significant enough in size to have the ability to adopt sophisticated business practices. As a consequence of this, small charities were not included in this study.

The study focused on the largest section of Scottish charities; other studies which have targeted larger charities include Hyndman (1990), in this study of the information needs of contributors to UK charities, the population consisted of the largest 200 fundraising charities in the UK. It is expected that organisations that have a larger income will require/have in place more management expertise and also sophisticated management/ governance systems to run the organisation.

The set of organisations which the population for this study was drawn from was the Office of the Scottish Charity Regulators statutory register of charities. As previously outlined, OSCR was established in December 2006 and is the independent regulator and registrar of charities in Scotland, the statutory register was introduced on 1 April 2006. Table 5.1 below documents the number of organisations registered with OSCR and their annual income for 2005/06.

Table 5.1: Total Number of Charities Registered with OSCR as at 1/8/2006

Income Band (£)	Total Number of Registered Charities
0 – 24, 999	22116
25, 000 – 99, 999	3738
100, 000 – 249, 999	1460
250, 000 – 499, 999	519
500, 000 +	939
Total	28772

Source: OSCR (2006)

Table 5.1 shows that the majority of these charitable organisations are in the smallest income bracket £0 - £24,999, these were excluded due to the factors outlined above. As a result of the decision to focus on the larger section of Scottish charities, the top section of the OSCR register was interrogated further, OSCR defines a large charity as an organisation with an annual income of £500, 000 or more; there were 939 charities such as these. However, it was felt that 939 was still too large a number of organisations to survey, but further interrogation of the OSCR register showed that there were 211 charities in Scotland with an income of £5 million and more. These large charities make a significant contribution to the sector, with 97.3% of total income from the sector made by just 5.6% of charities (OSCR, 2008). Therefore, a decision was made to focus on the largest section of charities.

On closer inspection, it was discovered that a number of these charities were actually part of the same organisation; after removing these organisations from the study, the number of organisations in the population was reduced to 204. These organisations were then split into categories in terms of charitable purposes – as defined by OSCR. OSCR defines 15 charitable purposes – however, only 10 were used in this study to classify these organisations.

These charitable purposes were:
1. The Advancement of Education
2. The Advancement of Arts, Heritage, Culture or Science
3. The Advancement of Health
4. The Relief of Those in Need by Reason of Age, Ill Health, Disability, Financial Hardship or Other Disadvantage, Housing Associations
5. The Advancement of Environmental Protection or Improvement
6. The Advancement of Public Participation in Sport
7. The Advancement of Animal Welfare
8. The Advancement of Religion The Prevention of or Relief of Poverty
9. The Advancement of Citizenship or Community Development
10. More Than One Charitable Purpose

In order to assign the organisations to these groups, it was necessary to consider each organisation individually, taking into account the overall mission of the organisation and also the work in which they did. Due to the nature of this study (the investigation of governance and management in charities) an important aspect of these organisations was that they were actively engaged in providing services, rather than being simply grant awarding trusts. After considering the work of each organisation, it was discovered that a number did not meet these requirements. For example, (Emms Nazareth; Greater Glasgow Health Board Endownment Fund; Lothian Health Board Endownment Fund; Robertson Trust; Lloyds TSB Foundation for Scotland; Volant Charitable Trust). In addition, One Plus: One Parent Families went into liquidation on the 25th Jan 2007. This reduced the total number of organisations in the sample to 180. It was also felt that this would be a manageable number of organisations to include in a survey and obtain a high response rate – it would be practical to chase up individual organisations with a smaller sample of organisations. In addition, there are a number of surveys which sample high numbers of organisations which have had very low response rates (e.g, Cornforth, 2001). Case study sites were also selected from this group of the largest charities.

5.3.2 The Survey

The first stage of this research utilised a survey, through the use of a self-administered questionnaire. The questionnaire was distributed via email to a key informant – the secretary to the board – of the largest section of Scottish charities identified above. There were several reasons for the design of the research in this way. Methodologically, the use of the initial survey allowed data to be obtained across the complete 'organizational field' (Di Maggio & Powell, 1983) which was the largest section of Scottish charities. It was also set up to allow the analysis of the incidence of various norms and behaviours of charity boards, including the inclusion of business people, this enabled the consideration of whether isomorphism was apparent (Di Maggio & Powell, op. cit.). The survey was also used to guide decisions

in the second stage of the research, namely to aid the selection of specific case study sites and to highlight matters for further investigation. This section will now consider the use of the survey – and in particular of a self-completion questionnaire as a research method.

Quantitative research, such as the use of surveys has been viewed as the dominant form of research in nonprofit organisations (Pharoah, 2005; Alcock and Scott, 2005). Similarly, Bielefeld (2006), who considers this type of research in nonprofit organisations, highlights that in the journal *Nonprofit Management and Leadership*, during 2003 and 2004 70% of the research articles published could be classified as quantitative, during the same period, 81% of research papers published in *Nonprofit and Voluntary Sector Quarterly* were classed as quantitative. Bielefeld (op. cit.) calls for a continuation of this trend, raising concerns over nonprofit managers placing reliance on research into management practices in the for-profit sector, which is potentially incompatible with the nonprofit sector. In this paper, the need is highlighted for management research specific to the nonprofit sector, specifically research that is quantitative in nature. There are a number of studies which have used surveys to investigate issues of nonprofit governance - for example, Brudney & Murray, 1998; Cornforth, 2001 - these are largely international, with relatively few considering the UK, and none investigating the Scottish context.

In considering the use of the survey, there are a number of potential challenges which must be taken into account. Among the biggest challenge is that of nonresponse, this issue is highlighted by Kennedy and Vargus (2001) who consider this challenge in the context of philanthropic studies research. They note that there is a decline in survey participation which is set to continue, reasons given for this trend include the decrease in civic engagement as noted by Putnam (2000), and an increasing level of phonecalls and letters concerning issues such as fundraising which cause confusion among potential survey respondents. Despite this, Kennedy and Vargus (2001) emphasise the quality of the data collected via these surveys; increased knowledge and skill of researchers has resulted in the design of questionnaires which are clearer and which allow respondents to answer with increasing accuracy. Furthermore, they

also note that the decrease in mail survey response is significantly smaller than in interviewer administered surveys.

This issue of nonresponse is also considered by Smith (1997) who reflects on the results of a survey of NPOs working for Peace and evaluates whether the high response rates believed necessary for valid surveys of individuals are the same for organizational-level surveys. The findings here show that valid results can be obtained from organizational surveys with lower response rates – the decision not to respond to an organizational questionnaire may be the product of more random factors than a comparable individual decision. The author also comments on the work of Tomaskovic-Devey et al (1994) who highlight a number of possible factors which determine the respondent's decision to complete a questionnaire which seeks information on their organization: whether they have the authority, capacity, time, knowledge or access to provide information and whether they see an organizational interest in participating in the study. Smith applies this to NPOs and assumes that there will be a consistent level of motivation to participate in a survey across a population of NPOs, because these groups characteristically aim to be visible in their communities. A study that promises to provide information seen as useful to the organisation that is done by a researcher who is seen as legitimate and trustworthy by organisational leaders should appeal to their motivations.

This problem of nonresponse can result in error/bias in the results. Hager et al (2003) discuss nonreponse bias in the context of nonprofit organizations. They study various ways of improving returns to eliminate this effect, in particular they look at the influence of three factors of response rates: they find that the complexity of the survey and the use of small incentives has little or no influence on response rates. However, they find that response rates improve when FedEx is used over standard mail. These are interesting findings however, cost constraints mean that this would not be viable for this study.

Other limitations are highlighted by Bryman (1989), these include the lack of an interviewer to aid the respondent if they do not understand a specific question – this

was be addressed in this study by administering the questionnaire by email, this made it easier for the respondent to seek qualification of questions. Another issue with self-completion questionnaires is that of the lack of ability of collecting additional data through making observations and requesting documents which would be possible with interviews. However, because this questionnaire was distributed via email, directly to the respondent, key documents could also be requested electronically if necessary; there was also the opportunity to collect more in-depth data when conducting the case studies. The issue of nonresponse was highlighted previously with regard to surveys of charities, Bryman (1989) – who discusses the survey in a more general organisational context - also lists this as the most fundamental issue of self-administered questionnaires, however in this study, a number of steps were taken to combat this, which will be outlined in detail later in this chapter.

There have been a number of surveys conducted in the area of charity governance which have gained high rates of response, these include Preston and Brown (2004) who received a 73.6% response rate from Chief Executives and a 50.1% response rate from Board members for their survey of the commitment and performance of Board members, Holland and Jackson's survey of Board development achieved a 62% response rate and Hoye (2004) received a 66.7% response rate in a survey considering the relationship between chief executives, chairs and directors of boards. In addition, these high response rates concur with the views of Smith (1997), who believes that due to the nature of charities, valid research is likely to appeal to charity leaders, making them more likely to participate. Although it is apparent that a number of limitations exist with the use of the survey method via self-completion questionnaire, these issues have been considered in turn with respect to this study and appropriate steps were taken to alleviate any negative aspects of this method of research.

Despite the challenges outlined above, there are a number of potential advantages to be gained from using self-completion questionnaires. The rationale for this method was considered at the outset of this chapter. Further more, this section has already

highlighted a number of studies which advocate the importance of survey research in charities (Bielfield (2006), Kennedy & Vargus (2001)), other observations about the advantages of this type of research are outlined by Bryman (2001). First comes the consideration of cost, the questionnaire is considerably cheaper to administer than, for example carrying out a large number of structured interviews, furthermore it allowed organisations from all over Scotland to be included in the study. Another positive aspect of a self-completion questionnaire is that it was also quick to administer, in the case of this study, via email; it would not be feasible in terms of time or money to carry out interviews with a large number of individuals from charities across Scotland. The use of this tool also eliminates any interviewer effects.

5.3.2.1 Designing the Questionnaire

As noted above, a self-completion questionnaire was utilised in this study. This section now considers the process of designing this research instrument which is presented in appendix 1.

Considerations which had to be made while designing the questionnaire were:

- The research questions; there are two research questions which were investigated in this research, the first focused on governance issues and the second focussed on the impact of business expertise on the board, therefore the questionnaire had to address both these issues.
- The key informant; as noted above, was the secretary to the board of directors, this person generally holds a senior management position within the charity or within an external organisation, therefore there may be a limit on how much time they can spend on filling in a questionnaire, as a consequence the questionnaire was required to be fairly short and concise.
- The population; this is organisations registered with OSCR who have an annual income of over £5 million.

- Method of administration; self-completion questionnaire distributed via email to the Board secretary.

Rationale for the Questionnaire

Dillman (1978) highlights five types of questions that can be included in a questionnaire, these are; behaviours, beliefs, knowledge, attitudes and attributes. The two types of questions that were required in this survey are behaviour and attitude. Behavioural questions are important as they establish what people do; there was a need for behavioural questions in this survey due to the nature of the research questions, it was important to understand the behaviour of boards and see whether the behaviour of Scottish charities matches that of previous studies of board behaviour in other countries and to see how these organisations react to certain governance issues. It also allowed the investigation of similar behaviours, and allowed the investigation of isomorphism (Di Maggio & Powell) between these organisations. In addition, the behaviour of business people on charity boards needed to be established in order to answer the second research question which attempts to assess the impact that business people have on charity boards.

Attitude questions will be important in order to draw out the theoretical implications of this research. De Vaus (1991) highlights that attitude questions are important as they allow information to be gathered about what respondents think is desirable; it will be important in this research to understand how charities feel about governance in their organisation and whether the boards behaviour actually matches up to the way that charities present themselves. In terms of the second question which considers the impact of business people on charity boards, it will be important to consider the boards attitude towards these people and what they actually bring to the organisation; there has been some disagreement in previous literature on this as discussed in the review of the literature in chapter 3. Considering the attitudes of the organisation about business people (for example question 10) and the actual behaviour of business people (questions 4,5,6,8) will allow some of the key ideas of

social construction to be drawn out, such as whether business people on boards is simply a form of legitimation (Meyer & Rowan, 1977).

The questionnaire comprised of 11 substantive questions, all of which were open questions. Many experts in survey research favour the use of closed rather than open questions in self administered questionnaires as they feel that forced questions will be easier for the individual to answer and make it more likely they will complete the questionnaire. In addition, closed questions do not discriminate against those respondents who are less articulate (De Vaus, 1991; Newell, 2001), however this should not be an issue with this survey due to the high calibre of the respondent; the board secretary tends to be someone with a significant position within the charity such as the company secretary of chief executive or outwith and therefore should not have difficulty expressing their views via open questions. In addition, open questions allow respondents to answer in their own terms and can therefore result in a higher degree of accuracy (Bryman, 1989).

One of the main aims was to keep the length of the questionnaire short, ideally one page of A4, the main reason for this was the time constraints of the board secretary – it was felt that they would be more likely to fill in a shorter questionnaire which was one page in length and asked concise questions compared with a lengthy questionnaire. The questionnaire was sent to the board secretary as an email attachment, therefore a brief outline of the research and details on how to fill in and return the questionnaire were included in the main body of the email, they were also given the option of going through the questions on the phone if they did not feel they had the time to write answers to the questions themselves. The justification for sending the questionnaire via email was that it was quicker and cheaper that conventional mail, there was more guarantee that it would actually reach the desired respondent, it would also make it easier for the respondent to easily reply to the email if they wanted to ask any further questions about the study to clarify any questions included in the questionnaire it would also make it easier to go back to the respondent if any of the responses they gave were unclear or more information was needed.

5.3.2.2 The Pilot Study

Before conducting the main survey for this investigation, it was decided to undertake a pilot study. Pilot studies refer to both smaller scale versions of the main study intended to be carried out (Polit et al, 2001) and also to the testing of a particular research instrument (Baker, 1994). In terms of this study on charity governance, the pilot study was used for both of these reasons. Several advantages of conducting a pilot study are highlighted by van Teijlingen & Hundley (2001), these include: advanced warning may be given by the pilot study about specific areas where the main research project could fail; it may pinpoint areas where research protocols may not be followed; whether proposed methods or instruments are too complex; poor response rates can also be identified and procedures can be put in place to counter this. Pilot studies have also been advocated by De Vaus (1991) and Prescott & Soeken (1989) who see them as a way of eliminating some of the risks involved in conducting research. However, Teiljlingen & Hundley (2001) also note some limitations in carrying out pilot studies, for example: they may result in inaccurate predictions being made as a result of the pilot data, such as response rate.

Governance and the phenomenon of external business expertise in charities was investigated in two ways via the pilot study. In the first instance the focus was placed on an important branch of charitable activity; namely science, arts, heritage and culture, secondly, with a focus on major charities in the sector (i.e. those with annual turnover in excess of £5 million) to explore scale effects, there are 20 such charities in Scotland. This survey is informed by the debates on how business expertise may or may not be deployed within charitable boards and is directed at key informants within charities, namely the secretary to the board of the charities.

Before the questionnaire could be distributed, the name and email address of each board secretary was required. Although many charities have a section on their website dedicated to information about the board, none of these organisations had the name and contact details of the board secretary, therefore this information had to be actively sought through contacting the organisations. The majority of these charities

had an email address on their website for people requiring general information about the organisation, for those charities that had this; they were emailed asking for this information. Organisations that did not reply to this email, or those that had a telephone number rather than an email address on their website were phoned for this information. The questionnaires were then emailed to the board secretaries, those that did not respond within two weeks were send a reminder email and if there was no response after this, they were contacted by phone. The results of the pilot study are outlined in appendix 4.

Pilot Study Assessment

Of the 20 questionnaires that were sent out, 14 responses were received. This 70% response rate is very high for a study such as this. However the sample was very small compared with the proposed sample number for the main study (164 organisations); Teiljlingen & Hundley (2001) advise a cautious approach when using a pilot study to predict the response rate for the main study.

The rate of response for the pilot study was high at 70% and provided some interesting findings, as highlighted in appendix 4. However, it is necessary to consider further the rate and quality of responses to individual questions and decide whether it is necessary to change them for the main study. Appendix 2 outlines each question, the rate of response, any issues with the question and any changes required for inclusion in the final survey instrument.

Although the response rate was high and some interesting responses were received, there were issues with some of the questions in terms a lack of detail with some questions due to the tendency towards one word answers. Appendix 2 outlines changes that will be made to the main survey instrument, these changes are outlined below.

Implications of Pilot Research on Main Study

After considering both the response rate and also the quality of answers from the pilot study, it was concluded that the study was successful and it would therefore be a viable option in taking this study forward to extend this approach for the main stage of data collection (for analysis of pilot questionnaire see appendix 2). There were however a number of issues which required consideration before doing so; in terms of the research instrument, the questionnaire used in the pilot study had quite a narrow focus and centred around the impact of people from business on nonprofit boards, therefore a broader focus was taken in the main questionnaire in order to obtain relevant data to answer research questions 1 and 2.

As outlined above, certain questions required re-wording due to a tendency towards 'yes/no' answers. In addition some broader questions were be added. Measures to enhance reliability were also incorporated into the revised questionnaire. The consistency of the questionnaire was enhanced by adding questions which would highlight inconsistencies in the answers.

Another consideration was concerned with the individual that the questionnaire should be directed to. In the pilot study the questionnaire was sent to the board secretary, who was seen as a key informant. The use of a key informant is considered by Bryman (1989), he highlights their use in providing quantifiable data on characteristics of their organisations and also notes they should be someone in a senior position who can speak for the organisation. The Board secretary fits this description: it is their job to service the Board, taking minutes, circulating board papers and information therefore they know the work of the Board as well as, if not better than any other individual. In addition, they do tend to hold senior positions within the charities or occasionally senior positions outwith the organisation.

Bryman (1989) considers some issues with the use of a single key informant, firstly that you cannot be sure that the person to whom the questionnaire was sent actually answered it. To overcome this problem, the name and contact details of the Board

secretary of each charity was collected and the questionnaire was sent via email to the Board secretary. This way, the Board secretary did directly receive the questionnaire. Another issue is the question of whether one individual has the ability to provide accurate information on the organisation as a whole. In the case of this study, information is being sought about the Board and the Governance of the organisation, it can therefore be argued that the Board Secretary is the person best placed to provide this information as it is their role to service the Board.

There are also concerns over whether the use of a single key informant is too narrow. However, in considering other papers which have conducted surveys of nonprofit governance, there are a considerable number which also use a single key informant, examples include: Brown and Iverson (2004); Callen et al (2003); Gill et al (2005); Herman et al (1997); Brudney and Murray (1998). These studies focus specifically on the Chief Executive as the key informant, other studies such as Steane and Christie (2001) have used the Chairman to inform their study. There are surprisingly few studies which do use the Board Secretray as the key informant in surveys of governance in charities, however two examples of UK studies which have used this approach are Corforth (2001) and Cornforth & Simpson (2002), the reason they give for focusing on this individual is that they are likely to have a good knowledge of the board and also be more dispassionate than others such as the chair or the chief executive. For the purposes of this study on nonprofit organisations and the types of questions asked, it is felt that the board secretary will be the best person to focus on. In terms of questions of narrowness of focus, these were addressed in the second phase of the research, where the views of other key personnel in the organisation were sought from the case studies sites.

5.3.2.3 The Main Survey

The main survey was conducted in the same way as the Pilot study (see appendix 3 for main survey questionnaire). The name and contact details of the Board Secretary of each organisation were identified, and the questionnaire was distributed to the

Board secretary of each charity via email. The questionnaire was sent to 160 charities, with 107 useable responses received, this was a 67% response rate.

Analysing the Survey Data

Once data was collected via the questionnaire it was inputted into SPSS. The data was analysed using a simple statistical tests. One of the specific purposes of the survey was to investigate the level of isomorphism in charity governance. Descriptive statistics, such as standard deviations are highlighted by Di Maggio and Powell (1983) as a key indicator of isomorphism:

> *Since the effect of institutional isomorphism is homogenisation, the best indicator of isomorphic change is a decrease in variation and diversity, which could be measured by lower standard deviations of the values of selected indicators in a set of organizations (Di Maggio and Powell* (op cit. p. 155).

For the purposes of analysis, charities were split into three broad categories based on charitable purpose, these were: advancement of education, provision of housing, and those concerned with health, social care, and community development. Three organisations were excluded as they didn't fit these categories, bringing the total number of useable responses to 104. Due to the small size of the population, more sophisticated techniques may have been of limited value. In addition, emphasis was placed on depth of analysis gained from combining quantitative and qualitative findings, rather than sophisticated statistical analysis.

5.3.3 Case Study Research

The second stage of this research involved conducting case studies. Where the first stage of the research – the survey – allowed for the investigation of the existence of isomorphism (Di Maggio & Powell, 1983), the nature of case study research allowed the in-depth investigation of the functioning of the board, and the role of business

people on charity boards, and was particularly useful in investigating whether they were used for legitimation (Meyer & Rowan, 1977). The case studies presented an opportunity to gather data on how governance works in the charity context, how boards function, and to develop a deeper understanding of the role of business people on charity boards – whether their ideas penetrated the organisation, or whether they had a more ceremonial or symbolic role (Meyer & Rowan, 1977). Also of interest were charities that don't have business people on their board in order to determine why they had resisted such isomorphic pressures. The conduct of case studies also allowed for the testing of the validity and reliability of the questionnaire in the first stage, as well as allowing the development of a deeper understanding of governance in Scottish charities.

In this research it was necessary to scrutinise the behaviour of organisations from internal/ external published data. It was also necessary to study the interactions between individuals within the organisation and the kinds of information flows which inform their actions, for example, between the board and management. In addition, as part of this investigation, it was necessary to study and understand the motivation and behaviour of key individuals and the impact that modern management methods and external pressures have on their behaviour. Given the sensitivity of the above topic and the complexity of the organisations, it was necessary to explore these phenomena in-depth at different study settings. Therefore, this research used a multiple-case study approach to investigate these different aspects of the governance of charities. In order to understand such dimensions, it was necessary to engage with key actors within these organisations, to ascertain what they know, see, and understand (Silverman, 2001). This stage of research gathered data by conducting semi-structured interviews with key governance actors in the organisation and also through available documents.

Case study sites were selected on the basis of the survey responses. As outlined in the survey analysis section, charities were grouped into three areas: advancement of education, provision of housing, and health, social and community care. In addition to these three groupings having the largest numbers of charities, they have the

highest income, the OSCR publication *Scottish Charities 2008* identifies four purposes which received the greatest proportion of total sector income in 2005, these are: the advancement of education, which received the largest proportion; followed by the advancement of heritage, arts, culture and science; and advancement of health and provision of accommodation which received an equal share. As, those organisations pursuing the advancement of arts, heritage, science and culture were the focus of the pilot, they were excluded from the main study. This is a study of the largest charities in Scotland as defined by total annual sector income, one charity from each of these areas was studied in depth. This cross-sectoral analysis allowed a more detailed study of the issues within the charities sector as a whole rather than just one part of it and it allowed for comparisons to be made between sectors.

The previous section discussed quantitative research and highlighted the dominant position which it has held in voluntary sector research. In response to this trend, a report by the Charities Aid Foundation (2005) - which focuses on conducting research in the voluntary sector - calls for an increase in qualitative research to redress this balance. In this report Pharoah (2005) notes the following:

> *If the voluntary sector is to be fully illuminated, a range of research approaches is needed to redress what is currently an imbalance. Much of the most influential and best-funded voluntary sector research throughout the 1990s was…almost exclusively quantitative…The voluntary sector has an informal and complex nature, and is highly engaged with people in many different ways – as members, volunteers, beneficiaries, activists and donors. The use of qualitative research techniques will be increasingly essential if its social meaning and impact are to be grasped* (Pharoah, (op cit.) p. viii).

A number of articles in this publication specifically call for an increased amount of case study research. For example, Glasby and Manthorpe (2005) suggest how the case study can be used to explore how the organisation has evolved and been shaped, helping to gain an insight into the complex nature of the organisation and the sector in which it sits. The in-depth study of a specific organisation will also give the potential for a close relationship to develop between the researcher and the researched in a case study organisation, Russell and Scott (2005) note that this may

allow truths and stories to emerge which otherwise may have been held back. Case study research permits investigation of the past and the present, it allows analysis of continuity and change over time, it allows the detailed study of specific phenomenon and the relationship and interaction between the phenomenon being studied and the context it is set in (Glasby & Manthorpe, 2005).

The case study approach allows in-depth studies of organisations to be carried out and also allows for triangulation (Denzin, 1978, Yin, 2003). Keen and Packwood (1997) also highlight the importance of triangulation in helping to guarantee validity in the research. The case study approach provides a richness of data and depth of understanding which is not apparent from other methods. Yin (2003) calls for in depth investigations of phenomena to fully understand them, and also advocates where appropriate, the use of multiple case studies.

One of the main issues of using case studies highlighted by Bryman (1989) is generalizability and whether this can actually be derived from just one case. However, this study will include 3 cases, this will act to improve generalizability and allow comparisons to be made which make it easier to identify specific features of the cases; the use of more than one case also improves validity. The variety of methods used also allows research questions to be answered through methods appropriate to each question. This study is strengthened by the use of three case studies which increases the depth of the study and also increases validity; comparisons will be made between sectors also.

As noted above, the case study approach allows a number of methods to be used to collect different types of evidence. This study will include the analysis of documentation, and semi-structured interviews. These are outlined below.

Documentary Analysis
As part of the case study approach which will be employed, an analysis of both internal and external documentation will be undertaken for each case. Some of the problems of using this type of research method are highlighted by Glasby and

Manthorpe (2005) who note that formal records may not capture the difficulties and tensions within the organisation. However in this instance, the use of documents will be backed up by in-depth interviews with key individuals.

Interviews

Russell and Scott (2005) consider issues surrounding the selection of interviewees, and the assumption that tends to be made by the researcher that those selected for interview will have the ability to answer any questions which are posed to them. For example Russell and Scott (2005) highlight the importance of where the interviewee is located within the organisation, in particular, location may prevent them from admitting that they lack the required knowledge that we assume them to have, for example the CEO of an organisation may find it difficult that they lack knowledge about specific aspects of their organisation (see appendix 5 for interview schedule).

Although it has been noted above that examples of case study research in the voluntary sector are sparse, there are some examples in the academic literature which focus on governance, for example Cornforth and Edwards (1999). These highlight how governance issues can be investigated through the use of this research method.

