GOVERNANCE CHALLENGES FOR NOT-FOR-PROFIT ORGANISATIONS: EMPIRICAL EVIDENCE IN SUPPORT OF A CONTINGENCY APPROACH

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ABSTRACT

This article presents empirical evidence of the governance challenges faced by Australian not-for-profit (NFP) organisations. Drawing on our collection of data through interviews and a survey, the paper explores perceptions of NFP leaders concerning key governance challenges, drawing implications for theory and practice in the area of NFP governance. The paper demonstrates that the effectiveness of governance systems is influenced by internal and external contingencies that NFP organisations face, such as variations in board roles, stakeholder and membership demands, funding arrangements, board member recruitment processes, skills of board members, and resources for training and development. The paper suggests the merit of a move away from prescriptive and normative models of NFP governance, contending that generic best practice governance standards for NFPs ought not to be further pursued. The paper highlights a role for a national NFP regulator in providing training and advice, as well as assistance with the development of appropriate governance systems according to contextual factors.

INTRODUCTION

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

The regulatory environment in which Australians NFPs operate has long been recognised as being overly complex, with variations in regulation considering specific legal forms of organisations, as well as the industry sector and the state within which it operates (Australian Productivity Commission 2010). There are nine separate jurisdictions (eight states and the Commonwealth), that are supervised by nine separate regulatory bodies, which enforce seventy-nine separate pieces of legislation (Australian Centre for Philanthropy and Nonprofit Studies 2012). Over the last twenty years there have been a number of inquiries into the legislative, regulatory and policy environment in which NFPs in Australia operate, including the Industry Commission (Australian Productivity Commission 1995) and Productivity Commission (Australian Productivity Commission 2010) reports, the Charities Definition Inquiry (Commonwealth of Australia 2001), Senate Committee Report (Commonwealth of Australia 2008), and the Henry Tax review (Commonwealth of Australia 2010). Over one hundred and fifty recommendations for law and policy reform in the sector have followed from these inquiries, few of which have been acted upon (Australian Centre for Philanthropy and Nonprofit Studies 2012). After an extensive review in 2011, Australia's first charities regulator came into existence.

The Australian Charities And Not-For-Profit Commission

Established in December 2012, the Australian Charities and Not-For-Profit Commission (ACNC) is the first national independent regulator of charities in Australia and the latest initiative focusing on NFP governance and reform. The establishment of a single regulatory body was orchestrated to simplify and streamline regulation of

the sector, establishing a body that acts a single national regulator. The existence of the ACNC as the standard regulator means that once registered, organisations can function without supervision and monitoring by Commonwealth and state agencies. Apart from this move away from bureaucratic 'red tape', the ACNC was set up with the additional objectives of facilitating transparency and accountability in the NFP sector. Due to the structure of NFP organisations, the risk of inappropriate, exploitative or otherwise criminal behaviour in the management of NFP stimulated concerns about abuses such as money laundering and other criminal activities (Australian Charities and Not-for-Profits 2011). An inquiry by the Corporations and Markets Advisory Committee (CAMAC) identified further concerns about the ways in which charitable trusts operate, most notably highlighting their lack of accountability and transparency. CAMAC recommended that the ACNC should carry out audits of charitable trusts to ensure that they fairly administer funds intended for charitable purposes (Corporations and Markets Advisory Committee 2013).

Organisations have to report to the ACNC if they are a NFP entity with a charitable purpose as defined in the Charities Act 2013 and the Extension of Charitable Purpose Act. The latter piece of legislation extends the definition of charitable purpose beyond relief of poverty, advancement of religion, advancement of education and other activities beneficial to communities to include aims such as advancing culture, promoting or protecting human rights, and advancing the security or safety of Australia or the Australian public. As such, charities form a specific sub-category of NFP organisations. An entity can only be registered with the ACNC, and continue to be registered, once it meets a number of governance standards. The ACNC's approach is based on principles-based standards: it sets out basic requirements that cover the fundamentals of governance. NFP organisations are largely able to choose how to adopt the standards, as long as this is appropriate in relation to their size, purposes, reach, activities, membership, funding model, and existing governance systems. Unless explicitly asked by the ACNC, NFP organisations do not have to provide evidence of meeting the specified standards - a situation unlikely to occur unless the ACNC has been forewarned of organisational risks of breaching governance standards. The ACNC will take a flexible approach to enforcement: in the first two years it will provide information and guidance to help NFPs comply with the standards, after which it will monitor compliance in a phased way (Australian Charities and Not-for-Profits 2013). In cases of serious breach of the governance standards, the ACNC has the power to revoke a charity's registration or issue financial penalties. This article argues in favour of a national charity regulator by providing evidence of where it may add value to NFP governance.

