

The Role of Governance in the Sustainability of Non-profit Organisations and Companies in South Africa

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Declaration

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Abstract

This research seeks to examine the relationship between governance and the sustainability of non-profit organisations and companies. It argues that good governance is the overarching internal factor within an organisation that influences its long-term sustainability. This research expands this argument further by identifying six main principles of governance and showing by means of a case study how their application (or lack thereof) affected the organisation. It argues that good governance practice is not a luxury for well-established non-profit companies that are required to comply with their registration requirements, but that good governance can be and should be practised by all organisations including small voluntary associations if they wish to become sustainable. It concludes with a discussion of the findings from the case study and practical recommendations for non-profit organisations and companies in South Africa that are struggling to achieve long-term sustainability.

Opsomming

My navorsing poog om die verhouding tussen bestuur en die volhoubaarheid van nie-winsgewende organisasies en maatskappye te bepaal. Ek argumenteer dat goeie bestuur meer is as 'n oorkoepelende interne faktor in 'n organisasie wat 'n impak het op sy langtermynvolhoubaarheid. My navorsing brei hierdie argument verder uit deur die identifisering van ses vernaamste beginsels van bestuur en wys, deur middel van 'n gevallestudie, hoe hul implimentering (of die gebrek daarvan) die organisasie beïnvloed het. Ek argumenteer dat goeie bestuur praktyk nie net 'n luuksheid is vir goed gevestigde nie-winsgewende maatskappye wat bloot moet voldoen aan net hul registrasievereistes nie; maar dat die goeie bestuurs praktyk kan en moet toegepas word deur alle organisasies, insluitende klein vrywillige verenigings as hulle volhoubaar wil word. Ek sluit af met 'n bespreking van die bevindings van die gevallestudie en praktiese aanbevelings vir nie-winsgewende organisasies en maatskappye in Suid-Afrika wat sukkel om langtermynvolhoubaarheid te bereik.

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Chapter 1 – Research Motivation

1.1 Introduction

Skillshare International, a volunteer and development organisation, partners with various non-profit organisations (NPOs) and non-profit companies (NPCs) in Africa and Asia to implement numerous community projects. In 2013 Skillshare International conducted a baseline study to assess five of its partner organisations based in Cape Town, South Africa, namely ABC for Life, Bread of Life, Making an Impact through Sports, Orion Organisation and Streetwise Sports. The research sought to answer the question: “What is the status of governance in Skillshare SA’s partner organisations?” (Skillshare International, 2013:6). The study found that although four of Skillshare International’s five partner organisations are registered with the Department of Social Development (DSD), most are not compliant. Even those organisations that submit narrative summaries and financial reports do not necessarily adhere to sound accounting and financial reporting standards. It was noted that one organisation that was more financially stable than the others, was registered and compliant with the Department of Social Development and the South African Revenue Services, and had sound administrative systems. The study found that this same organisation had been operating for more than 20 years.

This raises the question: What is it about this organisation that sets it apart from the rest and ensures its long-term sustainability where others fail? Is it its status of registration, its compliance with the Department of Social Development requirements, its good accounting and administrative systems, or is it all the above? According to the Department of Social Development, “The principles and practices that make up good governance are key to the effectiveness, success and long-term sustainability of non-profit organisations. Good governance is an integral part of the overall management process of an organisation, covering finance, administration, programme implementation, monitoring and evaluation, human resources and communications, and is therefore high on the agenda in all sectors, public, private and non-profit” (Department of Social Development, 2009:42). It would appear from the above quote that good governance practices filter into every aspect of an organisation and therefore influence the long-term sustainability of an organisation. The Department of Social

Development states that “**the principles and practices that make up good governance are key to the effectiveness, success and long-term sustainability of non-profit organisations**” (Department of Social Development, 2009:42). This research will investigate the validity of this statement. However, the limited scope and time allocated for this research mean that the investigation will not be focusing on ‘effectiveness’ and ‘success’, but will rather focus on the ‘role of governance in **‘long-term sustainability’** of non-profit organisations. What are these principles and practices of good governance and how do they impact on the sustainability of NPOs?

A literature review of the legal framework and policies around governance will be conducted to form a basis for the research. This will involve drawing material from the NPO sector in South Africa and looking at how NPOs/NPCs have applied the principles of governance within their organisations. The review discusses selected conceptual issues of governance, namely authority, accountability, stewardship, leadership, direction and control. It will also include a study of the legal requirements for registering a non-profit organisation or a non-profit company, as well as the advantages and challenges pertaining to each type of registration. Suitable data analysis and research methods that best meet the requirements of this study will be investigated.

Having introduced the topic of study and motivation for embarking on this research, the chapter will now clarify the problem statement and outline the focus areas of each chapter. The following section provides the background of the study and the relevance of this research in South Africa’s socio-economic landscape.

1.2 Background

In 1994 South Africa held its first democratic elections, resulting in the transition from an oppressive apartheid regime to black majority rule. An unfortunate legacy of the apartheid era was an uneven distribution of wealth with the majority of the black population living under the poverty line as a consequence of the policies followed by the ruling government from 1948 and 1994. “South Africa today remains a country with a sharp dual reality, with a Gini index of inequality of 63.1, among the highest in the world. Half the population live below the \$2-a-day poverty line, while 20% of South Africans control 70% of the country’s wealth” (Besharati, 2013:12). Despite the huge

strides the government has made over the last 20 years of democracy with policies such as the Black Economic Empowerment programme, the gap between the rich and the poor in South Africa is still very significant and widening. South Africa has a significantly high unemployment rate of 26.40 percent, which is linked to high levels of crime and poverty (Statistics South Africa, 2015). “Unemployment is probably the most severe problem South African society is experiencing and it is conceivably the root cause of many other problems, such as high crime rates, violence, abject poverty. ... Prominent leaders in and outside government have also stated that no government will be able to govern South Africa ... if this problem is not addressed effectively” (Baker 1992:17, cited in Bangane 1999:8).

In the Western Cape, where this research was conducted, the City of Cape Town has recognised the numerous socio-economic issues facing the region. Though Cape Town is one of South Africa’s affluent cities with world-famous beaches, wine estates and expensive real estate housing for some of South Africa’s super rich¹ (BusinessTech, 2016), it is also recorded as having one of the highest gang-related crime rates, especially in areas such as the Cape Flats area and its townships are riddled with poverty, crime and high levels of unemployment. Some of these social ills can be traced back to the apartheid era, and may also partly be attributed to rural-urban migration which has spiked in recent years (Cornwell & Inder, 2004:17). A more detailed discussion of the reasons these issues have arisen lies beyond the scope of this study. The City of Cape Town identified three main social ills as prevalent in the region: crime, unemployment and poverty (City of Cape Town - Economic Development, 2015:3). The Economic Development report issued by the City of Cape Town stated that:

Substance abuse (drugs and alcohol) is a major contributor, accounting for more than a third (35%) of the causes of crime in the Western Cape Province. The drug of choice in the Western Cape continues to be crystal methamphetamine, commonly known as TIK, followed by dagga and heroin. More than three quarters (79%) of drug users are in their teens. Over the past decade, the Western Cape has consistently contributed more than a third to the national drug-related crime (City of Cape Town - Economic Development, 2015:12).

¹ “Super-rich” refers to multi-millionaires – individuals with net assets of US\$10 million (R120 million) or more. (BusinessTech, 2016)

This survey shows a direct link in unemployment contributing to the high levels of crime and poverty; 19% of the responses claimed unemployment as the main cause of crime and 14% stated it providing the motivation for crime. The results of a focus group discussion confirmed that the view that unemployment, lack of stimulation, loitering and boredom contribute to crime in the Western Cape, particularly amongst the youth. Poverty is linked to the socio-economic circumstances of some perpetrators, communities and their sense of relative deprivation regarding access to basic needs (City of Cape Town - Economic Development, 2015). These factors are all interconnected; one neat intervention will not solve the problems – the solutions required are multi-layered and interconnected.

In an attempt to address the social issues mentioned above and give the majority of South Africans access to basic services to meet their needs, the government has realised that it cannot solve all of South Africa's problems alone but needs the collaborative effort of all sectors of society: public, private non-profit and private for profit. As Liesel Lombaard, the Chief Director of the public private partnership unit of the Gauteng treasury, puts it: "It is through partnerships that public and private sectors can both achieve their goals to the benefit of everyone in the province" (*Mail and Guardian*, 2012). These are not just the government's problems – they are South Africa's problems and ours to solve as a people.

The government's decision to work in partnership with the non-profit sector was also a result of recognising the huge role this sector plays in South Africa's economy. "[The] NPO sector in South Africa was worth R13.2 billion in 1998, including cash and in-kind payments. The volunteer labour contributed R5.1 billion, the private sector R3.5 billion and self-generated income contributed R4.6 billion to GDP. According to the Johns Hopkins survey (1999), the non-profit sector employed 645 316 full-time workers (of which about 50% are volunteers). Total employment in the non-profit sector in 1999 exceeded the number of employees in many major economic sectors" (Swilling and Russell 2002:16, cited in Department of Social Development, 2009:26). Whether they do paid work or voluntary work, NPOs provide much needed employment and a means of breaking the cycle of poverty in which many South Africans are still trapped. These statistics alone show how significant the non-profit sector

is and how crucial it is for the government to work in collaboration with non-profit organisations and companies.

Within the non-profit sector we find community-based organisations (CBOs), which are defined later in this chapter. They are in a unique position as they are normally comprised of people from the very community in which they are working, putting them in direct reach of the poorest in our society, with first-hand experience of the social issues and critical problems in their geographical areas. The government has come to recognise the value that CBOs add and are beginning to recognise them as partners in meeting community needs. Marcus Coetzee, who wrote an article for the Corporate Social Investment 2006 handbook, states on his professional website that CBOs are key development partners for government, international/national non-governmental organisations. He states that being embedded in the communities they serve, they offer unique developmental insights and opportunities because they have a direct link with the ‘poorest of the poor’ and are in a better position to understand the critical priority development areas. Coetzee suggests that CBOs can be key development partners for NGOs and government in effectively facilitating and mobilising local participation in the development agenda (Coetzee, 2016). Hence the relevance of the five organisations mentioned earlier in this chapter in the research conducted by Skillshare International.

All five of the organisations mentioned above play a crucial role in their communities, engaging with youth through sport and various initiatives to get them off the streets and thus prevent them from getting involved in crime and substance abuse (Skillshare International, 2013:5). CBOs such as these are often formed as a result of community members taking matters into their own hands and seeking ways to address the havoc that drugs and crime causes in their communities. These organisations exist to assist communities cope with such social ills and provide an alternative lifestyle to that of drugs and crime that so many young people find themselves involved in. However, as was highlighted earlier, many of these organisations fail to achieve long-term sustainability as shown in the study done by Skillshare, where only one out of five organisations were found to be sustainable. Hence the critical question of this study: What do these organisations need to know and do to become sustainable? Are good governance principles and practices the answer?

In summary, this chapter has looked briefly at the very recent history of South Africa and the socio-economic challenges that the country faces which can be partly attributed to the legacy of apartheid. It then proceeded to discuss the significance of the NPO sector and the need for collaborative efforts from all sectors of society – public, private for profit and private non-profit – in seeking solutions to tackle some of these issues. NPOs and CBOs were identified as playing a crucial role in this collaboration as they are embedded in the very society they seek to help. The sustainability of these organisations is therefore important and the main focus of this research. The next section will clarify the problem statement, discuss the research design and tools selected for the purposes of this research, and outline the key concepts that will be used throughout this study.

1.3 The Problem Statement

Against the above background, this section seeks to clarify the problem investigated in this research. In section one it was stated by the Department of Social Development that “the principles and practices that make up good governance are key to the ... long-term sustainability of non-profit organisations” (Department of Social Development, 2009:42). This research seeks to investigate the validity of this statement: firstly, what are the principles and practices that make up good governance, and secondly the role they have in the long-term sustainability of non-profit organisations?

For the purpose of understanding the problem statement we will briefly define the term ‘governance’ here, though it will be defined in more detail later in this chapter. Governance is defined as “the process by which organizations are directed, controlled and held to account. This implies that ... governance encompasses the authority, accountability, stewardship, leadership, direction and control exercised in the process of managing organizations” (Mulili & Wong, 2011:14). Six aspects are highlighted in this definition as principles and practices that make up good governance; authority, accountability, stewardship, leadership, direction and control. The role these six aspects play in the long-term sustainability of an organisation will be discussed in greater detail in this research. If the statement from the DSD is indeed valid, with all other factors remaining equal, an NPO that implements the following principles and practices of

good governance by exercising its authority, accountability, stewardship, leadership, direction and control is likely to achieve long-term sustainability.

This research investigates the impact that governance has on the long-term sustainability of non-profit organisations (NPOs) and non-profit companies (NPCs). The researcher does not assume that external factors do not influence the sustainability of non-profit organisations, nor is it assumed that governance is the only internal factor influencing the sustainability of an organisation. The researcher acknowledges that political, social, economic and environmental factors have a role in the long-term sustainability of NPOs; however, for the purposes of this study the research will focus only on the six governance principles and practices stated above. While acknowledging the existence of numerous internal and external factors that have a role in an organisation, the researcher seeks to investigate how governance appears to be the overarching factor that has a significant role in the long-term sustainability of non-profit organisations and non-profit companies.

1.4 Objectives of the Study

As mentioned above, there are numerous factors that have a role in the long-term sustainability of an NPO. This research, however, has selected six aspects that will be investigated to determine the role they play in the long-term sustainability of non-profit organisations and non-profit companies.

The objectives of the study are:

- To define and explore the principles and practices that make up good governance;
- To investigate how the selected governance principles, influence a specific community-based organisation;
- To show the relationship between governance and the sustainability of non-profit organisations and companies.

Having outlined the problem statement of this research and its objectives, the next section will now look at the research design and the reason the researcher has selected this approach.

1.5 The Research Design and Methods

As discussed in the preceding sections, the purpose of this research is to investigate the role of governance in the long-term sustainability of non-profit organisations and companies. This involves investigating human interactions and actions, and hence a more investigative qualitative approach is required.

1.5.1 Methodology

The research methodology used in this study will therefore be qualitative methodology in the form of a case study. Governance is the independent variable and sustainability the dependable variable within a case study of a non-profit organization. The unit of analysis is Orion Organisation, a non-profit organisation in South Africa, while the study will be exploratory to allow for in-depth analysis and a more investigative approach.

“Qualitative methods provide the context against which to more fully understand those results. They capture what people have to say in their own words and describe their experiences in depth. Qualitative data provides the texture of real life in its many variations; it gives insight into the reasoning and feelings that motivate people to take action” (AIMS/Management Systems International, 2000:1). Qualitative research methods will allow the researcher to ‘dig below the surface’ and investigate how a theoretical concept such as governance influences behaviour and processes, thus impacting on the sustainability of an organisation.

A case study research approach was selected because it provides a practical example of how the policies and theoretical framework of governance are applied within an organisation, an approach supported by Brown: “Case study research has contributed a great deal to researchers’ knowledge of organisational culture” (Brown, 2008:2). Analysis of the information gathered from the case study will provide a deeper understanding of how governance is applied and how it impacts on the selected organisation’s sustainability. Brown states that this type of research “cannot be done through armchair research but only through intimate contact with daily institutional life. ... By departing from traditional lines of inquiry, our exploration of these ... institutions allow us to attempt a multifaceted interpretation of organizational life” (Brown,

2008:2). Case studies allow the in-depth analysis of a specific aspect or situation that other approaches don't.

In earlier work Merriam stated that, “the case study does not claim any specific data-collection methods, but focuses on holistic description and explanation. Within this focus the case study can be further described as ... heuristic” (Merriam,1998:29). Merriam defines a heuristic case study as one “able to shed light on the phenomenon, allowing the reader to extend their experience, discover new meaning, or confirm what is known. It explains the reasons for a problem, the background of the situation, what happened, and why” (Brown, 2008:3). This holistic approach is what is required in this research; the case study of the selected organisation aims to achieve exactly that – it looks the history of the organisation, where it is now, how it got there, and how governance principles and practices were applied throughout the organisation's life to date. The researcher will therefore be in an informed position to show how similar applications of the relevant principles will yield similar results though the organisations may differ. “The purpose of case study is not to represent the world, but to represent the case ... the utility of case research to practitioners and policy makers is in its extension of experience” (Stake 1998, cited in Brown 2008:7).

1.5.2 Data Collection and Sampling

Various forms of data collection will be used to verify information gathered from one source with the other, to eliminate bias. Semi – structured questionnaires administered via face – to – face interviews will be used with senior management, key staff members and a donor organisation. Participants for the interviews were purposefully selected according to the criteria specified below;

- Does the interviewee provide insight into the governance practises of the organisation?
- Do the interviewees represent varied sectors of the organisation such that they provide a balanced view in answering the research question?
- Does the interviewee provide a unique perspective that would not merely duplicate information from other interviews?

Based on these parameters the subjects selected for the interview were;

- current CEO of Orion Organisation

- former CEO of Orion Organisation
- Finance, Administration and HR Manager
- Funding Development and Marketing Manager
- Services & Social Worker Manager
- Grant and Finance Officer from a donor organisation, Skillshare International.

In addition to the above interviews, desk top research of the organisation will be conducted in-order to collect information of the organisation's track record and gather information that one can only derive from an external source such as newspaper and media reports and internet sources. The researcher will also assess the organisation's records, annual financial reports, programme narrative reports and policy documents to collaborate information gathered from the interviews. Lastly a Governance Self-assessment Checklist and a Governance Quick Check will be administered to assess Orion Organisation's board.

1.5.3 Data Analysis

Miles and Huberman's (1994) approach to code data according to key themes will be used to categorise data according to the six principle on governance identified from the literature survey. This approach was selected because it allows the researcher to approach the data with themes of analysis in mind for the purposes of coding and categorizing "bits of data". The themes will help the researcher to establish what aspects to focus on and ensure that the data collected remains relevant to the purpose of answering the research question.

In conclusion, case study methodology offers a strong strategy for conducting qualitative research: "case studies are useful in the study of human affairs because they are down-to-earth and attention-holding" (Stake 1998:19, cited in Brown 2008:6). They are a useful tool in relaying to readers in practical and easy to understand ways how a certain phenomenon or concept relates to them. They connect what goes on in the setting (case study) to the broader context (Brown 2008:6). They provide an ideal platform for qualitative research.

While the literature review provides the ideological framework, concepts and theories that form the non-empirical basis upon which the study will be conducted, the case study will provide an in-depth analysis of the practical application of governance principles in a specific organisation and the role that those policies and practices have played in its sustainability. The findings from this case study will be compared to similar organisations in the non-profit sector to draw similarities and differences that will provide insight to the impact governance has on NPOs and NPCs. The next section will define the key concepts that will be used throughout this research.

1.6 Key Concepts

In this section, we will be defining key terms that will be used in this study and discussing their application in the context of this research. We will look at the definition of the non-profit sector and the types of organisations that form part of the sector. The section will conclude by briefly discussing governance and the concept of sustainability as it pertains to non-profit organisations and companies.

1.6.1 Definition of Non-Profit Sector

The Consultation Draft for an International Framework, 2013 uses the objectives of the public sector to define the non-profit sector: “generally, the main objective of public sector entities is to achieve outcomes – enhancing or maintaining the well-being of citizens – rather than generating profits.” (International Federation of Accountants (IFAC), 2013:6).

However, the definition that will be used for the purposes of this research is the one from the Department of Social Development (DSD), which defines the non-profit sector as “The sphere of organisations and/or associations of organisations located between the family, the state, the government of the day, and the prevailing economic system, in which people with common interests associate voluntarily. Amongst these organisations, they may have common, competing, or conflicting values and interests” (Department of Social Development, 2009:9). This definition highlights the fact that organisations within this sector are formed by people who voluntarily associate themselves with it on the basis of common interests. These various types of organisations are discussed below.

1.6.2 Types Organisations within the Non-Profit Sector

The non-profit sector encompasses various organisations such as community-based organisations (which are also known as voluntary associations), non-profit organisations, non-profit companies and non-governmental organisations. We shall begin the next section by discussing community-based organisations.

a) Definition of a Community-Based Organisations (CBO)/ Voluntary Association (VA)

Community-based organisations, also referred to as voluntary associations, operate within the non-profit sector are defined as “public or private nonprofit (including a church or religious entity) that is representative of a community or a significant segment of a community, and is engaged in meeting human, educational, environmental, or public safety community needs.” (National Network of Libraries of Medicine, n.d.) The main characteristic of a community based organisation is that it is formed to serve a group of people or a community with common interests. A CBO or VA is created by entering into an agreement with three or more people to form an organisation in pursuit of a common non-profit objective.

