Nonprofit governance: The shape of board-organisation communication

Megan Paull
Centre for Responsible Citizenship and Sustainability, School of Management and Governance, Murdoch University, South Street, Murdoch, Western Australia
m.paull@murdoch.edu.au

Anne Clear
Centre for Responsible Citizenship and Sustainability, School of Management and Governance, Murdoch University, South Street, Murdoch, Western Australia

David Holloway,
Centre for Responsible Citizenship and Sustainability, School of Management and Governance, Murdoch University, South Street, Murdoch, Western Australia

Arthur Griffiths
School of Management and Governance, Murdoch University, South Street, Murdoch, Western Australia

Manzurul Alam
School of Management and Governance, Murdoch University, South Street, Murdoch, Western Australia
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ABSTRACT This qualitative study investigated corporate governance and management practices, with a particular focus on communications between the board and senior management, in two disability service organisations in the nonprofit sector. Fifteen interviewees participated across the two case studies and their insights and contributions were thematically analysed.

Among the key findings was a significant contrast in communication processes across the two organisations. In one, communications were tightly controlled by the CEO (hourglass-shaped approach) and, in the second, there was a more accessible communication process between the board and senior management. This paper explores these two communication models.

Keywords: Nonprofit governance, nonprofit management, board staff relationships

Governance of nonprofit organisations is increasingly important. Responsible governance and effective management are recognised as priorities because of a reduced reliance on government support and an increased need to broaden funding bases. Many nonprofit organisations have moved towards a more corporate model of governance, with greater emphasis on accountability, and an increasing reliance on commercial financial practices (Moeller & Valentinov, 2012; Young, Jung, & Aranson, 2010).

Developments in governance and management are vital to the continued success of organisations in the nonprofit sector. This study investigated the governance models and executive management practices in two case study organisations within the disability sector in Australia. What emerged were two contrasting relationships between the board and the organisation via the Chief Executive Officer (CEO). What has appeared is an image of the relationship between the board and the organisation, with the CEO as a conduit, somewhat akin to the narrow section of an hourglass which regulates the flow of sand from one part to the other.

CONTEMPORARY NONPROFIT GOVERNANCE PERSPECTIVES

Bartlett and Campey (2010) are strong advocates of the view that nonprofit governance should be deliberately different to corporate governance. Despite this, there is an increasing move towards the application of commercial/corporate governance principles. Recent Australian research has identified
that there is variation in governance models and approaches. Saj (2013) has identified that a range of factors influenced the mode of governance. The operation and inter-relationship of these factors increases the onus for good governance and management. In Australia, as elsewhere, there has been a widespread adoption of various forms of what is known as the Carver approach to governance.

Developed by John Carver and his associates, the Carver model, sometimes referred to as the Policy Governance Model, posits that a clear separation of governance and operations is achieved by the board establishing a policy framework, clear delegations and precise reporting requirements. Elements of this approach include “dashboard style” reporting to the board using indicators of progress against those reporting requirements. Sometimes referred to as a “hands-off” approach, this model seeks to have the board operate with one voice, and communicate with the CEO who has responsibility for running the organisation (Carver, 2002).

Agency Theory (Hyndman & McDonnell, 2009) posits that a principal or owner engages an agent to run the organisation on their behalf. In nonprofit organisations there are multiple principals to whom the agent must be accountable. Agency Theory postulates that the agent will operate in the best interest of the principal only when it is in their self-interest to do so. Importantly, principals seek to counter potentially divergent interests by monitoring the activities of the agent(s) and by alignment of incentives (Davis, Schoorman, & Donaldson, 1997).

Brown (2005, p. 333) found that Agency Theory should not only ensure ethical and financially sound outcomes, but should also seek “adherence to mission, values and the organisation’s social rationale”. He concluded that, in organisations that were perceived by board members and executives to be operating effectively, there was strong board recognition and understanding of historical purpose and operating context coupled with better strategic guidance and development of external relationships.

The idea that governance codes developed for the private sector are applicable in the nonprofit sector is gaining momentum. A range of governance codes and practice guidelines have emerged (Fishel, 2008). Some positions on nonprofit boards are often occupied by business people who are familiar with the ASX Principles, which are therefore likely to be incorporated into practice.
In 2003 Standards Australia released the *Australian Good Governance Principles* (hereafter *Standards Australia Principles*). These were developed with reference to the *OECD Principles of Corporate Governance*, the *IFSA Blue Book*, and the *ASX Listing Rules*. At about the same time, law firm Freehills released *The Role of Directors and Governance Issues for Charities* (MacDougall, 2003). The *Standards Australia Principles* (2003) includes an appendix covering special issues for nonprofit governance. These *Principles* have been criticised as treating nonprofit organisations as an afterthought (Hough, McGregor-Lowndes, & Ryan, 2004a). They remain a part of the contemporary ‘mix’ of informing principles that Australian nonprofit boards consider in relation to their own board structures and practices.

