Journal of Community Positive Practices, XIII(2) **2013**, *11-21*
ISSN Print: 1582-8344; Electronic: 2247-6571

BOARD OF DIRECTORS AS A CRITICAL FACTOR IN THE SUCCESS OF SOCIAL ENTERPRISES

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Abstract: *This article examines the role played by Boards of Directors in contributing to the success of social enterprises in the South African non-profit sector. Previous studies by several scholars have painted a gloomy picture on the contributions of Boards of Directors to the success of organisations within the non-profit sector. Highly involved and effective Boards of Directors have been argued to be an infrequent phenomenon, an exception rather than the norm. Using primary data from a qualitative study, this article argues that Boards of Directors are playing a significant role in the success of many social enterprises within the South African non-profit sector.*

Key words *Board of Directors, social enterprise, social entrepreneurship, non-profit sector,*

1. Introduction

Organisations that operate with the non-profit sector in South Africa are required by law to appoint a Board of Directors (hereafter, BOD). The BODs are by law the legal guardians that are mandated to govern non-profit sector organisations. Given that Non- Profit Organisations (NPOs) do not have any shareholders to which their managers account, BODs are appointed to play a significant governance role in these organisations. BODs hold the trust of the public served by the NPOs as well as the many donors who give to NPOs. Given the common place financial scandals and misuse of donor funds, the BODs have come to play a vital role in ensuring that NPOs deliver on their mission with honour and integrity. To this end, the governance role played by BODs is central and key to the very existence and operation of NPOs.

The role played BODs in NPOs extends beyond governance to embrace duties such as fundraising, active involvement in strategic and operational planning of NPOs activities, and volunteering expertise to the NPOs, among other things. Several studies that have been carried out over the years on the role of BODs portray a very gloomy picture on the performance levels of BODs in most NPOs around the globe. Taylor, Chait and Holland (1999: 53) carried out extensive research into the workings of BODs

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and came to the conclusion that "too often, the board of a non-profit organisation is little more than a collection of high-powered people engaged in low-level activities." They argue that in most instances BODs tend to be involved in trivial matters while the key decisions that affect the running of NPOs are left to management, often to the detriment of the organisation. Thus despite the common trend in most NPOs of recruiting high-powered individuals who hold positions of influence within business, the community, and politics, these people often contribute very little to the success of non-profit sector organisations. Carver (1997: 9) raises similar concerns about BODs: he argues that "the problem is not that a group or an individual occasionally slips into poor practice, but that intelligent and caring individuals regularly exhibit procedures of governance that are deeply flawed."

The extensive research done over a period of 10 years by Taylor et al. (1999) reveals that in most instances BODs are far removed from key day to day decisions made by NPO managers. At best they simply rubber stamp the proposals put forward by management without actively engaging in the crafting of these proposals. In some cases the BODs only tends to be involved in the drafting of policy guidelines on NPO operations but fails to get involved in the active implementation of the policies together with management. BODs have been argued to simply engage in meetings and other functions of NPOs to simply fulfil the 'ritual' without any deep commitment to the cause. Similarly, research done by Klauser and Small in (2005) confirms the findings of Taylor et al (1999). They observe that many BODs often fail to carry out the governance tasks required of them. To this end, scholars such as Worth (2012) concur with the insights gleaned from Taylor et al (1999, 54), who argue that "effective governance by the board of a non-profit organisation is a rare and unnatural act."

This article examines the contributions of BODs to the successful running of social enterprises in South Africa. Exploring the role of BODs is critical given that the non-profit sector plays a significant role in promoting social development within the South African welfare sector. Given the fact that the phenomenon of social enterprises is still in its infant stages of development in South Africa, the objective of this article is to help unravel how BODs in social enterprises contribute to the success of this new breed of organisations. By so doing the paper adds to the steadily growing body of knowledge on social enterprises. A qualitative approach was adopted in the study and a case study design was utilised. This paper is divided into five major sections: this first section has given an overview of the topic under discussion, the second section discusses literature review pertinent to the study, the third section reports on the methods adopted in the study, the fourth section discusses the findings of the study, and the fifth section presents the conclusions reached by the study.

