



## THE IMPACT OF STAKEHOLDERS AS MEMBERS OF A VOLUNTARY BOARD

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### Abstract

The voluntary board is the governing body of a nonprofit-organization. Volunteer leaders are responsible, accountable for the performance of a nonprofit-organization, they represent legally their organization. The role of a voluntary board is crucial to the success of a nonprofit-organization and therefore a lot of considerations are to take in: terms of board members, frequency and organization of board meetings, size and composition of the voluntary board, education of board members, the representation of stakeholders:

A stakeholder is any group or individual who can affect or is affected by the achievement of the organization's objectives. Stakeholders could be: members, customers, volunteers, employees, board, interest groups or the government. The question is which stakeholders are to be considered as important for the nonprofit-organization. Speckbacher specifies the presented definition and provides an answer to this question: A stakeholder of an organization is a party, a group that contributes specific resources that create value for the organization. Consequently there are at least two groups of stakeholders: primary and ordinary stakeholders. Nonprofit-organizations have founders but no owners. Legally they are juridical persons but the important difference to for-profit organizations is that they have no owners as natural or legal person who could be entitled to a part of the organization's profit. Stakeholders play an important role for these organizations. They replace the missing owner. And it is the board members who should be representatives of different stakeholders of the organization.

Nonprofit-organizations face the challenge of being multiple-stakeholder organizations. Stakeholders judge the organization's effectiveness, i.e. performance on their point of view. The contribution of this paper is to answer the question how a board can fulfill its leadership role as governing body having members representing different stakeholders.

### Introduction

The voluntary board is the governing body of a nonprofit-organization. Volunteer leaders are responsible, accountable for the performance of an association as well as they represent legally their organization [1]. The role of a voluntary board is crucial to the success of a



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nonprofit-organization and therefore a lot of considerations are to take in: terms of board members, frequency and organization of board meetings, size and composition of the voluntary board [2], education of board members, the representation of stakeholders.

Nonprofit-organizations have no owners but founders. Legally, nonprofit-organizations are juridical persons [3] but the very important difference to for-profit-organizations is that they have no owner as natural or legal person who could be entitled to a part of the organization's profit [4]. Members of an association are not an adequate to an owner of a for-profit organization.

The question is on whose interest such an organization will be governed? Nonprofit-organizations face the challenge of being **multiple-stakeholder** organizations [5].

When talking about nonprofit-organizations within this paper, it concentrates on associations being the most important legal framework for nonprofit-organizations in Europe. [6].

## The Structure of a Voluntary Board

Generally, there exist two different models to structure a board: The one-tier model with a unitary board of directors is the form of board structure in the UK and USA and is characterized by one single board comprising both executive and non-executive directors. The difference to the two-tier model with a dual board is that there exists a clear separation between management and supervision by an executive board and a supervisory board [7].

Most of the nonprofit-organizations in Europe, i.e. associations are governed by a **voluntary board**. Only in larger organizations the board is assisted by an executive director. This structure corresponds to the one-tier model. It is to state that associations do not apply the mere one-tier model consisting of executive and non-executive directors or inside and outside directors [2]. Voluntary board members are in one and the same person executive and supervisory director [8]. According to the Austrian law on associations it is possible to install a supervisory board [9] but the composition and size of the board matter more than a separate supervisory board [10].

## The role of the Voluntary Board

The basic role of a board in a nonprofit-organization is management and control [14, p. 540]. According to the historical based freedom of assembly government has not installed a lot of control mechanisms [11], [12].

Hung shows the relation between roles of governing boards and the organization theories behind: He talks about six roles: linking, coordinating, control, strategic, maintenance and support role [13].

The conclusion to following table is that each theory stresses only one part of the role of a board, no one is able to perceive the whole picture: Resource dependency theory is used to explain the inter-relationship, in the form of resources provision, among organizations and in some cases individuals. Stakeholder theory and institutional theory are sociological paradigms which are used essentially to describe the interaction between organizations and their environment. Agency theory is the economists' effort to analyze the problem of diversity of interest when there is a separation of ownership and management in an organization. Managerial



hegemony, like agency theory, focuses on the modern trend of the dominance of management-based organizations. Stewardship theory is a metaphor of human relations school of organization studies, which portrays a harmonious picture in respect of the management of organizations [13].

