Governance, Boards of Directors and the Impact of Contracting on Not-for-profit Organizations – An Australian Study

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Accepted for publication in Social Policy and Administration (Wiley, 2014)

Abstract

This article investigates strategic changes in the governance of not-for-profit (NFP) boards in response to Australia’s fully contracted employment services system. Of interest are changes in board demography, behaviour, procedures and dynamics, with special attention to the impact of those changes on boards’ identity as a representation of community interests. As Australia is in the vanguard of social service contracting, the Australian experience affords insight into the impact of contracting upon the identity of the NFP sector. We find that NFP directors operating in this quasi-market have come to define board ‘professionalism’ as the main strategic move to accommodate the increasingly commercial and competitive nature of contracting. Boards have adopted a more business-like view of how their agency should operate, changed their board’s skill set and utilized strategic recruitment processes, including selecting new board members based on perceived skill deficiencies of the current board and paying board members for their service. NFP boards have also introduced more comprehensive induction, training and evaluation systems. These findings provide Australian policymakers with evidence of the cultural impact of service delivery reforms on NFP agencies. They also afford leaders of NFPs an opportunity to reflect on important changes in the governance of their organizations, including the potential for ‘mission drift’ and loss of local forms of legitimacy.

Keywords

Employment services; Contracting; Australia; Not-for-profit; Boards of directors; New Public Management

Introduction

Since the 1990s, the Australian employment services sector has undergone several waves of significant institutional reform: Working Nation (1994–96), three Job Network (JN) contracts (1996–2009) and the introduction of Job Services Australia (JSA) (2009–present). Arguably, not-for-profit (NFP) providers are among those most significantly impacted by this new contracting regime. Previously, NFP agencies worked in partnership with government on a grant-for-service basis. Under these reforms, they have had to adapt first to a limited competitive framework of contracted case management under Working Nation and then to full-scale competition with both private sector and corporatized public agencies, and with each other, under JN and JSA (Eardley 2002).

Various researchers have investigated the impacts of the reform on NFPs from different perspectives. For instance, Considine (1999) tested the effect of changes upon actual service delivery and concluded that frontline staff behaviour did not meet all the expectations of a post-Fordist welfare state and new public management (NPM), although some signs of specialization, flexibility and networking were evident. Cooper (2005) explored the challenges which NFP boards faced in maintaining accountability towards aged clients through effective governance of NFP aged care facilities. Rogers (2007) found that the requirements of JN had significantly influenced, and even distorted the values and behaviours of many church-based NFPs. Ramina and Carney (2003), on the other hand, were interested in strategy formation within NFPs operating within JN and how that has been influenced by NPM. In a study of the first JN contract in 2001, Eardley et al. (2001) found evidence that competition had changed the way community-based employment agencies shared information and co-operated. For example, they demonstrated some resistance to sanctioning jobseekers and their advocacy role was also arguably undermined (Eardley 2002). However, little is known about the impact of these various waves of reform on the governance of NFPs and of their boards. One could expect that major changes in the funding of these organizations and in the competitive environment in which they operate would impact their internal structure (Pfeffer and Salancik 1978). However, the structural and behavioural changes which boards of directors have undertaken in response to the increasing competitive environment remain an under-researched field. This article aims to address that knowledge gap.

In this study, we examine how the reforms associated with contracted employment services in Australia have impacted the NFP boards of directors. We find that to effectively govern NFPs in a competitive market, NFP boards – the ‘apex of the firm’s decision control system’ (Fama and Jensen 1983: 311) – have seen themselves as having little choice but to make changes to the way they perform their roles. Such changes are then reflected in boards’ demographic and behavioral characteristics. Moreover, NFP boards face dilemmas, for example, in handling conflicts between organizational values and requirements imposed by the new management regime, which is described as the ‘potential tension between governing nonprofit organisations as agents of community and operating them as agents of government’ (Smith and Lipsky 1993: 72). We find that these tensions are significant and have a demonstrable impact on NFP governance.

An inductive and qualitative method was employed to examine current practice in this NFP cohort. Ideally, all NFPs would be investigated for optimum validity of the findings. Unfortunately, this is not a feasible approach. There are too many agencies and they are widely dispersed across the country. Consequently, we opted to focus on a sub-set of providers which are broadly representative of NFP agencies delivering employment services in Australia. Two focus groups were held, one in Sydney and the other in Melbourne. Participants included board chairs, board members and chief executive officers (CEOs) from NFP organizations of various sizes in the employment services sector. Sixteen additional semi-structured interviews were undertaken with former and current board chairs, directors, CEOs and staff from a medium size NFP delivering the same kinds of contracted social services to those in the focus groups. Interviewees were chosen for their extensive experience and understanding of the organization at both board and operational level, as well as their institutional memory.

