GO Global Organization Design

Readings in Global Organization Design
Articles

Case study of a New Zealand not-for-profit organization

By Judith McMorland and Ljiljana Erakovic

Article #10-06-15-1a

Case study of a New Zealand not-for-profit organisation – an evolutionary and Levels of Work perspective on the emergence of governance/management relationships

Judith McMorland and Ljiljana Erakovic

University of Auckland Business School

About the authors:

Judith McMorland, PhD. a former Senior Lecturer in the Dept. of Management and Labour Relations, is an Honorary Research Fellow in the University of Auckland Business School.

Ljiljana Erakovic, PhD. is a Senior Lecturer in the Department of Management and International Business, University of Auckland Business School.

Case study of a New Zealand not-for-profit organisation – an evolutionary and Levels of Work perspective on the emergence of governance/management relationships

Introduction

Good governance is an ideal sought by not for profit (NFP organisations) and the Charities Commission alike. In a current piece of research we are exploring perceptions of what such 'good governance' might be in non-government/not-for-profit organisations. What has emerged strongly from our survey, interviews and discussions with executives and board members of NFPs is that there is no one prescription, no single template to guide practice universally. Instead, we discover that practices of governance evolve as organisations grow. One case study organisation exemplifies this very well and we use their story to discuss critical issues of organisational development that challenge principles and practices of governance.

The story we tell documents the eighteen year journey of one child-centred health organisation (which we call Am Calon[1]) set up through the energy and passion of a very small group of people in response to their own needs for information and support, which has now grown into a national body. A review of some relevant literature sets our study into the wider context of NFP governance research.

Boards in NFPs: Evolutionary Studies

We propose that research on the evolution of governance and management relationships in not-for-profit organisations should take an open-systems approach. Governance is neither a static concept nor definitely prescribed framework existing independently of contextual and temporal developments. A number of authors who discuss issues of corporate governance in a business context emphasise the importance of evolutionary theory in understanding governance challenges[1]. This literature discusses how governance, as a dynamic system, evolves throughout the organisational life cycle. Governance practices change and develop as an organisation goes through different stages, from start up to maturity and even decline. Each stage is characterised by different sets of resources, 'dominant' organisational actors

---

[1] The names of the organisation and the people involved have been changed to protect their anonymity. We would like to thank our respondents for sharing their rich and often poignant story. The case is presented with their permission. Any shortcomings in analysis, interpretation or discussion are, of course, our responsibility. We trust we have done them and the organisation justice.

and specific internal and external relationships, which may influence the evolution of both management and governance structures. For example, transition from a stage in which the organisation has a simple set of resources (e.g. local parental help) to a stage which demands more heterogeneous resources (such as fund-raising and political lobbying) may require different structures for the exercise of accountability, allocation of responsibilities and internal co-ordination. In the first stage, board members may be directly involved in the organisation's everyday activities and their accountability may be internally (mission) established. In later stages, the governance structure will be more complex, as board members are required to play strategic, advisory, monitoring and resource roles[2]. Formal patterns of accountability may be required by various external stakeholders (for example the Charities Commission, or Government funding agencies).

Organisational life cycle literature suggests that effective governance structures need to adapt to the various contingencies[3] of different stages. Within the not-for-profit sector, however, there is still little literature on governance that takes this perspective. The purpose of our exploration, here, is to redress this lack and to suggest ways in which greater understanding of typical 'life-stages' in not-for-profit organisations may help NFP board members or trustees[4] develop structures and practices appropriate to the developmental stage of their organisations.

One overseas study relevant to our research addressed these issues through discussion of a changing focus of attention in organisational control[5]. This longitudinal study of an American NFP in the mental health sector showed how changes in funding sources and types of relationships with external stakeholders (from individual donations to governmental contracts) changed the focus from control of resources and programmes to predominantly fiscal control. More importantly for our research, the board's involvement in setting strategic direction was seen to change gradually from direct project participation to project evaluation, and the active role of the board in various community and national networks to decline.

Wood[6] took a different and more narrow view on evolutionary development of boards in NFPs. In her study of 22 local and national organisations in the health sector, Wood[7] analysed the cyclical nature of board behaviour. She considered boards' internal dynamics without making any link to the life cycle of the organisation. The major feature of board

cyclical behaviour, according to Wood[8], is that board members' interest in the organisation's mission decreases and their concern for governance procedures and the organisation's reputation increases by the end of each cycle.

An extensive study of board trusteeship in over 300 American NFP organisations, conducted by Abzug and Simonoff[9] and colleagues[10] in the early 1990s, provided a stratified picture of how boards evolve over time. The authors argue that board evolution is induced by three major environmental factors. Similar to Stone[11], they have shown that the rise in government financial support has forced boards to change their early philosophies of 'community leaders' to representatives of different constituencies in the later stages of organisational life cycle[12]. Furthermore, increasing complexity of the institutional environment (e.g., regulation, donors, foundations, public interest, interest groups etc) increased the complexity of the board operations in NFP organisations. Over time, boards were supposed to accommodate additional interest and representation of various groups from the institutional field. Finally, the task environment of NFP organisations was seen to change dramatically. The demand for a more functional/skilful board increased as the critical organisational functions became more diverse and complex, and more similar to those in the for-profit sector[13]. Hence, a need for more professionals (i.e., lawyers, accountants and fund-raisers) over traditional trustees on the boards has been emphasised.

