Managing Strategic Challenges in Community Sector Organisations

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Abstract

Like those in other sectors, managers in community-based organisations face an uncertain and challenging future. Research and writing about the community sector (non-government, not-for-profit, or third sector) has canvassed a wide range of issues. A selective review of the recent literature reveals the breadth of research interest in the challenges facing community sector managers. While some reflection on the implications for managers of current economic and social policy contexts is crucial for this sector, research effort needs to be focused on understanding how third sector managers construe their current strategic challenges and the strategies they use to address them. A small sample of managers working in a regional area in South East Queensland was asked to identify current strategic concerns related to the future viability of their organisations. The key issues raised by managers are compared with the issues raised in the research literature. Results to date indicate that managers' concerns are reflected in the research literature, but that managers are also concerned about the current trends in social policy towards collaboration, amalgamation, and partnership. Implications of these findings for managers operating in this sector are discussed.

Introduction

Like their counterparts in the public and private sector, managers in community sector organisations are operating in a volatile and uncertain environment (Melville 1995). While not a primary focus of this paper, it is important to acknowledge the debate occurring in the literature about whether managing in this (third) sector is indeed different from the public or private sectors, or whether it is useful to identify community-based organisations as a unique sector of activity (Harris 1995; Leat, 1998; Najam 1996). There are many significant issues raised by this debate and a number of these are addressed briefly below. The primary purpose of this
paper is not to argue whether there is a unique 'third' sector of organisations. Rather, the intention is to acknowledge the major strategic challenges facing managers who work within organisations that primarily deliver a wide range of community services. In addition, organisations in Queensland are presented with the challenge of belonging to the 'Smart State'. While this challenge is generally applied to government and private sector organisations, managers in community sector organisations are not immune from the need to develop 'smart' solutions for the effective delivery of services and to ensure the future viability of their organisations.

Community service organisations represent a significant contribution to the Australian and Queensland economy. The community services survey conducted by the Australian Bureau of Statistics (ABS) in 2000 estimated that there were 5938 not-for-profit organisations providing community services in Australia in 2000, compared to 548 government organisations and 2800 for-profit organisations. Total expenditure on community service activities in all sectors amounted to over $12,500 million, and these organisations employed approximately 340,000 staff in total. In Queensland, 1318 not-for-profit organisations, 73 government organisations, and 497 for-profit organisations spent an estimated $1,949 million on the provision of community services (ABS 2001). These estimates suggest that these organisations provide a significant contribution to the Australian and Queensland economy, and represent a sizable employment base. Furthermore, some authors have suggested that the economic contribution of these organisations may be underestimated (Lyons 2001; Lyons and Hocking 2000).

Organisations in the community sector are not immune from the dynamic changes occurring in their respective environments (Crittenden 2000). Research and reflection about the influence of current economic and social policy contexts on the delivery of community services is important for the future of the community sector. The focus on Queensland as the Smart State has a number of important policy implications for the community sector. However, in the midst of the debate about social policy, it is important to listen to the voices of those who are responsible for the service outcomes delivered by the community sector. This paper reports on the progress of an exploratory investigation designed to listen to the concerns of managers working in those contexts. Firstly, the paper outlines a number of key areas of strategic focus for organisations in the community (or third) sector as identified in the recent literature. The strategic challenges identified by a small group of managers working in the youth sector in a South East Queensland region are compared and contrasted with the themes discussed in this literature. Results indicate that managers' concerns are reflected in the research literature, but that managers are also concerned about the current trends in social policy towards collaboration, amalgamation, and partnership. The implications of these findings for managers operating in this sector are discussed.
**Themes in the research literature**

Research and discussion regarding community or not-for-profit organisations, and the challenges of managing in them, have produced an extensive literature. It is not the intention of this paper to provide a comprehensive review of this literature. However, a selective review reveals a number of core themes. For convenience, seven major themes identified by Young (1997) are used as a basis for the discussion that follows, and a summary of these core themes is provided. An additional theme related to the identification and definition of the third sector is included.

