

Governance in Trade Associations and Unions (Work in Progress)

Georg von Schnurbein, georg.vonschnurbein@unifr.ch

Verbandsmanagement Institut (VMI), Université de Fribourg/Switzerland

Paper presented at the 7th International Conference of the International Society for Third Sector Research (ISTR), 09.-12. July 2006, Bangkok

Introduction

Until now most of research on nonprofit governance referred to welfare oriented organizations such as hospitals,¹ semi-governmental agencies or social service activities². These organizations are confronted with a discrepancy in expectations of their clients and those of the donors. Therefore, governance definitions and mechanisms tend to be widely understood in order to address all stakeholders. A smaller number of research articles considers governance problems in volunteer associations. Even less is known about membership-oriented organizations such as trade associations and trade unions. The aim of this article is to fill this gap.

The existence of the nonprofit sector has been explained in many different ways. On the one side nonprofits fill the gap where government services are insufficient,³ on the other side they compensate market failure and offer collective goods or social services.⁴ These approaches of the third sector do not answer the question about the great variety of heterogeneous organizations with different fields of activity, different purposes or different clients.⁵ There is hardly any comparison between a grant-making foundation, donating millions of Euro per year, and a small voluntary association in the neighborhood. Management and governance seem not to function in the same way in different nonprofit organizations.⁶

Research Focus

This study is concentrated on the questions how nonprofit governance of a member-oriented organization works, if there are any specifications, and which impact the members actually do

¹ cf. Alexander and Weiner (1996); Brickley and Van Horn (2000); Eldenburg, Hermalin, Weisbach and Wosinska (2003); Eldenburg and Krishnan (2003); Hermalin and Weisbach (2003), Schuhen (2002).

² cf. Abzug and Galaskiewicz (2001); Callen et al. (2003).

³ cf. Weisbrod (1988), p. 22.

⁴ cf. Hansmann (1987), p. 30.

⁵ cf. Schwarz, Purtschert, Giroud and Schauer (2002), p. 21.

⁶ cf. Anheier (2000).

have on strategic management in the organization. We define governance as a set of instruments and mechanisms that support the (nonprofit) board of directors in its global leadership of the organization and assure the completion of the purpose, the legitimacy, and the accountability of a nonprofit organization. Particularly, nonprofit governance establishes operational guidelines for the relations between the board of directors on the one side and the management as well as identified external and internal stakeholders on the other side.

Although trade associations and unions play an important role in Swiss politics, they are subject of only few academic studies. In total there are 754 trade associations and unions in Switzerland with only a little more than 7'000 employees. The importance of these organizations has not to be searched in economic relevance but in their political and social influence, typical for corporatist countries. In Switzerland, associations have a constitutional right of voice in all matters of economy policy and are involved in its execution.⁷ Furthermore, associations fulfill some important tasks for their members like industrial training, or collective bargaining. Through these tasks they exert influence on the society in total.⁸ In this study the governance issue of (Swiss) trade associations and unions is analyzed as an example of member-oriented organizations.

Literature Review: Different types of nonprofit organizations...

Classifications of nonprofit organizations can be made considering fields of activity,⁹ types of founders¹⁰ or differences in purposes,¹¹ among others. Although a clearly definite separation among the different types cannot be drawn, categories help to understand the complexity of nonprofit management.

Among the most important criteria of differentiation within the nonprofit sector are the types of primary beneficiaries.¹² An organization can either operate in order to reduce the needs of a particular social group or in favor of its members. The first offers services and goods to disabled, children, or fights for a common cause like environment protection or cancer prevention, the latter offers its services primarily to benefit its members, e.g. education, insurance or lobbying.

Besides the co-operatives, most of the member-oriented organizations are constituted as associations. Harris (1998) characterizes associations "by their common purpose of defending and promoting functionally defined interests ... or in terms of participation, shared objects

⁷ cf. Linder (1999), p. 109.

⁸ cf. Schnyder (2000), pp. 316.

⁹ cf. Salamon, Sokolowski et al. (2004), pp. 11.

¹⁰ cf. Anheier (2001).

¹¹ cf. Burla (1989), pp. 76; Schwarz (1996), p. 18.

¹² cf. Schwarz, Purtschert, Giroud and Schauer (2002), pp. 22; Blümle (1982).

and resources, mutuality, and fairness".¹³ From a systemic view, an association as organization is purpose-driven, dependent on its environment, a productive and social system; it is structured by members (and often federally), led by volunteers and produces mostly collective goods.¹⁴ One of the core characteristics of this type of organization is the identity of members and clients.¹⁵ Following this principle, the members are not only legitimating the organization in general but are at the same time the primary beneficiaries of the organization's services. The members encharge the association with special tasks, which they expect to be better fulfilled collectively than in their own company. Therefore, the association can be seen as a provider of services for the members, mostly of collective goods, but also of individual services.¹⁶ Being at the same time a supplier of resources and a receiver of services, the members have conflicting interests. On the one hand they wish for low member fees and services' costs, on the other hand they expect high quality services and a permanent disposal of the association's staff. The principle of identity between members and clients leads to different implications for the governance structure of associations. The question arises, whether the influence of members has an impact on governance structures and what impact other board relations might have.

...different needs of governance

The appearance of governance-problems in nonprofit organizations is widely acknowledged and has led to a vivid debate on governance structures in nonprofits.¹⁷ The greatest part of the existing literature deals with governance in service-oriented organizations like hospitals, welfare organizations, and social service agencies.¹⁸

Therefore, it is not surprising that most of these studies are based on the resource dependency approach.¹⁹ There, the most important task of the board is to secure the survival of the organization by creating close relationships with the organization's environment, especially to its resource partners. Middelton (1987) argues that the board with its *boundary spanning role* is both, organization and environment at the same time.²⁰ Harlan and Saidel (1994) develop four main roles for nonprofit boards: facilitator role, political advocate role, buffer role, and guardian of values role.²¹ In order to complete these tasks the board is reliant on the co-

¹³ Harris (1998), p. 145.

¹⁴ cf. Schwarz (1996), pp. 22.

¹⁵ cf. Schwarz (1984), pp. 289.

¹⁶ Lakes (1996), p. 28.