A number of community-based organisations operate informally without formal registration with any government bodies. The disadvantages of operating without formal registration will be discussed later in this study. For those CBOs that choose to be registered, there are various registration options that they can select. Each option has different requirements and its own advantages and disadvantages. This research limits itself to the discussion of community-based organisations that are registered as a non-profit organisation (NPO) or a non-profit company (NPC).

b) Definition of Non-Profit Organisation (NPO)

According to the Working Group on an independent code for NPOs in South Africa, the primary difference of purpose between an NPO and a private company is that an NPO exists solely to serve the common good and promote a public benefit, rather than to achieve individual profit or advance self-interest (Working Group, 2012). Although accurate, this definition is over-simplified. Anheier’s definition offers a more detailed explanation of an NPO:

Organised, i.e. possessing some institutional reality, which separates the organisation from informal entities such as families, gatherings or movements;
 Private, i.e., institutionally separate from government, which sets the entity apart from the public sector;
 Non-profit-distributing, i.e., not returning any profits generated to owners or equivalents, which distinguishes non-profits from businesses;
 Self-governing, i.e., equipped to control their own activities which identifies those that are de jure units of other organisations; and
 Voluntary, i.e., being non-compulsory in nature and with some degree of voluntary input in either the agency's activities or management (Anheier, 2000:2).

Summarising Anheier's definition, NPOs are organised, private, self-governing institutions, non-profit-distributing and voluntary. Anheier's comprehensive definition will be applicable to NPOs throughout this research.

c) Definition of Non-profit Company (NPC)

"A Non-Profit Company (NPC) is a business entity that is not driven by profit. They are also granted tax-exemption status by the revenue service. Donations made to a Non-Profit Company are usually tax deductible for the businesses or individuals making the donations ... The goals of the NPC are then formed in accordance with the mission statement. The ultimate goal of the NPC should not be wealth, but success in terms of giving back to the different people they provide to" (PtyCompanyRegistration.co.za, 2015). The main difference between an NPO and NPC is the requirements for registration, which in turn affects how they are expected to operate. We will discuss these differences in the following chapters. However, it is important to note there are more commonalities between NPCs and NPOs than there are differences. Both an NPO and an NPC can be categorised as community-based organisations, since they are both formed to serve communities with common interests.

d) Definition of Non-Governmental Organisation (NGO)

"NGOs are private, self-governing, voluntary, non-profit distributing organisations operating, not for commercial purposes but in the public interest, for the promotion of social welfare and development, religion, charity, education and research (2002:7)" (Department of Social Development, 2009). The definition of an NGO is similar to that of an NPO, the reason being that both NGOs and NPOs exist independently from the government. What differentiates these two is the

requirements for registration, which will be discussed in later chapters of this research. The commonality between these organisations with government organisations is that they exist to ‘serve the public good’. For that reason, there are similarities in how these two types of organisations are managed and governed. An NPO, NPC or NGO can be defined as not-for-profit, voluntary, non-partisan and independent organisations or associations engaged in serving the public good. They may be national as well as international, secular as well as ‘faith-based’, and may fall into membership or non-membership categories. Regardless of which form of registration a community-based organisation selects (NPO, NPC or NGO), the governance issues relevant to them are the similar. Registration requirements may differ, but good governance principles are a requirement in any non-profit, private or public organisation. It is therefore important that we define governance.

1.6.3 Definition of Governance

One of the key terms that form the crux of this research is “governance”. The term governance means different things depending on industry and context. We shall begin by discussing the various definitions of governance so as to clearly define what understanding of governance is applicable to this research.

Governance is often associated with the political administration of a country or state and defined as follows: “Governance involves interaction between the formal institutions and those in civil society. Governance refers to a process whereby elements in society wield power, authority and influence and enact policies and decisions concerning public life and social upliftment” (Global Development Research Center, 2016).

The other understanding of governance pertains to the practice of governing an organisation. This involves the “establishment of policies, and continuous monitoring of their proper implementation, by the members of the governing body of an organization. It includes the mechanisms required to balance the powers of the members (with the associated accountability), and their primary duty of enhancing the prosperity and viability of the organization” (BusinessDictionary.com, 2016).

However, the application of governance principles in an organisation differs depending on whether it is in the private sector or public sector/non-profit sector. Governance in the private sector is referred to as ‘corporate governance’. “Corporate governance broadly refers to the mechanisms, relations, and processes by which a corporation is controlled and is directed; involves balancing the many interests of the stakeholders of a corporation” (Business Dictionary, 2016). Governance in the public sector is defined in the Good Governance Standard for Public Services as the function that ensures “that an organisation or partnership fulfils its overall purpose, achieves its intended outcomes for citizens and service users, and operates in an effective, efficient, and ethical manner” (Independent Commission on Good Governance in Public Service, 2004:7). The two definitions above resonate with respect to one main point: governance ensures that the ‘intended outcome of the organisation is achieved’, whether that mandate is to make profit for shareholders (private sector) or to serve the public (public/non-profit sector).

Though this research refers often to governance practices in both the private and public sector, the focus is on governance practices in the non-profit sector. The researcher therefore sought a definition that is not limited to a particular sector but is encompasses all types of organisations. The Australian Standard (2003), as cited by Mulili and Wong, defines Governance as “the process by which organizations are directed, controlled and held to account. This implies that ...governance encompasses the authority, accountability, stewardship, leadership, direction and control exercised in the process of managing organizations” (2011:14). For the purposes of this research we will be using this definition to indicate the parameters of this study. In the sections above we defined the non-profit sector and gave examples of types of organisations that operate in this sector. We will therefore be examining governance practices in non-profit organisations and companies only. With that understanding we shall now define and discuss the concept of sustainability.

1.6.4 Definition of Sustainability

Having defined the non-profit sector, the types of organisations that characterise this sector and the understanding of governance in this context, we shall now define sustainability. Similar to governance, sustainability is defined by the context in which you are using it.

Brinkerhoff defines sustainability in the context of programs “as the ability of a program to produce outputs that are valued sufficiently by beneficiaries and other stakeholders that the program receives enough resources and inputs to continue production” (Brinkerhoff, 1991:22) while the Oxford English Dictionary (2014) defines ‘sustainable’ simply as “able to be maintained at a certain rate or level”. The most cited authority on sustainability is the World Commission on Environment and Development – the Brundtland Commission. It defines sustainability as “forms of progress that meet the needs of the present without compromising the ability of future generations to meet their needs” (International Institute for Sustainable Development, 2010:2). This definition of sustainability can be applied in any given context. However, for donors and funders sustainability “may mean that project costs can be borne by locals without further international aid; for policymakers it may mean that the initiative in question has to be continually reinvented and reinvigorated to stand the test of time” (Walsh et al., 2012:2).

However, since this research is looking at sustainability in the context of organisations, the most applicable definition is the one stated in the International Framework in Good Governance in the Public Sector, which refers to sustainability as the “capacity of an individual entity, community, or global population to continue to survive successfully by meeting its intended outcomes while living within its resource limits” (2013:22). This definition draws attention to a given entity, which in this case is an organisation and how sustainability means the long-term survival of that organisation while still meeting its intended outcome (in the case of an NPO, serving the public). As mentioned in the preceding section, governance ensures that the ‘intended outcome of the organisation is achieved’, while as shown in the above definition, sustainability is the ‘capacity of an entity to survive successfully by meeting its intended outcomes’. Throughout this research we shall seek to draw the link between good governance practices and the long-term sustainability of a non-profit organisation.

1.7 Assumptions and Limitations

This section will discuss the various assumptions and limitations of the research. The researcher noted the following three points as possibly presenting the greatest concern to the validity of the research.

Firstly, the research is limited to non-profit organisations and companies located in the Western Cape. It is possible that there may be provincial legislative factors that may influence the registration process of non-profit organisations in other provinces of South Africa that may have a role in the governance practices of these organisations. The researcher will factor this into the considerations in making recommendations at the end of the research.

Secondly, the study confined itself to registration requirements with the Department of Social Development (DSD) and the Company Intellectual Property Commission (CIPC). It did not include the Department of Trade and Industry or any other registration bodies in South Africa. Organisations registered with the DSD and CIPC were more applicable for the purposes of this study as they represent the majority of not-for-profit organisations and companies in South Africa.

Thirdly, because of limitations of the time, the nature and the scope of this research, a case study was used. The following assumption is therefore made: with all external and internal factors being the same, an organisation that implements similar principles and practices of governance would produce similar results to those presented in the case study.

Being aware of these assumptions and limitations, the researcher can still draw valid conclusions from this research that are applicable in various non-profit organisations across South Africa. It is important to note, however, that governance practices often differ according to form of registration and provincial location.

1.8 Structure of the Research

Having discussed the background of the study and the key concepts, it is important to give a brief summary of the key points addressed in each chapter. The section outlines the layout of the research and what the reader should expect in each chapter.

Chapter 1 – Introduction

Chapter 1 introduces the topic of research and provides the background of study. The researcher discusses her motives for choosing this particular topic and its relevance to non-profit organisations. The chapter goes on to outline the statement of the problem

and the objectives of the research study, and proceeds by defining the key terms and concepts that were used throughout the research. The chapter concludes by reflecting on the methodology used to answer the problem statement and address the accompanying assumptions and limitations.

Chapter 2 - Literature Review of the Principles and Practices of Governance

Chapter 2 is a literature review of the principles and practices of governance. The review is not exhaustive of the body of knowledge on this topic, but it does draw on useful work that adds clarification and deepens understanding of the research topic. The discussion is centred on the definition provided by the Australian Standard (2003) as cited by Mulili and Wong (2011) in their paper on Corporate Governance Practices in Developing Countries. The chapter discusses six aspects of governance and looks at the current knowledge and substantive research conducted by my fellow scholars and researchers in the field of governance as they pertain to non-profit organisations. The discussion concludes by drawing the connection between these aspects and long-term sustainability of non-profit organisations.

Chapter 3 – Legal Framework and Policies in the Non-Profit Sector

This chapter begins by discussing the importance of good governance as a principle and then moves on to briefly discuss the legal framework of governance in the NPO sector in South Africa, namely the Non-Profit Organisation Act (Act No. 71 of 1997), the Codes of Good Practice and the various registration structures available for non-profit organisations. The chapter seeks to answer some pertinent questions: Have these laws and codes promoted good governance in the NPO sector? If so, has this assisted organisation in this sector to become sustainable over the long term?

Chapter 4 – Case Study of Orion Organisation

Chapter 4 begins by giving an overview of Orion and its relevance to the research. The chapter assesses Orion's governance practices in the three phases of its life – early years, growth phase and Orion today. The relationship between the governance practices and the health of the organisation is clearly illustrated through the discussion. The chapter highlights the role of the governing board and the leader (CEO) in driving good governance in an organisation.

Chapter 5 – Findings

Chapter 5 discusses the findings drawn from the case study of the Orion Organisation. The findings provide useful learning for organisations in the non-profit sector that struggle to keep their organisations afloat. The discussion makes connections to studies discussed in the literature review by showing their relevance to this research. Emphasis is placed on the impact the six principles of governance have had on Orion throughout the three phases identified in case study.

Chapter 6 – Recommendations

In Chapter 6 we draw on the lessons from the preceding chapters. The chapter builds up conclusions from the theoretical aspects of governance and the findings derived from the empirical evidence provided by the case study of the Orion Organisation. We are able to see how all the aspects of governance are interconnected and overlap in practice and to understand how one can apply this knowledge towards building a sustainable non-profit organisation. The researcher thus draws from these lessons to make recommendations on good governance practices that will have a role in the long-term sustainability of non-profit organisations.

1.9 Conclusion

This study seeks to show the relationship between good governance practices and the long-term sustainability of non-profit organisations. It is basically a discussion of the various concepts of governance and how these concepts are translated from theory into application in the day-to-day running of an organisation and the impact they have on sustainability. Chapter 1 introduces the topic of the research and provides the background to the study; it elaborates on the methodology used to address the problem statement and the accompanying assumptions and limitations. The next chapter builds on this foundation by providing a literature review of the principles and practices of governance.

Chapter 2 – Literature Review of the Principles and Practices of Governance

2.1 Introduction

Having established the premises of this research we shall now review various bodies of literature that form the bed rock of this research. Pieterse believes the reason governance is a growing concern and is receiving increasing attention across both the private and the public sector is

“..due to a range of factors, including corporate failures; pressure to perform, because of globalisation; increasing public sector scandals; increasing complexity of stakeholder relationships and expectations; a growing need for foreign investments to alleviate growing poverty in the third world countries; changes in the way the public sector does business; a move towards outsourcing; changed business relationships; and a renewed focus on core public service, ethical, informational, consultative and collaborative arrangements.” (Pieterse, 2006:13)

It is evident in the quote above that in the absence of good governance; poor governance exists and with it some of the problems stated above. “Barret observed that investors, politicians, business people or the general public have demonstrated a growing unhappiness because of unprofessional relationships with shareholders, executives and the wider social community of shareholders. As a result, questions regarding governance were beginning to be asked by those concerned and the same questions addressed to the private sector would be aimed at the public [and non-profit] sector”. (Pieterse, 2006:14) Some of these questions were being directed at the government and its role in promoting good governance practised.

2.2 The Role of Government

Governments play an important role in creating an “enabling environment” for NPOs to function (Clark, 1993:8) and part of that role is establishing a good governance framework. “The State has various instruments it can use, for good or ill, to influence the health of the NGO sector (Brown 1990). The level of response can be non-interventionist, active encouragement, partnership, co-option or control” (Clark, 1993:8). This enabling environment also includes the following best practice lessons:

- *Nature and quality of governance – social policies which encourage a healthy civil society and public accountability of state institutions.*
- *The legal framework – governs registration, reporting requirements, sound management discipline, and eliminates restrictive laws and procedures.*
- *Taxation policies*
- *Collaboration between NPOs*
- *Official support – that is, government funding and official contracts. (Clark, 1993:10)*

The International Finance Corporation in 2011 states how there was evidence to show significant benefits of greater collaboration between government and NGOs that are better organized and have been established for a long period. (Das A, 2014:2). Heintz believes that reason such NGOs can show long-term resilience is directly related to whether they adhere to ‘good governance’ or not. “NGOs must continually strive to meet the highest standards of good governance: transparency, accountability, sound management, and ethical behavior...Now greater transparency and accountability in NGOs will also bring their own challenges in the evolving relationship between civil society and government. But good governance will prove to be the best insurance policy for the long-term resilience of the nongovernmental sector.” (Heintz, 2006:10).

All over the world, governments have taken steps to mitigate such risk by introducing governance codes to standardize expectations in best practice amongst both the non-profit organizations and private sector. These include the Australian, Tanzanian, Zimbabwean, Canadian and British governments, among others (including international organizations). Some governments have constructed a policy environment conducive to the strengthen the NGO sector. The success of this strategy depends significantly on the initial relationship between the two sectors, as described by Tandon (1991:1987). The first type of relationship is evident where NGO’s “implement state-prepared programs and/or receive funding through the State (a dependency of money, ideas and resources)”, as was the case in, Tanzania (especially during the 1980s) and China. The second is where the relationship is adversarial in which there are no compromise from either side and no desire to collaborate as seen in Zaire, Kenya and Pinochet's Chile. The best scenario, is the third; a constructive relationship which is

emerging in certain liberal democracies where there is a “genuine partnership to tackle mutually agreed problems, coupled with energetic but constructive debate on areas of disagreement.” Examples include, India and Brazil. (Clark, 1991: 8).

In South Africa, the NPO Act was introduced to regulate the non-profit sector, and promote an enabling environment for non-profit organisations to flourish. The NPO Act will be discussed in greater detail in the proceeding chapter. The Department of Social Development, which is an organ of the South African government has taken on the watchdog role for NPOs registered in the country. This involves annual submission of narrative and financial reports. The South African Revenue Service also has clear policies for Public Benefit entities/organisations which include tax breaks for companies that make donations. Both the DSD and SARS recognize the importance of good governance within the NPO sector. The hallmarks of all these acts and regulations are leadership, transparency and accountability. These together comprise some of the key components of good governance practice in non – profit organizations. The role of the South African government in promoting good governance will be discussed in more detail in chapter three.

The key components of good governance practice are well articulated in Mulili and Wong’s definition of governance. They define governance as “the process by which organizations are directed, controlled and held to account. This implies that ... governance encompasses the **authority, accountability, stewardship, leadership, direction and control** exercised in the process of managing organizations” (Mulili and Wong, 2011:14). Mulili and Wong’s definition will form the basis of this discussion on governance. We will review each term by first defining it and then discussing its application in the context of governance. We shall begin by looking at the notion of authority.

2.3 Authority

Authority is defined in the Oxford English Dictionary as “power or right to enforce obedience or influence based on recognised knowledge or expertise” (1992:49) and in the Business Dictionary as institutionalized and legal power inherent in a particular job, function, or position that is meant to enable its holder to successfully carry out his or her responsibilities (BusinessDictionary, 2016). Holland goes further by identifying

different types of authority on his web based article. Authority is defined as “the power, the right, the clout to influence people and get them to do what you want and need them to” (Holland, 2016) and is categorised as follows;

Legal – based on the ability to influence others based on your official authority and position.

Expert – based on your knowledge and expertise.

Reverent – based on respect for you and/or your knowledge and expertise.

Reward – based on the giving or withholding of rewards.

Punitive – based on the imposition—real or implied – of a penalty for fault, offense or violation.(Holland, 2016)

The role of the board and CEO of an NPO is important. They are the authority in the organisation that has “power or right to enforce obedience or influence” as defined above. As Holland aptly explains this power is indeed institutionalised and legal power that is inherent with the position. It should ideally be based on knowledge and expertise, with consequences for lack of adherence for those that answer to this authority (Holland, 2016). The board and CEO “lead and control the organization” and “the balance of power should be appropriate where no one individual or block of individuals can dominate decision – making processes” (Hendrickse, 2008: 7). It is important to clarify that the governing body of an organisation has an oversight role, while management has the day-to-day operational authority. These two bodies work together closely but have different responsibilities. The latter will be addressed in the next section under the heading ‘Direction and Leadership’.

A corporation, whether for-profit or non-profit is required to have a governing board to stand accountable to its shareholders in the case of a for-profit corporation, while in the case of a non-profit organisation a board of directors is accountable to the public. The International Framework defines the “governing body” as “The person(s) or group with primary responsibility for overseeing the strategic direction and accountability of the entity...Every public sector entity needs a group of one or more individuals that is explicitly responsible for providing strategic direction and oversight.” (International Federation of Accountants (IFAC), 2013:8).

According to the Department of Social Development, the board's responsibilities include establishing and overseeing the purpose, policies and plans of the overall organisation, supervision of the CEO, ensuring sufficient resources for the organisation and ensuring compliance to rules and regulations (Department of Social Development, 2009:44). The structure of boards and degree of formality often depend on the size of the organisation. "Ultimately, it is the Board, by whatever name it is known, which bears primary responsibility for ensuring that an NPO remains true to its values and principles, faithful to its mission, and effective in carrying out its public benefit activities, in the public interest. The 'buck' stops with the Board, with particular reference, but not limited, to financial transparency and accountability." (Working Group, 2012:4) The board is the final authority in the overall management of the organisation. However, board performance alone is not sufficient, it should be accompanied by board effectiveness. "Simply stated, board performance means the effectiveness of the board in overseeing management and the affairs of the company

... As suggested in the recent Walker Review in the UK, boards generally met the characteristics of good governance but failed to perform effectively." (Willums, 2010:8)

It is crucial for the long-term survival (sustainability) of an organisation to have a strong and effective board, since it is the governing authority. The board establishes the path for the rest of the organisation by setting out its strategic vision and mission. "Boards have the responsibility for holding the organisation accountable to its public image as set out by the vision, mission, objectives, values and core mandate, whilst ensuring the organisation avoids financial, governance, fund-raising and delivery malpractices" (Department of Social Development, 2009:46). The challenge faced by many NPOs is recruiting board members who fit the profile and mandate of the organisations, who have a thorough understanding of their roles on the board, and who have the required skills and expertise to contribute to the efficient operation of the organisations while remaining ethical and transparent.

The research done by the Department of Social Development found a correlation between a weak ineffective organisation and a weak governing board; "common board challenges faced by NPOs include poor understanding of the Board's mandate and responsibilities, lack of experience amongst the Board members, poor understanding of

staff responsibilities, weak financial fund-raising capacity and the tendency of Board members to use their positions to further external interests. These are fundamental governance issues that can weaken the effectiveness of an NPO, and there are, therefore, clear and obvious reasons why non-profit organisations require strong Boards” (Department of Social Development, 2009:46). The tendency in most grassroots organisations is to put family and friends on the board who are there for their self-interest. They are often not objective enough to challenge any unethical practises and hold management to account. Lack of understanding of their role often means they end up interfering in the day-to-day management of the organisation or even assume positions in the organisation itself.