Board members may play different roles at the same time in various priorities. Within this scientific paper the coordinating role according to stakeholder theory will be most stressed.

Table 1

### Different roles of board members

<b>Governing Board</b>					
Board involvement in decision-making process					
<b>Extrinsic Influence Perspective</b> Contingency Perspective The role to be shaped by contingent factors			<b>Intrinsic Influence Perspective</b> Institutional perspective The role to conforming to institutional expectations		
External environment		Internal environment		Institutionalized through external pressure	Institutionalized through internal pressure
Networking/ interlocking role	Pluralistic organization	Conformance function	Performance function	Identifying with the societal expectation of organization	Instrumental view of directors
<b><i>Linking role</i></b>	<b><i>Coordinating role</i></b>	<b><i>Control role</i></b>	<b><i>Strategic role</i></b>	<b><i>Maintenance role</i></b>	<b><i>Support role</i></b>
<b>Resource Dependency Theory</b>	<b>Stakeholder Theory</b>	<b>Agency Theory</b>	<b>Stewardship Theory</b>	<b>Institutional Theory</b>	<b>Managerial Hegemony</b>

Source: Hung, 1998

### Stakeholders and Stakeholder Theory

According to Freeman a stakeholder is „any group or individual who can affect or is affected by the achievement of the organization's objectives” [14]. Stakeholders of an association could be: members, customers, volunteers, employees, board, interest groups, government, etc: Behind each group there are several parties of stakeholders as well.

The number of stakeholders of a nonprofit-organization depends on their mission, their size, their legal form etc. Stakeholders from a nonprofit-organization are different to those of a for-profit organization or public organization. Even stakeholders differ between different nonprofit-organizations [15].

The stakeholder theory considers more constituencies to be important for an organization rather than only the shareholder [7]. It represents a pluralistic approach to organizations [13].



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According to Hung the stakeholder theory is one idea to explain one role of a governing board. Especially in nonprofit-organizations there are not only employees or members to whom such an organization is responsible. The objectives of a corporation should only be achieved by balancing the often conflicting interests of these groups. By incorporating the participation of stakeholders in the governing boards, corporations are likely to respond to the interests of society as a whole. The task of the board members is to negotiate and compromise with stakeholders in the interest of a corporation [13].

Stakeholders represent the missing owner and it is the board members who should be representatives of different stakeholders of the organization [16]. Consequently the board is accountable to their stakeholders. The question is which stakeholders are to be considered as important for the nonprofit-organization. Within the literature there exists no unique suggestion to find out the important stakeholders for an organization. The first step is the knowledge of “who” are the stakeholders of an organization. A brainstorming will provide a lot of stakeholders who will be clustered in a second step. Critics to the stakeholder theory say that it is not possible to consider all stakeholders as equal important [17], which is according to Phillips not the intention of stakeholder theory [18].

Mitchell/Agle/Wood suggest three criteria to select relevant stakeholders: power, legitimacy and urgency [19]: Stakeholders bring in *power* in different ways: expert knowledge, money, relationships, donating time etc. They execute their power in various degrees in assigned working areas. *Legitimacy* is in a way interconnected with power. *Urgency* shows the degree of strength, intensity with which the management copes with expectations of stakeholders.

Speckbacher has developed another method to reduce the number of stakeholders. First he narrows the general definition of Freeman according to the theory of incomplete contracts: A stakeholder of an organization is a party, a group that contributes specific resources that create value for the organization. There are at least two groups of stakeholders: primary stakeholders and ordinary stakeholders. Primary stakeholders are those, whose contractual claim on their return from the investment is incompletely specified and hence unprotected. To protect them from “hold up” Speckbacher suggests to endow them with residual rights of control [20].

