GOVERNANCE WITHOUT OWNERSHIP: A QUALITATIVE STUDY OF THE CORPORATE GOVERNANCE OF PHILANTHROPIC ORGANIZATIONS

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Abstract

Although Philanthropic Organizations (POs) face the gravest corporate governance challenges imaginable, they have hardly been systematically studied by corporate governance researchers to date. The few studies available either uncritically extend the agency theoretical analysis of the separation of ownership and control in public firms to the PO context, or research individual corporate governance practices without attempting to contribute to a general understanding of PO governance. In order to break away from this agency theoretical path dependency, this study uses qualitative research methods on an analytical sample of 34 Dutch philanthropies to develop a currently lacking general theory of PO governance. We provide a definition of POs, describe their economic function and their core governance challenge, and develop a typology of POs based on the differential ability of POs to involve their two primary stakeholder groups—i.e. donors and beneficiaries—in organizational governance. We articulate our nascent theory by means of six propositions, and conclude with exploring its implications for research on corporate governance, the use of stakeholder theory in corporate governance research, and the governance of social enterprises and hybrids.

Keywords: Corporate Governance, Philanthropic Organizations, Non-profit Organizations, Stakeholder theory.

INTRODUCTION

POs are formal organizations without owners that produce goods or services for one stakeholder group (i.e. the beneficiaries), that are predominantly paid for by another stakeholder group (i.e. the donors). POs are a particularly interesting research object because they are subject to a number of unusual conditions that make their governance challenges exceptionally daunting. First, the non-overlap between the stakeholder group that pays for the goods or services and the stakeholder group that consumes them implies that there is no functioning market for POs' goods and services, and hence no price mechanism to guide organizational decision-making on what to produce and for whom. Second, POs do not have a single primary stakeholder group, such as owners, whose interests as a residual risk bearer provide incentives to monitor managerial decisions (Jensen, 2002). Instead, POs face multiple primary stakeholder groups, such as donors, volunteers, and beneficiaries, of which none can claim priority (Anheier, 2005; Brody, 1996). In spite of these challenging conditions, the survival rate of POs is exceptionally high. While only 52.4 percent of businesses established in the US in 2001 survived five years or more (Bureau of Labor Statistics), the survival rate of public charities was 84 percent over the same period (National Center for Charitable Statistics). As POs are hardly subject to market forces that would weed out inefficient producers, this finding is more disturbing than comforting, as existing POs may not be delivering the value that would economically justify their existence. As such, POs represent a unique organizational form, facing particularly daunting corporate governance challenges, the resolution of which are potentially greatly welfare enhancing (Hansmann, 1996).

The available literature on the governance of POs strongly reflects a path dependency on the agency theoretical analysis of the separation of ownership and control in public firms (Jensen & Meckling, 1976). Most theoretical work on PO governance attempts to extend or adapt this analysis to the context of POs (e.g. Brody, 1996; Manne, 1999; Steinberg, 2010;

Puyvelde, Caers, Du Bois & Jegers, 2012), while empirical work has primarily investigated agency theory-inspired governance practices known from the context of public firms, such as board monitoring (Ostrower & Stone, 2006; Miller, 2002), performance-based remuneration schemes (Baber, Daniel & Roberts, 2002; Hallock, 2002), and the role of accounting information (Hyndman, 1990; Keating & Frumkin, 2003).

The extension of the agency theoretical analysis of the separation of ownership and control in public firms to PO governance has narrowed our perspective and led us to insufficiently account for the idiosyncratic governance challenges that POs face. Drawing parallels between owners in public firms and donors in POs, the literature has focused primarily on possible agency problems between the external donors and internal decision agents in POs. As a result, research on PO governance focuses almost exclusively on accountability practices as governance remedies for these agency problems (Cornforth, 2012). That this somewhat uncritical extension of the agency theoretical framework to the PO context has not been very fruitful is aptly illustrated by the existing literature on PO board composition. A review of nearly three decades of research concluded that fundamental questions of how, when, and why board composition matters, have yet to be answered (Ostrower & Stone, 2006). More generally, "a coherent economic theory on nonprofit governance has not yet emerged from the research" to date (Jegers, 2009: 158).

The purpose of our study is to fill this gap. In order to break away from the field's theoretical path dependency which "favors building new theory based on old" (Bansal, 2013: 127), we adopt two strategies. First, we revert back to Kenneth Arrow's (1974) foundational insight that governance is the backbone of formal organizations and involves *both* organizational decision-making and accountability practices. He argued that the key design challenge of any organization is to optimally balance decision-making authority with accountability mechanisms and therefore both merit equal consideration in the study of *organizational* governance. Using this broadened perspective, second, we use an inductive, qualitative research approach to develop a more comprehensive understanding of the unique governance challenges of POs. The questions that we set out to answer include: What are the specific decision-making and accountability challenges that POs face? Who are a PO's stakeholders? What does a well-governed PO look like and how can this be achieved? Qualitative research methods are particularly suitable to answer these broad questions because they allow us to collect open-ended data and develop a new, and potentially path-breaking theory of PO governance (Bansal, 2013; Graebner, Martin & Roundy, 2012).

We used qualitative comparative case study methods (Eisenhardt, 1989; Yin, 1994) on a sample of 34 POs that we selected through a most different systems sampling design (Przeworski & Teune, 1970). This analytical sampling design maximizes the variety of potentially relevant PO attributes in order to facilitate maximal generalizability of our theory building efforts. By comparatively analyzing data from various sources, we develop a typology of POs that not only enlightens our understanding of the specific governance challenges that POs share as an organizational form, but that also helps to understand the subtly different governance challenges that different types of POs may face. Based on our analysis, we develop a theory of the governance of POs, which we articulate by means of six propositions. These propositions do not just involve empirically testable propositions, but should rather be interpreted as the foundational tenets and conceptual building blocks, of our emerging theory of PO governance. Next to contributing to the corporate governance literature, this theory may also fruitfully inform the literatures on stakeholder management (Donaldson & Preston, 1995; Mitchell, Agle & Wood, 1997) and social enterprises (Pache & Santos, 2010; 2013; Battilana & Dorado, 2010).