Having a strong governing board is essential for the long-term sustainability of an organisation, as it not only holds management to account but offers invaluable input borrowed from their range of expertise and experience accumulated over the years. It is helpful to have persons on your board who can bring varied skills, knowledge and expertise from various industries that add value to the organisation. To have a strong sustainable organisation, one needs a strong and capable board. Two main functions of the board – providing direction and leadership – are discussed in the next section.

2.4 Direction and Leadership

Direction is defined by the Oxford English Dictionary as “a course along which someone or something moves OR the management or guidance of someone or something” (1992:243), while leadership is defined by Hendrickse (2008: 5) as “strategic management that is to be carried out by members of the governing body and the chief executive officer to establish, direct and influence others to follow in that direction.”

The **leadership** of the NPO is responsible for setting out the organisation’s vision and mission and from that specify its short-, medium- and long-term goals. This is what gives an organisation **direction**. From the above definition leadership entails the development of a succinct mission and vision, and planning that determines the goals needed to achieve the vision and mission. Scholars explain that leadership styles are important (autocratic, democratic, participatory or laissez faire), but “effective

leadership requires vision and commitment” (Hendrickse, 2008: 5). The constitution, mission, vision and objectives define the purpose of the NPO and creates its identity in the community. A clear vision and mission help to focus organisational activities, which in turn increases its effectiveness.

In the context of NPOs, leadership refers to the operational management of the organisation, namely the CEO. “The staff leadership as embodied in the CEO is responsible for leading the implementation of the NPOs programmes, and manages the financial and human resources” (Department of Social Development, 2009:36).

The Codes of Good Practice goes a step further by outlining the areas of leadership responsibility:

- Policy and advisory (reporting to governing body, advising governing body, developing internal policies);
- Programme development and implementation;
- Financial management (including budgeting, fundraising, financial controls, procurement);
- Human resource management (recruitment, performance management, remuneration, skills development, volunteers);
- Communication and information (internal and external communication, records, reports, correspondence);
- Governance (accountable reporting, upholding good standards, adherence to constitution and policies) (2009:37).

The list above is quite comprehensive and requires a well-rounded and capable CEO to operate effectively regarding all these aspects. One of the main challenges of NPOs is attracting human resources of the calibre stated above, despite low salaries and minimal benefits. Finding such a capable person on an NPO budget is one of the biggest challenges faced by non-profit organisations. “Development program managers are not simply administrative technicians carrying out plans designed elsewhere. Depending upon the nature of their programs, development managers are called upon to fulfill many roles. Often, they must mobilize resources from various sources: public, private, local, national, and international. They are sometimes called upon to stimulate community participation, while at the same time negotiating support for their programs from political elites. Frequently they must elicit cooperation from other organizations

in both the public and private sectors over which they have little or no supervisory authority” (Brinkerhoff, 1991: 3).

The downfall of most grassroots organisations is lack of strong leadership as these requirements are very demanding and above the capabilities of most of them. This problem filters down into the organisation as NPOs battle to attract qualified staff and rely heavily on volunteers. Volunteer staff may come with skills, but often these skills are not transferred to the organisation, leaving a skills gap when these volunteers move on. The high financing budget for skilled staff in an organisation is a major contributing factor to the lack of sustainability of non-profit organisations. “Many studies identify leadership of non-profits as the ‘linchpin’ of the sector. The quality of leadership is a key variable for effectiveness, entrepreneurship, and accountability on the part of community-based non-profits” (Jennings, 2005:41).

Additionally, to “lead” managers need to have the capacity for PLOC – planning, leading, organizing resources and controlling or coordinating systems, processes and structures effectively and efficiently. The King Report (2002) points to leadership as the cornerstone of successful corporate governance. In Hendrickse’s words, in the absence of transparent and accountable leadership, business (or other) leaders cannot be trusted. This will lead to the decline of organisations and the ultimate demise of a sector. (Hendrickse, 2008: 5)

Leadership of NPOs is particularly challenging in that NPOs rely heavily on donor funding. The challenge lies in the ability to secure a reliable stream of funding over a significant number of years, while remaining true to the vision and mission of the organisation. “Operationally, this means that leadership has to become more aware about what is happening in the neighbourhoods in which they operate. Leadership must be aware and appreciative of changing demographic patterns; social and economic challenges facing the neighbourhood; and awareness of how to leverage one’s own resources with external resources” (Jennings, 2005:41) This is crucial if an NPO is to remain relevant. NPOs need to make sure that they are meeting community needs and not merely chasing funding and projecting funder requirements onto the communities they work in. This is a fine balance and often CBO leadership fails to find an appropriate

balance and become ‘puppets’ of the funder, on one extreme, or on the opposite extreme, limp from one funding source to another without ever become sustainable.

A recent study by John Hopkins University sheds a bit of light on why some NPOs fail to perform effectively though they appear to have good governance practices and good leaders. The study “surveyed the 1,500 non-profit organizations in the three core fields of human services, community development, and the arts ...The results reflect the responses of 731 organizations—enough to provide a statistically significant sample of non-profit organizations of various sizes, and of non-profit activity, in these fields” (Salamon, Geller, & Newhouse, 2012: 5). The study found that only 52% of the leaders surveyed rated the productiveness of the organisation as being important. “This may simply reflect the fact that many non-profits do not think of themselves in terms of their economic function...this may be an important misperception to correct — especially since existing data show that non-profits do, in fact, have substantial economic impact” (Salamon, Geller, & Newhouse, 2012: 5). The fact that fewer respondents identified this function as "very important" seems to explain why NPOs do not seem to focus on productivity. As a result, there are limitations on financial support as donors pull back while putting pressure on non-profits to show value based out-puts and out-comes. Leaders of non-profit organisations thus need to change their perceptions of how their organisations contribute to society, philanthropic activities do not mean productivity, efficiency and effectiveness are not important. Non-profit organisations ignore these aspects to their detriment.

In summary, the ability of leaders of non-profit organisations to direct their organisations in a course of action that promotes the sustainability of the organisation is quite challenging and the downfall of many non-profit organisations. The strategic plan of an organisation should ideally include a plan to ensure the sustainability of the organisation, something most NPOs struggle with. Very few non-profit organisations manage to break away from a pattern of over-dependence on a funder or on government subsidies. The next sections will look at accountability and stewardship.

2.5 Accountability

The second and third aspects mentioned in Mulili and Wong's definition is accountability and stewardship. Being accountable is defined in the Oxford English Dictionary as to "serve as or provide an explanation for one's conduct or to answer for what one is entrusted with" (1992:6). Various literature indicates that there is more to accountability where non-profits are concerned; a more comprehensive approach towards increasing accountability for non-profits includes:

- the degree of responsiveness to the wishes of the public;
- continual efforts to work effectively with other sectors;
- developing capacity for showing impact of activities;
- nurturing an active and participatory board of directors; and,
- involving citizens and clients, and stakeholders, in decision-making" (Jennings, 2015:25)

With any responsibility comes accountability; in fact, these two words are sometimes used synonymously. NPOs exist to serve the public and are financed mostly by donors to do so. They hold great responsibility in that they are a conduit of resources that are not their own and their mandate is to meet the needs of people outside the organisation. Something private companies do not need to worry about, their main concern is increasing profits. Ellen Lazar, former President of the Neighbourhood Reinvestment Corporation in Washington D.C., explains: "we must answer the question how effective are we? Many foundations, financial partners, and intermediaries are pushing for answers. At the root of the question is accountability. As community development non-profits, we are entrusted with substantial public and private resources, for which we must be vigilantly accountable" (Jennings, 2005:36) There is a great need to be transparent and accountable to both the funders and the public. In her research entitled 'Mechanisms for NGO Accountability' Jordan identified three questions of accountability NGOs need to address: effectiveness questions, organisational reliability and legitimacy questions (Jordon, 2005:7).

2.5.1 Question One – Effectiveness

While there are various ways to define and measure effectiveness, Jordon stated that, "*Effectiveness questions have to do with the capacity of NPOs to deliver services both in terms of quality and quantity...NGOs can be held accountable for the effectiveness*

in fulfilling their mandate and the quantity, quality, impact and value for moneys of their operations, as well responsiveness to the beneficiaries” (Jordon, 2005: 7).

Brinkerhoff elaborates further by defining efficiency as “the cost of transforming inputs into outputs-and **effectiveness**-the utility and appropriateness of outputs relative to the development problem their production is intended to solve” he stated that these aspects are particularly critical in developing countries, “where the gap between available resources and needs is wide, the definition of performance must include some way of assessing both efficiency and effectiveness.” (Brinkerhoff, 1991:22)

When funders give money and resources to an organisation they want to be assured that the money is being used for the purpose it is intended for, and that it is being used wisely. Effectiveness questions are therefore a form of answering to a higher external authority, in a few instances do these questions come from the community, often it is the donors or government that are seen as generating accountability (Jordon, 2005:7). “Accountability requires benchmarking of performance against clearly defined objectives” (OECD, 2010:14). Having said that, however, it is important to note that “non-profits cannot pursue accountability effectively if they try to replicate the processes associated with formal businesses in pursuing the bottom line – and clients don’t ‘buy’ their services. Perhaps the more appropriate query, and one that gets to the point, is how can community-based organizations use the current political and fiscal context to achieve quality accountability in terms of efficiency and effectiveness, and impact on the problems they are trying to solve?” (Jennings, 2005:24). Unlike in for-profit organisations where shareholders want to receive healthy profits as an indication that their money was used effectively, in non-profit organisations funders realise ‘returns on their investment’, so to speak, when programmes/services are implemented successfully, efficiently, that is with optimum use of resources while minimising waste and serving as many beneficiaries as possible.

The concept of performance, is thus the crux of efficiency and effectiveness? How then is performance measured, especially in the public and non-profit sector socioeconomic development is concerned. “Issues of efficiency, effectiveness, equity, distribution, values, culture, and power affect both the definition and measurement of performance” (Brinkerhoff, 1991:20). Program managers in non-profit organisations need to be able

to develop definitions of performance appropriate for their particular programs and organizations, to identify gaps in performance and deal with performance improvement, and to measure progress argues Brinkerhoff. These definitions and measures will stand as yardsticks to guide their own actions and provide the basis on which to report performance information to those who need it-for example, their superiors, donor agencies, government and so on (1991:20). The success of programmes that they fund in turn enhances the funders' reputation and meets their funding objectives. An NPO that is continuously successful in effectively delivering services and programmes will attract even more funding.

2.5.2 Question Two – Reliability

According to Jordan, the second indicator of accountability is reliability questions. *“Reliability questions have to do with the organisational structure and competency of NPOs, their governance capacity and their ability to attract skilled professional staff”* (Jordan, 2005: 7). Reliability is also defined as “operating in a trustworthy and accountable manner” (Newhouse, 2013:6). NGOs are asked questions of the role and composition of the board, management structure, HR policies, M&E frameworks and so on by donor and aid agencies to ascertain their capacity, reliability in delivering programmes. (Jordan, 2005:7).

Per a recent survey by Jon Hopkins University, reliability was ranked as one of the most important values communities look for in non-profit organisations. The report was based on a survey of non-profit leaders around the United States. The survey identified seven values of which reliability was one of them. The values were being productive, empowering, effective, enriching, reliable, responsive, and caring. 79% of leaders surveyed said being reliable is very important to non-profits, 72% of these said their organisation embodies this value very well (Newhouse, 2013:5). Communities need to know that these organisations will be there tomorrow and that they are there to serve their best interests. In turn, funders want to be assured that the organisation they are giving money to can be trusted to do what they say they will do.

To answer this question of reliability, NPOs firstly need to clearly define, and lay the foundations for, management and oversight by recognising and publishing the respective roles of board and management. Secondly, they need to have a board with

the right set of skills for the nature of the work that the NPO is engaged in, the size and commitment to adequately carry out its responsibilities and duties, and lastly, remunerate their staff fairly and reasonably in order to attract and retain the right skills. Most NPOs face challenges in implementing the above because of their limited resources, knowledge and competence, and hence never attract enough funding to become sustainable.

2.5.3 Question Three – Legitimacy

The third set of accountability questions asked, according to Jordan are those of legitimacy. *“Legitimacy questions have to do with the value systems espoused by NPOs, their transparency and adherence to organisational norms, their representative status and their value to society as a whole”* (Jordan 2005:8). Jordan explains how legitimacy questions are raised by ‘friends and foes’, those who oppose the NGO and wish to discredit it or those that support the NGO and want to ensure that they can trust it. (Jordan 2005:8). In other words, is the organisation really what they say they are. Are they really doing what they say they are doing? *“To a large degree, non-profits are now paying the price of their success. The non-profit sector’s claims to exist for the public good are no longer being taken on faith, and more people believe that they have a stake in the accountability of non-profits.”* (Brody, 2002:472)

The norm with most donor and NPO relationships is that the donor is often located internationally and has never visited the organisation that they are funding in person. There is a lot of reliance on how the NPO portrays itself through media, the internet and its own self-promotion. International funders often gauge whether to invest in an NPO based on how its image is perceived in relation to the funders’ image and then they rely on reports to track their funding. This practice is rife with possibilities for corruption and misrepresentation, as is evident in the research report done by Ronelle Burger and Trudy Owens of the University of Nottingham on NGOs in Uganda. Their research found that *“One quarter of the NGOs that said they compiled accounts that were publicly available did not provide information when requested to do so. There were also instances of unreliable or inaccurate information provided. In 39% of cases, where NGOs reported that they asked the community about their needs before initiating a project, community members maintained that the NGO in question did not”* (Burger & Owens, 2011:1). In such cases the legitimacy of CBOs becomes questionable.

NPOs that know how to ‘play the game’ can create an amazing image of themselves with state of the art websites, stories of change and necessary accreditation, and yet are doing very little on the ground. By the same token there are some NPOs doing amazing work on the ground, but they do not have the skills and resources to create the ‘right’ brand image and so are unable to attract the funding they need. Legitimacy is therefore a very serious question. “Altruism, good intentions and rights-based values used to provide a sufficient basis for NPO legitimacy, but there is now increasing pressure on NPOs to provide evidence that their activities are having a positive impact and are effectively representing those that they claim to support” (Department of Social Development, 2009:50) This increased level of scrutiny has resulted in the development of different accountability mechanisms and tools designed to strengthen operational capacity, management and performance measurements and accounting practices (2009:50).

Good governance is perceived as the ‘best insurance policy for long term resilience’ and a deterrent to unethical conduct, scandal and crime. “Good corporate governance helps to prevent corporate scandals, fraud, and potential civil and criminal liability of the organization.... A good corporate governance image enhances the reputation of the organization and makes it more attractive to customers, investors, suppliers and, in the case of nonprofit organizations, contributors.” (Lipman & Lipman, 2006) This is especially important in the non-profit sector where NGOs/CBOs rely on their reputation and track record to attract donor funding.

Concerns about declining legitimacy have led to a number of opinion surveys and focus groups being conducted around the world. In the UK, “British confidence in non-profit organizations depends in part on the public’s familiarity with particular organizations, in part on general attitudes toward philanthropy. But the crucial determinant of legitimacy involves the extent to which people trust these organizations to behave in a manner that is both ethical and fair.” (Schlesinger. 2004:678) Trustworthiness and accountability thus appear to be the foundation on which rests the public legitimacy of organisations in the non-profit sector.

In a nutshell, an organisation’s ability to answer the above questions positively is a good indication of its accountability. Organisations that can answer questions on how

effective they are, how reliable they are and how legitimate they are stand a better chance of attracting a reliable funding stream, which is vital for the survival of an NPO. NPOs are called upon now more than ever to be reliable and have stable fiscal and programmatic infrastructure if they are to achieve long-term sustainability (Jennings, 2005: 39). Closely associated with accountability is stewardship, discussed in the next section.

2.6 Stewardship

Stewardship is defined as “conducting, supervising, or managing of something; especially: the careful and responsible management of something entrusted to one’s care” (Merriam-Webster.com, 2016). However, a more comprehensive definition is provided on the Association of Donor Relations Professionals website, stewardship

“has been defined historically as the safeguarding of the assets of others and, therefore, is considered by some to be misused in the context of donors, as in “donor stewardship.” Rather, these individuals state that it is gifts, not donors, that are stewarded. In this view, the activities associated with stewardship are focused on ensuring that the funds provided by donors are utilized in the way intended as conveyed in gift agreements and fund terms. By this definition, stewardship is a function inherently internal to an organization, rather than a donor-facing, external function.” (ADRP, 2017)

NPOs are entrusted with funders’ money to carry out a specific task. The money does not belong to the NPO; they are therefore acting as stewards. They have been trusted with someone else’s money. They will need to account for it and show that they have used it efficiently and effectively. For a NPO to be a good steward of the money and resources entrusted to it by the funders, the organisation in question must be effective in using the resources as directed; it has to be reliable in carrying out its mandate and it has to be legitimate. Accountability and stewardship therefore go hand in hand; a good steward is accountable and to be accountable one needs to be a good steward.

The Department of Social Development has noted that organisations that are accountable, good stewards of resources and are well structured come across as more legitimate and professional, and therefore attract more funding. “It is clear, though, that the more professional NGOs that are formally structured are most likely to receive

donor support....Due to their more sophisticated nature it is these types of NPOs that interface most effectively with the donor community and enjoy the bulk of donor funding” (Swilling and Russell, 2002:81). These organisations have proper internal systems which enables them to track their progress and account for use of resources and time. These organisations come across as more legitimate and reliable. Swilling and Russell have argued that “the losers will be the many NPOs in poorer communities who simply lack the capacity and knowledge to access funding” (2002:81). These organisations struggle to be sustainable as they tend to display weak systems that raise questions of potentially fraudulent expenditure, misuse of funds or poor management of resources.

For long-term sustainability the paper by the Department of Social Development shows that “NGOs must also adopt transparent processes, and operate in a manner that responds, with accountability and democracy, to the communities they serve” (Department of Social Development 2009:27). It is imperative for the long-term survival of NPOs to make sure they have the right systems and checks for adequate monitoring and reporting that will allow for transparency and accountability. Being a *good steward* is good business; it inspires confidence in the organisation, which is important in ensuring sustainability. Funders are not likely to put money into an organisation that is around for a year or two; they are looking to support effective, reliable and legitimate organisations. Good stewardship is enforced in an organisation by having the right control systems, which are discussed in the next section. As an NPO grows it becomes increasingly difficult to monitor staff, finances and programmes, hence a robust control system becomes imperative.

2.7 Control

Control is defined as the ability “to exercise restraining or directing influence over; to regulate” (Merriam - Webster, 2015) or as “the power to influence or direct people’s behaviour or the course of events” (Oxford Dictionaries, 2016). Control is what ensures that an organisation remains on the course/direction that was set out. Control is exercised by putting in place systems and structures that ensure accountability, transparency and communication. These control measures create a feedback loop of

communication that informs the board and management what is happening in the organisation at any given time.

Clifton Larson Allen one of the America's top ten certified public accounting and consulting firms, states that "whatever their mission or size, all non-profit organizations should establish policies and procedures to assure that 1) boards and officers understand their fiduciary responsibilities, 2) assets are managed properly, and 3) the charitable purposes of the organization are carried out. Failure to meet these three obligations is a breach of fiduciary duty, and can result in financial and other liability for the board of directors and the officers." (Clifton Larson Allen.com, 2013). Though the legal implication would differ in South Africa as will be discussed in proceeding chapters, the importance and need for the control measures is just as critical. The firm's definition of internal controls is "policies and procedures that protect the assets of an organization, create reliable financial reporting, promote compliance with laws and regulations, and facilitate effective and efficient operations. They relate to accounting, to reporting, and to the organization's communication processes." (2013:2)

Control measures are especially important in monitoring the use of resources and programme quality and delivery. There is a lot of focus on the accountability of non-profit organisations in these two areas because as NPOs they are stewards of the donor funding that they have been entrusted with. Donors therefore expect to see where their money is going and whether it is being used effectively and efficiently. Jordan notes how NGOs respond to donor requests by adopting tool often designed by these stakeholders such as financial accounts, annual reports, performance assessments, audits, independent evaluations, logical framework analysis, merely to tick the box and adhere to the donor stipulations to receive funding. These donors are driving the accountability industry. (Jordan, 2005:12). The weakness of these measures is that they are not driven by the organisations themselves and thus not sustained beyond the funding and often not built into the organisations system and linked to program outputs to yield real value. Yet, if proper consultation in design and implementation of these tools was carried out with the NPOs, they would be hugely beneficial in promoting the sustainability of the organisation. Control measures in finance and programming are especially critical in ensuring the sustainability of the organisation's activities. We shall begin by discussing financial controls.

