

Strategic innovation in member-serving non-profit organisations: The role of governance structure, knowledge sharing and decision making

Eric Kong, Stacey Jenkins and David Ardagh

Very little research today has investigated the role of governance structure, knowledge sharing and decision making in the innovation process in member-serving non-profit organisations (MSNPOs). This research project aims to develop a theory suggesting that the above elements play a significant role in innovation process that leads to strategic advantage in MSNPOs. Using qualitative in-depth semi-structured interviews with 5 senior executives from 5 MSNPOs in Australia, this project examines how the three elements support innovation formulation and implementation in the organisations. The study helps to build a nascent body of literature linking the three elements and strategic innovation in MSNPOs.

Field of Research: Public Institutions Management,

1. Introduction

MSNPOs conform to the non-profit criteria as set by the Johns Hopkins Centre for Civil Society Studies (CCSS) (Salamon, Sokolowski, & List, 2004); that are: having an institutional presence and structure; being institutionally separate from the government; being non-profit distributing; being self-governing, and involving some degree of voluntary participation. Thus MSNPOs are classified as non-profit entities. However, they do not necessarily carry a charitable purpose for the benefit of the general public since they predominantly serve their members (Lyons, 2001). In other words, MSNPOs are established mainly to meet the interests, needs and desires of the members of the organization; though some may serve some public purpose (Lyons, 2001; Salamon, 1999). MSNPOs do not normally receive tax exemptions from governments unless they can demonstrate that they carry a charitable purpose for the benefit of the general public (Lyons, 2001). Examples of MSNPOs may include Lions Clubs International, Scouts International, Toastmasters International and Chamber of Commerce.

Dr Eric Kong*, School of Commerce, Charles Sturt University, email: ekong@csu.edu.au
Stacey Jenkins, School of Commerce, Charles Sturt University, email: sjenkins@csu.edu.au
Dr David Ardagh, School of Commerce, Charles Sturt University, email: dardagh@csu.edu.au

2. Member-Serving Non-profit Organisations (MSNPOs)

Member-serving non-profit organisations (MSNPOs) are increasingly facing the challenge of losing members, thus losing membership fees and the ability to deploy capital; losing talented people, and not fulfilling their mission (Lyons, 2001). Accordingly, these organisations must be managed strategically if they are to remain sustainable in their field. They need to formulate innovative strategies that not only enhance their efficiency and effectiveness, but also allow the organisations to pursue their mission and objectives. Governance structure, knowledge sharing, and decision-making process are perceived to be important for innovation in organisations (Nayak, 2008). Daly (2008) suggests that the appointment of a Board of Directors that can give strategic direction to a non-profit organisation and, in particular, aid the organisation's resource development helps to bring long-term success to the organisation.

In the non-profit world, leadership tends to be more democratic because the ability of non-profit organisations to achieve their objectives depends heavily on the knowledge, innovation, experience and skills of their paid employees and volunteers from all organisational levels (Hudson, 1999; Yanay & Yanay, 2008). Thus, non-profit leaders are inclined to involve organisational members from all levels in a strategic management process. Also, non-profit organisations often initiate and/or carry out organisational changes from the lower levels as well as from the top. Accordingly, non-profit employees and volunteers are often encouraged to be change agents. With this in mind, MSNPOs possibly share decision-making responsibilities and leadership, practice top-down and bottom-up communication and interaction patterns more often than for-profit organisations and government agencies.

Kijkuit and van den Ende (2007) argue that a more cohesive network among organisational members with stronger ties to decision makers in various phases of idea development helps to create knowledge that is essential for decision-making. Their argument suggests that there is a correlation between the dynamics of the organisational structure and idea of development and knowledge creation in organisations. Thus governance structure, such as hierarchical level and chain of command, probably has implications for how knowledge is created and shared within an MSNPO. This is because non-hierarchical and non-bureaucratic structures that reward and encourage flexibility and cross-fertilisation of ideas, and processes that enable ideas to be systematically evaluated and championed often assist to create a culture of innovation in organisations (Nayak, 2008). As knowledge can be utilised simultaneously by many users in different locations at the same time, new knowledge may be developed when existing knowledge is articulated and challenged through formal and informal channels (Bradley, 1997; Clarke, 2004; du Plessis, McConvill, & Bagaric, 2005; Peppard & Rylander, 2001).