¹⁷ cf. Drucker, (1990); Bradshaw, Murray and Wolpin (1992); Golensky, (1993); Alexander and Weiner (1996); Holland and Jackson (1998); Carver (1997); Houle (1997).

¹⁸ cf. Abzug and Galaskiewicz (2001); Alexander and Weiner (1996); Eldenburg et al. (2003); Callen, Klein and Tinkelman (2003); Bailey (1992); Brown and Iverson (2004); Murray, Wolpin and Bradshaw (1992); Miller (2002).

¹⁹ cf. Miller-Millesen (2003), p. 533.

²⁰ cf. Middelton (1987), p. 143.

²¹ cf. Harlan and Saidel (1994), pp. 175.

operation of the paid staff and sometimes the CEO is more active in governance issues than the board itself.²² Besides, an important approach to explain governance in nonprofits is the stakeholder approach.²³ Stakeholders are generally defined as „any group or individual who can affect or is affected by the achievement of the organization’s objectives”.²⁴ This approach fosters the idea that each organization – profit or nonprofit – has to carry out a social responsibility for the society²⁵ and create value for each stakeholder group.²⁶ This counts especially for the nonprofit sector, where the consideration of different interest groups is a fundamental management problem.²⁷

A further approach to nonprofit governance is the stewardship approach.²⁸ It implicates that managers want to do good work and are therefore effective stewards of the organization’s resources.²⁹ Thus, monetary incentives are combined with self-realization, and acknowledgement.³⁰ This approach is explicitly based on co-operation than on control and offers a good explanation for a value-based management orientation in nonprofits.³¹ The board’s primary task changes from control to a co-operative collaboration with the CEO in the strategic decision-making process.³² Accordingly, board members are chosen and elected because of their experience and network, in order to create a high value for the organization.

Finally, some group decision models are important to our discussion. The focus of these approaches is the canalization and regulation of information within a group, or during a decision-making process.³³ The aim is to enhance the board activities through more efficiently managed processes. In general there are three different ways of group decision models:³⁴

- *Broad composition:*³⁵

Various studies on board composition show evidence, that heterogeneity of board members has a positive influence on the performance of the organization.³⁶

- *Board development:*³⁷

²² cf. Saidel and Harlan (1998), p. 255.

²³ cf. Ackoff (1974); Donaldson and Preston (1995); Frederick et al. (1992); Freeman (1984).

²⁴ Freeman (1984), p. 52.

²⁵ cf. Horak (1995), p. 16.

²⁶ cf. Witt (2002), p. 55.

²⁷ cf. Cornforth (2003), p. 10; Horak (1995), p. 19.

²⁸ cf. Donaldson and Davis (1991).

²⁹ cf. Cornforth (2003), p. 8.

³⁰ cf. Donaldson and Davis (1991), pp. 49; Kürsten (2002), pp. 175.

³¹ cf. Nippa (2002), p. 15.

³² cf. Pound (1995), cit. in Cornforth (2003), p. 8.

³³ cf. Quinn and Rohrbaugh (1983); Zander (1994).

³⁴ cf. Brown (2005), p. 324.

³⁵ cf. Abzug and Galaskiewicz (2001); Brown (2002); Callen et al. (2003).

³⁶ cf. Brown and Iverson (2004), pp. 394.

³⁷ cf. Fletcher (1992); Holland and Jackson (1998).

Board development should lead to an amelioration of collaboration within the board and with other groups or individuals.

- *Group dynamic:*³⁸

The interpersonal behavior within a group and its impact on board performance are in the center of this approach.³⁹

Modeling Nonprofit Governance for Member-oriented Nonprofit Organizations

In order to establish a governance system, it is necessary to identify the actors or constituents that are affected and involved. From a systemic point of view the governance system of a nonprofit consists of several actors and relations. The organization's governance is influenced and dependent on board relations, board structures and composition,⁴⁰ board behavior, board member selection and profiles⁴¹, as well as the existence of committees. The influence of the different governance actors and relations has an impact on the board of directors' setting.

First, the different relations and actors will be shortly explained using existing governance literature. Talking about the governance actors, the board plays a central role and will therefore be described in a more detailed way. The other actors are defined by their relations to the board. There are three dominant relations as shown in table 1. Additionally, the principle of identity of members and clients has to be considered. This leads to a fourth – indirect – relation. Each of the relations can be explained by at least one of the governance approaches mentioned above.

Table 1: Relationship between Models of Governance and involved actors

<i>actor/relation</i>	<i>description</i>	<i>explaining models</i>
governance actor		
board	The board as strategic leader of the NPO is the most important governance actor	group decision models
direct governance relations		
board - management	The board's task is to set strategic aims to direct and supervise the management.	agency theory/ stewardship approach
board - members	The board is elected by the members and thereby called to act in favour of the members.	stewardship approach / resource dependency approach
board - environment	There are several external stakeholders that have a more or less intense impact on the board	stakeholder approach
indirect governance relation		
members - management		stakeholder approach

³⁸ cf. Daley, Netting and Angulo. (1996), p. 227.

³⁹ cf. Chait, Holland and Taylor (1991), p. 42.

⁴⁰ cf. Brown (2002); Brown and Iverson (2004); Callen, Klein and Tinkelman (2003); Saidel and Harlan (1998).

⁴¹ cf. Abzug and Galaskiewicz (2001); Preston and Brown (2004); Schwarz (1996).

Structure, Composition, and Functioning of the Board

The structure and composition of nonprofit boards depend on various variables. One important influence in member-oriented organizations is the membership structure of the organization, e.g. the number, heterogeneity and type of members. Federal or regional structures of the organization⁴² as well as the existence of advisory groups⁴³ influence the responsibilities of the board. The criteria of diversity, e.g. age, gender, ethnic, religion, or social background⁴⁴ play a less important role regarding trade associations and unions. Instead, these organizations face a trade-off between representation and expert knowledge.⁴⁵

In order to achieve good governance the board has to perform several tasks which are described in various studies.⁴⁶ More generally Holland and Jackson detected six competencies of a board:⁴⁷

- contextual: The board understands and respects the culture, values, mission and norms of the organization.
- educational: The board ensures the information of members about the organization, the employees as well as function, responsibilities and performance of the board.
- interpersonal: The board ensures the development of each board member and encourages collaboration and corporate feeling.
- analytical: The board identifies complex problems in its fields of activity and searches for solutions that comply with the interests of multiple stakeholders.
- political: The board develops and maintains relationship to important stakeholders.
- strategic: The boards supports the management in creating a clear leadership and developing a strategy for the organizations' future.