2.7.1 Financial controls

Control systems are especially important when accounting for finances. The issue that many NPOs face, that makes reporting to donors a challenge is the inability to directly link money (inputs) to programme outputs. Sure, an organisation can account for the number of sports equipment purchased but how that translates to the number of lives impacted is more complicated; that being the primary business of the NPO. “Financial management views organisations quite abstractly and as insular entities that can be measured in terms of inputs, outputs, costs and revenue, assets and liabilities. We rationalise the operations of organisations using the frame of reference of corporate accounting, yet we do so with one major handicap: non-profits cannot fully copy business practices” (Anheir, 2000:5). What then is the solution? For non-profit organisations, the emphasis needs to be on “aspects of equity, service to the public good, value considerations, compassion, among others” (Anheir, 2000:5). Though the emphasis differs from the private sector with a shift of focus from ‘profit’ to ‘value added’, good financial management processes and accounting should still be adhered to. Sadly, this the demise of small community based NPOs.

Carl Ho, a partner at Le, Ho & Company in Daly City, California, believes that in even the small non-profit organization, one can ensure that someone looks over things periodically, checks whether expenses are legitimate or whether taxes were paid. If you combine such diligence, with an environment that emphasizes high standards of accountability, though you may not prevent theft completely, you will prevent honest people from crossing the line, and you'll catch anything before it becomes problematic. (Ho, 2017:1) These measures above would need to be in place regardless of the size and type of NPO ; however, for larger organisations more stringent systems are required.

“NPOs must practice sound financial management and comply with legal and regulatory requirements. The financial system of the NPO should ensure that accurate financial records are kept and that the organisation’s financial resources are used for the intended purpose of the organisation” (Department of Social Development, 2009:67).

Below are some of the minimum control measures expected in an NPO that seeks to operate in an accountable and transparent manner:

- Timely financial and narrative reporting;
- Setting up appropriate financial systems and employing qualified persons to administer them;
- Conducting annual financial audits;
- Putting in place effective monitoring and evaluation systems for programme reporting.

The second aspect where internal control measures are critical is in programme monitoring and evaluation.

2.7.2 Programme Monitoring and Evaluation

Monitoring and evaluation (M&E) systems are put in place to control and measure programme implementation and progress. It is not enough merely to implement a programme and provide reports on what a success it was. Funders are increasingly demanding that NPOs show not only results but the impact made. “With respect to comprehensive development, for example, bilateral and multilateral donors ... must now position each project within a larger context and examine its sustainability and potential effects on society, politics and the broad economy” (Imas & Rist, 2009). NPOs therefore need to have M&E systems built into their programmes to ensure they conduct baseline studies, monitor progress throughout the life of the programme, and then measure results and impact afterwards. Not only will this meet donor requirements, but it will inform the NPO whether their programmes are indeed effective, whether they are really meeting community needs and whether they are making the most effective use of resources.

Brinkerhoff suggests three aspects that NPOs need to consider in monitoring and evaluating their programme performance. Number one is efficiency and effectiveness; programs transform inputs into outputs, results, and impacts. “NPOs must design a way of assessing both efficiency and effectiveness... In the case of tangible, quantifiable results, performance is directly observable and measurable. Where results are less concrete and visible, proxy measures must be used.” (1991: 22) Number two is capacity, this relates to an NPOs existing physical, human, and administrative resources and its ability to combine those resources effectively to produce results. The third aspect is sustainability; this “incorporates both capacity and efficiency/effectiveness to

address the related issues of continuation over time and responsiveness to needs and desires.” (Brinkerhoff, 1991:22). Brinkerhoff emphasises how the sustainability dimension of performance is critical to program success. The aspect of sustainability highlights the need for a program to meet both the needs of the stakeholders and the organisation itself. It needs to be something of value to the donors and attract political support for them to want to invest their money in, it needs to be of value to the communities who participate in the programmes and it needs to be in line with the organisations’ mandate, mission and values for them to allocate time, energy and resources. (Brinkerhoff, 1991:22) An NPO that strikes the right cord with various stakeholders will enjoy continual and long term support. Sustainability is not simply survival.

NPOs also need to ensure that they monitor staff performance against programme deliverables. Often small CBOs try to cut costs when it comes to hiring and remunerating staff, but they end up losing time and money because of poor performance, a high funding budget and misuse of resources. Effective HR systems and periodic performance evaluations would go a long way in making sure an organisation is making the best use of its resources. Going together with monitoring staff performance against programme objectives is programme monitoring and evaluation.

M&E should be an integral part of any NPO; it needs to be planned, budgeted for and woven into the organisation’s operations regardless of the size of the organisation. Smaller CBOs that do not have a dedicated M&E department or staff member can design a simple system to suit the organisation and its needs, alternatively M&E services can be outsourced. An effective M&E system thus accomplishes the following: it ensures effective programme implementation, effective use of resources, measures impact of an organisation’s programmes and in turn the effectiveness of the organisation, informs funders how their donations are being used, all of which serves to establish the sustainable programme funding required to ensure a sustainable organisation.

2.8 Conclusion

In conclusion, NPOs that embrace good governance should understand and practise the relevant principles of authority, accountability, stewardship, leadership, direction and control. As discussed above, these aspects are not practised in isolation; rather the collective benefit derived from each of these principles shapes governance within an organisation. These six aspects are in no way exhaustive in defining sound governance, but they are certainly integral in any organisation that seeks to implement good governance principles. From the above discussion one can surmise that governance is not merely an abstract concept, but a practice or discipline that permeates every sector of the organisation, from the board to the average employee, from its internal culture to its public image, and it requires the collaborative effort of everyone within the organisation. Organisations that practise and adhere to good governance principles are in a better position to achieve long-term sustainability. The government of South Africa understands the importance of good governance practices in the NPO sector, leading to the promulgation of certain laws designed to assist NPOs elevate their governance practices to a standard comparable to those of the private sector. These laws will be discussed in the next chapter, by looking at the legal framework and regulation in the NPO sector and how this aids or hinders NPOs in becoming sustainable.

Chapter 3 – Legal Framework and Policies of Governance in the Non-Profit Sector

3.1 Introduction

In Chapter 1 we briefly discussed the recent history of South Africa that helped shape the non-profit sector as we know it today. We proceeded to define the parameters of this sector and the types of organisations that operate within it. The second chapter expands on the concept of governance as defined in Chapter 1 by exploring six key aspects of governance. To understand how non-profit organisations, implement the principles of governance it is important to examine the legal framework that governs the non-profit sector and its interaction with the rest of the economy. In this chapter we will look specifically at the Non-profit Act, the registration requirements for NPOs and the Codes of Good Practice. Have these laws and codes promoted good governance in the NPO sector? If so, has this assisted organisations in this sector to become sustainable over the long-term?

3.2 The NPO Act

The NPO Act was formulated to “encourage NPOs to maintain adequate standards of governance, transparency and accountability as well as improving those standards” (Department of Social Development, 2009:5) and to “provide for an environment in which non-profit organisations can flourish; to establish an administrative and regulatory framework within which non-profit organisations can conduct their affairs” (*Government Gazette*, 1997:1). Did the NPO Act accomplish what is set out to do? Did it in fact promote good governance in the NPO sector?

The South African government has provided legal structures through the NPO Act for NPOs to register with the NPO Directorate of the Department of Welfare also known as the Department of Social Development. This is intended to encourage NPOs to be accountable to the public instead of penalising those which are not. Registration and the ongoing reporting requirements are intended to improve standards of governance and increase transparency and accountability. There are, however, various forms of registration one can choose within the sector. The next section briefly outlines the most

common types of registration that non-profit organisations use in South Africa; the legal implications of these registrations, their pros and cons, and how the type of registration chosen increases accountability and transparency, hence improving standards of governance, which in turn has a role in their sustainability.

3.3 Forms of Registration in the NPO sector

The main considerations when choosing the form of registration for your organisation is its size, capacity and complexity. The formal establishment, registration and ongoing regulatory requirements are most complex for a non-profit company and least complex for a voluntary association (VA). Registration as a non-profit company (NPC) is ideal for larger, well-established organisations with big budgets, complex programmes and lots of staff. The most common structure for small, newly established NPOs is the VA, which is also referred as a community-based organisation. “The NPO Directorate has reported that voluntary associations represent 95 percent of the organisations that are registered in terms of the NPO Act” (Wyngaard, 2016).

According to the Education and Training Unit website, which was set up to inform and assist individuals on business matters in both the public and private sector, VA may be the simplest form of organisation to establish and manage in terms of ongoing regulatory requirements; nevertheless, VAs exercise all the powers and can operate in a similar manner to non-profit companies (Education and Training Unit, 2016). We shall now discuss the voluntary association (VA) or community-based organisation (CBO).

3.3.1 Voluntary Association (VA) (also referred to as a Community-Based Organisation)

A VA is created by entering into an agreement with three or more people to form an organisation in pursuit of a common non-profit objective. Although it is highly recommended that the agreement be put in writing, it need only be verbal; it does not have to be in writing. Examples of VAs are small community-based organisations that do not need to own or manage substantial amounts of money or valuable property and equipment in order to carry out their activities.

VAs are required to have a constitution, which is considered as the founding document. The constitution provides for the appointment of a group of people with executive powers, such as an executive committee, to manage the affairs of the VA subject to the terms of its constitution. “The constitution sets out the agreed rules which will govern the VA, such as its main purpose and objectives, its membership and governance structures and procedures, and the rights and duties of the organisation and its members and office-bearers” (Education and Training Unit, 2016). Because VAs do not need to be formally registered with a government registry, they fall under common law. All their activities and objectives should be lawful and not primarily for gain or profit for its members.

a. Governance Structure of a Voluntary Associations

The structure of a VA is an important part of its constitution because structures and procedures build in accountability by the office-bearers to the members of the VA. According to the Education and Training Unit website (2016), “there should be a clause which identifies the highest governing body of the VA, usually a general meeting of members or a managing body. There is usually a clause which entrusts all the powers of the VA to a managing body to enable it to manage and control the affairs of the VA. But if the managing body is not the highest governing authority, then such powers should be subject to the instructions of the highest governing authority, such as members in a general meeting”. The constitution must specify the structure of the VA and the mechanisms and procedures for governing and managing it. The constitution must include clauses that specify how the VA will conduct meetings and make and record decisions, and it should also include a clause on the appointment of office-bearers. It is also important that the constitution includes clauses that describe how the organisation will prepare annual financial statements (Education and Training Unit, 2016).

b. Advantages and Disadvantages of Voluntary Associations

One of the main advantages is that a VA is easy, fairly quick and inexpensive to establish, but this can also be a disadvantage as it means it does not go through a more thorough process in registering the organisation, which may leave it vulnerable to weaknesses in its structure as the organisation grows. Funders prefer more formal arrangements, which make VAs unattractive to funders because of the lack of

government regulation and statutory control. Even the general public who interact with the VA generally prefer greater formal accountability and transparency. Another consideration may be weaknesses in the constitution. The constitution may not protect members of the VA if key clauses in the constitution are absent or not properly drafted, for example, if the clauses relating to the legal status of the VA are not clear.

A practical challenge to consider is that, though VAs are not required to be registered with any government authority, they will not be able to open a bank account unless they are registered in terms of the NPO Act. “The NPO Directorate reports that the Financial Intelligence Centre Act had made NPO registration a condition for financial institutions to open a banking account in the name of such organisations” (Wyngaard, 2016). Neither can a VA apply for approval as a public benefit organisation as it is required to reflect its banking particulars on the application form.

In summary, the informal structure of the VA is its greatest weakness. Its whole governance structure is dependent on the strength of its constitution; should the constitution not contain some important clauses, then the organisation is built on a shaky foundation, which may jeopardise its sustainability. VAs that choose to register under the NPO Act increase their level of accountability and transparency, but this is not mandatory. However, not all VAs are doomed for failure; the leader of a VA who has a good understanding of good governance practices should implement them from its very foundation, but it is also very important to improve and strengthen these structures as the organisation grows. A CBO may start off as a VA, but as it adds programmes and staff and attracts more funding, it cannot continue operating in an informal manner. To achieve long-term sustainability there is a need to implement tighter governance practices. The governance structures in VAs can be improved with registration under the NPO Act as a Non-Profit Organisation, which is discussed next.

3.3.2 Non-Profit Organisation (NPO)

Registration as a non-profit organisation (NPOs) is voluntary. It increases the transparency and accountability of the organisation as governance is improved through the mandatory reporting requirements of the NPO Act. The NPO registration status is also a funding requirement for most donor and funding agencies and increases the confidence of the public in the non-profit sector. “An NPO is defined, in terms of

section 1 of the NPO Act, as a trust, company or other association of persons established for a public purpose and of which its income and property are not distributable to its members or office bearers except as reasonable compensation for services rendered. Non-governmental organisations (NGOs) and community-based organisations (CBOs) are collectively known as non-profit organisations (NPOs). In some instance, NPOs are also referred to as civil society organisations (CSO)” (Department of Social Development, 2011).

According to the DSD website, to apply for registration as an NPO, an organisation needs to complete a prescribed application form and submit it to the Directorate for Non-profit Organisations with two copies of the organisation’s founding document. This may be a constitution for a volunteer association, or a memorandum and articles of association with the company’s registration letter for a not-for-profit company. For approval, the submitted founding document of the organisation must meet the requirements of section 12 of the NPO Act.

Once the organisation is registered, an NPO is obliged, “in terms of sections 18 and 19, to submit within nine (9) months after the end of its financial year, annual reports (a narrative report, annual financial statement and an accounting officer’s report) including any changes to the organisation’s constitution, physical address and office bearers” (Department of Social Development, 2011). Should an NPO fail to meet its reporting requirements, the organisation’s registration status will be cancelled in terms of section 21 for the NPO Act. “Once an organisation has been cancelled, deregistered or dissolved, as the case may be, it is a criminal offence, in terms of section 29, for any such organisation to represent itself as being validly registered in terms of the NPO Act” (Department of Social Development, 2011). More stringent than an NPO registration and reporting requirements is the NPC, discussed in the next section.

3.3.3 Non-Profit Company (NPC)

A non-profit company falls under the new Companies Act of 2008 (Act No. 71 of 2008) with provision set out in section 10 of the Act which “allows for a ‘not-for-profit company’ or ‘association incorporated not for gain’. Non-profit companies resemble business-oriented (for-profit) companies in their legal structure, but do not have a share capital and therefore cannot distribute shares or pay dividends to their members. Instead

they are ‘limited by guarantee’, meaning that if the company fails, its members undertake to pay a stated amount to its creditors” (Education and Training Unit, 2016).

a. Governance Structure of an NPC

A company has a two levels of governance in its structure consisting of the members and directors. The members exercise their powers in general meetings such as appointing and removing directors, amending the founding documents of the company, and disposing of the NPO’s assets, while the directors have broad executive responsibility. However, they are required to appoint independent auditors and hold annual general meetings to discuss various matters, including the presentation of the audited financial statements.

Non-profit companies (like for-profit companies) are governed by the Companies Act and have an independent legal personality. They must be established for a lawful objective, for example, promotion of religion, the arts, science, education, charity, social activity or a communal or group interest. Income may not be used for profit but only for the promotion of the organisation’s main objective and for reasonable compensation of its staff. An NPC must have at least seven founding members and two directors. On the dissolution of the company, all surplus assets must be transferred to another organisation with similar purposes.

“The founding documents for a Non-Profit company are the Memorandum of Incorporation and the articles of association. The memorandum sets out the purpose of the NPO; the articles of association regulate how it operates” (Education and Training Unit, 2016). Unlike a VA or a Trust, a NPC needs to adhere to prescribed requirements in order to be registered and to remain registered under the Companies Act. Some of these requirements are listed below.

- “The company must appoint auditors and inform the Registrar of Companies of any change of auditors.
- The company must appoint a registered address and inform the Registrar of any change of address.
- The company must keep up-to-date registers of members and directors in the prescribed form.

- The directors' names must appear on all letters, catalogues and circulars distributed or published.
- Directors must ensure that proper minutes and attendance registers are kept of all meetings.
- The company must hold an annual general meeting in accordance with the prescribed procedures.
- The company must keep financial and accounting records in the prescribed form, present these to the AGM of members and file them with the Registrar.
- The directors' report must be presented to the AGM" (Education and Training Unit, 2016).

b. Advantages and Disadvantages of a Non-Profit Company

Because of the registration and obligatory reporting requirements, non-profit companies are considered to be the most accountable. "The provisions of the Companies Act are complex and detailed, companies are subject to substantial public disclosure obligations and statutory control. But they have considerable freedom in their internal management and the day to day running of their affairs" (Education and Training Unit, 2016). The independent legal personality of a company is a clear and well-understood concept, though one needs professional assistance to set it up and this can therefore be costly. NPCs also have complex reporting requirements, which are not always suitable for small community-based organisations. NPCs are not required to register in terms of the NPO Act; however, if they wish to be eligible for government benefits (such as tax benefits), they may need to register.

The complexity of the registration and reporting requirements of an NPC forces the leadership of the organisation to think through their processes carefully to ensure that they are efficient and effective in achieving their goals, as they will be required to report accordingly. In order to be able to achieve this they would need to implement the aspects of governance discussed in the preceding chapter: authority, accountability, stewardship, leadership, direction and control. This is why NPCs are more attractive to donors than VAs. The practice of good governance inspires confidence both internally with the staff and externally with the organisations funders and public. Not only that, but it forces an organisation to continuously assess its way of doing things, its

processes, its structures and its leadership, which are all practices of sustainable organisations.

The above types of non-profit structures, i.e. voluntary associations (VA) or community-based organisations (CBOs) and NPCs, are not obligated to register under the NPO Act to operate; however, it is highly recommended and beneficial for them to do so. A VA can function under common law; however, these structures have inherent weaknesses, as discussed above, which can be overcome by registration under the NPO Act or Companies Act. The Companies Act is more stringent than the NPO Act; however, a smaller CBO may not qualify or want to go through the complex registration process to register as an NPC, but as long as good governance practices are followed, this should not have a role in the long-term sustainability of the organisation.

An Impact Assessment of the NPO Act conducted in 2005 revealed a general lack of capacity within NPOs to manage their affairs, including maintaining good governance for the organisation. Compliance level of NPOs against the standards of the NPO Act was reportedly very low; 86.2% of NPOs in the sample did not submit an annual report, while only 13.8% were compliant. What is important to note is that when the compliance rate was assessed in terms of revenue, the data show that “100% of NPOs with annual revenue of R1 million or more submitted their annual financial reports. By contrast, only 24.9% of NPOs with annual revenue below R50 000 submitted annual financial reports”. It was also noted that non-profit entities had the highest compliance levels and were more likely to submit audited financial statements than voluntary associations were; 32.4% non-profit companies submitted financial reports, with only 12.9 % of voluntary associations doing the same (Department of Social Development, 2009:22). The Department concluded after the research that “this situation poses the greatest threat to efforts to maintain high standards across the sector, particularly among community-based organisations” (Department of Social Development, 2009:5).

The researcher also observed that, though the NPO Act was written for the layman in order to create an enabling environment for NPOs, the language used in the Act is legal jargon and difficult to interpret, let alone be understood by the ‘common man’ often running these NPOs. This may explain the low level of compliance. The Act is also deliberately broad in the aspects it covers, avoiding going into detailed day-to-day

management of the NPOs. It focuses rather on requirements for registration, responsibilities of government in providing for interested persons to register, and the regulations pertaining to this. “Further to these challenges, about 20% of all organisations that apply for registration as NPOs do not meet the requirements of section 12 (2) on first attempt to get registered and more than 80% of registered NPOs do not submit their annual reports as required in terms of section 18 of the Act” (Department of Social Development, 2009:5). Could this be attributed to the lack of accessible information that is relevant to leaders of community based organisations, who would not readily grasp the legal requirements needed for registration without prior training and support? It would therefore seem that the NPO Act has not adequately promoted good governance in the sector and more needs to be done to make the act more relevant to smaller less sophisticated community-based organisations.

The gap in the NPO Act as highlighted above and the growing concern of the state of governance in the South African non-profit sector led to a proposed Codes of Good Practice by non-profit organisations themselves. They recognised the need for South African civil society to formulate and adopt its own distinct code rather than be regulated by government or corporate sector codes (Department of Social Development, 2009:5). This led to the formulation of the Codes of Good Practice, discussed next.

3.4 Codes of Good Practice

As discussed in the preceding section, it became apparent over time that most NPOs are either not aware of, or do not comply with, these basic standards of good governance. In an attempt to strengthen the NPO Act, the Code of Good Practice (CGP) was published in 2001 in line with the South Africa Constitution and has remained unaltered since. The CGP was developed through extensive consultation with non-profit organisations, as well as with the national and provincial governments. The purpose of the CGP was firstly to create an environment in which NPOs can be productive, enhancing their abilities to be effective development partners with government and the private sector in the development of communities. Secondly, they were intended to encourage NPOs to be responsible for ensuring that they respond to and maintain high standards of practice in good governance. The CGP is divided into

three distinct but related codes and are intended to act as guidelines for all NPOs. Their three focus areas are outlined below.