We conducted an online survey and interviews with NFP officers to explore the governance challenges faced by NFP organisations. We discuss these challenges in the context of the literature on NFP governance. We argue for a shift of focus away from prescriptive and normative NFP governance models and best-practice standards towards a contingency approach, and suggest a role for a national NFP regulator in supporting organisations and their boards to reflect on organisational contingencies and establish optimal governance configurations.

LITERATURE REVIEW

Ostrower and Stone (2006) observed that governance is rarely unambiguously defined in literature concerning NFP organisations, and that research has mainly focused on boards of directors. Indeed, there are many studies concerning NFP governance that have concentrated on boards and their composition, the roles and responsibilities of their members, and the relation between board effectiveness and organisational effectiveness (for example: Herman & Renz 2000; Callen et al. 2003). BoardSource (2010) defines NFP governance as the board's legal authority to exercise power and authority over an organisation on behalf of the community it serves. The board is authorised to establish policies, make decisions that affect the working of the organisation, and is accountable for the actions that follow those policies and decisions.

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

2001, citing Pfeffer & Salancik 2003). Resource-dependency theory sees the board as a means of finding or providing these resources.

Cornforth and Brown (2013) recognise the board of directors as the body with the main responsibility for governance, but emphasise that other stakeholders also play an important role. For Cornforth, key actors such as managers, members and advisory groups also contribute to the governance of a NFP organisation. The need to involve the stakeholders of NFP organisations in governance processes is increasingly recognised in scholarly research (Freiwirth 2013). In these cases a stakeholder theory approach to governance is most relevant, as it states that the board's role is to mediate between stakeholders and balance their interests (Freeman & Evan 1991).

Governance theories that emphasise the membership and stakeholders of NFP organisations are described as democratic models and stakeholder models. The democratic model states that the role of the board is to represent the interests of members of the organisation, balancing the interests of different groups, and setting the overall policy of the organisation. A crucial element of this model is the notion of a board to which anybody can be elected, regardless of expertise (Cornforth 2001). Stakeholder theory posits that by including diverse stakeholders on boards, organisations are more likely to address broad societal interests rather than the interests of a single group (Hung 1998).

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

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

Considering the variety of NFPs and their stakeholders, Cornforth (2001) identifies a number of key paradoxes in NFP governance: (1) tension between board members acting as *representatives* for particular stakeholder groups and *experts* charged with driving the performance of the organisation forward, (2) tension between the board roles of driving organisational *performance* and ensuring *conformance* i.e. that the organisation behaves in an accountable and prudent manner, (3) tension between the contrasting board roles of *controlling* and *supporting* management, and (4) ambiguities that stem from accountabilities to multiple stakeholders. These tensions have implications for regulation as well as for theoretical perspectives. It is increasingly suggested that the use of a single theory describing NFP governance might be inadequate, as it is an increasingly untenable view that best practices exist for a wide range of NFP governance situations (Salipante 2013). The intricacy of the sector and the distinct governance challenges that NFP organisations can encounter also explain why corporate governance codes can be inappropriate for NFP governance (Spear et al. 2009) and why there is no agreement on an ideal NFP governance model (Miller-Millesen 2003; Ostrower & Stone 2006).