As a starting point, the focus groups and interviews were designed to ascertain the basic features and decision making processes of the boards in relation to the ongoing government reform process, values and decision-making. The focus groups also addressed the question of how to evaluate the board evaluation and the board’s role in organizational governance and management. In order to encourage respondents to provide as much context as possible, open-ended questions were also adopted and a non-attribution method was used. The focus groups and interviews were recorded and transcribed. The data analysis was conducted using NVivo (a software supporting qualitative data analysis). Methods employed

during the analysis process included identifying patterns and themes, making contrasts and comparisons, cross-case synthesis, pattern matching and content analysis.

Employment Services Reform in Australia

Since the 1990s, the Australian government has implemented a series of radical reforms in the employment services sector in order to deal with the country's high rate of long-term unemployment (Considine 2001). The subsequent reforms have been numerous, with each later reform having been introduced for the purpose of addressing problems identified in previous regimes. These reforms include some complex and demanding alterations in the way services are delivered, as well as new pressures on the entitlement to income support (Considine 2001). The core element of Australia's employment services reform involves gradual privatization of the delivery of employment services. More specifically, employment services delivery has been put in the hands of numerous contractors. With each new tender process the pool of employment services agencies active in Australia's quasi-employment services market has reduced. At the start of JN in 1998, around 300 agencies acted as contracted service providers. At the time of writing, fewer than 100 agencies hold contracts. Downward pressure on agency numbers continues, and under Australia's unique 'Star Ratings' system, under-performing agencies may lose their service contract even between tender rounds.

Under Australia's contracted employment services system, for-profit (FP) and NFP agencies have to compete for the right to provide basic services to the unemployed (Considine 2005). The inclusion of FP and NFP agencies in Australia's employment services contracting regime is no coincidence. In designing Working Nation, Prime Minister Paul Keating pledged that he would engage 'community and private sector agencies' (Keating 1994). The Coalition government, responsible for implementing the world's first fully contracted employment services system, also saw value in dividing the sector between FP and NFP providers. Former Minister for Employment Tony Abbott argued in relation to 'faith based' NFPs that, 'There is something extra about people with faith in their hearts, and the love of God on their lips, that gives them that extra commitment to job seekers' (cited in Mendes 2009: 107). Yet despite the professed desirability of a mix of agency types delivering services, Australia's procurement process affords NFP agencies no special status. Australia has a single purchaser

model and tender specifications do not solicit information which might favour NFPs, such as links to community or commitment to mission. While commercial-in-confidence requirements make it difficult to form a reliable picture of either the market share, or profitability, of the private agencies which deliver Australia's employment services, industry insiders we talked to on occasions such as conferences tend to agree that the Australian market is fairly evenly split between FP and NFP agencies.

Arguably, NFP providers are among those who have been most significantly impacted by the new management regime in the Australian employment services industry. The dual processes of privatization and corporatization have created multiple challenges for NFPs, for example, 'being pushed towards corporate governance systems that may be at odds with their mission statement and/or ethos' (Cooper 2005: 71) or being forced to make changes which threaten the attributes which make them different from FPs (Ryan 1999). Various researchers have empirically investigated the impact of the reform on NFPs from different perspectives. Eardley et al. (2001) found evidence that competition had changed the way community-based employment agencies shared information and co-operated. Instead of traditional collaborative approaches (Abello and MacDonald 2002), NFPs now have to guard their market knowledge and power in competition for funding resources (Eardley et al. 2001). Many were found to be resistant to sanctioning jobseekers (Laragy 1999; Eardley 2002) at the expenses of their competitiveness (Abello and MacDonald 2002). Some faced greater difficulty in pursuing their advocacy role because they could not maintain a critical distance from the government (Laragy 1999; Eardley 2002). The impacts included the vanishing of those which could not accommodate these challenges (Abello and MacDonald 2002).

Rogers (2007) studied the impact of JN on church-based NFPs. She found evidence of both direct and in-direct impacts: the former were seen through providers' dependence on JN revenue and 'their conformance to the clearly articulated accountability and performance measurement requirements of the contract', while the latter occurred when 'the government extends its reach to influence the defining values of the NFP provider, and the morale and composition of its staff' (Rogers 2007: 395). Having investigated how NPM influenced the way NFPs operating within the JN formulated their strategies, Ramina and Carney (2003) urged NFP managers to significantly broaden their strategic mindset. Cooper (2005), on the other hand, discussed the challenges board directors faced in maintaining accountability to aged clients through effective governance of NFP aged care facilities.