3.4.1. Non-profit Organisation Leadership and Management

According to the CGP, the leadership and management of NPOs have three main mandates. The first is to make sure that the organisation's service programme is meeting community needs or problems effectively and efficiently. The second is to establish a reliable and sustainable support base (funding and other resources) in order for the organisation to fulfil its work. The third is to ensure that procedures are in place to ensure the careful and accountable handling of all the organisation's resources and programmes (Department of Social Development, 2001:7). Holding the leadership of the NPO to account is the governing body. The governing body is defined as "the 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" (Department of Social Development, 2001:5). A governing body that meets the legal standards of its constitution and registration, and that exercises care, loyalty and obedience in the performance of its duties, positions the organisation for success through transparent and ethical conduct (Department of Social Development, 2001:9).

3.4.2. Non-profit Fundraising and Resource Mobilisation

Fund-raising is defined in the CGP as "the creation and assessment of public awareness of (human) need, and the co-ordination of resources of service, finance and fundraising programmes to deal effectively with that need at minimum cost, to the satisfaction of the donor" (Department of Social Development, 2001:19). This definition recognises three primary stakeholders in this process; the beneficiary, the person or community that has a need; the donor, the person or institution that has the money or resources; and the NPO, which acts as the important link between the beneficiary and the donor (Department of Social Development, 2001:9). Resource mobilisation is the sourcing of non-monetary contributions that are beneficial to the organisations.

The CGP goes on to state what it regards as the most crucial factors in attracting funding to sustain an organisation's operations for its lifetime; NPOs must pay attention the following: the mission, a plan for the organisation's future, effective internal and

external communications, investing in its growth by realising that raising resources costs money, and therefore NPOs must budget for this expenditure, building relationships with its community and supporters, and lastly servicing the funders and sustaining supporters. “If NPOs are to be the custodians of community-driven development; to be proactive rather than reactive agencies; to be guided by their missions instead of by the agendas of funding sources; then NPOs had better know who they are, where we are going to, and how they should behave in the process” (Department of Social Development, 2001:22).

3.4.3 Roles and Responsibilities of Donor and Sponsors

The last category covered by the CGP is the roles and responsibilities of the donor and sponsors. The primary interest of these codes is to serve as a guide for all who choose to make donations or provide sponsorships to South African NPOs. This includes donors and sponsors of all descriptions and in all sectors, that is foreign, corporate, trust, foundation and individual donors – “Recognising that those who give, while having rights of their own, need also to subscribe to standards and values, ideals and aspirations that will result in the release of effective welfare and development programmes in South African communities through the thousands of NPOs that represent them” (Department of Social Development, 2001:33). The codes proceed to give an overview of funding markets in South Africa, briefly discussing what motivates each sector to give. It then provides the donor bill of rights and guidelines for wise giving and grant-making. As much as NPOs are expected to act ethically, donors are also called upon to be prudent and exercise due diligence before they engage with any organisation. Not all NPOs are above board; unfortunately, the actions of one organisation can often taint the reputation of the entire NPO sector.

The CGP does a good job in trying to address the gaps in the NPO Act. The language used is more ‘user friendly’ and therefore easier to understand and apply. The codes were formulated in consultation with NPOs themselves; the result is that the information is far more relevant and applicable to organisations in this sector. Where the NPO Act is more general, the CGP attempts to provide more detailed information that can be applied in any NPO regardless of its size and specific context.

It is important to note that the Codes of Good Practice are voluntary; while NPOs are encouraged to subscribe to the codes, this is not a requirement for registration or continued registration with the DSD. These codes are self-regulated by the NPOs themselves.

In the case of the NPO transgressing the codes, the governing body, management and affiliates undertake to deal with transgressions on a case-by-case basis in accordance with the NPOs constitution and requirements for registration. Transgressions of the fundraising code are to be dealt with in accordance with the organisation's internal policies and practices and relevant contractual requirements. Transgressions by grant makers and affiliates are to be dealt with in accordance with the organisation's internal policies and practices (Department of Social Development, 2009:35).

Any transgressions are dealt with according to the internal policies of the organisation itself through self-regulation. This becomes a problem where the organisation's internal policies are weak or not enforced. Self-regulation only works where an organisation subjects itself to external audits, enforces checks and balances, and has a robust policy of governance. In the absence of any of these measures, self-regulation is not effective.

An inherent weakness of the CGP is therefore the fact that they are self-regulated and voluntary. Although there are incentives in subscribing to the codes, such as credibility and reputation, there are no enforcement mechanisms, which leaves a huge gap for non-compliance and in extreme cases fraudulent behaviour.

Current convention is that NPOs are or should be accountable to their beneficiaries or stakeholders. There is, however, another perspective that views NPOs as accountable only to their conscience and core mission. Ultimately the situation is more nuanced as the increasing sophistication of the NPO sector means that in general terms organisations are required to be accountable to many different sets of stakeholders who, separately and collectively, play an integral part in their operations" (Department of Social Development, 2009:54).

This quote draws attention to the weakness of self-regulation, as the various stakeholders do not really have the authority to bring the entirety of an organisation to account other than as this pertains to their donation (in the case of funders). Also leaving an NPO's accountability to its conscience is based on the assumption that the NPO is acting in good conscience and that everyone that works for this organisation will act accordingly. The researcher would propose that it would be more effective to have the CGP externally regulated, with consequences for transgressing the codes. This would

ensure a minimum standard of governance is maintained by NPOs that wish to enjoy the credibility of being part of the Codes of Good Practice.

Whether for the sake of credibility and reputation, or financial benefits, good governance principles and practices are essential for success and the long-term sustainability of NPOs, as is evident from this statement by the DSD: “good governance theories and practices are becoming increasingly necessary for the development, legitimacy and sustainability of NPOs in any country” (Department of Social Development, 2009:26). For NPOs to compete effectively for the same resources and funds that every other NPO is gunning for, they need to set themselves slightly ahead of the pack. Community-based non-profits have no excuse, they have to

operate efficiently and effectively; they have to continually seek revenue to maintain operations and services in the context of increasing demands; they have to keep the public and funders informed of their activities and future planning; they have to nurture and develop leadership for their organizations; and they have to ensure that workers are paid and treated adequately in order to maintain quality in the delivery of services (Jennings, 2005:75).

Basically NPOs have to exercise good governance if they want to achieve long-term success and sustainability.

In summary, the CGP represents a significant attempt to address the gaps in the NPO Act by simplifying the language used in the codes, providing more detailed information, making the codes relevant to all organisations in the non-profit sector, regardless of size, and formulating the codes in collaboration with the organisations themselves. As has been emphasised above, non-profit organisations have no excuse for their failure to exercise good governance if they wish to be sustainable. It is clear from the study done by the DSD mentioned above that compliance levels and standards of governance are higher in certain types of organisations than others, notably higher in non-profit companies and lowest in voluntary associations. Good governance is not a luxury afforded to non-profit companies; rather, it is a basic requirement of all non-profit organisations regardless of their form of registration.

3.5 Conclusion

In conclusion, as organisations grow, implement a number of additional programmes, attract more funding and add more staff, they need to formalise their ways of operating.

Working with an established set of legally binding rules that are required through registration helps to make things clear, both to those within the organisation and to people outside the organisation who interact with it and do business with it. Formal registration with a government registry opens up the organisation to more transparent processes, as records such as annual reports are made available for public scrutiny. “Often organisations want to publicly disclose and account to stakeholders, that is, donors, beneficiaries, the general public and the government. If an organisation is publicly accountable, stakeholders may trust the organisation more and be more willing to work with it, for example grant loans or donate money to it” (Education and Training Unit, 2016). In such cases operating as a VA would no longer be sufficient, as VAs are not required to be registered and are not subject to the same reporting requirements as an NPO or NPC is. They are therefore less likely to attract huge amounts of funding in comparison to more formally registered organisations. The decision on what form of registration one chooses should go beyond what is easier to do now; it is necessary to ask where members see the organisation going over the long term, in other words, what will set the organisation on the path to long-term sustainability. This is exactly what is evinced in the next chapter, which brings together all the theoretical aspects of governance and provides empirical evidence through a case study of a non-profit organisation.

Chapter 4 – Presentation of Research Findings

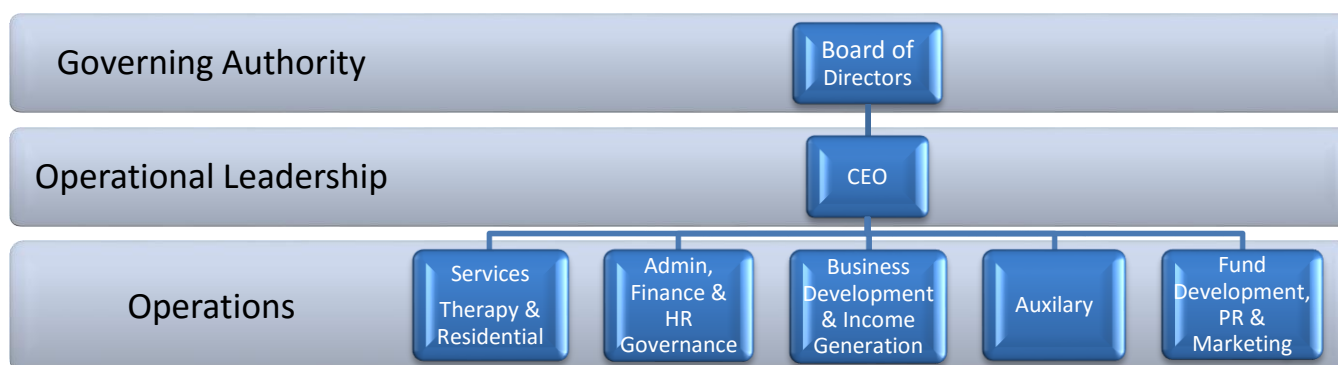
4.1 Introduction

The preceding chapters have expanded on the ‘principles and practices’ that make up good governance in great detail. We have looked at the theory, the legislation, the various forms of registration and how all these factors promote good governance practices in a non-profit organisation or company. Chapters 4 and 5 will now provide the empirical evidence that links with all the literature discussed thus far by applying the theory in a practical case study. We will be looking specifically at Orion Organisation (referred to as Orion), a non-profit organisation in the Western Cape of South Africa. Chapter 4 briefly outlines Orion’s history, its growth to what it is now and discusses its governance practices over the years. The aim of this chapter is to answer the question: What is the impact of Orion’s governance practices on the sustainability of the organisation? The findings drawn from this case study will be discussed in Chapter 5.

4.2 Overview of the Orion Organisation

What makes Orion Organisation an interesting case study is that it started off as a small community-based organisation, but managed to grow sufficiently to become a medium-sized organisation with a healthy funding stream, with an annual budget of over 6 million. Orion Organisation started off primarily serving a few families in the Atlantis community, but has now grown to a staff complement of over 55 staff members and

Diagram 1: Orion Organisation Organogram



120 beneficiaries. An organogram is shown diagram 1. Most community-based organisations struggle to grow to this point as evidenced in the findings of the 2005 Impact Assessment study done by the Department of Social Development, which found that at least 73% of voluntary associations registered with the Department of Social Development had an annual income of less than R50 000, with very few showing increased annual income. (Department of Social Development, 2009:19). It is therefore relevant to this research to investigate how this specific organisation has achieved long-term sustainability. Has good governance influenced its sustainability and, if so, can other organisations emulate this and achieve similar outcomes? Orion organisation provides the practical environment to test how the principles and practices discussed in preceding chapters are applied.

Examining the six principles and practices of governance, namely authority, accountability, stewardship, leadership, direction and control, in isolation was extremely difficult. The six principles and practices do not exist independently but overlap in practice and permeate the various functions, departments and management levels in an organisation. For this reason, it is impossible to attribute the sustainability of Orion to one particular aspect. In addressing this challenge, the researcher therefore looked at the predominant governance practices at Orion over three distinct periods of the organisation's life.

These three periods are defined by changes in leadership, which in turn influenced the governance practices:

- Melville Segal was CEO of Orion for approximately 16 years (Orion's Early Years);
- Ms Lizelle van Wyk took over in 1998 (Orion's Growth Phase). She was CEO of Orion for 14 years;
- She was succeeded by Ms Hannl Cronje, the current CEO, (Orion Today).

We will begin by introducing the Orion Organisation then discuss the governance practices during these three periods.

4.3 Introduction to Orion Organisation

Orion Organisation is based in Atlantis, about 100 km from Cape Town CBD. It is an organisation that seeks to empower and provide care, education and training and see to the therapeutic needs of children, youths and adults with physical, intellectual and/or mental disabilities. “The organisation was founded in March 1982 where it operated from a church hall with 20 children. Community leaders made a request to the town planner to allocate a portion of land for the establishment of an institute for the disabled in the area. Some four hectares were made available. Shortly thereafter, a workshop for a small group of adults was initiated to keep them busy during the day” (Orion Organisation, 2012). The organisation soon started providing supportive services to the families of the disabled and to empower the families to take full responsibility for the home.

There was a great need for these services in the community and it grew to the point where the community realised the need to appoint a leader. This is when Melville Segal was approached to be the CEO of Orion. He had managed a group home for people with disabilities prior to this appointment and so came with some experience and knowledge of the industry. As the needs in the community grew, they soon realised Orion needed to establish a few more group homes to look after persons with disabilities after their next of kin had passed on. This led to them diversifying the services they offered and becoming a more formally established non-profit organisation. This was the foundation of what we know as the Orion Organisation today. Having provided the background to Orion and its significance in this research, we shall now discuss its governance practices in the early years of its existence.

4.4 Orion’s Early Years

The interview with Ms van Wyk revealed that over the time that Melville Segal was CEO, Orion went through some major growing pains. Group home mothers who were volunteers and being paid a small stipend began to demand salaries. At this stage the volunteers brought in trade unions and demanding to be paid at least the minimum wage. During this time Mr Segal fell ill and had to step down as CEO; some of the board members also stepped down as they buckled under the pressure. One of the issues

highlighted by Ms Van Wyk was that though Melville was passionate about his work, the organisation did not have proper governance structures. Orion relied heavily on sporadic donations; there wasn't a sustainable source of funding coming through the organisation and therefore they genuinely could not afford to pay the wages that the trade unions were demanding.

4.4.1 Weak Ineffective Board, 1982 - 1998

As stated in Chapter 2, the governance authority of an organisation rests with the board – they set the tone for the rest of the organisation. The research done by the Department of Social Development found a correlation between a weak ineffective organisation and a weak governing board, while the opposite is also true: “common board challenges faced by NPOs include poor understanding of the Board’s mandate and responsibilities ... These are fundamental governance issues that can weaken the effectiveness of an NPO, and there are, therefore, clear and obvious reasons why non-profit organisations require strong Boards” (Department of Social Development, 2009:46). This was evident in Orion at that time. The weak fragmented board and poor leadership had a direct impact on Orion’s functioning. During the time that Melville was ill, Orion came close to being shut down. There was a lot of in-house fighting as the head of departments jostled for the leadership position. There were no funds coming in and a general lack of proper systems and structure in the organisation.

The remaining board members then made a decision to rather appoint from the out-side to re-energise the organisation and take it to the next level. It was at this stage that Ms Lizelle van Wyk was appointed as CEO. Ms Van Wyk’s tenure as CEO of Orion will be discussed next.

4.4.2 Transition to New Leadership

The researcher interviewed Ms Lizelle van Wyk, currently CEO of the Cape Town Society for the Blind (CTSB) and former CEO of the Orion Organisation. She was trained as a social worker and later as an Industrial Social worker. In 1989 she was appointed as the Industrial Social Worker at Atlantis Diesel Engines. She worked there for 9 years, then moved to Orion in 1998 to take the position of CEO. While there she completed a mini-MBA with Success Institute; she stated “that course did me the world

of good” in equipping her with knowledge on how to run an NPO on business principles.

The interview began by establishing Ms Van Wyk’s understanding of the role of a CEO. She explained how her role as CEO was to provide strategic leadership in terms of finance and planning to make sure that the organisation maintains good governance principles. She has confidence in her current leadership team and thinks that it is important that they all have a shared vision for the organisation. Ms Van Wyk explained her understanding of the role of the board is. In her words: “it is very important that the board comes with a set of specific expertise”. She states that there is a good balance with her current board and they all seem to understand their role and respect her role as CEO. She added that as CEO the board needs to trust her to do her job, but if and when she needs input she will turn to her board for advice. “The board takes full responsibility with me for running the organisation”. She firmly believes in sound boards, but they must not “poke their noses into her daily activities” – that is what they pay her for, she adds. She makes sure that she reports to them as required and is fully accountable.

However, one thing that is lacking with her current board, which she also experienced with her previous board at Orion, is the lack of networking contacts. “I don’t think board members always understand the massive role that they can play when it comes to linking us, myself and my PR team with influential people out there”. Its only after constant requests that they will connect her with someone, but she feels this is something they should do on their own initiative to the benefit of the organisation. She then gave an example of the power of networking and how they managed to get a new coffee machine donated to them through her rotary networks (fellow Rotarian from Libya). This is one of the roles of the boards – they need to link one with people out there.

In summary, the interview revealed that the first CEO, Melville Segal, had the personal passion and support of the community, which was sufficient while it was a small community-based organisation. However, as it grew, requiring additional staff and hence more defined structure, the type of leadership the organisation required also changed. The organisation needed a robust board, strong leadership and more formal governance structures to transform it from a small CBO to a medium-sized NPC. The

subsequent CEOs both display a good understanding of their role as CEO, the role of the board and how to effectively manage and lead their staff into the next phase of the organisation's life. The next section discusses Orion's growth phase under Ms Van Wyk's leadership.

4.5 Orion's Growth Phase

Orion was at the point of bankruptcy when Ms Van Wyk took over in 1998. "When Lizelle van Wyk joined the Orion Organisation ... as the chief executive officer in 1998, this non-governmental organisation was in financial turmoil and in real danger of bankruptcy; its image was in tatters and trade union action lurked. Donors, the life blood of an NGO of this nature, threatened to quit in disgust" (*Leadership Magazine*, 2010:37), but by the time she left in 1993 Orion had been transformed into an award-winning NGO. "In 2006 Orion received the coveted Hamlet Foundation's national award for the organisation that rendered the best service to people" (*Leadership Magazine*, 2010:37). What led to this remarkable transformation? How did an NGO on the brink of bankruptcy manage not only to recover but become a sustainable non-profit company?

Ms Van Wyk recounts the journey Orion took under her leadership. She stated that it was a steep learning curve for her and how she had no idea of the state Orion was truly in until she was in office. The demands from the trade unions and resistance to her leadership from the staff took an emotional toll on her, but she was determined to realise her vision for the organisation.

One of the first things she did was to approach the Department of Social Development (DSD) for assistance in assessing the organisation's governance practices, financial systems, procurement policies, human resources systems and so on. The DSD appointed Dr Louw Pieterse as a consultant to conduct an audit/assessment of Orion and advise on measures that needed to be taken to improve its management and governance systems.

4.5.1 Transformation of the Board

With Dr Pieterse's help, Ms Van Wyk was able to interrogate every aspect of the organisation and get a good appreciation of what was working, what wasn't, why and what needed to be done to improve the situation. The assessment of the organisation also highlighted the weaknesses of the board and indicated that some drastic changes needed to be made. The board had been appointed based on family relationships and friendships and people they knew in the community. They also did not understand their role as board members and would constantly disrupt daily operations at Orion demanding to know what was happening, why this or that decision had been made, and trying to influence the appointment of staff. To resolve this issue, they had to make a few new appointments to the board to add individuals who had experience and could add value to the organisation. They also conducted training of the board members to ensure they understood what their role was, the role of the CEO and their different responsibilities.

It is apparent from the interview that Orion did not always have a strong board; the board that was present when Ms Van Wyk took over at Orion did not understand its role and meddled in the day-to-day functions of the organisation, making it difficult for the CEO to carry out her job. It was only after seeking expert help and training the board that there was an improvement. The weakness of the former board had a negative impact on the organisation; it struggled to attract sustainable funding for years. The lack of an authority figure on the board encouraged in-house fighting for months as staff jostled for leadership before Ms Van Wyk's appointment.

The change in the board into a more effective and proactive body that understands its role and fulfils its function in bringing the CEO to account, formulating the organisation's strategic vision, raising the organisation's profile to aid in fund-raising and supporting the CEO had a positive impact on Orion. It resulted in a more stable organisation, and Orion was consequently able to secure funding from the government and various corporate donors; there was increased job satisfaction and employee turnover rates dropped.

