

Transcending False Nonprofit Governance Dilemmas

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Demands for Broadened Accountability (BA) of nonprofit organizations require that boards achieve a high level of engagement to address important issues properly (Morrison & Salipante, 2007). This paper presents the theoretical basis for boards falling short of such engagement and specifies fundamental obstacles leaders face in achieving BA. One set of especially salient obstacles is conceptualized as false governance dilemmas. Two are considered in this paper: legitimacy vs. efficiency (Di Maggio & Powell, 1983; Deephouse, 1996; Morrison & Salipante, 2006) and conflict/monitoring vs. cooperation/collaboration. Two broadly defined relational practices – integrative bargaining (Walton & McKersie, 1965) and maintenance of high-trust/high-distrust relationships (Lewicki, MacAllister, & Bies, 1998) – are presented as mechanisms for establishing robust board engagement, transcending false governance dilemmas and achieving BA. The author suggests that a nonprofit paradox perspective (Cornforth, 2004) enables the gradual development of such practices, engagement, and accountability.

Keywords: nonprofit governance, Broadened Accountability (BA), false governance dilemmas, authentic engagement, relational practices, integrated negotiations, paradox perspective

INTRODUCTION

Boards and executives of nonprofit organizations are responding to increased public stakeholder demands for Broadened Accountability (BA), where BA means going beyond the traditional rule-based forms of accountability to include the newer forms of negotiated-accountability (Morrison & Salipante, 2007). Increasingly leaders recognize a need to account for more than the explicit, objective dimensions of an organization such as finances, formal planning, HR and legal affairs (Behn, 2001; Kearns, 1996). They must also account for the more-or-less implicit, subjective dimensions such as how well the mission is attained and to what degree multiple stakeholders are included meaningfully. Demands for Broadened Accountability of nonprofit organizations require that boards achieve a high level of engagement to address important issues properly. This paper offers a theoretical basis for boards falling short of such engagement, citing as cause the presumption of two dilemmas: legitimacy vs efficiency and conflict/monitoring vs. cooperation/collaboration. Refined concepts of human relationships – particularly understandings of managerial agency and integrative bargaining and the simultaneity of trust and distrust in everyday relationships indicate the two dilemmas to be false. This paper posits a range of board practices which permit legitimacy and efficiency, and conflict/monitoring and cooperation/collaboration to be simultaneously achieved in the pursuit of Broadened Accountability. As such, the paper represents an exploration of processes involved in the paradox model of nonprofit governance (Cornforth, 2004). The ability of boards and top-level managers to identify and tackle relational problems is argued to be a prime

requisite for boards to gradually evolve practices that support a level of engagement needed to transcend false dilemmas that impede the achievement Broadened Accountability.

OVERCOMING OBSTACLES TO ACHIEVING BA: TRANSCENDING FALSE DILEMMAS

False Dilemma #1: Legitimacy vs. Efficiency

The first and perhaps most important *false dilemma* presumes that leaders face a choice between legitimacy vs. efficiency (Di Maggio & Powell, 1983; Deephouse, 1996; Morrison & Salipante, 2006), and the act of choosing one over the other erodes a board's capacity for engagement and achieving Broadened Accountability.

Neoinstitutional Theory and the Nonprofit Sector

The nonprofit sector is heavily institutionalized, with many nonprofit organizations embedded in relationships with a variety of other organizations that influence their destiny. The essence of institutional theory is that the survival of organizations is determined not only by their actual performance but also, and perhaps more strongly, by whether they are perceived by key social actors as legitimate and worthy of support. Consequently, according to the theory, organizations conform to practices that are perceived as signals of legitimacy, producing isomorphism (Di Maggio & Powell, 1983; Deephouse, 1996) – a homogeneity of practices across organizations in a particular institutionalized field.

There have been surprisingly few studies applying neoinstitutional theory to the problems of leading, managing and governing nonprofit organizations. In part, this is due to the sociological approach to institutional theory emphasizing that environmental factors determine organizational forms, providing relatively little room for discretionary action on the part of managers (Zucker, 1987). It appears that the sociological approach has dominated in the nonprofit literature. Suchman (1995), however, points out the differing approach to institutional theory taken by scholars of organizational strategy. Contrary to standard interpretations of neoinstitutional theory in the nonprofit sector, Zucker and Suchman see significant need and possibility for managerial agency – that is, for action and decision-making by organizational leaders.