In summary, the studies portrayed above point out that there is no uniform governance structure in NFP organisations. It is useful to view Boards as evolving in response to increasing complexity in the life cycle of their organisations, and to see that evolution as historically and culturally dependent. Our study, although small in scale, represents a valuable addition to this avenue of research.

Case study

1. Start up 1982-1984 Early beginnings – the quest for information
Am Calon started in 1982 when two mothers found themselves in horrendous conditions within the hospital system trying to breastfeed their very sick babies. Unable to find either simple clinical explanation of the condition or practical information to help them navigate the severe trauma of disability, they set about researching the condition and published a practical guide for parents explaining the practical realities of living and caring for their

children. The Auckland mothers' support group became the committee in Auckland in 1983 and the organisation was incorporated in 1984.

2. Initial progress 1984-1991 regional and local developments

Parent support groups were established, under their own constitutions, in other regions of New Zealand. Some money was raised for paediatric liaison centred in Auckland, but most of the activity in the early years was regionally or locally based, with community groups remaining small and informal over the first nine years. During this phase, close informal associations were forged with other health and bereavement organisations. In Auckland rudimentary resources were shared with other community groups, centred at Green Lane Hospital (the predecessor to Starship). A grant was received from another health NGO to help fund voluntary workers supporting families away from home.

Extensive health reforms were introduced in 1989 following introduction of new public management practices. Ideologically and financially these had a severe impact on health provision and the services parents and community groups were able to access on their own, precipitating major change.

3. Forging a national identity 1991-1996

The Health Reforms of the late 1980s introduced the notion of Crown Health Enterprises (CHEs) and User Pays policies. Concentration of specialist services in Auckland's Green Lane Hospital meant that Am Calon children had to be brought to Auckland for treatment, often within days or weeks of birth, and for prolonged periods. Though there was effective, world-class surgical expertise in New Zealand in the case of adults, the state of paediatric knowledge of the condition was still rudimentary for children. Hospital and pharmaceutical practices and protocols had not been developed for specialised paediatric care. Adult and children's funding was not differentiated at this time. As the numbers of surviving children requiring specialist services grew, so too did the need for advocacy on a national level.

A meeting of parents was called in 1991 bringing together people from different regional organisations for the first time. Exchange of information between the groups was much valued and participants decided that a national body would be much more effective in dealing with the health service and in advocating for dedicated paediatric services than local or regional groups could accomplish on their own. Each of the local groups had their own

constitution and name. Following this meeting, they were asked to relinquish their independent status and join a national body, under a single Constitution. This marked the first major developmental shift for the organisation – from locally based initiatives supporting known families within specific communities to a national organisation focussed on accomplishing fundamental change in governmental policy and practice. An organisational member remembered:

> " We were formed as a parent run organisation. We were passionate about retaining our ownership of the organisation, and part of that too was that we had to negotiate with those groups that already existed, because we were asking them to give up their entity. They had a constitution! They were legal entities. As a national organisation we couldn't be seen to be offering them less than what they already had. It had to be more."

If there was any doubt about the need for national advocacy within the context of these health reforms, the parlous state of resources within Green Lane hospital at this time gave immediate stimulus for direct action. One mother from the South Island graphically described the situation she endured:

> "...they introduced user pays in hospitals which was $50 a night hospital stay. ...There was no accommodation for parents; there was nowhere to stay on the ward. (My daughter) was in an incubator in the isolation unit. We had a chair pushed up outside the room in the corridor. That was it for the two of us. There were no meals, nothing provided for breastfeeding mothers... The hospital had major cuts. They'd cancelled all cleaning contracts. They could only afford to fumigate the place, I think they said every six months, so the place was just riddled with cockroaches everywhere...I thought I'd gone to a Third World country....then I got sick. I got an infection from the bath... I didn't know I needed to clean the bath before I had it. It just didn't occur to me and being ten days after giving birth I got an infection, so I ended up getting sick and having all sorts of problems....."

With the drafting of a single national constitution the first national board was established in 1994. Care was taken to retain links to the regions and the Constitution provided for regional representation along Area Health Board lines. There was power to co-opt two further members if particular skills were needed, however, the capability of the Board was dependent on already burdened parents willing to take on advocacy and action. As an early Board member stated:

"...in a pack of cards there's a winning hand, but you can only play with the cards you are dealt. So for (our organisation) there's a winning hand, but we could only be a board from those who put their hand up, and those that were voted on."