With improved and newly developed knowledge, non-profit managers are more likely to enhance their ability to make better decisions (Kong & Thomson, 2006). Improved decision-making such as reward structures increases the chance of innovation in the organisation (Nayak, 2008). In other words, innovation may be achieved through a proper governance structure, improved decision making and better knowledge sharing in MSNPOs. For the purpose of the study we suggest the following analysis of MSNPOs, conscious of its fluid and culturally relative meaning in practice:

1. A MSNPO selects its own purpose and governs itself. This is done by the founders within the law of the state, as with for-profit organisations, but in addition the purpose and structure is not so closely specified by the state as in business corporations by corporate law.

2. The ultimate collective end of an MSNPO is usually to benefit members of the organisation, though the organisation may carry the common good of the community at times.

3. The constitutive/constitutional purpose of a MSNPO cannot be financial profit. However, a MSNPO may have a for profit arm to generate the means to carry out the collective end.

4. A MSNPO raises its own funds from members, or donors, or as in instrumental 'for-profit' arms and enterprises; and/or ad hoc raffles etc, but a MSNPO always uses some voluntary labour even to run for-profit ventures.

5. The communal or collective MSNPO purpose and need for sharing non-financial benefits tends to favour egalitarian rather than hierarchical information and decision making governance structures.

The aim of this paper is to develop a theory suggesting that governance structure, knowledge sharing, and decision making play a critical role in innovation process in MSNPOs. Although the paper only reports some initial findings of in-dept semi-structure interviews from a number of MSNPOs in Australia, the findings are significant to both scholars and practitioners because they help to drive further direction of future research in relation to the role of governance structure, knowledge sharing, and decision making in innovation process in MSNPOs. More specifically, the findings help to provide a better understanding of the mentioned concepts and how they assist to stimulate innovation in MSNPOs. To achieve the aim, qualitative in-depth semi-structured interviews from various types of MSNPOs were used to examine the relationships between the three elements and innovation and how the three elements may support innovation process in the organisations.

3. Method

The study of governance structure, knowledge sharing, and decision making in innovation process in MSNPOs is a relatively new area of enquiry. It was important, therefore, to allow a degree of flexibility during the research

process in order to explore and examine the mentioned concepts and their relationships in the innovation process in MSNPOs. Due to this reasoning a qualitative approach adopting in-depth, semi-structured interviews of 45 to 60 minutes was conducted, as this method is considered to be a good way of gaining people's perceptions (Kirkwood and Tootell, 2008). The sample population was chosen from Australian MSNPOs that delivered services directly to their members, with formal structure and strategic planning established in the organisations were considered. The rationale for these selection criteria was that the chosen organisations would cover macro and micro oriented activities covering issues related to governance structure, decision making, and knowledge sharing in innovation process in the organisations.

Based on the sampling selection criteria, 7 MSNPOs were contacted via e-mail and telephone. Each was provide with an information statement about the research and a copy of the interview questions. Of those contacted 5 agreed to participate. These 5 participants included senior executives, middle-level management and volunteers within these organisations agreed to participate. Interviewees were asked a range of questions regarding the concepts of governance structure, knowledge sharing, decision making and; the relationships of these concepts to innovation process in their organisations. Intensive semi-structured interviews were conducted over a 3 month period (June 2008 – August 2008). An ongoing analysis was conducted through out the entire interview process which ensured the justification of theoretical saturation which determined whether data collection activities should end or carry on (Charmaz, 2003; Richards, 2005; Strauss & Corbin, 1998). This paper aims at reporting the initial findings on the basis of a series of in-dept semi-structure interviews from a number of MSNPOs in Australia.

A digital recorder was used to record conversations for all interviews. Whilst recording devices can be considered intrusive to a research setting (Stainback & Stainback 1988), this ensures the accuracy of data collection and subsequent interview transcription and coding (Curran & Blackburn 2001 and Johnson, 2002). University ethics approval was granted for this research project. All interviewees gave consent for taping. The QSR NUD*IST Vivo (NVivo) computer-aided data analysis software program for qualitative research was used to manage the data. Interview transcripts and research notes were directly input into NVivo, , and then were coded to units of meaning (known as 'free nodes' in NVivo) according to the exact words of the participant (Creswell, 1998). To maintain the confidentiality of the participants each participant was assigned a code (e.g. MSNPO-1) and the numerical order was not indicative of interview chronology.

