Delivering fit-for-purpose governance and accountability: A case study

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Abstract

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Despite their being a sub-set of the not-for-profit sector, social enterprises are unlikely to exhibit a stakeholder model of governance typically found in that sector.

To examine this hypothesis, a social enterprise, Skylight, was identified and evaluated using a case-study methodology and thematic analysis.

The research involved semi-structured interviews with the board of trustees of the organisation. The aim of the interviews was to develop a deeper understanding of issues connected with governance and accountability in this organisation.

It was concluded that Skylight operated a stewardship model of governance – a model that emphasised skills required on the board rather than representation of stakeholders as emphasised by the stakeholder model.

As this study was based on a single case, it is suggested that more case studies be conducted on self-selecting boards in the non-for-profit domain in order to establish whether its findings were typical or atypical.

Key words: Governance, accountability, social enterprise
Introduction

Despite their being sub-sets of the non-profit sector, Low (2006), theorised that social enterprises are unlikely to exhibit the stakeholder model of governance typically found in that sector. He cautioned however that this concept needed rigorous research within empirical contexts in order to give it more than just theoretical value.

However, since social enterprises might adopt a variety of different legal forms including incorporation, associations, and partnerships or register as charities means, according to Spear et al. (2007), that to understand those enterprises it is necessary to take into account their origins and governance structure.

This study therefore was about testing Low’s theory in a social enterprise to determine if it had more than just theoretical value. For this purpose, Skylight Trust, a self-defined social enterprise, with origins in the charitable sector was selected for the case study.

Social Enterprise:

_A social enterprise is any non-profit revenue generating venture created for the purpose of contributing to a social cause while operating with the discipline, innovation and determination of a for-profit business. (http://virtueventures.com)_
Social enterprises differ from the traditional understanding of non-for-profit organisations in terms of strategy, structure, norms and values and according to Dart (2004) they represent a radical innovation in the not-for-profit sector. This is because social enterprises are organisations that seek business solutions to social problems in order to sustain their social mission (Thomson and Doherty, 2006). They do this by developing paying customers for their product and services, rather than just depending on donations and grants. The paying customers could be individuals and/or government agencies who offer contracts for the delivery of social services.

Interestingly, “social enterprise” is an unfamiliar term across most sectors in New Zealand society. For instance, Grant’s (2008) search of New Zealand websites showed that less than ten percent of not-for-profit organisations were found to include social enterprise descriptions in their web-pages even though many not-for-profit organisations displayed characteristics identified in literature as determinants of social enterprise. Erskovic and McMorland, (2008) quoted a Statistics New Zealand 2007 report that showed that around 61% of the revenue in the not-for-profit sector in 2004 came from organisational commercial activities - sale of products and services.

Those who choose to self-identify as social enterprises do so in order to “legitimise” not only their purpose, but also their service delivery. In this context, it could be argued that this is Pragmatic Legitimacy as per Suchman’s typology of legitimacy cited by Dart (2004). This form of legitimacy, he said, was the least abstract form
because it denoted an attribution of social acceptability by stakeholders’ groups if an activity provided them with anything of value. Additionally, Grant (2008) noted that while individual organisations were negotiating their own balance between their social and enterprise aspirations, no in-depth discussions in this regard were being held at a macro level by the wider group of stakeholders.

**Governance:**

Good governance provides legitimacy, accountability and transparency for all stakeholders and a framework for responsible decision making and safeguards. Good governance in social enterprises, according to Spear at al. (2007), is essential for the movement to thrive and be sustainable. The growth in the move from grants to contracts to provide public services has raised concerns about how to manage new entrepreneurial initiatives and risks while sustaining core values. Consequently, as in other sectors, the quality of governance and accountability is crucial in maintaining reputation and public trust.

The thrust of governance theory for social enterprises is diverse and includes, inter alia, Stakeholders’ and Stewardship theory. According to Mason and Royce (2007), Stakeholders’ Theory emphasised the involvement of stakeholders and their representation at board level, whereas, Stewardship Theory emphasised the importance of rationality and value production.