4.5.2 Transformation of the Leadership Team

The next thing she did was to build trust and relationships with the leadership team and empower them to be part of the transformation process at Orion. The leadership of the NPO is responsible for setting out the organisation's vision and mission and on that basis specify its short-, medium- and long-term goals. This is what gives an organisation direction and keeps it on course. The constitution, mission, vision and objectives define the purpose of the NPO and create its identity in the community. The leadership/management team needs to be able to translate this big vision into daily operations by communicating it effectively to their staff and managing them on the ground.

Ms Van Wyk therefore had to show the staff at Orion that she was there to stay and that she valued their input and support. The staff who had been volunteers before had to change their work ethic and become accountable for their time and performance; they could no longer come and go as they pleased. They each had to become accountable for their performance and realise how their individual work contributed to the big picture. One effective way of doing this was to conduct staff training and explain every staff member's role and how it fits into the strategic plan of Orion and to provide specific skills training for each staff member. Ms Van Wyk mentioned that this was a long, repetitive process but it was well worth it. The current Finance Manager at Orion used to be a volunteer in one of the group homes; she was trained on Orion's financial systems and sent on Pastel and finance courses, and now holds a few financial diplomas.

4.5.3 Adoption of Good Governance Practices

With the assistance of external expertise Ms Van Wyk was able to transform the organisation by first addressing its board structure and then its leadership team. This was achieved through training and education. Once these two structures were functioning as they should, with their support she was then able to systematically work through the organisation and introduce good governance practices and control measures in the financial, HR and programme systems, thus promoting accountability and transparency. This freed the CEO to focus on fund raising and the long-term sustainability of the organisation.

With the governance systems in place, which resulted in improved control and accountability across the organisation, Ms Van Wyk was now in a better position to focus on securing funding. She was able to secure “crisis funding” from the government for a year to buy her time to get the organisation back on its feet and secure other sources of funding. A loan that had been granted to Orion for the land on which they built the facility was frozen to give the organisation time to become financially stable. By the time this interview was conducted the loan had been written off. During her tenure as CEO of Orion, Ms Van Wyk arranged for the addition of two workshops on the premises, which were constructed as income-generating projects. Building them on the premises also reduced transport costs, thus decreasing overheads. This was a critical in assisting Orion to become sustainable as the organisation was able to diversify its sources of funding and not rely heavily on government funding. She was also able to secure alternative sources of funding from various corporate donors and income-generating projects.

In summary, we refer back to the report by the DSD, “NGOs must also adopt transparent processes, and operate in a manner that responds, with accountability and democracy, to the communities they serve” (Department of Social Development 2009:27). It is imperative for an NGO that relies on donor funding to make sure they maintain a good standing in the community; for this they need the right systems and checks for adequate monitoring and reporting that will allow for transparency and accountability. In practice transparency and accountability are closely associated with control systems. Ms Van Wyk was aware that improving Orion’s accountability through the adoption of good governance practices was a way of assuring funders that the organisation was a good steward which would in turn attract even more funding. By the time Ms Van Wyk resigned to become the CEO of Cape Town Society for the Blind she had transformed Orion into a stable and thriving organisation. The following sections discuss Orion today and examine its current governance practices.

4.6 Orion Today

Ms Hannl Cronje was appointed as CEO of Orion after Ms Van Wyk left to join CTSB and has been leading Orion now for approximately 4 years. Before that she worked at the Cape Town Society for the Blind for 17 years and her last role there was as CEO.

After that she lectured at Northlink College for 6 years and it was at this time that she was approached to apply for the position of CEO at Orion. She has a background in social work and she has a degree in Human Resources Management.

4.6.1 Orion's Current Leadership

In response to the question "What is the main role of the CEO?" Ms Cronje stated that "in my view the main role of the CEO is to ensure operations of the organisation run in line with the mission and vision of the organisation, to ensure that strategies that have been put in place are followed and that competent staff are appointed to realise the strategic plans of the organisation". The interview revealed that what prepared Ms Cronje most for her role as CEO was the experience gained over the years; in her own words it was "through practical implementation of information and knowledge." She also did a course on Senior Management at Stellenbosch Business School, "but by the time I did that I was in my fifties already". She goes on to say how she found the course really beneficial as she could see how the theory unfolded in the practical day-to-day running of an organisation. She found it very effective but also believes that a lot of the knowledge and experience is gained practically as one accumulates information as and when required, but one needs to know where to get information and resources as and when one needs it.

Ms Cronje also said that before she was CEO at Cape Town Society for the Blind (CSB) she had a mentor/business coach, who was a Master's Student from the University of Sussex. In her own words, Ms Cronje states that "I benefited so much from that because she did not tell me what to do, but she guided me to make the decisions by allowing me to talk about why I did certain things, and how I did it the way I did, and why it worked or why it didn't work". She believes having that kind of support is essential to grow as a leader. Even now after years of experience as a CEO she has trusted people who provide support and act as a sounding board.

When asked how important academic qualifications were in relation to experience, Ms Cronje said that both are essential to be a good leader: "one wouldn't be able to use the experience without the theoretical knowledge as well, because the two (academic qualification and experience) actually support one another; once you have the theoretical knowledge you can actually see how you apply the experience that you gain.

Without theoretical knowledge you would not be able to apply sound business acumen and skills ... you cannot have one without the other.”

Both Ms Van Wyk and Ms Cronje acknowledged the importance of education and experience in leading a sustainable organisation. They stated how a person cannot utilise one without the other. They both pursued professional qualifications to support them in their roles. As discussed in preceding chapters, “many studies identify leadership of non-profits as the ‘linchpin’ of the sector. The quality of leadership is a key variable for effectiveness, entrepreneurship, and accountability on the part of community-based non-profits” (Jennings, 2005:41). Orion has managed to acquire strong leaders over the years who saw it grow from a small community-based organisation to what it is now. The current CEO, Ms Hannl Cronje, understands her role as CEO as well as the role of the board, and shows a thorough understanding of governance principles. She realises the need for Orion to focus more on mobilising resources and securing alternative sources of funding. Orion leadership seem to be thinking ahead to ensure the organisation’s sustainability, as discussed in the proceeding sections.

4.6.2 Orion’s Current Board

Orion’s current board of directors are reportedly from diverse and varied sectors of society, each bringing a unique set of skills and experience that adds value to the organisation. The board of directors meets four times a year or more, should it be necessary. When Ms Cronje was asked what she understood the role of the board to be, she stated that it was to “govern, oversee and to make sure the vision and mission and the purpose of the organisation [are] fulfilled in line with the strategic plan and also we [referring to her role as CEO] report to them”. Ms Cronje went to explain how in her role as CEO she reports to the board, but that it is not their role to be “in the engine room” and drive the organisation. She therefore does not involve them in the operational details of the organisation, as that is her responsibility. The board is the ultimate authority and provides oversight, but it is her responsibility as the CEO to do the driving.

According to Ms Cronje, the last strategic planning meeting was held at the beginning of 2015 with a follow-up review meeting scheduled for the end of 2016. The strategic

planning meetings are attended by the board of directors and the heads of department (HOD)/senior management. The purpose of these planning sessions, according to Ms Cronje, is to revise the organisation's mission and vision, and align the organisation's operations with the overall mission and to ensure that all the staff and departments understand it and know their role in fulfilling this mission. Yearly plans are drawn from the strategic plan and revised annually. When asked if the staff are invited to comment on the strategic plan, Ms Cronje pointed out that this was not the role of staff, rather this was the role of the board of directors, who set the tone for the organisation. However, she did state that it was important to get the buy-in of all staff by making sure they understood the plan and why it was set out as it was. Before the meeting the HODs are expected to invite input from other members of staff, which is then fed into the strategic planning sessions. Ms Cronje seems to have managed to achieve a good balance of ensuring department heads and their teams are accountable for their programmes, while still remaining in control of the organisation as the CEO and ultimately being the one who it accountable to the board.

In addition to the interview, the researcher gave Ms Cronje the Board Effectiveness Quick Check, a self-completed questionnaire which is part of the Governance Self-Assessment Checklist (GSAC) designed by Mel Gill, the president of Synergy Associates and an associate of the Institute on Governance in Ottawa, Canada. "The Governance Self-Assessment Checklist (GSAC) was designed to assist boards of directors of non-profit and public sector organizations to identify strengths and weaknesses in the governance of their organizations, educate board members about the essentials of good governance, and improve their governance practices" (Gill, Flynn & Reissing, 2005:271). The Quick Check is intended to provide a brief stand-alone snapshot of the effectiveness of a governance board (Gill, Flynn & Reissing, 2005:277).

The researcher chose to use the GSAC test as it had been tested with a variety of non-profit organisations around the world and it was easy and quick to administer. Taking into account the time frame and scope of this research, these factors weighed heavily in favour of using the GSAC, which was an already tested and proven tool. The validity of the GSAC was "based on data from 281 board members and 31 executive directors from 32 non-profit organizations and 27 independent observers" and was found to "have excellent internal consistency reliability, exhibit good criterion-related validity,

and able to discriminate between stronger and weaker aspects of board functioning” (Gill, Flynn & Reissing, 2005:271).

The completed Quick Check form is provided in Appendix 1. The total score of Orion’s Board Effectiveness Quick Check was **4.4, where 5 is highly effective** and 0 is ineffective.

Orion Organisation currently has a strong board, according to the Governance Effectiveness Quick Check. The complete assessment is available in appendix 1. According to the assessment, the organisation’s orientation for board members adequately prepares them to fulfil their governance responsibilities. Orion’s board is also comprised of individuals with years of experience and knowledge, who display an understanding of their mandate and carry them out responsibly. It is important to note that Orion scored favourably in relation to its ability to govern effectively without being impaired by conflicts between members – this showed the vast transformation from the previous board. The effectiveness of Orion’s board has had a positive impact on Orion.

We shall now take a closer look at the governance principles currently practised at Orion, in particular accountability and stewardship. How are these two principles exercised at Orion and how does they increase the organisation’s chances of achieving sustainability?

4.6.3 Orion’s Accountability Structures

An organisation is accountable on various levels, to its board, to funders, to government registration bodies and to the public. As already discussed, Orion has a board of directors that provide governance authority and hold the management of Orion accountable. We established in an earlier chapter how accountability and stewardship go hand in hand – they are opposite sides of the same coin.

Orion Organisation is also accountable to various government bodies as a result of its registration status. It is currently registered with the Department of Social Development and submits annual narrative and financial reports to the department. As of November 2014 Orion has been registered as an NPC that is accountable to a board of directors; however, it maintains its registration with the DSD under the NPO Act as an NPO. It

therefore submits annual reports as stipulated by the Companies Act, which has more stringent provisions than those required under the Non-Profit Act. This dual registration posed numerous governance issues as Orion's leadership did not fully understand the implications of each form of registration. Ms Cronje pointed out that Orion now operates solely on business principles, since the organisation's board decided to be registered under the Companies Act. Available on the organisation's website are the organisation's vision and mission and all its certifications with CIPC, SARS and other relevant government bodies.

Orion Organisation's registration as a Non-Profit Company under the Companies Act provides a mechanism for external audits, which promotes good governance practices. In order to qualify for registration and maintain its registration, it needs to adhere to stringent audit requirements such as submission of annual audited financial records, narrative reports and minutes of the board meetings. In addition to NPC registration the Orion Organisation is also registered as an NPO and with SARS, which also means it needs to adhere to the reporting requirements of both the Department of Social Development and SARS. These structures allow for further external audits of Orion, thus further promoting transparency and accountability.

The organisation's website also provides the general public with information about the organisation, its certifications, staff, programmes, funders and general activities, thus making it accessible and transparent to the community it serves. This assures stakeholders that the organisation is a good steward of its resources, which in turn attracts even more support. To achieve such levels of accountability and good stewardship it is critical to have the proper control systems in place. We shall now discuss Orion's control systems and practices.

4.6.4 Orion's Systems and Processes

As discussed in Chapter 2, non-profit organisations and/or companies need to ensure that they implement programme monitoring and evaluation, and have good control measures in their financial systems. Good control systems are necessary in promoting governance in an organisation. These control measures create a feedback loop of communication that informs the board and management what is happening in the organisation at any given time, which is ultimately important for achieving sustainable

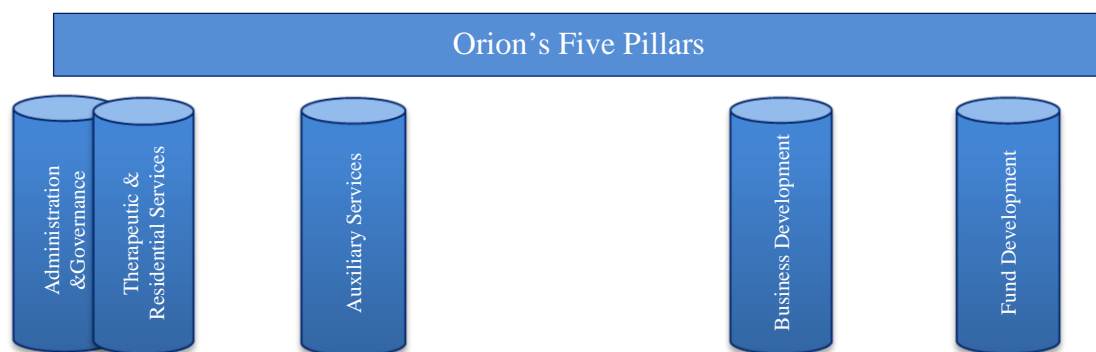
programmes and therefore a sustainable organisation. Below is an assessment of Orion's programmes and M&E system.

a. Programme Monitoring and Evaluation

Since the move to becoming a non-profit company, Orion has adopted a business model that views the organisation as having five components or departments. A diagram of the business model is depicted in diagram 3 below. Each of these pillars has a proposed 2020 business plan, complete with expansion projections and proposed budgets. When asked to explain further why Orion decided to adopt a business model and transition from a 'traditional welfare organisation', her response was that one of the reasons was that as a NPC one could give donors a Section 18 certification for their donations, which most donors asked for. This is important in attracting and retaining funders.

On further interrogation, it was not clear how Orion intended to finance its 10-year strategy of expansion. However, Ms Cronje stated that she was busy formulating strategies of diversifying their income streams. At the time of the interview she planned to be finished by November 2016.

Diagram 2: Orion Business Model - Future 2020 Vision



Referring to the five pillars above, Ms Cronje remarked: "Our organisation is running on strong management elements, so you know where to go for what and who is responsible for what". Ms Cronje stated that the main aim of this model was to streamline processes so as to appoint experienced people with the relevant qualifications in each of the areas specified above. However, as a result of funding restrictions Orion has

not been able to hire the qualified personnel required for these posts. Orion experiences high staff turnover among the care workers; they had to dismiss three care workers because of abuse (staff abusing residents) in the last 6 months. Ms Cronje also attributes the high staff turnover to a high burn-out rate because of the nature of the work, adding that performance reviews are conducted twice a year.

The Interview with Mrs Eleanor Harker, the Services & Social Worker Manager provided further insight into the programme management and governance practices at Orion. Mrs Harker stated that Orion Organization is subject to checks by the DSD to ensure that the children's Day Care Centre employs qualified care workers, and staff are competent to work with disabled people. Staff are carefully selected according to merit and experience, but Orion also develops training and development plans to keep members of staff up to date. A qualified nurse works with the children and trains the parents to also continue with therapeutic services at home. Regular meetings with parents promote Orion's transparency and accountability in the community about the work they are doing with the children.

Mrs Harker explained that debriefing has been incorporated in Orion's activities for staff members, with a qualified counsellor who is also a board member to try and assist with the high turnover of social workers. This encourages transparency amongst staff members about their challenges in working with people with disabilities, and helps to curb cases of negligence. The debriefing sessions also serve to give staff a safe space to divulge issues that bother them or that they find disturbing about the nature of their work.

It is mandatory for volunteers at Orion to go through in – house training. Ms Harker emphasised that Orion has put a system in place where volunteers shadow professionals in their work with children and the disabled to maintain the standard of ethics and accountability in their conduct and procedures. As previously mentioned by Ms Cronje (current CEO), quarterly action plans and performance reviews also serve as a monitoring and evaluation tool to assess programme implementation and use of resources. Volunteers are assessed based on records of their time – in and time – out and are carefully monitored by Orion's permanent staff. There is continuous evaluation of volunteers and how they work with the disabled. Recently, a physiotherapist from

the Netherlands conducted research to recommend exercises best suited for people with certain disabilities. Her findings were used to train the other volunteers at Orion. This is especially important in this context because of the needs and challenges of working with disabled people.

For access to physiotherapists to be sustainable, the Solstace Foundation agreed to fund Orion to train someone to be permanently employed as a physiotherapist at the organization. Once the physiotherapist's training is complete, the Solstace Foundation agreed to fund half their salary and Orion to pay the other half. Employment of qualified professionals also enhances Orion's credibility in the disability services sector and directly impacts on the quality of services to the disabled.

From both Ms Cronje and Mrs Harker interviews it was clear that Orion does not have its own internal M&E system. Rather funders specify their reporting requirements to the organisation, specific to the programmes they fund. Programme performance is assessed through reports submitted by each department head. Programme plans are reviewed annually or bi-annually during the staff appraisals to identify training needs or areas that need improvement. Training of department heads is ad-hoc as they are sent on external training courses when there is a need. They use these opportunities to benchmark best practices in other organisations that can be adopted at Orion. Closely linked to programming is the programme funding discussed in the next section.

b. Assessment of Orion's Funding and Reporting System

It is also critical for non-profit organisations to have a focused approach of fund-raising as this is their main source of income. Often organisations in the sector are quite reactive and not very purposeful or proactive about how they go about bringing money in. The way that organisations account for that money and link funding to programme outputs and delivery form part of the M&E system. This is something more and more donors require to assure them of an organisation's legitimacy. Below is an analysis of Orion's funding and reporting system.

The interview with the Finance, Administration and HR Manager, Ms Mary-Ann Cedras revealed that she started at Orion as a supervisor in the work centre and was up-skilled over the years that she has been with Orion. She has been working at Orion since

1988. She does not have a formal degree, though she has completed a number of finance courses. Ms Cedras interview was particularly insightful as she has seen the organisation change management over the years. She recounted how the Orion was about to be closed down due to lack of funding before Ms Van Wyk was appointed as CEO. Though this was a difficult time for the organisation, they managed to keep the doors open as the new CEO worked hard to get all the staff to work together and how slowly they started to see a change as more and more companies in the Atlantis area donated funds and gave them contracts for the work centre. They got most of their contracts from motor manufacturers in Atlantis. She was later promoted to Finance Manager due to her work ethic. It was during the time that Ms Van Wyk was CEO that she was sent on finance courses so that she could be more effective at her job. She is so grateful that Ms Van Wyk did not give up because she remembers how the staff did not like her at the beginning and did not want to be led by a woman. However, by the time she left, they were sad to see her go as they had grown to appreciate and respect her.

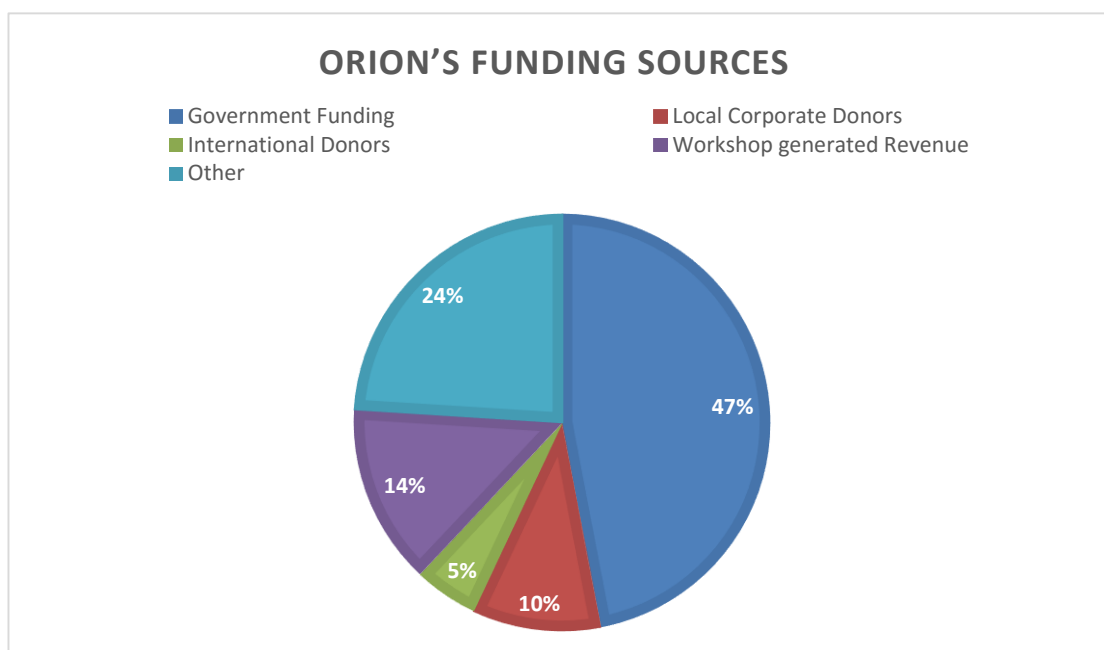
Ms Cedras shared records collaborating Ms Cronje's interview showing that Orion Organization is up to date in its submissions to the DSD and SARS. Follow-up with the DSD revealed that the only exception was the 2012 report which was not submitted. These submissions include narrative summaries, financial statements, and tax returns. Orion also regularly produces audited financial statements, and annual reports which are available on the organization's website. Ms Cedras also stated that Orion also has Black Economic Empowerment (BEE) status and actively seeks to maintain a diverse workforce, as the majority of staff are classified as "black" or "coloured" according to the race categories. The CEO is the only non – black staff member. Challenges to this include annual staff turnover.