2. Brief review of literature

Over the past few decades, the fundamental role played the non-profit sector in promoting welfare through interventions particularly in the areas of health, education, poverty reduction and sustainable social development is beyond question. Organisations within the non-profit sector spectrum are also commonly identified as Non- Profit Organisations (NPOs) or Non- Governmental Organisations (NGOs)

depending on context. In the early years of the evolution of the non-profit sector, the primary role of the non-profit sector was seen as that of complementing and making up for the deficiencies of the state and the private sector in promoting social welfare. However, in recent times, the non-profit sector has come to be acknowledged as an indispensable constituent part of the tripartite coalition of institutional role players that promote development, namely the state, the private sector and civil society. Korten (1991) observes that in times past, the non-profit sector was taken to be marginal and mainly insignificant an actor in development. The 1980s was the period in which NGOs became a central point of attention for development thinkers and practitioners.

Today, non-profit-making organisations have come to be known as the third sector within the economies of most countries worldwide and the role and significance of non-profit-making organisations continues to grow. Hudson (2003: 1) observes that, "it is increasingly recognised that community, social, cultural and even economic development depend on a diverse and healthy[?] nonprofit sector". Thus nonprofit sector organisations are instrumental in shaping today's global society in many ways. Whereas in the past NPOs relied on donated income, in recent years there has been a proliferation of a new breed of NPOs that are now popularly termed social enterprises. These organisations largely operate within the market economy to raise money for accomplishment of their social mission. At present there is a lack of consensus among scholars on the definition of social enterprise. Social enterprise is a complex concept, and literature in the area of social enterprise is so new and little. that no consensus has emerged among scholars on this phenomenon (Jones, 2007). In the same vein, Young (2007: 2) observes that "the term social enterprise is interpreted in a variety of ways by scholars, policy makers, leaders in the business, non-profit and public sectors, and by interested parties in different parts of the world... The variety of understandings derives in part from the fact that social enterprise takes place in different economic and political contexts, giving rise to alternative manifestations of the common underlying thrust". The most common thrust adopted by several scholars focus on social enterprise as a business that primarily exists to accomplish a social purpose and all profits generated in the business are reinvested in furthering the social mission of the organisation. The main difference between conventional enterprises and a social enterprise would be that in a conventional enterprise profits are distributed amongst shareholders while social enterprises mainly operate as NPOs and are bound by a non-profit distribution constraint. This means that there are no shareholders in social enterprises (Young, 2007; Cheung 2006).

Boards of Directors in Non-Profits

According to the Department of Social Development (2001, p. 5) a BOD is defined as a "group of an NPO's constituency representatives who are elected or invited to voluntarily serve as the constituted leadership of an NPO. The governing body can be given the title of, among others: Board, Board of Directors, Trustees, Council or Steering Committee." BODs are seen as playing a key function in the fulfilment of NPO missions. To this end, it is expected that people who are appointed must be capable of contributing significantly towards the running of NPOs to which they are appointed. It is also expected that members of the board must be enthusiastic about

their participation and need to demonstrate dedication to ensuring that they help the NPO they serve to best accomplish its mission. In South Africa, there is no prescribed procedure that is to be followed when appointing a board. How boards get composed is often a direct consequence of the emergent context of the NPO itself and this will vary from one NPO to another. It a common practice in most NPOs that once every year members of the community and other constituencies with a vested interest in the operation of an NPO get to vote for a new board. This does not however have universal applicability and some NPOs have different procedures on how they get to elect members of the board (Department of Social Development, 2001).