4. Findings

Both men and women were interviewed from representative organisations classified as MSNOPS. The organisations were either small, medium or large in size. Each of the organisations was based in Australia and each came from

different industry sectors. Hence there was a diverse mixture of organisations represented.

Strategies to support innovative practices

We did find a number of strategies were employed by each of the MSNPOs to aid in innovative practices which we suggest has aided in their ability to survive and succeed. Each respondent had a clear idea of what they felt innovation was. The key words mentioned were 'new' and 'creative' ways of doing or looking at things or something to achieve an outcome. The main strategies employed to achieve this included having appropriate measures in place to support governance structure, knowledge sharing, and decision making.

Governance structure

The first strategy supported by each of the MSNPOs was a formal governance structure. How each structure was set up was slightly different, but each had a minimum number of elected members, no less than six, with some also having a president, secretary, treasurer and an indigenous representative. Most meet monthly, one bi-monthly. There is an agenda set and minutes are recorded which are then disseminated to all members. A common thread ran through many of the accounts of why respondents felt that this form of structure was important:

‘It gives a framework for at least providing a minimal expectation of our organisation, and I think it’s important for some form of accountability to the external world...it’s also a form of assistance...’ – MSNPO-5.

‘I think it is necessary – very necessary – simply because, without the structure you would have a rabble of people just sort of running off doing things.’ – MSNPO-2.

‘You need this elected governance structure to make sure the membership is actually represented.’ – MSNPO-4.

Whilst all respondent therefore felt that such structures were very important most felt that there was some room for improvement. The main concerns centred around the bureaucracy that can be involved with such a formal structure and the power that such a structure can exhibit. However, one initiative one of the organisations had put in place was that whilst the directors all had an equal vote so did all of its members. Hence, each member could attend the monthly meetings and vote on a particular issue – they felt this allowed for more flexibility as it allowed for a flatter level of hierarchy.

‘I have been really impressed with it, like at the meetings it really feels like everyone can have a say, and everyone’s voice can be heard, and it’s all kind of a level playing field.’ – MSNPO-1.

In addition, one respondent felt that appropriate training for Directors would be worthwhile as they had initiated this in another organisation and

found it to be very useful for making certain directors aware of their legal responsibilities. A couple of respondents also felt that how knowledge was shared could improve the overall governance structure, examples of such testaments are provided below.

Knowledge sharing

As already mentioned, knowledge can be utilised simultaneously by many users in different locations at the same time. Thus knowledge sharing is important to an innovative process in organisations. This is in line with the findings in the interview data. However, one respondent also expressed a view that knowledge must be shared in an effective and efficient way without overloading organisational members:

‘So I think there must be some way of better sharing knowledge and probably improve the governance structure. I think there’s just too much information for elected people to digest in the time they have to digest it.’ – MSNPO-4.

One organisation had actually overcome this by having pre-directors meeting. This is the organisation that allowed for all members to attend the monthly meetings and vote on issues. Hence as one of the respondents, who was a director, noted:

‘We have what we call a pre-directors meeting where [members] meet together and we go through the agenda and we do a bit of preparatory work... particularly issues that might be a little thorny.’ – MSNPO-5.

Hence, a second strategy supported by each of the MSNPOs was that of knowledge sharing. Key words expressed by respondents as to what they felt knowledge sharing was included: ‘information’, ‘communication’, ‘dispensing’ and ‘power’. As noted above, the agenda of directors meetings and the minutes of these monthly or bi monthly meetings were disseminated to all for each of these organisations, so this acted as a formal way of sharing information and knowledge. These minutes were distributed to all via electronic mail. In addition one organisation had a monthly bulletin that informed its members of particular projects that were happening. Another organisation had a similar arrangement where they had cluster (small group meetings) to discuss and share information on issues such as projects that were particularly relevant to their section of the organisation. One organisation had weekly electronic bulletins. Another organisation also had a notice board where minutes or information flyers could be displayed in hard copy, which was important for some whose members may not have use of electronic forms of communication. This information was both revealed in the interview data and organisational websites and/or publications.

Social activities were also an informal way of how knowledge was shared in a couple of organisations. For example, monthly dinners, the running of a ‘café’ on a Saturday morning, where you could meet with other members and have a chat over a meal, cup of tea/coffee etc.