Conducting the Case Studies

Three case study sites were identified from the questionnaires on the basis that they displayed a commitment to governance and would potentially provide interesting examples of good practice, they also had some level of business expertise on the Board, the organisations chosen were; a housing association, a social care charity, and a Further Education College. Interviews were conducted with the chief executive, the chairman and also members of the Board, in particular those from business.

Case Study – Data Analysis

Data was analysed according to the framework analysis method (Ritchie et al, 2003). All interviews were recorded and transcribed verbatim by the researcher in order to enhance familiarisation with the data. After familiarisation, recurring themes and ideas were identified, a coding index was then developed with themes then sorted into broader categories and key themes.

5.4 The Research Design and Social Construction

This section will consider the research design in relation to the conceptual framework of the study – social construction. This study adopts a multi-method research design with the use of a survey and a series of case studies, allowing for between-method triangulation. Denzin (1978) highlights that with the use of between-method triangulation, one of the main principles is that the methods must be selected 'with an eye to their theoretical relevance' (Denzin, op cit. p. 303).

At the outset of this chapter, the rationale for the choice of research methods employed was outlined, the use of a survey allowed the collection of data across the complete 'organisational field' (Di Maggio & Powell, 1983). In addition, it also allowed the consideration of similarities and differences between aspects of governance and the phenomenon of business expertise on charity boards, to uncover the extent to which isomorphism was apparent (Di Maggio & Powell, op. cit).

The case studies allowed further investigation of the reasons for isomorphism and for those resisting isomorphic pressures, for example, those with few business people on their boards. Case study research enabled a more in-depth understanding of these organisations, and was used to consider whether charities recruited business people to maintain legitimacy, or whether their ideas did actually penetrate the organisation.

The table below presents papers on charity governance which also draw on social construction, these papers were considered in chapter 4, however, the focus is now on the specific research methods employed in these studies.

Table 5.2 The Use of Specific Research Methods to Explore Social Construction on Charity Governance

Study	Focus	Perspective	Research Method
The Role of the Board			
Cornforth & Edwards (1999)	Contribution boards make to organizational strategy in the public and nonprofit sector.	Institutionalization (Di Maggio & Powell, 1983); Isomorphism (Di Maggio & Powell, 1983)	4 case studies (observation of board meetings, interviews, documents)
Steane & Christie (2001)	Investigates patterns of governance on Australian nonprofit boards	Isomorphism (Di Maggio & Powell, 1983)	Questionnaire
Parker (2007)	Examines strategic decision-making at the boardroom level of two nonprofits	Legitimation & Isomorphism (Meyer & Rowan, 1977; Di Maggio & Powell, 1983)	Complete member researcher participant observation
The Composition of the Board			
Abzug & Galaskiewicz (2001)	Whether nonprofits legitimate their board through recruitment of educated professionals or community representatives (USA)	Legitimation (Meyer & Rowan, 1977) Isomorphism (Di Maggio & Powell, 1983)	Secondary data
Board Behaviour			
Wood (1992)	Proposes a model of nonprofit board behaviour. (USA)	Social Construction (Berger & Luckmann, 1966)	Interviews (80 board members & 21 executive directors)
Board and Organizational Effectiveness			
Herman & Renz (1997)	Multiple papers on board & org effectiveness (USA)	Social construction (Berger & Luckmann, 1967)	Document reviews; Questionnaire to key

			informants (CEO, board members, senior managers, funders; interviews with CEOs
Organisational Structure			
Leiter (2005)	Examines similarity of organizational structures of Australian nonprofits.	Isomorphism (Di Maggio & Powell, 1983)	Survey
Leiter (2008)	Examines organizational structures of nonprofit organizations in Australia and the US, and the extent to which they are similar.	Isomorphism (Di Maggio & Powell, 1983)	Survey

The above table shows that a mixture of quantitative and qualitative methods have been used to explore charity governance using a broad social construction perspective. With the exception of Herman & Renz (2007), there are few studies which combine both quantitative and qualitative data, with none of the above studies utilising both a survey and a series of case studies. This study therefore will offer a unique perspective by combing the using of survey and case study research in the investigation of charity governance.

5.5 Limitations of Research

This section will consider the limitations of this research. In terms of the survey, as the survey instrument was in the form of a self-completion questionnaire, a level of caution must be taken in interpreting the results. The questionnaire was completed by the secretary to the Board and although this individual was chosen as it was believed they would be more dispassionate than the Chair or the Chief Executive (see

Cornforth (2001); Cornforth and Simpson (2002)) these results still may suffer from some kind of 'halo effect' as those individuals will want to portray their organisation in the best possible light. In terms of the case studies, Yin (2003) highlights issues with generalising from case study research. Furthermore, this study only focuses on the largest section of Scottish charities, therefore the results will not be relevant for the sector as a whole.

5.6 Conclusion

This chapter has considered the specific design of the research. It has outlined the research questions which will be addressed in this thesis, the research methods and data collection, and has considered how the conceptual framework is reflected in the research design. This study will employ a multi-method research design, utilising a survey and also a series of case studies. The following five chapters will outline the findings of this study. In the following section, the results from the survey will be outlined, followed by result from the case studies.

PART TWO: FINDINGS

SURVEY RESULTS

As described in the methodology chapter, a survey was conducted which took into consideration both current Governance procedures in charities, and also the incidence and impact of business professionals in charity Governance. In terms of the conceptual framework, the survey was designed to consider the presence of isomorphism (Di Maggio and Powell, 1983) in Scottish charities, evidence of legitimacy practices were also considered (Meyer and Rowan, 1977). The survey was also used for identification of issues which required more in-depth investigation at case study sites, and also the selection of particular cases for further study.

A self-completion questionnaire was distributed to a key informant - the board secretary - of the largest section of Scottish charities; a 67% response rate was achieved. The survey was structured into two sections to reflect the two distinct research questions of the study. The first section considered governance issues which were highlighted in the literature in chapters 1 and 2, these included: the role of the board; the distinction between strategy and operations; board effectiveness; and the regulatory framework. The results from this section are presented in chapter 6. The second section considered the impact of business expertise on charity boards. The results from this section are outlined in chapter 7.

CHAPTER 6

GOVERNANCE IN SCOTTISH CHARITIES – SURVEY RESULTS

This chapter will report results from the first section of the survey, which took into consideration specific issues surrounding governance in charities as identified in both the introduction in chapter 1 and the review of existing literature in chapter 2, these were: the roles and responsibilities of the board; the division between strategic and operational issues; the effectiveness of charity governance; and the control and regulation of charities. This chapter will be structured as follows: 6.1 will consider the role of the board; 6.2 will consider the distinction between strategy and operations; 6.3 will look at the effectiveness of governance in charities; 6.4 will look at control and regulation of charities; and 6.5 will conclude.

6.1 The Roles and Responsibilities of the Board

The roles and responsibilities of the board were considered in chapter 2, where existing research on this topic was discussed. From this, it emerged that a large proportion of this literature is prescriptive, with a number of papers outlining what the key roles of a board should be (Axelrod, 2005; Houle, 1990; Ingram, 2002). However, studies which have looked at the way in which such roles are carried out, have found that the roles and responsibilities of the board tend to lack clarity and a number of charity trustees are unclear on what their role should be (see Taylor et al, 1996; Widmer, 1993). Findings have also suggested that this may stem from the fact that individuals are unclear about what to expect when they take on the role of charity trustee (Cornfoth & Edwards, 1999; Green et al, 2001; Harris, 1989; McAdam & Gies, 1985; Widmer, 1993). Significant gaps were also reported in relation to perceived role importance, and fulfilment (Inglis et al, 1999; Green et al, 2001).

To investigate whether a similar situation existed in Scottish Charities, in the survey, three aspects were considered: (1) how well defined the roles and responsibilities are in charities; (2) how roles and responsibilities are communicated to board members; and (3) what is done to make sure that board members are aware of what their role is. These findings are now presented in turn.

6.1.1 Defining the Roles and Responsibilities of the Board

This section will outline the results from the survey in relation to the definition of the roles and responsibilities of the board. Respondents were initially asked to consider how well defined the roles and responsibilities of their board were and to rate them on a 5 point scale. The scale and attached value for analysis purposes was as follows:

- ❏ Very well defined (4)
- ❏ Well defined (3)
- ❏ Not well defined (2)
- ❏ Not defined (1)
- ❏ Don't know (0)

A one-way between groups analysis of variance was conducted to explore the impact of sector on the definition of roles and responsibilities. The results are shown in the table below:

Table 6.1 Definition of Roles and Responsibilities of the Board

Charitable Purpose		
	Mean	Standard Deviation
Education	3.53	.550
Housing	3.43	.634
Health & Social Care	3.52	.508
Total Population	3.50	.558

There was no statistically significant difference between the groups. The mean score for the total population was 3.5, suggesting that roles and responsibilities of board members in large charitable organisations are between well and very well defined. The highest mean was found in the education sector (M = 3.54), followed by health (M = 3.52) and housing (M = 3.43).

In contrast to the available literature which suggests a lack of clarity surrounding the roles and responsibilities of charity boards, large Scottish charities report that they are between well and very well defined. However, the documentation of well-defined roles and responsibilities could be a form of legitimating behaviour, with these charitable organisations seeking to present themselves to the outside world as modern and up-to-date (Meyer and Rowan, 1977).

Additional open questions were asked in order to further understand these results, these are discussed below. These relate to where these roles were outlined and also what is done by the charity to ensure that the board members understand their role.

6.1.2 Communication of Roles and Responsibilities of the Board

In addition to asking respondents to consider how well defined the roles and responsibilities of the Board were in their organisation, they were also asked where these roles and responsibilities were outlined, in order to provide further clarification to the previous question regarding the definition of their role. The table below outlines these results:

Table 6.2 Location of Roles and Responsibilities

	Education		Housing		Health		Total	
Governance Documents	26	60%	19	68%	14	42%	53	51%
Other Internal Policies/ Documents	5	12%	8	29%	10	30%	23	22%
Governance Handbook	6	14%	3	11%	9	27%	18	17%
Induction	4	9%	-	-	7	21%	11	11%
Training	2	5%	-	-	1	3%	3	3%
External Guidance	11	26%	3	11%	4	12%	18	17%
No Response	1	2%	1	4%	-	-	2	2%
Total	43		28		33		104	

All organisations were able to report where the roles and responsibilities of their Boards were outlined, and 59% of these organisations gave more than one example. There were six broad categories where these roles and responsibilities were outlined, namely; governance documents, other internal polices/ documents, governance handbook, induction, training, and external guidance.

Communication of Roles: Education

In terms of Educational organisations, 60% noted that the roles and responsibilities of the board were outlined in governance documents, these included; in the constitution and standing orders, articles of governance, scheme of delegation, memorandum and articles of association. Just over a quarter highlighted they referred to external guidance for roles and responsibilities of the board, for example; the association of governing bodies of independent schools guide for governors, the schedule to the 1992 further and higher Education act, the ASC guide for college members, and Scottish Funding Council guidelines. Other policies and internal documents were also noted as places where roles and responsibilities were outlined, for example; board and committee remits and board documents, 12% of educational organisations reported that this was where duties and responsibilities were outlined.

Other examples given included; in a governance/ board members handbook (14%), or outlined in induction packs (9%) and training sessions (5%).

Communication of Roles: Housing Associations

Housing Associations had the highest proportion of organisations that outlined the board duties and responsibilities in governance documents (68%), these included; association rules, standing orders, scheme of delegation authority, code of governance. About 29% of housing associations also referenced other internal policies and documents such as; internal management policy, operations manual, and also in job descriptions for board members. Housing Associations did not note that induction and training were where roles and responsibilities were outlined, however 11% did highlight the use of governance manuals for this. External guidance (11%) was also used as a reference to duties and responsibilities, including; Scottish Federation of Housing Associations codes of conduct and code of governance.

Communication of Roles: Health, Social & Community Care

In terms of health, social and community care, a considerably smaller proportion of organisations referred to governance documents as a place where duties and responsibilities were outlined; however, 42% of these organisations noted that they were outlined in such documents, including, governance code, standing orders and memorandum and articles of association. Regarding other internal policies and documents, 30% noted that this was where roles and responsibilities were outlined, including, job descriptions, board papers and agendas. These organisations used governance handbooks and inductions considerably more that the other sectors; 29% of organisations outlined duties and responsibilities in a governance manual, and 21% outlined them in the induction process, 3% noted they were outlined during training. In terms of external guidance, 12% used this, examples include; OSCR

guidance for charity trustees, Institute of Directors Standards for Directors, and Charity Commission guidelines.

Communication of Roles: Conclusion

It is apparent from the results that almost all organisations were able to provide information about the documentation of the boards roles and responsibilities. Many organisations noted that they were located in more than one place – this may go some way to providing support for the findings from the previous question which suggested that duties and responsibilities were well defined. However, it is apparent that there is no one standard location for these roles to be set out. One concern is that documents that are listed may not necessarily be documents which board members would regularly refer to, if at all, particularly formal governance documents.

The majority of charities seem to refer to internal guidance, with relatively few organisations making a reference externally. All sectors reported that the main place that roles were outlined was in formal governance documents, these however, are not necessarily documents that board members regularly refer to. Meyer and Rowan (1977) suggest that organisations adopt formal structures and blueprints for legitimation. In this case the roles outlined in these formal governance documents may function as myths and have only a ceremonial value, merely serving to present an image of the organisation in line with that expected in relation to coercive regulatory and legislative requirements. The adoption of formal documentation by charities for legitimacy purposes is found by Parker (2007).

Differences were found between charities, this is perhaps surprising due to the common environment shared by these organisations - they are all regulated by OSCR – it may have been expected that such coercive pressures would result in a similar policy for the documentation of roles and responsibilities or reference to specific documents. This may be reflected in the specific nature of the organisations in this sector. Typically, similar organisations refer to guidance produced by related bodies

– for example, Further Education Colleges reported referring to guidance from the Association of Scotlands Colleges and the Scottish Funding Council, and Housing Associations referred to the Scottish Federation of Housing Associations codes of conduct and code of governance. The organisations grouped into health and social care referred to the general OSCR guidance, this may reflect the diverse nature of the organisations within this group. Cornforth and Edwards (1999) suggest that the role of charity boards varies widely, and can be due to a number of factors including sectoral traditions and norms.

6.1.3 Ensuring Board Members are Aware of Roles and Responsibilities

Organisations were also asked to give details about what is done to ensure Board members are made aware of their roles and responsibilities. The results are highlighted in the table below:

Table 6.3 What is Done to Make Board Members Aware of their Roles and Responsibilities in Charities

	Education		Housing		Health		Total	
Training	14	33%	15	54%	10	30%	39	38%
Briefings	11	26%	2	7%	9	27%	22	21%
Induction	31	72%	22	79%	15	45%	68	66%
Documentation	13	30%	7	25%	4	12%	24	23%
Handbook	6	14%	2	7%	5	15%	13	13%
Away Day	2	5%	-	-	1	3%	3	3%
Self Evaluation/ Appraisal	3	7%	1	4%	2	6%	6	6%
None	1	2%	-	-	-	-	1	1%
Total	43		28		33		103	

Awareness of Roles: Education

The majority of Educational organisations had an induction process for new members (72%), some organisations noted that this involved individual sessions with the Chair and the Board Secretary. On-going training was also highlighted by 33% of organisations as a way to increase awareness of the boards roles, this included both internal sessions and also external sessions, including those run by the Scottish Council for Independent Schools. Board members were also given briefings/ reminders on their duties, for example by the Chair before a Board meeting, 26% of organisations reported this activity. Roles and responsibilities were also laid out in various documents which were issued to board members, for example, various governance documents such as memorandum and articles of association, in addition, Governance handbooks were used by 14% of educational organisations. Other ways in which board members were informed included at away days, and through self evaluations and appraisals. Only one organisation noted that there are no mechanisms in place to make sure board members are aware of their duties and responsibilities.

Awareness of Roles: Housing Associations

Housing Associations reported the biggest use of both induction and training for board members, with 79% using induction for board members and 54% having some kind of on-going training in place to make sure board members are aware of their duties and responsibilities, for example, one organisation noted that they held committee development sessions 8 times per year, another noted how they provided board members with opportunities to attend conferences and seminars to increase their knowledge and understanding on specific issues or topics and another noted that their initial training programme for new members was provided through the Scottish Federation of Housing Associations. Additional practices included briefings (7%), a Governance handbook (7%), and self evaluation and appraisal (4%).

Awareness of Roles: Health, Social & Community Care

Health, Social and Community Care organisations made the least use of induction sessions as a way to make sure board members were aware of their roles and responsibilities, with only 45% reporting use of this process, compared to 71% and 79% for education and housing respectively. These organisations also made use of training, with 30% having some form of training, for example one organisation noted that they held two training evenings per year with further sessions organised as they are required, another highlighted that annual training sessions were held for all trustees. Briefings were also given to members in 27% of organisations; 15% of organisations issued members with a handbook and 12% used other documentation, for example one organisation noted that they give their trustees a subscription to a Governance magazine which is aimed at the charity sector which covers issues surrounding good governance practice. Others noted that duties were highlighted at away days and through self evaluation and appraisals.

Awareness of Roles: Conclusion

Overall, in terms of the ways in which organisations made sure that board members were aware of their duties and responsibilities, some form of induction was the most popular way of doing this (65%), this was followed by training for Board members (38%). Other ways of informing board members included briefings (21%), outlining duties in documents which were distributed to board members (23%) and issuing members with a handbook (13%). In addition to this, some organisations used the board awayday as a way of informing the board, and some highlighted that they were reminded through self-evaluation and appraisal. Only one organisation noted that they did not yet have anything in place.

In terms of making sure that board members are aware of their responsibilities, there appears to be a significant reliance on the use of the induction to communicate these, however there appears to be considerably less ongoing methods which would

reiterate/ reinforce these roles. For example 38% of organisations have some sort of training on roles however we cannot be sure whether this is on-going or just an isolated event. In addition, only 13% of organisations refer to a handbook where these roles are outlined.

The importance of board development, particularly on-going development, is highlighted in the literature, and is particularly related to increased effectiveness of the board (see Brown, 2007; Holland & Jackson, 1998).

6.2 The Distinction Between Strategy and Operations

In chapter two, tensions were found to exist in organisations where there was a tendency for the board to spend too much time on operational activities at the expense of strategy (see Leatherwood and O'Neal (1996); Cornforth and Edwards (1999); Green et al, (2001); Widmer (1993)). However, it is widely acknowledged in both governance guidance and the academic literature that the role of the board should be predominantly strategic. In order to investigate this issue in Scottish charities, respondents were also asked to indicate how much time the board spent on strategic rather than operational activities and also to give examples of strategic and operational tasks carried out by the board. This section presents the findings from these questions.

6.2.1 Assessing the proportion of Board time spent on strategy and operations

Respondents were asked to estimate the proportion of time which the Board spent on Strategic rather than Operational activities. A chi-square test was conducted to consider charity sector and the proportion of time spent on strategic and operational activities, the proportion of time is outlined in the table below:

Table 6.4 Percentage time spent on strategic rather than operational activities

Charitable Purpose		
	0-49%	50-100%
Education	9.8%	90.2%
Housing	23.1%	76.9%
Health & Social Care	16.1%	83.9%
Total Population	15.3%	84.7%

The results from the Pearson Chi Square shows that these findings are not significant, meaning there is no significant difference in the proportion of board time spent on strategy between the three sectors. There are however, some interesting points to note. Housing Associations report the highest number of organisations spending below 50% of the boards time on strategy (23.1%). In Housing Associations, the high proportion of tenant members on Boards is seen as a contributing factor in the Boards involvement in activities that are operational, due to the difficulties they have in adapting to the strategic nature of the role. It has been reported that tenant members view their role as being that of a representative, tending to focus on operational housing issues, at the expense of strategic issues impacting on the entire organisation (Audit Commission, 2004). This is a potentially significant issue in Scottish Housing Associations, where around 45% of volunteer Board members in the sector are tenants (Scottish Housing Regulator, 2009).

Education has the highest number of organisations that spend more than half the boards time on strategy compared to operations (90.2%), followed by health (83.9%). It is suggested in the literature that boards vary considerably in terms of their strategic role (Steane & Christie, 2001; Cornforth & Edwards, 1999). There is some evidence of this from these findings.

6.2.2 Types of Strategic and Operational Activities Undertaken by the Board

In order to gain a deeper understanding of how organisations classify strategic and operational activities, and to get an insight into the types of activities the board undertakes, organisations were presented with an open question and asked to give examples of both strategic and operational tasks undertaken by the board.

Strategy v Operations: Education

In terms of education, there were differing views on the boards involvement in strategy. Some organisations that noted that the Board should not become involved in operational matters, however, others highlighted a tension which existed here.

The nature of these tensions can be seen in the following example, where an organisation had a working group on governance which had undertaken a mapping exercise to work out what key policies were high level (i.e. Board related) and what were management. Differing views were found to exist during this exercise, particularly in relation to whether the board sees detailed operational plans, or should just be told that they have to be done. This organisation felt that this issue of the division of strategy and operations was one of the biggest issues in terms of governance, and noted that there should be training courses on the difference between governance and management. Also highlighted was that some board members are unsure of how involved they should be, in particular the issue was raised surrounding business people, there is a question here as to whether they understand the issues – they may feel they don't know enough to take part. This specific issue of business people on the Board is considered in greater detail in the next chapter.

The examples of strategic activities carried out by the Boards of educational organisations fitted mostly into three areas, namely; risk, strategic planning and monitoring, and finance. There were however, also a number of activities which were

outside of these areas. Examples given in terms of risk included risk management and strategic risk assessment. Examples given within the strategic planning and monitoring heading included approval of strategic plans, including annual and 3-5 year plans and setting the strategic direction for the organisation. There were also a number of examples regarding estates and building, such as setting/ approving the estates strategy. Some were very specific about the nature of these activities; one organisation noted that

> *in terms of strategic tasks there is the estates strategy, we are currently in a major estates development phase. Most of the boards tasks should be strategic, i.e. not designing the building, but approving strategies e.g. HR/ finance should be key.*

Another area of strategic activity was that of finance, for example approving the annual financial statements for the year end, approving budget and monitoring it against targets and also setting key performance indicators for the organisation and its faculties. Other examples of strategic activities within educational organisations include setting and approving HR strategies and ensuring compliance with the statutes, ordinances and provisions regulating the College, for example health and safety. Notably, only two organisations referred to strategic activities in terms of the future of the organisation, these were both independent schools who noted the importance of the future in terms of the shape and direction of the school.

Operational activities were more varied than the examples given for strategy. A number of organisations put examples of financial activities under the operational heading, for example setting and approving annual budgets and monitoring financial performance against budget, review of management accounts and the approval of financial statements. These activities were listed by other organisations above as strategic, which points to a lack of clarity within these organisations regarding the distinction between strategy and operations.

Risk management was another issue listed as operational by one organisation but strategic by others. Other examples of operational activities carried out by these educational organisations included: staff issues, such a issues surrounding salaries

and the board acting as a final appeals panel for staff disciplinary and grievance hearings; top level negotiations with the Funding Council and other Educational Institutions with regard to funding, estates development and partnership with stakeholders; management of senior management team – occasional prioritising of operational issue such as development of Student Union premises; overview of departmental operational plans; review of internal audit reports in relation to internal control; and approval of senior management appointments. One organisation gave a specific example of the divisions between strategy and operations, by highlighting their new estates strategy which resulted in the acquisition of a new £20m building. They note that although this was mainly strategic from the boards perspective, being a small institution, some key Governors were involved with detailed operational aspects such as putting the finance package in place.

Strategy v Operations: Housing Associations

As with educational organisations, there were differences in the interpretation of strategy and operations and the types of strategic and operational tasks carried out. The difference can be seen by the following, where HA 1 noted that:

> *As a HA operational matters have to be brought to the Board*

however, HA 2 noted that:

> *No real operational tasks carried out – receiving regular reports on a variety of performance issues, new policy areas, annual policy reviews, financial reporting etc. comprise most of business.*

In terms of strategic activities undertaken by the Board, the majority of housing associations referred to approval and review of business plans, from annual to 30 year plans, others also highlighted the approval and review of policies and strategies and also the annual Board away day where strategy is reviewed and developed. Only four organisations referred to finance, three highlighting the approval of the budget,

and one referring to financial planning; another four highlighted risk management as a strategic activity in which the Board undertook. Other areas of strategy in which the Board undertook included, rent reviews, pensions, training/ attendance at conferences, asset management and selecting the development funding proposal from a tender exercise.

The majority of operational activities referred to by housing associations were related to the measurement and management of performance, examples given included; reviewing reports on performance indicators and performance management. In terms of finance, as with education, the housing associations also had approval of budgets in the operational category as well as the strategic category. Another area which appeared as examples of both strategic and operational activities was the approval and review of policies. Other examples of operational tasks included; consideration of appeals in respect of formal complaints, approving evictions, interview/ recruitment of senior staff and agreeing a job title for a post.

Strategy v Operations: Health, Social & Community Care

Similar activities were also detailed by Health and Social Care organisations. In terms of strategy, the majority of organisations listed activities such as: approval and formulation of strategic plan and business planning. For example, one organisation noted that the:

> *'full organisational strategic plan is updated annually, one of the steps is to present it to Trustees for input and then final approval. Key areas are also discussed with Trustees when being reviewed e.g. fundraising approaches, business growth'.*

Finance examples were given including approval of the annual budget and review of management accounts. Risk management was also noted as a strategic activity, for example one organisation highlighted the review of risk management register.

As with the other two sectors, there was a crossover in terms of certain activities; where some listed them as strategic, and others as operational. For example, approval of the annual budget was also listed as an operational activity. Other operational activities included: finance; HR issues, such as the board acting as an appeal court in staff disciplinary matters; and health and safety issues. Other examples included the size of food budgets, minor staffing issues and discussions on cleaning facilities. There were however, some organisations that noted that the Board do not carry out operational activities, for example, one noted how the 'board members do not carry out operational duties. They provide strategic direction for the management team who have operational responsibility'.