Being interested in how NFP and FP agencies behaved under JN, Lyons and Chan (1999) found some convergence emerging between the two sectors in their operations. NFPs became more commercial-like, while some private firms were ‘displaying the kind of social concern about clients and their needs generally associated with the community sector’ (Eardley 2002: 302). The convergence between NFP and FP sectors was also identified in the delivery of frontline social services by Considine (2001) and Considine et al. (2011). However, little is known about the impact of these various waves of reform in the Australian employment services sector on NFP boards per se. More specifically, structural and behavioural changes which boards of directors have undertaken in response to the increasing competitive environment remain an under-researched field.

The Role of Boards of Directors

Boards of directors are thought to have two distinct roles: control and direction (Aguilera 2005; Forbes and Milliken 1999; Nicholson and Kiel 2004; Petrovic 2008). Control refers to a board’s legal duty to monitor management on behalf of the firm’s shareholders and to carry out this duty with loyalty and care (Monks and Ninow 2011). Direction involves ‘boards’ strategic guidance of the company’ (Petrovic 2008: 1374). Underlying these two roles are agency and resource dependency theories respectively. As stipulated in agency theory, when organizational ownership is separated from control – that is, owners (also called principals) hire other people (agents) to manage the organization instead of exercising direct control themselves – principal-agent problems arise (Jensen and Meckling 1976). More specifically, principals’ welfare is at risk when agents engage in opportunistic behaviours which maximize their own personal interests and expend insufficient effort towards achieving agreed-upon objectives (Jensen and Meckling 1976). Boards of directors, the representative of principals (Mizruchi 1983; Walsh and Seward 1990), are established as an endogenous response to such agency problems (Dey 2008). They are responsible for ‘monitoring of the management for the benefit of principals to ensure that strategic objectives are achieved’ (Petrovic 2008: 1374). Examples of their activities as listed by Petrovic (2008) include hiring, compensation and replacement of the CEO and senior managers, approval of major initiatives proposed by management, reporting to the shareholders/stakeholders, and ensuring compliance with the law.

Viewed from a resource dependence perspective, organizational success is measured by an organization's ability to maximize its power in its operating environment (Pfeffer 1981). An organization can maximize its power by:

1. minimizing its dependence on external organizations by having access to, and control over, resources (e.g. knowledge, capital and venture partnering arrangements) (Ruigrok et al. 2007) which are essential to its survival; and
2. maximizing other organizations' dependence on it by having access to, and control over, resources which other organizations need (Medcof 2001; Tillquist et al. 2002; Ulrich and Barney 1984).

Put simply, an organization's ability to acquire important resources plays a critical role in its success. Boards of directors, with their human capital (that is, experience, expertise, reputation) and relational capital (that is, network of ties to other firms and external contingencies), are seen to help organizations secure provision of valued resources (Hillman and Dalziel 2003) which would otherwise be beyond their reach (Brown 2006; Dalton et al. 1998; Pfeffer and Salancik 1978). Their services include advice and counsel to the CEO and other top managers, and to participate actively in the formulation of strategy (Forbes and Milliken 1999).

Compared to public and FP agencies, those governing NFPs arguably face challenges which are rarely found within the other two sectors. Such challenges, according to Lyons (2001), are generated by the six distinctive characteristics of the NFP sector. They are: first, centrality of values. In NFPs, values play a central role and are not easily compromised. Values are of such high importance in NFPs that it can be difficult for them, for example, to resolve disagreements or make changes in response to new circumstances (Lyons 2001). Second, the fact that NFPs usually have multiple sources of operating revenue, for example, membership dues; donations; bequests; sale of core services; profits from unrelated business ventures; government grants or contracts; grants from trusts or foundations; sponsorship; other forms of partnership arrangement with business; and interest on capital reserves, complicates the governance accountability and management of the organizations (Lyons 2001).

Third, most NFPs rely on volunteers to some extent and ensuring the most effective combination of volunteers and paid staff is no easy task (Lyons 2001). Fourth, boards and

managers of NFPs generally have difficulty judging the organization's performance because many of the services NFPs provide, such as childcare and environmental advocacy, are 'intrinsically difficult to judge' or there is 'a lack of relevant data for the purpose of performance evaluation' (Lyons 2001: 24). Fifth, stakeholders of an NFP organization are usually multiple, including owners (that is, its members); funding bodies; clients; staff; partner organizations; Indigenous organizations; governments; consultants; suppliers; researchers; customers; members of the association; professional bodies; and the general public (Cooper 2005). It is, therefore, not at all clear to whom ultimately these organizations should be accountable, which poses a great challenge for boards in the decision-making process. A final challenge, 'a perennial challenge for those NFP that employ staff', is tension, often conflict, between senior staff and the board or management committee (Lyons 2001: 26). These tensions arise from a lack of clarity about the role of boards, a difficulty made worse by lack of clear performance measures (Lyons 2001).