*Definition of the sector.* Differences of opinion exist amongst researchers and practitioners as to what constitutes the third, voluntary, or community sector. The following quote best summarises this issue:

'...there has been no dearth of attempts to define what is variously referred to as civil society or the nonprofit, the nongovernment, the voluntary, the independent, the charitable, the philanthropic, the associational, and the third sector' (Najam 1996: 204).

Furthermore, there are those who question the utility of defining the third sector as distinctive, as this may create artificial boundaries that limit the cross-fertilisation of ideas from various streams of research common to all forms of organising (Booth 1998). In addition, there is debate about whether organisations in this sector constitute a specific or unique focus for research in their own right and whether the notion of the third sector is merely a social construction that serves political or other purposes (Leat 1998). While there are those who argue that the issues faced by organisations and managers in these organisations are unique, there are others who suggest that they are really no different to the issues facing managers in other sectors of the economy, particularly those in the private sector. Typically, organisations in this sector are characterised by a focus on service delivery rather than profit making, although this distinction is becoming increasingly blurred. In any case, the reality is that there are managers who work in organisations that are primarily focused on the delivery of community and welfare services and these managers face the somewhat daunting challenge of delivering those services in a complex and changing environment.

*Executive leadership.* The role of executive leaders during change is a common focus of research in the management literature (e.g. Kotter 1996). However, the focus on executive leaders or senior managers in not-for-profit organisations has been limited. It is tempting to conclude that managers performing senior management or executive roles in community organisations face similar strategic challenges to their counterparts in the private or public sectors. For example, Crittenden (2000) describes successful and less successful not-for-profits (defined using criteria such as the achievement of a balanced budget and targeted funding goals), in language that would not be out of place in a private sector boardroom. Nevertheless, executives in not-for-profit agencies operate in organisations that function with different incentives than for-profit organisations (Ferris 1993). In the private sector, the
challenge for executive leaders is to maintain strategic advantage and profitability. In the public sector, the focus is to maintain efficiency and effectiveness in an environment of public and political accountability. In the community sector, executives face funding, financial management and accountability issues in the effective delivery of services and these are the critical issues for the survival of community agencies.

**Strategic adaptation to change.** As indicated above, community agencies are not immune from the need to adapt to changes in their operating environment (McDonald 2000; Melville 1995). Economic, social, and political changes influence both the funding and accountability arrangements of community agencies, as well as the needs of agency clientele. Consequently, community agencies need to adjust and adapt their operating arrangements to meet changing service delivery and accountability demands. Some studies have examined the impact of a changing socio-political and policy context on organisations in this sector (see Frumkin and Andre-Clark 2000; Shoichet, 1998). In the search for solutions, questions have been raised about the applicability of strategic management models to the not-for-profit sector (Harris 1998). Serious gaps in the research on strategic planning in community organisations have been identified. A stronger body of evidence is required in order to limit the risk of ‘perpetuating myths about the value of strategic planning while disseminating normative planning models that may have limited utility in the real world of nonprofit management’ (Kearns and Scarpino 1996: 436).

**Financial resource management and development.** The research in this area has primarily examined the implications of funding in a competitive tendering and contracting environment (Lyons 1997; Nowland-Foreman 1997; Smith 1996). The future needs of community organisations, combined with limited or declining budgets from government sources, will require managers to develop multiple and alternative sources of funding to ensure the long-term sustainability of these organisations. In many cases, general operating grants to support core programs have been replaced by competitive project grants targeted towards specific outcomes with strict time frames (Frumkin and Andre-Clark 2000). These requirements suggest a need for resource and financial management skills, including contract management, that may not currently exist in some organisations or their boards of management, especially in small agencies (Alexander 1999). Furthermore, these challenges may force community agencies to consider alternative structural arrangements including collaborative partnerships or mergers (Golensky and DeRuiter 1999; Rapp and Whitfield 1999; York and Zychlinks, 1996).