In order to define and demarcate the phenomenon of interest, we first discuss some available theoretical insights concerning POs and introduce the first two *theoretical* propositions of our theory. In the subsequent section we describe our sampling design, data collection efforts, and qualitative analyses. We present our findings in the next three sections and gradually build our theory by articulating four additional propositions. We conclude with a discussion of the theoretical implications and intended contributions of our study.

THEORETICAL BACKGROUND

What is a PO?

We define POs as organizations that meet three basic requirements: 1) POs have legal personality, 2) POs are subject to the non-distribution constraint (Hansmann, 1980; 1996), and 3) PO's service purchasers and service recipients are two largely non-overlapping groups. The first requirement represents a trivial but necessary condition that applies to any formal organization, because only legal personality allows organizations to function as an entity separate from its constituents that can engage in business and own assets on its own behalf (Hansmann & Kraakman, 2001). The second characteristic of POs is that they are subject to the non-distribution constraint, which is a defining feature of the broader class of non-profit organizations (NPOs) more generally (Hansmann, 1980). This constraint does not bar NPOs from making profits, but prohibits that any profits made are distributed to any of the organization's constituencies. Because ownership entails the formal right to control an organization and the right to appropriate its profits, NPOs are organizations without owners. The final characteristic of a PO is that it receives the bulk of its income from parties other than the recipients of the delivered service. This feature distinguishes POs within the class of NPOs. Hansmann refers to such organizations as 'donative nonprofits' as opposed to 'commercial nonprofits' such as universities, labor unions, and museums. In commercial nonprofits the service recipients are typically involved in an exchange relationship with the organization; paying a tuition or membership fee, or an entry ticket in return for goods or services. When unsatisfied with quality of the delivered goods or services, these recipients can withhold their business. This is something that the recipients of POs goods or services are hardly able to do due to the significant non-overlap between service purchasers and service recipients. Since how an organization is defined influences an empirical analysis of its governance challenges, the first theoretical proposition of our theory involves a definition and empirical demarcation of POs as an organizational form:

Proposition 1: *POs are formal organizations without owners that produce goods or services for one stakeholder group (i.e. the beneficiaries) that are predominately paid for by another stakeholder group (i.e. the donors).*

What do we know? The existence and governance of POs

According to the literature, POs, and NPOs more generally, are organizations that emerge in conditions where markets fail to govern transactions. This happens when either; 1) the goods or services produced are public goods (Weisbrod, 1977), 2) severe information asymmetries stand in the way of efficient exchange, 3) or the product or service is delivered to a party other than the one paying for it. In such circumstances regular contractual arrangements cannot provide purchasers with sufficient means for contract enforcement, resulting in contract failure (Hansmann, 1987). A for-profit organization operating under such conditions would have both the incentive and the opportunity to act opportunistically and provide less service or quality than was paid for. Although NPOs may also have the opportunity to deliver inferior services, they lack the incentive to do so because the non-distribution constraint prohibits any distribution of profits to parties involved in the organization (Fama and Jensen 1983a). The NPO, therefore, has been conceived as an organizational response to the contract failures that NPOs face in exchange (Hansmann 1980). Within the class of NPOs, POs arguably represent the worst cases of contract failure. While NPOs may face a substantial overlap between service purchasers and service recipients, POs face limited or no overlap at all. An illustrative example is a development aid organization where donors and beneficiaries represent two completely and physically separated groups.

Building on this functional explanation for their existence, the dominant view of PO governance in the literature is that an agency relationship exists between (external) donors on the one hand, and the (internal) organizational decision agents on the other, because donors are vulnerable to expropriation and opportunism by those administering the service (Fama & Jensen, 1983b). Although the non-distribution constraint represents an important remedy for this problem, it is hardly a perfect solution because decision agents still have the opportunity to indirectly distribute some PO resources to themselves by means of inflated salaries or perquisites, for example. The literature conceives this agency problem as the core governance challenge of POs, and since for-profit, publicly listed organizations are subject to similar challenges, Fama and Jensen (1983a; 1983b) claim that the governance challenges of POs do not differ much from those of their for-profit counterparts. Accordingly, the bulk of research on NPO governance has focused either on internal monitoring through accounting practices (e.g. Hyndman, 1990; Keating & Frumkin, 2003) or board supervision (Ostrower & Stone, 2006; Miller, 2002), or on external monitoring through taxation policies and regulation (Bolton & Mehran, 2006; Fremont-Smith & Kosaras, 2003; Manne, 1999).

Donors, however, are not equivalent to shareholders because donors do not own POs. In fact, as POs do not have any owners, they may be better understood as organizations without principals (Brody, 1996). This does not imply that monitoring practices are irrelevant to POs, but it does reveal a deeper question that lies at the core of PO governance; to whom are POs accountable? Most of the available literature assumes that POs are accountable to donors. Yet this stream of research, which has focused primarily on board monitoring, is highly fragmented and has failed to produce any foundational insights or generalizable recommendations regarding the governance of POs (Jegers, 2009). The goal of this study is to move away from the field's unbalanced focus on the relationship between POs and their donors, and hence a foundational assumption of our theory is that due to the absence of ownership, POs do not have a single primary stakeholder group:

Proposition 2: *Because POs have no owners, they do not have a single, ultimate stakeholder group whose interests are leading the governance of the organization.*

DATA AND METHODS

Given the variety of extant POs and the likely heterogeneity in existing governance challenges, the qualitative comparative case study method is most suitable because the continuous comparison of multiple cases allows us to verify whether an emergent finding is "idiosyncratic to a single case or consistently replicated by several cases" (Eisenhardt & Graebner, 2007: 27). This replication logic is a key feature of comparative case studies and enables the development of robust and generalizable theories (Graebner & Eisenhardt, 2004).

Case selection

We selected all our cases from the Dutch philanthropic sector. Accounting for nearly five percent of Dutch GDP, it is one of the largest philanthropic sectors in the world (Salamon & Sokolowski, 2004).[1] The most popular area of philanthropic activity is development aid, which received nearly 40 percent of all financial contributions collected in 2010, followed by community services, environmental protection, and healthcare (CBF, 2010). The Dutch philanthropic sector is institutionally well organized. The government provides tax deductions to stimulate giving and a government-supported Fundraising Office (CBF) exists that collects data on Dutch POs and offers certification of good governance (Ploeg, 2010).