Common experience of lack of services spurred parents on to address the conditions they found and Am Calon achieved a significant profile in this early phase, developing as a national body as well as effectively advocating for change. The first national board was an effective working group and strong advocacy and action followed constitution of the organisation. Lack of specifically designated paediatric services and funding meant that children were dying whilst on a waiting list for surgery. The management committee organised a march in Auckland and sent a petition sent to Parliament appealing for the separation of paediatric services and pharmaceuticals from adult funding.

The identity of board members as parents caring for their sick children was paramount in sustaining the energy and passion of the organisation in its most formative period:

"...that was one of the fundamental things that I think for our organisation, the degree of passion and personal battles that every board member was going through, it couldn't have achieved it without that. ...We all acknowledged there was no handbook for forming an organisation....We were essentially writing the handbook and we'd get in touch with groups...we all acknowledged we'd have to work it out for ourselves as we went."

On the other hand, such personal identification with the cause was also seen to be a difficulty in achieving wider recognition. Despite their professional lives and experience, some women Board members were told:

" You'll never be seen as anything other than mums having a cup of coffee and chatting to each other... I'd worked in the banking industry since 1980 so I had quite a strong in-depth skills base and corporate education you might call it. So I did understand their world and where they were coming from, but at that stage I was pegged as the mum of sick child ...externally you had to play the game and that was the game."

Provision of accommodation for families was a high early priority. Through extensive networking, very supportive sponsorship from a significant financial institution, and massive

effort from board members, Am Calon raised $1m over an eighteen-month period to buy two adjacent town houses in close proximity to Green Lane hospital. Ronald McDonald House made a no-interest loan for the $200k shortfall and, because they were experienced community hoteliers, managed the Am Calon accommodation under contract.

Integration of regional and local groups into a single national organisation and the acquisition of property increased the complexity of the organisation considerably and made possible provision of a greater range of services. Key people on the committee had relevant skills to apply to increasingly professional tasks, but the task of creating a national body with limited people resources was not easy. Recognising the need for further organisational expertise, one member of the committee devoted considerable time and effort in up-skilling herself through volunteering with another organisation from which she could learn. She remembered:

> *"I said 'I want to volunteer to help you' and I was very upfront with them, "and in return I want you to teach me how to fund raise, I want you to teach me how this non-for-profit sector works' ...I learnt how we need to look after our volunteers, or culture our volunteers. I learnt about fund raising, I learnt about database management, direct mail campaigns, the whole side of that marketing for a non-profit organisation. I worked out how their governance worked within a non-profit organisation... I didn't need to know what they did, but how they did it, so I met some of the senior managers when they'd visit our area and I would get talking to them. They ended up giving me a paid job...".*

4. Increasing complexity 1997-2001- differentiating management and governance

The increased survival rate of children and the consequent need for new services for families and their children growing up followed from dedicated paediatric services and beneficial changes in health care following reversal of the more draconian health policies in the 1990s. The Am Calon House was opened in 1997. Specialist camps were set up for Calon Kids. A national conference of parents and children was held in 1999 and by 2000 services increased considerably, necessitating more appropriate staffing but adding to costs. Staffing increased to two part-time workers – one concentrating on administration and support services (15 hours per week), the second on fund-raising, communications, event management and public relations (8 hours per week). Money tied up in the House distorted the picture of money

available for services.   A separate Trust was established to hold the assets of the organisation independent from the running costs of the organisation.   Finding money for day-to-day administration and service development was extremely difficult, as neither government nor philanthropic organisations typically support infrastructure development or operational costs.   In the early days the personal cost to board members was extensive. A board member explained:

> "...while we had good funding for the house, getting funding for running ourselves was horrendous.   We cut costs everywhere we could.   Board meetings were held out at Karaka, South Auckland --$10 a night for a room that was shared between two – not the best.   We did our own cleaning.   We saved two dollars a night because we cleaned at the end.   ...We were all stretched financially personally.   All of us were in the same boat.   Some obviously were in better position than others, but we were all stretched to glory."

The heaviest organisational burden fell on the Chair of the Board and as service demands and complexity increased, it became apparent that the level of work demanded of the board could not be sustained without properly differentiated management capability. Jane, who was the Chair at the time, recalled:

> "...We got to a stage where we had about five part time staff in Auckland and I was managing it all as Chairman.   The Board was still the management committee and governing body.   It was very very clear that could not continue.   We had got things up and running but the Board wasn't doing its core function– looking strategically at the organisation and taking time to look at what the risks were and growth – our Board meetings were so consumed (with day to day matters) and our structure wasn't quite right. ....it got quite critical in that I was probably working 40 hours a week managing Am Calon. Although we had a part–time fund-raising manager, I was still managing campaigns, we were starting our first Awareness Week, and trying to get our 18" branches" (parent support group) around the country working as one.   I was managing our sponsorship and contract renewals.   The organisation was also   lobbying with the Auckland Health Board, due to the relocation of services and we were getting the camps going.   It had grown hugely! Basically the Board had to let that go.   I probably forced that issue and said it couldn't continue on as it was and I put a proposal forward."

