GOVERNING FOR GOOD

The governance capability
of social service NGOs

DR JO CRIBB
www.jocribb.co.nz
jo@jocribb.co.nz

**OCTOBER
2017**

**RESEARCH
REPORT**

EXECUTIVE SUMMARY

The boards that govern Non Governmental Organisations (NGOs) who deliver social services face a range of complex challenges. They must secure sustainable funding, comply with changes in the law and manage the increasing demand for their services and the increasing complexity of the people and communities they serve.

Strategizing and planning are much needed functions for these NGOs in a context where government policy, funding and client needs are constantly changing. The responsibility for strategy is generally considered to lie with the governing body.

This research sought to understand how the boards of social service NGOs approached their governance role, and in particular, their approach to developing strategy.

In-depth qualitative interviews with 36 Board members and Chief Executives were completed, drawing from 12 different NGO social service providers. The results were then reviewed by NGO leaders, academics and governance experts in order to 'sense-test' the findings and draw implications and recommendations.

The research found that for smaller NGOs attracting skilled board members is a challenge. For some of these organisations, the governing body operates like a 'management committee', who works to support the Chief Executive, fundraise and may even help in the delivery of services. For these organisations, the strategy and planning functions associated with governance may not occur.

Constitutional structures, such as elected and representative structures, may also create a barrier for many NGOs to getting an effective governing board with the necessary mix of skills and experience.

Given the importance of NGOs, and the need for them to navigate their future in a complex environment, the research discusses a range of implications of the findings. There are implications for the funders of these NGOs in how they structure their funding and invest in NGO governance capability; for the NGO sector in terms of the understanding of and value placed on the governance function; and for the governance community to promote the value of and continue to contribute to NGO governance, especially of smaller NGOs.

ACKNOWLEDGEMENTS

INTRODUCTION

The members of NGO Boards are presented with a wide and complex range of challenges to navigate. They are usually doing so in their spare time as volunteers with a mix of board members some of whom may have limited governance experience.

One of the major challenges of governance in the social sector is continual change generated by changes in government policy. Changing policy settings can result in changes (such as a different relationship with government funders and different expectations) for which NGOs will need to be prepared and plan for.

This research is specifically interested in the governance of NGOs that provide social services. Understanding and investing in the governance of social service NGOs – especially their ability to strategize and plan for their future – can improve the on-going delivery of social services that are critical to supporting the most vulnerable New Zealanders.

Social Sector NGOs in New Zealand

There are around 115 000 NGOs operating in New Zealand that generate an estimated $20 billion in annual income. NGOS are usually defined as not-for-profit organisations independent from government that operate to improve the lives of others.

Recent research has shown how important the contribution of the NGO sector is to the business and government sectors and how intertwined the impact of the three sectors is (JBWere 2017). NGOs employ over 100 000 people (nearly 5 percent of the total workforce), contribute nearly 3 percent to GDP, and if the work of volunteers is included, the contribution to GDP rises to nearly 6 percent (JBWere 2017).

NGOs receive funding from a range of sources including government grants and contracts, philanthropic donations and grants, membership fees, individual donations, dividends and interest received and from sales of goods and services. Government grants and contracts account for more than 50 percent of the total funding of the sector, followed by membership fees and donations, and then sales of goods and services (JBWere 2017).

Over half of these NGOs provide services. Many deliver social services to the most vulnerable New Zealanders. For the Ministry of Social Development alone, NGOs delivered $542 million of social services in 2014/15 (Productivity Commission 2015). The members of NZCOSS alone generate over $670 million per annum and deliver more than 1200 social programmes (NZCOSS 2016).

For these social service NGOs, the environment constantly changes. NGO Boards are faced with a wide and complex range of obstacles and opportunities – not only the on-going challenge of securing sustainable funding, but issues with organisational and people capability, complying with changes in the law, the increasing demand for the services their organisation provides and the increasing complexity of needs of the people and communities they serve (ComVoices 2016).

Looking forward, their future will also be characterized by continual change. Disruption via technology will, like other sectors, have an impact. NGOs will still be driven by increasing complexity of their clients' needs but also on-going changes in funding and social policy environments. On-going policy changes will result in changes in allocation of funding.

A specific set of changes have emerged over recent years as the National Government implemented the Social Investment Approach. The Social Investment Approach was based on using actuarial analysis to inform decisions about what services and programmes should be run and prioritizing the clients who should receive the services (Boston and Gill, 2016). Key elements of the approach include basing decisions on evidence of what works and systematic measurement of the effectiveness of services delivered (Bill English as cited in Boston and Gill, 2016).

This approach has driven changes in what government agencies expect from NGO social service providers: the increased need for evidence and data collection, and changes in funding priorities. NGOs have had to respond and will continue to need to navigate their way through a fluid environment.

The Governance of NGOs

The legal structure of the sector is generally known and as such, what the legal governance framework for NGOs is. Of the total 115 000 NGOs, the majority (61% as estimated by Statistics New Zealand) are small, informal and volunteer based committees. The remaining organisations are either incorporated under the Incorporated Societies Act 1908 (20 percent) or are trusts under the Charitable Trusts Act 1957 (15 percent) (JBWere 2017).