As is recommended in case study research, we purposefully sampled our individual cases using a most different systems sampling design where cases are selected such that the variation of potentially relevant attributes is maximized (Przeworski & Teune, 1970). We selected the cases in three rounds. In the first round we identified ten cases that were most different in a number of key descriptive features; type (grant-making POs vs fundraising POs), size (in total income and number of employees), age, and sector. In the second round we selected cases that were most different with respect to contract failures, which in most cases involves the extent of information asymmetry that the PO's donors are subject to (Hansmann, 1980). This is high for organizations that rely on a large number of small dispersed donors, and low for organizations where the most important donor manages the PO. During the final round of case selection, we had already developed a preliminary understanding of the governance challenges of POs and selected cases that were most different with respect to the attributes that we expected to be relevant to our emerging theory (Eisenhardt & Graebner, 2007). Finally, we consulted a field expert and asked him to reflect on the comprehensiveness of our emerging sample and to suggest cases that might bring new insights into our research. We reached a point of informational redundancy at a final sample size of 34 cases (Lincoln & Guba, 1985). Table 1 summarizes some key characteristics of the cases in our analytical sampling design. We assign each case with a unique ID ranging from C01 to C34 and use this ID to denote a specific case throughout the paper.

Insert Table 1 about here

Data sources

We collected data from five sources: (1) interviews with case specific informants, (2) interviews with field experts, (3) primary archival data, (4) secondary archival data, and (5) focus groups. Primary archival data were first used to assist case selection, and subsequently to further enhance our understanding of the case such that more informed and detailed probing was possible during the interview. The interviews represent the central source of information in our study. In later stages of our research archival data were used again to complement our knowledge of the cases and to triangulate emerging findings (Patton, 2002).

Focus group meetings with PO leaders were organized at several stages of our research, both to validate intermediate theory building and to acquire new data in regard to specific questions that came up during the previous round of data collection.

Interviews. The interviews were semi-structured and open-ended (cf. Merton & Kendall, 1946). We interviewed the PO's director, the COO, or the Chair of the Board. Since for some POs corporate governance is a salient and sensitive issue, we started each interview by explaining that our goal is to map the general corporate governance challenges of POs, and that we are not interested in evaluating the extent to which any particular PO is meeting existing obligations.[2] Because each interview lasted approximately two hours, we believe that we were able to reach some level of openness and trust between the interviewer and respondent. The interviews covered a broad range of topics such as organizational and governance structures, funding acquisition, history, program management, and stakeholder relationships. For each topic discussed we asked respondents to identify and explain the challenges relating to decision-making and accountability, as well as the practices that they employ to address these challenges. An interview was finished when the respondent answered 'no' to the question of whether he/she could think of any other management or governance challenge their organization copes with. We also performed five additional interviews with field experts to tap into a 'more detached' view of PO governance. Such interviews are valuable because they potentially reveal governance issues that organization-specific, 'image-conscious' respondents might not have been willing to share (Eisenhardt & Graebner, 2007). All interviews were recorded and transcribed and a total of 761 pages of (single-spaced) transcribed text were used for data analyses.

Archival data. We used both primary and secondary archival data. The two most important sources of archival data were PO's official websites and their annual reports. All 34 POs had a website, and for all POs we had access to a digital annual report. The other primary data that we used were brochures and organizational charters that we received from the respondents. We obtained secondary archival data from the Dutch Fundraising Office who agreed to share its database with us, containing financial and non-financial data on certified Dutch fundraising POs. This involved information on income sources, expenditures, board size, board composition, and the number of employees and volunteers, for example. For 21 of the 25 *fundraising* POs in our sample this secondary information was available. Unfortunately, no such secondary database for *grant-making* POs exists in The Netherlands.

Focus groups. We organized five focus group sessions (cf. Morgan, 1993) of which two were conducted at the beginning of our research, and three towards the end. The focus groups consisted of 15 to 30 representatives of middle or higher management from a wide array of POs. The duration of these sessions spanned between 45 to 120 minutes. During the first two sessions we briefly introduced our research topic and asked each participant to identify and describe their organization's biggest governance challenge. Since these initial sessions took place before the interviews, our aim was to make an initial assessment of governance challenges facing POs. A discussion among the participants often arose naturally, and our role was to make sure that the discussion remained on-topic. The sessions organized at a later stage of our research were more focused. We presented the emerging theory and asked participants to interpret and apply it to their own organizations. The goal of these sessions was both to evaluate the validity of our theory and to further develop it.[3]

Qualitative analyses

Our research is based on 34 cases, which is larger than the number of cases conventionally used in comparative case study analysis (Eisenhardt, 1989). As a result, it was not feasible for us to "become intimately familiar with each case as a stand-alone entity" (Eisenhardt, 1989: 540), but given our research objective of developing a general theory of PO governance, this was not our aim to begin with. In fact, the relatively large sample size allowed us to reach a higher level of abstraction when analyzing our data, which is a necessary step in building a generalizable theory. We now describe the three stages of our analytic procedures.

Stage 1: Surveying common governance challenges. The first step in our data-analysis was to make sense of the large amount of transcribed interview text describing numerous governance and organizational challenges. The goal was to identify common governance challenges mentioned by respondents across cases. We denoted a fragment of text as describing a governance challenge when the respondent mentions some kind of problem, dilemma, or hardship related to either strategic or operational decision-making, or to some sort of organizational accountability practice. To make an initial assessment of governance challenges, both authors read a subset of interview transcripts and individually prepared an overview of reoccurring governance challenges. We subsequently compared and synthesized our findings. Several meetings followed in which we read and discussed new interview transcripts and attempted to complement our inventory of governance challenges and further refine their conceptualizations. After identifying 12 distinct governance challenges we concluded that our overview of governance challenges was exhaustive.

We next sought to derive a conceptual ordering from our overview of governance challenges by reviewing them and experimenting with different groupings. Our goal was to 'distill' a smaller number of governance challenges that would theoretically be able to capture the inductively derived 12 challenges. We eventually arrived at a three-level hierarchical ordering. At the lowest level we positioned the 12 descriptive governance challenges. Proceeding from our foundational assumption that governance involves both organizational decision-making and accountability practices (Arrow, 1974), we grouped each governance challenge at the second order as relating to either a decision-making challenge or an accountability challenge. At the highest level of conceptual ordering, we identified two core *organizational* challenges; "acquiring and managing resources" and "mission achievement".