The transparency of its accounting procedures and availability of documents makes Orion a credible recipient of local and international funds. Orion uses Pastel software and the finance manager is the only one authorised to make payments with authorisation from the CEO. The system is automated with encrypted signatures and no payments are made without at least two signatures from the authorised signatories.

Orion's current sources of funds are indicated in diagram 4 below. As stated previously, Orion's annual budget is R7-8 million a year. Ms Veronica Pronk, the Fund

Development and Marketing Manager stated that their fundraising strategy is developed together with board and senior management and reviewed annually. She as the Fund Manager is responsible for its implementation and meeting fundraising targets. Ms Pronk also mentioned that the management's current plan for sustainability led to the successful workshop initiative which employs the disabled at Orion Organization. The workshop secures contracts with companies and is self - sustainable. The vision post – 2016, is to secure additional contracts so that more disabled people will have access to this employment opportunity

Diagram 3: Orion's Funding Sources



Ms Pronk further elaborated on the percentage contributions from the various sources. The government funding (47%) is restricted funding only to be used as specified in the funding agreement, and only 8-15% of that can be used towards staff salaries. The reporting requirements for the funding are quite stringent. Orion is expected to account for every cent spent and explain any departures from what was contractually agreed.

Most of the corporate funders (10%) prefer to donate towards specific projects which are measurable, tangible and can be easily branded to market their companies. For example, they recently received funding from Lasedi for upgrade of their loading zone. To date no corporate funders at Orion have funded overheads or salaries. The workshop

generates 14% of the organisation's income through contract work from local manufacturers to complete simple assembly-line projects that residents of Orion can do.

The international funding (5%), the smallest slice of the pie, comes mostly from an individual funder based in Germany. The rest of the funding (24%) comes from various fundraising events and initiatives that Orion embarks on such as selling art from their art centre, fund-raising drives and their vegetable garden.

Ms Cronje acknowledges that the organisation has experienced a number of financial challenges over the years. What has enabled them to pull through the recent financial crisis has been the fact they had some money in their investment account which they could draw from while waiting for the regular funding to come through. Ms Cronje admits that this is not necessarily good business practice, using money that was allocated for one purpose to cover salaries and running costs, but she is grateful that they had that safety net and this money will need to be returned to pay for what it was intended for initially. "In such circumstances we have no choice" she stated, as the unpredictability of funding in the sector and the recession in the economy "hit us very hard".

When asked whether she considers the organisation to be sustainable, Ms Cronje did not hesitate. "Yes, but our fund-raising should be much more focused and we would have to find income-generating streams other than the workshop. I am now starting consultations to look at an income stream that will run parallel to our other activities to generate money".

According to Ms Cronje, the other reasons that Orion decided to be registered as an NPC was to give the board more authority as the governing structure in the organisation. The board is comprised of people with varied skills and expertise, so they are able to discuss such matters from different perspectives and more in depth. This meant that the decision-making process was more streamlined and in the hands of individuals who were actually qualified to make such decisions. As an NPC the board was more accountable to funders and is in a better position to attract funding from new donors that prefer working with organisations registered under the Companies Act, which

enforces good governance practices. Ms Cronje states that she has found it highly beneficial for the organisation to be registered as an NPC.

In summary, Orion's current annual funding budget is R7-8million. They have varied sources of funding; however, there is an over-reliance on government funding which constitutes 47% of their total income; 24%, which is almost a quarter of their income, comes from 'other' sources, which was noted as irregular and unidentified, though the organisation recently appointed a dedicated fund manager to secure alternative sources of funding. The organisation has an adequate accounting systems; however, they fail to link funding to programme quality and outputs.

4.7 A Donor Perspective

An interview was conducted with Ms Mabel Sithole the Grant and Finance Officer at Skillshare International (at the time of this research). Skillshare International (referred to as Skillshare) is one of the organisations that provides finances and human resources to support Orion's sports programme for people with disabilities. Skillshare International began working with Orion in 2011. As mentioned in the introductory chapter, Skillshare International also funded four other organisations in the Western Cape that were part of its baseline assessment in 2013. As a donor organisation that expects Orion to comply with specific governance practices in-order to receive funding from it; Ms Sithole's interview provided a unique perspective of Orion Organisation.

In her interview, Ms Sithole revealed that among the various organisations that Skillshare works with in the Western Cape, Gauteng and Durban; Orion has been in operation for the longest period. She has found most of organisations they assist to have "poorly constructed medium – long term strategy for leading staff and steering programmes". She believes the reason "is partly because these organizations are fairly new in the non – profit sector in comparison with Orion Organization which has been in operation for over 30 years. It is not far – fetched to conclude that an organization's years in operation correlates with its experience in managing its programmes." She added that organisations needed to have a sustainable approach to their programme

designs which can only be achieved through the implementation of strategic and long term business plans.

When asked if Orion was always compliant with Skillshare International's funding requirements, Ms Sithole's responded by saying, "our observations were that Orion Organization demonstrated higher levels of compliance [than the other organisation they worked with], perhaps because they have been registered [with the DSD] for a longer period and are more established than the other organizations." She believed that Orion was in a better position to comply with Skillshare's funding requirements because the requirements of donors are often in line with compliance requirements of the DSD, CIPC and SARS, which means if an organisation is already meeting those requirements they will find it easy to comply with donor requirements. The organisation in question will already know what to expect, and has the systems and personnel in place.

As a donor recipient, Orion is expected to submit monthly narrative and financial reports to Skillshare International. This maintains some level of accountability for finances and programme implementation but is not sufficient in itself. Over and above that Ms Sithole confirmed that Orion produces annual reports that outline its activities and financial statements. These are published on the organization's website and are easily accessible. She added that "Orion Organization has attempted to monitor and evaluate its programme implementation. Programmes and individual staff are evaluated every year and a quarterly action plan is reviewed to monitor progress." She however believed Orion's programme monitoring and evaluation was weak and needed to be strengthened to track the impact that their donations were making in the community.

Ms Sithole also commented on the level of skills of Orion staff; "the skill level of staff impacts on the transparency and accountability, as well as the overall credibility of our partner organizations" and Orion Organization scores well in this regard. Orion Organization is on a drive to retain and acquire skilled personnel in the disability sector including physiotherapists and social workers.

In relation to the board and whether Skillshare found that it was effective in its role, Ms Sithole stated that when they last assessed Orion Organization, the board had only four out of the required seven members who occupied the positions of chairperson, deputy – chairperson and secretary. Since that assessment in 2013, Orion has added more board members which has greatly improved its effectiveness. The board members hold a number of skills and experience ranging from law, art, business management and trauma counselling. Skillshare has found the “wide range of skills adds value to Orion Organisation’s management team.” As a donor organisation funding Orion, the existence of a strong board assures them that their funds will be properly accounted for and used for the intended purpose. Should this not be the case, Skillshare can easily follow up with the board and hold them liable. This promotes good governance practices through-out the organisation.

4.8 Conclusion

NPOs are called upon now more than ever to be reliable and have a stable fiscal and programmatic infrastructure if they are to achieve long-term sustainability (Jennings, 2005:39). The assessment of Orion revealed that they have weak programme monitoring and evaluation systems, and their HR systems also needed improvement. The high turnover among care workers, a result of abuse of beneficiaries, is also an indication that they need to drastically improve their HR processes. They are not able to report on the impact their programmes have had in their community, which would in turn make it difficult to attract new funders. However, this does not seem to have had a role in the long-term sustainability of Orion. This may be because their main funding comes from the government, which has been funding them for a significant number of years. The ability to show programme impact is crucial in attracting new funders, who want to see where their money is going and the impact the programme has had.

Despite some of the flaws mentioned above, Orion has grown into a medium sized non-profit company that is recognised as a reliable organisation because it adheres to governance practices that promote transparency and accountability. Over the years, Orion Organisation has grown in reputation, winning the Hamlet Foundation national award and being featured at least twice in *Leadership Magazine* for its contribution to persons living with disabilities. However, to maintain its long-term sustainability the

organisation needs to attract new funders. Quoting Alida Raubenheimer, 94.5Kfm news anchor and Orion Patron, “A business’s success can no longer be measured by its trendy brand personality or unique style to attract tomorrows market share ... it’s all about accountability and the key is social corporate investment with real value” (*Leadership Magazine*, 2008:77) Orion therefore needs to implement a strong monitoring and evaluation system that can clearly show their programme impact if they are to continue to exist for another 20 years.

Chapter 5 – Discussion of Research Findings

5.1 Introduction

The case study of Orion discussed its history, its growth to what it is now and its governance practices over the years. Orion's board, leadership and in turn governance practices have not always been in line with the Codes of Good Practice. This has had a role in the organisation; it led to their losing funders, they came close to bankruptcy and were at one stage facing insolvency. It is important to note that though Orion went through periods of poor governance practices, the organisation learnt from its mistakes, restructured and implemented the principles and practices of good governance that were discussed in previous chapters. The case study revealed evidence of a relationship between governance principles practised at Orion and the sustainability of the organisation.

In assessing Orion's systems and processes the researcher interviewed various key staff members such the current and former CEO of Orion, the Finance, Administrator and HR Manager, the Services and Social Worker Manager, the Fund Development Manager, an external donor agent and in addition to the interviews reviewed the organisations financial records and narrative reports. It was also important to review information provided by external sources to verify Orion's internal records such as SARS and DSD submissions. Both print and internet media provided context on how Orion was perceived by various stakeholders and the community. The findings from the case study are discussed in this the sections.

As stated earlier in this study, the six governance principles are interconnected and overlap in practice. One cannot attribute the sustainability of an organisation to one principle alone, but rather it is the collective implementation of all six principles that promotes the sustainability of an organisation. However, for the sake of this discussion we will look at each of the six principles separately in assessing how that particular principle contributed to the collective and played a role in the sustainability of Orion Organisation. We shall begin by discussing the concept of authority.

5.2 Authority and Sustainability

In Chapter 2 we established that there are two offices that represent authority in an organisation: the governing board and the CEO/management. The board has governing authority, while the CEO has operational authority. Let us first discuss governing authority.

The Orion case study revealed that there was a correlation between a weak, ineffective board and a weak, ailing organisation as was evident in Orion's early years. It is noted that during the time that the Orion Organisation was close to bankruptcy and was facing imminent shut down, the root causes could be traced back to a dysfunctional board and in-house fighting, a result of weak leadership in the organisation. The inability of the board to carry out its mandate had dire consequences for the organisation; at this point Orion was unsustainable. The case of Orion illustrates Brinkerhoff's discussion on sustainability, Orion was unable to produce outputs that were valued sufficiently by beneficiaries and other stakeholders enough to leverage for the organisation to receive enough resources and inputs to continue production. (1991:22). Funders were pulling out, staff were walking out and beneficiaries were unhappy. Had this situation remained unchanged, one could conclude that the Orion Organisation would have closed its doors.

The literature in chapter two discusses how there are so many non-profit organisations in developing countries that limp along with just enough resources to remunerate their staff but fail to provide useful services and functions beyond employment for the few. Such entities are believed to contribute very little to socioeconomic development, and, worse, they are said to create deficits.(Brinherhoff, 1991:22) Jordan stresses how NPOs need to understand how their futures are intertwined with donors and how a strong board and good governance practises go a long way in promoting their long term survival (Jordan, 2005:10). "Ultimately, it is the Board, by whatever name it is known, which bears primary responsibility for ensuring that an NPO remains true to its values and principles, faithful to its mission, and effective in carrying out its public benefit activities, in the public interest. The 'buck' stops with the Board" (Working Group, 2012:4).

When assessing Orion's operational authority, a similar pattern is evident. Orion's leadership team was weak, with the CEO absent for a significant period after he fell ill because of the pressure of running the organisation. The CEO did not provide the organisation with the vision and direction it needed to drive it forward during this tumultuous period. Melville Segal's leadership had been adequate when Orion was small, but as it grew in size and added new programmes, it needed a more formal structure, proper governance practices, and better systems and processes. The value of strong authority from both the governing body and the CEO cannot be underestimated.

It is therefore important to note that Orion's turnaround occurred directly after the appointment of a new CEO and restructuring of its board. Though Orion's sustainability now is not as result of these two actions *alone*, they certainly had a role in Orion becoming the sustainable organisation it is today. Why were the authority bodies in Orion so significant? As discussed in the literature review, having a strong governing board is essential for the long-term sustainability of an organisation as it lays the foundation for the organisation's vision and mission, which in turn inform its operations. The board is then accountable to funders and to the public for use of the resources entrusted to them, while it holds the CEO accountable for how he or she manages the organisation. Without this, an organisation tends to drift aimlessly as was evident at Orion; it becomes vulnerable to in-house fighting as individuals jostle for the power; it is prone to developing weak financial systems as there is no-one to hold accountable and funders consequently lose confidence in the organisation. An organisation that wants to adopt good governance practices must begin with appointing a strong board and a capable leader. The next section examines the relationship between leadership and sustainability more closely as we draw lessons from Orion.

5.3 Leadership, Direction and Sustainability

Leadership and Direction go hand in hand. One of the key responsibilities of a CEO is to direct the organisation and ensure that it meets its strategic objectives. The discussion will draw out the relationship between these two principles and sustainability by looking at how their effective application at Orion contributed to the organisation being pulled from the brink of bankruptcy to becoming an award-winning sustainable organisation.

The case study shows that one of the factors leading to the turn-around of Orion was the ability of the CEO, Ms Lizelle van Wyk, in identifying the problems resulting from a weak ineffective board and fragmented leadership team, and realising that these two structures needed to be strengthened first if the organisation was to be prevented from declining into bankruptcy. Only after this could good governance practices filter down to the rest of the organisation, a notion supported by other studies in this field: “The chief executive also sets the tone at the top, establishing a foundation for good governance” (Institute of Internal Auditors, 2014:1).

A quotation from *Leadership Magazine* did not paint a positive picture of the state of the organisation when Ms Van Wyk took over: “this non-governmental organisation was in financial turmoil and in real danger of bankruptcy; its image was in tatters and trade union action lurked. Donors, the life and blood of an NGO of this nature, threatened to quit in disgust” (*Leadership Magazine*, 2010:37). The article goes on to state how it was a testament to Ms Van Wyk’s leadership abilities that she was able to lead and direct the organisation through this difficult period and out the other side; a view shared by Orion staff as evident in the interviews above. The case study of Orion was able to show the impact that a good, capable leader can have on an organisation, even one close to bankruptcy. Ms Van Wyk states in the interview that her strategy was centred on the implementation of good governance practices across the organisation. She sought the help of the Department of Social Development and began systematically working through the organisation from the top starting with the board, then the staff on the ground, and assessing systems in every department. She had a vision for the organisation and was able to inspire her staff to be part of the transformation process. Without a clear vision and strong hand directing the organisation, Orion’s future survival was not likely.

The introduction of staff training, proper financial systems, HR policies, department programming, and reporting and disciplinary procedures all contributed to organisational stability within a few months, which in turn led to a drop in staff turnover and a growth in staff morale. As the organisation achieved more stability and became more accountable to its existing funders, it was able to attract even more funding, which was crucial to make Orion sustainable.

The relationship between good leadership and sustainability is apparent in this case study of Orion. A strong CEO and/or a capable board are crucial in promoting sustainability. Orion's sustainability was a direct result of good leadership, since leaders are the drivers of good governance practice in a non-profit organisation or company. Having discussed authority, leadership and direction, we shall now look at accountability and stewardship.

5.4 Accountability, Stewardship and Sustainability

We begin this section by referring back to the literature review, which discussed accountability and stewardship in great depth. Stewardship was defined as the "careful and responsible management of something entrusted to one's care" (Merriam-Webster.com, 2016), while accountability was defined as serving or providing an explanation for one's conduct, or answering for what has been entrusted to one (Oxford English Dictionary). Both accountability and stewardship refer to careful management of resources that have been entrusted to one. Resources are not limited to finances, but include efficient management of time, human resources, non-monetary donations, assets and so on. But how does careful management of resources impact on sustainability? We draw findings from the Orion case study in answering this question.

In assessing Orion's life cycle to date, a general trend emerges; as Orion becomes more accountable in managing donor funding, programmes, human resources and its capital, we see that it is able to retain its funders and attract new funding. The opposite is also true; during the time when Orion had no accountability structures, funders were pulling out and the organisation was close to bankruptcy. Donor agencies, the government and the general public perceive organisations that are accountable and transparent as good stewards of resources and are more likely to trust them with funding and programme delivery. Since NPOs rely on donations and grants for their survival, this is of paramount importance.

There are various mechanisms that have been put in place by the government and non-profit institutions to promote greater accountability in NPOs, such as the Codes of Good Practice, the NPO Act and the Companies Act. The implications of these codes and Acts were discussed in great detail in Chapter 3. In Orion's case it was only after Orion registered as an NPO that it was able to secure government funding. The registration requirement with the DSD and SARS also meant that Orion had to improve its

governance structures in order to comply with some of the registration and reporting requirements. Though this alone was not enough to guarantee that the organisation was sustainable, the secure government funding that the organisation obtained as a result of their compliance gave the organisation a lot of stability. Skillshare International one of Orion's donors confirmed that in the five years they had been partners; "Orion Organization demonstrated higher levels of compliance [than the other organisation they worked with], perhaps because they have been registered [with the DSD] for a longer period and are more established than the other organizations."

All these factors worked towards giving the organisation greater credibility. Orion's registration as an NPC had further benefits for the organisation in terms of improving its legitimacy, especially among donors (as noted in the case of Skillshare International). Ms Cronje described how some funders would give the organisation money only if they could provide them with a section 18 certificate (which has tax benefits). Ms Cronje attributes Orion's improved effectiveness in programme implementation and efficient use of resources to management's decision to operate according to business principles and move away from the traditional welfare model. This decision stemmed from the organisation's transition to becoming a non-profit company.

Orion's stability; a result of its sustainable financial stream can be directly linked to when it cleaned up its governance practices and become accountable to its board, to government, to external authorities such as SARS, CIPC and DSD and ultimately to its community. It was only after Orion was registered as an NPO that it was regarded as a reliable and legitimate organisation. Implementation of good governance practices increased its ability to effectively implement programmes; a result of improved control and accountability structures. Consequently, when looking at the role of governance principles such as accountability and stewardship on the sustainability of an organisation, there is no simple and direct cause and effect relationship, such as saying that if you do ABC then XYZ will be the result. Rather, it is necessary to understand that being accountable and a good steward will improve the quality of operations in an organisation, which means that it has a better chance of becoming sustainable, while the absence of accountability structures is associated with failing organisations.

5.5 Control and Sustainability

An assessment of Orion's systems and processes found that weak financial and programme controls were detected when the organisation was facing bankruptcy and close to possible shutdown. Subsequently the implementation of strong control systems was noted as one of the factors that contributed to its drastic improvement. Ms Van Wyk, the CEO during Orion's growth phase, sought professional assistance from the DSD to review all the systems and processes in the organisation. The result of this process was the implementation of financial, HR and programme control systems that led to increased accountability, improved departmental performance, reduced employee turnover and efficient use of resources in the organisation. The Services and Social Worker manager, Mrs Harker explained how their department were subject to physical audits by the DSD to ensure their compliance and that the facility maintained the required health standards.

All the measures above reduced the likelihood of staff misusing resources as this could easily be picked up by management and lead to disciplinary action. It also meant that money coming into the organisation was traced and every rand was accounted for as a result of the improved financial systems. The finance manager went on training courses, which improved her efficiency at her job. Staff could no longer come and go as they pleased; they were now held accountable for their departmental performance, which led to an improvement in programme quality throughout the organisation.