That the sector is growing is also known and as such the demand for Board and committee members is growing. For the past seven years, there have been 2.5 charities started each business day. There is now one registered charity for every 170 New Zealanders. JBWere calculates that if each of these had 4 board members (this allows for people to be on more than one board), one in every 40 New Zealanders would be a member of an NGO board or committee (JBWere 2017).

But what actually happens around the NGO Board table in New Zealand is generally unknown. A review of international research can help fill knowledge gaps.

The research on NGO governance has generally considered these topics:

- *The NGO-government contracting relationship*. This research investigates (mostly from the government perspective) models of contracting and the public administration challenges of such. The limited research that looks at this relationship from an NGO perspective outlines the challenges for NGOs. The issue of NGOs being diverted from their mission by government contracts is identified (e.g. Considine, O'Sullivan and Nguyen 2014).

- *Comparing the effectiveness of corporate governance and NGO governance*. There is often no conclusive evidence that one form is better than the other (e.g. Jamali, Hallal and Abdallah 2010).

- *The applicability of corporate models of governance to NGOs*. Hybrid models are usually concluded as the best model (e.g Alexander and Weiner 1998; Viader and Espina 2014; Fontes-Filho and Bronstein, 2016).

Of the research that has specifically focused on NGO governance in its own right, some studies have explored and identified the challenges NGO boards face (e.g. Stone and Ostrower 2007; Wells 2012; Chelliah, Boersma and Kettner 2016). Issues such as funding arrangements, managing the demands of stakeholders and members, and board member skills and development are consistently identified. Others studies have sought to develop theory about what good governance is and develop specific models of governance (e.g. Miller 2002; Holland 2002; McCambridge 2004; Carver 2006). All take different approaches and come to different conclusions about what effectiveness could and should look like.

What, however, unifies the research is an understanding of the importance of governance – and good governance - to NGOs and the NGO sector.

The most recent and closest to home study of NGO governance is the 2016 report from the Australian Institute of Company Directors *The NFP Governance and Performance Study*. The report concludes that the task of the NGO governor is complex due to the need to achieve both mission success and financial sustainability in an environment which is becoming increasingly difficult to survive. NGO directors raised similar issues to those found in the broader literature – concerns with financial sustainability, performance measurements, and relationships with government.

The report identifies that strategy is critical to the success of NGOs. The nearly 2000 directors who were surveyed reported that they focused too much on short term or operational issues. Directors and Chief Executives said that their highest priority was adjusting to changes in their operating

environment, diversifying income streams and developing and implementing strategic plans. Yet, more than one third said they could do better at developing their plans and implementing them. Many directors see a weakness in their board and organization in that there is little longer-term thinking, no clear strategies or resilience in their organisations (Australian Institute of Company Directors, 2016). Governance, and in particular, the role of Board members in leading the development of strategy, is critical for an NGO in rapidly changing environment.

THIS RESEARCH

Given little is known about what happens around the Board tables of New Zealand NGOs, this research seeks to better understand how NGO governors fulfil their role: what do they think governance is, how they have prepared for the role, how is their Board configured, what are the challenges and opportunities they face, and how well are their organizations placed for the future.

Given the turbulent environment, strategizing, planning and leading organisation change are much needed governance functions for NGOs. The research focuses specifically on understanding how NGO directors approach strategy and change and their capability to do so.

Research aims and questions

The aim of the research was to better understand the governance function of social service NGOs, in particular, the strategic capability of boards – their ability to understand their current context, to set a direction for their organization, and monitor the delivery of their strategy.

The research had three questions:

- How do NGO governors define their governance role?

- What do NGO governors think are their key governance challenges and opportunities?

- How do NGO governors undertake their strategy function?

Research Methodology

The research was undertaken in three phases:

- The first phase of the research was a desk-top review of NGO research on governance and data on the New Zealand NGO sector. This was completed in March and April 2017.

- The second phase of the research consisted of semi-structured in-depth interviews with the Chair and Board members and their Chief Executive. The interviews were either done by phone or face to face. The interviews were conducted from March to July 2017.

- The third phase involved testing the findings with a range of experts. This phase allowed the findings to be tested from a range

of experience and viewpoints and points for discussion and implications identified.

All organisations were either based in the Wellington region or delivered services within the Wellington region. This allowed for comparison of the funding approach taken by government agencies and regional philanthropic funders. It also made the research logistically possible for the researcher. Contact with Board Chairs, Board members and Chief Executives was facilitated by the New Zealand Council of Christian Social Services (NZCOSS) and Social Service Providers Aotearoa (SSPA) using the sample frame outlined below.

Research Sample

The sample was carefully constructed to include NGOS that represent the range of organisations that exist within the NGO social service sector.

The Boards were selected because they fulfilled the following criteria:

- Are a provider of social services to a vulnerable population (children, young people, families, and/or elderly).

- Receive some government funding (a contract for social service delivery)

- Fulfill one of the schema outlined below. This was to ensure the sample included representatives of the range of NGO types by size and scope

National Board (4 Boards – 12 interviews)	The organisation has branches throughout New Zealand. Constitutionally is one national organisation.
Regional Board (5 Boards – 15 interviews)	The NGO is constitutional entity and serves the Wellington region. The Board may either be the regional affiliate of a national organisation (that is federated to a national board) or stand-alone regional service provider. The organisation may have several offices in the region.
Community Board (3 Boards – 9 interviews)	The NGO has one site and serves a local community

The annual turnover data of the sample NGOs also outlines the range of organisations included:

Under $500, 000	$500, 000 - $5 million	$5 - $10 million	Over $10 million
3	3	3	3

In total 12 organisations participated with 36 interviews completed. Three interviews were undertaken with each organisation: two board members (one was usually the Chair) and the Chief Executive.