The Need for Managerial Agency: Dangers in Conforming to Practices That Confer Legitimacy

Organizational legitimacy can be defined as a general perception that the organization is acting appropriately, that it is meaningful and valuable, given a set of values and beliefs prevalent in the organization's field (Suchman, 1995). As such, and in keeping with resource dependency theory (Barney, 1991), legitimacy is argued to be critical to an organization's survival when this perception is held by actors such as foundations, United Ways, and governmental units that control resources needed by the organization. These actors are in a position to coerce nonprofit organizations to adopt commonly favored practices, lest they lose their legitimacy. The legitimacy-efficiency dilemma posed above manifests itself in common but problematic understandings of best practices among nonprofit organizations, such as the efficacy of strategic planning (Mintzberg, 1994), performance metrics (Alexander, 1999), inter-organizational collaboration, and policy governance. Key social actors treat these practices, and others, as indicators of an organization's legitimacy and can withhold resources from organizations that fail to display the practices. In addition to coercion, DiMaggio and Powell (1983) note two other sources of prescriptive pressure. One is that professions create normative expectations that their members will utilize accepted practices, a phenomenon heightened in the nonprofit sector by the professionalizing of nonprofit management. The second is mimicry, whereby organizational leaders attempting to cope with uncertainty mimic the actions taken by other organizations.

If the organizational structures and processes that are transmitted through coercive, normative and mimetic forces were truly effective in producing organizational performance, there would seem to be no dilemma for nonprofit organizations. However, the use of nonprofit board and management practices widely perceived as correct have been found to be largely unrelated to organizational effectiveness (Herman & Renz, 2004). Indeed, Meyer & Rowan (1977) have argued that any organizational attention to externally mandated ways of functioning is, *per se*, organizationally inefficient, in part due to the displacing of goals

(Selznick, 1949) and deflecting of resources. In addition, there are problems due to imperfections in the prescribed practices. A fundamental problem is that the value of an innovative practice is often over-estimated by its innovators and first proponents, with more realistic assessments of its value coming only after many years have passed and the practice has become taken-for-granted as effective. Such practices merit labels of myth and ceremony (Meyer & Rowan, 1977). They take on symbolic value among leaders in organizational circles as indicators of competent practice. Perhaps the most important long-term problem is that the loss of diversity in the case of extreme rigidification of an institutional field results in diminished societal capacity to respond to future unknown contingencies (Scott & Meyer, 1994). This diminished capacity is especially poignant in the nonprofit sector where many missions are aimed at solving critical social problems that emerge from the unique conditions of a particular time and place, conditions that are difficult to foresee and may require novel organizational forms and practices.

Balancing the Neo-institutional Dilemma: A Strategic Management Perspective & Integrative Bargaining

The strategic management literature presumes that organizational leaders can choose from a range of actions in responding to external pressures and, hence, to the legitimacy-efficiency dilemma. One option for protecting organizational efficiency is *decoupling* (Meyer & Rowan, 1977; Zucker, 1987; Weick, 1976), shielding internal activities that lie at the organization's technical core (Thompson, 1967) from activities involving external institutional actors. Decoupling can involve practices of concealing and buffering, noted in Christine Oliver's (1991) typology of managerial responses as *avoidance*. This response falls at a mid-point of possible responses that run from low to high managerial agency. Those that reflect low agency are *acquiescence*, with managers imitating and complying, and *compromise*, with managers balancing and compromising between external and internal demands. More proactive managerial responses involve *escape* from the field's pressures and *manipulation*, which can be achieved through co-opting or influencing external factors, such as creating new actors or legitimizing alternative beliefs (Suchman, 1995). Associated ways for managers to manipulate proactively their institutional environments include lobbying, restricting sanctioned membership in the organization's field to an elite group, and creating standards for the field (Bresser & Millonig, 2003).