Jane's proposal was for the appointment of a part-time general manager to work closely alongside the Chair. The board agreed and asked Jane herself to take on this role.

> *"One of the other Board members was voted in as Chair and we muddled through for about twelve months. It was quite good I was able to focus quite clearly on managing the running of the organisation, prepare things for the Board, and not get involved in Board matters. However we had a bit of a wobble on the board."*

The shift from hands-on Chair (without any management support) to the General Manager role (part-time) was not without some a transitional difficulties. It marked, however, a crucial stage in the elaboration of the organisation and raised important questions for the board on principles of authority and role responsibilities. At the time of her appointment to the general manager position, Jane lived in New Plymouth. The new Board Chair was in Hawkes Bay and the focus of most of the services was in Auckland (centred around the hospital). Despite the establishment of the part time management position, the Chair wanted hands-on control, and the Board were ineffective in controlling him. Twelve months on, with tension between GM and Chair, Jane resigned her position in favour of a proposed on-site manager. This proposition failed. A group on the Board appointed one of their own members as Executive Director (who was based in Wellington), who introduced a different way of working that was distressful to the staff and eventually to other board members. The arrangement also failed to differentiate management and governance roles. Jane was asked to return to the Board, which she did as a regional representative. Recognising that the organisation could not be run remotely, two of the committee were tasked with appointing a full time general manager. At the AGM two months later, Jane was re-elected Chair, a position she held for the next five years until finally retiring from the organisation in 2007.

5. 2002-2009 Organisational and constitutional change – bringing on board increased capability and greater expectations of governance performance

Am Calon appointed the first full time general manager in 2002. A former businessman with experience of senior management overseas, Adrian brought a clear understanding of management responsibility and of the challenges of achieving appropriate governance when recruitment to the Board was constrained by the Constitution's requirement of parent ownership.

Within seven years under Adrian's direction, Am Calon has expanded considerably. The organisation now has 23 branches, 200-300 volunteers, a team of fund-raisers and designated support services managers. As part of the increasing complexity of the organisation, nearly one third (32%) of annual income of $2.3m is spent on fund raising. Half of the income (49%) is spent on Families Support Services with the remainder providing necessary infrastructure for the organisation. The early demands of general management meant that Adrian's focus was largely operational and that he held most of the organisational/institutional knowledge. Adrian commented:

> " ...a general manager is by definition of the title a generalist, so it was expected that I'd drive the van to the hospital, it was expected that I'd be a helper at the camps, it was expected that I would go to branch functions on a Saturday and a Sunday.... When they offered me (the title/position of CEO) I said, 'Well my definition of a CEO is someone who is less of a generalist and more of a long-term strategist. And therefore if you're keen for me to be CEO I can take your money and carry on doing exactly the same job, or we have to put into place a structure where Adrian doesn't know, and isn't expected to know everything. Because that was undoubtedly the case after the first year or two of getting in there: everyone came to Adrian: "Adrian, what about the budgets? Adrian, what about the expenses? Adrian, what about getting the van fixed? Adrian, someone wants to work as a volunteer can you sort her out? Everything came to Adrian when there were only four people here. We began to expand the personnel side of things before I was offered the CEO job, but I made it clear to them at the time that there had to be a commitment from the Board to the financing of a structure that would allow me more time to think."

Reflecting on this period, Jane concluded that much of the success and growth achieved during this period was due to the 'incredibly strong and respectful working relationship' forged between the general manager and the chair of the board:

> "It was an amazing 5 years working together and I think we truly complemented each other in style, background, perspective and commitment" .

6. 2009 onwards

With the change of title and structure, Adrian has been able to bring a strategic perspective to the work – both at a management level through his own more long-term focus, and through developing the skills and capability of the board. To this end, considerable effort

has gone into development of governance policies. Evaluation Committee processes have been established to ensure much greater accountability – by the Board for effective decision-making and by board members themselves for the contribution they make. Constitutional changes now allow for skilled capability to be brought to the board.

Apart from the question of what skills are to be brought in by the people elected or appointed, there is the further question of how individuals play out their understanding of governance responsibilities. The CEO explained:

> '...the Board is beginning to recognise that to be a board member ...if you want to do this properly, and we should being doing this properly, the chairman (needs to dedicate) 5-6 hours a week. At least! Other board members, you've got to be on at least a couple of committees, who somehow meet, at least somehow talk to each other. It's very hard when you're spread all over the country, because we certainly can't afford to fly people around all the time. You've got to find ways of getting people together and making decisions, putting up proposals to the board, discussing things with the general manager/CEO discussing whether or not we can afford to go forward...'