There are several duties that boards are expected to play in South African NPOs. Firstly, members of NPO boards are expected to undertake the duty of care. This means that they are to serve NPOs in a conscienscious way when carrying out their duties. Secondly, members of boards are expected to fulfil the duty of loyalty, meaning that at all times members should act in ways that show their total commitment to an NPO and serve its best interests. Thirdly, board members are expected to subscribe to the duty of obedience, meaning that members must make decisions based on the constitution of their organisation without violating its statutes. Fourthly, members of boards are expected to play myriad other roles which include, but are not limited to, the determining of the organisation's mission and purpose, the selection and appointing of the chief executive officer, participating in strategic organisational planning, helping in the harnessing and management of resources, determining and monitoring programmes and services offered by an NPO, and working to enhance the public image and appeal of the NPOs they serve (Department of Social Development, 2001).

Theories on the role of BODs

There are several theories that have been put forward to explain the roles BODs of non-profit sector organisations. The first model is the resource dependency theory. This theory (propounded by Pfeffer and Salanick, 1978) posits that BODs mainly work to help organisations to generate resources. BODs are seen as comprising people who are highly networked and bring with them social capital that can be used to generate financial, material and human capital which benefit the organisation (Hillman and Dalziel, 2003; Herman and Renz, 2000). High performance in non-profit organisations has been linked to an active BOD that works to initiate and sustain multiple sources of income and resources that flow in the organisation (Bielefeld, 1992; Green and Griesinger, 1996). Apart from the networks that members of the BODs bring with them, members are themselves seen as key human capital that directly contribute to the functioning of organisations (Hillman and Dazel, 2003). To this end fundraising is seen as the major role of BODs with the resource dependency theory.

The second theory is the group process model. This theory focuses on how people relate, the processes that lead to decision making, and how information is managed and used. It is thought that diversity within BODs leads to the generation of high quality decisions given that members contribute multiple perspectives during brainstorming. The more members on the board, the better insights they bring and the more social capital they bring, and the likelihood of better resource mobilisation is increased

(Erhardt, Werbel, and Shrader, 2003; Zander. 1994). Similarly, Chait, Holland, and Taylor (1991) observe that more diversity in number, skills and areas of competency among BODs leads to increased capacity to solve complex problems due to the diversified views that can be harnessed. The challenge however could be that having more members on the board may lead to increased conflict as members fail to agree on some key matters. Thus diversity may either foster or hinder effectiveness of group process (Brown, 2005). Despite this, the group process theory rests on the premise that diversity and increased numbers in boards are necessary and desirable in as far as they lead to multiple and better insights and ability of boards to solve complex challenges.

The last model that will be discussed is the agency theory. The agency theory looks at the organisation of relationships between two parties when one part must arrange for work that must be accomplished by another part. To this end, members of boards are seen to play the important role of keeping management in check by controlling how the organisation is run, ensuring that they task management to take on activities that further the mission of the organisation without deviating from the core mandate given. BODs are seen as embodying the interests of the community that is served by the organisation. Thus as far as possible, it is seen as desirable to have board members who have weaker ties with management to ensure that no conflict of interests exists and that board members continue to be vigilant in monitoring activities of the management. Consequently, closer ties between members of the board and management is seen as compromising 'agency' (Brown, 2005; Green and Griesinger, 1996; Fama and Jenson, 1983).

Modes of governance at which Boards of Directors operate

There are several modes of governance that BODs may adopt in running NPOs. Chait, Ryan and Taylor (2005) note that there are three modes of governance in which boards tend to operate. The first one is the fiduciary mode; a board that operates in this mode is pre-occupied with ensuring smooth governance of the organisation. This involves dealing with matters such as stewardship of assets that belong to the organisation, ensuring management's adherence to the mission, ensuring that staff are held accountable for their work and ensuring that the organisation is run in such a way that all practices are done in accordance with the law and adherence to all legal obligations. The second domain is the strategic mode; boards that operate in this mode tend to not only focus on the necessary fiduciary responsibilities but go beyond this and contribute largely in the framing of the organisation's strategic direction. Consequently, BODs that operate in the strategic mode tend to have more influence in how an organisation is run. Lastly, boards can also operate in the generative mode. A board that operates in a generative mode not only engages itself in critical thinking about the strategic direction of the organisation but also generates innovative ideas on how the organisation can approach its work in order to increase its impact on the communities served. This mode of governance calls for inventive and transformational leadership which allows for new thinking and new practices to emerge. This contributes to vital progress in an organisation. This is an advanced level of operation which is a missing ingredient in most boards within non-profit sector organisations. Findings of the study reveal that members of boards in social enterprises tended to operate in the three different modes, though there were fewer manifestations of the generative mode of operation.