Cornforth and Brown discuss the forces driving innovative approaches to governance, asserting that the growing significance of the sector and its increasing reliance on public funds have resulted in increased concerns about accountability and performance of NFP organisations (Cornforth & Brown 2013). This development has manifested in the guise of formal inquiries and political debate. Basic questions are whether current governance arrangements are adequate, for example to safeguard the independence of NFP organisations in light of growing

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

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

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

RESEARCH OBJECTIVES AND METHODOLOGY

We have attempted to answer the call for additional empirical research into governance challenges and contingencies in the NFP sector (Spear et al. 2009). Based on survey and interview data, our research will demonstrate that NFP organisations are influenced by a number of internal and external contingencies that affect governance systems and processes. We put forward theoretical and practical suggestions arguing in favour of governance models that take a contingency approach instead of a normative approach, demonstrating the value of taking into account contextual circumstances and establishing fitting governance arrangements.
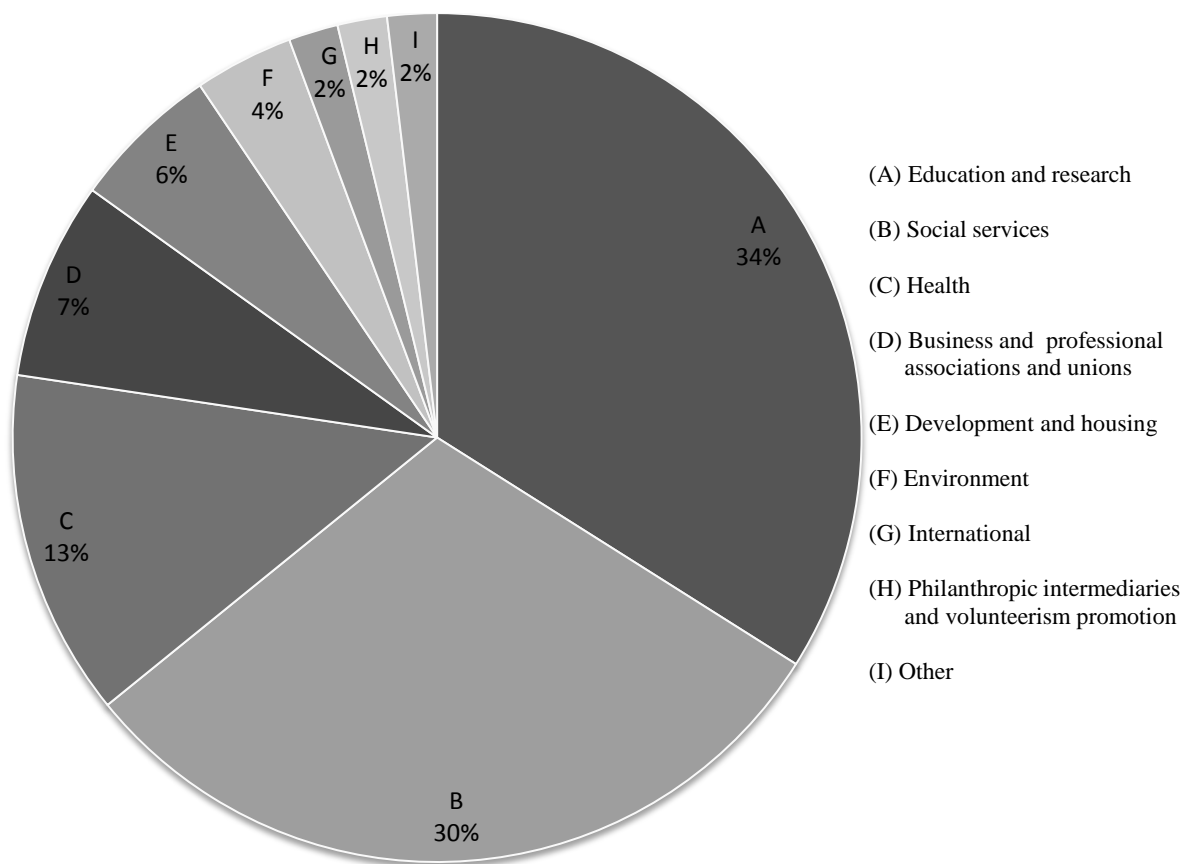
Data gathering consisted of two parts, namely an online survey and a series of semi-structured interviews authorised by the University's Human Research Ethics Committee. The survey link was circulated through networks of NFP professionals using LinkedIn and email marketing, with the help of research partner CompliSpace, a provider of governance, risk and compliance programs and services. Representatives of 53 NFP organisations completed the survey. Using survey data is a proven method to perform research into governance in the NFP sector (O'Regan & Oster 2005). There is also a growing tendency to use case studies and in-depth methods to research non-profits and their boards (Bradshaw et al. 1998). Therefore, survey data was complemented with twelve interviews, conducted with executives and/or board members representing an Australian NFP organisation. The interviewees either contacted the researchers after hearing about the research or were referred by other NFP representatives. Interviews were conducted over the phone or in person, during which a template of questions was used with the possibility to delve into specific topics, resulting in a semi-structured nature. The interviews were recorded and transcribed and subsequently sent to the interviewee to reflect on the content and ensure accuracy. After receiving feedback from interviewees, the transcribed interviews became a source of qualitative data which was coded in NVivo.