Not surprisingly, then, boards of directors are thought to have a significant potential impact on organizational performance. Positive contributions are expected when they perform effectively and vice versa. Therefore, researchers and practitioners alike have sought to better understand demographic attributes of boards and the processes and behaviours involved in effective board performance (Forbes and Milliken 1999). Examples of board demographic characteristics which have been subjected to various studies are as follows:

1. Board size (Forbes and Milliken 1999; Golden and Zajac 2001; Hardwick et al. 2011; Shan and Xu 2012; Van-Ness et al. 2010).
2. Board tenure (Van-Ness et al. 2010; Forbes and Milliken 1999; Golden and Zajac 2001).
3. Average age of members of a board (Golden and Zajac 2001; Van-Ness et al. 2010).
4. Board diversity – for example, age, occupation, education, experience, gender, minorities, nationality (Forbes and Milliken 1999; Guzzo and Dickson 1996; Golden and Zajac 2001; Hardwick et al. 2011; Hartarska and Nadolnyak 2012; Jackson 1992; Van-Ness et al. 2010).
5. Board composition – for example, the proportion of outsiders to insiders (Forbes and Milliken 1999; Hardwick et al. 2011; Hermalin and Weisbach 1991; Johnson et al. 1993; Shan and Xu 2012; Van-Ness et al. 2010).
6. Full board meeting frequency (Forbes and Milliken 1999; Shan and Xu 2012).

7. Board structure – for example, committees (Hardwick et al. 2011).
8. CEO duality (Hardwick et al. 2011; Van-Ness et al. 2010).
9. Boards' incentives (Hillman and Dalziel 2003).
10. Board dependence and director compensation (Dey 2008; Hermalin and Weisbach 1991).
11. Board faultline – that is, board sub-grouping based on multiple attributes (Bezrukova et al. 2009; Lau and Murnighan 2005).
12. Board capital – that is, human and relational capital (Forbes and Milliken 1999; Hillman and Dalziel 2003).
13. Board dynamics – that is, how board directors engage with and work with each other in shaping the future of a company (Mellahi 2005; Petrovic 2008).

Board processes which have been argued to have profound implications on boards' decision-making (Mellahi 2005) include the following:

1. Board attention – that is, 'types of issues that capture boards' attention and the degree of attention they devote to particular issues' (Golden and Zajac 2001: 1093).
2. Boards' evaluation – for example, CEO evaluation (Golden and Zajac 2001).
3. Effort norms – that is, boards' shared beliefs regarding the level of effort each individual is expected to put toward a task (Wageman 1995).
4. Cognitive conflict – that is, 'task-oriented differences in judgment among group members' (Forbes and Milliken 1999: 494).
5. Board cohesiveness – that is, 'the affective dimension of members' inclusion on the Board and the ability of the board to continue working together' (Forbes and Milliken 1999: 493).
6. The board's use of its knowledge and skills – including:
 - a. the knowledge and skills present on the board; and
 - b. the way in which those resources are used by the board (Forbes and Milliken 1999).
7. Board power (Golden and Zajac 2001).

Researchers have also sought evidence of links between multiple board characteristics and processes and the different organizational performance criteria, for example:

1. board effectiveness (Petrovic 2008);
2. boards' involvement in restructuring (Johnson et al. 1993);
3. organizational fraud (Wang et al. 2010);
4. inclination to strategic change (Golden and Zajac 2001);
5. profit efficiency (Hardwick et al. 2011);
6. agency conflicts (Dey 2008); and
7. firm performance (Hermalin and Weisbach 1991; Hillman and Dalziel 2003; Kaczmarek et al. 2012; Shan and Xu 2012; Van-Ness et al. 2010).

Results of those empirical studies, however, are mixed. In short, what is required to ensure an effective board remains open to a number of possible explanations and is certainly related to the character of initiatives adopted by boards themselves.

Australian Not-for-Profit Boards Response to Service Contracting

As noted, the billion dollar per year Australian employment services industry has seen a major transformation since the inception of the reform in the early 1990s, or 'a long journey from that day to JSA' as one interviewee described the process. Key to such a transformation is the emergence of the role of competition which, according to interviewees, has exercised a great influence on NFP organizations. Previously, NFPs used to be 'small organisations that were working in their community'. They co-operated and shared information with each other in order to achieve their social values. There was not 'a sense of competition' between them. However, such neighbourly and friendly practices are no longer common. With the implementation of Working Nation, then JN and, lastly, JSA, NFPs have been 'under increasing pressures on having to compete and to achieve outcomes' and they have to be guarded about what contributes to their competitive advantage. Their relationships with the government have also been subjected to changes. Initially, NFP organizations 'might have just been funded by donations' and then 'they started getting subsidies from government' and came to have 'contractual relations with governments'.