Preparation to move away from the original constitution of governance by parents has been careful and prolonged.   A skills audit was taken of current board members and essential but missing skills identified. These were: governance experience, marketing and PR expertise, entrepreneurship and fund-raising knowledge.   A questionnaire was circulated to all members canvassing opinion on the proposed changes.   A constitutional lawyer was consulted, and a Special General meeting called to give effect to changes to the composition of the Board.   Instead of nine regionally based parent representatives, the new composition would be six elected parent representatives, one adult 'Am Calon child' (in recognition of the growing numbers of children now surviving into adulthood) and three members appointed by the Board.   These changes have now been agreed.   Four candidates were identified, interviewed and found to be eminently suitable. They will be officially endorsed at the next AGM.

This marks another major transition for the organisation. Just as the management of the organisation was professionalised by appointment of a much-experienced business manager, so too the introduction of specialist professionals may signal the beginning of the

professionalisation of the Board. As in the earlier transition phase, it will be interesting to see how quickly the new members become acculturated, how their different experience of the organisation and its history and their non-parental connection to those the organisation serves change the dynamics and capabilities/expectations of current members.

Our case study ends mid-2009. The first Chief Executive has just resigned and a new person will be appointed. The new Board members have been chosen but not yet officially endorsed. Organisationally, Am Calon is in good heart and can withstand the upheaval of these changes for a while. The test of the evolution of governance will be whether or not the new Board can now firmly grasp the strategic mettle and continue with the vision and growth of the organisation, balancing organisational and governance matters in an appropriate partnership.

Discussion

The case we have constructed of the evolution of this organisation spans twenty-five years – from 1984-2009. It serves as a useful example of the stages of growth through which social service NFP organisations might typically progress as they change from a support service to a potentially wholly consumer-determined organisation.

Our interest is to interpret the dynamics of structural and functional change in the patterning of management and governance relationships as organisations became more complex. We attempt, in the discussion that follows, to provide a conceptual framework to identify transition points in organisational arrangements – that is the points at which new relationships are required in order for organisations to meet the challenges of new work as complexity increases.

One theorist who has provided a theory of complexity in organisations is Elliott Jaques[14]. He proposed a model of 'requisite organisation' identifying different levels of human capability and organisational capacity needed to undertake work across increasingly extended time frames. His colleague Gillian Stamp[15] adapted Jaques' model by identifying key themes of work required at each level. These ideas are expressed in simplified form in Figure 1. [16]

LEVELS	THEMES	PATTERNS OF CHANGE
5 5-10 years	Direction, purpose, challenge and maximizing assets	ROI
4 2-5 years	Innovation, change and continuity	Building for the future
3 1-2 years	Effective work practices, systems and productivity	breakthroughs
2 3-12 months	Effective coordination, collective improvement and efficiency	Ramped up change
1 0-3 months	Excellence of Task	Continuous improvement

Figure 1: Levels of work with themes and patterns of change.

(Adapted from McMorland and Ter Morshuizen (2001)

Stamp detailed themes of work associated with each level in a Matrix of Working Relationships[17]. She showed that as an organisation elaborates its structure through each of the different levels, the work of previous levels becomes embedded in organisational arrangements and leads to important changes in focus. Using Stamp's approach we can show how increases in organisational complexity necessitate increased levels of capacity (structures, roles, processes and systems necessary for an organisation to deliver on its challenges or purpose) and capability (individual and collective knowledge, skill, experience, inherent ability and potential) to deliver required outcomes and responses to change[18]. Adapting these ideas to an NFP context[19] we have attempted to illustrate this in Figure 2 below.

Figure 2 is built on two axes: the vertical axis represents increasing levels of organisational complexity and the key work themes that have to be attended to at each level.   The horizontal axis indicates need for increased capacity and capability to match task requirements. We present Figure 2 as map indicative of the step-wise progression through which organisations may be said to evolve from start up to maturity and beyond, rather than as a prescription *for* action. It identifies and explains points of transition in relationships