Such measures that supported knowledge sharing were seen as very important to the overall philosophy and successful running of the organisations. For example, one organisation relied heavily on volunteers and expressed:

‘...we need to know what the projects are and how they’re happening, because its voluntary and we need volunteers, so it’s all very much a communications issue... .’ – MSNPO-2.

In regards to the informal arrangements were one respondent expressed:

‘But it’s a great spot for having conversations with people or in hearing conversations with people that you wouldn’t normally have’ – MSNPO-5.

In addition, this person thought it allowed members to solicit support for particular issues that may be raised at the next directors meeting and hence wanted others to vote in support for such a proposal.

Most were happy with the how knowledge was shared. However, areas highlighted by for most, of how it could be improved, included the timeliness. For example one respondent noted:

‘The key issue of communication to the members is always one of giving them sufficient time to know what’s coming up.’ – MSNPO-2.

Many felt electronic communication helped in this regard i.e. the ability to disseminate information via email.

‘More formally, we have a ...email list, so that’s a big source of knowledge sharing, just about everyone’s on that. So if a committee has a meeting, the minutes are then forwarded on to everyone... on that emailing list.’ – MSNPO-1.

‘...we recently advertised [via email] for expressions of interest for a project, and it was an amazing who came of the woodwork’ – MSNPO-3.

This second account was offered by someone who recently came into the role and established an email networking list to share knowledge. However, from a more general sense, it was recognised that the value of the knowledge being shared via this form of communication relied heavily on the detail placed in the correspondence being sent, for example committee meeting minutes, and someone being assigned to disseminate the information.

Decision making

The final strategy supported by each of the MSNPOs was the need for appropriate decision making processes to be implemented which aided their survival and innovativeness. As noted earlier non-profit organisations often practise top-down and bottom-up communication approach in their organisations. This was evidenced in the interview data.

Each of the organisations formal decisions making process happened during their monthly / bimonthly directors meetings. Each proposal required a formal voting process to take place with a majority rules application before it could succeed in most instances. One MSNPO even allowed all members to vote on each of the decisions to be made at these meetings, as opposed to just the directors and only five members needed to agree for the proposal to get up and running. If five people cannot agree then it is held off to the next directors meeting and on this second occasion a majority rules application is applied. Due to the large size of one organisation it also had voting which took place at different levels – i.e. at branch, state and national levels. Each of the respondents felt this formal decision making process was necessary to avoid ad hoc decisions being made and to ensure that the members' interests were being represented.

An innovative way to support decision making was highlighted by one organisation. They established relevant committees to support the development of proposals being put forward. The respondent stated:

'At the AGM – there's a certain number of committees, although we can create one or delete one as needed, and at the AGM people nominate each other and nominate themselves to be on a committee, and ... its just a raise of hands if everyone agrees.' – MSNPO-1.

As can be evidenced from the interview data, each of the elements (that is governance structure, knowledge sharing and decision making) played an important role in the process of innovation in the organisations. Managers of MSNPOs should pay more attention on the three elements when formulating their strategies for innovation. For example, they should create more formal and informal channels that allow knowledge sharing within their organisations. They possibly should review the levels of hierarchy in their organisations and make sure a flatter level of hierarchy is sustained, knowledge can flow freely and members' interests are being represented when decisions are made.

5. Limitations and implications for future research

This research has been a first step in exploring the relationships between governance structure, knowledge sharing and decision making in the process of innovation in MSNPOs. There are a number of limitations with this research project. Given this study was exploratory in nature the sample size was quite small. In studies with larger sample sizes more comparisons could be made. In addition, data reduction is a difficult task. However, as this is a qualitative research project it is necessary.

Although the research focuses on MSNPOs, further research could examine the relationships of governance structure, knowledge sharing and decision making in for-profit organisations. An improved understanding of the three concepts from a business perspective will possibly lead to innovative strategies in business organisations. Thus the findings possibly provide significant insights to for-profit managers on how they may adapt strategies in order to enhance innovation in their organisations.

6. Conclusion

The results of the in-depth interviews confirm that in order for innovative practices to be supported within a MSNPO it is necessary for all three strategies: governance structure, knowledge sharing and decision making to take place. As formalised governance structures help to disseminate knowledge effectively within an organisation, members of the organisation are more likely be able to make informed decisions in the organisational innovation process. The initial findings in the interview data have provided some significant insights on what contributes to innovation in MSNPOs and a clear direction for future research in the area. The findings in this study also provide some insights to for-profit managers on how they may adapt strategies for innovative practices.