The newly introduced competitive nature of the employment services market had also challenged NFPs' existence and longevity. Legally, NFPs are 'bound by a nondistribution

constraint which prohibits the distribution of the organisation's earnings or assets' (Hansmann 2010: 60). On the one hand, non-distribution constraint makes NFPs favourable in some situations where the information flow between service providers and customers is severely asymmetric (Hansmann 2010). For instance, when people make donations to charities, they are in fact customers who purchase services to be delivered to unrelated third parties. They, however, have virtually no control of the quantity and quality of the service especially when service receivers are in remote areas. They may, therefore, feel safer when the organization receiving their donation is an NFP (Hansmann 2010). On the other hand, non-distribution constraint is argued by Hansmann (2010) to potentially disadvantage NFPs in competition with FP providers. According to Hansmann (2010), non-distribution constraint's prohibition on owners essentially exposes NFPs to higher managerial costs than FP providers in the form of a failure to minimize costs; a bias toward excessive quality and/or quantity; and inflexibility in response to changes in market demand (Hansmann 2010). It also prevents NFPs from raising much needed capital by selling equity shares, as is practiced by their FP counter-partners. That might be one reason why the employment services market has seen 'a significant reduction in the number of service providers' since privatization commenced. According to those inside the industry, there were providers which could not cope with such challenges and disappeared. Only those which 'picked up the challenges and took on the diversity and recognised the right time to change the skill set' have survived and become larger. As illustrated by one interviewee, his/her organization has survived the reforms and grown from 'a very small operation' to a '\$30 million business' over the last 19 years.

Importantly, in the research participants' view, the market has become 'pretty tight' in terms of competition. While this can be explained by an escalation of the scale of competition, the growth of the surviving providers is also thought to play a role. Despite the increasingly aggressive introduction of the quasi-market regime in the industry, respondents agreed that in the early stages of JN, government contracts were a major funding source or 'a cash cow', as one interviewee put it, for NFPs. Many organizations could build their reserves and grew bigger and have become 'a little bit more business-like or commercial in the way in which you operate' accordingly.

Interestingly, NFPs, once having grown bigger, have faced further pressures to grow even larger. Internally, while they needed to 'become self-sustaining' and 'maintain their current

service provision', they now had to serve a bigger organization which required, without doubt, more resources. Externally, as perceived by interviewees, they were locked into growth. Otherwise, they believe they would be discriminated against and lose government contracts. They, therefore, claimed they had no choice other than 'keep doing that work and grow' their businesses further, which in turn has imposed greater need for them to become 'more professional' in their operations. Understandably, with larger and increasingly professional players in the market, more intense and exacting forms of competition appear inevitable.

In brief, there exists an interactive relationship between competition, organizational growth and professionalization. More specifically, competition filters out players with more limited reach; successful survivors enjoy extra resources and grow and subsequently face greater need for professionalization; and fewer, bigger and more professional competitors in the market in turn intensifies this form of competitiveness. On the purchasing side, increased professionalism by agencies probably increases pressure on the purchaser to choose agents who exhibit recognizable forms of professionalism in both their bids and their track records. In other words, the Australian policy reform has played no small a part in this trajectory by directly or indirectly inducing competitiveness and organizational growth. As previously mentioned, the competition concept was first introduced as a key reform agenda and its scale has been escalating since. Furthermore, reform has also fuelled the scaling-up process inside agencies by providing them with substantial financial reserves in the early stages of JN and the perception that small players will be vulnerable. Therefore, without any speculation on its absolute magnitude, a causal relationship between the policy reform and organizational growth, and subsequent professionalization, can be observed with reasonable confidence.

In charge of governing growing NFPs with ever greater pressures for these organizations to become more professional, boards of directors, according to those we interviewed, have evolved and 'lifted standards' to accommodate these challenges. There was a general agreement among interviewees that NFP boards have become 'more responsible' and 'provided a professional approach to the nature of work'. In other words, they have embarked on a process for improving their own professional-managerial skills.

In light of the much contested literature on what constitutes a profession, a brief discussion on this issue is needed before going further into the empirical findings. The most widely

accepted perspective among sociologists in the professionalism field is that 'profession' is a prestigious occupation with special characteristics and attributes (Watson 2002; Williams et al. 2009; Yee 2001). A profession holds an important and distinguished status in the society and thus becoming 'professional' is desirable. 'Professionalization' is subsequently defined as a process of an occupation attempting to obtain the status and recognition of a profession (Freidson 1988).