Low (2006) queries the relevance these theories have for social enterprise governance. He argued that since social enterprises, (as cited in Dart, 2004), enact hybrid not-for-
profit and for-profit activities and suggested that, in theory at least, governance could also be a hybrid of for-profit stewardship and not-for-profit stakeholder (democratic) models.

Dart (as cited in Mason et al, 2007) argued that stewardship theory was consistent with the view that social enterprises were likely to evolve to a much narrower business focus resulting in the presence of a broader set of skills at board level. This suggested a move away from the inclusive representation of key stakeholders regardless of their strategic utility, towards a skill set that could more effectively govern the organisation. Low (2006) agreed that the complexities of trading were likely to drive a requirement for a more stewardship driven form of governance. He went on to say that, in order to enact the stewardship model, social enterprise boards were more likely to recruit members on the basis of expertise rather than representative status.

A wide variety of governance structures are used across the varied social enterprise sector. Spear et al. (2007) suggested three types of governance based on a dimension relating to the systems of board reproduction in the governance structure (1) where the board was self-selecting – charities with no membership (like trusts) (2) where the board was democratic, based on membership which formally elected the board, and (3) where the board was a hybrid structure - trustees and membership had different patterns of influence over board recruitment and appointment. They went on to say that underlying these differences were the key issues of accountability and control.
With respect to self-selecting boards, Spear et al. (2007) argued that trustees were quite powerful since membership played no role in influencing governance. This, however, was balanced by their strong drive to achieve their social mission – providing a strong beacon for governance and benchmark for accountability. Notwithstanding this, however, there remained the issue of accountability to wider stakeholders representing the public interest.

There are a number of governance challenges which appear to be distinctive to social enterprises. Spear et al. (2007) discussed four such challenges. The first was the lack of a dominant stakeholder which meant that an important role of the board was to balance the interests of different stakeholders’ e.g. funders and users of services. The second was the mix of social and financial goals which meant that the board had to avoid the danger of focusing on those aspects of performance that were easier to measure, to the detriment of more important aspects of performance that were difficult to measure. The third was the voluntary nature of board membership coupled with the increasing demands on boards had raised concerns about what could be realistically expected from volunteer board members in terms of skills and time. This also raised debate on the issue of whether to introduce payments for board members. The fourth related to the increasing difficulty in finding volunteer board members with the right skills and experience which meant the need to shift from the traditional informal methods of recruitment, such as word of mouth, to more formal methods.

Commenting on NGOs, and this was relevant for social enterprises as well, Unerman and O’Dawyer (2006) concluded that, as with other forms of organisations, there was unlikely to be a single set of accountability mechanisms suited to all such
organisations. Rather, the effectiveness of such mechanisms depended upon a number of factors related to the characteristics of individual organisations.

Hence, the focus of this case study was to explore in detail directors’ experience on governance and accountability at a Wellington New Zealand social enterprise Skylight Trust. Skylight operated as a social enterprise and had its origins as a charitable organisation. It had a self-selecting Board i.e. it did not have dominant stakeholders to influence Board selection and appointments.

**Methodology**

A case study methodology was selected primarily because it allowed investigation of a contemporary phenomenon within its real context (Azofra et al 2003). This permitted an inside look at people’s experience of social enterprise governance and accountability.

The research conducted in this study used interviews with the Board of Trustees of Skylight. The aim of the interviews was to uncover a deeper understanding of issues connected with governance and accountability. Interviews were conducted with nine members of the Board of Trustees. The interviews were in a semi-structured format so that the interviewer had the freedom to follow interesting issues as they emerged, and/or probe for more detail. The main interview questions were (1) What attracted you to volunteer to become a Board Member of a social enterprise? (2) Who was the Board accountable to and why? (3) What was the Board accountable for and why? (4) What risks were inherent in the accountabilities that you have identified and why? (5) How
did the Board ensure mitigation of those risks? (6) How did you, as an individual, contribute to the mitigation of those risks? (7) Should a financial value be placed on your services to the Board and reflected in the financial statements? Why or why not?