**Personal responsibility and board member skills**

McGregor-Lowndes (2008) argued that board members owe a personal responsibility to the organisation. He suggests that

*This focus on individual responsibility can be easily overlooked by directors who otherwise work as a team through the board structures. However, when legal proceedings are issued, the name of the individual director, not the board, is on the writs. Further, Parliaments are making individual board members as liable as the organisation for breaches of the law done in the name of the nonprofit organisation, so directors are being individually sued as well as the organisation in legal proceedings* (McGregor-Lowndes, 2008, p. 99).

Given this element of personal responsibility, boards seek tools to assist them in their roles, and in many cases must rely on the advice of their CEO in their adoption. Often board members are volunteers from outside the sector and can lack understanding of the issues which drive the organisation. This can result in the CEO leading strategy decisions, policy development, and planning (Stone & Ostrower, 2007), an approach not in keeping with the higher expectations of personal responsibility from board members.

Board monitoring of staff, including the CEO, requires knowledge of both the relevant sector and of governance. Collectively, a board should have the requisite combination of knowledge and experience
to govern effectively (Brown 2005). Board members, however, often place all their trust in CEOs (Miller, 2002), and leadership of the organisation is the province of the CEO rather than the board (curiously referred to as board-centred leadership by Herman and Heimovics, 1991, 1994 cited in Reid & Turbide, 2012). Reid and Turbide (2012, p. 82) argue that while traditionally Agency Theory suggests that “ultimately responsibility for an organisation rests with its board”, risk assessment by the board may not be easy, and a lot of trust must be placed in the CEO. The reality is significant reliance on the CEO, especially where board members are voluntary, busy, and not skilled in either the sector or governance. Chairs and members of nonprofit boards need to be cognisant of this concern about overreliance on the CEO.

**Governance in Practice**

Reid and Turbide (2012), suggest that there are two types of nonprofit governance: trust and collaboration, or distrust and control. Central to this is the relationship between the board and the organisation with the CEO at the centre of this. The Carver Policy Governance Model (Carver, 2010) widely influential, but less widely researched (Hough, McGregor-Lowndes, & Ryan, 2004b), is said to increase the involvement of board directors (Smith & Edmond, 2009). This model suggests the establishment of policies in four areas: outcomes being sought, executive delegations, board/CEO relationship and governance processes. While this model is in wide use, it has been argued that there may be significant shortcomings in its application, particularly in terms of the board being alerted early to “situational complexities” (Williams, 2010, p. 302).

**RESEARCH APPROACH**

This study was part of a larger project to examine the adoption of more commercial approaches to governance by nonprofit organisations. A case study approach was adopted to examine governance practices in two larger organisations in the disability sector in Australia. A total of fifteen semi-structured interviews were conducted: seven in one organisation, and eight in the other. A purposive sampling approach was employed and semi-structured interviews were conducted with the CEO, board chair, board members, and with senior staff representatives from both organisations. Following the interviews, a thematic coding approach was taken by the research team and key issues identified.
An emergent approach to thematic analysis led to the identification of a range of recurring themes and issues including commercialisation of the sector and changing organisational relationships. One key theme which emerged was the nature of the relationship between the board and the Chief Executive Officer, in particular with respect to communication between the board and the operational components of the organisation. The research question which emerged in relation to this theme was identified as: What is the nature of CEO control over board-staff communication? A comparative approach was taken when examining this question in the two case study organisations.

**Selected Case Study Organisations**

Both case study organisations, hereafter referred to as Case L and Case B, are independent Australian organisations in the disability services sector, supporting clients/members, their families, and carers. Both organisations see themselves as having an advocacy and public education role on behalf of their constituencies. Fundraising, other income generating programs and government grants fund services and contribute towards relevant research.

The annual turnover of one organisation (Case L) has become much larger than the other (Case B) with a move into a more commercial mode, and the appointment of high profile experienced commercial experts to the board and as donors. Both organisations offer a range of services to members and clients. Case B is more reliant on government monies to fund services and operations.