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

Description Of Sample

The International Classification of Non-Profit Organisations (ICNPO) was used to categorise the online survey respondents. Figure 1 shows that most industry sectors were represented but with higher proportions in two categories: Education and Research, and Social Services.

FIGURE 1: BREAKDOWN OF SURVEY SAMPLE BY SECTOR.

(A) Education and research

(B) Social services

(C) Health

(D) Business and professional associations and unions

(E) Development and housing

(F) Environment

(G) International

(H) Philanthropic intermediaries and volunteerism promotion

(I) Other

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

RESEARCH FINDINGS: GOVERNANCE CHALLENGES FOR NFPS

Board Roles

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

> *"Really their main job is a combination of thinking strategically on behalf of the organisation and monitoring performance […]"* [INT1]

> *"It is monitoring decision making. I would like to be more strategic […]"* [INT5]

> *"Strategy and attracting sponsors."* [INT6]

> *"The role of the board is to set the strategic directions for the organisation. It's quite clear."* [INT8]

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

> *"It's monitoring and advice, not strategic."* [INT11]

The online survey confirmed the multi-faceted role of the board, with no single role standing out as being more important in comparison to others (Figure 2). On a scale of 1 (not important) to 7 (very important), all board roles averaged a score between 3.8 and 4.2. The standard deviation for the importance of board roles lies between 1.6 and 2.7, indicating that there is considerable variation in the importance of particular roles for individual boards.

FIGURE 2: IMPORTANCE OF THE BOARD IN PERFORMING THE FOLLOWING FUNCTIONS - (1) NOT IMPORTANT TO (7) VERY IMPORTANT.
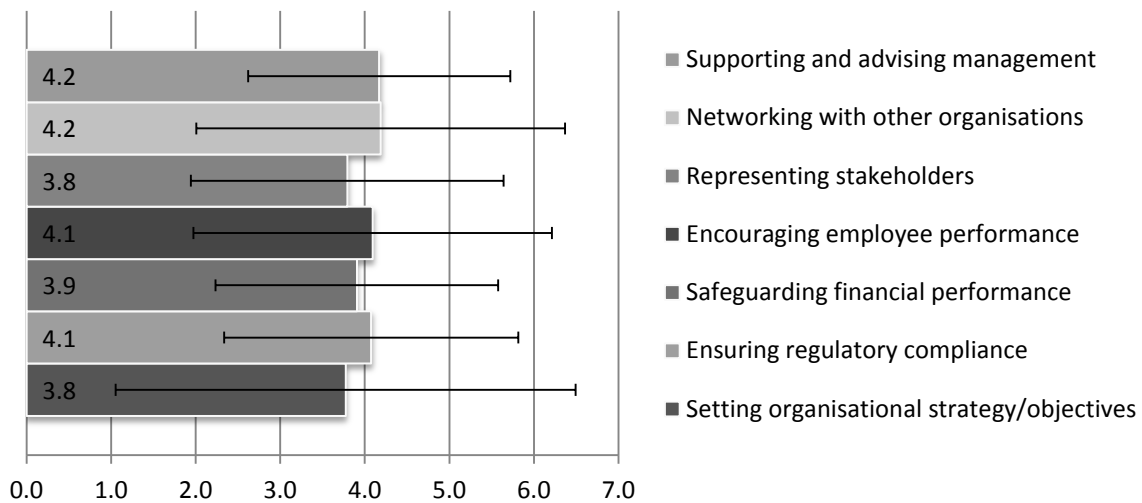
The differing importance of particular board roles for each NFP shows why a contingency approach to governance is desirable. For example, the following interview quote demonstrates that board members can have little experience in organisational planning or strategy while the fulfilment of this task is deemed to be important. To remediate this situation, board members with appropriate skills will either need to be recruited or existing directors upskilled through training.