This set of competencies shows that the board's ability to fulfill its mission is reliant not only on the structure and composition of the board itself, but also on other organs or groups. This will be discussed in the following paragraphs.

Board - Management

This core relation of nonprofit governance is thoroughly described in the existing literature.⁴⁸ Murray et al. (1992) describe five patterns of this relationship.⁴⁹ The *CEO-dominated board* is

⁴² cf. Young et al. (1996), pp. 360.

⁴³ cf. Schwarz (2005), p. 269; Brown and Iverson (2004), p. 294.

⁴⁴ cf. Abzug and Galaskiewicz (2001), p. 51.

⁴⁵ cf. Schwarz (2005), pp. 194.

⁴⁶ cf. Houle (1997); Ingram (2001).

⁴⁷ Holland and Jackson (1998), pp. 122; Brown (2005).

⁴⁸ cf. Golensky (1993); Murray, Wolpin and Bradshaw (1992); Saidel and Harlan (1998).

⁴⁹ cf. Murray et al. (1992), pp. 167. A comparable study has been presented by Saidel and Harlan (1998).

what Cornforth (2001) calls a rubberstamp board.⁵⁰ It has no major influence on the organization and exists more or less in pretence of a complete organizational structure. A *chair-dominated board* is heavily affected – not to say controlled – by its elected leader, the chairman or the president. The reason is often a charismatic character and an extensive freedom of action that allows him to select new board members, for instance. Sometimes the president is paid or receives a significant representation allowance. Therefore he can invest much more time and effort in his work for the organization and gain a substantial knowledge that places him above the other board members. A third pattern is the *fragmented power board*. It can be characterized by conflicts and different ideologies within the board. One reason can be different fractions of members represented in the board, for instance the segmentation of an industry trade association with a few big dominating companies and a majority of smaller companies. The opposite pattern is the *power-sharing board*, based on a “strong ideological commitment to the values of equality and democracy.”⁵¹ Decision-making processes are consensus-driven and therefore time-consuming, but solid and stable. Major changes are difficult to achieve and new projects always require majoritan coverage. The last – and probably – worst pattern is the *powerless board*. Such a board is locked between aimlessness and uncertainty. It has no clearly defined function, is poorly organized and works more or less unsteadily. Generally we can expect that there is always someone who dominates the board. Following the agency theory one of the most important tasks of the board is an efficient and well-designed survey of management activities. In order to fulfill this task, it is necessary that the board takes its responsibility seriously and obtains regular reports from the executive. Another duty of the board is the strategic decision-making process. As the strategic leader of the organization, the board needs a clear perception of the organization’s mission and a future-oriented definition of its goals. In this context, the executive has to prepare the decision-making process but not the decision itself. Lastly, in case of a change of executive the board has to choose the new executive and therefore it must provide a complete description of the job.

Board - Members

The board of an association is elected to insure the realization of the members’ interests. The board is the link between the members and the professional staff, and it has to transfer the members’ interests into organizational aims.⁵² Therefore, the degree of representation is crucial for an efficient stewardship of the board.

⁵⁰ cf. Cornforth (2001).

⁵¹ Murray, Wolpin and Bradshaw (1992), p. 168.

⁵² cf. Schwarz (1996), p. 554.

Other factors of representativity are the structure and the type of membership. The former concerns the heterogeneity of members, while the latter stands for the split of membership into individual and legal persons. The heterogeneity of membership can correspond to institutional, financial, organizational, geographical or other industry-related criteria. Additionally, the type of membership influences the grade of representation. Usually trade associations have a relatively small number of enterprises as members compared to trade unions, where each worker is an individual member. The bigger the total number of members, the least important is the single opinion of each member. Moreover, in larger organizations it is more likely to find a hierarchical structure with several levels, e.g. regional conferences, delegates. Consequently, the opinion of members has to pass several stages of representatives until it reaches the board of directors. Until then the opinion might be changed or alienated to serve the interest of the representatives.

Besides the question of representation another issue is the self-regulation via democratic procedures such as general assemblies, statute change processes and the way motions are filed and treated. In comparison to the legal regulation of for-profit companies, the legal regulation of associations is rather poor. Therefore, the members or their delegates have to perform the task of control as actively as the board has to control the management.⁵³

Board - Environment

The third direct governance relation is oriented towards the outside of the organization. Through other activities of board members (i.e. political engagement, work), co-operations or the organizational activities the board ensures relationship to different external stakeholders.⁵⁴ Stakeholders from the environment of the organization have expectations towards the board or even try to influence the board's decisions. Most of the board members in trade associations or unions have obligations in other social, political or business organizations and enterprises. Therefore, their attitude on the board is never free from other organizations' interests.⁵⁵ Another way of exerting influence is via inter-organizational coalitions⁵⁶ and umbrella organizations.⁵⁷

Brown (2002) assesses four different patterns in order to measure the influence of stakeholder groups in nonprofit boards.⁵⁸ Firstly the *board member composition* is analyzed for diversity, personal attributes, education and profession. Transferring this determinant on member-oriented organizations the categories should be extended by commitment to other

⁵³ cf. Friedman and Philipps (2004).

⁵⁴ cf. Abzug and Galaskiewicz (2001), p. 52.

⁵⁵ cf. Miller (2002), p. 429.

⁵⁶ cf. Saidel and Harlan (1998), pp. 255.

⁵⁷ Cf. Young, Bania and Bailey (1996).