The services offered by the two organisations are different due to the very nature of the disabilities which led to their foundation. One has as its main focus people living with a degenerative disease which tends to come on in adulthood (Case L), while the other has as its focus disabilities usually diagnosed in childhood (Case B). Case L, where the main focus is on slowing the rate of progression of disease, offers services ranging from information to physiotherapy, occupational therapy and accommodation. Community awareness and fundraising are key roles of this organisation. The Case B focal point is support for the individual and their families, offering services ranging from transport and accommodation to leisure and employment, in a whole-of-life approach. Community awareness and fundraising are key activities.
The Boards

Both boards include appointed and elected members. In Case L the board has a range of high profile people from legal and financial backgrounds as well as elected members. The board in Case B has recently been restructured and selection criteria introduced in the appointment of new board members, targeting people with experience and expertise. Elected members constitute just over half of the membership of the board in Case L. In Case B the board has mainly appointed members with some elected members. Both boards have a mix of male and female members, coming from a range of professional and personal backgrounds. Both have subcommittees for governance issues including risk management and services. One of the organisations has a stated adoption of the Carver Model, while the other makes no particular statement.

The Chief Executive Officers

In both organisations the role of the CEO is a lynchpin in the organisational operation. Both CEOs had financial institutional backgrounds, although one came directly into the CEO position via an appointment process and the other had served time on the board before being selected as CEO. Case L has had the same CEO for a number of years, while Case B had only recently appointed their CEO. Performance management of the CEO in both organisations was clearly a priority for the board.

THE BOARD AND THE CEO

A key contrast which emerged was the relationship between the Board and the organisation via the CEO. Both boards have been strongly influenced in their governance approach by corporate board models due in part to their respective CEOs experience, and a product of the appointed (business) members.

Board composition has an important role in determining the approach adopted by the board (Ford, Gresock, & Peeper, 2011). Both organisations had adopted a form of the Carver Model, with Case B working towards this as an explicitly desired form, and Case L having already moved into a variation of this approach. Both boards have moved towards a more commercial approach to governance, reflecting the experience of the CEO.
The personal management styles of the CEOs were distinctly different. In Case L there was a clear hourglass-shaped relationship between the board and the staff, with the contact between staff members and board members being infrequent and social (such as at Christmas functions), and along established lines such as reports passed through the CEO. There is a tight hold by the CEO on communication channels between the board and the senior staff.

*The board and I, have a clean and clear understanding that to retain governance structure in those robust processes there, there has to be understanding in place about how we do these things. Once the waters get muddied, you actually, you bring an element of risk into the business, which we haven’t had*

This did not appear to be questioned by anyone interviewed.

*The management’s job is to run the business..., to implement strategy and report to the board with transparent practices with regularity. The board’s role is to hire and fire the CEO, define strategy and monitor the business.*

*The Board does not get involved with the day to day running of the organisation. Everything we do is either funnelled to the board from the CEO or down to management through the CEO. The CEO is a conduit for the board and senior management.*

In contrast, this strict hourglass-shaped approach was deliberately avoided in Case B, having been considered to be a cause of the organisational crisis some years earlier leading to the replacement of the CEO. A more open accessible relationship between staff members and board members was being encouraged, with one interviewee observing:

*The biggest change has been the perceived openness and honesty exhibited by the new CEO.*

In Case B, board members are encouraged to contact any of the senior staff, and there is regular scheduled contact between the board and the other parts of the organisation including board meetings in regional locations. Board members interviewed indicated that they would *as a courtesy* advise the CEO if they were to contact staff. Senior staff did not express any concerns about being contacted directly by board members. The CEO indicated that there was some way to go towards having this open contact culture fully adopted:

*I believe there should be a sense that anybody can phone anybody .... I have no fear about my role and by position .... You know it’s not ego driven, it’s all about the organisation and the performance and the outcomes.*

This was a clear point of significant difference between the two organisations.
The board in Case B was very clear about its role around setting strategy, reviews of performance, review of the finances, debating the quality of service delivery, and long-term objectives.

_The board has a legitimate role in setting the scene, in part to reflect the broader community and stakeholders’ expectations. It's the executive management's responsibility to deliver against those expectations. However, over the past couple of years the board has become more involved in the day-to-day running of the organisations because of the financial crisis._

Due to the recent period of significant change, this board is involved in working more closely with management than would normally be preferred. The board in Case L, too, is clear about its role in setting strategic direction, but takes a more hands off approach, in part because of the longevity of the tenure of the CEO and board members.