within organisations as the tasks of organising, managing and governing become differentiated.
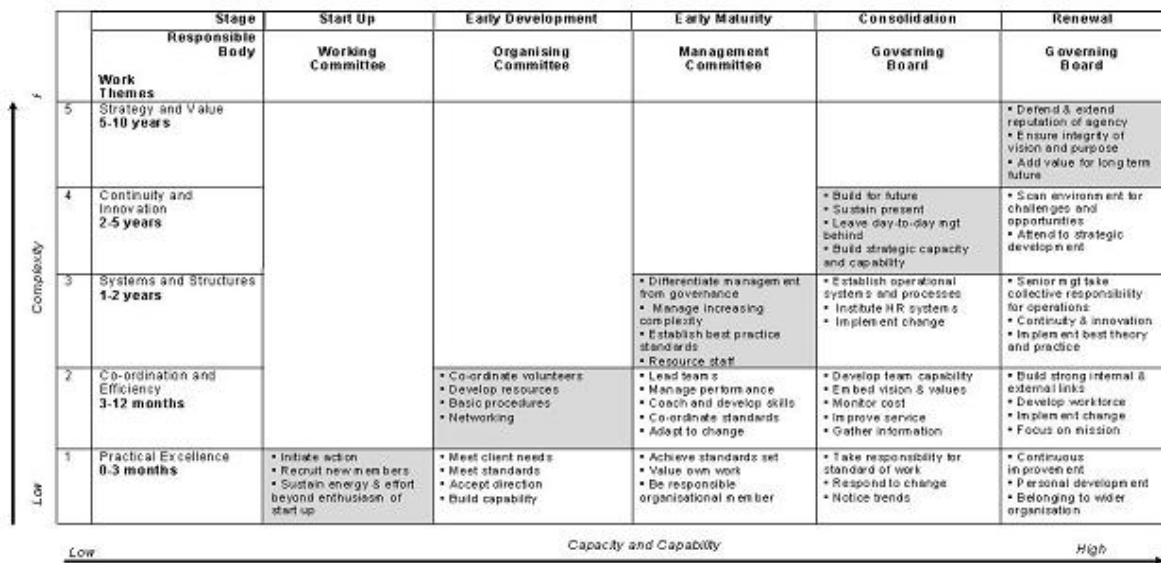
Stage / Responsible Body / Work Themes	Start Up — Working Committee	Early Development — Organising Committee	Early Maturity — Management Committee	Consolidation — Governing Board	Renewal — Governing Board
5 — Strategy and Value 5-10 years					• Defend & extend reputation of agency • Ensure integrity of vision and purpose • Add value for long term future
4 — Continuity and Innovation 2-5 years				• Build for future • Sustain present • Leave day-to-day mgt behind • Build strategic capacity and capability	• Scan environment for challenges and opportunities • Attend to strategic development
3 — Systems and Structures 1-2 years			• Differentiate management from governance • Manage increasing complexity • Establish best practice standards • Resource staff	• Establish operational systems and processes • Institute HR systems • Implement change	• Senior mgt take collective responsibility for operations • Continuity & innovation • Implement best theory and practice
2 — Co-ordination and Efficiency 3-12 months		• Co-ordinate volunteers • Develop resources • Basic procedures • Networking	• Lead teams • Manage performance • Coach and develop skills • Co-ordinate standards • Adapt to change	• Develop team capability • Embed vision & values • Monitor cost • Improve service • Gather information	• Build strong internal & external links • Develop workforce • Implement change • Focus on mission
1 — Practical Excellence 0-3 months	• Initiate action • Recruit new members • Sustain energy & effort beyond enthusiasm of start up	• Meet client needs • Meet standards • Accept direction • Build capability	• Achieve standards set • Value own work • Be responsible organisational member	• Take responsibility for standard of work • Respond to change • Notice trends	• Continuous improvement • Personal development • Belonging to wider organisation

Complexity (vertical axis, Low → high). Capacity and Capability (horizontal axis, Low → High).

Figure 2: Stages of organisational development and complexity: a Levels approach to changing patterns of management and governance
To see a more elaborated view of this figure go to:
http://globalro.org/en/component/docman/doc_download/265-stages-of-organisational-development-and-complexity.html

In their start up phase, most community organisations have a simple focus and intention, and require little by way of structural elaboration. In Figure 2 this is the bottom left-hand corner box. The work is hands-on and direct (Level 1), typically low in task complexity and capacity and capability (resources and people). At the other end of the scale a large organisation such as our case study example (with a budget of around $2m in 2007) is a highly complex organisation requiring strategic and generative governance[20], to guide delivery of multiple services to many different client groups (new babies, growing children, adults, parents and health professionals) high resource capacity (income and numbers of staff and volunteers) and commensurate high levels of capability in Trustees, managers, staff and volunteers alike.

Figure 2 also shows that different 'responsible bodies' fulfil the organising/ managing/governing functions at different stages and that they have qualitiatively different tasks to accomplish depending on the level of complexity they are addressing. Start Up

agencies may not require much 'management' or 'governance' other than project administration and financial transparency. Premature 'governance' structures may in fact inhibit the growth of action in an organisation at this point. If there is not enough Level 1 work being done to sustain the identity of the organisation and attract new members, the organisation may not survive beyond the start up phase. Responsibility for the work of the organisation rests typically with a handful of enthusiasts who form a ***Working Committee***. In the Am Calon case, this was the structure throughout the earliest period (1984-1991).

The themes of work at each level are qualitatively different as complexity increases (vertical progression). At an early stage of maturity, when there are multiple projects to be co-ordinated, and/or when volunteers are insufficient to carry out all of the required work and paid staff are employed, the responsible body becomes an ***Organising Committee*** and introduces a first level of team leadership or 'management', setting tasks and standards for Level 1.