The information obtained through the interviews was analysed for each organisation and then compared across the sample. In doing this, the results have been able to be analysed by organisation and the three interviews undertaken in each NGO triangulated. The interviews used a semi-structured interview schedule (as attached in the Appendix) and the themes for each question were identified across the sample organisations.

Research Limitations

As with any qualitative research, breadth is sacrificed for depth. Given little was known about NGO governance, a qualitative approach was taken to identify issues and themes. The sample size (36) is a limitation, though not an insubstantial sample for qualitative research. To address this, the sample was carefully constructed to include a wide range of organisation types and the third phase of the research involved 'testing' the findings with a range of experts.

The research was also Wellington based. This allows for easier comparison of the organisations as some differences (such as regional approaches to funding by government agencies or philanthropic trusts) are minimalized. But in doing so, differences that may occur across regions (such as the challenges of service delivery in rural areas) are not included.   This research should be viewed as an initial foray into the governance of NGOs and there are many more research questions that need to be considered.

RESEARCH FINDINGS: NGO GOVERNANCE AS DEFINED BY ITS GOVERNORS

The first research aim was to understand how NGO governors define their governance role. The first finding is how the NGO governors interviewed for this research viewed and undertook their governance function varied. While most have the same constitutional structure (they are either Incorporated Societies or Charitable Trusts), that was where most similarities started and finished.

This section provides insights into the different ways that Board members are appointed, what training and preparation they have for their role, what happens around the Board table and how Boards review their performance.

Board Appointment

Board members are appointed to NGO Boards in a number of ways. Three distinct models of appointment were used by the NGOs interviewed for this research:

- *'Corporate Model'* (2 NGOs). These NGO boards ran their appointment processes, usually based on competencies, and usually advertised for Board members. The Board has the mandate to select its members.

- *'Hybrid Model'* (6 NGOs). For these NGOs, Board members join the board table through two mechanisms. Some members will be appointed or elected as a representative of a constituent body with that constituent body having the right to appoint or elect who they think best. Other members are considered 'independents' and do not represent constituencies. Independents are appointed through a range of mechanisms, including public advertising or use of other board members' networks.

- *'Representative Model'* (4 NGOs). Board members are appointed or elected by constituent bodies to represent the interests of stakeholder groups.

For those interviewed the Representative model was seen as a significant limitation. Being appointed with the expectation to represent a particular constituency can make it difficult to build a cohesive governance body. Decision-making can be difficult and can become an exercise in balancing and trading-off different constituencies. Further, getting the right mix of skills and experience around the board table can be fraught, given that governance competencies may not be factored into the election or nomination of representatives.

Limitations were also identified in the Corporate model. For one NGO that had this structure, the Board had become distant from its clients and had

limited knowledge of the NGO sector and funding environment. The lesson from this example is that the competencies used to appoint such Boards should include knowledge of NGO sector funding, knowledge of the organisation's clients, knowledge of the communities it serves and knowledge of social service delivery. The strength of this model is that Boards can identify the competencies they need and recruit accordingly.

The Hybrid model was proving effective especially when independent members were well selected based on skill needs and governance competencies sought from representative members as well.

Training and Development

There were a variety of responses to how Board members are trained or have been developed for their governance role:

Approach to Training and Development	No. of NGOs
Reliant on development provided by other Boards or the previous governance or management experience that board members bring	5
Active Board development programme (both for individuals and collectively)	3
Development opportunities provided for individual board members (paid for by the NGO)	2
No preparation / no development opportunities provided	2

Of the two NGOs that provided no development opportunities, both were small, community NGOs. The five NGOs that rely on the previous management and governance experience of their Board members are a mixture of large, national and mid-size regional organisations. Some of these Board members sit on corporate boards and are experienced governors and further training or development in the NGO context may not be seen as a priority.

The other NGOs in the sample – those that support the individual development of their Board members and those that actively undertake board development - are a mixture of large national and mid-size regional organisations. Two of these Boards had recently undertaken training sessions provided by their funders (a government department and local council). While both valued the opportunity to step back and talk about how governance, both would have found more practical and applied training of more use.

The best predictor of the level of investment in board development was the approach of the Chair and Chief Executive. The importance one or both of these two placed on board dynamics and board members understanding

their environment (such as changes in compliance or the funding environment) drove investment in board training and development.

Approach to Governance

Two distinct approaches to governance could be identified in the sample organisations. One could be termed 'a governance approach' and the other 'a committee approach'. These two approaches are described below.

The 'Governance' approach can be described as such: there is a distinct governance board that is separate from management who views their role as appointing and holding their Chief Executive to account, ensuring the NGO is compliant with all the laws and regulations it needs to be, and developing strategy. These NGOs have formal strategy days and have board meetings with a formal agenda.

Of the research sample, eight of the twelve NGOs took this approach to governance. All national and regional organisations took this approach.