Strategy v Operations: Conclusion

In terms of the results for the type of activity the Board undertakes, organisations reported that the work of the Board was predominantly strategic, with an average of 60-69% of Board time for the sector as a whole, and for housing and health being spent on strategy, and 70-79% for education. Of concern is the range of the results, with 15% of organisations reporting that less than 50% of the boards time is spent on strategic matters. Numerous studies report situations where the board becomes involved with operations at the expense of strategy. Leatherwood and O'Neal (1996) reported that boards were more responsible for service than for strategy or control, Steane and Christie (2001) and Taylor et al (1996) found that boards engage in operational matters of charities. Cornforth and Edwards (1999) found a significant variation in the boards role in strategy between organisations, in particular they noted it was dependent on size and sectoral norms, this is apparent here.

In order to clarify charities interpretation of strategy and operations, and to gain awareness of the types of activities the Board undertakes, respondents were asked to give examples of such activities undertaken by the Board. The results from this question were very diverse, with some organisations explicitly highlighting that the Board should not be involved in operations, with others listing low level tasks in

which the Board is involved. In terms of strategic activities, all three sectors reported widely the Boards involvement in 'strategic planning', this however seems vague, and lacks detail. In addition, there was a lack of any mention of long-term visions for the organisation and ensuring the future safeguarding of the organisation. There was also a lack of consensus surrounding a number of tasks as to whether they were strategic or operational. For example; approval of the annual budget, approval of the annual financial statements, and risk management, were listed by some organisations as strategic, and some as operational. It is widely reported in the literature on governance and also in governance guidance, that these are roles which the Board should undertake. Therefore, there is possibly a classification issue with some activities.

Other activities which appeared in both strategic and operational categories were HR issues and health and safety issues; these are quite vague descriptions and the specific nature of these tasks may be a matter of judgement as to whether the Board should be involved or not. For example; in terms of HR issues, one example was approval of senior management appointments, this was listed as operational, however, it is an activity which is appropriate for the Board to undertake and could have a strategic impact. Another issue was concerning tasks which were listed as operational activities the Board undertook, however they seemed to be lower level activities which could have been dealt with by management rather than taking up Board time. For example, activities such as agreeing a job title for a post, cheque approval, minor staffing issues and discussions on cleaning facilities could be dealt with away from the Board.

The findings here surrounding the lack of clarity on strategic and operational issues may have implications in terms of the results for the previous question concerning the amount of time spent on strategic rather than operational activities. In addition, the results here also help interpret the questions surrounding the role of the Board. The earlier section reported that the duties and responsibilities of the Board were well defined, however, the findings here would point towards either an issue with the definition of duties and responsibilities or an existence of a gap between the duties of

the board and what the Board actually does. This is consistent with the findings of Inglis et al (1999) who found a gap between role importance and role fulfilment. Also Widmer (1993) who highlights differences in the way that board members perceive or carry out their roles. This would also support the idea that formal structures such as documents outlining the role of the board are decoupled from the actual activities the board carries out (Meyer and Rowan, 1977; Parker, 2007)

The next section will now look at the effectiveness of governance in these charitable organisations.

6.3 The Effectiveness of Governance in Charities

This section considers the effectiveness of governance in charities, by asking respondents to rate the effectiveness of governance in their charities, and also to consider what could be done to improve governance in their organisation.

6.3.1 How Effective Governance is in Charities

Respondents were also asked to rate the effectiveness of their charity, on a scale, which was as follows:

- ❑ very effective (4)
- ❑ effective (3)
- ❑ ineffective (2)
- ❑ very ineffective (1)
- ❑ don't know (0)

A one-way between groups ANOVA was carried out, the results are shown in the table below:

Table 6.5 Effectiveness of Governance in Charities.

Charitable Purpose		
	Mean	Standard Deviation
Education	3.57	.501
Housing	3.56	.506
Health & Social Care	3.23	.762
Total Population	3.46	.610

A one-way between-groups analysis of variance was conducted to explore the impact of sector on charities perception of how effective governance is in their organisation. The total mean value was 3.46, which means that charities feel that governance is between effective and very effective in their organisation. No statistically significant difference was found between the groups.

6.3.2 Improving Effectiveness of Charity Governance

These organisations were also asked whether anything could be done to improve governance in their charity. These results are outlined below.

Improving Governance Effectiveness: Education

Of the Educational organisations only three noted that there was nothing that needed to be done to improve governance. One organisation felt that governance would be improved if the burden on charities was reduced by external bodies:

> *The greatest challenge is to keep governors informed without overwhelming them with detail. The scale of regulation of Schools, child care and charity finance makes informal decision making very demanding. The consequences for trustees of making serious mistakes is demoralising and puts off people from becoming trustees. Less regulation would help.*

A number of other organisations highlighted that there was always room for improvement, however this was dependent on a range of factors, such as the time and expertise of trustees and regulation. About one-third of these education charities highlighted specific areas where governance could be improved in their organisation, these tended to be internally focused as opposed to dependent on external factors such as regulation. These improvements were varied in nature, examples included: outside audit of governance by a third party; formal business planning and risk mapping; better budgetary control; more regular self-evaluation; benchmarking; another highlighted the earlier issue of trying to clarify management and governance. Four organisations highlighted the need for increased training for board members, and another noted that they were currently going through an exercise to improve and update governance particulars for recruiting board members. In addition, one third noted that they were either currently or planning to undertake a governance review. Those that had undertaken such a review noted they were acting on recommendations, however not all noted what these recommendations were. Of those that did, one noted recent improvements had included the appointment of an independent clerk to the board, raising the profile of board members such as their attendance at events and increased openness and transparency such as information on the intranet and web.

Improving Governance Effectiveness: Housing

With regards to housing associations, just over 20% felt that no improvements were needed to the governance of their organisation. Others indicated improvements which could be enacted by regulatory bodies through less regulation. The majority of Housing Associations did list some kind of improvement which could be made to their organisation, these tended to fall into two categories; training and the structure and composition of the Board. In terms of training, examples included induction training and training on roles and responsibilities of trustees. With regards to the structure, one organisation noted that:

we are considering revising our sub-committee structure to give more of a business focus on the day-to-day management, and to clearly set time aside for strategic issues, probably through a dedicated Strategy sub-committee.

A number of Housing Associations also expressed concerns over the composition of their Board and highlighted the problems they face in recruiting new Board members, for example, one organisation noted that:

Attracting voluntary Board members is becoming increasingly difficult and if we could find a way of making meetings shorter and papers more succinct this might help. It would also help if some of the requirements imposed on us by our main regulator – Communities Scotland – were lessened. We spend quite a lot of Board time ensuring compliance.

Other organisations expressed concerns over the composition of their Board, for example HA 1 noted:

There is an issue with the make-up of the governing body in terms of equality. We have the wrong gender balance and the ethnic minorities are poorly represented. There are also not enough tenants.

And HA 2 noted:

In common with many other organisations there could be improved governance. As an example we do not have a Board member with a legal or property development experience which would bring enhanced levels of skills to the decision making forum of the Association.

Other Associations noted that self-appraisal and internal audits helped to ensure good governance, for example, one noted that 'a recent internal audit report on Governance suggested a formal letter of appointment for Board members, which we will implement'.

Finally, improvements to governance in health and social care organisations are considered. The proportion of these organisations which explicitly stated that no improvements were needed was about 12%, for example, one responded 'no, since our Trustees discharge their responsibilities and duties conscientiously'. In contrast, another set of organisations felt that there was always room for improvement, however this could depend on factors such as the time in which individual Trustees can dedicate to the charity and external factors such as regulation.

In terms of specific improvements, there were a number surrounding the division between strategy and operations. For example, one organisation noted how 'council members could be better informed and a small minority reminded from time to time that they are not responsible for operational decisions', another noted how governance could be improved by 'improving the definitions on the strategic role of the Board' and similarly, 'directors have limited time, especially if not retired, so we cannot overdo meetings, training, visits to services etc. But also important not to impede direct management and decision making within agreed parameters'.

In common with the other two sectors, improved training for board members was recognised as a way of improving governance and also changes to the composition and structure of the board and committees. For example, one organisation noted how governance could be improved with 'easier access to suitably qualified and experienced Trustees – difficult to find/ attract right people who can commit required time to organisation', another highlighted that a 'change in the board make-up to allow more business members and less council influence may help', others would like to see a reduction in Board size. In terms of the committees, one organisation noted how 'beefing up the Audit Committee this summer with high powered company finance directors/ managers will focus on financial risk factors'. Other organisations highlighted recent governance reviews to identify issues, although they failed to give detail as to what they were.

Improving Governance Effectiveness: Conclusion

The majority of organisations in all sectors reported that some improvements could be made to governance in their organisations. Although a small number referred to the impact of external factors such as regulation the majority of desired improvements were internal, categorised broadly into board structure and composition; and training.

These findings can be related to a previous question which reported that roles and responsibilities were well defined and outlined and also activities such as training were undertaken to ensure that Board members were aware of what was expected of them. However, in light of the confusion over the division of strategic and operational activities expressed in these sectors and the large proportion of time spent on operational tasks, this would point to less than effective governance.

In addition, the majority of organisations did give examples of some ways in which governance could be improved in their organisation, some examples were quite significant; such as issues surrounding the structure and composition of the Board. Previous studies, such as Cornforth (2001) suggest that board effectiveness is dependent on factors such as whether board members have the time, skills and experience to do the job, clear roles and responsibilities, some of which were found not to exist in these organisations. For example, it has already been noted there may be an issue surrounding the clarity of roles and responsibilities and in addition, some organisations highlighted the difficulties they have in recruiting board members.

A number of factors highlighted in the literature as impacting on the effectiveness of nonprofit boards were not investigated in the survey, but will however be discussed in the second part of the survey, which considers the composition of the board, identified by Provan (1980) and Callen et al (2003) as having an impact on board effectiveness. In addition, the case study will consider the impact of board staff

relations (Herman and Tulipana, 1985), and board development practices (Holland and Jackson, 1998; and Brown, 2007).

6.4 Control and Regulation in Charities

Another significant issue which was identified in the introduction as particularly pertinent to the Scottish context was that of the control and regulation of charities.

6.4.1. Charity Views Concerning the Nature of Regulation

These organisations were asked to rate the nature of regulation using a scale:

- ❑ very excessive (4)
- ❑ excessive (3)
- ❑ not very excessive (2)
- ❑ not excessive (1)
- ❑ don't know (0)

A one-way between groups ANOVA was conducted, and findings are shown in the table below:

Table 6.6 Control/ Regulation of Charities

Charitable Purpose		
	Mean	Standard Deviation
Education	1.76	1.165
Housing	2.19	.895
Health & Social Care	1.37	.809
Total Population	1.76	1.036

A one-way between-groups analysis of variance was conducted to explore the impact of charitable purpose on charities views on regulation. The population was divided

into three groups according to sector. There was a statistically significant difference at the $p < .05$ level for the three groups ($p = .011$). The main difference was between housing, and health, the mean for housing was 2.19 meaning that housing charities viewed regulation as being between not very excessive and excessive, this was the highest mean for all three sectors, suggesting that housing charities felt that regulation of charities is more excessive than the other two sectors. The mean for health was 1.37, indicating that these organisations felt that regulation was between not excessive and not very excessive.

6.4.2 Charities Justification for Views on Nature of Regulation

In order to gain an understanding as to why organisations had a certain view of control/ regulation, they were also asked to explain why they had given the rating that they did.

Views on Regulation: Education

Of the charities with an educational purpose, there were 5% which viewed regulation as very excessive. The reasons given here were firstly; that there were too many audits from Government Departments such as OSCR, SFC, Audit Scotland and HMIE. Secondly, was the issue of recent regulation, for example:

> *…the detail has been badly thought through and the bureaucratic process and blind obedience to rules set out in highly prescriptive legislation means that genuine organisations have an increased burden – with of course no guarantee that loss of charitable status would prevent the financial abuses within private trusts. In other words the baby has been thrown out of the bath water.*

One quarter of respondents from the education sector felt that regulation was excessive in nature, mainly due to the requirements they were expected to meet. Examples include: 'requires duplicate efforts in accounting, reporting, often extra

hurdle for no gain'; another noted 'generally the level of bureaucracy that the College has to engage with creates a significant burden on cost which means funding is not always directed to front line services', others felt that not all was necessary, for example the best practice guidance by OSCR is not appropriate to Colleges, another felt that many external regulatory bodies often had conflicting requirements.

In contrast to these views, over half of these organisations actually felt that control/ regulation was either not very excessive or not excessive. Of those who rated regulation as not very excessive, many felt that requirements were not overly burdensome, for example, one noted that the 'charities regulator requires an annual return which can easily be completed form College annual accounts' and another noted that 'we are reporting on most of the issues and providing data anyway'. Another organisation highlighted the importance of regulation:

> *while it is another layer of bureaucracy and legislation for Colleges to comply with, and in some respects this differentiates Colleges from some of the other charities operating, it is important that there is a proper regulatory authority and regime in place.*

Reasons given by educational charities as to why control/ regulation of charities is not excessive were mainly due to the acknowledgement of the importance of this in order to ensure proper conduct of charities, for example one organisation stated that increased regulation of Scottish charities was long overdue, another also noted:

I think that charities play a key contribution to society in Scotland (and elsewhere in the UK) and it is crucial that they are properly led and managed and that their conduct is beyond reproach. For that reason, regulation is essential and a help to proper management.

Of those organisations who answered that they were unsure as to whether regulation was excessive or not, some felt that it may be too early to tell in terms of OSCR.

Views on Regulation: Housing Associations

Earlier results show that the highest sector mean was for housing associations, indicating that these organisations felt that regulation was the most excessive. One organisation felt that it was very excessive, noting that:

> *As well as OSCR, Registered Social Landlords are supervised very closely by Communities Scotland in their role as regulator. We also provide information to the Inland Revenue, the Financial Services Authority. Many Housing Associations are also supervised by the Care Commission (among others).*

The proportion of those who rated regulation as excessive was 37%. The main reason for this was indicated as the number of bodies these organisations are regulated by. For example, one noted that issue of 'too many regulators many of whom have conflicting views. OSCR, Communities Scotland, FSA, HMRC'. This view was echoed by other organisations.

Just over 55% of associations felt that that control/ regulation was either not very excessive or not excessive. Of these 41% felt that it was not very excessive, reasons included the fact that associations were dealing with public money and personal donations and therefore needed to be accountable, some also noted that regulation was not onerous. Others stated that it was not excessive, for example, one noted 'I believe that the level of regulation by OSCR is proportionate and generally does not overlap/ conflict with the role of Communities Scotland'.

Views on Regulation: Health, Social and Community Care

Health and Social care organisations had the lowest mean score in terms of their views on regulations, indicating that they feel it is less excessive than the other two sectors. None of these organisations reported that it was very excessive, and only 10% rated it excessive.

Almost three quarters of these organisations felt that control/ regulation was either not very excessive or not excessive. The reasons given were similar for both, and centred around the need for regulation to ensure charities remained accountable for their actions, for example:

> *controls and regulation are necessary to maintain public confidence and compliance with them is not particularly onerous;*

> *As we utilise public funds we need to be accountable for how we use them and be seen to operate within our rules and objects;*

> *the charities sector has historically been under regulated and it is important to give the public confidence in the level of regulation and management;*

> *Given some of the cases of abuse of funds that have arisen over the past few years additional measures were required. As a larger organisation we have been able to cope with these measures – probably smaller organisations may struggle with some of the requirements and the cost involved.*

The next section considers specifically the impact of OSCR on the governance of Scottish charities.

6.4.3 The Impact of OSCR on Charity Governance

This section specifically considers the impact of OSCR on charity governance.

Impact of OSCR: Education

Respondents were also specifically asked the impact in which the advent of OSCR has had on the way in which their charity was governed. One of the biggest issues has been in the Further Education sector, where, after a review of John Wheatley College, OSCR concluded that Colleges did not pass the charity test, and a question

mark was cast over the future of their charitable status; although there are now steps being taken to resolve this issue. However, a number of FE Colleges highlighted this issue, one organisation commented on OSCR:

> *The impact is serious on the FE sector across the Board. Following a decision involving Wheatley College – a genuine College operating for the public good and whose financial dealings were impeccable – it was decided that the College did not meet the statutory criteria. The VAT implications were profound as loss of charitable status casts the financial viability of the College... The wheatley decision means that all FE Colleges in Scotland now stand to lose their Charitable Status ...The issue remains unresolved but loss of VAT exemption would be catastrophic for organisations whose public funding barely keeps pace with inflation*

Other consequences of OSCR included increased responsibilities being placed on Boards, which can be duplicatory, increased time required to ensure compliance and more 'form filling'. One University felt that OSCR doesn't map well into the University setting, one issue here is duplication, where these institutions may have to produce annual reports for both the Funding Council and OSCR. Other examples include additional reporting and making sure that the organisation will pass the 'charity test', another highlighted increased bureaucracy, however, noted that this was acceptable provided that public confidence was maintained. Another noted that:

> *It has led board members to review their obligations as Charity Trustees and it has led me as Chief Executive to review the manner in which I present material and matters for decision to them. The Scottish Council for Independent Schools has provided excellent support in understanding the new legislation.*

Another organisation which highlighted the positive impact of OSCR, noted:

> *OSCR has had a good impact as all the members of the Board are now aware that we are a charity and also about Governance issues. So impact has been positive overall.*

Almost 28% of respondents felt that OSCR had little or no impact on the way in which their charity was governed.

Impact of OSCR: Housing Associations

In terms of Housing Associations, 58% of these organisations felt that OSCR had had little or no impact on the way in which their organisation was governed, some attributed this to the limited amount of contact they had had with OSCR so far, others highlighted the agreement OSCR has in place with Communities Scotland which meant they would be more light touch. Others noted they were required to make additional returns and additional duties had been placed on trustees such as the need to ensure the organisations activities do not infringe on its charitable status. Also noted was the requirement in some cases to set up separate undertakings for non-charitable activity such as shared equity housing. Another association noted how they had felt the impact more severely through accounting measures, noting 'more stringent rules on accounts – we had trouble with these'.

Impact of OSCR: Health, Social and Community Care

In terms of health and social care organisations, over half felt that OSCR had little or no impact. The main reason for this appears to be due to these organisations feeling that they already had strong governance systems in place before the advent of OSCR, therefore little has needed to be changed, for example, one noted 'minimal impact as governance was already strong before OSCR was instituted'. Just below half of these organisations noted the positive impact in which OSCR had had, for example 'it has emphasised the need for clear transparent and robust governance arrangements', another stated:

> *whilst we remain focused on our charitable objectives, OSCR provides a useful framework to check our focus is in the right place, to measure the public benefit impact we have an to make sure governance is more than adequate and effective. The main impact has therefore been to highlight the importance of good governance and to make sure it continues to be strong.*

Only two of these organisations seemed to have a negative attitude towards OSCR, one noted 'we waste time doing OSCRs return as well as our accounts' and another noted that it had 'doubled the reporting to regulatory bodies'.

Control and Regulation in Charities: Conclusion

With regards to control and regulation of charities, in contrast to the expected results, charities actually felt that this was between not excessive and not very excessive. The main reasons given for this were that they felt it was not particularly burdensome and was important to ensure proper conduct of charities. Of those that felt that it was excessive in nature, they noted the existence of multiple regulators and increasing requirements, such as those relating to accounting. The range of answers for this question ranged from not excessive to very excessive.

Organisations were also asked specifically to comment on the impact in which OSCR had on governance in their organisation. The impact of OSCR seemed to be felt mostly in the education sector, this was mainly with FE Colleges, who expressed concerns over the possibility of losing their charitable status, and also duplications in reporting. Many reported little or no impact, 28% of educational organisations reported that OSCR had little or no impact, in the other sectors this was significantly higher, with 58% of housing associations and over 50% of healthcare organisations reporting similar views.

6.5 Conclusion: Governance Survey Results

On the surface the results appear to show the existence of strong governance frameworks; with organisations reporting that the duties and responsibilities are clearly defined, the board concerns itself with predominantly strategic issues and governance is effective in their organisations. However, looking beyond this, it is apparent that this may not be the case that it is not quite as simple as this.

Respondents indicated that roles and responsibilities were well defined, this is in contrast to the literature. Explanations for this may be that charities document their roles in order to present themselves as legitimate to the outside world. Communication of roles was predominantly through formal governance documentation, it could be suggested that these are not necessarily regularly referred to by board members, providing further evidence for the documentation of roles for legitimacy purposes. Meyer and Rowan (1977) suggest that organisations adopt formal structures ceremoniously, with such formal guidance functioning as myths, merely serving to present an image of the organisation in line with regulatory expectations (Parker, 2007).

A lack of clarity was found to exist in terms of strategy and operations, and low level activities were also shown to be carried out by the Board. In addition, organisations highlighted a number of ways governance could be improved and also issues adhering to regulations were raised, suggesting that governance in these organisations may not be as effective as reported. These findings point towards the existence of loosely coupled organisations (Meyer and Rowan, 1977), where the external façade of the organisation, namely the formal rules of the organisation such as the documented duties and responsibilities conflict with the inner core of the organisation and the work that is actually being carried out. Organisations document and report adhering to prescribed governance practices in order to maintain legitimacy (Meyer and Rowan, 1977).

The findings from this section of the survey highlight a number of issues which Scottish charities face in governing their organisations, this is in line with the current literature. However, as outlined in chapter 5, there are limitations with regard to the nature of survey research. Although this survey has allowed for the initial investigation and identification of these issues, it will be necessary to considers these in the more in-depth setting offered by case studies. However, before this is considered, the results from the second part of the survey will be presented.

CHAPTER 7

THE IMPACT OF BUSINESS EXPERTISE ON CHARITY BOARDS – SURVEY RESULTS

The previous chapter reported partial findings from a survey of governance in large Scottish charities. This section will focus on the remaining set of results, which consider specifically the impact of business expertise on charity boards. The key areas investigated here are: (7.1) the proportion of business people serving on charity Boards (Abzug & Galaskiewicz, 2001) and the satisfaction of charities with these numbers; (7.2) examples of business practices which have been introduced to the organisation by business members and how they were received (Landsberg, 2004; Dees, 1998); (7.3) the motivations of business people serving on charity boards (Austin, 1998) and their understanding of the specific context of the charity (Bowen, 2004; McFarlan, 1999); and (7.4) whether charities feel the inclusion of business people enhances public confidence in charities.

7.1 The Presence of Business People on Charity Boards

This section considers the composition of the Boards of the largest section of Scottish charities, focussing specifically on the proportion of business people sitting on charity Boards.

7.1.1 Proportion of Business People on Charity Boards

The first set of findings which will be reported surround the composition of charitable boards, of particular interest is the proportion of business people who sit on these boards. This is outlined in the table below:

Table 7.1 Percentage of Business People on Charity Boards

	Percentage of Business People on Charity Boards				
	0	1-25%	26-50%	51-75%	76-100%
Education	0	12%	49%	37%	2%
Housing	17%	25%	17%	25%	17%
Health	7%	18%	61%	7%	7%
Total	**6%**	**17%**	**44%**	**25%**	**7%**

The above table sets out the percentage of business people who sit on charity boards. In terms of the total population, 96% of charities reported having at least one business person on their board; with 76% of charities having their board composed of at least one-quarter business people. Turning to the three specific sectors in the study, in terms of Education, all organisations reported the presence of business people on their boards. Almost half noted that the proportion of business people on their board was between 26% and 50%, with only 2% having a board made up of between 76-100% business people. Housing associations had the highest percentage of organisations with no business people on their boards. The majority of healthcare organisations also had boards which had between 25 and 50% business people.

This tendency for charities to recruit business people to their board is what Di Maggio and Powell (1983) term isomorphism, where organisations become similar to each other. This similarity of charity boards having large proportions of business people on them can be explained through specific isomorphic pressures, here, coercive isomorphism, where the external influence of the charity regulator, OSCR can be linked to this uptake of business people, with its pressures on charities to be run in a more 'business-like' way. An example of such pressures can be seen in an OSCR report which investigates the failure of the Scottish charity one-plus in January 2007 (OSCR, 2008), here we can clearly see the emphasis on the importance of charities being run in a business-like way;

> *The board did not appear to contain adequate skills and independence of thinking to reflect the needs of a multi-million-pound business…While all of the directors were enthusiastic about the charity and the services it*

provided, they did not seem to pay sufficient attention to the business aspects and support structures required to keep expanding services operating more effectively. (OSCR, 2008 p.6)

This focus on the charity as a 'business' and on 'operating more effectively' could explain the widespread recruitment of business people to charity boards. However, there is also the possibility that charities will recruit business people in order to appear legitimate (Meyer and Rowan, 1977), here, the presence of these business people on the board makes the charity appear to the outside world as modern and up-to-date.

Abzug and Galskiewicz (2001) consider this issue of the use of individuals with highly educated/ management backgrounds to provide legitimacy on nonprofit boards. They find high levels of isomorphism between nonprofits over a period of time and suggest that nonprofits increasingly recruit these individuals to legitimate their boards. However, they also find a selection of organisations that legitimate their board through community representation. Such a finding may help to interpret the differences in the above results between the three sectors, for example, in terms of housing associations. These organisations had the highest proportion of organisations with no business people on their boards - they face significant pressure from their primary regulator – the Scottish Housing Regulator to recruit tenant members onto their boards, at present 45% of the individuals on housing association boards are tenant members (Scottish Housing Regulator, 2009). This may explain why housing associations have the highest percentage of organisations with no business people on their boards.

7.1.2 Charities satisfaction with the Proportion of Business People on their Boards

Charities were also asked how they felt about the proportion of business people which they had serving on their board. The table below outlines these responses:

Table 7.2 Charities Satisfaction with the Proportion of Business People Serving on their Board

	Satisfaction with business people	
Sector	yes	no
Education	93%	7%
Health	75%	25%
Housing	83%	17%
Total	**85%**	**15%**

The overwhelming majority of respondents reported that they were satisfied with the proportion of business people, with 85% of the total population expressing that they were satisfied. Such findings are consistent with Austin (1998) who considers the presence of business people on US boards and finds that their presence is positively received. This was especially true in education, with 93% expressing this view and only 7% of educational organisations noting they were not satisfied with the number of business people on their board. As noted above, education was the only section in which every organisation had business people on their board. Of those organisations that were not satisfied, one had 37% of their Board made up of business people, one had 55%, and another had 33%. Interestingly, the latter organisation was able to specifically identify an area of business expertise which it believed would enhance its board, this organisation specifically noted that they would like an individual with risk management expertise. This clearly highlights their desire for more business people on their board.