⁵⁸ cf. Brown (2002), pp. 375.

organizations. Secondly the *board diversity attitudes and policies* test the board's ability for a broader horizon beyond the organizational borders. Thirdly the thoroughness of the *recruitment strategies* for board members is measured. Lastly the *inclusive board practices* have to be tested on the basis of, for instance, the board self assessment questionnaire.⁵⁹

Looking at the board from the outside, the expert knowledge and reputation of the board members play an important role. Outside stakeholders will address the organization's board in the way they assess the board's capabilities. One way to strengthen the board's expertness is the existence of advisory committees.⁶⁰ They perform a wide range of primary organizational activities (fundraising, program evaluation, etc.) and link the organization to the key stakeholders.⁶¹

Members - Management

Unlike the situation in welfare-oriented organizations the members of trade associations, federations, or trade unions are legitimating body and primary clients at the same time. A member will experience the service quality directly and align his behavior as voting member with his satisfaction as consumer. Consumer satisfaction and service quality measurements are various and can help to define the intensity of this relation.⁶² Although the relation between management and members is of operative kind, it influences indirectly the governance mechanisms that affect the relations of management and especially of the members with the board. But in reality, the members are primarily attracted by the consumer role, and assess the organization's efficiency by its service quality.

Methodology

Based on our definition of governance we draw up a qualitative exploratory survey with a sample of 29 trade association and unions in Switzerland. The sample is structured by the size of the organizations (measured by number of members), by the type of members (only corporate, only individual persons or mixed), kind of members (employers or employees) and by industries.⁶³

⁵⁹ cf. Jackson and Holland (1998), pp. 177.

⁶⁰ cf. Saidel (1998), p. 422.

⁶¹ cf. Saidel (1998), p. 431.

⁶² cf. Tscheulin and Helmig (2004), pp. 302.

⁶³ cf. Cornforth and Simpson (2002).

Table 2: The Sample Matrix

<i>size of the organization</i>	<i>kind of membership</i>				
	<i>corporate persons</i>		<i>individual persons</i>	<i>mixed corporate and individual persons</i>	
	<i>companies</i>	<i>other associations or nonprofits (umbrella organization)</i>		<i>mainly corporate persons</i>	<i>mainly individual persons</i>
<i>big (more than 100'000 individual or 1'000 corporate persons)</i>	2 organizations (1 interviewed)	3 organizations (1 interviewed)	2 organizations	2 organizations	2 organizations (1 interviewed)
<i>middle (20'000-100'000/ 100-1'000)</i>	3 organizations (1 interviewed)	1 organization	2 organizations (1 interviewed)	4 organizations (1 interviewed)	2 organizations
<i>small (< 20'000/<100)</i>	2 organizations (1 interviewed)	1 organization (1 interviewed)	2 organization (1 interviewed)		1 organization (1 interviewed)

The associations are analyzed and reviewed in holistic case studies (Yin, 2002) using organizations communication and publications, annual reports, and external information resources. In a second step ten associations are chosen for intensive face-to-face interviews with three representatives for each organization: one member of the board, one member of the management and one member representative who is not board member. This research design should allow gathering different opinions on the same subject, and comparing and analyzing the position of one group, e.g. management, board, members, or different organizations. The relative newness of governance research in member-oriented organizations supports the choice of qualitative methodology. Considering the size and nature of this sample, caution is suggested in generalizing the findings of the study. Further research should verify the robustness of our results.

Each of the selected interviewees received a letter that explained the research setting. They were interviewed separately on the basis of a structured questionnaire.⁶⁴ The questionnaire contains 46 questions on four different topics. Firstly, there are several questions about governance in general and the people's opinion on governance. Secondly, the composition, structure and functioning of the board is questioned in detail. Thirdly, the perception of the relation and the collaboration of board and management are considered. In closer detail the role of the CEO in board meetings and the advisory role of the board were asked. Fourthly, we asked the respondents about the relation between board and members. The questions to this topic focus on election procedures, formal and informal communication from both sides, and general questions on membership.

⁶⁴ cf. Kepper (1999), pp. 45.

The interviews (n=26) were conducted in the spring 2006 and were afterwards transcribed, coded and analyzed through a summarizing interpretation.⁶⁵

Findings⁶⁶

This section of the article examines the board activities, the influence and interdependence of the different governance relations in trade associations and unions. We sought to discover whether the perception of governance of members, CEO and board members is consistent with the theory, and if there are substantial differences among the different groups or organizations. In order to obtain this goal we complete the following four steps of research. First, the board activities and roles will be examined. Secondly, the evaluation and self assessment of the board are discussed. Thirdly, the importance of the individual performance of CEO, and chair, as well as their collaboration are presented. Finally, the members' role of governance will be analyzed according to the findings. The board-environment relationship was not part of this analysis but it will be treated in a separate article.

Board Activities and Roles

The range of board activities and responsibilities is numerous and described manifoldly in the literature.⁶⁷ Generally, the board is assumed to have the responsibility for strategic management, while the CEO is responsible for operative management and realization. In reality, this distinction is not always respected that clearly. Especially, board members are aware of their tendency to become operative, as the following statements of two board members demonstrate.

Actually, we are the strategic organ and the management body is working operatively, but this is not always flawless. ... Most time and effort are used on functional business in projects, where we act operative on purpose, for instance a referendum. After that, there are structural reforms of the association, where we have to eliminate opposition. At last, we have to set aims and control.

We are ruled by the voluntary jumble. Without any doubt, the strategic responsibility is important. We have to elaborate the guidelines. But we have also competencies in the board for expert knowledge, which does not exist in the office.

Therefore, board activities contain a wide spectrum of tasks and responsibilities. The most important tasks of the board are strategy making and policy setting. Then, there are issues

⁶⁵ cf. Kepper (1999), pp. 58. The codification was executed with the software maxqda 2.0.

⁶⁶ Note: as this research has not been completed yet, the findings are of provisory nature and should not be cited without the author's permission.

⁶⁷ cf. Ingram (2003); Houle (1997); Carver (1997).

related to the organisation, e.g. finances, restructuring, creation of special advisory groups; the next class of responsibilities is connected with operative projects of the management body. At last, some boards, especially in federal structured associations, have to proceed many elections for umbrella organizations or other commissions. But, if importance is measured by assignment of time, the operative activities take the first place and financial restrictions – caused through decreasing member fees – are in the second place.

Generally, decision-making processes in trade associations are well structured and based on a common understanding of board and CEO. In most cases of the analyzed organizations, board meetings are prepared soundly. The agenda is transferred to board members in advance, and often discussed prior to the meeting via email. In some organizations, the dossiers are presented to the advisory groups prior to the board meeting, as the following CEO statement demonstrates.