To facilitate further analysis, we uploaded all the interview transcripts to Nvivo, a qualitative data analysis software package. We then coded all transcripts using the 12 governance challenges as coding labels so that we could easily retrieve all interview fragments dealing with a certain challenge. All coding was done by one coder. Table 2 shows the hierarchical structure in our data, and describes the 12 governance challenges.

Stage 2: Identifying explanatory relationships. After identifying common patterns across cases, the second stage of data analysis served to explain differences between cases. Although we identified 12 frequently occurring governance challenges, not all POs experienced these challenges to the same degree. In fact, different respondents emphasized different governance challenges. The key question that drove our analysis was therefore: why are certain governance challenges more pressing for some POs than for others? To answer this question, we performed both within and cross-case analyses.

To improve our understanding of each individual case, we first produced a data matrix. We listed both quantitative features, including total income, total number of paid staff, and age, as well as qualitative features, such as legal form, sector, mission statement, core activity, geographical scope, and who the donors and beneficiaries are. We subsequently went back to the interview transcripts to carefully re-read fragments of text coded as governance challenges. For each challenge we attempted to uncover what the contingencies or organizational characteristics were that gave rise to, or intensified, this challenge. Following this process we achieved a better understanding of each case and developed preliminary thoughts on possible explanatory relationships between organizational characteristics and manifested governance challenges (Yin, 1981).

The within-case analysis also revealed that sometimes the analysis was too centered on one specific issue. For example, at the time of the interview C07 was in the middle of a large scale reorganization process and as a consequence, the interview was centered on the challenges related to closing down offices and firing or relocating volunteers. So the respondents' assessments of their organization's governance challenge were prone to being biased by a decision that was made or an incident that had occurred recently. In order to discriminate among case specific idiosyncrasies and distill analytically generalizable relationships, we performed a cross-case analysis (Eisenhardt, 1989; Yin 1994). We sought to identify factors that may explain or intensify governance challenges that were inherent to the organization, or, at least, very difficult to alter, as opposed to factors that were the result of discretionary organizational decisions or practices. Through this approach we were able to reach a higher level of abstraction. We went back and forth between interview data and archival data to triangulate our emerging insights (Jick, 1979).

Stage 3: building and validating emerging theory. To build our theory we relied on an approach that resembles analytic induction (Znaniecki, 1934; Robinson, 1951), which is "a non-experimental qualitative sociological method that employs an exhaustive examination of cases in order to prove universal, causal generalizations" (Manning, 1982: 280). In many ways this method is similar to the replication logic in case study analysis, as cases are treated as a series of experiments each serving to confirm or reject a 'hypothesis' (Yin, 1984). The most important distinguishing feature of analytic induction, however, is that it avoids producing probabilistic statements. Instead, it seeks to develop insights involving the essential features of a phenomenon, and generate theories that are universal, precise, and limited (Robinson, 1951). Since our goal is to produce a general theory of the corporate governance challenges of POs, analytic induction is an appropriate method.

We followed the general structure of analytic induction by studying whether our insights in regard to explanatory relationships identified in the previous stage, were confirmed or disconfirmed by the data of each case. In case of confirmation we enhanced our confidence in the insight and proceeded to the next case. Disconfirming cases were particularly valuable because they helped us to revise and refine our emerging theory. While other approaches typically account for deviant cases by the inclusion of a new variable, in analytic induction deviant cases have the potential to change the full analytic scheme of the emerging theory to ensure maximal generalizability (Mehan, 1979). We continued this procedure of developing, testing, and refining (or sometimes, completely revising) our emerging propositions until they could account for all 34 cases in our analytic sampling design.

The final step was to validate our emerging theory (Gibbert, Ruigrok & Wicki, 2008). Once we had a foundational outline of our theory, we presented it to different focus groups of executives who either worked for a specific PO or in the philanthropic sector more broadly. During these sessions we asked the participants to apply our emergent theory to their own organization, and assess whether its predictions resonate with their experience. These sessions helped us to enhance our theory's internal validity since the group discussions highlighted areas of our theory that were unclear and needed more refinement. We were also able to probe the external validity of our theory as these focus groups contained various individuals currently working, or having worked for a large variety of organizations.

Insert Table 2 about here

POs AS DUAL OBJECTIVE ORGANIZATIONS

We concluded from the analyses described above that POs simultaneously seek to achieve two core objectives; realizing their mission, and acquiring philanthropic resources. While the prior can be seen to represent a PO's raison d'être, the latter is needed for their survival. We therefore conceptualize POs as dual-objective organizations. In the process of trying to meet these organizational objectives, POs are faced with challenges related to both decision-making and accountability. We now elaborate on some of the challenges listed in Table 2.

Mission achievement

Decision-making challenges. A PO's mission defines who its beneficiaries are and what the purpose of the organization is (Brown & Slivinski, 2006). While mission achievement is challenging for any organization, it is particularly daunting for POs due to the absence of competitive market forces. Successful organizations are typically those that show sustained growth, but in the philanthropic sector successful organizations may be precisely those that cease their activities because they have achieved their mission. However, in the absence of competitive pricing in a market for the PO's goods and services it is all but straightforward for the PO how it should achieve its mission, and when it is actually 'completed'.

An important decision-making challenge faced by POs involves defining their mission. The respondent of C06 describes this challenge: ".. a lot of things were going on in this association, a lot of things were fun, many things were happening but… should we stop or should we continue? This was actually literally the question. […] What do we actually do, what do we stand for, and are we still needed?". The director of this PO eventually wrote a new mission statement, which was elaborately discussed by the board and approved. We coded such decision-making challenges under the 'defining mission' label in Table 2.

Within the scope of a given organizational mission, POs also face *strategic* decision-making challenges. One of these challenges includes determining the scope of the PO's activities. C22 is a PO lending music instruments to professionals and provides an illustrative example: "… on the one hand we have to keep an eye on the changing conditions within our own organization, and the changing conditions within society. So […] you give four instruments to a quartet, yes but what does that mean for us? And aren't there other things that we should do to help these people? But on the other hand, this is a private foundation that was founded by a number of people, who are still here, and who had a specific goal in mind. So then you get a kind of dilemma". The question essentially is whether to expand operations to better cater to the needs of beneficiaries, or to stick to the PO's original mission and core business. This was found to be a common decision-making challenge for many POs, and we categorized it under the 'managing organizational scope' label in Table 2.