Typologies of responses that are based on low vs. high agency implicitly assume that an organization's managers must trade off compliance with environmental pressures against self-directed activities. However, the concept of integrative bargaining (Walton & McKersie, 1965) suggests otherwise. One party in a negotiation with others can pursue its own interests strongly while simultaneously attending to the interests of the other parties (Thomas, 1967). By doing so, it can move beyond compromise to a joint maximization process that frames the bargaining as collaborative problem solving capable of satisfying its own needs and those of other stakeholders. Similarly, organizations can simultaneously achieve both resource-based efficiency advantages and institutionally based legitimacy advantages by developing, respectively, their *resource* and *institutional capital* (Bresser & Millonig, 2003).

False Dilemma #2: Conflict and Monitoring vs. Cooperation and Collaboration

A second key dilemma pits conflict and monitoring against cooperation and collaboration. Board member and executive leaders often falsely perceive a governance environment split between conflict and monitoring on one hand and cooperation and collaboration on the other. This bifurcated world undermines achievement of accountability and engagement.

From One Dimensional Theories of Nonprofit Governance to a Paradox Perspective

Morgan (1986) argues that many of the leading theories that strive to explain organizational phenomena fail to encompass the full range of complex factors that make up the lived-lives of real actors within actual contexts. Complex, multi-factor organizational dynamics require multi-perspective approaches to manage inevitable ambiguities, dilemmas and tensions. Moreover, as Cornforth (2004) points out, leaders and scholars have recognized for some time that important problems often require shifting from linear to recursive thinking, from simple *either/or* choices to *yes/and* explorations of tensions and differences. This

line of thinking is applied to organizational governance in the nonprofit sector, especially when leaders confront three key operational tensions:

- “The tension between board members acting as representatives for particular stakeholder groups and ‘experts’ charged with driving the performance of the organization forward;
- The tension between the board roles of driving forward organizational performance and ensuring conformance i.e., that the organization behaves in an accountable and prudent manner; and,
- The tension between the contrasting board roles of controlling and supporting management.”
(p.13)

These three tensions can be subsumed into a single category. Generally, leaders may commonly perceive these tensions as two horns of a single dilemma with conflict and monitoring on one tip and collaboration and cooperation on the other. Choosing one or the other may often seem to be the only way off the hook. Leaders may not perceive transcending this dilemma as an option.

Cornforth (2004) goes on to highlight several competing, well-established, one-dimensional theories or paradigms of governance including agency theory, stakeholder theory, stewardship theory, resource dependency theory, and managerial hegemony theory. Each of these models tends to drive leaders to choose one horn of the dilemma over the other closing off pathways to engaging with both dimensions simultaneously. Lewis (2000) discusses how taking a multi perspective approach serves as a “sensitizing device” to the tensions between opposing models in respect to how each resolves key operational tensions. Different theories of governance produce different definitions of the role of the board and consequently lead to different unitary choices for how to resolve one or other of the key dilemmas. For example, agency theory naturally pushes leaders toward oppositional posturing and instrumental monitoring of agent/executives in favor of optimizing owners’ interests. On the other hand, the partnership model favors cross-role collaboration and cooperation to optimize effectiveness at overall mission attainment often at the expense of efficient monitoring and auditing of agent/executive management. Cornforth suggests that a multi-paradigm “paradox approach” that is informed by the multiple aforementioned theoretical perspectives can lead to a new synthesized conceptual framework of nonprofit governance – one that may possess the utility and power to manage the key tensions holistically rather than choosing one dimension over the other.

Establishing a Paradox Perspective Through Simultaneous Trust and Distrust

Lewicki (1998) and Luhmann (1979) reframe a unitary concept of trust and distrust in a way that moves these concepts from a single continuum to two separate but linked ones. A traditional view of trust, distrust and relationships based on unidimensional thinking, balance, consistency and stasis is being replaced by a new one that embraces multidimensionality and paradox. Within the new view, it is not only possible but in some cases preferable, for parties to both trust and distrust one another – both monitor and cooperate – given different experiences within the various distinct facets of complex multidimensional relationships. The possibility of possessing a dual capacity to embrace trust *and* distrust simultaneously suggests that leaders may be able to transcend the dilemma of conflict and monitoring vs. cooperation and collaboration.