**CEO Performance Expectations**

Both entities have a strong focus on their overall organisational performance. The organisations embrace non-financial (qualitative) performance reporting through staff and client surveys. In Case L members are surveyed annually and staff surveys are conducted biennially. The two boards have CEO performance review systems. In Case B, the CEO had been employed to bring the organisation back on track after a crisis, after holding board membership. Having come out of a serious crisis, Case B had implemented a performance review process at every meeting. Interviewees expressed the view that the board was currently supporting the CEO to help the organisation make its way back to ongoing sustainability; a work in progress. One board member expressed the view that we are moving sensibly and smoothly along but a more strategic approach was still another year away.

In Case L, the board expected to have operational matters dealt with by the CEO and preferred to receive the classic Carver Model ‘dashboard style’ reports as an integral part of the monitoring process. Performance indicators were seen to be clear, simple and focused. Opportunities for the board to know about daily operations were limited by the reporting structure. Case L seemed to be very much in the hands of the CEO. CEO individual performance did not appear to be separated from the regular reporting by the CEO on organisational performance. Annual reviews of salary were tied into a performance review of the individual but were also based on the success of the organisation against agreed strategic goals.
THE HOURGLASS-SHAPED RELATIONSHIP

History has played an important role in the governance of both case study organisations. The stable, long term appointment of the CEO in Case L has meant that a more hands off style of governance has evolved to the point of an hourglass-shaped point of contact between the board and senior management. In effect the CEO is the only conduit between the organisation and the board (Figure 1).

Figure 1: Hourglass-shaped board-staff communications

The more recent appointment of the CEO in Case B following an organisational crisis meant that the board was still intimately involved in operations. The focus was on recovery leading to future sustainability, but there was a strong emphasis on open communication between board members and senior management, with the CEO having a central but not exclusive role (Figure 2).
The organisational cultures evident in both organisations were clearly influenced by shifts in the history of the organisation and the approach adopted by the respective CEOs. In Case L, the long term appointment of the CEO had a pervasive effect across the organisation and its culture, with a strong managerial style, and an evident preference for strictly controlled hourglass-shaped relationships. In Case B, the more recent appointment of the CEO, following an organisational crisis, meant that a more open communication protocol between the board and senior staff was being promoted, and a trust/distrust relationship was in operation between the CEO and the board.

The hourglass-shaped approach to the board/CEO/senior staff relationships had been applied successfully in Case L, in particular in the financial area where the organisation’s income had grown by 500% in eight years. In Case B, this form of management approach had been applied under the previous CEO and was judged to be ineffective resulting in a perceived threat to financial sustainability.
The long term appointment of the CEO, and the focussed approach in the hourglass-shaped relationship in Case L, at the time of this study was currently providing growth, wealth and status opportunities. The expansion of the funding base and a wide portfolio of fundraising options had created a healthy and prosperous position. The hourglass-shaped board staff relationship was based on structured accountability practices and a high degree of trust coupled with scrutiny from the board based on an internally accepted set of parameters.

The shorter term post crisis relationship in Case B was returning the organisation to a greater level of sustainability and, potentially, growth. A re-organisation was taking place to reduce reliance on government support, and increase the range of funding options. The recent crisis had resulted in a level of wariness amongst some board members, and the board being more involved in the ongoing relationship with senior staff to increase trust and accountability.

The examination of these case study organisations against the backdrop of the literature suggests that the trust/distrust paradox identified by Reid and Turbide (2012) is a healthy approach to governance. Key elements of the ‘hands off’ model may move the organisation too far from effective scrutiny of the actions of the CEO, and particularly in situations of declining performance, incompetence or less than ethical behaviour. The ‘dashboard style’ of reporting may be a little too distant if there is no effective communication between board and senior staff other than via the CEO. The expertise of the CEO and the different backgrounds of the board members will influence how the relationship evolves and operates, and on the level of trust placed in the CEO. Herman and Heimovics (cited in Reid & Turbide, 2012) observed that leadership is the province of the CEO rather than the board, which is evident in both organisations. Table 1 lays out a series of risks and benefits for organisations and shows that there are limitations in both.
Table 1: Benefits and Risks of different models of CEO control over board-staff communication