Accountability challenges. Organizing accountability after decisions have been made and actions have been taken also create challenges for POs. Without 'natural' market signals that help evaluate past decisions, POs are forced to develop 'artificial' ways to create feedback loops to the organization. The director of an endowment fund (C31) aptly expressed his struggle in this regard: "I am looking for opportunities to see myself in a mirror, or to obtain a compass of the world that we donate to. We give 30 million euros to applicants, and they all say 'thank you', but there are also many that don't receive, in fact, to half of the applicants we say 'no'! And besides them, the world is even bigger! I would like to know how… well we think we are doing good things here, but then actually we should ask them. When is it good and when is it not good?" The respondent then goes on to stress the importance of performance measurement, which is one way in which POs can purposefully seek feedback on their decisions and operations. Yet, given the complexity of the societal problems that POs routinely deal with, measuring performance or impact is difficult. We refer to these accountability challenges as 'performance measurement' challenges in Table 2.

To improve monitoring quality, monitoring is predominantly done by a separate supervisory board in many POs. Yet, developing an effective supervisory board also creates challenges. Whether the board can effectively perform its monitoring function depends largely on the individual board members' familiarity with the sector in which the PO operates, and the amount of time he or she is willing to dedicate to the PO. In addition, different POs, depending on their life cycle phase, need different forms of monitoring. A pioneering PO, for example, is best served by a highly committed board that not only monitors its decisions, but also functions as a source of advice (e.g. C08), while a mature and established PO is better served by a more formal and distant monitoring board (e.g. C32). We classified such challenges under 'board's or its members' ability to monitor' in Table 2.

Acquiring resources

Decision-making challenges. Resource acquisition is as important for POs as attempting to achieve their mission. POs rely on three different forms of resources; financial donations, voluntary labor, and membership fees (if the PO is an association). While managing relationships with resource providers is essential for a PO's survival, it may also create grave decision-making challenges because the interests of resource providers may not cohere with the mission of the PO or the needs its main beneficiaries. Exemplary for such challenges is the predicament of C29: "We do get requests though, also from major donors, those are private individuals that want to give a large amount of money and want that money to be spent on a school, in that country, and that looks like this and that… We also don't know what to do with that. On the other hand this is very tempting, because you can attract funds, but then… it also doesn't quite fit with our organization" (C29). We coded such challenges under the 'managing relationship with financial donors' label in Table 2.

Managing volunteers is something different altogether. Whereas donations with unattractive conditions can be rejected, after volunteers are recruited they can develop strong views and demands on what should be done by the PO. Although volunteers are generally well intentioned, managing them is difficult because of their tendency to overcommit. According to one of our respondents "It could happen that they [the volunteers] say 'look, there's a refugee camp […] where many rejected asylum seekers are being kept and these people are treated even worse than regular prisoners are in Holland'. There are volunteers that just won't accept this. '[Name of the PO] or not, 'we are doing something now!' (C13)". This is a clear manifestation of psychological ownership where volunteers feel a strong sense of being psychologically tied to the PO's mission (Pierce, Kostova, & Dirks, 2001). The challenges that POs are confronted with is whether or not to cater to the needs of volunteers, and if not, how to re-align them with the PO's objectives. We code such challenges under the 'managing relationship with volunteers' label in Table 2.

Finally, the relationship between association members and the PO must be managed. Members, as opposed to financial donors or volunteers, have formal decision-making powers in a PO and are therefore better able to enforce their demands. C04 provides an example of a decision-making challenge that may result from such structure. C04 is a national subsidiary of a multinational PO, and a majority of the decision-making regarding the PO's activities is done by specialists at the international headquarters. When members realized their limited ability to influence PO decision-making, many of them failed to show up at General Meetings, leaving the PO with the question of whether their associational structure was still viable. We grouped these kinds of decision-making challenges under the label 'managing relationship with members' in Table 2. The General Meeting was eventually replaced by a 'Membership Council', for which 40 candidates were regionally elected by the members.

Accountability challenges. As with most organizations, monitoring of decisions and performance does not just take place internally, but also externally by institutions and stakeholders. To provoke positive evaluations from external parties, POs must manage their legitimacy and reputation. External institutions impose legitimacy demands on POs, by introducing good governance codes, for example, but meeting these demands is often costly and time consuming. A respondent even said: "[…] I think that whole discussion [about the need for more transparency] is just going berserk. […] I think it is idiotic the kind of things you have to put in your annual report, I'm pulling my hair out of my head! I did it just because I think they want it" (C22). We code such challenges as 'meeting legitimacy demands' challenges in Table 2. POs also rely on their reputation as a bonding device to secure resources and legitimacy. While it takes years to build a reputation, it can collapse overnight and this is often detrimental for POs as it may result in a failure to attract resources to continue operations. Hence many POs are involved in risk management practices and since many POs operate overseas, rely on volunteers, or deal with very vulnerable people, this is an important challenge for them. We code such challenges as ‘managing reputation’ challenges.

PO’s economic function

In sum, as dual-objective organizations POs face two primary stakeholder groups; donors and beneficiaries. We define donors as all stakeholders that provide resources to the PO, while beneficiaries are understood to be the ‘consumers’ of the PO’s goods or services. Since POs are critically dependent on resources, they must attract or retain donors, which requires meeting their expectations and satisfying their demands. At the same time, POs need to make decisions and undertake activities that cohere with their mission and serve beneficiary needs. Because there is no spontaneous market alignment between donor means and beneficiary needs, we conceive of POs as a mediating structure between donors and beneficiaries:

Proposition 3: *In the absence of a market for a POs goods or services, the main economic function of POs is to mediate between the interests of their two primary stakeholder groups; beneficiaries and donors.*

THE CORE GOVERNANCE CHALLENGE OF POs

An important observation that arose from our cross-case analyses is that POs differ considerably in the relationship they have with their donors and beneficiaries. While in certain POs face-to-face contact with beneficiaries is common practice, in other POs managers have no idea about the identity of their beneficiaries. In order to be able to effectively mediate between donors and beneficiaries, POs must know what their needs and interests are. We found that this is a core challenge for all POs. The extent to which the resources, preferences and needs of donors and beneficiaries can be incorporated in PO organizational processes depends, as we explain next, on the extent of ‘stakeholder involvability’.