Orion seems to have maintained and improved on these control systems to date, a fact that was clear in Ms Sithole's interview, the Grant and Finance office from Skillshare International. She stated how they have been funding one of Orion's programmes for five years and had found their compliance and control systems to be satisfactory, in her words "our observations were that Orion Organization demonstrated higher levels of compliance [than the other organisation they worked with]", Ms Cronje stated in her interview that "our organisation is running on strong management elements, so you know where to go for what and who is responsible for what". The growth of the workshop and the more specialised departmental focus seem to support Ms Cronje's statement. Their financial books revealed that Orion has been able to secure contracts from corporates to assemble simple parts in their workshop over the years, which

currently contributes to 14% of the organisation's income. The organisation has experienced significant growth over the years, with additional wings being built on the premises and more programmes being offered at the centre. Based on these findings, the researcher notes how strong control systems increased accountability in the organisation, which together with the other governance principles promoted Orion's sustainability.

5.6 Other Findings

In studying the case of Orion, the researcher noted three matters of concern that may jeopardise Orion's sustainability in the future. Firstly; it was noted that Orion has a weak programme monitoring and evaluation (M&E) system. M&E systems provide a mechanism to monitor programme quality and measure deliverables against set objectives. Jennings goes on to say how NPOs are called upon now more than ever to be reliable and have stable fiscal and programmatic infrastructure if they are to achieve long-term sustainability (2005:39). An analysis of Orion's reporting system revealed that Orion does not have an internal M&E system. Ms Cronje, the current CEO of Orion, mentioned in her interview that they rely on monthly department reports to monitor their programmes. Reports can easily be manipulated and they often report on the past, when it's too late to address any urgent problems. Orion is reactive in its approach to programme monitoring, only adding additional reporting controls if required by a specific donor to do so. Though this approach to M&E does not seem to have led to any loss of current funders, the organisation's management has indicated that it is struggling to get new funders. The reason for this may also be the current economic climate, but one cannot rule out the negative impact of on organisation's inability to show the impact that their programmes have in the community through both quantitative and qualitative data.

Secondly, linked to Orion's weak monitoring and evaluation policy is its inability to measure its effectiveness and efficiency across the organisations. It is important to note that the leadership of Orion have never seen the need to do so, a sentiment shared by a few non-profit leaders. The study by Johns Hopkins showed how few leaders of non-profit take efficiency seriously, possibly because they perceive their role in society as merely meeting a basic need and thus quality of service and efficiency is not of high

importance. This mentality is not justified as that same study showed, beneficiaries surveyed perceived efficient and effective services as of high importance. Effectiveness and efficiency, raises questions regarding capacity and performance over time. Yes, the organisation has managed to survive for the last 20 years but has it done so by using its resources efficiently and effectively, could the organisation have done more or performed better? Are there other opportunities for growth and development there may be neglecting? As was discussed earlier, sustainability is not merely about survival.

Thirdly, Orion relies heavily on government funding, which constitutes 47% of their income. The availability of this grant for the last 20 years has allowed for stability in the organisation. It has ensured that the organisation can always care and provide for its residents and cover overhead costs. Over the years Orion was able to diversify its funding base and secure consistent donations from loyal donors. However, after the manufacturing industry in Atlantis shrank, they lost some of their core funders and have since struggled to get the level of diversified funding streams they enjoyed while Ms Van Wyk was CEO.

Over-reliance on one funder and weak M&E systems are poor governance practices; however, these two factors do not seem to have had significant negative consequences for the survival of the organisation, though it has certainly been challenging. Should the government funding ever be pulled out or payment delayed (as was the case at the time of the interview), operations will come to a halt as salaries and overhead costs will remain unpaid. As mentioned in Chapter 4, Ms Cronje acknowledges that the organisation has experienced a number of financial challenges over the years: “unpredictability of funding in the sector and the recession in the economy hits us very hard”. The last time that government funding was delayed they had to use money donated by another funder for a specific project. This led to a delay in delivery of that project, but if this happens too often it will jeopardise the credibility of Orion. This is why diversified funding streams are crucial for NPO that rely on donations for their survival.

5.7 Conclusion

In summarising the findings, we revisit the question that we started with: What role is the governance in the sustainability of Orion Organisation? Chapter 4 provided an

overview of the governance practices applied at Orion over the years it has been in existence, while Chapter 5 discussed these findings and the impact governance principles had on Orion's sustainability. The assessment revealed that the period during which Orion experienced poor governance coincided with the time the organisation was on the brink of bankruptcy, had a high staff turnover rate and there was in-house fighting for leadership. It is important to note that the introduction of good governance practices at the time of the change in leadership was a turning point for Orion. The organisation flourished under the new CEO, who spearheaded an overhaul of the board, leadership team and governance practices in the organisation. Though Orion still needs to diversify its funding, assess its efficacy in utilising resources and improve its HR policies and M&E systems, the organisation currently adheres to good governance principles and practices. It has an effective board of directors and strong leadership that ensures that the organisation is accountable and meets its strategic objectives. It is thus the key finding of this research that good governance practices play a significant role in the sustainability of Orion. Poor governance brought Orion to the brink of bankruptcy, while good governance practices have led Orion to flourish and achieve long-term sustainability.

Chapter 6 – Recommendations

6.1 Introduction

The previous chapter discussed the findings from the Orion case study, which provided evidence of the impact of both poor governance and good governance on a non-profit organisation. In drawing lessons from the case study one cannot ignore the influence of geographical and political location on the governance practices of an organisation. The application of the recommendations made in this chapter must always bear this consideration in mind. This research, however, remains useful in emphasising the role that governing boards and leaders of non-profit organisations play in creating an environment conducive to the sustainability of an organisation through the practice of good governance regardless of the location of the organisation. Various findings were highlighted in the previous chapter, drawing attention to Orion's strengths or where it could have made improvements. The aim of this chapter is to make recommendations based on the case study and the literature review that is applicable and valuable to non-profit practitioners seeking to promote the sustainability of organisations in the non-profit sector.

6.2 Recommendations

1. It was one of the main findings of this research that an organisation's sustainability is largely a result of its sustainable programmes. "The value component of sustainability highlights the need for a program to produce something that stakeholders, both within the organization(s) implementing the program and in the program's environment-beneficiaries' and/or other interested parties-want enough that they are willing to allocate time, energy, funds, political support, and so onto ensure the program's continuation" (Brinkorhoff, 1991:22). It was found that good governance practices provide a conducive environment for sustainable programmes. It is therefore crucial for non-profit leaders to understand this link and how crucial it is to achieve this balance over a sustained period. Non-profit leaders need to put greater emphasis on the quality and efficacy of their programmes, in-order to make a good case to funder to continue receiving their support. "Non-profits must continually seek the most

bang for the buck” (Jordan, 2005:24). Merely meeting a need such as providing ‘shelter’ for instance, is not enough. To compete for these limited resources and be sustainable NPOs need to show the quality of the shelter, cost vs benefit, maximum number of beneficiaries assisted at optimum value etc. This is not possible with poor governance practices. NPOs thus need to design and adopt effective ways of measuring organisational out-put and programme impact as a means of promoting accountability to funders and in turn attracting more funding.

2. It goes without saying that it is advisable for organisations in the non-profit sector to affiliate themselves with and subscribe to institutions that promote good governance practices. The case of Orion showed how it is not always easy for non-profit leaders to implement the governance principles without expert help. However, the more important question was raised by Jordan, “Perhaps the more appropriate query, and one that gets to the point, is how can community-based organizations use the current political and fiscal context to achieve quality accountability in terms of efficiency and effectiveness” (2005:24). One of the options available for NPOs in South Africa is to adopt the Codes of Good Practice. By registering for the CGP they subscribe to a network of similar organisations that will provide them with continual support and promote good governance practices in the non-profit sector.

Some of the NPO and government partnerships demonstrated in other countries such as India and Brazil where there is “genuine partnership to tackle mutually agreed problems, coupled with energetic but constructive debate on areas of disagreement” (Clark, 1991: 8) is something that the South African Non-profit sector should explore. The hand -out mentality where NPOs are mere donor recipients of government funding is not sustainable. Power balanced partnerships, where open debate is welcome in seeking constructive solutions to meet community needs is a more healthier and sustainable solution.

3. It is also recommended that the CGP have penalties for organisations that fail to comply with the codes. Registration and adoption of the Codes is currently voluntary and self-regulated, which is its inherent weakness. Establishing

consequences and introducing audits by an external independent body would strengthen the codes and elevate the level of governance in the sector, which would in turn assist more organisations become sustainable.

4. Chapter 3 also discussed the various forms of registration one can choose and the implications of each. The conclusion reached was that formal registration is vital in promoting good governance practices however the choice of form of registration should go beyond what is easy and convenient now, but should also consider the size of the organisation, the structure, the kind of work it will be engaged in and the size of its funding budget. This may seem like common sense and not something one would need to conduct research to arrive at, but as the review above pointed out, most NPOs in South Africa are voluntary associations with no formal registration or accountability structures, 95% to be exact. Why such a high percentage if there is obvious value in being registered. Formal registration is often regarded as cumbersome, perceived as expensive and something that only big international NPOs do. This study has argued that this is not the case. This perception needs to change if community based organisations in South Africa are to become sustainable and compete for funding both locally and internationally.

It is recommended that the bigger the organisation, the more complex its structure and the more funding it handles, the more important it is that it register as a non-profit company (NPC). Even if it starts out as a VA, it can register as an NPO and change form of registration at a later stage as it becomes more established. Registration as an NPC provides more structure, more accountability and more credibility as far as funders, banks and the government are concerned. The value derived from improved governance systems and practices far exceeds the ‘hassle’ of being certified as either an NPO or NPC.

5. The role the community plays in holding an organisation accountable and in turn promoting its sustainability is often ignored. “Douglas Imig, a Professor at the University of Memphis believes that yet another component of non-profit accountability is a satisfactory balance between meeting client needs and chasing grants solely in response to the resource environment” (Jennings,

2005:25). One of the reasons why Orion has been sustainable and in operation for over 25 years is because it provides a much needed service for people living with disabilities in Atlantis. The only such organisation in that community. It has a unique 'selling point'. Over the years, it has diversified in the programmes it offers but has remained true to its core mission. NPOs need to remain focused and develop long term strategies that clearly articulate what they do, what benefit they provide and not change focus every time a new grant is advertised. It is the recommendation of this research that non-profits develop a more comprehensive approach in their interaction with the public and clearly show how they add value to the public. This would not only assist in garnering public support but position them with specific donors that only fund certain initiatives.

6. It is strongly recommended that non-profit organisations choose their board members and/or board of directors carefully. Again, this point may seem obvious. However, the reality is many community based organisations do not have boards at all, let alone effective ones. When Skillshare conducted its audit of five of its partner organisations as discussed in the introductory chapter, only three out of five organisations had boards let alone effective boards. This is just a small example of a bigger problem of the state of NPOs in South Africa. The board should be selected based on experience, qualifications, networks and the value they bring to the organisation. The board should be strong enough to bring the CEO to account when required, but also to trust the CEO to do his or her job and not interfere with the day-to-day operations of the organisation. As evident in the early years of Orion this is something boards of NPOs do not always understand. The board should provide oversight authority in a non-profit organisation and not day to day operational authority.

The literature review and the findings reveal that there is a direct correlation between a weak ineffective board and a weak organisation. In 1993 Orion was on the brink of bankruptcy; it is not surprising to find that at this time the board did not understand its role, had people appointed based on friendship and family relationships, and that they did not have the necessary skills to govern an organisation. It is important to note that a change in the board also resulted in an improvement in the overall state of the organisation. It is recommended that

organisations that identify problems in their board seek help from departments such as the Department of Social Development or institutions such as Inyathelo, which assist organisations with promoting good governance practises. Training of board members and of the leadership team is an effective way of strengthening the board and in so doing the organisation.

7. One of the main functions of the CEO, as mentioned in the CGP, is ensuring the financial stability of an organisation. It is recommended that leaders of non-profit organisations acquire some financial management training and understand the basics of accounting and financial systems. It is crucial that sufficient time is allocated to mobilising resources and fund-raising, because non-profits are highly dependent on donor funding. Reliance on one source of funding should be avoided, rather every leader/CEO should have a funding strategy that prioritises establishing various sustainable funding streams. The value of diversified sources of funding cannot be over emphasised. Good financial management is a crucial part of organisational governance and one of the main determinants of an organisation's long-term sustainability.

8. Something Orion seems to have understood but needs to develop further is 'social entrepreneurship' implementing profit making projects that have a social value to cover some of the organisation's operating costs. "Social Entrepreneurship refers to individuals who, according to Andrew M. Wolk, president of Root Cause Institute, are innovative, resourceful, and results oriented addressing the root cause of a social issue. As leaders, social entrepreneurs draw upon the best thinking in the business, non-profit, and public policy worlds to develop strategies that maximize their social impact" (Jennings, 2005:39). Orion runs a workshop where people with disabilities assemble simple products, of which they charge businesses for the service. It brings money into the organisation and provides much needed employment, exercise and a sense of fulfilment to people with disabilities.

Less and less funders are interested in funding organisational overheads preferring funds to be directed solely to programmes. However, one needs human resources to run these programmes and facilities to run the programmes

from. NPOs need to be more creative and think beyond the traditional welfare approach of development work. ‘Social entrepreneurship’ is becoming increasingly popular in the more well established organisations. If NPOs are to be sustainable in a climate where the donor pot is getting smaller and smaller, there is need to design and adopt creative funding strategies such as these.

9. Jennings describes leaders as the ‘linchpin’ of the non-profit sector (2005: 41). A linchpin is that vital component necessary for the day-to-day functioning and survival of an organisation. Leaders (or more specifically their absence) have the power to derail an organisation or elevate it to another level, as was evident at Orion. Orion came close to bankruptcy when it did not have a CEO but had a weak board, yet that soon changed when a strong, visionary leader took over. It is recommended that non-profit organisations pay close attention to the requirements of a CEO as detailed in the Codes of Good Practice – passion alone is not sufficient.

Leaders of NPOs also need to complement experience with education, both formal and informal. It is recommended that leaders enrol for management training, obtain relevant qualifications for their chosen field, if they haven’t already done so and are in a position to do so. Besides formal training, a further recommendation is that leaders seek out mentors who have faced similar challenges, know the sector well and can give one support and act as a sounding board. A mentor should not only be someone one is comfortable turning to for guidance, but an individual who challenges you and can hold you accountable. Too often non-profit leaders have a haphazard informal way of running their organisations, which does not inspire confidence in funders and the community. Knowledge and information empower one to think critically and creatively in seeking out solutions to problems and in the day-to-day running of an organisation – a necessary skill in the non-profit sector.

10. In addition, leaders need to be self-aware by recognising their strengths and weaknesses. A good leader recognises that they cannot do everything on their own; they need a supportive management team and buy-in from the entire organisation to implement good governance practices in the organisation. It is

recommended that leaders hire people with the skills needed in the organisation and seek external professional assistance to fill in gaps that may be lacking in their own organisations. There are several institutions that offer specialised skills to support non-profit organisations that have limited budgets, such as the National Development Agency. For example, “Since 2013, following the Summit recommendations, the NDA has trained over 5,000 civil society organisations to enable them to implement community development programmes successfully, comply with NPO legislation and account for funds that they receive from donors” (National Development Agency, 2016).

11. It is further recommended that leaders build a culture of good governance based on the mission and vision of the organisation and ensure that it is woven into the fabric of the organisation through the systems and processes in the organisation. The practice of governance cannot be applied as an after-thought, but must be deliberate and intentional. It is the leaders’ (CEO’s) role to drive good governance practices at every level of the organisation.

In summary, good governance is not just the responsibility of the board and the CEO of the organisation. It is the responsibility of every individual who is part of the organisation. The governance practices of accountability and stewardship are not as effective if they are not practised by the whole organisation; but one cannot exercise authority, leadership and direction if the people you are leading don’t accept and recognise your authority, leadership and direction as legitimate. It is therefore recommended that the point of departure in implementing good governance practices in an organisation is to get the buy-in of the entire organisation through training and open communication. Every member of the organisation needs to understand what governance is, why it is important, the role they themselves play and the value they add in ensuring the sustainability of the organisation.

6.3 Concluding Remarks

The aim of this research was to investigate the role governance in the sustainability of non-profit organisations and companies in South Africa. It is the conclusion of this study that good governance plays the role of creating a conducive environment for an

NPO or NPC to become sustainable. A ‘conducive’ environment based on the above research would be described as the following;

- An attractive environment to donors due to strong financial, HR and programme systems that reflect capable leadership, accountability, transparency and good stewardship.
- An environment that has strong programmatic infrastructure and sustainable programmes.
- An environment that promotes transparency and accountability to the beneficiaries of the organisation and the communities they work in.
- And an environment that attracts and retains the best calibre of staff.

Good governance practices create such an environment which in turn promotes long term sustainability.

Governance in the private sector has always been understood to be important as companies must be accountable to their shareholders. In the non-profit sector, governance seemed to take a back burner as the pressure to show profit was absent. However, as more and more donors demanded greater transparency and accountability, NPOs adopted a more reactive approach. This study seeks to urge leaders of NPOs and NPCs to take a more pro-active approach to governance by high-lighting the long-term benefits of good governance practices the crucial role it plays in sustainability of entities.

The literature review discussed the six principles and practices of governance; authority, accountability, stewardship, leadership, direction and control in detail, while Chapter 3 discussed how various forms of registration promoted the application of these principles. The Orion case study drew all these aspects together to provide a practical example of how the theory is applied and what the outcomes are. The Orion case study contributed a great deal to the researcher’s own understanding of governance; it provided context and intimate contact with daily institutional life, which was critical in bringing the practice of governance to life. The case study revealed that the successful application of good governance is often dependent on the institution’s interpretation of governance and understanding of the role each person plays in its application in the organisation.

The journey through Orion Organisation's life span demonstrated how weak governance practises reflected through poor leadership, an ailing board, inadequate systems and processes and poor programme reporting can have a correlating effect on the survival of an organisation. NPOs and NPCs depend on donor funding thus their support is crucial for their sustainability. Poor governance practices are a deterrent to donors. Though good governance alone is not sufficient to sustain an organisation, it creates a conducive environment for implementation of sustainable programmes, attracting and retaining experienced staff and portrays an image to donors that is attractive and inspires trust. The governance principles of authority, accountability, stewardship, leadership, direction and control practiced together in an organisation promote its sustainability.

The Orion case study also showed the importance of adaptability. Orion's growth pattern is characteristic of many non-profit organisations in South Africa. Often, they are founded in response to a need, with no formal registrations systems or governance structures. As they grow, this haphazard informal way of operating is no longer sustainable. However, most community-based organisations do not recognise this critical point in the life of the organisation and fail to transition successfully into sustainable entities. It is important that leaders of NPOs recognise the need to adopt good governance practices, systems and processes that will formalise their operations, promote accountability and give the organisations both the fiscal and the programmatic stability that ensure sustainability. Like Orion, it is organisations that navigate these phases successfully and effectively adopt good governance practices that remain sustainable.

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Appendix 1

The Board Effectiveness Quick Check

Organisation: Orion Organisation

Completed by: Ms Hannl Cronje

Position: Chief Executive Officer (CEO)

Date: 7 April 2016

Please complete the questionnaire by marking 5 – 0 next to the question.

Rating Scale: Agree Strongly (5); Agree (4); Agree Somewhat (3); Disagree

Somewhat (2); Disagree (1); Disagree Strongly (0)

1. This organization's orientation for board members adequately prepares them to fulfil their governance responsibilities _____4

2. This board is actively involved in planning the direction and priorities of the organization _____4

3. The board does a good job of evaluating the performance of the ED/CEO (Measuring results against objectives) _____5

4. This organization is financially sound (viable and stable) _____5

5. Board members demonstrate clear understanding of the respective roles of the board and ED/CEO _____4

6. The organization's resources are used efficiently (good value for money spent) _____4

7. The board has high credibility with key stakeholders (e.g., funders, donors, consumers, collateral organizations or professionals, community, staff) _____5

8. Board members demonstrate commitment to this organization's mission and values _____4

9. Board members comply with requirements outlined in key elements of the governance structure (bylaws, policies, code of conduct, conflict of interest, traditional/cultural norms, etc.) _____4

10. The board's capacity to govern effectively is not impaired by conflicts between members _____5

11. There is a productive working relationship between the board and the ED/CEO (characterized by good communication and mutual respect) _____5

12. I am confident that this board would effectively manage any organizational crisis that could be reasonably anticipated _____5

13. Board meetings are well-managed _____4

14. The board uses sound decision-making processes (focused on board responsibilities, factual information, efficient use of time, items not frequently revisited, effective implementation) _____4

15. This organization has a good balance between organizational stability and innovation _____4

Total of the 15 items _____66_____

Overall Score (Total divided by 15) _____4.4_____