The dossiers are prepared by the management body, and then they take the detour via the advisory groups. They come forward with a proposal for the board. For quick decisions, this way is not always easy to go. Besides, there are time and again discrepancies between the board and advisory groups.

It is important to give the board members enough time to discuss and rethink the dossiers. Handouts of dossiers on the day of the meeting are unacceptable to board members. The first quote cites the CEO of a trade association, the second one a board member of a trade union.

Generally we say: no decision without a clear preparation. The deadline for meetings is 8 days in advance. Email-contacts are very important and the dinner at the eve of the meeting. We cultivate a good culture of discussion in the board. Inputs come from all members, a direct consequence of no resort structure in the board.

We no more acquiesce dossiers presented on the day of the meeting. If they [the management body] come up with something like that in the future, we will not address the issue.

A major role of the board is the supervision of the CEO and the management body. In many organizations this role is performed by the president or a board committee (mostly president, vice-president and one or two more board members), rarely by the entire board. For the board members, this role is of high relevance for strategy setting and financial control. From the perspective of the CEO, the supervision of the board gives him assurance for his or her work. Interestingly, the statement “The main task of the board is to control the CEO” was differently rated by board members and CEOs. While the CEOs confirmed the statement,

their corresponding board members denied it in most cases. This perception of the board members based on the following two statements.

I avoid the expression ‘supervision’. We work as a team and the control task is performed by the *Geschäftsprüfungskommission*⁶⁸.

This is a very important task, but it is based on confidence. As long as there are no hints, we say: ‘trust is good’. You have to see the effort that a permanent fulfilment of this task requires.

As Allison (2002) states, boards are typically unprepared for executive transitions and they therefore underestimate the risks and costs of bad recruitments.⁶⁹ This observation is confirmed by the organizations that were interviewed in this survey. In all cases, no standardized guidelines for CEO recruitment existed. In most organizations the last Executive recruitment was several years ago and the respondents were not members of the board at that time. Some board members reported that they engaged a professional head hunter for the hiring. One CEO describes the process of her own engagement.

The job description was developed by a board committee and a personnel consultant. I had a preliminary talk with the personnel consultant and afterwards a talk with the president and the vice-president. Additionally there was a hearing with the whole board and at last, the election through the general assembly. I was the only nomination.

Looking from the perspective of group decision, the board composition in associations is more influenced by representation than work experience. Most organizations have written or unwritten rules regarding board composition, e.g. the most important members are included, the different regions or the different member groups are represented. Normally, outside members of the board are not admitted. These mechanisms should ensure a close connection between the members and the board. In one trade association the board members represented 90% of the national market share! In the majority of the organizations the collaboration within the board works with relatively loose regulations. Normally, there are no resorts with several responsibilities, but a committee, composed of the president, the vice-president and one or two more board members. This committee has restricted competencies and can react faster than the board in general.

⁶⁸ Geschäftsprüfungskommission: audit committee that is elected by the general assembly and that has the task to supervise and verify if the management works in context to the organization’s aims.

⁶⁹ cf. Allison (2002), p. 341.

Individual Performance of CEO and President

Golensky (1993) presents four emerging themes that influence the board-management relation: board-executive communication, executive assets, board-executive congruence and board-executive role expectations.⁷⁰ Especially the board-executive congruence is discussed vividly. Some researchers emphasize collaboration in partnership and trust.⁷¹ Others – following the agency theory – suggest a clearly hierarchical structure and a decision as to which partner will have ascendancy in the relationship.⁷²

As described before, in Swiss trade associations and unions the first view dominates. Following the typology of governance co-operations by Saidel and Harlan (1998), most of the respondents chose shared governance as relevant construct for their organization, some staff-dominant governance. Only a few respondents reported a negative working climate between CEO and the board.

I have the bad feeling that if I need something personally, the collaboration is good. But looking at the whole board I have the feeling that they [the management body] present us accomplished facts and they are chocked if there are any counter questions.

This quote highlights circumstances that have been analyzed only insufficiently in literature: The way board members execute their responsibilities depends on their personal relationship with the executives. Miller (2002) shows that the monitoring function of board members is performed in dependence to their relationship with the chief executive.⁷³ This counts especially for the relation between the CEO and the president, as the following quote of a president demonstrates.

The whole thing is a game between the president and the director. Generally, the CEO reconciles the structure and priorities with the resources. The president says what he wants and the CEO has the operative responsibility for the implementation.

Therefore, the personal performance of these two positions is very important for the governance of the organizations in general. One president of a professional organization pointed out this correlation as one of the major problems of nonprofit governance.

The relationship between management and board is far too strongly dependent on individual performances. As association we are too small to assure governance

⁷⁰ cf. Golensky (1993), pp. 185.

⁷¹ cf. Drucker (1990), p. 10; Drucker (1995); Schwarz (1996).

⁷² cf. Gelman (1983), p. 19; Miller (2002), p. 429.

⁷³ cf. Miller (2002), p. 429.

independently from individuals. In our case the company culture of the president was transferred into the association.

Although the respondents acknowledged a clear separation of strategic and operative leadership between board and CEO, the relationship between them can be explained more likely by stewardship theory than agency theory. Usually, the CEO not only prepares the board meeting, but he also participates in the meeting and plays an active role.

Evaluation and Self Assessment

Several self assessment tools like the “Board Self Assessment Questionnaire”⁷⁴ offer structured bases for an evaluation of the board’s activities. Nevertheless, in Swiss trade associations and unions evaluation of the board is mostly inexistent. If there is any measurement of performance, it corresponds to operative goals of the organization as a whole.

We have no real self assessment. We do have a two-year program and that is our most important indicator. The second measurement of evaluation is the number of members. But it is difficult to measure the reputation of the organization.

From the point of view of the members, a board is successful, if the decisions are transparent, if diverging opinions are respected and if the board manages to build up a network inside and outside of the organization.

I associate with successful board activity that the decisions are transparent, that opinions other than the majority are respected and represented. And, that issues are included, although they are resinous, and last, that a network with the members and with external stakeholders exists.

The understanding of performance by the board members themselves is much more concrete. They separate their part of leadership from the CEO’s part, but they also engage in lobbying, member services and other operative tasks. Often they describe themselves as “problem solvers” or “spin doctors”.