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

Board Composition, Recruitment And Skill Sets

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

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

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

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

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

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

Development And Training

Nicholson et al. (2008) have shown that risk management, legal compliance, strategy and business planning, financial management, and directors duties were the most desired governance training topics among Australian community organisations. Seventy-two percent of our survey respondents responded affirmatively to the question "Does your organisation provide continuing professional training for its non-executive board members?" The interview respondents were also asked about initiatives that enable director skill development:

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

> *"[...] we do have board workshops, that look at governance and other issues."* [INT4]

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

> *"We have, kind of on paper, the ability to skill up directors, but in practice I don't believe that it happens very much, we don't spend a lot of time sending directors to courses or bringing in professional development people or any of those sorts of things. If a director came on and said 'look I have been*

elected but I really don't understand financial reporting, how can you help me', we would definitely respond to that but it would be relatively informal or ad hoc rather than formal." [INT1]
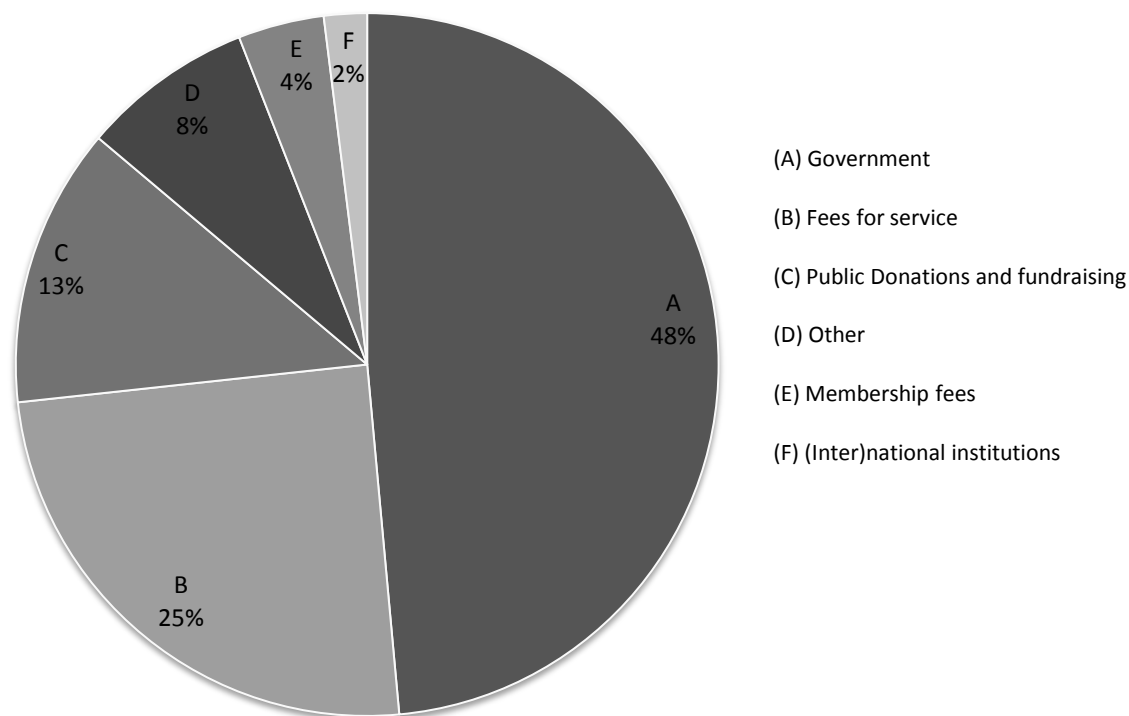
"I think they do the best that they can [...] but we're running on no money, the board all have full time jobs as well have given their time, some of them, for many years. So to the best of their ability, I don't think we are going to take days out to develop, or pay for, board members to go to courses." [INT12]

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

Accountability And Stakeholder Interests

Public scrutiny following increased use of government funds and growth in delivery of public services by NFP organisations has driven innovation of governance in the NFP sector (Cornforth & Brown 2013). The table below illustrates dependence on government funds by organisations in our survey sample. We argue that funding sources represent contingencies that, for reasons of accountability, need to be considered in any governance model.