With regards to healthcare, 75% were satisfied with the proportion of business people on their board. Of those that were happy, one noted that 'we have the right balance – we look for a range of skills' and another noted the importance of specific sector knowledge over business expertise:

we have problems getting people to sit on the board due to technicalities of the organisation. 3/9 people have worked in business. However, they do not sit on the board for this reason and business experience is not essential. Knowledge of the specific care sector is better to have. Don't see the need for any more business people. However we would like a lawyer who specialises in contract law – but this is for our specific purpose.

Of those that were not satisfied, one organisation specifically highlighted a reason for low numbers of business people as a reluctance to openly advertise for board members as part of their recruitment. Another specifically highlighted concerns over the ability of business people to adapt to the specific nature of the sector, noting that 'although it would be good to have more people on our board with business skills (finance, HR etc) they also need to have the ability to know how to apply them in a charitable business'. Another charity noted the benefit they felt that business people could bring to the charity; 'I would like more business people on our Board as I think it aids quality decision making. The idea is to have family members who are also business people'! However, the fact that they specify the desire for business people who are family members (of beneficiaries) may point to concerns that a business person who is not attached to the charity in this way may have difficulty understanding its specific nature.

In terms of the proportion of business people on these dissatisfied boards, this ranged from 0 to 44%. The two latter responses points to issues with these individuals understanding the specific nature of the charities whose boards they sit. This is consistent with the views of Bowen (1994) and Landsberg (2004) who suggest that business people lack an understanding of charitable organisations; although concerns regarding this issue were raised, these views are clearly in the minority as such a large number of organisations reported their satisfaction with the high proportions of business people on their boards. This issue is discussed later in this chapter.

Eighty three percent of Housing Associations reported satisfaction with the proportion of business people on their boards, with 17% expressing dissatisfaction with the composition; the range of business people on these boards was between 33% and 90%. Of those that were not satisfied, reasons for this included:

not enough unfortunately. We also have two sub-committees and require more members for these. We have just finished a recruitment for voluntary committee members which has been very successful and we will be interviewing quite soon, so that should replenish our numbers quite well, hopefully.

Another highlight the rules regarding the make-up of the board which were restrictive for this:

there is a maximum limit of 6 set for non tenant members with another set aside for a representative from x council.

These findings highlight the sector-wide recruitment of business people onto charity boards, and the significant numbers on these boards. These results, coupled with the high levels of satisfaction of charities with the numbers of business people on their boards appear to support the apparent desire of charities to have business people on their boards. This is supported further by the comments from those organisations who reported a dissatisfaction with the numbers of business people on their board, in that, they generally stayed that they wished for a larger number. An interesting finding was also reported from an educational organisation, who had specifically pinpointed an area of business expertise they required in terms of risk management; this raises an interesting question as to whether these organisations recruit business people to enhance specific areas, or whether they are recruited for their general expertise.

However, there are also organisations who express concerns about the intrusion of business people and practices into charities. This is consistent with the work of Myers and Sacks (2003) who problematize this issue, and state that such influences should be met with caution.

7.2 Impact of Business People

This section considers practices introduced to charities by Board members with business expertise, and how they are received.

7.2.1 Practices Introduced by Business People

After establishing the proportion of business people sitting on nonprofit boards, organisations were then asked to give examples of specific practices which they had introduced. These are summarised in the table blow.

Table 7.3 Examples of Business Practices Introduced by Business Members

	Proportion of Organisations			
	Housing	Education	Health & Social	Total
Type of Examples				
General Expertise	17%	21%	14%	18%
Specific Practices	63%	63%	69%	65%
No Examples	17%	16%	10%	14%
other	4%	-	7%	3%

Examples of practices which members of the board with business experience introduced into organisations tended to fall into two categories; the first was general expertise, which were reported in 18% of organisations, and the second, more functional expertise in areas such as accounting, HR, and risk management, these examples were reported in 65% of the organisations.

Housing: Introduction of Business Practices

With regard to Housing Associations, only one organisation gave a negative example of the impact of business people, noting 'we have had people with a business background on our Board, they find it difficult to understand the not-for-profit bit', views such as this are also noted by Bowen (1994) and Landsberg (2004). Of those organisations that said that business people have not introduced practices, this was 17%. The proportion of organisations which felt that business people offered a general business expertise to the Board was 17%, for example, one noted how:

> *Board members bring knowledge and expertise to the Governing body. As a result of their constructive comments and questions that influences the Policy and Strategic direction of the Association rather than a direct impact on which we follow.*

In terms of more specific business practices, 63% of charities reported these examples, which fell into a number of categories, including; accounting and finance, audit, performance management and reporting, risk management, human resources, and governance. Examples of the use of accounting and finance expertise included the 'ability to understand and if necessary challenge the Associations financial statements and the views of the internal and external auditors'. In terms of audit, one noted how business people had 'a more focused and outcome-centred approach to internal audit. A tendency to want quicker decisions and cut through red tape'. A general enhancement of performance reporting was also noted in a number of organisations including 'clearer provision of information' and reporting to business standards', another highlighted the use of traffic light systems in reporting (R(ed) A(mber) G(reen) reporting) and also the development of some KPIs. Risk management was another area which was influenced by business people, one organisation noted that 'they have contributed immensely to developing risk assessment', another risk management had been improved and was based on a model at the Health service. Improvements to HR practices and general Governance process were also given as examples.

Education – Introduction of Business Practices

Similarly to the Housing sector, Education organisations gave examples which were mostly focused on the functional expertise of business people. About 21% of these organisations highlighted the general expertise which these business people brought with them. For example, one organisation noted:

> *No specific examples. However, they do bring an awareness of how to become more business-like, for example, how to take more controlled risks, e.g. risk management. They are also more financially literate, for example, they have aided in constructions of KPIs.*

Another noted 'it is more a question of approach, rather than change in practices, i.e. how we deal with external partners/ other organisations (more businesslike)'. Another noted;

> *They do not tend to introduce specific practices as policies and procedures would tend to be more of an operational aspect of the University's work. However, governors do offer advice and also bring to bear an external perspective as to the way businesses in the private sector operate. This can result in the University adapting some of its practices. For example, we are currently updating our business continuity plan and have drawn quite extensively on the private sector experience of one of our governors.*

Within Education, practices and improvements in functional areas were more common, with 63% of educational organisations reporting this type of board member input than at a more general level. These included; accounting and finance, performance measurement, audit, risk management, strategy, property, marketing and governance.

Within accounting and finance, both management and financial accounting expertise was noted, for example, one organisation highlighted the 'enhanced quality of monthly management accounts' and another noted that 'the advice of those with a financial background have facilitated best practice in financial management'. More specifically, in terms of management accounting, one organisation noted that a

business person had introduced 'balanced scorecard in terms of strategic planning but we have been moving away from that towards KPIs', another also noted their 'influence in the introduction of Key Performance Indicators'. With regard to audit, one organisation noted that the establishment of an audit committee was something which was influenced by someone with a business background.

Other practices were described as strategic, for example strategic planning, and the way that business people highlighted 'the importance of the financial impacts from strategic decisions and the practice of 'away' days to think clearly about the latter'. Risk management was another area in which business people contributed, for example, one noted that 'increased risk assessment is now in evidence'. Property development experience was also apparent, an example being with one College who noted that 'Members with specialist experience in law and property development were very helpful in giving advice when the College undertook a major campus redevelopment'. HR examples included 'the way the principals salary review is conducted', 'Director of one firm assists in appeals' and 'HR professionals have been able to suggest recruitment practices'. Marketing expertise was also noted, for example one organisation noted how the 'Marketing director of one local firm assisted in logo positioning'.

Other examples of increasing commercialisation were also given. For example, one organisation noted how 'Members of the Board continually highlight to us commercial and industrial examples of best practice which have been implemented'. Another noted the introduction of commercial practices, in this instance a number of incentives had been introduced to the College commercial company. However, the board secretary of this organisation noted that the public sector is slow moving, which makes it difficult for board members to push through innovative changes, an example given here was the Colleges new campus project, the secretary felt that had a board member tried to introduce something in relation to this then they probably wouldn't have been listened to. Governance improvements were also listed as being influenced by business people. For example, one organisation noted that a business

person was responsible for the adoption of the Carver Governance Model within the organisation.

Health, Social & Community Care – Introduction of Business Practices

Examples given by healthcare organisations followed a similar pattern to the other two sectors; with the dominance of examples of specific functional expertise in practices such as accounting, risk management, marketing and strategy, this was apparent in 69% of these organisations. There were also two organisations that specifically noted the potential for the private sector to learn from charities, for example, one noted how the 'evolution of new practices have been led by non-business members and the CEO' and another felt that 'business has more to learn from the voluntary sector than the other way round'.

There were a small number of organisations, 14%, who felt that business people did not introduce specific practices, but contributed more with their general expertise. For example, one organisation noted they had 'No specific examples. They act as a good sounding Board, as searching questions and provide suggested solutions where appropriate', similarly, another noted 'cannot think of any immediately but the discipline of regular attendance at meetings, properly tended minutes etc. has helped our charity establish itself'.

With regard to more functional expertise and practices, accountancy was mentioned more frequently, for example 'streamlining of financial reporting', 'improved financial reporting methods', introduction of KPIs and another also noted how an 'Accountant was first Treasurer, so helped with systems. No other special practices by 'business experienced' directors'. Another area documented was expertise in risk management, one organisation noted a practice introduced by a business member was the creation of a risk register. Marketing examples included one organisation who noted that a business person had highlighted the 'need for a marketing strategy in advance of a fundraising strategy'. Strategy was also mentioned, this example was

the introduction of the Rolling Annual Review of the Strategic Plan , 'rather than waiting until near end of the 3 year life plan and then reviewing'.

A number of other specific examples were given, for example an initiative of one business person was 'inviting members of staff to attend the board meetings to give a presentation on a specific key aspect of the service delivery, to ensure that the Board not only meet the staff at the centre of delivering the service, but to keep up to date with the organisations work and progress'. Other examples included 'performance related pay', 'improved tendering procedures for capital projects', 'better commercial appraisal of proposed service provision', and the 'introduction of annual appraisals for senior management'.

In contrast to the above, in response to the question of business people introducing practices, one noted 'no, because they aren't there to do this; they are there to monitor – and our control/ monitoring processes have improved as members have pointed at weaknesses in current practice'. This could be an example of legitimating behaviour.

Conclusion: Introduction of Business Practices

As has been previously highlighted, charities face increasing pressures to become more 'business-like' (OSCR, 2008). This section has considered the impact that business people have on charity boards, particularly in terms of the introduction of business practices into these organisations. The results were shown to highlight that this impact came in one of two forms; functional expertise, general expertise, or in some cases, both. There were some instances where specific practices were identified that a business person had introduced, such examples included: a traffic light reporting system, KPIs, a model of risk management adopted from the public sector, and the introduction of a balanced scorecard. The majority of responses pointed towards a more general contribution, rather than the introduction of specific practices and ideas.

Some interesting observations were made by one organisation from the education sector, who felt that the slow moving nature of the sector made it difficult for board members with a business background to push through innovative changes. In addition, two healthcare organisations specifically noted the lack of impact of these individuals, with one noting that new practices were led by non-business members and the CEO, and another organisation suggesting that business could learn more from the voluntary sector than the other way round.

The nature of these results are difficult to understand, although on the surface practices and expertise of business people have been identified as having an impact on the board, the lack of depth of the survey data makes it difficult to interpret in relation to the theoretical framework. A number of studies in the public sector have considered the adoption of private sector practices and have found these organisations use them for legitimacy (e.g. Arnaboldi & Lapsley, 2003). In order to ascertain whether these practices have an instrumental role in the organisation, or are merely symbolic will require in-depth investigation within case study settings.

7.2.2 Response to Practices Introduced by Business People

The above section outlined examples of practices which were introduced to charities by board members with business experience. However, as outlined in chapter 3, where the existing literature in this area was considered, differences were reported with regard to how these practices were received. Respondents were asked to rate how practices were received on the following scale:

- ❑ very well received (4)
- ❑ well received (3)
- ❑ badly received (2)
- ❑ very badly received (1)
- ❑ don't know (0)

A one-way between-groups ANOVA was conducted for the reception of these practices for the three groups. An overview of these results is presented in the table below:

Table 7.4 Response to Practices Introduced by Business People

Charitable Purpose		
	Mean	Standard Deviation
Education	3.61	.803
Housing	3.61	.502
Health & Social Care	3.21	.419
Total Population	3.50	.658

A one-way between groups analysis of variance was conducted to explore the impact of sector on how well business practices were received in charities. Charities were divided into groups according to their charitable purpose. There was no statistically significant difference between the mean scores. Education and Housing reported the same mean score (3.61) which was between well and very well received. The mean score for health was slightly lower (3.21), suggesting that business practices were least well received in healthcare charities.

It is apparent from chapter 2 that the adoption of for-profit practices in charities yields a variety of views as to their appropriateness within the sector. The results from this survey show that the practices which business people introduced to charities were well received, this is supported by the work of Austin (1998) who reports a positive impact of the presence of business people on nonprofit boards in the US. However, this contradicts views from authors such as Bowen (2004) who suggests that professional staff in charities may be dismissive of business professionals due to the belief that they will not understand the unique qualities and professional norms of the organisation, or may be insensitive towards them.

Although there is a lack of studies which consider the impact of business professionals on charity boards, other authors have suggested specific issues with regard to the adoption of for-profit practices within the organisation, in particular, that they do not fit with the specific purposes of the charity (see Landsberg, 2004; Alexander & Weiner, 1998; Foster & Bradach, 2005; Dees, 1998).

Due to the possible tensions between business professionals and members of the organisation, and the suggested incompatibility of for-profit practices in nonprofit organisations, it may be surprising that the results of this study show that business practices were either well received or very well received in these organisations. One possible reason for this may be due to the findings from the previous question, which may suggest that these practices did not penetrate the organisation, therefore concerns about the impact of these perceived inappropriate practices would not be relevant. Such findings highlight the need for a more in-depth understanding of the impact of business members on charity boards, this will be enabled through the case studies presented in the following section.

Furthermore, taking into consideration some of the responses from the previous question, respondents suggested difficulties business people may have in the first place in terms of actually introducing such practices, for example comments from one organisation that noted how the slow moving nature of the sector made it difficult for board members with a business background to push through innovative changes. There may also be issues here with regard to self-reporting, whereby in order to appear more up-to-date, these charities will want to show their willingness to adopt practices from the for-profit sector. This points towards a desire for charities to present themselves as modern and therefore legitimate (Meyer and Rowan, 1977).

7.3 The Motivations of Business People and their Understanding of Charity Context

This section will focus on the main reasons why business people sit on charity Boards and the extent to which they understand the specific context of the organisation in which they serve.

7.3.1 The Motivation of Business People Sitting on Charity Boards

Another issue which was investigated was the main motivations of business people taking on these unpaid roles as charity trustees. The majority of the reasons given for business people joining the board were linked to the idea of 'giving something back', for example categories of responses around this included; giving something back to the community, to use their expertise to aid the organisation, and because they have a specific interest or connection with the organisation. A much smaller set of organisations reported board members sitting on their board to enhance their own personal development or in connection with their job.

Similar findings were reported by Austin (1998), where in a study of Harvard graduates who occupied nonprofit board positions, it was found that intrinsic motivation was the biggest factor in them joining compared with extrinsic motivation; here 60% noted they wanted to 'give something back' and 26% sat on the board for personal development reasons.

7.3.2 The Extent to which Business People Understand Charity Context

The issue of the understanding which business people have regarding charities was investigated; with charities asked to identify the level of understanding they felt their board members with a business background had of their organisation. Respondents

were asked to highlight the level of understanding of business people on their board on the following scale:

- ❑ very well (4)
- ❑ well (3)
- ❑ not well (2)
- ❑ not at all (1)
- ❑ don't know (0)

A one-way between groups ANOVA was conducted to explore the impact of sector on business people's understanding of the context of the charity. The results relating to this are outlined in the table below:

Table 7.5 Level of Understanding of Charity Context

	Mean	Standard Deviation
Education	3.43	.931
Housing	3.63	.875
Health	3.36	.559
Total	3.46	.818

A one-way between groups analysis of variance was conducted to explore the impact of sector on how well business people understand the context of the charities on whose board they serve. Charities were divided into groups according to their charitable purpose. There was no statistically significant difference between the mean scores. The overall mean score was 3.46, suggesting that the level of understanding business people have of charity context is between well and very well.

Contrasting views have been reported within the literature on nonprofit governance as to whether these business people do actually understand the context of the organisation with concerns surrounding an over-emphasis on finance over mission (Siciliano, 1996; Landsberg, 2004; Miller, 2002).

7.3.3 Ensuring Business People Understand the Context of the Charity

Charities were also asked whether they specifically did anything to ensure that business people understood the context of their charity. The overwhelming majority did not report any specific practices to aid business people in understanding the complex nature of the charitable sector. Nearly all organisations noted the same practices they used in order to inform boards members of their roles and responsibilities. These findings are surprising due to the vast difference between the for-profit sector and the charitable sector. The nonprofit literature highlights major differences between these two sectors, and some authors have previously highlighted difficulties with business people understanding the charity context (Bowen, 1994; Landsberg, 2004).

7.4 The Impact of Business People on Public Confidence

The perceived impact of business people on the board in terms of improving public confidence was also investigated. Board secretaries were asked how much they agreed or disagreed with the following statement:

The inclusion of business people as board members in charities increases public confidence in the organisation in comparison with the inclusion of other individuals.

Respondents were asked to use the following scale:

- ❑ strongly agree (4)
- ❑ agree (3)
- ❑ disagree (2)
- ❑ strongly disagree (1)
- ❑ don't know (0)

A one-way between-groups ANOVA was conducted to compare the impact of charitable purpose on charities perception of whether business people increased the level of public confidence in the organisation. The results are outlined in the table below:

Table 7.6 Impact of Business People on Public Confidence

Charitable Purpose		
	Mean	Standard Deviation
Education	2.86	1.207
Housing	2.64	1.311
Health & Social Care	2.39	1.116
Total Population	2.66	1.215

A one-way between-groups analysis of variance was conducted to explore the impact of charitable purpose on charities perception of whether the presence of business people increased public confidence in the organisation. There was no statistically significant difference found between the mean scores. The mean score for the total population was 2.66, which was between 'agree' and 'disagree'. The highest proportion of charities 'agreed' or 'strongly agreed' with the statement, this was 48% and 22% respectively. In terms of those that disagreed, this was 13.5%, with a further 4% strongly disagreeing, the rest noted that they 'didn't know'. This apparent view that business people increase confidence in the organisation can lead us to believe that charities recruit business people in order to make them appear legitimate (Meyer and Rowan, 1977). As previously outlined, this idea of charities recruiting business people onto their boards as a legitimating function will be considered in more depth in the case studies.

Further evidence for this can be seen when considering the results in section 7.2 with these findings. It was reported earlier that business people do not necessarily bring their business expertise to bear within the charity, with relatively few examples of business practices being introduced into these organisations. This could be an

example of decoupling (Meyer and Rowan, 1977), where the organisations legitimate themselves by recruiting business people to present themselves to the outside world that they are operating in a more business-like way, and are therefore legitimate. However, this external façade is detached from the inner core of the organisation, where these business people have not made an impact, and the organisation is not necessarily being run in a business-like way.

In terms of the specific areas, Education had the highest mean, which was 2.86. This sector also had the highest percentage of organisations which either 'agreed' or 'strongly agreed', with a combined total of 79% of organisations expressing these views. This high regard for business people is also apparent from the findings of the composition of the board, whereby educational organisations were the only group where all organisations had business people on their board. These organisations also had the lowest percentage of organisation whose board was composed of only 1-25% business people, only 12% of organisations had less than a quarter of their board composed of business people, 88% had a quarter or more.

7.5 Conclusion: Business Expertise Survey Results

This chapter set out to specifically investigate the impact of business professionals on charity boards. The findings have highlighted the recruitment of these individuals across the entire sector, with 96% of charities found to have at least one business person on their board. This was attributed to coercive isomorphism (Di Maggio & Powell, 1983), in particular, pressures from the charity regulator to appear more business-like (OSCR, 2008). Such a finding would suggest the recruitment of these individuals as a form of legitimation (Meyer and Rowan, 1977). However, results for Housing Associations were lower than for other sectors, this was attributed to pressures from the Housing regulators to recruit tenant members onto the board, this was explain by Abzug and Galaskiewicz (2001) as legitimation from below.

Charities reported a general satisfaction with the proportion of business people on their boards, with those organisations that were not satisfied wishing for more business people. There were relatively few organisations that expressed the concerns outlined in the literature that these individuals may not fully understand the nature of the organisation.

The specific impact of business people was found to come in the form of both general and functional expertise. There were some examples of specific practices that business people had introduced, such as a balanced scorecard, KPIs, and a model of risk management. However the majority of responses pointed towards a more general contribution, rather than the introduction of specific practices. The nature of this data – responses from self-reporting questionnaires – was viewed as being difficult to understand. Although on the surface, practices and expertise of business people have been identified as having an impact, the lack of depth in the survey data makes it difficult to fully interpret these results. Numerous studies of the adoption of private sector practices by public sector organisations have found that they use such practices for legitimation (see Arnaboldi & Lapsley, 2003). This may be true of the charities in this study who may recruit business people and adopt these practices to maintain legitimacy. To fully understand this it will be necessary to study these ideas in a more in depth case study setting.

In the literature in this area (e.g. Landsberg, 2004) there is a view that the adoption of business practices undermines the charities fundamental ethos, however these results point towards a passive acceptance of the adoption of business practices. This acceptance may be due to the lack of impact that these 'business practices' have had on the organisation and the way it functions and that their role is merely symbolic. In terms of the motivations of business people serving on nonprofit boards, the main reasons were personal. This raises the question as to whether these business people are intent on bringing business practices and fundamental changes to the organisation, or whether they are there for reasons of personal fulfilment.

It was also found that charities view business people as having a role in increasing public confidence in the organisation. Such a finding would suggest that charities recruit business people recruit business people for legitimation – in order to appear modern and up-to-date (Meyer and Rowan, 1977).

In conclusion, the main findings from this section of the survey are in relation to isomorphism of charity boards regarding the recruitment of business people. There also appears to be a positive view of business people on charity boards, however the extent of legitimacy claims are unclear. In order to investigate whether their role is instrumental or symbolic, it is necessary to conduct further research in a case study setting. This case study research will be outlined in the following three chapters.

CASE STUDY RESEARCH

This section will present findings from a series of case studies conducted on Scottish charities. Cases were selected from the largest areas of charitable activity based on annual total income, these were: health, social and community care; housing provision; and education (OSCR, 2008). The specific organisations selected were a Housing Association, a Social Care charity, and a Further Education College.

The case studies presented an opportunity to undertake a more in-depth study of governance and the impact of business people on the board than the survey had allowed. It also allowed further investigation of specific issues identified from the survey, including the role of the board, the relationship between the board and management, particularly in relation to the role of the board in strategic and operational activities, and the composition of the board – particularly the extent to which individuals with specific expertise, such as business expertise use their skills on the board.

The choice of this type of method allowed for the mobilisation of aspects of the conceptual framework, as outlined in chapter 4, two specific concepts were drawn on: legitimation and isomorphism. The case studies allowed for further consideration of the specific isomorphic pressures faced by these organisations and the extent of isomorphism in the governance structures in these organisations within the charity field. Also considered, was whether the recruitment of business people onto the boards of charities was merely a legitimating exercise, as charities look to portray themselves as modern and up-to-date. The importance of the language of business in the social construction of charitable organisations was also considered.

This section is structured into three chapters, with each chapter reporting findings from a case study. Chapter 8 will consider a case study which focuses specifically on a social care organisation, Chapter 9 will consider a Housing Association, and Chapter 10 will focus on a Further Education College. Each chapter will be split into

two sections, reflecting the two main areas of investigation in this research: governance, and the impact of business expertise on the boards of charities.

CHAPTER 8

GOVERNANCE IN A SOCIAL CARE CHARITY:
RESULTS FROM A CASE STUDY

8.1 Introduction

This chapter presents the findings from a case study of a social care organisation. In order to maintain confidentiality, this case has been renamed and will be referred to as Robertson social care organisation. Interviews were conducted with key governance actors, and where possible documents were obtained and analysed. The table below sets out the four interviews which were conducted:

Table 8.1: Interviews Conducted at Robertson

Interviewee Title/ Position	Background/ Day Job
Chief Executive	
Board Member 1	Private Sector Accountant
Board Member 2	Public Sector Accountant
Board Member 3	Management Consultant

This chapter will be structured as follows: section 8.2 will outline the background of the organisation, 8.3 will consider specifically the governance of the organisation, 8.4 will look the impact of those with business expertise on the board, and finally section 8.5 will conclude.

8.2 Background

Robertson was formed in response to an issue which was affecting its local community, regarding care arrangements for adults who required long term support. In particular, this focus was in relation to difficulties moving people from specific local institutions - two adult hostels, and one long stay hospital unit – back to living

and being supported in the community. Frustration with the situation at the time resulted in a group of local people making an application for a small grant to set up an independent local agency. They initially constituted themselves as a steering group, and put together the constitution, the memorandum and articles for a not for profit company limited by guarantee which then applied for charitable status – this became Robertson. The organisation was founded in 1989, with the current chief executive being appointed. The initial aim was to provide support services to adults with a learning disability in the local area. However, this was later broadened to providing support to anyone, of any age, requiring paid support. The organisation now operates over four local authority areas in Scotland.

The charity currently employs 300 staff and has a membership base of approximately 100. The services they provide range from a couple of hours of support per week to 24 hour support to 140 people, with ages ranging from pre-teens to individuals over 80 years of age. They also run a short stay (residential respite) service for adults with a learning disability living in the local area. They currently have a turnover of £6 million. The mission statement of the organisation is as follows:

> *(Robertson) believes that people should have the support they need, delivered in the way they want, to live their chosen lives. We work in partnership with people and their families, to help them to identify and plan for the kind of life they want to live, and then to support them to achieve this. We also work with local communities to strengthen their capacity to include people with disabilities and other support needs as valued citizens.*

8.3 Governance

The following section outlines the governance of the organisation: firstly, the governance structure will be considered, followed by a discussion of the specific model of governance in the organisation – the board cycle, and finally the composition of the board will be detailed.