Board members identified the following elements as want constitutes their governance function:

Element of Governance Function	No of NGOs Identified it
Develop strategy and set direction for the NGO	8
Question and challenge the CE / hold CE to account / support CE / appoint / monitor CE	7
Ensure organization was compliant with all relevant laws and regulations	5
Fundraise	3
Ensure financial sustainability	2
Pro bono advisors (legal advice)	1

All these NGO Boards saw strategy as core function and appointing, supporting, monitoring and holding the Chief Executive to account. Changes to health and safety legislation were driving the high level of interest in organizational compliance.

In contrast, the other four NGOs had a 'committee' approach to governance. All four NGOs were community-based NGOs. For these organisations, the governing committee was focused on doing and delivering. They organized events, actively fundraised and saw their role as supporting their Chief Executive.

These four NGOs boards identified the following as elements of what they saw as their role:

Support the Chief Executive	4
Fundraising	4
Pro bono advisors	3
Ensure the NGO delivers on its purpose / strategy development	3
Oversight of finances	1
Recruiting volunteers	1
Ensure organization compliance with laws and regulations	1
Deliver some of the service	1

In the 'committee' approach to governance, the Chief Executive may be driving the organisation, in particular, developing and implementing strategy and plans. Some Chief Executives flourish in this environment. For others, their Board represents another burden on a busy day and they were aware that they couldn't access the skills they needed from a board (for example, the level of financial oversight they would find useful).

For these NGOs, finding board members can be a struggle. Board members are usually recruited through personal networks and the prospect of having to fundraise can be off-putting. These boards find it hard to find members with the specific skills they need (such as financial analysis, strategy development, HR or legal oversight). Previous clients of the NGO may put themselves forward to board roles which may not be appropriate.

The committee approach will be adding value to these NGOs through supporting the Chief Executive, helping with fundraising, volunteering and undertaking some of the tasks needed. However, these NGOs still have to navigate the same complex funding, compliance and service delivery landscape as others. They become very reliant on the capability and capacity of their Chief Executive, who may be a key part of the operational service delivery as well as leading the organisation and navigating its future. This is a lot to ask one person, often for a modest salary, in the glare of a local community.

Interesting, two of these community organisations, even though they deliver from one site and fit the definition of serving a local community, are substantial organisations with up to $5 million of turnover. They operate in a complex environment, with substantial contracts and expectations of service delivery, without the benefits of the full governance function to do this.

Board Evaluation

When asked how Boards know if they were doing a good job, only two organisations undertook an annual or bi-annual board review where they reviewed and discussed their performance.

For the others, a range of proxies for what might constitute a way of knowing about the effectiveness of their Board (including positive informal

feedback from funding organisations, robust organization health (as measured by the Chief Executive's KPIs – usually financial sustainability), client satisfaction surveys, or general gut feel that they were doing a good job) were given as the answer to how they evaluated their performance.

Summary: NGO Governance as defined by its governors

Across all the NGOs interviewed, it was clear that there were many passionate and committed people who freely gave of their time and skills to contribute to the governance of these organisations.

These volunteers are appointed or elected to their roles in a variety of ways, some methods are not without problems. Some volunteers will be offered opportunities for training or will participate in whole board training activities. Most, however, will rely what they have learnt in other board roles or management positions.

In their capacity as a board member, volunteers will be involved in a range of activities and perform a range of functions. Some will be engaged in more formal governance boards, others will be part of a more committee-type arrangement. Few will be part of any board evaluation process.

RESEARCH FINDINGS: THE GOVERNANCE ENVIRONMENT AND APPROACH TO STRATEGY

The second and third research questions focused on what NGO governors think are their key governance challenges and opportunities and how they approach their strategy function.

This section outlines what NGO governors think are their major challenges and opportunities, how they approach their strategy function and how ready their organisations are to adapt and change.

Major Challenges

When asked what they thought were the major challenges facing them as NGO governors, the following responses were recorded. These challenges were shared and distributed across the range of NGOs included in the research:

Challenge	No of NGOs where identified
Financial sustainability	10
Attracting and retaining capable staff	9
Managing their relationship with government agencies	6
Delivering services to the increasingly complex needs of clients	7
Staying true to the organization mission	5
Managing change within the organisation	2
Compliance, especially Health and Safety	2

A focus of many of the boards is the issue of financial sustainability. Governors had both a short term focus (the interviews were undertaken close to the end of the financial year and many NGOs had not yet received notice of whether they would receive government funding in the coming year) and longer term focus, in terms of the viability of their business models and need to diversify funding streams.

The relationship with their government funders was raised as a challenge by most interviewed. The consistent theme was that the relationship with their government funders had deteriorated. They identified that the increasing compliance costs associated with reporting and data collection were not funded and were eroding their service capability.

They were frustrated by the level of turn-over in the government officials they were working with and were either confused by messages they were receiving about their funding or frustrated by the lack of communication. They were becoming increasingly mistrustful of government agencies.

Another consistent theme was concern about the increasingly complex needs of their clients. More clients with more complex needs (such as housing issues as well as mental health and drug and alcohol issues) are seeking services. How to provide a quality response was what NGO governors saw as an on-going challenge.

These findings are consistent with the challenges identified in the literature review, including the findings of the Australian Institute of Company Director's latest report on the NGO sector (Australian Institute of Company Directors, 2016).