Dey et al. find another model to distinguish stakeholders according to different types of dependency: instrumental dependency and ethical dependency [21]. The ethical part of stakeholder theory is also confirmed by Phillips [18].

Whatever theoretical models there are in practical work a nonprofit-organization has to find their way to narrow the important stakeholders, to prioritize among stakeholders [22].

It is not enough today that a nonprofit-organization knows their stakeholders, their “stakes” and their role sets [14] although stakeholders represent a source of uncertainty. The solution is a consistent approach to stakeholders as the dynamic of their interactions may be better anticipated [23].

### The Members of a Voluntary Board

As already mentioned in the introduction the voluntary board is the governing body of a nonprofit-organization. This responsibility is also laid down in the law on associations, for example the Austrian law on associations [24]. The duties of the board are quite formal:



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Arranging book keeping/accounting and keeping a record of assets, preparing a financial statement and balance sheet, as well as budget, organizing and convening the membership assembly and deciding the agenda, information of members about the association (club magazine), administering the assets of the association, processing membership applications, hiring and releasing employees of the association.

Within these duties there is a lot of operational and also strategic work to do where a board has its organs to execute these tasks, like treasurer, secretary, further board members according to the working field of an association [9].

Associations working with voluntary board members face a lot of challenges as the following: Because of not being employed they are not available for regular working hours. If they are not retired time for working for an association is restricted. These “honorary manager” are not in a steady process of thinking about goals, problems, business fields. They may have a lack of continuous information for decision making. To face these obstacles the emphasis has to put on excellent communication. The most important difference compared to manager of for-profit organizations is the remuneration: They donate time or specific skills. Their motivation is commitment on a very high level [25]. The range of tasks and duties, strategic knowledge and accountability is the same.

**How can stakeholders be integrated in a voluntary board?** First it is the constitution where the influence of possible stakeholders is laid down: Different decision-making bodies are empowered with different decision-rights considering the board as a stakeholder. The next step is to take account interests of stakeholders in a stakeholder-oriented organizational structure besides the legal necessities [15]. Madrian shows different solutions to embed stakeholders with respect to the fact that not all stakeholders are willing to execute control over the management body [26]: The first possibility is to appoint one representative for all stakeholders. The advantage of this method is to reduce cost of control and to improve the enforcement of stakeholder interests. The disadvantage is the fiduciary attitude, that the stakeholder representative will not represent the goals of all stakeholders but prefers own goals. The better alternative will be to build a control-body represented by all or at least a lot of stakeholders.

With both models the question arises who will be the stakeholder-representative or part of the control-body built by stakeholders. On the content side the question might only be answered by any nonprofit-organization itself and their environment. On the organizational or structural side there may exist different ideas to overcome this challenge. Methods to reduce the number of stakeholders have been already presented.

Different stakeholders follow different interests being their legitimate behavior. Leadership function in a stakeholder oriented board will mainly be a political one in balancing contradictory interests, goals [27].

When integrating stakeholders in a voluntary board there are further facts to consider: it is the size of a nonprofit-organization that matters, the percentage of operational and strategic work of board members and the skill set of board members: The voluntary board members of small nonprofit-organizations have to do a lot of operational staff as they might not be assisted by paid staff. They are probably assisted by volunteers acting as unpaid staff. Consequently voluntary board members are responsible for parts of the working field of their association. In such small nonprofit-organizations the board has to do both jobs, i.e. a lot of operational jobs and may be less strategic jobs [28]. The skill set of board members concentrates on skills round



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the working field of the nonprofit-organization. The integration of stakeholders will not take place with a separate installed body as the number of stakeholders might be quite small. Either they are directly represented as member or by a stakeholder representative.

The bigger an association becomes the more it is realistic that the board will be assisted by administrative personnel as paid staff. The advantage is that besides operational tasks board members can concentrate also on strategic tasks. The skill set of such board members has to be enriched by strategic knowledge.