The interview notes and comments were subjected to thematic analysis following the guidelines adapted from Owen (1984) cited by Zorn (1998). The first step was to collect the data. This was done via notes taken during the face-to-face interview with the participants based on pre-set interview questions. The second step was to transcribe the interview notes and to return them to each of the participants for their validation and feedback. All suggested changes resulting from this validation and feedback process were then incorporated in the final copy of the transcriptions. The third step involved bringing together all the data that related to the question. The fourth step was to combine and catalogue related patterns of responses into a theme.

**Results**

Skylight is a not-for-profit trust with a social mission to provide support for children, young people and their families impacted by change, loss and grief, whatever the cause.

It self-identifies and operates as a social enterprise. This means that, in order to continue to provide services that their communities require, it balances its social mission with revenue generation through the sale of its products and services.
In the Chief Executive’s own words “the balancing act, similar to continuously walking a tightrope, is necessary so that we have funds to continue to grow our services and support not only for families that currently have access to our programmes, but also those who as yet do not – due in particular to the financial constraints of expanding some programmes into areas of need.” (Annual Report, 2009)

Skylight’s core services were described in its 2009 Annual Report as: (1) providing counselling, education and support for individual, groups and families (2) Providing community development programmes and community development training through skills development on a broad range of change, loss and grief topics (3) providing a targeted school-based programme for building resilience in young teens (4) operating an extensive specialist resource and information centre in New Zealand focusing on change, loss and grief and (5) publishing and selling specialist books on change, loss and grief.

Skylight is in its 11th year of operation with a complement of 18 full-time, part-time and volunteer staff. It has revenue exceeding $1 million, made up of earned income (70%) and grants and donations (30%).

The management is supported by a self-selecting volunteer Board of Trustees. The ten trustees (the Trust Deed allows up-to 12) form a multi-disciplinary team with wide ranging backgrounds including: business management, accounting, finance, legal and information technology. The Board has an executive committee which meets monthly with a full Board meeting held on a bi-monthly basis. The meetings are a blend of
physical attendance and electronic mailing (for those who are not able to attend due to conflicting priorities) is used to seek input and endorsement on resolutions.

Reponses

1. *What attracted you to volunteer to become a Board Member of a social enterprise?*

Direct approaches by other Board Members or the CEO coupled with identification with the mission of Skylight were the common reasons given. The social enterprise business model in itself was not a strong factor as an attraction for volunteering to be a board member but identification with the social mission was. The social enterprise business model had evolved during the tenure of some of the Board Members and those members were strong proponents of it. However, the social enterprise business model and designation was generally deemed to be a more transparent and contemporary description of the way the organisation operated.

So why is it important for Skylight to self-identify as a social enterprise?

According to the Chief Executive of Skylight (interview, 2010), the term social enterprise properly reflected the nature of the organisation - social reflected the social mission and enterprise reflected the entrepreneurial way in which they conducted their business to earn income from the sale of their products and services. Moreover, she believed that acknowledging they operated as a social enterprise was very important because it set the framework that drove the organisation culture including:
governance, leadership, processes, behaviours and the management expectations of
the wider stakeholder group.

2. **Who was the Board accountable to and why?**

The common answer was “the community or the stakeholders”. These parties being
defined as: suppliers, users of services, funders, staff and public at large. However,
进一步讨论围绕主题的缺乏主导利益相关者和自我选择的董事会性质导致了对这个问题答案的进一步搜索。它
was recognised that this accountability was essentially implied and not specific.
Further, the Board had accountability to the public for moral and ethical behaviour
and were therefore, accountable to each other, for ensuring that this happened.