FIGURE 3: SOURCES OF MAJORITY OF FUNDING.

(A) Government

(B) Fees for service

(C) Public Donations and fundraising

(D) Other

(E) Membership fees

(F) (Inter)national institutions

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

"But it's our activities and our output that is what gets people to support us and want to stay engaged with us." [INT2]

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

> *"So beyond our members we also have customers and clients of this organisation who buy our services or attend our training and those sorts of things. About a third of our funding comes from the NSW Government through the department of housing, so government is a major stakeholder for us […]"* [INT1]

Considering that survey respondents defined the recipients of services, clients and/or beneficiaries as the most important stakeholders of NFP organisations, as shown in figure 4, the fact that the majority of NFPs rely on government funding creates a problematic dynamic. As governments are often the main funder, but are unlikely to be the direct recipients of services, donor dependency and asymmetric accountability form potential pitfalls. The interview quotes above reveal that these issues are likely to present a problem for all NFP organisations part of this research, albeit to different degrees depending on sources and quantity of funding. In reporting on activities and justifying spending, organisations are accountable to funders as well as to recipients of services, clients and/or beneficiaries. These groups will display varying degrees of overlap for each NFP organisation, which leads to different accountability mechanisms, suggesting that variations in funding circumstances represent contingencies that can affect governance models.

FIGURE 4: STAKEHOLDER GROUPS IN ORDER OF IMPORTANCE
(1) MOST IMPORTANT TO (10) LEAST IMPORTANT.

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

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

> *"[…] two main ones are our core members and our government funding body here in NSW"* [INT1]

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

> *"So to me the two critical stakeholders are our funders and our members."* [INT7]

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

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

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

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

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

Impact Of ACNC Governance Standards

Both the survey respondents and the interviewees were asked how they would describe the impact of the ACNC and the governance standards on their own organisation's governance systems. The majority of online respondents considered the impact of the governance standards to be absent (30 per cent) or minimal (38 per cent), while a smaller amount of respondents saw moderate (13 per cent) or large (4 per cent) impact, and yet others found it difficult to assess the effects of the ACNC and the governance standards (15 per cent). Ambivalence towards the ACNC and the governance standards was expressed in the interviews:

> *"I don't think it is going to make very much difference, I don't think they are very high standards, I think they won't stretch us if they require us to do something we're not presently doing it will likely be something that we've got on the to do list anyway, I think our own expectation of ourselves are higher than the standards set by the ACNC."* [INT1]

> *"[The ACNC governance standards] are very broad, and certainly our organisation would find it easy to comply, I can't speak for other organisations. I think it is not a bad idea that the public know that there is a charity sector or a NFP sector that is well regulated in its own right."* [INT12]

A majority of interview and survey respondents expressed confidence in their current governance arrangements and felt that the ACNC and its governance standards would not significantly impact their organisation. At the same time however, a number of interviewees commented that the ACNC could be helpful simply by the fact of being a body dedicated to the NFP sector:

> *"I do think it'll be better, because I think it is set up to give more support and guidance specifically for not-for-profits, as opposed to ASIC [Australian Securities and Investments Commission] that is so big that it couldn't possibly spend all that much time writing guidelines [...] if they could provide training I suppose, tailored advice, that would be useful. Because there is obviously no point in doing the same thing as ASIC, but they give an impression of being a lot easier to deal with."* [INT5]

DISCUSSION OF FINDINGS

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

Our study further provides evidence that recruitment of suitable directors is a significant challenge for NFP organisations, particularly concerning those NFPs with membership-based board models, as the constitution often determines the specific pool of individuals from which board members must be sourced. This can result in a situation where NFP organisations are unable to recruit directors based on skills and increases the importance of training and development of existing board members. While nearly three quarters of the survey respondents stated that the organisation facilitates professional training for directors, interview responses indicated that, in

practice, lack of time and resources are obstacles for director development. Considering the demonstrated importance of skills development on NFP boards due to recruitment complications, we contend that any lack of resources for training and development of directors represents a specific contingency that can negatively impact the effective functioning of the board as the main governance body.