In large associations the work from the board will be supported by an executive director. The executive director has limited rights which will be written down in so-called bylaws to the constitution of an association [2]. Paid staff including the executive director will execute operational work and therefore relieve board members from these tasks. The board's task moves normatively to strategic work. The collaboration between the executive director and the board as partnership or team-work is crucial to the success of the voluntary board. In practice in large associations also strategic work will be done by the executive director because of greater information and a greater stake in and identification with the organization. The danger is that the board becomes a "rubber stamp board" [29]. Schuhen discusses also this paradox from Axelrod – the board holds the ultimate power but does not ordinarily wield it operationally [1]: He suggests to educate board members that they gain skills to do their managing job or to replace them by employed managers [30]. The bigger an association becomes the more it is necessary to think about an additional supervisory board to represent stakeholder interest.

In nonprofit-organizations leadership and management in voluntary boards cover a wide range. Theuvsen has an adequate description for this situation: leadership between mission and muddling through [31].

### Performance and the Impact of Stakeholders

As a result of being a multiple stakeholder organization nonprofit-organizations have multiple bottom lines [32]. The board is accountable to their stakeholders. In nonprofit-organizations the economic performance, i.e. the financial bottom line is only the basis [33], it is a constraint and no long-run objective. But stakeholders can only improve the performance when they are empowered to lead [34] as member of a board. Speckbacher defines what could be meant by performance in a nonprofit-organization: It is balancing the contributions of all stakeholders against their share and hence determining the extent to which implicit claims are fulfilled. [35]. It seems to be obvious that generally spoken performance is the extent to which the organization's mission is achieved.

**How can the organizational performance be judged by stakeholders?** First it is to differ between a formal control and looking on performance. As already mentioned according to the historical based freedom of assembly there is not installed a lot of control. An association has contact to a legal authority mainly in the state of foundation [12]. An ongoing control by the government in publishing balance sheets is not installed.

An inside control is for example executed within the Austrian law on associations by defining accounting standards for small, middle and large associations and the nomination of two auditors or an auditing company in case of a large association. The auditors are responsible



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for checking the daily business, the financial conduct in respect of its compliance with accounting principles and its proper use of resources in ways compatible with the constitution. This type of control is a very formal one, e.g. checking if documents are available for any business transaction, if the balance within the accounting system corresponds with the bank statement, the check of the cash etc. The auditors look also on the execution of made board's decisions corresponding to the minutes. It is not the duty of the auditor to check the activities of an association concerning profitability, usefulness, economy or purpose. The function of an auditor must not mixed with managerial accounting [36].

Members as one important group of stakeholders play a significant role within an association: With their money they support financially the organization, they contribute to the success of an association. Members are not classified as owner from the juridical or legal point of view although they have certain rights, e.g. they elect the members of a board at the annual general meeting and after each period they approve the members of the board. The rights enabling members to exercise influence at the annual general meeting are less developed according to a weak information right [37]. The members execute a certain control of performance over the voluntary board but the question is about the content of their control according to the definition of objectives and measuring the achievement of them [8].

Herman/Renz show that performance measurement contains mission accomplishment and consequently there are no objective criteria for such an assessment. A wide range of stakeholders makes clear that every group of stakeholders judges organizational effectiveness – mission accomplishment – on their own criteria [38]. According to Kaplan nonprofit-organizations lack the simple elegance of a financial measure [39]. Any nonprofit-organization has to find its own criteria and because of the absence of the mentioned financial measure nonprofit-organizations use a lot of qualitative criteria to measure effectiveness.

When talking about tools to measure the performance it is the Balance Scorecard which explicitly tries to capture also nonfinancial measures being inevitable for nonprofit-organizations. It measures success in four perspectives: financial, customer, internal, learning and growth. This tool was invented in the for-profit area but because of the multi-dimensional measure it is a very useful instrument for nonprofit-organizations [39].

### Empirical Study

The theoretical discussion about the impact of stakeholders in a voluntary board will be completed by an empirical study. Within my dissertation "Corporate Governance in Alpine Clubs in Europe" stakeholders play an important role by executing control on performance as to be claimed by the concept of corporate governance: "*Corporate Governance is the system by which companies are directed and controlled*" [40]. The discussion of the corporate governance concept within nonprofit-organizations discusses the topic control, too, especially the scope of control and its effectiveness.