⁷⁴ cf. Holland and Jackson (1998).

The Members' Role of Governance

The roles of members in associations should not be neglected when analyzing governance structures.⁷⁵ First, they give legitimacy to the organization. Secondly, their membership contributions and volunteering are important resources for the association. Thirdly, they benefit from the services and collective goods produced by the associations.

According to the resource dependency theory the board should keep close contact with the major donors. But often members consider themselves more as clients than as donors and they have more frequent contact with the agency than with the board, because the agency is far more available than the board. Even the annual general assembly – the only official possibility to influence the organization's strategy – is mostly frequented only by a minority of the members. In order to improve the member-board communication, some associations promote electronic communication, run online member surveys, or the board members try to take part at regional meetings more frequently.

One way to enhance the participation is to communicate an open culture of communication. Everybody can express his opinion. Therefore, we conduct regularly online surveys. An active contribution is certainly preferred. The presidents of our regional associations are an important source of information as well.

But the governance activity of members cannot be reduced to elections and general assemblies. The more fruitful and effectual way of member influence in the decision making process goes via committees and advisory groups. All organizations have several advisory groups (up to thirty advisory groups!) where members as well as external experts are involved on a voluntary basis. The advisory groups elaborate reports on special issues that serve the board as basis for their decisions.

From the members' perspective, associations can be seen as formalized networks that exist out of stable relationships between more than two organizations.⁷⁶ The network partners transfer duties and responsibilities to the network organization – e.g. the association. Therefore, the association executes strategic functions for its members that increase the efficiency of the member enterprises.⁷⁷ The respondents emphasized three of these strategic functions. First, the association performs an *information function* about behavior and expectations of members and external stakeholders. Secondly, it carries out a *cohesion function* in order to analyze developments consistently. Thirdly, by reducing the members' course of action the *steering function* allows the association to facilitate the decision-making process. Some

⁷⁵ cf. Schwarz (2005), p.

⁷⁶ cf. Sydow and van Well (2003), p. 13.

⁷⁷ cf. Theurl and Kring (2002), p. 9.

organizations even perform a *coordination function* for their members, e.g. they coordinate and produce common goods.

Recapitulating we can say that members unify several stakeholder roles. Hence, they are addressed by the association in various ways and by different association representatives. In most cases, the communication runs via collaborators and the management body, not directly to the board. But this does not relieve the board from his mandate as representatives of the members.

DISCUSSION AND CONCLUSION

The governance model presented above includes all individuals and groups within an organization and its environment confronted with governance responsibility in a member-oriented organization. Whereas the board-management relation does not show much difference to the governance structures of other types of nonprofit organizations, the role of the members has to be redefined here. The specific status of members as legitimating body and primary stakeholders at the same time puts them in the spotlight for a more intense research. They are the most important, but often most exhausting group of stakeholders.

The analysis has shown that there is not only one theoretical approach able to explain nonprofit governance in member-oriented associations. Looking at governance from different perspectives – the perspective of the board, the perspective of the CEO and the perspective of the members – several approaches can serve as explanations. As already stated by other authors, the collaboration between board and executives in nonprofits is more likely to be shaped as a co-operative relationship than a principal-agent relationship.⁷⁸

This leads to a shift in the governance system. The board's role is the strategic leadership of the organization including the decision-making process, policy setting, member representation, and the CEO hiring. The chief executive and the management body have to prepare the board's decision and to implement these decisions. Hence, the CEO has the operative responsibility. Moreover, the agency is the dominant partner for the members in every sense of communication – strategically or operational. The members' governance role is to give legitimacy to the association, to elect the board, to involve themselves in the decision-making process by participating in the advisory groups, and – last but not least – to take on the supervision role of the board, as it is too closely connected to the CEO. As boards underperform their supervision role, the members have to fill in the gap.

The core of nonprofit governance is still the board-CEO relationship. But in dependence on the way, the board defines its governance role, the members have to build up their own governance capacity. Effective instruments for this enlargement of governance responsibility

⁷⁸ cf. Miller (2002), p. 446.

are advisory groups, transparent board recruitment, and an audit committee elected by the general assembly (*Geschäftsprüfungskommission*) that allows a consequent comparison of aims and results. This is even more important, as structured self assessment of the board is still weak in this kind of organizations.

The debate on governance in nonprofit organizations has grown beyond the board-management relation. There are no clear owners to be defined and consequently there is not one clear principal-agent relation, but several stakeholder groups and individuals that have an interest in the organization's outcome. But the governance structures are also dependent on the organizational type of nonprofit organizations. Unlike the majority of existing research we concentrated on the governance of member-oriented organizations, especially trade associations and unions. We expanded the governance system not only on external stakeholders, but also on the members being legitimating body and primary beneficiaries at the same time.

References

- Abzug, R./Galaskiewicz, J. (2001), 'Nonprofit Boards: Crucibles of Expertise or Symbols of Local Identities?', *Nonprofit and Voluntary Sector Quarterly*, Vol. 30, n° 1, pp. 51-73
- Ackoff, R. L. (1974), *Redesigning the future – a systems approach to societal problems*, New York: Wiley
- Alexander, J. A./Weiner, B. J. (1996), 'The Adoption of the Corporate Governance Model by Nonprofit Organizations', *Nonprofit Management & Leadership*, Vol. 8 n° 3, pp. 223-242
- Allison, M. (2002), 'Into the Fire – Boards and Executive Transitions', in: *Nonprofit Management & Leadership*, Vol. 12, n° 4, pp. 341-351
- Anheier, H.K. (2000), 'Wandlungsprozesse im dritten Sektor: Ein organisationstheoretischer Versuch', in Schauer, R., Blümle, E.-B., Witt, P. and Anheier H.K., *Nonprofit-Organisationen im Wandel: Herausforderungen, gesellschaftliche Verantwortung, Perspektiven*, Linz: Trauner, pp. 15-30
- Anheier, H.K. (2001), 'Foundations in Europe: a Comparative Perspective', in Schlüter, A., Then, V. and Walkenhorst, P., *Foundations in Europe – Society Management and Law*, London: Directory of Social Change, pp. 35-82
- Bailey, D. (1992), 'The Strategic Restructuring of Nonprofit Associations: An Exploratory Study', *Nonprofit Management & Leadership*, Vol. 3, n° 1, 1992, S. 65-80
- Blümle, E.-B. (1982), 'Entwicklungstendenzen der Verbandsforschung im deutschen Sprachraum', in Blümle, E.-B. and Kleinewefers, H., *Willy Büchi 75 Jahre*, pp. 86-91
- Bradshaw, P./Murray, V./Wolpin, J. (1992), 'Do nonprofit boards make a difference? An exploration of the relationships among board structure, process, and effectiveness', *Nonprofit and Voluntary Sector Quarterly*, Vol 21, n° 2, pp. 227-249
- Brickley, J./Van Horn, R.L. (2002), 'Incentives in nonprofit organizations: evidence from hospitals', *Journal of Law and Economics*, n° 45, pp. 227-249
- Brown, W.A. (2002), 'Inclusive governance practices in nonprofit organizations and implications for practice', *Nonprofit Management & Leadership*, Vol. 12, n° 4, pp. 369-386.
- Brown, W.A. (2005), 'Exploring the Association Between Board and Organizational Performance in Nonprofit Organizations', in: *Nonprofit Management & Leadership*, Vol. 15, n° 3, pp. 317-339