**Accountability.** The importance of accountability for community organisations cannot be underestimated. In most cases, the major funding sources for community service programs are governments. In an environment of increased competition and contracted service outcomes, accountability for public funds to achieve those outcomes has become an essential component of managing community organisations. Accountability is a complex issue that has implications for both sides of the funding relationship (McDonald 1997), and accountability arrangements are changing as funding arrangements are altered (Young, Bania and Bailey 1996). However, it is
doubtful that policy makers know the success of funded programs, even with the plethora of performance indicators available, and the link between outcome measures and actual service delivery objectives is, at best, tenuous (Ryan 1997). A focus on outcomes that are difficult to measure represents a particular challenge to the community sector (Sheehan 1999). There is a need to design reliable, specific performance criteria for not-for-profit organisations in order for them to take advantage of business concepts. ‘Nonprofits face additional and unique challenges in applying concepts used in business practices, because frequently the performance criteria of the nonprofit world are vague, unspecified or unreliable’ (Sheehan 1999: 426).

**Structure.** As indicated above, there are many drivers for structural change in the environment of community sector agencies. As Young (1997) suggests, researchers have turned their attention to structural arrangements that organisations adopt in response to changes in their environments. Reviews of internal organisational structures and organising principles are often required as organisations adjust to their environments. New forms of organising through collaborative partnerships or amalgamations (mergers) are also being developed (Golensky and DeRuiter 1999). While managing such relationships in the private or public sectors is problematic to say the least, the negotiation of such relationships in the community sector is likely to present both similar and unique challenges (Cowin and Moore 1996; Schmid 1995; Singer and Yankey 1991). In a merger or amalgamation arrangement, the cultures of the partner organisations will inevitably be different and this raises questions regarding the ability of different organisations to work together given the potential clash of values and agendas (Golensky and DeRuiter 1999; Rapp and Whitfield 1999). The jury is still out on the effectiveness and suitability of many of these arrangements, although further structural innovation is possible as organisations seek to respond to environmental imperatives.

**Human resource management.** One of the major challenges for managers in this sector is the management of human resources, both paid staff and volunteers. People are a critical and essential resource for any organisation. It is difficult to recruit, train and retain ‘good’ people (O’Neill 1998; Young 1997). Furthermore, while more is known about the number of paid staff employed in the sector, and by what size organisation (ABS 2001) relatively little is known about the activities, skills, values, and expectations of these staff (Leat 1998). These are critical issues for effective human resource management in this sector. The presence and role of volunteers in the community sector is one area where significant differences occur with the private and public sectors. In some organisations, volunteer time is the critical resource that enables an organisation to function (Smith 1999). While it is likely that individuals will continue to volunteer their time to community organisations, taking account of their needs and involving them in the achievement of organisational outcomes presents a significant human resource management challenge (Dollard et al. 1999; Farmer and Fedor 1999; Harris 1998; Leat 1998).

**Governance.** The relationship between an agency and their board or management committee is potentially problematic and requires a significant degree of skill by all parties to manage effectively. Research suggests a strong correlation between
board performance and organisational effectiveness. Effective boards tend to be involved in policy formulation, strategic planning, program review, board development, resource development, financial planning and control, and dispute resolution (Green and Griesinger 1996). However, judgements of board effectiveness do vary across various stakeholder groups (Herman and Renz 1997).

Issues for managers in the community sector

All levels of government grapple with the challenges of enabling and facilitating the delivery of welfare and community services. Meanwhile, managers in community agencies delivering those services are increasingly required to respond to client service demands in a volatile policy environment. There is much we can learn from listening to the concerns of managers as they confront such challenges. The questions addressed in this paper are: 'What are the current concerns of managers working in the community sector?' and 'Do these concerns reflect issues relevant to the current social policy debate in the delivery of community services?'

As a first step toward providing answers to these questions, I invited a small group of community sector managers to attend a group discussion. The managers were called together to discuss the current strategic challenges faced by managers in the community sector. Participants were managers of organisations that provide a wide range of welfare services to young people in a particular region in Queensland. After a brief introduction, the managers were asked to discuss the following question:

'What are the current strategic challenges facing you in your operating environment?'