3. Methods

Study objective

This article is based on the findings of a doctoral thesis. The objective of the study from which this article is based was to examine factors critical to the success of running a social enterprise in South Africa.

Research strategy and design

The study adopted a qualitative research strategy. Qualitative studies help the researcher to obtain detailed and holistic accounts from participants pertaining to the phenomenon under study and findings from such studies tend to yield new insights (Henning, 2004). A case study research design was utilised and a total of 15 social enterprises were selected for study.

Participants

A sample of 20 participants was chosen via purposive sampling. Participants were chosen from the senior management teams within the various social enterprises selected for study. Data was collected via in-depth face to face interviews which were guided by a semi-structured interview schedule. The interviews were tape recorded by the researcher to avoid data loss that tends to occur due to memory decay and thematic content analysis was used during the analysis process.

4. Results and discussion

The findings of the study reveal that most Boards in social enterprises contribute significantly to the success of these organisations. Most participants agreed that they counted on their BODs for many things. Firstly, the BODs were found to give credibility and legitimacy to the function of social enterprises given that the social enterprise phenomenon is still relatively new within the South African non-profit sector. Secondly, the BOD was also looked upon as a critical source for access to resources given that most BODs are commonly highly ranked and networked people in society and brought social capital that social enterprises could exploit for their success. On the other hand, members of the BODs largely did pro bono work for the social enterprises and this enabled these organisations to cut huge costs that they would ordinarily have incurred in the absence of the BODs. Another factor that enabled the BODs to have such a huge impact on the success of social enterprises relates to the careful and strategic selection of the BODs. These factors are discussed in detail below.

a) The BOD provides access to resources for social enterprises

The BODs in social enterprises were seen to contribute to the unlocking of external resources for social enterprises in several ways. It was common for most organisations that participated in the study to have on their boards persons within the top

management of the companies that mainly funded their social enterprise. In a way, this is a clever 'ploy' to ensure continued support from the funder given that people on the board are also the same people who make funding decisions in their companies. It becomes common cause that an influential executive of a private company serving on the board of a social enterprise would be extra motivated to influence funding decisions in favour of the social enterprise on whose board he/she serves. On the other hand, most board members were also able to contribute a significant amount of social capital given the strong relations, ties and connections they have outside the organisation. From such social capital, a lot of financial, information and material resources that benefited social enterprises could be harnessed. This is clearly visible in the following participant's accounts. One participant argued that "o*ur board members tend to be from various business backgrounds so it allows for greater networking and access to more knowledge, opportunities and resources."* In the same vein, another participant remarked, "*I think board members have helped us as an organisation as well, [they promote our] organisation, giving our organisation professional networks for a purpose and I think that's an important element as well".*

b) The BOD does pro bono work for social enterprises

Apart from the board contributing to social capital and resources access for social enterprises, members of the board themselves also contributed a significant amount of expertise to the social enterprises that recruited them. All participants highlighted the fact that their board did work for them at no charge. Much of the work done at no charge was of such a significant value that it would have taken a lot of finances to hire external personnel. Consequently, the work that is done by most board members at no charge enables social enterprises to cut costs. In turn, such savings not only contribute to the financial health of the organisation, but the resources can also be redirected to furthering the social mission of the organisation. On the other hand, most participants also noted that the board did the strategic planning for their organisations in conjunction with top management. One can therefore argue that to some larger degree members of the board also bring with them ideas that contribute to progress in social enterprises. In this way, the boards largely contribute to the success of social enterprises in South Africa.