However, this approach has been subjected to operational problems and criticisms from various authors. For instance, while many occupations are aiming to achieve the position of a 'profession', saying exactly what attributes constitute a profession is still a matter of debate, and each competing theory has a different perspective (Yee 2001). Profession or professionalization is also criticized as a market strategy adopted by occupations seeking monopoly control over an area of activity which would guarantee them an advantaged position within the class structure (Larson 1977) or a 'vehicle used to further or defend particular occupational interests' in certain ways (Watson 2002: 94). Becker (1970: 92) even claims that 'professions' are 'simply those occupations which have been fortunate enough in the politics of today's work world to gain and maintain possession of that honorific title'. Alternatively, Yee (2001) proposes that 'profession' is a changing concept and what really matters are the dynamics underlying the professionalization of a particular organization. Watson (2002) on the other hand suggests that 'profession' and 'professionalism' are interpreted in accordance with the way people in society generally, and spokespersons for occupational groupings in particular, use such notions to achieve particular purposes.

For the purpose of the research at hand, observations by Garratt (2003) on professionalization in the context of organizational boards of directors are useful. For him, professionalization of the boards of directors (which is extremely important if improvement in shareholder value are to be sustained) is achieved when 'directors are selected, trained, developed, appraised, and sacked, in an open and systematic way' (Garratt 2003: 530). Importantly in this context, the standard against which such decisions are made is commercial performance, not the capacity to represent non-commercial interests. As we show, this focus upon commercial performance is what has been happening in the professionalization process at the board level in Australian NFPs engaged in contracted social service delivery.

With these commercial imperatives and increased competitiveness, boards have come to adopt a more business-oriented view of NFP organizations. It was made clear by interviewees that ‘not-for-profit didn’t mean it was for a loss’. They were there to ‘make it longevity and make it business based’, ‘so that they can be there in the long term’. They no longer accepted the point of view that poor performance could be tolerated just because organizations they were governing were NFP. Importantly, they clearly confirmed that turning an NFP into a commercial organization did not mean that they ceased to be an NFP. Instead, it was seen as necessary to generate a profit because, like any other organizations, NFPs need resources in order to achieve their social values and mission.

Boards also recognized that director skills are critical to organizational performance in light of the new challenges of the competitive market. They suspected that they could not ‘sustain and give an organisation any leadership without those skills and experience’ and thus they should move towards recruitment of directors based on these skills, ‘We don’t have the skills, well let’s get more skills, let’s get more attitude, let’s take more risk and they’re the sort of cultures you need to move towards’. In reality, some NFPs have implemented commercial skill-based recruitment practices. Specifically, they first define a skill set required of the board based on the needs of the organizations and then address whatever skills shortfall may remain by either board training or recruiting new directors with the desired skills:

‘It is fortunate that we can, we . . . had a drive to bring in people like – some fine candidates . . . to lead the organisation in that next phase of growth that we had and we found that we had a short fall in skill sets and we needed to replenish our board membership in order to fit the . . . to satisfy the needs of the organisation.’

Interestingly, the interviewees had a very dynamic view of these responsibilities. They pointed out that the skill set required of the board was not static. Rather it would change to accommodate a particular development stage of the organization, ‘The timing for getting the right skills, in this particular sector, has got to be balanced with where the organisation is, so that you get that right . . .’. ‘It wasn’t until it got to that stage that the organisation was starting to say “Well, hang on, now we can do that for you” but now they needed another skill set, that’s where I came onto that board’.

Therefore, many respondents considered it their responsibility to continuously improve their skills in accordance with the new organizational requirements, 'As you're growing, you need the skilled based boards as a board – as a director with a commitment to the organisation, you have to identify where you're short on skills and target them and chase them'. They were also open to board training opportunities, both formal and informal, in their pursuit of these skills. Some members had even voluntarily resigned when they found their skills had apparently passed their 'use by date' and they could no longer make meaningful contributions, which is quite a radical approach, especially when it seems to have come directly from the board members themselves.

Associated with this new mind-set regarding board responsibilities was increased utilization of more strategic and aggressive recruitment practices in NFPs. Before, directors used to 'step up and put my hand up' or be 'hand-picked', 'identified and tapped on the shoulder', 'asked', 'suggested' or joined the board by 'invitation', 'word of mouth' and 'network'. Now the practices of using 'advertisement', 'head hunter[s]', 'executive recruitment firm[s]' or 'a recruitment agency' have become more popular. Organizations have grown much larger and so have the requirements for boards. It was, therefore, not easy to acquire a director with the required skills using the traditional volunteering methods.