8.3.1 Governance Structure

Governance arrangements of the organisation have undergone significant changes since its inception in 1989. The early arrangements were a reflection of the initial set-up of the organisation. Robertson was established by a group of local people, and the initial management committee was set up in a way that allowed them considerable input into decision-making. The initial management committee had two major components; one was statutory, and one was non-statutory. The statutory component comprised of three people each from health, housing and social work, this was a total of nine individuals. The non-statutory component had eight individuals, these included people from housing associations, local voluntary organisations and family members. The organisation was membership based, with around 100 members, and the management committee was answerable to these members at the annual general meeting (AGM) and had to submit themselves for election or re-election at the AGM. This structure of the membership base, and the management committee of 17 with the statutory and non-statutory component was in place from 1989 to 1996. The Chief Executive and Committee deemed this an effective structure for the initial activities of the organisation – where there was a clear project, which was to move people on from the two hostels and the hospital.

However, as the organisation was moving through this project, difficulties were highlighted with this structure, including the requirement that any new proposals had to be taken to the committee for the statutory and non-statutory components to agree or disagree. Furthermore, because there were individuals there who represented other components, not all members primary commitment was to Robertson. In addition, it was noted by the chief executive that at this time, there was a shift in both the understanding of what governance was, and also the responsibility of the board, specifically towards an understanding that the primary commitment of a board member is to the organisation on whose board they serve.

The change in governance structure was also as a response to the external environment, with changes in the structure of local government changing from

regional to unitary authorities, there were also changes in the health service. These pressures led to a change in the governance structure of Robertson. The organisation began to look outside the governance of their own organisation, and began to think about how they could, as the chief executive described it, 'get some kind of sense and order into the activities of the board consciously and sensibly'. The changes that resulted were the removal of board representation from external bodies, as a result individuals became members of Robertson and were elected by the membership and the board number was reduced to 12.

8.3.2 The Board Cycle

Fundamental to the governance of this organisation is the adoption of a governance model – the Board Cycle. One of the board members who works as a management consultant was instrumental in the introduction of this model. The model was drawn from Bob Garratts (2003) book, *the Fish Rots from the Head* and was the result of work between the chief executive and the management consultant. At the time they were looking at how the board operated and what it needed to do, particularly in terms of making the most of time. The management consultant – who works with boards as part of his day job – suggested some ideas to the Chief Executive, and gave the Chief Executive some work written by Bob Garratt on boards. Although the main impetus for this move came from the management consultant, he noted that after these initial discussions, it then became a board decision, with the Chief Executive being described as the 'key mover' behind the adoption of this model.

The Chief Executive and the management consultant worked together on what became a shared vision to change the governance of the organisation. This shared approach is in contrast to some of the literaure in this area which suggests tensions exist between the board and management (Cornforth, 2003; Taylor et al, 1996). The relationship here is in line with what is advocated by Taylor et al (1996) and McClusky (2002) as a 'partnership' approach to governance between the board and

management. The existence of such a common shared vision is also found to have considerable impact on the effectiveness of the board (Cornforth, 2001).

The Chief Executive described this annual board cycle as a process whereby the main responsibilities of the board are addressed: direction setting; strategic thinking; monitoring and evaluation; and accountability at the end. The Chief Executive specifically highlighted that direction setting was about board, and not operational policy, that it was about looking and taking the longer view and saying which direction the organisation has to be going in.

The process of strategic thinking was undertaken once the strategic direction had been set, and involved consideration of what were the big milestones that the board needed to think about, and how to make sure, as an organisation, that the resources were in place to allow the organisation to move forward in that direction. When describing the strategic thinking process, the Chief Executive was quick to clarify the distinction between strategic thinking and strategic planning - the Chief Executive noted that Garratt labelled strategic planning as a contradiction in terms as planning is for managers, and strategy is for the board. Monitoring was described as the regular oversight of what managers are actually doing to achieve the goals the board has set for them. In terms of accountability, the Chief Executive emphasised the importance of being in a position to report back to the various stakeholders of the organisation on what they have done. A board self-evaluation was also introduced in order for the board to consider how they functioned, and what they must learn to improve as a board.

All members of the board who were interviewed were positive about the board cycle, for example, the private sector accountant noted that 'it's one of the best structured pieces I've seen'. The board cycle illustrates a commitment to clearly distinguish between strategy and operations, an area of considerable tension in charities (see Cornforth & Edwards, 1999; Steane & Christie, 2001; Leatherwood & O'Neal, 1996). An issue identified in the literature is lack of role clarity (Parker, 2003; Harris,

1989; Widmer, 1993), however the board cycle is structured to specifically reflect the key roles of the board, placing clear emphasis on what these key roles are.

The key roles of the board, as reflected in the board cycle, are clearly laid out in the board member handbook as follows:

- Establish what (Robertson) stands for and what it seeks to achieve.
- Determine how it plans to get there and that it has the resources it needs to achieve its goals.
- Delegate to the paid managers responsibility for implementing the plans.
- Monitor the use of resources in the interests of those (Robertson) exists to serve.
- Account to the members of the company, and to the stakeholders for those resources through the annual report, and at the annual general meeting.

In terms of the meetings structure of the board, they meet monthly, which is seen as an important element of the governance structure, as it enables members to keep up-to-date more easily than if meetings were quarterly. In terms of keeping people up to date, the Chief Executive notes:

> *You still have to package reports like a story: the first paragraph is reminding people what it was all about and how we got to where we are and where we are now, the next bit is what happened since we last looked at it and the last bit is a kind of summary and what we need to do next. But you actually have to do that because you can't expect people just to pick up the thread with a month in between, they've got their own lives and their own commitments and their own interests'.*

The structure of governance around the board cycle was also deemed to keep the board focussed on their role as each meeting is monthly, and is 'themed' and therefore agendas are designed to reflect this. The application of such a framework when designing board agendas has been shown to keep Boards more focused on their role (see Inglis et al, 1999; Inglis & Weaver, 2001).

With regard to the way that board members are kept up-to date with arrangements, they are issued with a number of key documents. In terms of policy documents, each policy document is lengthy, and therefore has a summary policy statement which states its key aspects – the board has a copy of all the policy statements and these are reviewed each year. The board also gets a workplan for each area that the organisation operates in, which details what has been accomplished to date, and what will be happening next – this is what is reported against at the quarterly monitoring meetings of the board, where the area managers come to the board and present their own area report. The budget for the year is also issued to board members in their pack. Alongside this, there is information about the structure of the organisation and its staff, and also the people they support – the level of support they receive, what it costs, where the money comes from.

The flexibility of the cycle was also noted. It was highlighted by the management consultant, that the cycle does not tend to work if a big issue comes up. He noted that there had been a recent instance where a major issue had arisen which needed a considerable amount of discussion, it was necessary to have that discussion in the board meeting – resulting in a two hour board meeting, meaning that the agenda that they were supposed to be dealing with could not be discussed. Therefore, at times, things must be moved over into the next again meeting. The structure of the cycle allows for this, as the management consultant explained:

> *I mean things like monitoring, for example, is fairly straightforward; there's a set of reports and you go through the reports and it's a fairly standard process. So in fact, you can do a board monitoring session probably in the hour and then that gives you another hour to discuss a topic.*

It is apparent that the board cycle has become part of the organisations formal structure. Meyer and Rowan (1977) would suggest that such institutional rules are adopted ceremoniously and function as myths. However, far from being merely an act of symbolism, this cycle appears embedded into the organisation and is fundamental to the way in which organisation is governed. The academic literature contains numerous examples that suggest the adoption of tools used in the private

sector undermine the values of charitable organisations (Bush, 1992; Backman & Smith, 2000; Eikenberry & Kluver, 2004; Foster & Bradach, 2005; Harris, 2001; Landsberg, 2004). With regard to specific models of governance, Alexander & Weiner (1998) consider the adoption of corporate governance models in charities and conclude that they are not viable for the sector. In contrast, this does not appear to be the case at Robertson. This can be highlighted from the following statement from the management consultant, who brought the board cycle to the organisation:

> *so I think one of the things that makes it work as a board is the sort of common shared view, you know, everybody subscribes to a very key set of values that are put into operation and we do review the values every year and often in this session here, and that session there we'll look at the values. In fact we use the board development session this year to look at values, to revisit them, you know, why independent living, what's that about, so yeah we spent some time doing that. And I think that's what keeps it together as an organisation, there's not, I don't think I have ever, ever been involved with a board where there's never been any falling out, but not because they're all into group think, but just because everybody kind of has the same view. I mean there's still strong views expressed, and people will disagree but it's never got to sort of acrimonious debate and discussion, it's just usually very harmonious really, and I don't think I've ever come across a board that has such a common shared set of values. That'd be quite an interesting one to look at...about how values might drive the effectiveness of the board because I think it does in (Robertson).*

Such a view is in contrast with reports from the literature which suggest that business people do not always fully understand the values underlying the organisation (Landsberg, 2004; Bowen, 2004; McFarlan, 1999).

8.3.3 Board Composition

The Board currently has 15 members, and is serviced by the Chief Executive. In terms of it's composition, there are four service users on the Board, seven individuals that can be described as non-business members who come from predominantly the public and nonprofit sector. Finally, there are four members of the board who can be described as 'business people'.

The composition of the board is detailed below:

Table 8.2: Board Composition of Robertson

Board Member	Background
Chair	MSP
Board Member 1	Private Sector Accountant
Board Member 2	Public Sector Accountant
Board Member 3	Management Consultant
Board Member 4	Service User
Board Member 5	Retired Social Worker/ Relative of Service User
Board Member 6	Retired Nurse Manager/ Relative of Service User
Board Member 7	Works in Community Services/ Community Development
Board Member 8	Founding Member/ Retired Social Worker/ Set up other Charities
Board Member 9	Runs Local Business
Board Member 10	Solicitor
Board Member 11	Service User
Board Member 12	Relative of Service User
Board Member 13	Service User
Board Member 14	Service User

The following statement from the organisations website sets out its view on the composition of the board:

> *Board membership needs to span a range of skills and experience, from using services (as a person with support needs or the relative of a person with support needs), to professional expertise about disability issues, and expertise related to running a medium sized company.*

With regard to the composition of the board, the organisation has a grid which identifies the needs of the organisation, and what the current individuals on the board bring to it. The boxes of the grid are checked to ensure that between all the board members, they meet the requirements. Should any gaps be found to exist, then this highlights the areas that need strengthened, and points to who they should be

recruiting next. Therefore when the organisation recruits new board members, they specify the exact type of expertise they are looking for.

The essential elements of the grid – and essentially what the board must cover are: people who can understand the finances of the organisation, therefore someone who can understand the accounts and read a balance sheet. Someone with an understanding of law, particularly company law, charity law, and community care legislation. People who understand community development, people with PR skills, people who have used the services themselves, or who have strong connections to people who use the services, so they can see it from the inside out. Such a system appears to be instrumental in the governance of the organisation, this is in contrast to the view of Meyer and Rowan (1977) who suggest that such formal structures function as myths.

Another key element of the board is that it currently has four service users on it. The recruitment of service users on the board has had implications for the board, for example, previously, board papers were sent out one week in advance, however they are now sent out two weeks in advance. Board papers have also had to be made more accessible. In order to make board papers accessible to the service users, layouts are standardised, and symbols are used, so for example, with regard to the proposed transfer of properties to a housing associations, the icon of a house is placed next to this so that it is instantly recognisable. In terms of the monitoring reports, graphs and symbols are used to allow for a picture of what has been done against what still needs done, which the chief executive notes makes it easier to talk through the process. They also use photographs of the individuals whose report it is. This improvement in accessibility has also had an impact on the other board members, who noted that this actually made the finance papers much easier for them to understand. At board meetings, flip charts are also used and the board is broken down into smaller group discussions. During board meetings, all individuals have cards which they must hold up if they want to speak – this is so that everyone gets a fair chance to talk and so people don't cut each other off. Abzug & Galaskiewicz (2001) suggest boards are legitimated from below, the recruitment of service users

here could be seen to reflect this, however the presence of these individuals appears to be instrumental, with significant steps taken to involve these individuals and hear their views.

8.4 The Impact of Business People on the Board

The following section specifically considers the impact of people with business skills on the board. There are four members of the board who can be described as 'business people'; the first of these members works in local business, another of these members is managing director of a firm of management consultants, this member had previously worked as a clinical psychologist for the NHS. The remaining two members are both accountants, one is a private sector account, working for a large bank, the other is a public sector accountant, although has previously worked in the private sector. The latter three were interviewed for the study. The following section considers the motivations of these business people, their understanding of the organisation, the use of business expertise on the board, and pressure for the organisation to become more business-like.

8.4.1 The Motivation of Business People

The three business people interviewed for this study were asked how they came involved with the organisation, and what their primary motivations were for joining the Board. The two accountants were relatively new to the board, the public sector accountant had been on the Board for approximately a year. This member joined the Board after responding to an advert in the local press: they lived in the local area, and after doing some background research on the organisation, felt that it would be a very interesting opportunity. The private sector accountant had been looking to become involved on a Board for some time and also saw an advertisement for Board members in the newspaper, the primary motivation of this member for joining the Board was 'to give something back to the community' and also for personal development. The third business person, the management consultant, had recently

moved to the local area and also saw the post advertised, he had previously worked in the NHS as a psychologist and had worked with Robertson in this role a number of years ago. The motivations here were also to 'give something back'. These reasons for involvement are similar to those uncovered by Austin (1998) who considers the motivations of Harvard MBA graduates involvement on nonprofit boards 'to give something back' was the dominant reason.

8.4.2 Business People's Understanding of the Organisation

Although these three individuals were labelled 'business people', two of them had previous experience with work which was related to the organisation. The Management Consultant had previously worked as a psychologist for the NHS, during this time he had worked with service users of Robertson, he also had previous Board experience as a member of the Executive Committee of a Housing Association during the late 1980s/ early 1990s, and also on the Board of the company he works for. The public sector accountant had previously worked in a high secure hospital setting and noted that they had a lot of experience around clinical governance and social care issues and felt able to bring this experience to the Board. The third Board member, the private sector accountant, had no previous experience of work related to the sector, and noted some difficulties with understanding some of the specific issues related to social care.

The difficulties of understanding the complexity of the sector was highlighted by the management consultant, who noted that although he had previous experience within such a setting, it was a number of years ago, and he had found it difficult to come back in:

> *I found it really hard because I'd been out of it for the best part of 12/13 years, and coming back in was quite hard. And I think it's quite hard in this specific sector because it's not just knowing something about the issues surrounding people with learning disabilities but also around the whole social care sector...and the provision for housing, supporting people, legislation and so on.*

However, the private sector accountant shows an awareness of the differences between voluntary and the private sector:

> *As an accountant on the board, I try to be very mindful of what our purpose is in being there as an organisation, and it's not the same as running a commercial organisation.*

8.4.3 The Use of Business Expertise on the Board

In terms of the external expertise which these three business people brought to the board, there appears to be a significant distinction in terms of the impact in which they have had on the organisation. The management consultant appears to have been instrumental in terms of the organisations adoption of its board cycle, which was based on work that he did with boards as part of his day job. In addition this model does appear to be embedded within the organisation and is used positively. This finding is in contrast to propositions made by Meyer and Rowan (1977), who state that organisations will adopt practices that will make them appear modern and up-to-date, however such practices do not contribute towards the technical efficiency of the organisation. In contrast, it appears the board cycle has been effective, and the management consultant now notes how he uses Robertson as an example when working with organisations from the private sector:

> *I do use it as an example because I do work with boards in the private sector and I have sort of drawn on the experience to say 'look, when you're struggling about how you…the process you use, you know I'm on a board, it sits, we meet for two hours a month, we've got a yearly cycle of activities, and it's quite an eye opener to some people, that you can actually get through and run a relatively biggish organisation, 5/6 million pound a year organisation on that basis, with people who are volunteers, and not getting paid for it.*

Other examples of what this individual brought to the organisation were also apparent, for example, part of the work in which he was involved with outside the organisation was helping organisations to recruit people for senior positions,

something which he also been involved with in Robertson. The management consultant also noted that one of the areas he worked on in his consultancy company was around collaborative working, and he had been pushing this within Robertson about getting into partnership and collaborative working with local authorities where, he noted, there had historically been some tension. This is further evidence of the instrumental value of this business person on the board.

Another way that the specific expertise of these business people was used was through the Audit Committee – this was the only sub-committee - and through participation in ad hoc working groups set up to deal with specific issues. Both accountants were on the Audit sub-committee, with the private sector account Chairing the meetings.

In contrast to the management consultant, who was instrumental in the adoption of the board cycle, the two accountants on the board had less of an impact. The main contribution of these two individuals was to give clarification and reassurance on the financials and to oversee specific decisions. For example, they had made contributions on small working groups of 2 or 3 board members which were set up to deal with specific issues, for example reviewing rents. There was no evidence that these individuals brought in their external expertise other than in an oversight capacity. Another example of this was noted by the public sector accountant when describing what he brought to the board:

> *Just experience as well, when you see things coming across the board table that you've probably dealt with in the past and that helps a lot because you can then say whether it's reasonable or not. For example, setting rent levels; so we'll be looking at previous years comparisons, and what other organisations are doing. The management team are very good at doing that, they do all the predatory work so when it comes to the board table you can look at it and say 'well does that seem reasonable' that's really helpful. Again, the management team, they're very good at providing information for you.*

The presence of these two accountants on the Board may seem to imply that the accounting function of the organisation will be rigorous, however, after discussion with the management consultant, we can see that this is not the case:

> *we've got a couple of people who are accountants for example Public Sector Accountant and Private Sector Accountant, and it's quite interesting because Private Sector Accountant particularly I think finds it hard that she's in a different accounting environment, and she sometimes looks for some of the rigour that you might find in X bank etc. but it doesn't happen at Robertson.*

The presence of these two accountants on the Board, coupled with their apparent lack of any instrumental contributions and the 'lack of rigor' in terms of accounting can be seen as a possible example of legitimation (Meyer and Rowan, 1977) whereby the organisation presents itself as modern and up to date.

There is a desire for more individuals with business-related expertise, and an acknowledgement that their knowledge would have an impact on the organisation, the management consultant noted:

> *We miss somebody who is in marketing...We miss probably also somebody who's in sort of related area of PR, you know if we had somebody who was really working with a PR agency lets say, I think we could do all sorts of things with (Robertson), particularly in terms of the (Robertson) Trust and fundraising.*

8.4.4 Pressure to Become more business-like

The pressure for the organisation to operate in a more business-like way was apparent. The private sector accountant discussed the issues faced with regard competitive tendering, where private companies are coming in who want to provide social care services. One of the issues with this is that they will be looking to make a profit in a nonprofit sector. The accountant voiced concerns over the quality of service that would be provided by these organisations, and noted how Robertson was committed to the needs of the service users. She notes the impact of this:

As an accountant on the board, I try to be very mindful of what our purpose is in being there as an organisation, and it's not the same as running a commercial organisation. You know, (Robertson) and another organisation just didn't know if they were going to receive funding so how can you even start doing a budget if you don't know if you're going to have any funding, so you can't really get too hung up on 'but we must know what our funding is' because you don't know because the local authorities won't commit to it. Or they commit to it for a year or two years, so until we get into a cycle of three-year funding you have all that management time tied up, continually working on the deals – whereas if it was three years, you've got that platform to work on.

The above example represents a specific isomorphic pressure. When such uncertainty is apparent, Di Maggio and Powell (1983) suggest that it will encourage mimicking of other organisations which they believe to be more successful, perhaps the private sector organisations that they are in direct competition with. Such financial uncertainty may explain the symbolic role of accountants on the board.

8.5 Conclusion: Robertson Social Care

At the centre of this case study is the adoption of a private sector governance model, with a board member from the private sector being instrumental in its adoption. The board cycle was brought into the organisation by a board member with business expertise, in this case, a management consultant. The Board Cycle is at the heart of the governance structure is this organisation. Meyer and Rowan (1977) suggest that the adoption of such practices and recruitment of such people are adopted ceremoniously, having a merely symbolic role, in order to present the organisation as legitimate to its external environment. However, it is apparent that this model has become embedded within the organisation. It has a clear impact on governance, where on an annual basis, the main roles of the board are addressed: direction setting, strategic thinking, monitoring and evaluation, accountability. This translates into the monthly board meetings, which are themed around these areas and therefore focusing the board and their role, and keeping them from straying into more operational matters.

Fundamental to the successful implementation of the model also appears to be the shared vision of the Chief Executive and the management consultant who worked together to implement the board cycle within the organisation, and also the rest of the board who were receptive to the change. It has been reported that tensions can exist between the board and management (Chait & Taylor, 1989; Taylor et al 1996; Cornforth, 2003), however in this situation a partnership approach appears to have been adopted between the Chief Executive and a Board Member in order implement of new model of governance.

Such an example of the adoption of a model from the private sector, is in contrast to a growing literature which highlights concerns over charitable organisations importing models used in the private sector (Bush, 1992; Backman & Smith, 2000; Eikenberry & Kluver, 2004; Foster & Bradach, 2005; Harris, 2001; Landsberg, 2004). Such research suggests that business practices can undermine the values of the charity, however in this case it is made clear by the management consultant, that governance is driven by the values of the organisation.

In contrast, the other two board members with business expertise – a public and private sector accountant – did not appear to be so instrumental in contributing to the effective governance of the organisation. Their role appeared to consist of a more general oversight role. In particular, the private sector accountant was noted as having difficulty in adapting to the different context of the charity sector. The lack of any instrumental contribution can be viewed as a possible example of legitimation (Meyer and Rowan, 1977), where the recruitment of these individuals reflects a desire of the organisation to present itself as modern and up-to-date.

CHAPTER 9

GOVERNANCE IN A HOUSING ASSOCIATION:
RESULTS FROM A CASE STUDY

9.1 Introduction

Housing Associations are charitable organisations which provide low cost social housing for those in housing need, including those on a low income, older people, and those with disabilities. Social housing has become an increasingly important issue, in 2008-09 57,304 households made homeless applications to their local councils in Scotland, this was a 21% increase since 1998-99 (Shelter, 2010). Both the decline in council housing as a result of the 1979 right to buy legislation, the transfer of Local Authority housing stock to Housing Associations, and the decline of private housing ownership (National Statistics, 2009) has resulted in an increasing reliance on Housing Associations as a provider of affordable housing, with one in nine properties in Scotland now Housing Association stock (Neary & Gibb, 2010).

These organisations face significant challenges, particularly in relation to the current economic, housing market, and credit crisis which is likely to result in longer-term public funding reductions (Neary & Gibb, 2010). Additionally, new legislation in the form of the Housing (Scotland) Bill will bring about changes to the regulatory system and the right to buy legislation. Within this context, Governance has evolved as a key concern of the sector. A 2009 report by the Scottish Housing Regulator highlights the importance of good governance, but reports significant variance in the quality of governance in the sector. The report suggests that many governing bodies have only a basic understanding of their role, and can become involved in low-level operational matters at the expense of strategy (Scottish Housing Regulator, 2009). This is illustrated below:

> *The quality of governance in the sector is variable. Some governing bodies are excellent, with a clear understanding of what their role is and how this differs and complements that of their senior officers. However,*

other governing bodies have only a basic grasp of their role or become embroiled in low level operational issues, leaving their organisations to be led by their senior officers (Scottish Housing Regulator, 2009, p. 42)

This chapter presents the findings from a case study of a Scottish Housing Association, to protect its identity, it will be referred to as McPherson. Interviews were conducted with key actors, and where possible documents were obtained and analysed.

The table below sets out the four interviews which were conducted:

Table 9.1 Interviews Conducted at McPherson

Interviewee Title	Position
Chief Executive	
Chairman	Retired Accountant
Board Member 1	Assistant Director of Finance in large public sector organisation
Board Member 2	Physical Disability Planning Officer with Local Authority
Board Member 3	Retired public sector manager

The chapter is centred around the two main themes of this research: governance issues, and the impact of business expertise on the board. It is structured as follows: (9.2) will provide some background to the case, (9.3) will consider governance, (9.4) will consider the impact of business expertise on the board, and (9.5) will conclude.

9.2 Background

McPherson Housing Association describes itself as 'a charitable organisation supporting local communities by providing and developing high quality affordable homes and housing related services'. It was formed in 1995 by a group consisting of both tenants and staff from the local area office of Scottish Homes, a previous housing regulator. McPherson have 35 employees and are governed by a management committee of 12 members made up of individuals from a variety of

backgrounds and experience. At present McPherson Housing Association own more than 17, 000 properties across east and central Scotland. The core members of this organisation have been involved prior to its inception in 1995, and were members of the initial steering group that formed the organisation in 1992. The current Chief Executive was on this initial steering group, becoming the Director of Finance when the organisation was established, and then progressing to his present post. The current Chair, along with another two board members were also involved on the initial steering group.

9.3 Governance

The following section considers the governance of the organisation, particularly: governance structure, the role of the board, the distinction between strategy and operations, the relationship between the board and management, and the composition of the board.

9.3.1 Governance Structure

At the time of the study, a review of Governance had just been undertaken and changes were being implemented as a result. A significant focus of the review was centred around appraisal type meetings with the board members which were conducted by the chair and the chief executive. These discussions focused on the views of board members as to the practices and procedures that they perceived to be working well and those which could be improved upon, their own individual performance and the performance of the committee as a whole, and any training that board members felt would be beneficial. Structural issues surrounding the suitability of various sub-committees were also considered, along with meeting frequency. The structure prior to the review was a meeting of the full board six times per year, with sub-committees dealing with specific issues and bringing reports back to the full

management committee. Sub-committees encompassed: housing and development, finance and corporate services, and audit.

As a result of the Governance review, a number of issues were uncovered surrounding the sub-committee structure. Concerns were raised by individuals who did not sit on certain committees and felt that they were missing out on making important decisions. Such an example included individuals who did not sit on the housing and development sub-committee who felt that they were missing out on important development decisions and large maintenance contracts. To address this situation, the committee took the decision to feed everything through the full committee so it gave everybody the same information at the same time and they weren't just relying on minutes or reports from the sub-committees to catch up with what the sub-committees had decided. An issue with this was surrounding duplication of effort, things that had been agreed at subcommittees were then discussed again at the full meeting. There was a feeling from members that if they were not on a particular sub-committee, although they got the minutes of it, it was really just a résumé of the conclusions to the discussion of the decision taken. People not on that committee were not part of the discussion, they didn't know all the things that were dealt with there and the was a feeling of lack of ownership – they felt this would be better addressed by the management committee meeting monthly and doing away with all the sub-committees apart from the audit sub-committee which meets three times a year. The audit committee has the remit for looking at the risk map, also for looking at reports from internal and external auditors. In place of formal sub-committees, small working groups were created for specific issues, one such example was a recent meeting to discuss salary structure.