Major Opportunities

When asked what they saw as the main opportunities, a variety of responses were given:

Serving clients better through service innovation and improvements	6
Building organization capability	4
Building new relationships and alliances across NGOs	3
Implementing a new strategy direction	2
Better relationships with government agencies	2

The themes here were about building better relationships, innovation and opportunities to improve their services and build organization capability. NGOs hoped that changes that were occurring in a major government funder (Oranga Tamariki) would result in more transparent, collaborative relationships with them.

Approaches to strategy

Government agencies over the past three years have been implementing a policy framework based on social investment. Social investment focuses on making decisions based on evidence of what works and more systematic measurement of the effectiveness of services delivered (Bill English as cited in Boston and Gill, 2016).

Change, driven by the Social Investment Approach, has occurred. Government agencies seek more data and evidence for their decision making and have begun trials around funding NGOs based on the results or output they achieve (payment on receipt of completion of a course or placement in a job for example). This approach has driven changes in what government agencies expect from NGO social service providers: the increased need for evidence and changes in funding priorities.

There are a range of potential scenarios that could emerge from the on-going implementation of the Social Investment Approach. Some of these

have started to emerge already or have been discussed in government and NGO forums.

Four examples of potential scenarios that have been most widely discussed were selected for the research:

- Funding is increasingly based on evaluation or metrics and results for clients
- Funding is consolidated into larger providers, who may then deliver or sub-contract others
- Collaboration is expected as part of government contracts
- NGOS need to increasingly provide evidence that they are working with the most 'needy' clients

Those interviewed were asked if their Board discussed and considered any of these scenarios.

Four NGO Boards had considered all of the scenarios and had some plans in place to proactively respond. Two of these organisations were the largest in the sample delivering nationally and the other two were regionally based organisations.

Four NGO boards had not considered any of these. Three out of the four who had not considered these scenarios and their potential impact on them were the smallest, community-based organisations.

Of the potential scenarios, some were more likely to be considered than others:

- Funding is increasingly based on evaluation or metrics and results for clients (9 NGO boards had considered this)
- Funding is increasingly consolidated into larger providers, who may then deliver or sub-contract others (2 NGO boards had considered this)
- Collaboration is expected as part of government contracts (5 NGO boards had considered this)
- NGOs provide evidence that they are working with the most 'needy' or appropriate clients (Four NGO boards had considered this)

Interestingly, for the two scenarios that the NGO boards were least likely to have considered (the 'consolidation' scenario and the 'increased evidence of client need' scenario), those interviewed were negative about the impact of these scenarios on clients. Consolidation of NGO providers was thought to reduce client choice in who they worked with and was strongly resisted. The risk of failure of large providers was mentioned, especially in regard to whether large providers could provide tailored services to local clients or provide for Mäori and Pacific clients was raised. Likewise, there is much resistance to providing government agencies with more data about clients.

For the other two scenarios that were considered more frequently, Board members thought they had more evidence that these scenarios were likely

to eventuate. They felt they are already expected to provide more evidence of their effectiveness and this trend will continue. Some had plans in place to address this scenario (they had invested in evaluations, partnerships with academic institutions and updated their databases to allow for more sophisticated data capture). The organisations that had responded were all national or large regional NGOs with the capability to do so.

Ability to Change

When asked about their organization's ability to change if needed, most said on a scale of 1 to 5 (5 being very ready to change), their organisations were either a 3 or 4.

When asked what the characteristics of their organisations were that enabled them to change, the responses were as such:

NGO Characteristics that would enable change	No of NGOs
If the change fitted with their mission and values (this would make change easier)	5
Capable leadership team	4
Proven ability to change (have done it before)	4
Capable board	3
Good knowledge of clients and their needs	2
Good internal systems and information	1
Strong evidence base of what works	1

Those things that could inhibit their organisation's ability to change were:

Characteristics that would inhibit change	No of NGOs
Internal staff resistance to change	7
Limited staff time or resources to manage change	5
Limited staff capability	4
Poor internal systems and information	2
Weak / new board	1

Being mission and values-driven was seen as a strength that would enable change. If any changes needed are aligned with the NGO's mission, and the resources are provided to support the change, change was seen by NGO Boards as very possible. Staff resistance to change would be the biggest barrier.

Summary: The Governance Environment and Approach to Strategy

NGO governors can see a range of challenges and opportunities in front of them. Most Boards are looking forward and considering how to respond to a range of potential changes that could eventuate in their environment. However, some Boards are not. These are small community-based NGOs. They, however, will be as impacted in changes in their environment as all other NGOs.

GOVERNING FOR GOOD: DISCUSSION

The key findings of this research can be summarised as such:

- There are a number of ways of constituting a NGO board. Some of these structures (especially representative models) were seen as barriers to attracting skilled board members and the ability to have a mix of skills around the table.

- Smaller, locally based NGOs found attracting board members difficult, and attracting the skilled board members they needed, even harder.

- There were different approaches to governance that can be broadly characterized in two ways: 'committees' (who work to support the Chief Executive, fundraise and deliver some services) and more formal 'governance' boards.

- There is generally a limited investment in training and development for board members for their NGO board role with reliance instead on the experience members bring to the Board table from other roles.

- Financial sustainability, attracting and retaining skilled staff and responding to the increasingly complex needs of clients were the top challenges boards were facing.

- The small community-based NGOs had limited strategy (instead they were focused on operating day-to-day). Most others had some sort of watching brief on their environment and strategy in play.