3. **What was the Board accountable for and why?**

The initial responses tended to focus on the description of responsibilities of the
Board and these provided a good platform to work through to accountabilities of the
Board. The key accountabilities were considered to include: financial sustainability,
quality of service, image of the organisation, capability of human and physical
resources, compliance for legal and contractual obligations, protection of privileged
information for clinical services, sustainability and regeneration of the Board, and the
relevance of the purpose and strategic direction of the organisation.

4. **What risks were inherent in the accountabilities that you have identified and why?**
The depth of responses varied depending on the background and experience of each of the directors. For example, directors with accounting background gave a much deeper response on financial risks.

The key risks were considered to include: (1) Mission drift - because the quest of funding could lead the organisation into things that were not relevant its intended purpose. (2) Financial - because all income streams were essentially at risk and also there was a danger of over dependence on revenue from public service contracting leaving the organisation vulnerable to changes in public policy. (3) Legal - because of the requirements to meet statutory and contractual obligations to suppliers, users, funders and staff. (4) Operational in the context of capability of human and physical resources. In terms of human resources, there was heavy reliance on a small number of key staff. In terms of physical resources, there was increasing use of technology for sensitive information management. (5) Reputational - because the image and brand of the organisation were paramount to sustainability. (6) Governance - because of the self-selecting nature of the Board, there was a requirement to ensure regeneration of the Board. (7) Clinical - because of the need to ensure safety and protection of users.

5. How did the Board ensure mitigation of those risks?

It was acknowledged that risk management was an on-going process and an integral part of policy development, planning, performance measurement and reporting. It was therefore important that risks were indentified, evaluated, reported and acted upon.
The Board’s accountability was considered to be that of ensuring the above processes were in place in the organisation. Other mitigation factors that were considered included: attending Board meetings and being active Board Members; asking the hard questions on financial and operational performance; being there as a sounding board but focusing on the big picture; social net-working to raise awareness of the organisation’s brand; participating in over-sight committees as required; being active in ensuring social regeneration of the Board by approaching, when necessary, potential Board Members with the desired skill mix; and social net-working to keep close to current and potential future funders.

6. *How did you, as an individual, contribute to the mitigation of those risks?*

It was also acknowledged that it was important to distinguish between the contribution of the Board as a whole and the contribution of an individual Board Member.

The contribution of the individual Board Members was dependent on their respective professional backgrounds and expertise which included: accounting, legal, business management, information technology, and governance. At the time of the study, this mix did not include clinical expertise due to the departure of the previous member with clinical expertise. Each of the members felt that they brought their professional background and experience to bear in Board deliberations on matters related to their areas of expertise.

7. *Should a financial value be placed on your services to the Board and reflected in the financial statements? Why or why not?*
It was made clear by those interviewed that the reason for volunteering was not for a financial reward but for personal reward - making a charitable donation of time rather than money for a cause that they identified with. Consequently, the issue of remuneration was not a factor and all were satisfied with the current re-imbursement policy for out-of-pocket expenses. However, the issue was raised that at some stage in the future circumstances might force the organisation to have a wider debate on the remuneration issue. For example, if a situation arose where the organisation needed a specific skill set on the Board and a volunteer could not be found. Also discussed were several other issues related to this, including: parity and sourcing of such skill set from other than a Board member such as an external advisor.

The Board’s value proposition was acknowledged and all agreed that a notional value could be placed on board services based on some formula. However, the notion of showing this value in financial statements was a not a popular concept. It was felt that value acknowledgment was more important than value measurement and its reporting. The avenues suggested for value acknowledgment included the annual report, the annual general meeting and fund raising events.

The central argument of the proponents of formal value reporting was that it was important to know the true costs (including cost of governance be they notional) of doing business. The counter argument was that such value proposition could also be considered as a donation and thus revenue. This was on the basis that rather than donating money, the volunteer directors donated their time which had a value.
Findings and implications

Skylight is a self-defined social enterprise because it considers that such a classification reflects the way it operates its business. The purpose of the organisation has to be clear and transparent to ensure that both internal and external stakeholder expectations are being managed appropriately. By adopting the social enterprise designation, Skylight has signalled its commercial aspirations in order to deliver its social mission. This in-turn influences both its management and governance models.