The notion of stakeholder involvability

Stakeholder involvability can be understood as the extent to which it *is possible* for a PO to involve its two primary stakeholder groups in its organizational practices. Stakeholder involvability is therefore not about a stakeholder group’s actual involvement in the PO but rather about its possible involvement. The more involvable a stakeholder group is, the easier it is for a PO to incorporate their resources, preferences and needs in organizational processes.

Insert Table 3 about here

After surveying our cases, we found that the extent of stakeholder involvability depends on three attributes of the relationship between the stakeholder group and the PO (see. Table 3). First, in order to be involvable in organizational processes, stakeholders must be identifiable for a PO. This is typically only the case if the PO has an individual and formalized relationship with them. The beneficiaries of both C14 and C22, for example, individually apply for a ‘service’ from the PO, and once their application is approved, the PO stays in contact with them throughout the duration of the service. As a result, C14 and C22 are able to maintain a close relationship with their beneficiaries. When, on the other hand, the targeted beneficiaries of a PO are a broad and dispersed group, which is the case for C04 whose mission is to promote and protect human rights across the world, it is nearly impossible for the PO to individually identify its beneficiaries. The same logic applies to donors. If the PO relies largely on lotteries and street fundraising to acquire financial donations, it is nearly impossible for the PO to trace the identity of its donors, while POs that obtain the bulk of their income from a single family (C02 & C05) or a company (C01 & C12) are well able to identify their donors. Similarly, when a substantial share of a PO’s donor portfolio consists of volunteers or association members, donors are more easily identifiable, as volunteers and association members are typically more closely involved in a PO than financial donors.

A second attribute that determines stakeholder involvability is the extent to which stakeholders are physically approachable for the organization. An important condition involves the geographic proximity between the PO and its stakeholder groups. The closer stakeholders are located to the PO, the easier it is for the PO to learn to understand their needs and interests and incorporate them in organizational processes. For example, the beneficiaries of a PO that has a historical mandate to only serve beneficiaries in its own specific city or region (C09 & C26) are more easily physically approachable than the beneficiaries of a PO that are located abroad (e.g. C12 & C20). With respect to donors, specifically, the extent to which a PO relies on volunteers determines their approachability. In contrast with financial donors or association members, volunteers are often actively involved in the PO and have face-to-face contact with PO management, which significantly increases their approachability.

The final attribute that affects stakeholder involvability is the extent to which stakeholders are able to communicate meaningfully with the PO. The better stakeholders are able to articulate their needs and interests, the easier it is for the PO to involve them in organizational processes. However, direct communication is not always possible between stakeholders and the PO. Specifically, beneficiaries that are animals (e.g. C07) or the natural environment (e.g. C11), are not capable of meaningful communication with the PO and a mediating structure is needed to ‘speak’ on their behalf. Even feedback provided by identifiable human beneficiaries may not be meaningful or useful for a PO. C29 is case in point, as its mission is to protect the rights of children in poverty. These children generally do not understand the broader social and economic causes of their predicament, which limits the ability of POs to involve them in organizational processes. The same is true for a PO that finances cancer research (C16). Although its ultimate beneficiaries are cancer patients who are able to communicate meaningfully, they typically do not have the expertise to provide useful feedback as to which cancer research projects to finance.

Under certain conditions donors are also unable to communicate their needs to the PO. Some POs received their income from an endowment that was established by a financial donor ages ago (e.g. C05, C26). Although such donors are able to communicate their interests through a will, its influence on day-to-day decision-making is often limited. Even if donors are still alive, their ability to influence the PO is oftentimes very low. For example, many POs rely on a large number of small financial donors to acquire the necessary resources, and although these donors can withhold their donations when unsatisfied with the PO's performance, they typically cannot effectively influence its activities. Donors are clearly best able to effectively influence the PO when it is run by the major donor, as is the case for family foundations (C02) or corporate foundations (C01 & C12), or when the PO is an association, in which case the members have ultimate decision-making powers (C01 & C12).

In sum, stakeholder involvability involves the extent to which a stakeholder group is involvable in a PO's organizational processes. Stakeholder involvability is high when stakeholders are individually identifiable, physically approachable and capable of effective and meaningful communication with the PO. Under such circumstances it is relatively easy for the PO to learn about the needs and interests of its stakeholders and incorporate them in organizational decision-making and accountability practices. We hence predict:

Proposition 4: *The higher the involvability of a given stakeholder group, the more likely it is that this stakeholder group's needs and interests will be represented in the PO's organizational processes.*

Insert Figure 1 about here

Managing stakeholder involvability

Based on this understanding of stakeholder involvability, we developed a scoring protocol to graphically map the involvability of the donors and beneficiaries in all of our 34 cases.[4] Figure 1 presents a scatterplot illustrating the combination of beneficiary and donor involvability for each case. As can be observed, the degree of involvability of a PO's stakeholders differs considerably. When the stakeholder involvability of donors is higher than of beneficiaries, the PO is likely to have a bias in favor of serving donor needs. Conversely, when beneficiary involvability is higher than donor involvability, a PO may be more inclined to favor beneficiary needs. Hence differential degrees of stakeholder involvability in POs create a dispositional tendency for imbalance.

We also found that POs feature a variety of organizational practices that augment or restrict the involvement of stakeholders and thereby either aggravate or correct a given PO's dispositional imbalance. Table 4 provides a number of examples of practices that either aggravate or remedy such imbalances. The first part of the table lists examples of aggravating and correcting organizational practices in POs where beneficiary involvability is higher than donor involvability. In the second part of the table we provide examples of aggravating and correcting organizational practices in POs where donor involvability is higher than beneficiary involvability. Because POs are dual-objective organizations whose economic function is to mediate the needs and interests of beneficiaries and donors, correcting possible imbalances is a core corporate governance challenge for POs. Hence:

Proposition 5: *The core corporate governance challenge of POs is to balance the interests of donors and beneficiaries in organizational decision-making and accountability practices.*

Insert Table 4 about here

A TYPOLOGY OF POs

Based on our analyses, we have conceived POs as dual-objective organizations whose economic function is to mediate between its donors and beneficiaries, whose core governance challenge is to balance the needs and interests of these two primary stakeholder groups. Because donors and beneficiaries often differ with respect to their involvability in organizational processes, we have predicted that this balance tends to be tipped in favor of one of the two as a matter of fact. We now zoom in on the subtly different governance challenges that different types of PO are confronted with. Using the notion of stakeholder involvability as the underlying theoretical dimension we develop a typology that articulates how different types of POs face different governance challenges (see figure 2). We denote each type of PO with a name that is intended to capture its distinctive governance challenges.

