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## **Third Sector Governance and The Obligation of Leadership**

### **Approaches, Issues and Questions for Consideration**

**Draft Abstract**

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## **1. Purpose and Methodology**

The purpose of this paper is to explore governance and leadership covering a wide range of issues impacting on third sector governance including applying a culture of business and outlining different models of governance, the importance of and implications related to strategic planning, role and responsibilities of a charity Board with special emphasis on its relationship with its trading arm, transparency and accountability within the European context, and leadership theory and practice. This paper will discuss good practice, and the issues and findings outlining their implications on policy, regulation and on third sector governance.

The paper will draw on the practical experiences of the authors as practitioners including case studies; summary results of a series of surveys of Boards, staff and key stakeholders related to strategic and governance activities of a number of our clients; a literature review relevant to the topics discussed; the cultural context and its implications on regulation; and the results of EU conference on governance as well as referencing current issues and activities in the EU.

## **2. Overview**

### **Structures Approaches to Governance**

Governance is the application of authority, leadership and management of an organisation to ensure its purpose is achieved and proper accounting is given for results.

In the United Kingdom there are a variety of constitutional structures and status; the former ranging from a company limited by guarantee to unincorporated associations; the latter charity status or Community Interest Company status. Adding to the complexity are charity or social enterprise trading structures which could include share capital companies. There are a number of approaches to governance - the Administrative Model, the Policy Model, the Carver Model, and a variety of hybrids including the results-based governance model.

### **Accountability**

Success in governance is having an appropriate approach to responsibility and accountability; the approach underpinned by creating an organisation where everyone lives its ethos, clients are paramount, creativity and innovation encouraged, strategic priorities are clear, and measurable outcomes exist with the organisation and its various component parts evaluated against these outcomes.

Accountability for measurable outcomes is a much heard term applied to organisations and individuals. Not used as much in its original meaning is the term 'responsibility', a meaning tied to moral and legal issues; leadership (emphasising values, providing guidance and a process supportive of developing solutions); passion; trustworthiness; and being responsible for oneself, taking responsibility.

Complex problems in a diverse society often arise out of the differing stakeholders' cultures; creating competing demands and multiple accountabilities. Trustees/staff leaders have potential conflicts to resolve as they are accountable to funders, clients, employees, volunteers and other stakeholders. Understanding core responsibilities helps to resolve dilemmas.

Trust must exist to exercise responsibility. Leaders achieve trust by making known and living their values; having passion for a cause; discussing and exchanging ideas and solutions, recognising complexities and choices; outlining choices and their underlying rationale; demonstrating consistency; and being responsible.

A non-profit organisation should design its governance, corporate status, structure and processes to achieve maximum accountability through encouraging taking responsibility and providing leadership; ensuring each level of the organisation is delegated responsibilities appropriate to achieving an organisation's mission; and by having an effective performance management system underpinning performance measurement and reporting.

### **Strategic Planning**

Of special importance is creating a strategic context that ensures proper governance and the achievement of a third sector organisation's vision and mission. Strategic planning is a common responsibility suggested for all non-profit Boards of Directors. While recognised as an essential element of good governance, the various strategic

planning processes do not necessarily link to the development of good governance practices and structures. Further, a number of initiatives that seek to improve the effectiveness, accountability and transparency of non-profit Boards do not necessarily reflect the influence that robust strategic planning has on the principles, practices and structures of the governing body. In essence, strategic planning and Board development are viewed as separate unrelated elements of organisational development; this as demonstrated by a number of case studies.

There is a growing trend that suggests an intrinsic link between the process of strategic planning and the development of good governance practices - each reinforcing the other in one overarching organizational development process. This process identifies the governance competencies, principles and structures required by an organisation that will ensure the success of the strategic plan.

### **European Context**

In postmodern society the third sector in the emerging source of political, economic and social transformation - the third pillar besides government and private sector – especially in fields as policy-making, public service delivery and social cohesion. However, the sector still shows several weaknesses hampering its full development. Governance is at the top of list.

Furthermore, European third organisations are growing beyond national borders expanding across the common market and influencing European institutions. There is a need to establish European standards and regulations. Governance is again at the top of the list.

However, attempts to establish shared standards undertaken so far have been attacked and stopped by third sector organisations themselves. The main reason is different models of governance have been developed within national political and economic traditions. There is a general fear for overburden European regulation that suppresses diversity without facilitating any positive development of the sector.

The future growth of the sector across Europe requires the preservation of traditional values combined with shared standards. A comparison between the British and French model of third sector governance shows both the challenges and viable solutions.

Initiatives to improve these in Europe have increased over the last ten years. They seem to be driven by the wish to improve the sector's professionalism rather than by an effort to combat terrorism, money-laundering or anti-terrorism. There exist public-regulated or self-regulated initiatives, and accountability and transparency are aimed at in a number of ways, depending mainly on a country's legal and financial regulation, the maturity of the sector as a whole and the development of a country. Therefore, there is no one-size fits-all, nor could that be a feasible goal. An exception to the national approach is a small number of initiatives on the European level. Apart from this, buy-in from the sector is crucial for success. On the methodological level, there are conceptual problems with the concept of transparency, and certainly that of accountability. This poses problems for both assessing the initiatives and developing further tools.

More specific to France, co-operatives, mutuals and associations are the three main pillars of the so called "Social Economy". These powerful organisations dominate the insurance and banking sector. Co-ops, mutuals or associations have a common

specificity: to be controlled by their owned-members, who are the clients, the consumers of the services or goods proposed by this kind of organisations. The main difference with a company more classic is the democratic governance. Members can elect the Directors during the General Assembly. The Directors are chosen within the Assembly of members and are volunteers, not employed by the company, in order to manage the organisation. Millions of members elect more than 300 000 volunteers who are the directors and members of the Board. The mix of economic area with a representative election, like a political election, is original. During the last two years, all the organisations of the social economy area are trying to be more transparent, more efficient with their governance rules. They want more professional and more involved people, and promoting their specific identity.

### **3. Summary**

In summary, this paper will address a number of key areas related to governance that are being addressed by researchers, practitioners, policy makers and third sector Boards drawing on a variety of experiences and studies. It will outline best practice and action implications as well as research and policy questions to be addressed. And it will do so from European and North American perspectives.