Lewicki (1998) defines trust as “confident positive expectations regarding another’s conduct” and distrust as “confident negative expectations regarding another’s conduct.” Both concepts involve striving for certainty – in the case of trust, towards realizing one’s hopes; and in the case of distrust, away from realizing one’s fears. The traditional view of relationships places one’s efforts to maximize hopes through trusting and to minimize fears through distrusting on a *single continuum*. It is as if hope/trust and fear/distrust are different faces of a single coin, and that only one face may present at any given moment. Furthermore, the face of trust is always “good” while the face of distrust is always “bad.” A final assumption of the traditional view is that trust, distrust and relationships are *unidimensional*. To extend the coin metaphor, it is as if one may possess only a single coin, and that single coin carries the totality of the trust *or* distrust value for an entire relationship. Beyond the assumption that trust and distrust represent good and bad parts of a single item within unidimensional relationships, the traditional view emphasizes the emergence and maintenance of *balance* and *consistency*. Psychological imbalance and inconsistency in

respect to being ambivalent about trusting and distrusting is a negative condition. Individual as well as collective “liking” and “disliking”, “trusting” and “distrusting” naturally should resolve to a single, stable point that is distinctly good or bad, trusting or distrusting. The traditional view of trust, distrust and relationships conjures the image of a solitary coin spinning until it settles in a more or less fixed state to display one unambiguous face or another - thus offering the actor certainty, stability and direction *either* to maximize hopes through trusting *or* to minimize fears through distrusting. According to the old view of relationships, to trust or to distrust seems to come down to a coin toss.

Lewicki (1998) makes the case for a new view of trust and distrust that takes into account the complexity, uncertainty, plasticity, and paradox of human relationships. He draws on Luhmann’s (1979) articulation of trust and distrust as functional equivalents but separate constructs. Both serve to reduce social complexity and uncertainty for rational actors – but each does so using different means. In the case of trust, uncertainty is reduced because possible undesirable conduct need not be considered while desirable conduct is considered certain. The opposite is true for distrust. Both trust and distrust simplify the world by focusing and narrowing expectations for *either* beneficial *or* negative conduct from the other.

Lewicki’s formulation emphasizes that trust and distrust exist as two separate dimensions and:

For each dimension a quasi-stationary equilibrium of forces, composed of facets and bands within bandwidth, sustains trust or distrust at specific levels. As specific facets in the relationship change (through dialogue, interaction, joint decision making, common experience, and so on), these changes tend to move the operational level of trust and distrust upward or downward (p.455).

A two-dimensional framework is built around these assumptions with trust on the vertical axis and distrust on the horizontal axis. Both dimensions are characterized as high or low. The framework produces four prototypical relationship conditions: (1) low trust/low distrust, (2) high trust/low distrust, (3) low trust/high distrust, and (4) high trust/high distrust. Each condition is characterized by distinct relationship opportunities and challenges. For example, in *high trust/low distrust* (quadrant 3) relationships – the one that seems ideal from a traditional perspective – actors have high confidence in each other and no reason to suspect each other. Opportunities abound and partners readily pursue common aims. Many positive experiences aggregate and solidify through reinforcing feedback loops. Interdependence expands and widens. Appreciation, support and encouragement flourish. The trusting party is likely to identify with the values of the trusted creating intimacy, social capital, shared risk taking and innovation. Parties are vigilant at interceding to restore trust when it is threatened. However, significant challenges emerge directly from these opportunities. All too often evidence of bad behavior and ill intent is judged suspect or rationalized away. Real threats are minimized or ignored in the name of preserving trust, which cuts off natural, useful, and necessary emergence of distrust. The capacity to address inevitable threats is diminished. Contrary to what might be expected and welcomed by one who holds a traditional view of trust and distrust, the potential for organizational dysfunction is significant when conditions are characterized by high trust/low distrust. Organizational complexity, role conflict, ambiguity, and the existence of greed and fear in human nature dictate that low distrust is a risky condition especially when paired with high trust. High trust/low distrust conditions inure actors to real threats especially from close partners. Lewicki suggests that the argument concerning the “strength of weak ties” (Granovetter, 1973) is instructive here. Granovetter notes that as the strength of relational ties ease, the possibility to establish and grow operational trust *and* distrust rises.