Insert Figure 2 about here

Caregivers. The POs located in the top-left cell are organizations with high beneficiary involvability and low donor involvability, making their organizational processes prone to being beneficiary-centered. We therefore denote these types of POs as 'Caregivers'. The most important governance challenge of Caregivers is to avoid the over-representation of beneficiary needs such that the PO delivers services that beneficiaries are keen on receiving but donors are not willing to fund. C22 is exemplary in this respect. This PO lends music instruments to talented musicians who do not have the resources to buy these instruments themselves. Its employees are in close contact with its beneficiaries and are highly knowledgeable about both the music instruments and the classical music industry. The respondent for C22 explained that for the first time they see their waiting list shortening as the demand for instruments decreases. They are also noticing, however, that musicians are in increasing need of advice on how to manage their careers, and that oftentimes they seek this advice from the PO's employees because of their unique expertise. C22 is now faced with a dilemma of whether to satisfy the remaining demand for instruments and then continue to operate as a simple collection conservator, or to act upon this emerging need and start delivering advisory services to beneficiaries to help them further their musical careers. To avoid that the decision will only reflect beneficiary needs, the PO's director intensively discusses this dilemma with the board of directors. He acknowledges that he is "just a director on a payroll", and that the board, the founder, and the donors will have an important say. Well-governed Caregivers, hence, are POs that guard against the over-representation of beneficiary needs in organizational processes by adopting governance practices that reduce beneficiary involvement or enhance donor involvement.

Gold Minders. The POs located in the bottom-right cell have the exact opposite features. These POs are predisposed to be more donor-centered in their organizational processes as their donor involvability is higher than their beneficiary involvability. Since these POs tend to be concerned mostly with securing their resources, we call them 'Gold Minders'. The most important risk that these POs face is that the interests of donors may dominate organizational processes such that such POs find themselves delivering services that donors are keen on supporting, but beneficiaries are not served by receiving, a phenomenon known as philanthropic particularism (Salamon, 1987). A respondent from a Gold Minder in the development aid sector (C32) coined the term 'money-driven behavior', and said that: "Personally, I think that programs and content should always be leading. [However] a very big stumbling block for many organizations in The Netherlands is that we have become money-driven. […] [For example;] the EU says that there is money available for the Great Lake area, and there we go! All of them [i.e. POs] start developing programs for the Great Lake area. And this is not because they first made an assessment of where the needs are most pressing, or where their added value lies, cause that might very well be in another area." The main governance challenge of Gold Minders is therefore to avoid the excessive donor involvement. C32 attempts to accomplish this by broadening its financial donor portfolio and decreasing its dependence on any single or small group of donors. Large multinational POs (e.g. C23 & C29) are able to reduce donor involvement by locating the program division in the international headquarters, while country offices are charged with fundraising, which is an effective way to remedy excessive donor involvement.

Peacekeepers. The stakeholders of POs located in the top-right cell tend to be highly involved in organizational processes. As a consequence, these POs always find themselves involved in complex negotiations and compromises. We therefore denote these POs as 'Peacekeepers'. Theoretically, these POs might be considered to be subject to the most favorable governance conditions as both beneficiaries and donors can be relatively easily involvable in organizational processes. In practice, however, Peacekeepers perceive their challenges to be particularly pressing, not only because beneficiaries and donors often place conflicting claims on the PO, but also because of the difficulty related to managing the decision-making process. C13 is an association that coaches people going through a difficult time. It relies on 13.000 volunteers to provide these coaching services, who are managed by 84 local offices, which are supervised by 5 district offices. When we asked the respondent about their main governance challenge, she said: "Decision-making… that it takes so much time. Especially if you want to be decisive, or sometimes, you have to be responsive, you have to go through all those layers. And also, with such a democratic form, you always end up making compromises and this not always the best thing for the organization because it makes us lose focus and strength." Since key stakeholders are easily involvable in the organization, Peacekeepers do not need governance practices compensating for the lack of involvement. Rather, they must adopt practices that remedy possible over-involvement of both stakeholder groups so as to enable more efficient and swift decision-making. C34 is similar to C13 in terms of structure, and is seen by many respondents as a best practice organization. C34 reduced the involvement of donors and beneficiaries by changing its structure; while initially it was an association of small local associations and foundations, it is now one large association that oversees local offices. Because the local offices are no longer autonomous legal entities, the association has more control over their activities.

Free Spirits. The beneficiaries and donors of POs located in the bottom-left of the matrix are only limitedly involvable in the organization. As a result, these types of POs tend to act as 'Free Spirits'. Although theoretically Free Spirits are subject to the worse corporate governance conditions, respondents from these types of POs did not perceive their corporate governance challenges to be all that pressing. We explain this finding by the fact that, in stark contrast to Peacekeepers, whose decisions are constantly challenged by different stakeholders, the decisions of Free Spirits are in fact under-challenged. Hence, the most important risk of Free Spirits is that they become unresponsive to the needs and interest of their primary stakeholders. To avoid this, Free Spirits must self-discipline and proactively search for ways to remedy for the lack of donor and beneficiary involvement. C05 is an endowment fund and an exemplary Free Spirit. Its beneficiaries are young children in developing countries, and the PO goes out of its way to collect knowledge on beneficiary needs and incorporate it in strategic decisions; "We consult with the operational organizations that we fund, we also consult with researchers, with international organizations like the WHO or the Worldbank and other experts in the field who are not home to us in any kind of way, so they don't have grants from us. We go through all the strategic planning work like this. Then we go to the countries, do the same thing all over again, country-level data, baseline research, talking with people from the countries who may or may not have grants from us, but are engaged in early childhood." C05's donor is a Dutch philanthropist who passed away many years ago. Although the donor cannot be involved in the PO anymore, the CEO feels a strong moral responsibility to be transparent and accountable to the general public. Among the Dutch grant-making organizations, C05 is considered to be a pioneer in transparency, performance evaluation, and impact measurement, and the CEO proactively advocates more transparency in the sector. Collectively, these governance practices attempt to remedy the PO's tendency to under-represent both donor and beneficiary needs.