Major changes implemented as a result of this review included a change in the committee structure of the organisation. The meetings of the full board were changed from every second month, to every month, and both the housing and development committee, and the finance and corporate services committee were scrapped with their remits now being put through the full board. The only remaining sub-committee was the audit committee.

Another aspect of this restructure was the plan to have a clearer focus in the meeting of the full board. The chief executive noted his aim to introduce themed meetings, for example, looking at performance every quarter and finance every quarter and arrears every quarter and looking at certain subjects once a year. In contrast board member 1 and 2 were not aware of the plans to introduce such a structure to board meetings. There was also a desire to keep agendas light to allow more strategic subjects to come onto the agendas and to move the committee away from a lot of the day to day operational matters that the board has previously been more involved in.

The move towards monthly themed board meetings is reminiscent of the board cycle adopted by Robertson, however, in this instance rather than demonstrating that such a structure has been adopted and has improved the strategic focus of the board, the following comment from the chief executive points towards the adoption of such a structure as a legitimating device:

> *But it's always this dilemma – every association goes through this cycle of: they look at their governance, and either create sub-committees or they do away with sub-committees, have a full committee and then form short-line working groups to do various things and I think that's where we'll head more in the future.*

The appears to be no rational justification for the adoption of this structure.

9.3.2 The Role of the Board

Lack of clarity in terms of the role of the board presented itself as a significant issue within the nonprofit literature (Harris, 1989; McAdam & Gies, 1985; Parker, 2003; Widmer, 1993). At McPherson, the chief executive noted that new members are offered new committee member training through the SFHA, which is a structured package talking about their various roles and the expectations of them in Governance. Board members who work full-time however, highlighted difficulties with attending events such as these. Internal training in a less formal way was also offered, such as inviting board members to go through some policy training with

other members of staff. Despite these efforts, the issue of a lack of role clarity is also apparent within McPherson. For example, concerns were raised by board member 1 over lack of role definition and the level to which other board members actually understand the extent of their role:

> *sometimes it does feel a bit cosy, sometimes I don't think they realise, you know, at the end of the day, if something went wrong where does the buck stop; and it stops with us.*

This comment was particularly in relation to a specific incident at a meeting relating to banding and structure, where the organisation was restructured around an individual who wanted to move from full-time to part-time:

> *what you get quite clearly coming over is 'oh aye, he's a nice guy, aye he should be paid…'. And what (board member 11) had said, you know, was there had been a previous meeting which I hadn't attended which was around structure, and there was a proposal because of somebody has not been well and had requested to go part-time and the rest of it. So basically they rebuilt the structure around that person going part-time. Now sitting there objectively, it should be about posts, not people, and sitting there objectively, you think 'a housing association the size of McPherson, with everything that's going on needs a full-time one of these.*

Further issues over role clarity were highlighted by board member 1, it was apparent that although board members were issued with an induction pack which outlined their role, the onus was very much on the individual board member to read and interpret this role:

> *we get a big folder, so as part of your induction – and I haven't read the big folder – but you get a big folder which takes you through lots of different things and what your role is…I think from memory if you go through the big folder it'll give you kind of a job description in terms of what they expect from you as a committee member, whether everyone round that table's like me and has read that folder or not, I don't know…*

The above examples highlight that although the role of the board appears to be formally documented and formal training is offered, there is a sense that this has a symbolic role (Meyer and Rowan, 1977) with board members not always attending

the training or actually reading or adhering to the formal roles which are documented.

9.3.3 The Distinction Between Strategy and Operations

As outlined in the research context, the distinction between strategic and operational activities presents itself as a fundamental challenge in organisations (Baysinger & Hoskisson, 1990), particularly in nonprofits where boards engage in operational activities (Leatherwood & O'Neal, 1996; Steane & Christie, 2001; Cornforth & Edwards, 1999), this can cause significant tensions between the board and management (Cornforth, 2003).

At McPherson, the Chief Executive highlights that between 70 – 80% of what is discussed as board meetings is operational. He highlights the difficulty of staying strategically focussed:

> *we are trying, at least in theory, to create more space on the agenda and move committee a wee bit away from pure operational matters and trying to think more about strategy, because… it's very easy for committee to get in overly involved in operational and management matters and trying to get that dividing line is always a bit of a balancing act.*

There are also conflicting views as to whether there is actually a clear distinction between strategic and operational activities. For example, With regard to these activities, board member 1 highlights 'I don't think there is a clear distinction'. This board member continues to explain that the board is too operationally focussed:

> *The standard financial instructions, all that kind of stuff comes to us for final ratification and I don't think, you know I wouldn't…I wouldn't take that to a board decision in here of non-execs, do you know what I mean, necessarily. And as I say, stuff like management structure, I would have expected just (chief executive) to deal with that. Things like salaries, yes, that would have to come, because he can't make a decision on his own salary, so yes…And everybody knows in finite detail where the double-glazings going in, and how it's getting on.*

Additionally, board member 2 also notes:

> *I think there is, there are certainly things that come to management committee and I think 'why's that coming to management committee? Why does staffing structure have to go to the management committee, because to me that's something the Chief Executive would make a decision on.*

In contrast, however, the chair of the board signals that there is a clear distinction between strategy and operations and the division of these tasks between the board and management:

> *I don't feel that the management committee if you like, interferes in the running of the organisation. There is a clear delineation, we're responsible for the strategic decisions: which way are we heading? How will we do it, or do we want to do it? Yes. How will we do it? We decide to a certain degree, but then it's up to (chief executive) and his management team to implement that for the management committee. So I don't personally feel that there's any difficulty in that.*

In Housing Associations, the high proportion of tenant members on Boards is seen as a contributing factor in the Boards involvement in activities that are operational, due to the difficulties they have in adapting to the strategic nature of the role. It has been reported that tenant members view their role as being that of a representative, tending to focus on operational housing issues, at the expense of strategic issues impacting on the entire organisation (Audit Commission, 2004). This is a potentially significant issue in Scottish Housing Associations, where around 45% of volunteer Board members in the sector are tenants (Scottish Housing Regulator, 2009). This situation may go some way to explaining the operational focus of the board reported by the chief executive and board member 1 and 2, as this organisation has a high proportion of tenant members – with six of these individuals serving on the board.

9.3.4 Board and Management Relations

As outlined in chapter 2, the involvement of boards in operational activities is seen to be a fundamental cause of tensions between the board and management (Chait & Taylor, 1989; Taylor et al, 1996; Cornforth, 2003), it may be expected that tensions

would exist in McPherson, given the apparently heavy involvement of the board in operational activities. However, in contrast a shared approach to managing and governing the organisation appears to be adopted. For example, as a result of the restructuring, all the senior management team go to every board meeting, and the chief executive has meetings with the chair once or twice per week. In considering this revised structure, the chief executive notes:

> *it just gives you a broader ownership really, for both the committee and for the senior staff. We can actually cover for each other, we're part of discussions much more collaboratively. But from my own point of view, I also, you know, (chair) was in today, (chair) is in regularly, I see him once or twice a week.*

The chief executive gives the following example of this shared approach suggested above, when describing a project he was working on with the chair:

> *I try to keep him up to date of anything that I think is going to be significant, we are actually jointly working on some PR stuff at the moment because – which is not something we've done very much of, and again that's about how we move forward collaboratively. Some of that's strategically, some of that's really about operational. Strategically about how we are placed in the hierarchy of housing associations, operationally, to make sure that our profile's high enough that opportunities – development opportunities, or others that might come our way don't bypass us because people don't know about us.*

In the following quote the chief executive does outline a desire to make his mark on the organisation, however it appears as if needs to seek approval from the board:

> *if I think it is a strategic decision…and I've been staff restructuring as well, and I involved (chair) in that discussion, so you've got that, we then took it to a – we've got a convenors group which is a standing sub-committee of some of the more senior members of the committee if you like – it tends to be the Treasurer, Secretary, Chair, Vice Chair, and the Chair of our subsidiary company as well…as well as speaking to (chair), I talk through my plans with them, so they obviously give their feelings on various things. And so before it's gone to committee for actual decision, it's actually gone through a couple of opportunities for them to influence and shape really, my plans, because they were very much my plans, well, the management team, but only up to a certain point. Because this is really my chance to stamp where I thought we needed to go in the future in the organisation…But, again, we're a small enough organisation, that if something doesn't work, in a year or twos time we can say 'och, this isn't really working, we'll change it again' so we're*

not actually putting things in place that are necessarily going to have to stay for the next year.

A further example of the chief executive seeking approval is outlined below:

But having the open dialogue with (chair) is a big help because then I can test the water really. If I've got an idea I can run it past him and if his face screws up in a big grimace then I think 'ok, well maybe I won't. But it allows him to know where I'm heading with these things, and shows that I'm actually doing some work as well, it's not just a case of hiding away in my wee room and churning away on the keyboards, it does allow you to kind of keep things bubbling along. And I much prefer that to having an absent Chair if you like, that you would only see at meetings.

This shared approach is also noted by board member 1:

I remember the last, a couple of meetings ago, there's some kind of costing database thing that they use to forecast over the next hundred years kind of idea, and that's what (chief executive) did, (chief executive) gave a high level overview of what that costing…well I'm not interested in what that costing thing does, I just need to know that you're discharging your duties properly and I can …you know, my role as I see it is about, is a governance role in so far as satisfying myself and therefore everyone else that's involved that the staff are doing what they're paid to do. I don't actually need to see what they do on a day to day basis so, yes, absolutely, I think it's just that shared collective.

9.3.5 Board Composition

The board currently has 12 members, including the chief executive, with the maximum number at 15. The composition of the board is outlined below:

Table 9.2 Board Composition of McPherson

Board Member	Background
Chair	Retired Accountant
Chief Executive	
Board Member 1	Assistant Director of Finance in large public sector organisation
Board Member 2	Physical Disability Planning Officer with Local Authority
Board Member 3	Retired public sector manager
Board Member 4	Tenant Member
Board Member 5	Local Councillor
Board Member 6	Tenant Member
Board Member 7	Tenant Member
Board Member 8	Tenant Member
Board Member 9	Tenant Member
Board Member 10	Tenant Member
Board Member 11	Head of Housing Services at another HA

As a result of the absence of any limit on the length of time board members are allowed to serve, many of the current board members have been on the board for a significant period of time. It was noted by the chief executive that throughout the first ten to twelve years, the committee was made up of the same people. Three of the current members, including the chair were on the original steering group which was set up to form the organisation in 1992, another three members have been on the board for periods of over 13 years. Such a situation is in contrast to the Association Rules which state:

> *McPherson Housing Association recognises that in order to demonstrate openness and accountability it must aim for a reasonable turnover of the membership of the Management Committee over time.*

Despite the above policy, a number of individuals have served for lengthy period, including some who were on the original steering group which set up the organisation. It was apparent that this was an issue of concern to the Chief Executive:

> *it's something that the committee themselves have talked about, that in the interest of good Governance having open-ended, never ending kind of membership isn't necessarily the best thing, because it does mean that we get into a comfort zone, that people just come along out of habit, that there's not this kind of automatic freshening up of the committee.*

The current chair of the board is a retired accountant, who used to run his own accountancy firm close to the housing association offices. The vice-chair has been with the organisation since 2003 and is a retired public sector manager, also serving on other public and nonprofit boards. In addition to the chair and the vice-chair, there are four additional non-tenant members. There is an occupational therapist who works as a physical disability planning officer with the local council, there is a member who works as head of housing services for another housing association, another member who is an associate director of finance with a large public sector organisation, and finally another member who is a local councillor. The remainder of the board is composed of six tenant members. It was noted specifically by both the chair and the chief executive that the organisations has experienced difficulties in recruiting members to the board.

One of the biggest issues that arose was the pressure from the regulators to recruit tenant members onto the board, as outlined below:

> *The regulatory, development funding and policy frameworks in Scotland have encouraged tenant membership of governing bodies. Around 45% of governing body members are currently tenants* (Scottish Housing Regulator, 2009, p. 44)

The commitment to tenant involvement is laid out in the Associations *Recruitment of Management Committee Members Policy*:

> *As a matter of policy, McPherson HA is committed to ensuring that McPherson HA tenants have the opportunity to be actively involved in the running of the organisation. In pursuit of this principle, McPherson HA will aim for at least a third of all Management Committee members at any time to be tenants. McPherson HA will provide information, support and training to tenants who are interested in becoming involved in the Management Committee.*

Despite this policy of 'active involvement', the practical impact of this was noted by the chief executive who identifies the mismatch in skills between the tenant members and the running of the organisation, he particularly notes issues such as understanding complex loan finance. The chief executive considers the recruitment of tenant members below:

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seen as good practice and I'm never quite sure why that's the case because they are actually responsible for a £5 million business and while tenants may well have some input to it, you really are looking at business skills first and foremost, and I think there's also always a bit of a mismatch; I think sometimes tenants are kind of conned into coming onto Boards like ours in that there's a push for us to have representation, and they can be very useful but within a fairly limited way because they aren't used to running businesses generally.

This conformity to expectations from the regulator has impacted on the composition of the board, providing legitimacy via the recruitment of tenant members to the board. This situation is viewed as a significant issue in the governance of the organisation, for example Board Member 1 (finance director) gave the following response when asked how governance of the association could be improved:

The fact that there's this kind of encouragement to have tenants, and lots of them sitting round there rather than people who are actually there for their skills and what they can actually bring to the board.

The level of participation from tenants members was of particular concern, Board Member 1 noted:

there's somebody younger than me that sits round that table – I think he sits there because his dad sits there if I'm honest, until recently, I'd never heard the guy speak, and there has been a deliberate move by (Chair & Chief Executive).

The Chairman also consider the participation level of tenant member, and comments specifically on one member:

I suppose on most committees you get most of the participation from a small number of the members and sometimes not so much from others and we have two family members on our committee the younger one until fairly recently had contributed absolutely zilch in the way of questions, comments...As a result of the interviews I referred to earlier, and thinking about this particular member of committee, we arranged that my predecessor as chair, who's still on the committee would act as a kind of training officer and buddy and whatever else you like to call it – and it has been successful because he'll meet with anybody, but particularly this younger member before a meeting, and identify questions, points that might be made, questions that might be asked, we're now getting something out of him...

The commitment of the organisation in the recruitment of tenant members represents a specific coercive isomorphic pressure from the regulators. However, it is clear that these members to not make a significant contribution to the governance of the organisation. Such a situation where boards legitimate themselves through community representation is found by Abzug and Galaskiewicz (2001), they find a situation where select organisations are found to legitimate themselves from below through community representation, such a situation is apparent here.

A further example of such legitimation is the presence of a formal skills audit of the committee. The chief executive notes the following:

> *we do have a formal skills audit of the committee – I say we have it, it's built into standing orders, last year…earlier this year was the first year we'd actually formally done it'*

This is a clear example of legitimation, where formal structures are adopted ceremoniously, and function as myths (Meyer and Rowan, 1977).

9.4 The Impact of Business People on the Board

The following section will consider specifically the impact of business on the board of McPherson, by first considering pressures that the organisation faces to become more business-like, and secondly the use of business expertise on the board.

9.4.1 Pressure to Become more Business-like

The use of business language is identified in this case, such language as suggested by Meyer and Rowan (1977) to be symbolic, and adopted in order to maintain legitimacy. As has been identified, the charity sector is under increasing pressure to become more business-like, and the adoption of such language could be viewed as a response to this. Such language is used in the annual report, where the organisation is described as a 'business' A further example of the use of such language is used by

the chief executive below, in discussing the pressure to recruit tenant members to the board:

> *seen as good practice and I'm never quite sure why that's the case because they are actually responsible for a £5 million business and while tenants may well have some input to it, you really are looking at business skills first and foremost, and I think there's also always a bit of a mismatch; I thin sometimes tenants are kind of conned into coming onto Boards like ours in that there's a push for us to have representation, and they can be very useful but within a fairly limited way because they aren't used to running businesses generally.*

Such organisational language is discussed by Meyer and Rowan (1977). Here, the isomorphism of business language with institutional rules provides rationality, prudence and legitimacy.

9.4.2 The Use of Business Expertise on the Board

There was a sense that business members on the board had a broad role in line with other board members, specific use of their functional expertise was not apparent. For example when asked about their role of the board, board member 1 (finance manager) noted:

> *I suppose to give assurance as a board, to give assurance that these guys are doing the job that they're being paid to do, and that they're not just, willy nilly, going away, you know. That they're actually making a difference. And to challenge some of the stuff that they do bring to us.*

This broad role of business people was also outlined by the chief executive, who noted that business people have more of an:

> *overseeing and monitoring role, I suppose refinancing exercises are a case in part, we would be involved in looking at the options, discussing with the consultants and then preparing a report jointly with the consultants to the committee and then make sure the committee get enough time to look at it…'*

One difference which board member 1 feels they have made since coming on to the board is to challenge decisions and ask questions:

> *it's interesting, because the feedback I got when I first started from the actual people who work there, the people who are on the payroll, they'd say 'thank goodness you're here because you're asking questions', because it was really demoralising for them spending time putting papers and stuff together and nobody asked a question about it. But sometimes it gets to the stage where I almost kind of apologise now because I think it's me that's asking questions all the time and nobody else.*

The importance of challenging management is highlighted by the Scottish Housing Regulator:

> *In a number of organisations governing bodies are not providing sufficient challenge to management. Often staff are seen as the experts and it is difficult for volunteer governing body members to get beyond this. In our experience, the key ingredient in this regard is independent thinking – to ask questions, to get the right information and advice, and to step back and make their own decisions in light of this. But governing bodies are not always good at insisting on the provision of proper information to fulfil their responsibilities. And they need to know when they have been given an adequate answer* (Scottish Housing Regulator, 2009, p. 44)

Within McPherson, providing challenge and asking questions is not always welcomed, as board member 1 notes:

> *but sometimes for those older people, or longer serving people sitting round that table, you almost think you're an irritation*

A significant distinction is made between board members who have recently been recruited, and those who have served for a considerable length of time:

> *And you kind of look at who's asking the pertinent questions around the table, I mean since me, BM 11 came on at the same time, presumably I came on because I had a finance background, BM 11 came on because she had a housing background, I can't remember the other guy that started, but he's a councillor or ex-councillor that's come on; and you start to hear different kinds of questions being asked compared to the other people; and the other that have been there forever are still quite happy to just sit there and have half a dozen biscuits and have a cup of coffee, do you know what I mean. But there will need to be more of that, I don't think that it can continue as it is. Because apart from anything else,*

you run the risk, the fact BM 11s only been there a year, and that actually made her consider her position.

9.5 Conclusion: McPherson Housing Association

This case confirms the existence of a number of issues which are apparent in the literature on nonprofit governance. There appears to be a lack of clarity in the role of the board, with a perceived lack of understanding of the full extent of the role. In addition, the board appears significantly operationally focused. This confirms findings from the Scottish Housing Regulator (2009) that boards become caught up in low-level operational issues. This could be due in part to the high level of tenant members on the board, this is seen as a contributing factor in the Boards involvement in activities that are operational, due to the difficulties they have in adapting to the strategic nature of the role. It has been reported that tenant members view their role as being that of a representative, tending to focus on operational housing issues, at the expense of strategic issues impacting on the entire organisation (Audit Commission, 2004). This is a potentially significant issue in Scottish Housing Associations, where around 45% of volunteer Board members in the sector are tenants (Scottish Housing Regulator, 2009).

This apparent tendency for the board to stray into operational matters is in apparent contrast to the literature which suggests tensions exist when boards stray into operational matters. In McPherson, the chief executive appears to actually take operational matters to the board, possibly to seek approval. This points towards a shared approach to both the governance and management of the organisation. There is also a lack of a clear governance structure, although a recent review has brought about structural changes in terms of meeting numbers and committee structure these appeared to be for reasons of legitimacy rather than reflecting increased effectiveness.

In terms of the presence of business people on the board, they do not appear to have any instrumental value. Although there appears to be a desire from board member 1

to have more of an impact, the current structure does not seem to allow for this, meaning this role is limited and symbolic (Meyer and Rowan, 1977).

CHAPTER 10

GOVERNANCE IN A FURTHER EDUCATION COLLEGE: RESULTS FROM A CASE STUDY

10.1 Introduction

This chapter presents findings from a case study undertaken within a large Further Education College in Scotland. In this case, governance arrangements had become of particular concern in the organisation: it was felt that governance had been overshadowed in recent times due to the development and move to a new campus, this had tended to dominate board and committee meetings; there had also been certain issues which had brought about industrial action. The data presented in this chapter, in line with the rest of this study will focus on two specific aspects of Governance: specific Governance issues which the College faces in achieving its primary purpose of the advancement of education, and the impact of individuals with business expertise on the Board.

This chapter presents the findings from a case study of a Further Education College, which will be referred to as Mackay. Interviews were conducted with key actors, and where possible documents were obtained and analysed. The table below sets out the thirteen interviews which were conducted:

Table 10.1: Interviews Conducted at Mackay

Interviewee Title	Position
Chief Executive (Principal)	
Vice-Principal (Finance)	
Board Secretary	External – from legal firm
Chairman	Retired Civil Servant
Board Member 1	Business background
Board Member 2	Support staff rep
Board Member 3	Academic staff rep
Board Member 4	IT specialist
Board Member 5	Local Government – Economic Development

Board Member 6	Managing Director of Consultancy Business
Board Member 7	Investment Banker
Board Member 8	Director of HR in large Public Sector Organisation
Board Member 9	Director of Finance in Large Charity

10.2 Governance Issues

This first section will focus on the main issues which the board faced in governing the College. Specific issues from the existing Governance literature and also from various reports on College Governance were investigated. These issues – along with others which emerged - fell into a number of specific categories, namely: the role of the board; the distinction between strategy and operations, and how it impacts on the relationship between the board and the senior management team, and the composition of the board.

10.2.1 The Role of the Board

The specific role of the nonprofit board has been highlighted as an important issue in governing nonprofit organisations (OSCR, 2006, Brown & Guo, 2010). Within this case the key role of the board was identified by all board members to some extent as a strategic/ visionary role, however within these definitions, a wide range of interpretations of the nature of this role were apparent. Two members in particular viewed this role in terms of compliance with Government policy rather than determining the overall direction of the College. The remaining members did describe the Boards role in terms of setting the strategic direction of the College, with varying levels of detail of what this actually entails. These responses may suggest that there is some acknowledgement and understanding that the Board role is strategic, but a lack of clarity exists over what this actually means (Harris, 1989; McAdam & Gies, 1985; Parker, 2003; Widmer, 1993). There were however descriptions which closely matched the various definitions of the Boards role outlined in the guidance literature on College Governance (see Association of Scotland's Colleges, *Guide for Board Members* (ASC, 2006)), for example, with

regard to setting the long term direction of the College and delegating to management.

In addition to the specific role of setting the strategic direction, some members described additional roles, many of which highlighted the emphasis the Board placed on the oversight role. Additional roles outlined included: ensuring that the management is effective in carrying out its functions and meeting its objectives; monitoring whether the College is meeting its objectives; ensure strategy for the College meets needs of all its stakeholders; ensuring financial stability for the College; ensuring quality of staff and student experience; ensuring value for money for the expenditure of public funds provided by the Scottish Funding Council; ensure provision of good education to students. Other key roles outlined included: bringing individual experience and expertise to bear for the benefit of the College; compliance with financial memorandum; financial responsibility in terms of the use of public funds; appointment of the Principal and overseeing their performance.

These findings highlight the tendency for board members to discuss their roles in terms of strategy, however the way that this term was conveyed varied between members. A plethora of literature and guidance exists on what the role of the Board should be (Houle, 1990; Axelrod, 1994), in addition, such examples which relate more specifically to Colleges include; the *Good Governance Standard for Public Services* (2004), and the Association of Scotland's Colleges *Guide for Board Members* (ASC, 2006). The general consensus in such publications is that this role should have a strategic focus, this is acknowledged by the board members, however, findings raise concerns as to whether there is a full understanding of what this role actually entails. There may also be an issue over how board members view the scope of their role. In addition, the role of the board in Colleges is perhaps somewhat confused by the title 'Board of Management', and the role outlined in the Further and Higher Education (Scotland) Act 1992 whereby the Board is charged with the responsibility for 'managing and conducting the College', however no definition of what is meant by this is provided.

This issue of the role of the Board will now be investigated in more detail below, focusing on key aspects of the role. These aspects include: the Boards role in terms of setting the strategic direction of the College, target setting and monitoring, and monitoring and controlling finance.

10.2.1.1 The Role of the Board in Setting the Strategic Direction of the College

The extent to which Board members were involved in setting the strategic direction of the College was investigated. This role was initially defined by many members as a key role of the Board, however, it became apparent that there was a lack of clarity and detail surrounding the Boards role in this process. Concerns were apparent from some members who highlighted the lack of time given to strategy, with one member noting that the only time the Board meets to look at the bigger picture is at the annual residential. The two main ways in which board member involvement was facilitated was the annual board residential, and through membership of the committees.

The board residential, or away day as it was also referred to was an event for board members which took place annually over two days. Many members described how attendance at this event allowed time for reflection, and gave board members the opportunity to focus on the 'bigger issues' affecting the College. In addition to the Board awayday, the other activities Board members felt enabled them to be actively involved in determining the strategic direction of the College was membership of the committees. Each board member was appointed to two committees, which were matched closely to their own specific expertise. The way in which the committees were structured allowed for board members to use their expertise to contribute both individually and collectively to specific areas.

Further activities which enhanced the strategic contribution of board members included board development sessions which were run prior to Board meetings, these generally took the form of a presentation from a member of the senior management team, or an external expert. The way in which meetings were structured was also

highlighted, whereby specific items which were forward looking, rather than backward looking were allocated a space within the meeting.

10.2.1.2 The Role of the Board in Target Setting and Monitoring

Board members were also asked about their role with regard to setting targets and monitoring performance against those targets. There was a divergence of opinion on the Boards involvement with this role. Three members noted that they felt the actual setting of these targets was operational, and should/ was done by management, board member 1 felt that monitoring was also an operational activity for example:

> we're not directly involved in target setting and monitoring performance against targets it's really an operational matter, though this is perhaps one of the areas where there is some confusion and overlap. We should not – in my view – be setting targets but what we should be doing is approving or not, target setting and the realistic-ness of the targets that are set. We should be receiving reports on the monitoring, not monitoring it ourselves.