Tasking is a key responsibility of management: the level above tasks the level below. In the early stages of development, team leaders or project managers *task* Level 1 (define the work required) whilst exercising their own responsibility for co-ordination and efficiency. In a mature organisation, the CEO (Level 4 or 5) tasks the senior management team/departmental heads (Level 3). The qualitative difference of key themes of work between levels is shown in the progression of task complexity. Examples of the cascading of tasking requirements are shown in each column of Figure 2. Figure 2 also indicates the development of horizontal complexity (within the same task band) as capacity and capability expand. For example, co-ordination and efficiency measures in an organisation at an early stage of maturity will be very different from those required of a highly complex mature organisation.

Instituting a National Constitution challenged Am Calon to new work: not only were people asked to do the work of organising, advocating and politicising the plight of Am Calon children and their families, there was the additional challenge of co-ordinating regional groups, maintaining communication across geographical distance, solving problems of disparate regional access to health care, working with parents of newly born children in trauma whilst also providing increasing services to families where children were now able to live with their condition. This substantial increase in complexity required

organisational capacity (people power, resources, and knowledge) and capability to match. People instrumental in the many tasks of caring and sharing typical of the first stage of organisational development in community service groups such as this may, or may not, have the skills, knowledge or networks required to take the organisation forward, especially as it moves from personal advocacy and support to political campaigning and serious fundraising. Personal ties, crucial in the early phase, no longer suffice in the context of professional networking and corporate sponsorship. Informal accountability (to one another) on the Working Committee gives way to a need for collective accountability for recognised standards of work (such as following accepted protocols for financial management). This may be accommodated through an Organising Committee.

Proliferation of services, and increased employment of staff with designated specialist roles marks transition from Stage 2 to Stage 3. As management becomes more clearly recognisable and differentiated from Level 1 and 2 work, so the work of governance needs to be identified. It may be that many organisations retain a Board-cum-*Management Committee* in the early stage of maturity while operational procedures are being developed and there is still considerable need for practical engagement by board members. There is, however, a major danger that too great an involvement in operational and financial oversight by board members inhibits management's work and muddies lines of accountability. Separation of the functions of governance and management is a defining attribute of this stage. The concept is usually well understood in principle, but not always exercised in practice.

The major problem, as we see it, is that board members do not have an adequate understanding of the *work* that they, as the responsible *governing body*, need to be contributing. As systems and structures develop through the work of managers at Level 3, board members need to exercise the strategic overview and imagination for the future typical of Level 4 activity. This requires personal and collective capability that is qualitatively different from that needed at Levels 2 or 3. In Jaques' model, the key capability required at Level 4 is to be able to hold, in parallel intention, multiple strands of activity and to see the dynamic interaction between them. Board members need to serve the organisation by developing a deep understanding of the environment or sector in which the organisation sits. They are called upon to exercise judgement that is grounded in experience and knowledge of the *organisation's* work and mission, not merely to bring

their own views of the world, or their individual professional perspectives to decision-making. For example, valuable as the professional skills of accountancy and law are in governance, without deep appreciation of the mission of the organisation, there is a danger that decisions are made on pragmatic short-term financial grounds, rather than taking into account the long-term sustainability of the organisation and its mission and purpose.

Our thirty and more years' experience of working with NFP boards and managers suggests that the frequently observed mismatch of capability between governance and management, as organisations transition from early to more full maturity, is a major problem in NFP organisations. Transition from one stage to the next is not easily accomplished from within. It requires awareness of new areas of knowledge and relationship building. We suggest that 'governance' as discussed in most of the NFP literature only comes into play when an organisation reaches a sufficient level of complexity to require the qualitative separation of governance and management functions. We illustrated this in the case study by identifying key hiatus points where new relationships needed to be negotiated between the manager and Chair of the Board, where roles needed demarcation, and showed how issues of appropriate jurisdiction of authority, and the grounds on which individual and organisational power was predicated, were resolved.   Good governance requires that board members have levels of individual and collective capability that at least match, preferably extend beyond, the capability and potential of senior management.   A Board that demonstrates inadequate strategic capability (i.e. is working below Level 4) cannot provide direction and leadership to general managers/chief executives working at Level 4 and above. Such a board is, quite simply, "too small" for the work required[21].

Though our example has been of one social service organisation, we believe the identified issues of development are typical of many other NFP organisations. The challenge is for organisations to identify their own transition points. This is not an easy task from within and may not be one that Boards and managers can undertake without outside facilitation. Having a conceptual frame, such as the models presented here, through which change can be viewed, is a major aid to understanding. Not-for-profit organisations serve a crucial role in civil society, providing service and support, advocacy for the vulnerable, and opportunity for personal enrichment to many. If such organisations are to continue to flourish, then the quality of governance and management is important. We hope that this discussion has contributed to this cause.