<table>
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<tr>
<th>CHARACTERISTICS:</th>
<th>Hourglass board-staff communication</th>
<th>Accessible board-staff communication</th>
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<tr>
<td></td>
<td>Communication between board and staff is strictly via CEO. All communication is vetted by CEO. Does not preclude staff attending board meetings to present reports and updates. Communication control rests with CEO.</td>
<td>Communication is permitted between board members and senior staff. Protocols in place to provide guidance. Board members are encouraged to visit sites and interact with staff and clients. Accessibility is key to communication.</td>
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</table>
| BENEFITS                             | • Clear line of communication between staff and board.  
• CEO ensures that board decisions are implemented.  
• One version of all communications.  
• Knowledge vested in CEO and shared with board and staff. | • Multiple lines of communication between staff and board.  
• Checks against individual versions of communications limit opportunities for filtering.  
• Open opportunity for staff to alert board members of concerns.  
• Dispersed knowledge of operations and strategy. |
| RISKS                                | • All communication between board and staff is confined to one person.  
• CEO has opportunity to filter communication.  
• Staff must take concerns to CEO.  
• Knowledge vested in CEO. | • Potential for multiple versions of communications.  
• Potential for ambiguous communication and implementation of board decisions.  
• Blurred lines of communication between staff and board.  
• Dispersed knowledge of operations and strategy. |

The key to a significant portion of the research about the relationship between the board and management is the notion of trust. What Phillips, Freeman, and Wicks (2003, p. 484) label “Managerial opportunism” is a potential problem in any trust based model of governance. Effective directors of nonprofit organisations recognise the need to recruit other equally skilled and effective board members. A strong supportive relationship between the board and the executive involves getting board members directly pursuing the mission of the organisation (Balser & McClusky, 2005). There is a need to incorporate a wide range of stakeholders so that the board has the appropriate knowledge and expertise (Hyndman & McDonnell, 2009). This then enables the board to ensure that
whichever model of communication is adopted, the benefits can be attained by structured informed scrutiny of the organisation.

**IMPLICATIONS FOR BOARDS AND CEOS**

Ultimately, as a result of this study there are several key propositions for consideration by nonprofit organisations. The move towards commercialisation is inevitable and organisations which do not broaden their portfolios will not be sustainable. Moving away from traditional funding bases requires a greater level of scrutiny and accountability. Boards must be able to both trust their CEOs and rely on them to manage effectively, while at the same time maintaining a certain level of distrust to fulfil the oversight role which is a prime responsibility. An integral part of this relationship is the establishment of clear arrangements for communication between the board members and senior staff, including the CEO.

The evidence from this study is that the board should determine what works with reference to particular contextual variables. This should not be driven by the CEO alone. The board has a responsibility to establish the nature of the relationship and to establish the manner of the agency placed on the CEO. A governance model which involves both trust and distrust, a form of stewardship can form the basis of a sound relationship, thus allowing the board to carry out its duties effectively.

Crucial to the manner of agency placed on the CEO is the need to ensure that the checks and balances in place are robust, engender trust, and are able to be effective, regardless of the individuals who occupy roles on the board or in senior management. Significantly, this agency needs to be able to operate to suit the mission and values of the organisation, and the context in which it is operating. This is a fine balancing act, and requires skill on the part of the board and senior management including the CEO.

The Carver Model includes as one of its tenets the need to have a clear delineation of the Board–CEO relationship. The board is required to clarify delegations to the CEO, and to set the parameters for delegations and accountability. While “management plays a critical role in establishing the governance of an organisation” (Smith & Edmond, 2009, 60) it is imperative that the board take responsibility for the approach in place. The model adopted is likely to be less important than the
skilled rigorous adoption of a model which includes the appropriate balance between trust and distrust, allows a suitable level of communication between governance and operational areas of the organisation, and meets the needs of the organisation. The relationship between the CEO and the board is crucial in the effective governance and management of the organisation. Board behaviour and culture need to be pre-eminent in whatever approach is adopted, and will play a role in determining outcomes for the organisation.

CONCLUSION AND FUTURE RESEARCH

This study was undertaken to investigate key developments in governance practices in the nonprofit sector in Australia. The findings suggest that there have been significant changes in nonprofit organisations in their pursuit to become self-sufficient. The governance practices differ in these two case study organisations because of their history and leadership styles. These cases also demonstrate that the adoption of commercial practices has accelerated the need for better management and governance practices. The study highlights the importance of the partnership between the board and the CEO. Traditional boards of nonprofit organisations were dominated by members who were not commercially oriented. The move towards commercial practices required that the role of the board change to be more active in organisational and management issues.

This study is limited to two organisations in the disability sector in Australia. Further analysis is required to establish the influence of the personal style of the CEOs in each organisation, and it will be necessary to further scrutinise the extent of localisation. A cross sectional examination of organisations in the nonprofit sector would enable a broader generalisation. This study was undertaken in the disability sector; it would be necessary to scan other areas such as, education, social welfare or sport. Accordingly, the outcomes of this research can only be used to reveal for boards and CEOs how others in their sector are faring. It is clear that the findings here are consistent with what others have argued, and this paper adds to the growing body of knowledge on how board governance is evolving.
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