In particular, participants were asked to reflect on the challenges of managing in their particular context and to discuss how those issues have changed over time. The question was deliberately broad in order to canvass as wide a range of issues as possible. The session ran for approximately two hours. A number of issues were raised during a wide-ranging discussion and these issues have been pursued in a number of forums conducted for Community Managers. The main issues discussed in the group are summarised below and represent perceptions held by those present on that day. The list is in no particular order of importance, although the first issue raised by those present, and the issue that generated the most discussion, was the issue of collaboration across agencies and/or the amalgamation of agencies.

Collaboration/amalgamation. Clearly, the major concern of the managers present was the perceived pressure emanating from funding agencies to pursue the rationalisation of services, or the reduction of duplication, through collaboration across agencies and/or through amalgamation with other agencies. Managers argued that new government policy directions encourage and reward managers of community sector organisations to pursue collaborative arrangements with other agencies, or to explore possible amalgamation of agencies to rationalise services and their administration. Participants suggested that if they were forced to pursue these directions, they would generally prefer to explore collaborative arrangements with agencies rather than amalgamation.
While community agencies may be prepared to work towards collaborative arrangements, there is a perception that funding agencies would prefer amalgamation in order to save dollars, and that the policy is based purely on economics - not on improving service delivery. Larger organisations are a threat to smaller organisations in a competitive funding environment. Smaller organisations cannot hope to compete with larger agencies that have adopted a corporate infrastructure and use language and processes that funding agency bureaucracies understand. Smaller organisations seek security for local staff, address local issues, and service local clients. There is evidence from the corporate sector that the merged, acquired, and then eventually downsized, organisations are not necessarily the ones that do well.

Within this area of concern, it is most apparent that the economic rationalist agenda that often drives welfare and financial reform runs counter to the values and directions set by many community agencies. Their particular focus is to provide effective services in response to client needs, while funding agencies are driven by the economic and welfare policy reform agendas of the government of the day. The managers in this research suggested that there is a difference between the outcomes they desire and the outcomes imposed on them through the funding approval process. Outcomes desired by funding sources drive activities and resource allocation rather than client needs. Managers question whether the policy is really about collaboration between organisations of different or complementary expertise, or whether it is designed for governments to save on their own administrative costs and the welfare budget. They believe that the government is not considering different philosophies or perspectives of community organisations in its push for collaboration or amalgamation of those agencies. Rather, the push is to cut costs in the name of avoiding duplication; it is not user driven.

Joint funding of projects that utilise resources available in different agencies may be the way forward for small community organisations responding to local needs. Speaking from their own experience of a collaborative project, three of the managers stated that collaborative arrangements are difficult to administer due to the different philosophical perspectives of collaborating agencies. These difficulties can occur between management committees, in cross-agency staff relationships, and amongst clients. Difficulties in accountability and reporting requirements are also envisaged, but can be overcome with regular communication and additional effort. It is difficult to achieve desired outcomes when different perspectives, different levels of resources, or different types of resources come into play. Skilful networking and the development of trust in inter-organisational relationships are critical to the success of such relationships.

A number of additional factors make amalgamation difficult. While the redrawing of boundaries between agencies may be a useful exercise, it does create anxiety within a particular agency. Anxieties can relate to the potential loss of identity for staff as well as for clients of a particular agency. Staff in a particular agency may strongly identify with the delivery of services to a particular clientele. The delivery of local solutions to local problems is a powerful motivation for staff and managers alike. If an amalgamation occurs, a new identity needs to be forged around the delivery of a different mix of services, perhaps to a different clientele. A similar
process may occur for the clientele of a particular agency or service. One building providing alcohol and drug rehabilitation referral and support, as well as providing a connection with other youth services or resources sounds like a great convenience for the client. However, a 'one-stop shop' could change the nature of the agency as a point of identity in the community. The perception of the participants was that the amalgamation process is more about what the funding agency wants, not what the community wants.