In sum, some large national NGOs have formed governance boards that are actively scanning the environment and steering their organization through what is a complex funding, compliance, and service delivery environment.

In contrast, the smaller regionally and locally based NGOs generally do not have access to the full range of governance skills and may not be as able to strategize and navigate their way through the current environment.

The findings raise a number of questions and points for discussion. These following sections have been tested and discussed with a range of NGO and governance experts and are intended to raise issues for further discussion and debate.

Small Local and Regional NGOs

Small, local NGOs represent a large percentage of NGO sector and provide a wide range of services to many New Zealanders. Most of the smaller NGOs in this sample (though, note, some in this category are up to $5

million) must be considered fragile. They generally do not have governance boards, with management committees instead, nor do they have access to the skills of governors, in particular strategy development. They have an operational focus and are busy serving customers day to day. Financial sustainability is a key driver.

However, those interviewed were clear about the value of small community providers. They argue that without such organisations, clients will have no choice as to the provider they work with. Providing choice means more clients, especially those hard-to-reach, will access services because they will find an organization they feel comfortable with.

Community-based NGOs often provide services for specific populations – with specific expertise working with Māori and Pacific communities or those with specific needs. Those interviewed would question whether larger organisations would be able to build the local relationships needed to work effectively with local communities. Being based in the local community was also seen as a strength that meant the NGO was well-placed to understand the specific needs of the community and adapt its services accordingly. For larger NGOs, with standardised service delivery, tailoring services may be more difficult.

So the issue of small NGOs is a complex one. A simplistic response would be that funders should seek economies of scale and consolidate funding in larger NGOs who are more likely to have governance and strategic capability and therefore are more likely to continue to deliver quality and appropriate services. Consolidating providers would also reduce the number of small contracts needing to be managed and the associated transaction costs in contracting with a large number of organisations.

However, most organisations survived were about 50 percent funded through the delivery of government contracts. The other 50 percent came from a mixture of philanthropic grants and fundraising. Local resources are invested in local community organisations. Should such NGOs cease to exist, or be consolidated into larger organisations, it cannot be assumed that the locally generated funding will transfer to an alternative organization. Should small NGOs be consolidated the total capacity for service delivery in a local community could be halved.

Further, a large NGO cannot be automatically assumed to be best placed to delivery to services to a specific community. The strengths of small, agile NGOs embedded in their communities may outweigh any benefits from consolidation.

A more nuanced approach is needed. Funders will need to start by considering who is best placed to deliver the most effective service and build an evidence base from a client-centred perspective. This approach puts clients and their needs at the centre of decision-making. Consolidation may be needed in some areas and a larger provider may be best placed to deliver some services. However, it is also likely that some small NGOs may be best placed to deliver the most effective service.

Funders must then consider what strategy they put in place to invest in these NGOs to support increased governance capability and financial sustainability.

For funders – both government and philanthropic - to be able to make these decisions, they will need a good knowledge of both the capability of the NGOs and of the needs of the communities they are serving. This will mean building trusted on-going relationships with NGOs to understand their strengths and weaknesses and to invest in them accordingly. This is unlikely to be able to be done from a desk in Wellington nor through a paper-based reporting relationship.

Putting clients at the centre also means that the NGO community should also be discussing who is best placed to deliver a service. At present, competitive tendering for services is often given as a barrier for these types of conversations. Perhaps more NGOs working strategically together across communities would result more effective services for the clients all seek to serve.

Perhaps because of their localized delivery, or smaller budgets, the governance community does not recognize the impact and importance of these organisations. Maybe if such organisations were viewed in the same light as say start-ups (who tend to attract experienced governors),would more small NGOs be able to access more governance capability?

Board Evaluation

Few Board members interviewed had an answer to the question 'how does your board know if it is doing a good job?' They could suggest proxies for how they personally gauged whether the board was effective. These proxies include that the organization is delivering on its KPIs, that the board gets positive feedback from the Chief Executive on its contribution, and that comments from external networks are positive about the organisations reputation.

This finding must be considered in a wider context. The New Zealand Institute of Director's Director Sentiment Survey in 2015 found that of all respondents (who are mainly corporate board members) only 54% agreed with the statement 'My board regularly (at least every two years) makes a formal evaluation of its performance'. Many of the respondents to this survey would be members of boards with the resources available to commission independent evaluations. That few NGO boards have undertaken evaluations is not positive, but it is in line with boards across all sectors.

Investing in training and development

Few NGO board members had had any formal training or development for their roles. One reason for this was that NGO directors who were directors on boards in other sectors were assumed to have received the training and development needed through these other roles. Likewise, other NGO directors were assumed to have the acquired skills necessary for governance from their careers and work experience.

This finding raises a few points of discussion. NGO umbrella groups report that the sessions they offer (usually at low or no cost) on governance are often poorly attended. This may be a factor of NGO governors being busy volunteers with many demands competing for their time. But could it also be a signal that the governance function is not understood or valued and therefore learning more is also not valued?