There appeared to be a debate with regard to the Boards actual role in target setting and monitoring, with some feeling that target setting in particular was an operational role. However, other member discussed the setting, refinement and monitoring of the world class performance indicators. The key tool here was identified as the WPIs, of which the Board members were very positive about the contributions they made.

Findings from a study by Miller (2002) of twelve nonprofit Boards show that Board members carry out the monitoring function according to their personal or professional competencies rather than considering measures that would show progress in achieving mission related goals and objectives, examples given include accountants concerning themselves with organising financial documents and lawyers focusing on legal or contract issues. This was not apparent from the responses to this particular question, however findings which will be highlighted in more depth later in this chapter do support this claim. In particular it was highlighted that those with accounting expertise played a key role in the challenge of accounting information.

10.2.1.3 The Board Role in Monitoring and Controlling Finance

Both the interpretation and response to the question surrounding the effectiveness of the Board in controlling and monitoring the finances of the College varied widely. There was a divergence of opinion as to whether this was actually a board role.

Many members responded to this question in terms of how this role was carried out and identified issues, leading to the assumption that they did feel that this was a role the Board should undertake. Others however, commented specifically on the nature of this role in terms of the Board. For example, one Board member felt that the Board should not be monitoring and controlling the finances as this was operational and the Boards involvement should be when difficulties occur or approval is needed. Another member partly agreed with this, in that they felt the Board could not control the finances as this would be operational, however they felt the Board should monitor the Finances. Two other members highlighted the significant role that the Finance Committee played in this, and another member noted that in terms of the Board this role was 'clearly an absolutely key responsibility'.

There was a general agreement that the Board is effective in controlling and monitoring the Colleges finances, however, issues were identified which impacted on this, in particular around provision of information to the Board.

Another member commented on the reliance on management information and trust in the Executive:

> *The Board can only judge on what it's presented with; there's got to be a high level of trust in that what you're being presented with is accurate information, that's across any of the aspects, and finance probably being the most important one. As a member of the audit committee we get quarterly updates of income against expenditure and we get the final years accounts and I think that's as much as we can ask as a Board.*

Also:

> *I think our ability to do that is continually improving through the improved management, through the improved reporting, through the improved regular accounts, and from my perspective, I see the Senior Management Team responding to the Boards requests, any requests the Board have had in relation to the financial management of the College.*

Two members also highlighted the key role of Board members with an accounting/ financial background in the role of monitoring and controlling the Colleges finances, this is evident below:

> *There are individuals on the Board that are more inclined to scrutinise the figures than I might – I give them a courtesy glance and then say, they balance, that's fine – whereas there are other members of the Board that maybe have a background as being accountants and that's what they're happy doing. And I think the skills of the people on the Board, there is a good match of skills, there are a couple of number crunchers here, and question askers that like to crunch numbers and ask questions.*

Similarly:

> *I think that currently we have a couple of very effective Board members who are accountants – one's an accountant, one works in the finance industry, financial sector – and, you know, we as Board members rely on them to do a lot of the scrutiny.*

Overall, although two members felt that there was an operational element to this role, there was a general feeling that controlling and monitoring of finances was a Board role and it was carried out effectively at the College. Issues were identified which did have an impact on this, namely: inefficient IT systems resulting in out of date information and reliance on management information/ trust in the SMT. In addition, the key role of Board members with an accounting/ financial background was highlighted in terms of being able to scrutinise and challenge the information presented.

Similar findings were documented in the Review of Scotland's Colleges Report (Scottish Executive, 2006). The majority of respondents in this study (33 of 36) felt that they had effective monitoring and control of their finances, the rigour of this

process was also found to be aided by Board members with a business background. In addition, many Colleges felt that improvements could be made with regards to real-time accuracy of financial management accounting information.

10.2.2 The Distinction between Strategy and Operations

The above section investigated the key roles of the Board of the College, where a number of areas were subject to debate as to whether the Board should undertake the or not. This is a contentious issue - the distinction between strategy and operations, and the level the Board felt their involvement in each should be. There was a general feeling that there was a distinction between strategy and operations, however it was felt that this was not absolute and the existence of a grey area was perceived by many. Within this, some opinions varied, for example the following Board member was clear of the distinction between the two and that the Board should not be involved in operations:

> *I think the Board definitely should not be involved in operations and so there should be a clear distinction. The Board should be aware of what's going on in operations, particularly if any issues are likely to crop up, but they shouldn't go looking to be involved in those things and in an ideal world they wouldn't be involved at all, unless they're asked to bring specific expertise that they have by the management, but it's that management who should be responsible for operations.*

Other Board members, however saw this as being more complex:

> *I think there's a clear understanding that we should have that division. I think when it comes to practice, drawing that line is a bit difficult, and as I think it varies with circumstance as well. I don't believe it's an absolute thing that can be pre-determined in advance and reduced to writing and we can read it and understand what we're meant to do. I think there is a bit of sucking it and see in that regard - for both the leadership team and the board.*

Such a distinction between strategic and operational activities presents itself as a challenge in all organisations (Baysinger & Hoskisson, 1990). When boards stray

into operations, this is often a fundamental cause of tensions between the board and management (Cornforth, 2004; Chait & Taylor, 1989; Taylor et al, 1996). Two examples of such tensions caused by determining whether activities are strategic or operational are apparent in this case. The first considers a situation when the senior management team decided to hire part-time lecturing staff from and agency, and the second when the principal restructured the senior management team.

Recruitment of Agency Staff

This situation came about when the senior management team attempted to source temporary lecturing staff through an agency. The Principal was quite certain that this was a totally operational decision. The Board were not consulted on the decision and instead, were presented with a proposal with a decision that had already been taken, which was that the SMT were going to use the agency to recruit temporary lecturing staff. The Chair of the HR Committee noted that he was immediately concerned about the impact this would have on employee relations. However, by the time he found out about the proposal, it had already been communicated to the outside. The result of this proposed move caused issues with the teaching trade unions. It was at this point that both the Chair of the Board and the Chair of the HR Committee became involved, they were assured by the SMT that the discussions with the teaching unions were going well and that any issues would be worked out. This turned out not to be the case and resulted in strike action by staff; two one-day strikes.

The Chair of the HR Committee believed that as a Board, they had 'went out on a limb' to support the SMT. Although the Chair of the HR Committee noted that both himself and the Chair of the Board had made it clear to the Principal and Vice-Principal that they had no choice but to support them after they had been put in such a difficult position. Due to the fact that they had already made the decision public the Chair of the HR Committee noted that as a Board they either had to support them, or come out and say that they didn't, which he highlighted would have been a huge loss of face for the leadership team. The decision was made by the Board to support the management team, they informed them of the importance of successful negotiations

with the trade unions. When these discussions failed they decided that they would take the criticism resulting from the strike action and that they would see it through – which they highlighted was very important. However, after the second one-day strike, the Chair of the HR Committee then noted how he received an email that had been sent around the College from the Principal saying that they were scrapping the proposal to use the agency: they had collapsed in the face of the strike. The Chair of the HR Committee had previously made it clear to the Principal that it was imperative that they did not collapse and if they were going to collapse part way through, they shouldn't do it.

As a result of this, the Chair of the Board and the Chair of the HR Committee had a number of separate meetings with the Principal and Vice-Principal to review their actions, because the Board felt that that what they did in this situation was make a strategic decision – which was about using the agency – and they didn't involve the Board it in at all. Instead, the SMT saw it as an operational decision. However, the Board viewed this decision differently, as it was a huge issue for the College, there were questions asked in the Scottish Parliament about it and MPs wrote to the Chair of the Board about it. The Boards view was that the management team misjudged the situation in terms of their decision not to come to the Board with it first to get them onside. The outcome of this was a increased awareness of this issue and it was decided that the issue of strategic and operational decisions is a judgement call, with the key to avoiding similar situations being keeping both sides informed, specifically with regular meetings between the Chair and the Principal.

Restructuring of the SMT

Another example of this tension between strategy and operations can be seen with regard to a restructuring of the senior management team. The Principal felt that this was an operational decision, as can be seen below:

> *I do believe there's a grey area, and I often see this at Board meetings. I mean I've just...we've got 12 in our senior management team and 3 are leaving and what we've done is we've restructured our work at the senior management team level, people taking on different responsibilities. Now*

fortunately the Chair of the HR Committee is very clear that that is operational, that's my responsibility, on the other hand I know at the next Board meeting there will be questions about why have I done this why have I done that, why haven't I got a Director of Human Resources anymore. So that for me is a very grey area where I sit because Board members see it in black and white and I end up with the grey in the middle.

The acknowledgement by the Principal that Board members would questions the nature of this decision was correct, with the Chair of the Finance Committee frustrated that he was not informed of this decision:

I don't know if you know but they've just done a reorganisation of the senior management team, that was announced this week, Monday, I learnt about it on Friday last week, a week ago, simply because the Director of Finance happened to be in for another meeting and mentioned it to me, and part of that involves a change in his role and his position, and I personally have great difficulty understanding how that has happened with not even a conversation with me. Now having said that, I have perfect understanding that the Principal has his prerogative to organise the staff as he thinks appropriate, however, I do find it odd if we are Board members, in my case we have specific responsibilities in terms of the Finance, if something is effecting the chief financial officer and I'm not involved in any way –I'm not suggesting that I have a veto or anything else, but at least involved in the discussion- it's a little difficult.

Although the dominant response to this question was that Board members should not be involved in operations, throughout the interviews various desires were expressed from Board members to become more involved in certain aspects of the College, some of these could be perceived as being operationally focused, adding to the complexity of this issue. Examples included: when considering the relationship between the Board and the SMT, two members felt that there was scope to have more input in the decision making process, rather than just being presented with final decisions to approve. In addition, one member was keen that Board members should be allocated a specific school to be involved with, this could be perceived as operational.

10.2.3 Board Composition

The composition of the board is outline below:

Table 10.2 Board composition of Mackay

Interviewee Title	Position
Chief Executive (Principal)	
Vice-Principal (Finance)	
Board Secretary	External – from legal firm
Chairman	Retired Civil Servant
Board Member 1	Business background
Board Member 2	Support staff rep
Board Member 3	Academic staff rep
Board Member 4	IT specialist
Board Member 5	Local Government – Economic Development
Board Member 6	Managing Director of Consultancy Business
Board Member 7	Investment Banker
Board Member 8	Director of HR in large Public Sector Organisation
Board Member 9	Director of Finance in Large Charity
Board Member 10	Director of External Relations in Public Sector
Board Member 11	Owns of Business
Board Member 12	Retired Accountant

Many Board members commented on the very good mix of skills currently on the Board. Many felt that the skills of the Board should reflect the needs of the College, and should evolve as the College evolves. Examples of some additional areas of expertise which were suggested included: Marketing; Finance and Accountancy; IT; Political background; Local Government; Community Representatives; and someone from another FE College or education institute who could challenge what was happening on the Education front. In comparison, a report by Davis (2002) found that with regard to the employment background of Board members of English Colleges 37% were from business, 12% were co-opted, 10% were staff, 7% were from the community, 6% were from the local authority, and 8% were unfilled vacancies.

Issues surrounding recruitment were highlighted, in particular a previous recruitment drive in which the number of potential candidates dropped significantly when they discovered the posts were not remunerated.

10.3 The Impact of Business Expertise on the Board

This section considers the impact of business on the board of Mackay by considering: the role of the individual board member and the use of the experience and expertise.

10.3.1 The Role of the Individual Board Member

Board members were asked what they felt their most important role as an individual Board member was. The responses to this question tended outline a broader role in line with role of the Board previously outlined rather than bringing specific functional expertise. For example, one Board member with an HR background noted: 'Well I suppose it's in line with what I think the role of the board is, which is to provide a strategic direction or lead. Also to be an ambassador for the college and an advocate for the college'. Similarly, another Board member with a Business background also talked generally about their experience, this time in terms of working towards the fulfilment of College objectives:

> *It's helping the senior management to achieve the agreed objectives for the College and that's using whatever expertise and experience I have to do that, so it may be that sometimes I'm asked to go and have a one to one meeting with somebody to help them on some point, it may be sitting at a Board meeting with the rest of the Board analysing a particular issue, it may be meeting people from a department in the College and giving them encouragement and advice or…it's in whatever capacity is appropriate providing the benefit of whatever experience and expertise I have. So I think it's pretty clear, the responsibility is to provide the expertise and experience, but it may be needed in lots of different ways and I have to be flexible enough to fit in with what's appropriate. And what's appropriate for me as a Board member might be quite different from somebody else.*

And:

> *Well for me it is very much about compliance with the Scottish Funding Council Financial Memoranda. It's for the management, administration of revenue and property and conduct of affairs. And that's what statutorily we are charges to do. So it has to be the top priority.*

Another member with a business background described their role in terms of the role of the board, but also noted the emphasis on their specific expertise:

> *I don't see my role as a lot different to those things I gave you at the outset about the generic role of the board or Board members. I mean, I think I do the same thing. I suppose I do that with maybe two slight areas of emphasis; one is generally on the people issues within the College, and the other one –which is linked to the people issues- is about one of the things that I do now, and have done for a number of years, is lean process improvement.*

These board members with business backgrounds see their role as broad and in line with other board members. They do not appear to bring their specific expertise to the board, this would point towards their presence as enhancing the legitimacy of the board (Meyer and Rowan, 1977). This issue is explored in more detail in the following section.

10.3.2 The Use of Individual Boards Members Experience and Expertise

The issue surrounding the extent to which Board members feel their experience and expertise is being used was also investigated. It was established through discussions with both the Chair and the Principal that there were procedures in place to ascertain the expertise possessed by Board members, for example; one to one meetings with the Chair and each Board member to establish the individual Board members interests, and the placing of Board members onto Committees with consideration of their specific expertise. However, there was a varied response from Board members in terms of whether they felt that best use was actually being made of their skills. This section specifically considers the impact of Board members with specific

business expertise, including; finance, IT, lean process improvement, accounting and HR.

Finance

There was one Board member who worked in the Finance Industry, this person was positive in terms of the way in which his expertise was used and gave a number of examples of how he was using his expertise within the College:

> *…at the moment I'm trying to get the College to look at –in terms of the commercial company, to think about - the financial services sector, and I think both (the Chair) and I believe that financial services is a huge contributor to both the Scottish and in particular, the (city) economy and therefore, the College should be servicing that sector in some shape or form, and it doesn't really at the moment. So, trying to get the College to think about what it might do in that area, for example, through the provision of commercial training courses; so looking to provide introductions for College members, to other organisations in the sector, so that they can get a feel for what are the issues that the sector has, and how the College might be able to respond to those.*

This examples shows an apparent desire from this member to use his background to contribute to the College, however, at present this seems aspirational.

Information Technology

The insufficiencies of College IT systems were highlighted during this research, with members highlighting the time lag in receiving up-to-date information. There was one member on the Board who previously owned an IT services company, and had been recruited by a previous Finance Director who had contacted him with regard to issues the College was having with its IT systems. The contribution made by this member is outlined below:

> *for example, because I have pretty good experience in IT I'm constantly being asked to be involved with things to do with IT strategy and that kind of thing. But also because I have experience in the private sector, people try to call on that from time to time, and that's in different ways…for example, just a couple of weeks ago one of the departments in the College which had a relatively poor report from HMIE a year or two ago was business management, now that department since then has been reorganised and is now business, technology and tourism (BTT) and they*

had a planning day and I was asked if I would go along to that for part of the time at least; first of all to listen to what they were trying to achieve, but then to give them a wee chat about some ideas I had and then to be involved in some of their discussions. And I think, that was because of the background I have, because of my economics I was kind of on their wavelength, but also because I've come from the private sector, some of the things they're trying to do are relevant. So I think that actually that was a very good use of my time.

This is a further example of providing advice to the organisation, however it is not apparent that this has had clear instrumental value to the College, this role was perhaps more symbolic.

Human Resources

Another had a HR background in the private sector, and had specific interest in continuous improvement, and in particular lean process improvement:

I'm a big fan of processes so a lot the stuff that the College has done around KPIs, and around the World Class Indicators, and around improving processes has been initiated by me…I've done some stuff for the College as well in terms of trying to help some of their managers develop skills in the area of lean process improvement so I've done some training with their managers. So in that respect I think that the College have used my expertise quite a lot…and it's quite difficult as well because you cannot go along wearing a Board member hat, I've, for example, done a couple of presentations to the senior management team on lean process improvement, and you know, I try and say at the outset there, I'm not here as a Board member, I'm here to talk to you about this, but I think the people there are always probably a little bit, 'he is a board, member, I'm not going to say too much' kind of thing. So again there's a difficult balance to strike there, but I think they've used my expertise in those areas quite effectively. I've been given the opportunity to contribute there and to add value to the College management team and I think similarly with HR as well.

This business member has clearly had an instrumental role in the organisation, with the introduction of KPIs and training on lean process improvement.

Accounting

There was one accountant on the Board, who described his role in interpreting the financial information presented to the Board:

I think, unlike colleagues who are not familiar, I have (a) an understanding of being able to challenge the executive in terms of – how can I describe this…I guess it's the ability to understand how the finances translate into how…in terms of the performance of the College and providing that, if you like, I have the ability, if you like, the finance is discussed to say yey or nay as to yes this is ok, is it material, should we be concerned about this, what should we be concerned about, what are the issues here. So if you like, there's an element of translation from taking a set of numbers to making it, not idiot proof, that's the wrong expression, but if you know what I mean

Although this member highlighted his role in terms of understanding and explaining accounting information, they felt there were other areas in which they could make a significant contribution, and they also questioned how much the SMT knew about Board member backgrounds:

I've been involved in business, particularly in commercialisation, so I'd like to believe I've got a fair bit of experience, know-how, and have a lot to offer in helping in that thing…Barely ever been discussed, there's one or two things where it's sort of come to light, but…for example what they've just done, they're establishing a commercialisation; waterfront enterprises it's called, which one of my colleagues on the Board is, he's actually stood down from the Board but he's going to, so he can be the acting Chief Executive while they set it up. But that sort of process is what I've been here for the last 4,5,6 years or so, and yet I've had no contact about that at all, no issues about that, so yeah, that part of my expertise and background is not tapped into. And I'm sure that's true of one or two others. The only thing I would say, what'll be interesting in this exercise is how much, I think you endeavour to try and do this, but how much the Executive, or even just the SMT, how much they know about the Board members know-how and background. I would say quite honestly it's a very good Board, just thinking across the individuals, there's a plethora of skills and know-how…I'd be interested in who contacts the Board members. I've only ever really been contacted by the Principal and the Director of Finance in X years, that's pretty limited contact, I'm not saying they don't deal with anybody else but then in turn nobody's ever picked up the phone and asked me about something.

This is clearly an example of legitimation.

10. 4 Conclusion: Mackay College

Previous studies on governance in charities have highlighted issues regarding the role of the board, in particular the confusion of board members with regard to their role, and a tension when board members attempt to become involved in what are perceived as managerial issues. In this study the role of the board of a FE College was investigated. Although on the surface they communicated their perception of this role as being strategic, it was apparent that beyond this there was a seeming lack of clarity over which specific activities they should be including in their role. Within this, there seemed to be differing interpretations in terms of what this strategic role encompassed, from whether it was a solely compliance role, or something more visionary and taking the College forward. Looking at more specific roles, board members were able to convey their involvement in setting the strategic direction of the College, and clearly viewed this as being part of their remit, however, comments that the setting of the strategic direction at the board away day was the only time the board looked at the longer term picture rather than the 'day-to-day' issues may indicate a tendency to stray into the more operational side of things as described in the literature. Other roles investigated all brought out a divergence of opinion as to whether these were within the scope of the boards roles. Targets setting and monitoring, and monitoring and controlling finance, were all viewed by some members as being the role of management.

The second aspect of this study was the existence of tensions caused when the board stays into matters which are viewed as operational. The board highlighted difficulty in distinguishing between strategic and operational activities, noting the existence of a grey area in many cases. A widely used example was the case of the recruitment of temporary staff from an agency. The Principal viewed this as a management decision, the board, however, viewed it as strategic, due to the impact the decision had on the College. In the aftermath of this example, the decision was taken to increase communication between management and the board, however other instances of the difficulties in defining a dividing line between the roles were apparent. A Further example was outlined whereby the restructuring of the SMT was undertaken by the Principal – viewing this as an operational activity. When the role

of the Finance Director was changed, the Chair of the Finance Committee felt he should have been consulted, as this was strategic. There is clearly confusion in existence with regard to the exact role of the charity board, with many tensions apparently created through the differing interpretations of activities which are perhaps more down to judgement and interpretation. It may be apparent that the division of activities is perhaps less of a boundary line and more of a boundary area occupied by both the board and management.

Finally, the impact of business expertise on the board was considered. The majority of business people tended to view themselves as having a broad role in line with the general role of the board, rather than to bring their own specific functional expertise. Although practices were identified by the chair and the chief executive to ascertain and utilise board members experience, there was a general sense that they served more of a legitimating role than an instrumental one. This was with the exception of the HR professional, who noted that he was instrumental in bringing in KPIs and also did training with management on lean process improvement.

PART THREE

CHAPTER 11

CONCLUSION

This thesis has investigated governance in Scottish charities. At the outset, two research questions were identified, the first sought to identify the main governance issues charities face, this was internally focused, and specifically related to the functioning of the board. The second research question addressed the issue of the influence of business on charities through examining the impact of business expertise on charity boards. This was a multi-method study utilising both a survey and a series of case studies, and social construction and institutional theory were used as the framework for the analysis. In particular, ideas of institutional isomorphism (Meyer and Rowan, 19977; Di Maggio and Powell, 1983) have been used to explore the similarities of governance practices between charities, and to offer a possible explanation for the widespread recruitment and impact of business people onto charity boards. Ideas of legitimation (Berger and Luckmann, 1967; Meyer and Rowan, 1977) were used to consider the recruitment of business people onto charity boards and the adoption of business practices. This chapter will initially present an overview of the findings, the main contributions of this research will then be outlined, and some suggestions for future research will be presented.

11.1 An Overview of Key Findings

This section will present findings from each of the empirical chapters, before drawing together key aspects around the themes: governance issues; and business expertise.

Governance: An Overview of the Largest Section of Scottish Charities

The results of a survey of the largest section of Scottish charities were presented in chapter 6 and 7. Chapter 6 focused on governance issues related to: the role of the board, including how well defined roles were, how they were communicated to board members, and how awareness of roles was ensured among board members; the proportion of board time spent on strategy and operations, and the types of strategic and operational roles carried out by the board; the effectiveness of governance in charities; and control and regulation in charities.

On the surface, charities reported strong governance frameworks, with clearly defined roles and responsibilities, a predominant focus on strategy, and overall effectiveness in the governance of their organisations. However, further interrogation of the data identified some possible inconsistencies within these results. Respondents reported clarity in role definition, such a finding was in contrast to the literature where lack of role definition is reported. Although charities reported documenting their roles clearly, this may be in order to present themselves as legitimate to the outside world, with these roles not necessarily being carried out. This would be supported by further findings from the survey where a lack of clarity was found to exist in terms of what charities perceived to be strategic and operational tasks, low level activities were also shown to be carried out by the board. This could point towards a mismatch between role definition and fulfilment. Such a cause could be related to the communication of roles, which was predominantly through formal governance documentation, it is possible that these are not necessarily regularly referred to by board members, providing further evidence for the documentation of roles for legitimacy purposes (Meyer and Rowan, 1977; Parker, 2007).

Charities also highlighted a number of ways in which governance could be improved, largely relating to board structure and training. Issues were also raised around difficulties in adhering to regulation. The above factors suggest that these organisations may not be as effective as reported. These findings point towards the existence of loosely coupled organisations (Meyer and Rowan, 1977), where the

external façade of the organisation, namely the formal rules of the organisation such as the documented roles and responsibilities conflict with the inner core or the organisation and the work that is actually being carried out. Organisations document and report adhering to prescribed governance practices in order to maintain legitimacy (Meyer and Rowan, 1977).

The Impact of Business Expertise: An Overview of the Largest Section of Scottish Charities

Chapter 7 focused specifically on the impact of business expertise on charity boards, and presented findings from the largest section of Scottish charities. The main issues investigated included: the proportion of business people on charity boards; the impact of business people on charity boards, including the main practices introduced by business people and how they were received within the organisation; the motivations of business people, their understanding of the charity context; and the impact of business people on public confidence.

The findings highlighted the widespread recruitment of business people on charity boards. This was attributed to coercive isomorphism (Di Maggio and Powell, 1983), with pressure from the Scottish charity regulator to appear more business-like. Charities reported a general satisfaction with business people on their boards, with some wishing for more. In contrast to the literature outlined in chapter 3, relatively few organisations expressed concerns that such individuals may not fully understand the nature and values of the organisation.

The impact of business people on charity boards was reported as two-fold, in the form of a general business expertise, or specific functional expertise, with some charities reporting both. However, due to the nature of the survey data, it was difficult to fully understand the extent of the impact of such expertise and reported practices, and whether they had been fully adopted or were merely a legitimacy tool. Some previous studies have reported that the reaction within charities to the

implementation of business practices is that it undermines the charities fundamental ethos (e.g. Landsberg, 2004), however the survey results point towards a passive acceptance of the adoption of business practices. This acceptance may be due to the lack of impact that these 'business practices' had on the organisation – many were quite minor innovations rather than fundamental changes – meaning they may have a merely symbolic role within the organisation.

With regards to the motivations of business people serving on non-profit boards, the main reasons were personal. This raises questions around the intentions of these business people, and whether they are intent on using their expertise to bring business practices and fundamental changes to the organisation, or whether they are there for reasons of personal fulfilment. It was also found that charities view business people as having a role in increasing public confidence in the organisation. Such a finding would suggest that charities recruit business people for legitimation – in order to appear modern and up-to-date (Meyer and Rowan, 1977).