Unlike the condition of high trust/low distrust, the condition of *high trust/high distrust* – the condition that seems ideal from a nontraditional multi-paradigm paradox perspective – produces opportunities for success in managing, coordinating, and governing complex organizations. Relationship partners may trust each other in certain respects and not trust each other in other respects. They may even distrust each other in yet other respects. A multifaceted approach to trust and distrust represents a chosen strategy for minimizing expected undesired conduct and leveraging expected desired conduct. For example, in the case of nonprofit governance, trust (e.g., hope, faith, confidence, assurance, initiative) may define the facets of a relationship that effectively address issues of mission-based effectiveness and innovation, while distrust

(fear, skepticism, cynicism, watchfulness, vigilance) may define the facets of the same relationship that effectively address issues of resource efficiency, budgeting, auditing, etc.

Table 1 represents Lewicki, McAllister and Bies’s integration of trust and distrust, and this author’s interpretation of traditional vs. paradox perspectives. Each quadrant is assigned a name that is intended to describe its nature. Quadrant 1, *Passivity*, represent Low Trust/Low Distrust. Quadrant 2, *Pollyanna*, represents high trust/low distrust. Quadrant 3, *Terror*, represents low trust/high distrust. Finally, Quadrant 4, *Trust but Verify*, represents high trust/ high distrust. Most telling is a comparison and contrast of the quadrants in respect to traditional and paradox perspectives. In this paper’s interpretation the *Pollyanna* and *Trust but Verify* quadrants are in clear contradiction in respect to what is desirable and undesirable in trust/distrust relationships, while the *Passivity* and *Terror* quadrants are aligned.

TABLE 1
INTEGRATING TRUST AND DISTRUST:
ALTERNATIVE SOCIAL REALITIES AND PERSPECTIVES

<p>High Trust</p> <p>Characterized by Hope Faith Confidence Assurance Initiative</p>	<p><u>Pollyanna</u></p> <ul style="list-style-type: none"> • Ideal/Highly Functional from a Traditional Perspective • High Risk /Undesirable/ Dysfunctional from a Paradox Perspective <p style="text-align: right;">2</p>	<p><u>Trust but Verify</u></p> <ul style="list-style-type: none"> • Ideal/Highly functional from a Paradox Perspective. • High Risk /Undesirable/ Dysfunctional from a Traditional Perspective <p style="text-align: right;">4</p>
<p>Low Trust</p> <p>Characterized by No hope No faith No confidence Passivity Hesitancy</p>	<p><u>Passivity</u></p> <ul style="list-style-type: none"> • High Risk /Undesirable/ Dysfunctional from Both Perspectives <p style="text-align: right;">1</p>	<p><u>Terror</u></p> <ul style="list-style-type: none"> • High Risk /Undesirable/ Dysfunctional from Both Perspectives <p style="text-align: right;">3</p>
	<p>Low Distrust</p> <p>Characterized by No fear Absence of skepticism Low monitoring No vigilance</p>	<p>High Distrust</p> <p>Characterized by Fear Skepticism Cynicism Wariness Vigilance</p>

*From (Lewicki, MacAllister, & Bies, 1998, p.45)

Designing, establishing and sustaining the condition of high trust/high distrust (the *Trust but Verify* quadrant in Table 1) may represent one path for nonprofit leaders to transcend the false dilemma of conflict and monitoring vs. cooperation and collaboration.

CONCLUSION

The concepts described in this paper throw light on how leaders can go beyond balancing false dilemmas to transcend them. In the case of the legitimacy vs. efficiency dilemma, leaders may engage in actions that respond simultaneously to external expectations *and* demands for organizational effectiveness through relational practices such as *integrated negotiation*. In the case of the conflict/monitoring vs cooperation/collaboration dilemma, leaders may engage in actions that manage relationships that are trusting in some facets *and* distrusting in others.

This paper represents an emerging perspective on how nonprofit boards can achieve authentic engagement to achieve broadened accountability, meaningful commitment and bold decision making. This paper offers an initial description of potential pathways to establishing a multi-perspective “paradox approach” by overcoming fundamental obstacles through radically reframing each. Fundamental to each of the reframing processes is the need for board member and executive leaders to establish and maintain unique and ever evolving relational practices between and among each other. In the case of the false dilemmas of *legitimacy vs. efficiency* as well as *conflict and monitoring vs. cooperation and collaboration*, it is possible to transcend an either/or proposition by reframing the classic view of governance from one based on roles, responsibilities and structures to one based on social competence (Bresser & Millonig, 2003; Deephouse, 1996; Di Maggio & Powell, 1983; Suchman, 1995).

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