The question must also be asked is there anything specific about NGO governance that warrants specific NGO training and development? Many NGO boards seem to either implicitly or explicitly assume the answer is no. However, there are obviously specific duties and frameworks in the NGO sector (charities legislation and regulation as examples) and features of the NGO sector that are unique, namely the funding environment and often volunteer status of board members. Are such distinctions worthy of bespoke training and development?
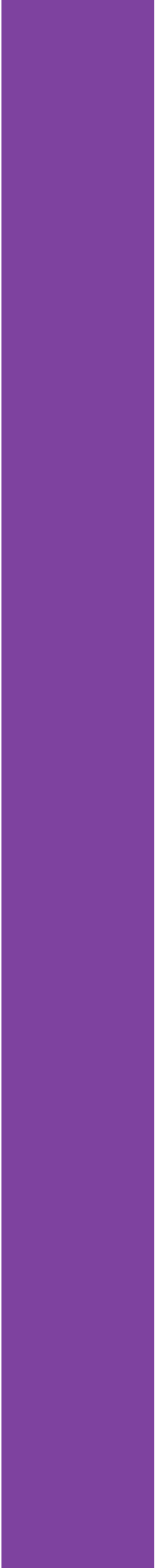
And on a related issue, many of the duties of NGO board members are the same or similar to board members in other sectors. Does a management career prepare you well enough for this? Many NGO boards again seem to either implicitly or explicitly assume the answer is yes.

These are perhaps issues worthy of debate.

There are few opportunities for NGO governors to share and learn from each other. Volunteer board members usually have careers, families and a wide range of interests and often engage in their governance role in short bursts of time. They enter the board room, and the NGO sector, for a meeting and then leave to their other commitments in other spheres. Keeping up with what is happening in the broader sector, and trends in funding and service delivery and innovation in this context must be difficult. Creating opportunities for Board chairs, for example, to share will be a challenge in this context but perhaps worth attempting. Opportunities for Board Chairs to share across sectors could be even more valuable. Likewise, creating mentoring opportunities for Board Chairs and board members could prove valuable.

The profile of NGO governance

If governance in New Zealand was seen as one community, much governance is occurring in the NGO sector. As stated in the introduction, there is now one NGO for every 170 New Zealanders and if each of these

had four board members, one in every 40 New Zealanders would be a member of a NGO board or committee (JBWere 2017).

However, if you were to look at what governance topics are discussed and by whom you could be forgiven for assuming there was little NGO governance occurring in New Zealand. The profile of, and arguably importance attached to, NGO governance is far less than its corporate cousins. While there may be an NGO offering at 'mainstream' governance conferences and events, it is often as aside to the issues of corporate governance.

NGOs struggle to attract experienced governors to their board tables, especially the board tables of smaller, community-based NGOs. So there is an opportunity for the governance community to raise the profile of NGO governance and the highlight the contribution of NGOs to the economic and social well-being of New Zealand. Experienced governors could be encouraged to consider more roles especially in smaller, community-based NGOs.

CONCLUSIONS

NGOs play a vital role in New Zealand. They provide essential social services to a wide range of New Zealanders. This research has focused on social service providers. But without NGOs there would be little sport played in New Zealand, limited arts and cultural offerings, more environmental damage, and so on.

This research has shown that some NGOs, especially smaller community based NGOs, may not be well served by their governance function. It is this governance function that should drive the strategy that ensures these organisations are effective and enduring. We all have a vested interest in this occurring.

For NGOs, the research suggests that governance needs to be better understood and invested in, not only by individual organisations, but collectively as a sector.

For funders, the research clearly shows the need to continue to invest in the long-term capability of NGOs.

For the governance community, the research shows the need to acknowledge the importance of and continue to invest in the development of NGO governance in New Zealand.

The findings have a range of implications for the NGO sector, their funders and the broader governance community.

For funders, the implications of the research findings are:

- Most NGOs in this research were part funded by government and part funded by philanthropic grants, supplemented by a membership or donation component and the effort of volunteers. This means no single funder will be able to dictate what an NGO does. Funding agreements need to be based on an understanding, and potential accommodation, of this.

- Short term funding leaves many NGO boards focused on the day to day and financial sustainability. This can be an impediment to good governance and strategy development. If you don't know if you are being funded in two months' time, it is no surprise some boards are not actively navigating their medium to long term strategy. The structure of current funding models must be reformed to provide an environment of more stability and certainty for boards.

- The relationship between the NGO sector and government agencies is currently characterized by mistrust. Government agencies need to invest time and resources to start rebuilding the relationship.

- Change in the NGO sector will be easiest if the change enhances the NGO's mission and purpose. Funders should seek to understand

what NGOs are aiming to achieve and seek to work with them to align to their mission.

- The sustainability of some small NGOs may be uncertain and fragile. They may also be a critical part of the service delivery landscape. Some funders have acknowledged this and are attempting to invest accordingly. Others funders may wish to learn and follow suit.

- NGOs may not fully understand their governance responsibilities, including their legal responsibilities. They may not be investing in the capability of their board members and board evaluation. Governance structures (such as representative models) may hinder the ability to construct a capable board. Funders should continue to encourage good governance and invest in building capability. One off training sessions will not be effective. Working with a board over a period of time to support them to develop their practices and processes will be a more effective investment.

For NGO sector, research has the following implications:

- The NGO sector should celebrate the large number of people who donate their time in governance roles and who are genuinely passionate about NGOs and their missions.

- That so many NGOs have a clear sense of purpose and how dearly that mission is treasured should also be celebrated; this is such a strength of the NGO sector. A core function of governance is ensuring that the NGO works towards its mission.