The claims made in the discussion above are apparent in the following participants' accounts given while commenting to the aspect of BODs in their social enterprises;

One participant noted, "*our chairman is in data management, so our whole computer networking system was put together with his help. We have somebody else in human resources, somebody else a chartered accountant, somebody else who works for an organisation called the food bank, so what he learned there, he shares with us. Then we have one of our retailers on board*". Similarly, referring to the role of board another participant asserted that "*they see that there is strategic planning, they finalise strategic planning, and they play a role in decision making in terms of strategic planning of the company. To ensure that it's going the right direction as a whole, that's the main functions I suppose and obviously it's about corporate governance its making sure that it's done properly you know".* A similar view was echoed by another participant who argued that, *"They help with strategic planning, yeah; I would say that they play an integral role".*

It is clear from the participants' accounts above that boards are a critical factor in contributing to the success of many social enterprises in South Africa. This contradicts the assertion by Taylor et al. (1999), who argued that, "too often, the board of a non-profit organisation is little more than a collection of high-powered people engaged in low-level activities." They further posit that it is not common to find BODs with effective functionality. Similar claims are made Andreasen (1999) who argues that board members are often an underutilized source of management expertise. However, looking at the findings of the study, at least as claimed by participants, the board of social enterprises in a majority of the organisations that participated in the study were largely involved and significantly contributed to the welfare and success of social enterprises.

c) The BOD is crucial for accountability, legitimacy and credibility

For most participants, one of the core functions of the board is that of giving accountability, legitimacy, and credibility to the organisation. Participants noted that, in some social enterprises, founders of social enterprises can sometimes want to run a single man show and end up abusing resources and power and the board is seen as a check and balance mechanism. Also, given that social enterprises are in essence businesses, even though the ultimate aim is to create social impact, income generation in NPOs is uncommon for some funders and there is always a hesitance to give social enterprises money so that they can in turn make more money. However, any suspicions that investors and funders may have are dispelled once they realise that the organisation has a board which is seen as being critical for accountability. This is apparent in the participants' accounts below.

Commenting on the importance of the board as a source of accountability and legitimation of their organisations, one participant argued, *"Well I think in any organisational form, having a governance mechanism is really important regardless of whether you are an NGO, private company or a social enterprise so I think it more of a question of independence of the social enterprises. In the start phase of organisations, governance is not usually one of the main priorities. But I think particularly in the social enterprise sector where there is a lot of confusion around what these organisations stand for; is it non-profit trying to do good, or is it for profit trying to make money so people often are a little bit cautious having a board of governors does tend to... give you that sense of accountability and responsibility and also depends on who is on the board but for anyone whether it's an investor or it's a donor relatively strong governance in terms of a board is really important*".

Referring to the board as a key source of accountability within social enterprise, another participant remarked, *"it's very important because it means greater accountability and transparency to make sure that the various projects, overall that they work together but also that no single individual has all the decision making power and end up going off course at some point. So it creates accountability.*" A view by a key informant affirmed the accounts given by participants above. She argued that the board is "*very important... it's critically important for the board to ensure good governance and particularly where there is no real structure that caters for social enterprises in South Africa. So, they become doubly important to have those checks through the body of directors you have control*".

These findings concur with the study by Kitzi (2002), who argued that the board is responsible for holding public trust in an organisation given its accountability function.

He further notes that the board safeguards clients and investor interests from potential abuse by management and founders of social enterprises. In South Africa, where social entrepreneurship is yet to gain mainstream acceptance within the non-profit sector, BODs become a vital mechanism that ensures that social enterprises are not viewed with suspicion mainly by funders who may be unwilling to give their money to organisations who actively raise most of their income via market driven principles.

d) Strategic selection of the BODs

One of the major contributing factors to the undoubted value that boards brought to social enterprises relates to the fact that thoughtful considerations were made before appointing people to the Board. In almost all social enterprises that participated in the study, they had carefully chosen the board to be composed of a diverse range of skills such as law, accounting, politics, and business. Such a composition of skills no doubt adds a lot of value to the organisation. In many instances, social enterprises had BODs that comprised people with expert knowledge in the field in which they specialised. Such people proved to be an invaluable resource for strategic guidance as well as providing access to the bureaucracy.