Notes and References

[1] Boeker, W. and Karichalil, R. (2002). Entrepreneurial transitions: Factors influencing founder departure. *Academy of Management Journal 45* (3), 818–826.; Christensen, S. and Westenholz, A. (1999). Boards of directors as strategists in an enacted world: The Danish case, *Journal of Management and Governance 3*(3), 261-286.; Filatotchev, I. and Wright, M. (Eds). (2005). *The life cycle of corporate governance: Corporate governance in the new global economy,* Cheltenham: Edward Elgar Publishing Limited.; Lynall, M.D., Golden, B.R. and Hillman, A. J. (2003). Board composition from adolescence to maturity: a multitheoretic view, *Academy of Management Review, 28*(3) 416-431.

[2] Johnson. J. L., Daily, C. M. and Ellstrand, A. E. (1996). Boards of directors: A review and research agenda. *Journal of Management 22*(3), 409 – 438.

[3] Aguilera, R. V., Filatotchev, I. and Gospel, H. (2008) Contingencies, complementarities, and costs in corporate governance models, *Organization Science, 19*(3) 475-492.

[4] We use the term 'board member' generically to designate anyone who is elected or appointed to organisational office under either the requirements of NFP Trusts or Incorporated Societies legislation.

[5] Stone, M. M. (1996). Competing contexts: The evolution of a nonprofit organization's governance system in multiple environments, *Administration & Society 28*(1), 61-89.

[6] Wood, M. M. (1992). Is governing board behaviour cyclical? Nonprofit *Management & Leadership, 3*(2) 139-163.

[7] Wood, M.M. (1992). *See endnote 6.*

[8] Wood, M.M. (1992). *See endnote 6.*

[9] Abzug, R. and Simonoff, J.S. (2004). Nonprofit Trusteeship in Different Contexts. Aldershot: Ashgate.

[10] Abzug, R., DiMaggio, P., Gray, B.H., Useem, M. and Kang, C.H. (1993). Variations in trusteeship: cases from Boston and Cleveland, 1925-1985, *Voluntas, 4*(3) 271-300.

[11] Stone, M.M (1996). *See endnote 5.*

[12] Abzug, R. et al., (1992). *See endnote 10.*

[13] Abzug, R. and Simonoff, J.S. (2004). *See endnote 9.*

[14] Jaques, E. and Clement, S. D. (1991). *Executive Leadership: A Practical Guide to Managing Complexity* (reprinted 2002), Falls Church, V.A.: Cason Hall & Co Publishers.

[15] Stamp, G. (1990). A Matrix of Working Relationships, *BIOSS working paper*. Quoted by permission of the author.

[16] McMorland, J. C. I. and Morshuizen, T.J. (2001). Loosening the shackles of structure: collaborative relationships for new ways of working. *Sixth New Zealand OD Network Conference*, Auckland. For an earlier discussion of the Levels of Work model see McMorland (2005) .

[17] Stamp, G. (1990). *See endnote 15.*

[18] McMorland, J. C. I. (2005). Are you big enough for your job? Is your job big enough for you? Exploring Levels of Work in organisations. *UABR, 7*(2), 75-83.

[19] Figure 2 is an over-simplified view of Jaques' and Stamp materials and should not be read as representative of their work. For further readings see notes 14 and 15.

[20] Chait, R. P., Ryan, W. P. and Taylor, B. E. (2005). *Governance as Leadership: reframing the work of Nonprofit Boards*. Hoboken, New Jersey: BoardSource inc. John Wiley & Sons .

[21] McMorland, J. C. I. (2005). *See endnote 18.*

GO Global Organization Design Society

GO SOCIETY PURPOSE AND VALUES STATEMENT

To support the organizing of work in a responsible, fair and healthy manner in which people are led in a way that enables them to exercise their capabilities.

The Society believes this requires applying a systems framework* emerging from reflective inquiry in which levels of work and capability are the initial paradigm and growth in human awareness is the essential process.

The benefits are organizational effectiveness, fulfilled people and organizations designed for value-creation, sustainability and social well-being.

Note: inspired by the work of Wilfred Brown and Elliott Jaques

The *Global Organization Design Society* was founded in 2004 to establish and operate a worldwide association of business users, consultants, and academics interested in science-based management to improve organizational effectiveness.

The GO Society fulfills its purpose by:

- Promoting among existing users increased awareness, understanding and skilled knowledge in applying concepts of Levels of Work Complexity, Levels of Human Capability, Accountability, and other concepts included in Requisite Organization and/or Stratified Systems Theory.

- Promoting among potential users of the methods, appreciation of the variety of uses and benefits of science-based management, and access to resources. The GO Society supports the learning and development of current and future practitioners by holding world conferences and professional development workshops, publishing books and a journal, and maintaining a resource-rich web site with related articles, monographs, books, videos, blogs, discussion groups, and surveys.

GLOBAL ORGANIZATION DESIGN SOCIETY
32 Victor Avenue
Toronto, ON, Canada M4K 1A8
Phone: +1 317 644 0472
Fax: +1-647-438-5656
Email: info@GlobalRO.org
http://GlobalRO.org