According to one interviewee, 'finding the right skill set sometimes requires a recruitment agency to go out there'. Consequently, in order to be able to recruit individuals with the required skill sets, some NFPs have moved towards paying board members. Most of interviewees strongly objected to the idea of paying boards in NFPs by clearly stating that they would not look for payments as an NFP director and would not accept payments even if offered. However, they had to admit that while 'the high profile not-for-profits will always manage to attract people to their boards without pay', the situation would be much more difficult for small and medium NFP boards. Payments were, therefore, necessary:

'It's growing, in my opinion. I believe it has to, if you're going to be serious about a large organisation, you need to – and you want serious commitment from the board and you want them to spend the time, the effort. It's far too difficult to find the people that are – or at least in my experience, it's becoming more and more difficult to find people with the commitment to sit on a board like that without charge.'

However, this paid-board tendency could undermine NFP boards' distinguished status as 'embodiment and representation of community interests' (Smith and Lipsky 1993: 74). According to Smith and Lipsky (1993), that status of NFP boards is sustained via two practices. First, directors volunteer (that is, give unremunerated time and effort to the organization) and thereby commit to fight the problems of the community (Smith and Lipsky 1993). Second, 'they are selected, and are understood to be selected, on the basis of their allegiance to the ideas and values embodied in the organisation's character, history and current purposes' (Smith and Lipsky 1993: 74). With a move towards a paid board model, the unique status of NFP board may be at risk. Also, the introduction of paid boards may result in boards themselves being less committed to the community and its problems and consequently less inclined to assume an advocacy role, which traditionally has been 'one of the most important roles played by NFPs' (Kimberlin 2010: 166).

To accommodate organizational growth, NFP boards have also grown in size and been structured into specialized committees accordingly. For example, we now see boards with audit committees, finance committees, risk committees and governance committees:

'With that we have become very professional I'd like to think in the last couple of years where we've broken into committees the audit finance risk committee and also a governance committee and that does I guess take a lot of pressure off the chair because they do a lot of work those two chairs; the one on the governance and the audit finance and risk committee.'

While the influence of board size on board effectiveness is not always linear (Golden and Zajac 2001), growth and structuring of boards into multiple committees was viewed by respondents as a sign of becoming more professional.

Other developments that were reported by interviewees to have been linked to the professionalization process include new forms of board induction, board training and board evaluation. Traditionally, there used to be no or very limited induction for directors when they joined NFP boards. As organizations have grown, directors are increasingly having to complete a formal induction process with a full induction manual provided to them with information about the organization and their roles and responsibilities, for example, 'the operation of the board and responsibilities', 'overview of government policy (for example,

how the funding contracts operate)’ and ‘work of organisation’. Other forms of director induction also include induction time with the board, the chair, management (e.g. CEO, chief financial officer) and ‘intro- duction across the sorts of work (for example, employment work, crisis support work, youth work . . .)’.

Directors reported that they also had more training opportunities than before. They could attend conferences where there were specific sessions for board members or be sent away for courses. Some interviewees even recommended that induction and training process should be made mandatory and ‘there should be some sort of basic certification for people coming onto committees’.

Last but not least, some NFP boards have now had regular evaluations usually once a year for internal evaluation and once every two years externally. Directors are evaluated against a defined skills matrix and those who do not show the required skills may be asked to leave their board. Although considered tough by directors themselves, they all agreed that such processes are necessary to ensure the full presence of the required skill set on the board: ‘We, every year, look at skills matrix, we evaluate the board, the chairman evaluates the directors each year, each two years we get a full either external evaluation or probably a really intense evaluation. We’ve – some directors have left our board in the last year or so because the skill sets were seen not to be there, so if you’re going to do that you have to then take this next approach otherwise you don’t get the value.’

The Challenges to Not-for-Profit Boards Posed by Competitive Tendering

According to our respondents, NFP boards have faced further challenges or side-effects of the professionalization process. Directors made clear in inter- views that they joined NFP boards for reasons which can be divided into three categories: cause-related, skill-related and political. The first and foremost motive for directors to join an NFP board is their desire to give back to the community. Skill-related reasons are various, for example:

1. Directors had skills and professional experiences which organizations need and they ‘can help that organization by bringing those skills to the table’.

2. It was seen as an opportunity for them to ‘sharpen their swords’ and ‘expand [their] professional development’.
3. They were intellectually stimulated by involvement in board activities.
4. It provided them with personal satisfaction, including making a contribution to an organizational transformation.
5. The organizations which they joined were tolerant of new members.

Political reasons are present when some directors considered their responsibility to boost the presence of a particular sector at the national level. However, to obtain the required skill set on the board, many NFPs have taken on board directors who have skills but ‘might not share the values of the organisation and might just be there for the dollar value’. While most of our interviewees agreed that an NFP director did not have to be passionate about organizational values and only a certain alignment between directors’ values and organizations was required, a director who did not have a real empathy towards organizational values could be problematic.