Referring to the strategic considerations given when selecting the BODs, one participant argued that *"if you look at the composition of our board, there is representation of our own strategic interests as well like the South African nurseries association, there are guys from media in South Africa, we have got a Financial Director, who has been with Forestry SA for years, and with us now for 22 years. So they are understanding, they understand farming, they understand environmental conditions in South Africa, so it's vital. And I think form the governance aspect as well, it adds to the voice of integrity*". In the same vein another participant remarked, *"the selection of board members is also key to the success of your organisation, there is no doubt about tha*t".

In view of the above, there is no doubt that the success of some social enterprises in South Africa is largely because of the support and contributions of BODs. Kitzi (2002) maintains that the board is one of the critical and indispensable resources available to executives in social enterprises. From the study, it is clear that organisations largely put their BODs to good use, which significantly improved the performance of the social enterprises. Be that as it may, one participant raised an important point that warrants attention relating to a possible creeping of complacency on the part of the BODs especially when the organisation becomes well established and is enjoying high success levels. He noted that, *"the board becomes complacent when you are successful, they do, they can become complacent because now you have got this level of success*". Such complacency can lead to potential pitfalls such as abuse of resources by employees as well as creating a situation where management within social enterprises becomes overly powerful with the board largely becoming docile thereby failing to play its accountability 'insurance' role.

5. Conclusions

This paper examined the contributions that BODs play in the success that many social enterprises in South Africa have managed to attain. Despite the prevailing notion that

BODs often play an insignificant and marginal role in the running of NPOs, the findings of this current study show that boards of some social enterprises in South Africa are playing a notable role in contributing to the successful pursuit of organisational goals in the social enterprises they serve. The presence of a board in social enterprises was seen to be important in giving credibility and legitimacy to social enterprises given that they are a relatively new typology of NPOs whose acceptance is yet to permeate mainstream thinking. Boards in social enterprises also played a prominent role in helping social enterprise to access financial and other material resources. This was mainly due to the rich social capital that board members brought with them owing to their high standing in society. Consequently, board members could easily tap into their networks to help social enterprises access resources. Founders of social enterprises also tended to recruit people with high level skills often related to their area of operation; as a result, board members would contribute their expertise at no charge to the social enterprise on whose boards they sat. This was found to help social enterprises save significant finances which they would have used to hire such skills as provided by members of the board. Moreover, how boards are composed was found to be a significant factor that contributed to the value addition by board members to social enterprises. The research findings show that careful considerations were put in place when selecting board members and potential value addition was seen as key rather than just looking at one's standing in society. To this end, how and who gets selected to sit on BODs in NPOs becomes a matter of vital importance if organisations are to realise significant contributions from board members. This, bearing that in mind, previous research has shown effective functioning board members to be a rare breed.

This study mainly confirms the assertions made by proponents of the resource mobilisation theory, such as Hillman and Dalziel, 200; Herman and Renz, 2000; or Pfeffer and Salanick, 1978, that members of boards are key resources to organisations and the major role that they play is to generate financial, material, and human capital, as well as intellectual resources that lead to the effective functioning of organisations. Thus, contrary, to the established view that effective governance by BODs is a rare occurrence (Taylor, et al. 1999), the findings of this study reveal that BODs are playing multiple and vital roles in contributing to the effective running of many social enterprises in South Africa. It must however be noted that while social enterprises are registered as NPOs, they differ markedly in their modus operandi from traditional NPOs in that they are entrepreneurially driven and operate on business principles even though there is no shareholding and profit distribution. It is therefore possible that different conclusions may be reached if a study is carried out that focuses on boards of NPOs that have not adopted social entrepreneurship principles.

This article is based on work submitted to the University of the Witwatersrand for a Doctoral thesis.

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List of acronyms

BODs	Board of Directors
NPO	Non-Profit Organisation
NGO	Non-Governmental Organisation