With following hypothesis the impact of stakeholders on the system, the structure of nonprofit-organization will be examined: "***To meet the expectations of various stakeholders nonprofit-organizations (associations) change their structure when passing critical performance factors***".

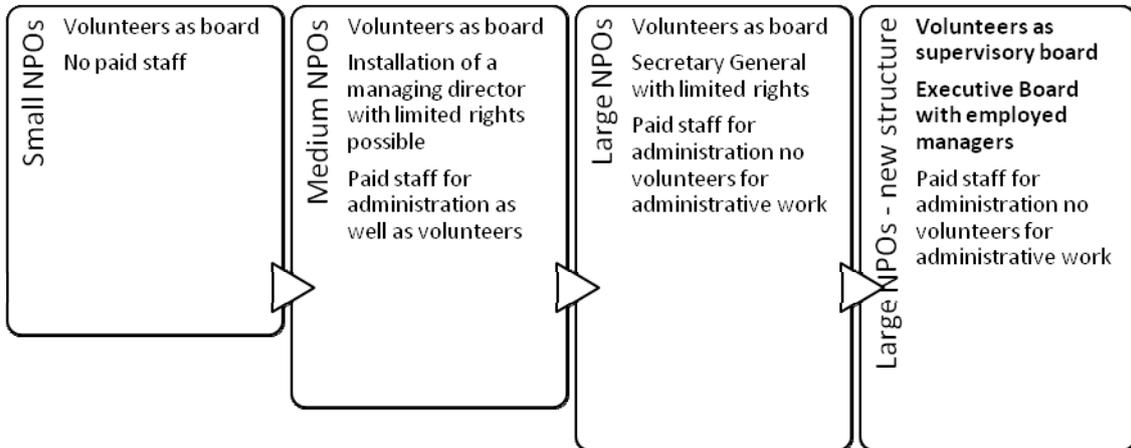


Figure 1. Different structures of NPOs governance

Source: own table

The study should bring answers to the given hypothesis as well as additional information about Alpine Clubs. According to this picture following questions arise: Why there are small, little and large associations? Which number of stakeholders these associations is forced to care about? By which model stakeholders are represented in a board? How can such a board fulfill its leadership function? Which leadership models are used? Which leadership skills and tools are necessary as the scope of leadership being different in all three types of associations? Which critical performance factors cause a change in the governance system of such associations?

The research field is Alpine Clubs in Europe, which were founded as small associations starting in 1862, e.g. Austrian Alpin Club (Oesterreichischer Alpenverein), German Alpine Club (Deutscher Alpenverein), Swiss Alpine Club (Schweizer Alpenklub), Italien Alpine Clubs (Alpenverein Südtirol and Club Alpino Italiano), French Alpine Club (Le Club Alpin francais).

The research method is qualitative face-to-face interviews by using a structured questionnaire with about 30 volunteer leaders and also executive directors. Additional quantitative data will underline the result of this research: number of volunteer leaders and unpaid staff, number of male and female volunteer leaders, number of board meetings, frequency of board meetings, questions regarding the services offered by these associations, etc.

## Conclusion and Further Prospect

Stakeholders play an important role for nonprofit-organizations as they judge the organization's effectiveness. Stakeholders interpret the fulfillment of the mission, i.e. performance of their organization, on their specific expectations. Because of a missing owner they are empowered to this ultimate judgment.

The purpose of this paper was to answer the question how a board could fulfill its leadership role as governing body having members representing different stakeholders. The paper gives an overview to theoretical consideration concerning the impact of stakeholders in a



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voluntary board. Because of the limited space of this scientific paper it covers not all aspects in detail. The most important part will be the mentioned empirical study to find out the impact of stakeholders in practice.

I do hope to present first results about this empirical study when presenting the scientific paper on the Conference in Riga in May 2012!

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