For example, some NFP boards were reported to suffer from serious board tensions and conflicts due to the presence of some individuals who did not have real empathy towards the organization’s missions or focus. This ultimately negatively impacted on the organization as a whole. Furthermore, this practice effectively undermines the second cornerstone supporting the previously discussed status of NFPs’ boards as embodiments and representatives of community interest, as argued by Smith and Lipsky (1993), which again calls for caution among directors in NFPs in the sector concerning how far they should go in the direction of professionalization.

While becoming more business-like and professional is said to be the objective of this process, it was also a challenge for the boards to correctly position their organizations in the new operating environment, especially with regard to achieving financial performance without losing identities and changing their organizational mission and values, ‘So I think it changes the nature of – it’s always concerned me that organisation, that charities are becoming more an agent of government and that is now swamping or diluting or changing their values’.

Another problem facing NFP boards is the handling of directors who did not pass board evaluations and were, therefore, either under-contributing or had become a liability. While this task would be easier for boards which pay directors, in the view of those we interviewed, it was a very sensitive process for non-paying boards. As previously mentioned, political and job-related motives aside, most directors joined NFP boards, especially in cases where there is no pay, because they want to help. It, therefore, would be natural for them to think that they are making a contribution. That said, a director's view of his or her own performance might be different from others' evaluations and as a result self-perception about a suitable time to leave a board might be impaired. In addition, because most NFP board members voluntarily devote their time and effort without expecting payment, the task of dismissal is made even more difficult.

In short, under pressure to professionalize with more managerial skills and experience, NFP boards have been found to embark on a very fundamental transformation process. More specifically, NFP boards have adopted a more business-like view of their organizations in general and lifted their board skill sets and responsibilities accordingly. They reportedly made radical changes, for example, utilizing strategic recruitment strategies (e.g. skill-based, paid boards), board restructures and the introduction of more comprehensive induction, training and evaluation processes. However, some practices which were deployed during the professionalizing process, such as paid board membership and recruitment of non-value-sharing directors, should be applied with caution because, in line with arguments by Smith and Lipsky (1993), these practices might have a damaging impact on NFP boards' identity as an embodiment and representation of community interests. Moreover, the professionalization process has not come without challenges. Evidence shows that NFP boards have faced tensions and conflict due to this increased diversification in directors' motives for joining. Achieving the right balance in applying corporate governance mechanisms to a charity has proven to be a difficult task for many.

Conclusion

Understanding the pressure to improve governance is critical to understanding the changes occurring in the NFP sector. It is, therefore, not surprising that many authors have investigated the impact of contracting-out and related reforms on service providers. However,

while there might be other filters in between the government policies and organizational performance, such as boards of directors, other funding providers and different layers of management, most of the studies have focused on the direct link between the government and the operational level of these organizations. The intermediary layers of management and directorship have been largely neglected. This research is one of the first studies into the impact of public policy reform in the employment services sector on NFP boards. Its findings are, therefore, expected to be meaningful on several fronts.

First, it provides policymakers with evidence of the impact of the reform upon NFPs at a level that has never been studied before, which means a more comprehensive evaluation of the reforms themselves is possible. Thus, such findings should be an additional input to be taken into account when policymakers are contemplating any further reform initiatives. Second, based on the findings of this study, directors of NFPs have a chance to reflect on what is happening at the board level in their own organizations. They might want to seriously reconsider the impacts of the managerial professionalization process on their identity as a governance group within the context of the broader NFP agency. Third, for those researchers who are interested in boards' roles in organizational change as a result of NPM reforms, this study could be used as the first step to making sense of the processes at work. Australia's advance employment services privatization status means that the Australian experience can direct attention to factors likely to be important in other privatizing sectors.

However, this study is not exempt from several limitations which deserve further investigation. First, the sample of this study, while being representative of the sector, did not include all NFPs in the sector. Consequently, a deductive and quantitative approach to further confirm our conclusions with the data to be collected from the whole sector is definitely worth pursuing. Likewise, a larger sample might give even greater confidence in the findings. Second, by focusing on NFP boards only, this study makes no comparison of a possible convergence in behaviours with FP providers which are also integral to the Australian employment services market. As Eardley et al. (2001) found, reforms have had an impact on FP providers as well. For example, some FPs have been found to become more concerned about clients and their needs, an attitude generally associated with the NFP sector. Therefore, a study which explores changes of FP boards under the same reform process would provide additional insight into the system overall.

Third, this research has not gone beyond the professionalization of NFP boards per se to explore its implications on the rest of the organization. Studies which investigate if and how board professionalization influences, for instance, CEO performance and other organizational activities, such as advocacy, are likely to be revealing. Lastly, the data used for the purpose of this research was collected on a non-longitudinal basis while reform in the employment services sector in Australia has undergone several stages. It, therefore, would be insightful if impacts of each reform stage on boards in general, and NFP boards in particular, could be separately studied on a longitudinal basis.

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