Our findings furthermore indicate that funding circumstances represent contingencies that can impact the governance model of a NFP organisation. The data suggests that funding dynamics can negatively impact accountability and governance. Specifically the fact that the government is the largest donor of NFPs in the sample, while the recipients of services are classified as the most important stakeholders. The balancing of stakeholder interests is closely related to this finding. Some scholars argue for donor and stakeholder representation on NFP governance bodies (Freiwirth 2013; Young 2011), which may help mitigate the negative elements associated with donor dependency and asymmetric accountability. However, our study finds that NFPs that currently have a membership-based board are often unable to recruit directors with appropriate skills, while it also finds it can be challenging for NFPs to facilitate the development of the skills of their directors due to the lack of available resources, resulting in a conflicting dynamic between the demand for skills and stakeholder representation on governance bodies.

The majority of our survey and interview respondents expressed confidence in their governance frameworks and stated that the ACNC and its governance standards were unlikely to have significant impact on the systems currently in place. While the vast amount of respondents felt they did not need the ACNC or the governance standards, a number of interviewees stated that the ACNC and the governance standards could prove to be helpful for other NFP organisations. The ACNC was also described as a potential advisory and 'go-to' body that can help establish basic regulation and increase public confidence in the sector. Considering the conflicting dynamic between the demand for skills and stakeholder representation on governance bodies, we posit a role for the ACNC in providing a potential solution, for example through the provision of training and advice.

FIGURE 5: CONTINGENCY FRAMEWORK
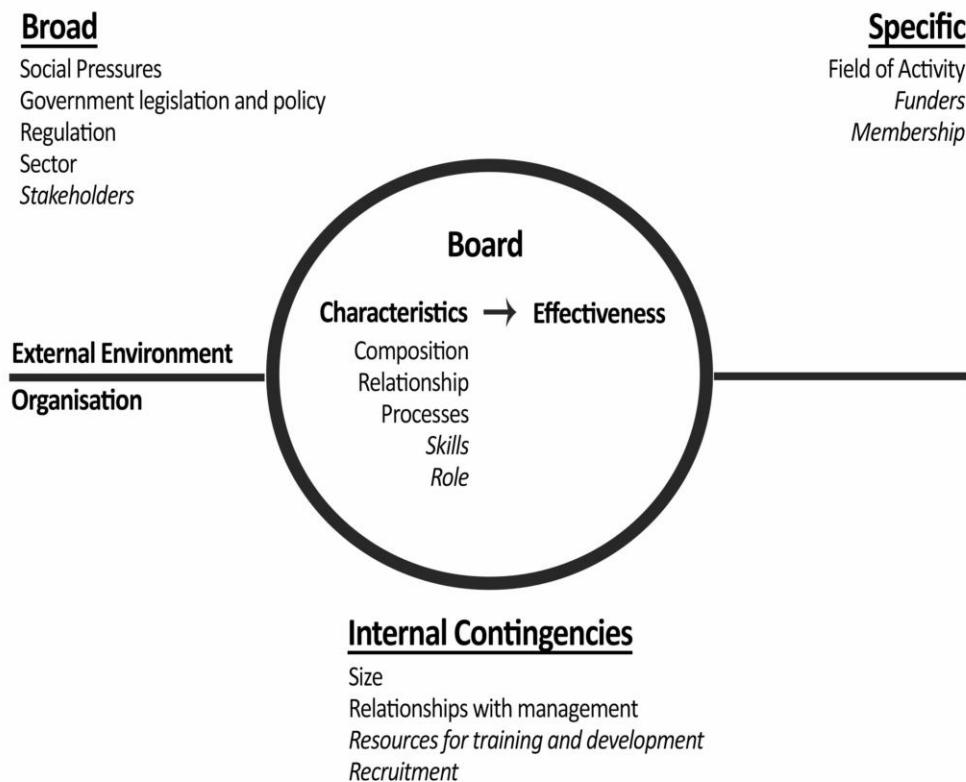
Source: Cornforth, 2003.
Notes: Figure is adapted, empirical findings in italic.

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