Skylight has a self-selecting board because it does not have dominant stakeholders to influence board selection. It has a stewardship model of governance – this model of governance emphasises board membership that is based on skills of members rather than stakeholder representation on the board.

Whilst the social enterprise designation in itself may not been seen as the major reason for volunteering for Board services, it, nevertheless, is an important consideration for deciding who should be on the Board and for those who want to be on the Board for deciding whether they are comfortable with the social enterprise business model. This is because, the model sets the framework that drives the organisation culture including: governance, leadership, processes, behaviours and the management expectations of the wider stakeholder group.

Commercial aspirations of such organisations make it necessary for them to have a diverse skill mix on the board. This is in order to both steer the commercial aspirations of the organisation and to have recourse to ‘in-house’ expertise to provide
specialist advice in over-sight committees – very important consideration where due to funding constraints an organisation cannot afford to pay for such expertise.

The self-selecting nature of the Board invariably means that regeneration of the Board is by the selection and appointment of directors based on skill rather than stakeholders representation. This is in the interest of both the CEO and the Board to ensure appropriate skill gaps are filled. Selection of Board members is likely to be through informal direct approach by other Board members and/or the CEO. The CEO is likely to play a significant role in the approach and appointment process of Board members because the CEO, being the leader and champion of the social enterprise business model, has to ensure that the appropriate people and skill mix are on the Board. However, underpinning such initiatives should be formal succession plan of Board members.

The accountability of a self-selecting board can only be an implied one because there is no direct accountability to a specifically identified dominant stakeholder. The issue here is how to ensure that the accountability proposition is clear to both the external and internal stakeholders. This requires a “to whom” and “for what” accountability framework in order to institutionalise both the conceptual and applied governance practices. The focus on accountabilities and their inherent risks (and risk mitigation strategies) is a necessary step to move beyond just focusing on governance responsibilities.

The Board has implied moral accountability to stakeholders/community and specific accountability to each other to ensure that the organisation was fit-for-purpose and
delivers to that purpose. Such accountability is most likely lead to reliance on well developed policies because policies stem directly from the purpose of the organisation and provides a framework for long-term Board sustainability, decision making and accountability. All policy board models proponents (see for example, Garber, 2009) share the view that the job of the board is: to establish the guiding principles and policies for the organisation; to delegate responsibility and authority to those who are responsible for enacting the principles and policies; to monitor compliance with those guiding principles and policies; to ensure that staff and board alike are held accountable for their performance.

A wider risk-based governance approach seems necessary because of the heightened stake of personal risks such as financial, professional or reputational brought about by the commercial side of the business. The risk-based governance approach requires the Board to ensure that risks which underlie their key accountabilities are identified for management evaluation, reporting and action as deemed necessary. For this to work effectively, it is imperative that the Board has a well developed responsibilities, accountabilities and risk management framework in place.

It is important to adopt a practice that formally acknowledges the value of directors’ voluntary services to the organisation. Avenues such as annual reports, annual general meetings and fund raising events can be used for such purpose. This is due to the fact that people who volunteer for such services do so for personal reward through giving back to the community by volunteering their services and expertise to a cause about which they are passionate. Moreover, they are likely to see such assignments as
opportunities to learn and network with other like-minded people and be recognised for their social contribution.

**Conclusions**

The study confirms, in the context of a social enterprise with a self-selecting Board, the hypothesis that despite their being a sub-set of the not-for-profit sector, social enterprises are unlikely to exhibit a stakeholder model of governance typically found in that sector. Skylight operates as a social enterprise and has a stewardship model of governance - this model of governance emphasises board membership that is based on skills of members rather than stakeholder representation on the board.

The study was based on a case in one organisation that self-identified as operating as a social enterprise. More case studies are required in order to extend our understanding of applied governance and accountability practices in agencies in the not-for-profit domain that have self-selecting boards and earn income through the sale of their products and services.
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