Furthermore, if amalgamation or collaborative arrangements are considered appropriate, who should make the first move? Should it be manager, agency staff, or the management committee? This is a difficult issue when examining the possibility of amalgamation and, to a lesser degree, when exploring collaborative arrangements. The participants in this discussion were from small agencies in an environment where it is difficult to ensure the future job security of their staff. One might expect that mergers or amalgamations would enhance the bargaining power of agencies. However, managers jealously guard an identity as local agencies developing local solutions to local problems. They are only interested in collaborative arrangements that enhance their current position in the community, that enhance funding arrangements, that assist the response to community needs as they see them, and that ensure their organisations' survival into the foreseeable future.

These managers did not see amalgamation with other agencies as a way forward. Amalgamation or mergers with other agencies could mean rationalisation and downsizing, with the consequent loss of jobs to the sector. They cite examples from the private and public sector where mergers and amalgamations almost always result in some form of rationalisation or downsizing and do not necessarily improve the performance of those organisations. While accepting that a larger organisation provides potential benefits in bargaining power and rationalisation of effort, particularly in developing proposals and submissions, they did not accept that 'big' was always 'better' in terms of service delivery to their particular clientele.

Financial management/funding. All of the managers participating in the discussion talked about the need to establish sources of funding to ensure the future viability of their organisations. Funding arrangements are constantly changing in response to government policy directions and priorities. Participants expressed their frustration with the need to spend inordinate amounts of their time seeking out contacts in funding agencies, keeping up to date with current policy initiatives and associated project funding, writing proposals and submissions (which were not always successful), and report writing. Successful funding proposals not only result in desperately needed funds, but also the concomitant accountability and performance monitoring processes required under the service contract. These are perceived as an imposition on limited time and resources. All of the managers talked about the ongoing and, in some cases, the increasing demand for the services offered by their agencies and the demands this places on their staff. In their minds there is no question about the need for the services they offer in their communities. The challenge is to convince funding agencies of the needs that are present and the current limits placed on the delivery of services in a limited funding environment.
Connections with business. Given the financial pressures described above, some of the managers were working through the challenge of entering the business sector. Such arrangements can essentially take two forms. Community organisations can develop business enterprises designed to generate a source of funds as well as provide a program to meet the needs of clients. Alternatively, community organisations can seek financial or other support by partnering with business enterprises in the delivery of services. These strategic directions present unique challenges. Establishing a business operation requires a particular skill set that is not always available within community agencies. Furthermore, such a strategy calls into question the mission and values of a particular agency and requires a significant strategic realignment negotiated throughout the organisation and the management committee. In regard to partnership with business to support programs, managers generally perceived that large community organisations could potentially develop rapport with business firms, while smaller ones cannot offer the links, benefits or exposure offered by large organisations with large programs. Business firms may only want the links with community organisations that can put a name across large sections of the community.

Governance issues. A number of the managers expressed the sentiment that the committee structure often worked against their desire for well-governed organisations. For many of them, the composition of their committees changes regularly, and in some organisations, they are fortunate if they have the same committee members each month. Consequently, decisions about strategic direction and funds/resource management become problematic. Committees are often inquorate so that decisions are delayed. Management committees need a balance of skills for effective management. Participants argued that the management committee of a community organisation has similar responsibilities to a board of directors in the corporate environment. It is a responsibility, not simply an opportunity to improve a curriculum vitae. In many cases, board members receive no return for their involvement. Generally, there is not much money for training. Given the nature of the task, agencies cannot expect their management committees to manage for nothing. A corporate responsibility should equal corporate rewards and/or training.

Volunteers. As for committee members above, similar sentiments were expressed regarding volunteers more generally. Volunteers are an important part of community agency activities, however, there is a perception that a shift is occurring in the attitude of volunteers who approach community agencies. In recent times volunteers appear to have developed quite different motivations for volunteering their time and services compared to their counterparts in previous years. Volunteers are expecting more from organisations and appear to adopt a ‘what’s in it for me?’ approach and want something in return for their involvement. In some cases, people volunteer their time under mutual obligations arrangements, and as such, do not have the same commitment to the agency.