- Brown, W.A./Iverson, J.O. (2004), 'Exploring Strategy and Board Structure in Nonprofit Organizations', *Nonprofit and Voluntary Sector Quarterly*, Vol. 33, n° 3, pp. 377-400
- Burla, S. (1989), *Rationales Management in Nonprofit-Organisationen*, Bern/Stuttgart: Haupt
- Callen, J.L./Klein, A./Tinkelman, D. (2003), 'Board Composition, Committees, and Organizational Efficiency: The Case of Nonprofits', *Nonprofit and Voluntary Sector Quarterly*, Vol. 32 n° 4, pp. 493-520
- Carver, J. (1997), *Boards that make a difference: A new design for leadership in nonprofit and public organizations*, 2nd Edition, San Francisco: Jossey-Bass
- Chait, R.P./Holland, T.P./Taylor, B.E. (1991), *The Effective Board of Trustees*, New York: American Council on Education/Macmillan Publishing Company
- Cornforth, C. (Ed.) (2003), *The governance of public and nonprofit organisations: what do boards do?*, London: Routledge
- Cornforth, C./Simpson, C. (2002), 'Change and Continuity in the Governance of Nonprofit Organizations in the United Kingdom', *Nonprofit Management & Leadership*, Vol. 12, n° 4, pp. 451-470
- Cornforth, C.J., (2001) 'What makes boards effective? An examination of the relationships between board inputs, structures, processes and effectiveness in non-profit organizations', in: *Corporate Governance*, vol. 9, n° 3, pp. 217-227
- Daley, J.M./Netting, F.E./Angulo, J. (1996), 'Languages, Ideologies, and Cultures in Nonprofit Boards', in: *Nonprofit Management & Leadership*, Vol. 6, n° 3, pp. 227-240
- Donaldson, L./Davis, J. (1991), 'Stewardship Theory or Agency Theory: CEO Governance and Shareholder Returns', in: *Australian Journal of Management*, Vol. 16, n° 1, pp. 49-64
- Drucker, P.F. (1990), 'Lessons for Successful Nonprofit Governance', *Nonprofit Management & Leadership*, Vol. 1, n° 1, pp. 7-14
- Drucker, P.F. (1995), *Managing in a time of great change*, New York: Truman Tally Books/ Plume
- Eldenburg, L./Hermalin, B.E./Weisbach, M.S./Wosinska, M. (2003), 'Governance, Performance Objectives and Organizational Form: Evidence from Hospitals', *Journal of Corporate Finance*, n° 191, pp. 1-22
- Eldenburg, L./Krishnan, R. (2003), 'Public versus Private Governance: a Study of Incentives and Operational Performance', *Journal of Accounting and Economics*, n° 35, pp. 377-404
- Fletcher, K.B. (1992), 'Effective Boards: How Executive Directors Define and Develop Them', *Nonprofit Management & Leadership*, Vol. 2, n° 3, pp. 283-293
- Frederick, W. C./Post J. E./Davis, K. (1992), *Business and Society: Corporate Strategy, Public Policy, Ethics*, 7th ed., New York: McGraw Hill
- Freeman, R.E. (1984), *Strategic Management – A Stakeholder Approach*, London: Marshfield
- Friedman, A./Philipps, M. (2004), 'Balancing Strategy and Accountability', *Nonprofit Management & Leadership*, Vol. 15, n° 2, pp. 187-204
- Gelman, S.R. (1983), 'The Board of Directors and Agency Accountability', *Social Casework*, n° 64, pp. 83-91
- Golensky, M. (1993), 'The Board Executive Relationship in Nonprofit Organizations: Partnership or Power Struggle?', *Nonprofit Management & Leadership*, Vol. 4, n° 2, pp. 177-191
- Hansmann, H.M. (1987), 'Economic Theory of Nonprofit Organizations', in Powell, W.W. (ed), *The Nonprofit Sector – A Research Handbook*, New Haven: Yale University Press, pp. 27-42
- Harlan, S.L./Saidel, J.R. (1994), 'Board Members Influence on the Government-Nonprofit Relationship', *Nonprofit Management & Leadership*, Vol. 5, n° 2, pp. 173-196
- Harris, M. (1998), 'Doing It Their Way: Organizational Challenges for Voluntary Associations', *Nonprofit and Voluntary Sector Quarterly*, Vol. 27, n° 2, pp. 144-158
- Hermalin, B./Weisbach, M. (2003), 'Boards of directors as an endogenously determined institution: a survey of the economic literature', *Economic Policy Review – Federal Reserve Bank of New York*, Vol. 9, n° 1, pp. 7-26