References

- Bradley, K. 1997. 'Intellectual capital and the new wealth of nations II', *Business Strategy Review*, Vol. 8, No.4, pp.33-44.
- Charmaz, K. 2003. Grounded theory: Objectivist and constructivist methods, in Denzin, N. K. and Lincoln, Y. S. (Eds.), *Strategies of qualitative inquiry* (2nd ed.). Sage, Thousand Oaks, pp.249-291.
- Clarke, T. (Ed.). 2004. Theories of corporate governance: The philosophical foundations of corporate governance, Routledge, London.
- Curran, J., and Blackburn, R.A. 2001. Researching the Small Enterprise, Sage, London.
- Creswell, J. W. 1998. Qualitative inquiry and research design: Choosing among five traditions, Sage, Thousand Oaks.
- Daly, S. 2008. 'Institutional innovation in philanthropy: Community foundations in the U.K', *Voluntas: International Journal of Voluntary and Non-profit Organisations*, Vol. 19, No.3, pp.219-241.
- du Plessis, J. J., McConvill, J., and Bagaric, M. 2005. Principles of contemporary corporate governance. Cambridge University Press, Cambridge.
- Hudson, M. 1999. Managing without profit: The art of managing third-sector organizations. London, Penguin.
- Johnson, J. M. 2002. In-depth interviewing, in Gubrium, J. F. and Holstein, J. A. (Eds.), *The handbook of interview research: Context and method*. Sage, Thousand Oaks, pp.103-119.
- Kirkwood, J., and Tootell, B. 2008. 'Is entrepreneurship the answer to achieving work-life balance?', *Journal of Management and Organisation*, Vol.14, No.3, pp.285-302.
- Kijkuit, B., and van den Ende, J. 2007. 'The organisational life of an idea: Integrating social network, creativity and decision-making perspectives', *Journal of Management Studies*, Vol.44, No.6, pp.863-882.

- Kong, E., and Thomson, S. B. 2006. 'Intellectual capital and strategic human resource management in social service non-profit organisations in Australia', *International Journal of Human Resources Development and Management*, Vol.6, No.2/3/4, pp.213-231.
- Lyons, M. 2001. *Third sector: The contribution of non-profit and co-operative enterprises in Australia*. Allen and Unwin, St. Leonards, N.S.W.
- Nayak, A. 2008. 'Experiencing creativity in organisations: A practice approach'. *Long Range Planning*, Vol.41, No.4, pp.420-439.
- Peppard, J., and Rylander, A. 2001. 'Using an intellectual capital perspective to design and implement a growth strategy: The case of APiON'. *European Management Journal*, Vol.19, No.5, pp.510-525.
- Richards, L. 2005. Handling qualitative data: A practical guide. Sage, London.
- Salamon, L. M. 1999. 'The non-profit sector at a crossroads: The case of America'. *Voluntas: International Journal of Voluntary and Non-profit Organisations*, Vol.10, No.1, pp.5-23.
- Salamon, L. M., Anheier, H. K., List, R., Toepler, S., Sokolowski, S. W., and Associates (Eds.). 1999. Global civil society: Dimensions of the non-profit sector (Vol. 1). The Johns Hopkins Centre for Civil Society Studies, Baltimore, MD.
- Salamon, L. M., Sokolowski, S. W., and List, R. 2004. Global civil society: An overview, in Salamon, L. M., Sokolowski, S. W. and Associates (Eds.), *Global civil society: Dimensions of the non-profit sector* (Vol. 2). Kumarian Press, Bloomfield, CT, pp.3-60.
- Stainback, S., and Stainback, W. 1988. *Understanding and conducting qualitative research*. The Council for Exceptional Children, Reston, VA.
- Strauss, A. L., and Corbin, J. 1998. Basics of qualitative research: Techniques and procedures for developing grounded theory (2nd ed.), Sage. Thousand Oaks.
- Yanay, G. V. and Yanay, N. 2008. 'The decline of motivation? From commitment to dropping out of volunteering'. *Non-profit Management and Leadership*, Vol.19, No.1, pp.65-78.