Governance in a Social Care Charity: Some Case Study Evidence

Chapter 8 reported findings from a case study of a social care charity. At the centre of this case study was the adoption of a private sector governance model, with a board member from the private sector being instrumental in its adoption. The board cycle was at the centre of the governance structure in this organisation, and was brought into the organisation by a board member with business expertise, in this case, a management consultant. Meyer and Rowan (1977) suggest that the adoption of such practices and recruitment of such people are adopted ceremoniously, having a merely symbolic role, in order to present the organisation as legitimate to its external environment. However, it is apparent from this case that this model has become embedded within the organisation. It has a clear impact on governance, where on an annual basis, the main roles of the board are addressed: direction setting, strategic thinking, monitoring and evaluation, accountability. This translates into the monthly board meetings, which are themed around these areas and therefore focusing

the board and their role, and keeping them from straying into more operational matters.

The successful implementation of the model was the result of a shared vision between the chief executive and the management consultant, who worked together to implement the board cycle within the organisation, the rest of the board were also receptive to the change. It has been reported that tensions can exist between the board and management (Chait & Taylor, 1989; Taylor et al 1996; Cornforth, 2003), however in this case a partnership approach appears to have been adopted between the Chief Executive and a Board Member in order implement of new model of governance.

This case provided an example of the successful implementation of a model of governance from the private sector, this is in contrast to a growing literature which highlights concerns over charitable organisations importing models used in the private sector (Bush, 1992; Backman & Smith, 2000; Eikenberry & Kluver, 2004; Foster & Bradach, 2005; Harris, 2001; Landsberg, 2004). Such research suggests that business practices can undermine the values of the charity, however in this case it is made clear by the management consultant, that governance is driven by the values of the organisation.

In contrast, the other two board members with business expertise – a public and private sector accountant – did not appear to be so instrumental in contributing to the effective governance of the organisation. Their role appeared to consist of a more general oversight role. In particular, the private sector accountant was noted as having difficulty in adapting to the different context of the charity sector. The lack of any instrumental contribution can be viewed as a possible example of legitimation (Meyer and Rowan, 1977), where the recruitment of these individuals reflects a desire of the organisation to present itself as modern and up-to-date.

Governance in a Housing Association: Some Case Study Evidence

This case confirmed the existence of a number of issues which are apparent in the literature on nonprofit governance. There appeared to be a lack of clarity in their role of the board, with a perceived lack of understanding of the full extent of the role. In addition, the board appears significantly operationally focused. Findings from this case confirmed reports from the Scottish Housing Regulator (2009) that boards become caught up in low-level operational issues. This could be due in part to the high level of tenant members on the board, which is viewed as a contributing factor in the Boards involvement in activities that are operational, due to the difficulties they have in adapting to the strategic nature of the role. It has been reported that tenant members view their role as being that of a representative, tending to focus on operational housing issues, at the expense of strategic issues impacting on the entire organisation (Audit Commission, 2004). This is a potentially significant issue in Scottish Housing Associations, where around 45% of volunteer Board members in the sector are tenants (Scottish Housing Regulator, 2009).

This apparent tendency for the board to stray into operational matters is in contrast to the literature which suggests tensions exist when boards stray into operational matters. In McPherson, the chief executive appears to take operational matters to the board, possibly to seek approval. This points towards a shared approach to both the governance and management of the organisation, perhaps at times with little separation between the two. There was also a lack of a clear governance structure, although a recent review brought about structural changes in terms of meeting numbers and committee structure these appeared to be for reasons of legitimacy rather than reflecting increased effectiveness.

In terms of the presence of business people on the board, they do not appear to have any instrumental value. Although there appears to be a desire from board member 1 to have more of an impact, the current structure does not seem to allow for this, meaning this role is limited and symbolic (Meyer and Rowan, 1977).

Governance in a Further Education College: Some Case Study Evidence

In the FE College there was an apparent lack of clarity over which specific activities the board should be undertaking. There were differing interpretations in terms of what this strategic role encompassed, from whether it was a solely compliance role, or something more visionary and taking the College forward. Looking at more specific roles, board members were able to convey their involvement in setting the strategic direction of the College, and clearly viewed this as being part of their remit, however, comments that the setting of the strategic direction at the board away day was the only time the board looked at the longer term picture rather than the 'day-to-day' issues may indicate a tendency to stray into the more operational side of things as described in the literature. Other roles investigated all brought out a divergence of opinion as to whether these were within the scope of the boards roles. Targets setting and monitoring, and monitoring and controlling finance, were all viewed by some members as being the role of management.

The board highlighted difficulty in distinguishing between strategic and operational activities, noting the existence of a grey area in many cases. A widely used example was the case of the recruitment of temporary staff from an agency. The Principal viewed this as a management decision, the board, however, viewed it as strategic, due to the impact the decision had on the College. In the aftermath of this example, the decision was taken to increase communication between management and the board, however other instances of the difficulties in defining a dividing line between the roles were apparent. A Further example was outlined whereby the restructuring of the SMT was undertaken by the Principal – viewing this as an operational activity. When the role of the Finance Director was changed, the Chair of the Finance Committee felt he should have been consulted, as this was strategic. There is clearly confusion in existence with regard to the exact role of the charity board, with many tensions apparently created through the differing interpretations of activities which are perhaps more down to judgement and interpretation. It may be apparent that the division of activities is perhaps less of a boundary line and more of a boundary area occupied by both the board and management.

Finally, the impact of business expertise on the board was considered. The majority of business people tended to view themselves as having a broad role in line with the general role of the board, rather than to bring their own specific functional expertise. Although practices were identified by the chair and the chief executive to ascertain and utilise board members experience, there was a general sense that they served more of a legitimating role than an instrumental one. This was with the exception of the HR professional, who noted that he was instrumental in bringing in KPIs and also did training with management on lean process improvement.

Concluding Comments

This thesis set out to investigate two specific aspects of charity governance, the first was surrounding the main issues charities face in governing their organisations, and the second related to the impact of business expertise on charity boards. Two major findings are therefore presented around these two areas:

Issues in Governing Charities

With regard to the issues charities faced in governing their organisations, these tended to be centred around two areas: the role of the board, and the distinction between strategy and operations and how this impacted on the relationship between the board and management. To a large extent, the situation in Scottish charities reflects the situation elsewhere, as documented in the review of literature in chapter 2.

The Impact of Business Expertise on Charity Boards

The results presented mixed findings on the impact of business people on charity boards. Their role was largely symbolic, however substantive impact was reported in the social care case. However, what is apparent is the lack of the severe undermining of values that is reported in some previous studies in this area. Business people can be a valuable resource for charities, and their ideas are not always at odds with the

values of the organisation. Charities must be able to harness the skills of business people in order to help achieve their missions.

11.2 Contribution of Research

This research makes a contribution in a number of ways, these are outlined below and encompass: a contribution to literature on charity governance; and a contribution to policy and practice.

Literature

This research contributes to the existing literature on charity governance, with regard to both the research context and the specific focus of the impact of business people on charity boards.

In terms of the research context, it was highlighted at the outset that although there is a considerable amount of research on charity governance, research on governance in Scottish charities was scant, with none featuring in any of the academic literature. Two recent research reports have focused on the Scottish context, notably Crawford et al (2009) and Kakabadse et al (2009). However, this thesis focuses on different aspects. The Crawford et al study is very much focused on 'external' aspects of governance and Kakabadse et al (2009) focuses solely on board effectiveness and utilising only a survey.

Another contribution is specifically in relation to the focus on the impact of business expertise on charity boards. Although other authors have touched on this area in broader governance studies, there have been few that have given specific attention to this area. Of those that have, they have tended to be quantitative in nature, such as Austin (1998). This research therefore offers an insight into the role of business people on charity boards and highlights the potential value they can provide as board members. A particularly interesting insight is offered through the Robertson case

study which highlights the significant value that business people can have on these organisations.

Implications for Policy and Practice

This research will also be useful at a practical level, it will be of interest to charities, regulators and policy makers as it offers an insight into the functioning of charity boards and identifies significant issues which large charities face in governing their organisations.

One specific issue is that of Housing Associations, where regulatory failings are contributing to governance issues. At present, there are no term limits on how long board members of Housing Associations are allowed to serve, there is also substantial pressures on these organisations to have significant tenant membership on the board.

It has also helped to identify the widespread recruitment of business people in charities. The research suggests that these individuals have a largely symbolic role, however in the case of the social care charity, business people can be a valuable resource that charities can learn from. Charities should ensure that they utilise business members on the board.

Suggestions for Future Research

The focus of this thesis was on the governance of large Scottish charities, with a specific emphasis on the impact of business people on the board. In this section I will offer some suggestions on the possible way forward for this area of research.

The focus of this thesis was on large charities, the rationale behind this was because in smaller charities there is less distinction between the board and management. In

larger charities business practices were not adopted within the organisation. It may however, be relevant to consider the incidence and impact of business people on smaller charities to see whether they had greater impact. The focus of this thesis was on business people, with the majority of the board member interviews conducted with individuals with a business background. A further aspect of investigation may be to consider in more depth the views of non-business members of the boards of charities to consider their views on how business people's ideas sit with the vales of the organisation, and the nature of their impact.

The issue of the influence of business on charities has been highlighted as a contentious issue within these organisations. This focus of this thesis was specific in considering this issue in relation to business people sitting on charity boards. This business influence could be investigated at other levels of the organisation, for example at a top management level and functional level. It would be interesting to investigate the impact of for-profit managers, accountants on charities and whether such individuals try to implement business techniques in the organisation.

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APPENDICES

Appendix 1: Pilot Study Questionnaire

Appendix 2: Analysis of Pilot Study Questions

Appendix 3: Main Survey Questionnaire

Appendix 4: Pilot Study Results

Appendix 5: Interview Schedule

Appendix 6: Publications

PILOT STUDY QUESTIONNAIRE

<u>Governance Issues in Charities</u>

1. How well defined are the duties and responsibilities of the board?

2. How would you describe how your governance model works?

3. Are you satisfied with the number of business people on your board?

4. What do business people bring to your board in terms of expertise/ experience? (please provide examples)

5. Can you give any examples of business practices which members of the board with business experience have introduced to your organisation? How were they received?

6. Do board members with a business background understand the specific context of your charity?

7. How much time do board members spend on strategic rather than operational issues?

8. What is the contribution of people with a business background to functions such as:
   - setting the organisation's mission and values;
   - helping to raise funds and resources;
   - financial management oversight;
   - reviewing and deciding strategic direction; and
   - reviewing board performance.

9. How does the board work with the management of the charity?

10. Does the inclusion of business people as board members increase public confidence in the organisation?

11. Are controls/ regulation of charities excessive?

Please return to:

Vicky Lambert
University of Edinburgh, Management School, William Robertson Building, 50 George Square, EH8 9JY
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APPENDIX 2

ANALYSIS OF PILOT STUDY QUESTIONS

Table A1: Analysis of Pilot Questions

Question	Response rate	Issues	Action
1. How well defined are the duties and responsibilities of the Board?	14/14	Generally well answered with sufficient detail. One org did only reply 'well defined' and gave no other info.	To eliminate answers such as 'well defined', give respondents an option along a scale then ask specifically where they are defined to ensure sufficient information.
2. How would you describe how your governance model works?	14/14	Responses varied – for ex. 2 orgs responded simply 'very well' and another 'successfully' Term 'governance model' possibly too board and open to misunderstanding.	Eliminate this qu and ask something more specific
3. Are you satisfied with the number of business people on your board?	14/14	Some one word answers – 2 'yes' one 'very'.	Make this yes/ no answer
4. What do business people bring to your board in terms of expertise/ experience? (please provide examples).	14/14	Not all provided specific examples	
5. Can you give any examples of business practices which members of the board with business experience have introduced into your organisation? How were they received?	13/14	6 orgs were unable to describe any instances where this had happened.	Qu 4 & 5 are similar – roll into one. Put 'how were they received' as separate qu on a scale.
6. Do board members with a business background understand the specific context of your charity?	14/14	Lack of detail – tendency for one word answers	Put this as closed qu with scale. May need to also ask how they ensure that business people understand the specific context.

7. How much time do board members spend on strategic rather than operational issues?	14/14	Some did not quantify specifically	May be better to ask respondents to tick specific times on a scale.
8. What is the contribution of people with a business background to functions such as: -setting the orgs mission and values -helping to raise funds and resources -financial management oversight -reviewing and deciding strategic direction -reviewing board performance	12/14	Confusion – 7 respondents responded to each item individually, 5 responded as a whole	Omit this question
9. How does the Board work with the management of the charity?	12/14	Many detailed responses but also a tendency towards one word answers.	
10. Does the inclusion of business people as board members increase public confidence in the organisation?	14/14	Answers not very detailed – tendency towards 'yes' answers.	Have this as a yes/ no option
11. Are controls/ regulation of charities excessive?	14/14	Generally well answered although tendency towards 'yes' answers.	Introduced scale to this qu and then ask for justification in next question.

MAIN SURVEY QUESTIONNAIRE

Governance in Charities

Please return to: Vicky Lambert, University of Edinburgh, Management School, William Robertson Building, 50 George Square, EH8 9JY
Vicky.lambert@ed.ac.uk Tel: 0131 650 3791

Name of Organisation:

Governance

---

1. (a) How well defined are the roles and responsibilities of your board? Please highlight one description on the scale below:

Very well defined   well defined   not well defined   not defined   don't know

(b) Where are they outlined?

(c) What is done to make sure board members are aware of these specific roles and responsibilities?

---

2. (a) How much time do your board members spend on strategic rather than operational issues? Please indicate below.

0-49%   50-59%   60-69%   70-79%   80-89%   90-100%

(b) Can you give examples of strategic and operational tasks carried out?

---

3. (a) Is the control/ regulation of charities excessive? Please highlight the appropriate answer.

Very excessive   excessive   not very excessive   not excessive   don't know

(b) Please explain why this is the case.

(c) In what way has the Office of the Scottish Charity Regulator had an impact on the way your charity is governed?

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4 (i) Please indicate how effective governance is in your charity by highlighting the appropriate description below:

Very effective   Effective   Ineffective   Very Ineffective   Don't Know

(ii) Is there anything that could be done to improve governance in your charity?

Business People on the Board

5. (a) How many people sit on your board?

(b) What proportion of them are from business?

(c) Are you satisfied with the number of business people on your board? Please indicate: Yes/ No

6. (a) Can you give any examples of practices which members of the board with business experience have introduced to your organisation?

(b) How were they received? Please highlight appropriate description below:

Very well received   well received   badly received   very badly received don't know

7. (a) Why do business people serve on your board?

 (bi) To what extent do they understand the specific context of your charity? Please indicate below:

Very well   well   not well   not at all   don't know

(b ii) Do you have a system in place to ensure that they do? Please give details.

8. Please rate how strongly you agree or disagree with the following statement by highlighting one of the options below:

'The inclusion of business people as board members in charities increases public confidence in the organisation in comparison with the inclusion of other individuals'

Strongly Agree   Agree   Disagree   Strongly Disagree   Don't Know

9. Is there anything else you wish to comment on?

APPENDIX 4

PILOT STUDY RESULTS

Findings from the Pilot Study

An Investigation of Business Expertise in Charity Governance: The Case of Arts, Heritage, Culture and Science

The results from the pilot study outlined in the previous chapter are discussed below, these are analysed under three separate headings; 1. Governance Frameworks, 2. Business Expertise in Charities and 3. Trust and Confidence.

1. Governance Frameworks

Governance was investigated through asking charities about the duties and responsibilities the board actually carries out, the relationship between the board and management, their governance model, and the split between strategic and operational duties carried out by the board.

Charities were asked how well defined the duties and responsibilities of their Board were. The majority of organisations looked to external guidance in defining these roles with few relying on internal guidance. The four public bodies included in the study adhered to government guidance published in 2006 'On Board' which is a guide for board members of public bodies in Scotland. In addition two of the other charities noted that they made use of OSCR for their governance structure. Of the remaining organisations, one used an act of Parliament and the others relied on their memorandum and articles of association although these may be less prescriptive and tight than the public bodies and those guided by OSCR.

In terms of a specific model of governance**,** three of these organisations described their governance model as a business management approach. For example, two of the charities noted the increasing emphasis being placed on the strategic direction of the

organisation, with the other noting that the board operates on a portfolio basis, with a deliberate mix of professional people with contrasting skills. Three other organisations described their model as being more procedural, with committee structures. Of the remaining organisations, one noted that due the rapid growth of the organisation in recent years, the governance model is currently under review, the rest described their model as working satisfactorily.

The issue of the amount of time Board members spend on strategic rather than operational issues was also investigated. The majority of organisations noted that the focus was predominantly on strategy, only occasionally were board members brought in to advise on operational issues. One organisation noted that the split between strategic and operational issues was 60% to 40% in favour of strategic issues. Another organisation's board split their time equally between strategic and operational issues. This was in contrast to some commentators on this issue, for example Chait & Taylor (1989) who give examples of situations whereby there is a tendency for board members to take on management and administrative responsibilities.

The relationship between the board and the management of the charity was also considered. Contrary to some literature which highlights tensions between management and the board (Chait and Taylor, 1989), the general picture uncovered here was one of management working in harmony with the board; for example, one organisation noted that the management carries out the strategy agreed by the board and trustees. Another notes that 'the board provides a great deal of expert help and is seen as one member of the team, with the management and staff as the others'. A further example includes 'the board meet and is advised by senior managers of the charity at board meetings. The board members also attend our events, visit our operational sites and make themselves familiar with the activities of the charity and its managers in a variety of ways'. For other organisations it is more in terms of operational efficiency, for example; 'the management service the committees and boards. The general director is responsible for working closely with the chair to drive and direct the board in line with agreed policy'.

Contrary to the view of many commentators on charity governance, such as Taylor et al (1996), there appears to be a strong governance framework in place in these organisations.

Business Expertise in Charities.

In terms of the number of business people charities actually had on their Boards, the general feeling among these organisations was that they were satisfied with the numbers serving on their boards. However, there were three organisations that would like more. For example, one of these organisations noted that it was increasingly important for their organisation and nonprofit organisations in general to have people with appropriate strategic/ management experience to lead the organisation. This particular organisation placed substantial reliance on donations and fundraising, and therefore felt that more business people on the board would help to bring in money by helping with fundraising and increasing business contacts. Ideally the felt they would like at least 4-5 business practitioners on the board. However, this organisation and one of the other organisations that expressed a desire for increased numbers of business people on their board were both public bodies and therefore had their boards appointed by the Scottish Executive, so had a lack of control over who served on them. The final organisation that wished more individuals from business noted that it only had one business person currently serving on its board, this was in comparison to six academics.

When the question of what business people actually bring to the Board in terms of experience and expertise was posed, there seemed to be two sets of answers to this question; firstly they brought functional expertise, and secondly they brought with them a different way of thinking. In terms of functional expertise, examples given included; finance, marketing, accounting, IT. In terms of helping the organisation to think in different way, two organisations in particular noted how they benefited from a more business orientated way of thinking; for example one organisation noted that

arts organisations tended to have small management teams that benefited hugely from the guidance and mentoring of a board with a range of business expertise. They went on to note that a board member with a background in marketing, for example can provide expertise an arts organisation could not hope to buy. Another organisation emphasised the need to now focus on the commercial aspects of their operations, and they noted how business people advised them on managing risk and also helped them to seek efficiencies.

When asked to give examples of business practices which members of the Board with business experience had introduced to the organisation, six of the 14 organisations were unable to describe any instances where this had happened. However, others gave various examples of this. In terms of accounting, one organisation noted the presence of two chartered accountants on their board, who modernised the practice of the audit committee in terms of managing major risks, they also developed a clearer format for the strategic plan, and they insisted on a 10 year business plan in terms of potential investments in new developments with assumptions on income and expenditure clearly spelt out. Another organisation noted that their management accounts format and covering explanatory notes had been greatly improved by input from Board members with the responsibility for reporting to their own boards. Similarly, another organisation noted that there had been more of a push towards management accounts on a regular basis. A further example given referred to human relations management, this had been updated and was well received by staff who previously had erratic terms and conditions and no performance appraisal. In terms of property development, one individual assisted on the development that the organisation intended to carry out on a spare piece of land. These positive findings in terms of what charities gain from having business people on their board in terms of expertise and business practices they bring concur with the views of Bowen (1994) who notes that nonprofit board have a considerable amount to learn from those with a business background.

After investigating the involvement of business people in the organisation, the question was posed as to whether board members with a business background

understood the context of the specific charity. The majority of these organisations said that they did, but four in particular noted the need to educate these business people through training and dissemination of information. Another noted that although they feel that the business people on their board do understand the specific context of their charity, they felt that business members were not interested in the role of the charity. They felt that charitable status is not important to business people, they are only concerned with the best interests of organisation.

The contribution of people with a business background to functions such as: setting the organisations mission and values; fundraising; overseeing financial management; reviewing and deciding strategic direction; and reviewing the performance of the Board was also investigated. These functions were found by Cornforth and Simpson (2001) to be vital in terms of the overall effectiveness of the Board. Five of these organisations felt that business people made vital contributions to all these functions, one organisation in particular noted the contribution of business people in fundraising and also financial management oversight. In terms of the contribution of business people in setting the organisations mission and values, six of these organisations described the importance of business people in carrying out this function – they described them as 'vital', 'fully involved', 'heavily involved', 'considerable contribution', and 'significant'. The contribution of business people to fundraising was described as 'invaluable/key' by three of the organisations, however, the other three noted they were not involved as they received their funds from the Scottish Executive. With regards to financial management oversight, all organisations noted that there was some form of contribution, however there were variations; one noted that the contribution was 'critical', however another noted that they only contributed 'up to a point' and the organisation was large enough to employ professional financial managers. All organisations noted a positive influence of business people to reviewing and deciding strategic direction. Three noted the extensive involvement of business people in this function; one noted that there was significant involvement, however they were also influenced by the Scottish Executive, and another responded that setting strategic direction was a two-way

process and was carried out in partnership with the director and his senior management team.

Trust and Confidence

In terms of the issue surrounding public confidence, most charities felt that the presence of business people enhanced this, however some remained unsure. One organisation felt that the presence of business people did not noticeably increase confidence, they felt that the inclusion of members from the art sector was more likely to be welcomed. Another organisation seemed unsure of whether they enhanced public confidence, noting that 'While the inclusion of highly competent business people on our board is very helpful to the operation of the board and the organisation I am not sure that it does…the public are more likely to be influenced by the performance of the organisation itself in delivering its objectives than any big names on the board'. Another organisation felt that confidence would be increased 'only if those people are known outside the organisation in their own field and are well respected'.

In contrast, the remainder of these organisations felt that the presence of these business people did undoubtedly increase public confidence. For example, one organisation responded to this question in the following way; 'Without a doubt. Those considering donating large sums just would not without the assurance of sound business expertise at the top'. Another organisation said 'Yes. The Chairman is setting up mechanisms to enhance the relationship that Board Members need to have with senior business people, local authority elected representatives, and other relative board level people in the public and NGO sectors for precisely this reason. This is nothing new, but from this year onwards, it is being driven forward much more, thus improving the links already there'. Two other organisations noted that public confidence was increased particularly if the individuals were well known in their own field.

The question was also posed as to whether controls/ regulation of charities were excessive, of the 14 respondents, ten felt that they were not, and four implied that that in some ways they may well be. Examples of those that felt they may be excessive included the following 'they are certainly ever increasing and as a result absorb more resources away from our core business', another organisation noted differences between the types of controls used, noting that they were 'becoming more onerous but OSCR have taken a sensible proportionate approach. Scottish Executive and politicians less so!'. In addition, another organisation highlighted some internal problem caused by these regulations; 'There are certainly many complex rules and regulations in place. The new Charities Act and related operating procedures can conflict with our own government policy guidance which makes it complex for organisations like ours to meet all requirements'.

Of those organisations that felt regulation was not excessive, two noted that this was the case due to the potential for abuse of charitable giving/ public trust. For example, one response here was 'the previous legislative regime in Scotland was weak and open to abuses of public trust which damaged the reputation of legitimate charities. The 2005 Act and the setting up of OSCR was a welcome step'. In addition to this one other organisation noted that they also welcomed the introduction of OSCR and related reporting requirements. Another organisation noted that charities should be required to work economically, efficiently and effectively.

Conclusion of Results

There is considerable literature on how charities conduct their activities, with many concerns around the increasing influence of business persons in the charity world. There have been suggestions this direction will distort or undermine the fundamental ethos and values of charitable organisations. It has emerged from the findings of this pilot study that there is indeed an increasing reliance on business expertise in charities. However, the findings suggest that charities are very positive about the kinds of contribution business persons can make to the conduct of the charities.

There is evidence that business members of charitable boards make contributions to the strategic direction and also to the wider adoption of modern methods of management in charities. These findings are based on a selection of large charities in an important area of charitable activity, namely those with the purpose of the advancement of arts, heritage, culture and science. These findings may also be found in other areas of charitable activity, but this requires further investigation.

APPENDIX 5

INTERVIEW SCHEDULE

How long have you been a member of the Board?
Do you have any other experience of voluntary board membership?
What were the main reasons you became a Board member?

What in your view are the key roles of the Committee?
- Do you see a clear distinction between strategic and operational activities?
- What – if any – operational activities should the Committee be interested in?
- How are Committee members actively involved in determining the strategic direction of the HA?
- Target setting and monitoring performance against targets?
- Risk management?
- Monitoring finances?

What is done to make sure the Committee carries out these roles effectively?
- Reflected in agendas?
- Handbook

What do you see as your most important role as a Committee member?

To what extent do you feel that effective use is made of your experience and expertise?
- Can you give any examples of how you have used your specific expertise on the Committee?

In which areas do you feel the Committee can provide examples of good practice in governance?

How effective is the relationship between the Committee and management – how is it maintained?

Sub-Committees; what are they, how does the information feed into the main committee?

Committee member development

How do you feel about current control/regulation of housing associations?
What has been the impact of OSCR & Scottish Housing Regulator?

What are the biggest barriers to good governance in the sector?

Are there any ways in which governance could be improved?

APPENDIX 6

PUBLICATIONS

The following section presents two publications – one forthcoming and one published – which emanate from this thesis.

Published:

- Lambert, V. & Lapsley, I. (2011) Business Expertise in Charities, in A. Heilmair, Y. Russ, H. Sturm & T. Zitzmann (eds) *Verbandmanagement*, Gabler Verlag.

- Lambert, V. & Lapsley, I. (2010) Leadership and Governance in *Third Sector Research*, Taylor, R. (ed) Springer. New York.