- Holland, T./Jackson, D.K. (1998), 'Strengthening Board Performance', in: *Nonprofit Management & Leadership*, Vol. 9, n° 2, pp. 121-134
- Horak, Ch. (1995), 'Stakeholder-Management in Nonprofit-Organisationen', in: *Verbands-Management*, n° 3/95, pp. 16-26
- Houle, C.O. (1997), *Governing Boards*, San Francisco: Jossey-Bass
- Ingram, R.T. (2003), *Ten Basic Responsibilities of Nonprofit Boards*, Washington: National Center for Nonprofit Boards
- Jackson, J./Holland, T. (1998), 'Measuring the Effectiveness of Nonprofit Boards', in: *Nonprofit and Voluntary Sector Quarterly*, Vol. 27 n° 2, 1998, pp. 159-182
- Kepper, G. (1999), *Qualitative Marktforschung*, 2nd ed., Wiesbaden: Gabler
- Kürsten, W. (2002), 'Managerentlohnung, Risikopolitik und Stakeholder-Interessen – Eine theoretische Analyse der Konsequenzen von Aktienoptionsplänen', in: Nippa, M./ Petzold, K./ Kürsten, W. (eds.), *Corporate Governance – Herausforderungen und Lösungsansätze*, Heidelberg: Physica Verlag, pp. 175-190
- Lakes, B. (1999), *Strategische Verbandsführung*, Wiesbaden: Gabler
- Linder, W. (1999), *Schweizerische Demokratie*, Bern/ Stuttgart/ Wien: Haupt
- Middelton, M. (1987), 'Nonprofit board of directors; beyond the governance function', in: Powell, W.W. (ed), *The nonprofit sector: a research handbook*, New Haven: Yale University Press, S. 141-153
- Miller, J.L. (2002), 'The Board as a Monitor of Organizational Activity', *Nonprofit Management & Leadership*, Vol. 12, n° 4, pp. 429-450
- Miller-Millesen, J.L. (2003), 'Understanding the Behavior of Nonprofit Boards of Directors: A Theory-Based Approach', *Nonprofit and Voluntary Sector Quarterly*, Vol. 32, n° 4, pp. 521-547
- Murray, V./ Bradshaw, P./ Wolpin, J. (1992), 'Power in and Around Nonprofit Boards: A neglected Dimension of Governance', *Nonprofit Management & Leadership*, Vol. 3, n° 2, pp. 165-182
- Nippa, M. (2002), 'Alternative Konzepte für eine effiziente Corporate Governance', in: Nippa, M./ Petzold, K./ Kürsten, W. (eds.), *Grundprobleme der Corporate Governance – Herausforderungen und Lösungsansätze*, Heidelberg: Physica Verlag, pp. 3-40
- Nippa, M./ Petzold, K./ Kürsten, W. (eds.) (2002), *Grundprobleme der Corporate Governance – Herausforderungen und Lösungsansätze*, Heidelberg: Physica Verlag
- Preston, J.B./Brown, W.A. (2004), 'Commitment and Performance of Nonprofit Board Members', *Nonprofit Management & Leadership*, Vol. 15, n° 2, pp. 221-238
- Quinn, R.E./Rohrbaugh, J. (1983), 'A Spatial Model of Effectiveness Criteria: Towards a Competing Values Approach to Organizational Analysis', in: *Management Science*, Vol. 29, pp. 363-377.
- Saidel, J.R. (1998), 'Expanding the Governance Construct: Functions and Contributions of Nonprofit Advisory Groups', *Nonprofit and Voluntary Sector Quarterly*, Vol. 27, n° 4, pp. 421-436
- Saidel, J.R./Harlan, S.L. (1998), 'Contracting and Patterns of Nonprofit Governance', *Nonprofit Management & Leadership*, Vol. 8, n° 3, pp. 243-259
- Salamon, L. M./Sokolowski, S.W. and Associates (2004), *Global Civil Society – Dimensions of the Nonprofit Sector*, Vol. 2, Bloomfield: Kumarian Press
- Schnyder, S. (2000), 'Zur statistischen Erfassung des Dritten Sektors in der Schweiz im Rahmen der Volkswirtschaftlichen Gesamtrechnung', in: Schauer, R./Blümle, E.-B./Witt, D./Anheier, H.K. (eds), *Nonprofit-Organisationen im Wandel*, Linz: Trauner, pp. 313-322
- Schuhen, A. (2002), *Das Nonprofit Governance Modell in der Freien Wohlfahrtspflege*, Baden-Baden: Nomos
- Schwarz, P. (1984), *Erfolgsorientiertes Verbands-Management*, St. Augustin: Asgard
- Schwarz, P. (1996), *Management von Nonprofit Organisationen*, 2nd Edition, Bern/ Stuttgart/ Wien: Haupt

- Schwarz, P. (2005), *Organisation in Nonprofit Organisationen*, Bern/ Stuttgart/ Wien: Haupt
- Schwarz, P./Purtschert, R./Giroud, Ch./Schauer, R. (2002), *Das Freiburger Management-Modell für Nonprofit-Organisationen*, 4th Edition, Bern/ Stuttgart/ Wien: Haupt
- Sydow, J./van Well, B. (2003), 'Wissensintensiv durch Netzwerkorganisation – Strukturierungstheoretische Analyse eines wissensintensiven Netzwerkes', in: Sydow, J. (ed.), *Management von Netzwerkorganisationen*, 3. ed., Wiesbaden: Gabler, pp. 107-150
- Theurl, Th./Kring, Th. (2002), 'Governance Strukturen im genossenschaftlichen Finanzverbund: Anforderungen und Konsequenzen ihrer Ausgestaltung', in: *Arbeitspapiere des Instituts für Genossenschaftswesen der Westfälischen Wilhelms-Universität Münster*, n° 27
- Tscheulin/Helmig, B. (eds) (2004), *Gabler Lexikon Marktforschung*, Wiesbaden: Gabler
- Weisbrod, B.A. (1988), *The nonprofit economy*, Cambridge: Harvard University Press
- Witt, P. (2002), 'Grundprobleme der Corporate Governance und international unterschiedliche Lösungsansätze', in: Nippa, M./ Petzold, K./ Kürsten, W. (eds.), *Grundprobleme der Corporate Governance – Herausforderungen und Lösungsansätze*, Heidelberg: Physica Verlag, pp. 41-72
- Young, D.R./Bania, N./Bailey, D. (1996), 'Structure and Accountability – A Study of National Nonprofit Associations', *Nonprofit Management & Leadership*, Vol. 6, n° 4, pp. 347-365
- Zander, A. (1994), *Making Groups Effective*, San Francisco: Josey-Bass