Demands of the role. One of the major issues facing managers is the challenge of managing change. There are many demands on the manager’s time. The constant demand to remain current with the emerging issues in the sector, especially in the area of funding, means that managers spend less time on direct service delivery.
Some might say that this is a good outcome, as a manager needs to adopt an oversight role rather than be involved in service delivery 'on the front line'. The reality for most managers is that the demands of service delivery, combined with current staffing levels, require them to be involved at this level. Both staff and clients have an expectation that managers are directly involved and not removed from the realities of everyday service delivery. Consequently, managers juggling the needs of direct service delivery with reduced budgets tend to steer away from adopting change for its own sake or simply because funding agencies require them to be competitive, collaborative or accountable in different ways.

Discussion

From the above summary, it is clear that a significant overlap exists between the themes debated in the research literature and the current concerns of managers in the community sector. Issues relating to funding; change management in a volatile policy environment; organisational structure responses; human resource management including the management of volunteers; and governance are recurrent and perhaps perennial issues for managers working in the community sector. Further evidence of this can be found by comparing the areas of management difficulty identified in a survey of community sector organisations conducted by the Queensland Council of Social Services (QCOSS) in 1994 (Devlin and Struthers 1995). Respondents to that survey identified areas of management difficulty such as obtaining funding; financial management; accountability to funding bodies; management body processes; staff management; staff recruitment; and legal liability. With the possible exception of legal liability, which did not figure prominently in the current discussion with managers, these issues were still current seven years later.

On a different note, concerns about collaboration and amalgamation of agencies are prominent amongst managers. Managers perceive the need to pursue these directions as significant imperatives in the policy directions of state and federal funding agencies (Department of Family and Community Services 2000). These directions are clearly derived from a 'new' discourse in public policy that reflects the changing relations between state, market, and the community (Adams and Hess 2001), and that reflects the changing nature of the social contract (Muetzelfeldt 2001). That managers in community organisations perceive these directions as major imperatives for change deserves further research attention. Managers are concerned about the difficulties of collaborating or merging with organisations that have different values or cultures. They are concerned about the potential difficulties involved in negotiating such arrangements between respective boards of management. They are concerned about the long-term viability of their organisations and the job security of their staff. Based on these managers' observations and their knowledge of the corporate and public sector, mergers are often associated with downsizing, redundancies and job losses in the name of rationalisation or a focus on 'core business'. The managers in this study perceived the possibility of amalgamation or merger with another agency or agencies as a
potential threat rather than an opportunity. Further research is required to determine if these concerns are valid and to more effectively evaluate the implications of current social policy.

Some research on these issues is reported in the literature (see Austin 2000; Crittenden 2000; Frumkin and Andre-Clark 2000; O'Regan and Oster 2000; Wilson 1992; Singer and Yankey 1991). However, further research is required to evaluate the impact of current policy directions on agencies, their structures, collaborative arrangements and the impact on staff, managers, and client welfare. The dynamics of collaboration between community organisations are complex and involve issues related to governance, organisational identity and staff relations. If community organisations are to pursue these directions then research that examines effective strategies and models for collaborative arrangements in Queensland and Australian organisations is urgently required. One particular matter for concern is the perception that managers have regarding the demands of their current role. The competing agendas in a volatile policy and funding environment demand manager's attention, as well as the need to remain focused on effective service delivery. Further research is needed to examine the demands placed on managers of community agencies and the skills required of those operating in that environment.

The concerns raised by managers in this paper are not entirely new. Many of the issues are familiar to those working in the sector over time and do not necessarily derive from a focus on the Smart State. The concerns raised by managers in relation to collaboration, amalgamation and partnership deserve further consideration and research attention in order to determine whether such approaches represent 'smart' strategy. On the one hand, policy makers will be pleased to know that such discussions are squarely on the agenda of community managers. On the other hand, these findings suggest that government funding agencies and policy makers have a long way to go to convince managers in the community sector of the value of these policy directions. Perhaps the more urgent need is for organizations across all sectors to develop innovative and collaborative approaches for the delivery of efficient and effective community services that focus on the needs of citizens of the Smart State.

End Notes

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