- Some NGOs have governance structures that get in the way of good governance. NGO leaders need to review the structures they have in place to overcome any challenges to good governance.

- The sector needs to consider if the value of the governance function is fully understood by NGOs and invested in accordingly.

For the governance community, the implications of the research findings are:

- To fully acknowledge the significant contribution NGOs make to ensuing New Zealand succeeds as a nation and the volume of governance that occurs in this sector.

- Seek to include NGO governors and NGO issues in governance conversations and professional development opportunities.

- Develop a wider range of training and development opportunities for the NGO sector.

- Promote NGO governance opportunities to experienced governors and seek to encourage more governance professionals to take up more NGO roles, especially in smaller NGOs.

REFERENCES

Alexander, J and Weiner, B (1998) The Adoption of Corporate Governance Model by Non-profit Organisations Nonprofit Management and Leadership, vol 8, no 3, 223-242

Australian Institute of Company Directors (2016) NFP Governance and Performance Study, Sydney

Boston, J and Gill, D (2016) IGPS / SoG – VUW & NZIER Project on the Social Investment Approach: Project Scoping, Wellington

Bruni-Bossio, V; Story, D and Garcea, J (2016) Board Governance in the Nonprofit Sector: Role Performance Relationships of Directors, The Innovation Journal: The Public Sector Innovation Journal, 21 (1) article 3

Carver, J; and Carver M (2006). Reinventing your Board: a step-by-step guide to implementing policy governance (Rev. ed.), San Francisco, California, Jossey-Bass.

Chelliah, J; Boersma, M and Kettner, A (2016) Governance Challenges for Not-for-Profit Organisations: Empirical Evidence in Support of a Contingency Approach, Contemporary Management Research, vol 12, no 1, 3-24

ComVoices (2016) 2016 State of the Sector Survey Snapshot, Wellington

Considine, M; O'Sullivan S and Nguyen, P (2014) Governance, Boards of Directors and the Impact of Contracting on Not-for-Profit Organisations – An Australian Study, Social Policy and Administration, 48 (2) 169-187

Fontes-Filho, J and Bronstein, M (2016) Governance Solutions in Listed Companies and Not-for-Profit organisations, Annals of Public and Cooperative Economics 87 (3) 391-410

Holland, T (2002) Board Accountability, Lessons from the field, Nonprofit Management and Leadership, vol 12, no 4, Summer 2002, 409-427

Institute of Directors (2015) Director Sentiment Survey, Wellington

Jamali D, Hallal M and Abdallah H (2010) Corporate Governance and Corporate Social Responsibility: Evidence from the Healthcare Sector, Corporate Governance, vol 10, no 5 590-602

JBWere (2016) The New Zealand Cause Report; Shape of the Charity Sector, March 2017

McCambridge, R (2004) Underestimating the Power of Nonprofit Governance, Nonprofit and Voluntary Sector Quarterly, vol 33, no 2, June 2004, 346-354

Miller, J (2002) The Board as a Monitor of Organisational Activity: The Applicability of Agency Theory to Nonprofit Boards, Nonprofit and Voluntary Sector Quarterly vol 12, no 4, Summer 2002, 429-450

NZCOSS (2016), 2016 2015/15 Annual Report, Wellington

Productivity Commission (2015). More Effective Social Services. Wellington

Stone, M and Ostrower, F (2007) Acting in the Public Interest? Another Look at Research on Nonprofit Governance, Nonprofit and Voluntary Sector Quarterly, vol 36, no 3, September 2007 416-438

Wells, P (2012) The Non-profit Sector and its Challenges for Governance, Journal of Leadership, Accountability and Ethics, vol 9 (2) 83-93

Viader, A and Espina, M (2014) Are Not-for-profits Learning from For-profit-organisations? A look into Governance, Corporate Governance, vol 14, 1, 1-14

APPENDIX: INTERVIEW SCHEDULE: NGO GOVERNANCE – CHALLENGES AND OPPORTUNITIES

What is Governance?

How would you describe what your board does to a new board member or staff member?

What functions does your Board do?

What value do you think NGO boards can add to the performance of their organisations?

What examples do you have of when your board made a difference for your organisation?

What sort of training and development have you and/or your board had to prepare you? To develop your skills?

How do you know you are doing a good job?

Governance – challenges and opportunities

What keeps you awake at night about your board role? What worries you?

What do you see as the three top challenges or risks facing your board?

What do you see as the three top opportunities for your board?

What changes have you observed on your time on the board? What changes do you see coming?

On a scale 1 to 5 how do you rate your board's change management / ability to plan for the future? Why?

What signals (if any) are your government funders sending you? Other funders? Other organisations?

What, if anything has changed in your relationship with your government funders?

Strategy

List of scenarios – have you considered any of them? If so, how are you preparing. If not considered, how would you prepare?

- If you were expected to evaluate your programmes and services and show how effective they were and you were paid for results you achieve for clients

- All government contracts were awarded to one large provider in the Wellington region
- Collaboration with other providers was expected as part of your government funding
- You needed to gather and analyse more data about your clients and show you are working with the right ones

On a scale of 1 to 5 – 5 being very ready, how easy is it for you to change what your organisation does?

What helps your ability to change? What is a barrier?

Any comments about

- Challenges and opportunities for boards
- Your board's thinking about strategy
- Your board's thinking about change