Having distinguished four types of POs based on their different degrees of donor and beneficiary involvability and the resulting dispositional imbalance in their primary stakeholder relationships, we articulate our final proposition about PO governance practices:

Proposition 6: *The corporate governance of POs consists of involvement enhancing and involvement restricting practices that correct for the potential over- or under-representation of donors and beneficiaries in the PO's organizational processes.*

CONCLUSION AND DISCUSSION

This study has *theoretically* defined POs as formal organizations without owners that produce goods or services for one stakeholder group that are predominately paid for by another stakeholder group, and that hence do not have a single, stakeholder group whose interests are leading in organizational governance. Using a comparative case study research design on an analytic sample of 34 Dutch POs, it has then *empirically* developed the foundational tenets of a general theory of PO governance on this theoretical foundation.

This theory understands POs as organizational intermediaries between donor and beneficiary interests, which in the absence of a market for philanthropic goods or services are not spontaneously aligned by the market. The core prediction of the theory is that due to the differential degree in which the donors and beneficiaries are involvable in organizational practices, different types of POs will feature different dispositional tendencies to incorporate donor and beneficiary interests in organizational processes. After developing a typology showing how different types of POs face subtly different governance challenges, we have shown how involvement enhancing or restricting governance practices may functionally contribute to meeting the core PO governance challenge of mediating and balancing the interests of a POs primary stakeholder groups. We now outline how our nascent theory of PO governance may contribute to research on corporate governance, the role stakeholder theory in corporate governance, and on the governance of social enterprises.

Broadening the scope of corporate governance research

Our theory contributes first and foremost to the corporate governance literature in which agency theory has long functioned as a field-defining theoretical framework (Dalton et al., 2007). The dominance of agency theory in corporate governance research can to a large part be attributed to the fact that the separation of ownership and control in public firms came to serve as an "exemplar" (Kuhn, 1970: postscript) for the theory's application (Shleiffer & Vishny, 1997), but the unique fit between agency theory and the empirical context of public firms also explains why agency theory is less suitable for guiding research on other forms of ownership and enterprise organization (Hansmann, 1996). Although modified forms of agency theory have been applied to other organizational forms, such as family firms (Schulz, Lubatkin, Dino & Buchholtz, 2001), research has shown that family firm governance may also be fruitfully guided by a more context specific theory, such as the socio-emotional wealth maximization approach (Gomez-Mejia, *et al*. 2011), for example.

Aiming to develop a context specific theory of PO governance, our study shows, first, that even organizations that have no owners face daunting corporate governance challenges, and that these challenges are more comprehensive than those faced by public firms. This is, second, because in the absence of a market for philanthropic goods or services, the governance challenges of POs simultaneously involve decision-making and accountability practices, which broadens the focus of most governance research on accountability practices.

Third, by showing that the core governance challenge of POs is to mediate and balance the interests of its two primary stakeholder groups, this study demonstrates *how* governance research may fruitfully broaden the explanatory focus away from any particular stakeholder group, such as shareholders for example, or from any specific objective function, such as shareholder value maximization (Jensen, 2002), to a broader array of corporate constituencies, organizational objectives and organizational forms. As such, our study heeds to recent calls to expand the explanatory focus of corporate governance research to include the variety of existing organizational forms and the complex stakeholder environments in which contemporary organizations operate (Starbuck, 2014; Tihanyi, Graffin & George, 2014).

Although our nascent theory was developed specifically to guide and refocus empirical research on PO governance, it may also contribute to governance research on other organizational forms, such as social enterprises, or to the development of other theories guiding corporate governance research, such as stakeholder theory, for example. We now explore possible contributions of out theory to these academic fields of interest.

An exemplar for the use of stakeholder theory in corporate governance research

Because we found that the economic function and core governance challenge of POs is to mediate and balance the interests of its two primary stakeholder groups, our theory seems uniquely suited to contribute to the development of stakeholder theory (Laplume, Sonpar & Litz, 2008). POs are an exemplar for the further development of stakeholder theory in corporate governance research, because they involve a paradigmatic application of stakeholder theory (Kuhn, 1970), similar to how the separation of ownership and control in public firms came to serve as an exemplar for the application of agency theory in corporate governance research. We see two contributions to stakeholder theory that demonstrate the fruitfulness of POs as a research context.

Although the notion that firms must balance the interests of its stakeholders to optimally create value is central to stakeholder theory (Freeman, 1984), surprisingly little is known about *how* this balancing takes place. An important reason for this is that existing research has mostly studied the outcomes of stakeholder management rather than stakeholder management as a governance process. Specifically, the bulk of empirical work on stakeholder theory has either investigated the organizational consequences (Barnett & Salomon, 2012; and Jones, Willness & Madey, 2014) or antecedents (e.g Darnall, Henriques & Sadorsky, 2010; Murillo-Luna, Garces-Ayerbe & Rivera-Torres, 2008) of different levels of stakeholder management activities, while only few studies (e.g. Reynolds, Schultz, & Hekman, 2006; Delmas & Toffel, 2008) have researched the process of managing and balancing the often conflicting interests of multiple stakeholder groups.

This study sheds some light into the black box of stakeholder management as a governance practice by showing that stakeholder management is to an important degree about managing the involvability of different stakeholder groups in organizational decision-making and accountability processes. Like the POs in this study, organizations can balance the interests of their stakeholders by adopting governance practices that either restrict, or remedy for the lack of stakeholder involvement in organizational processes, in order to secure an optimal balance between stakeholder interests. We urge future research to zoom in on the governance practices through which firms manage the involvability of their stakeholders.

More specifically, our findings speak to the stakeholder theory literature on stakeholder identification and salience. A prominent view is that a stakeholder group is salient to managers when it possesses three attributes; power, legitimacy and urgency (Mitchell, Agle & Wood, 2001). The two main stakeholders of POs tend to possess only two of these attributes. Beneficiaries are legitimate stakeholders that often have urgent claims but typically do not have the power to impose these claims on the PO. Donors, on the other hand, are both powerful and legitimate stakeholders but their demands are typically not urgent. Mitchell and colleagues' predict that stakeholders that possess two attributes are more salient to managers than stakeholders who possess only one attribute, but less salient than stakeholders who possess all three. Their theory, however, does not answer the question which stakeholder is more salient when two or more stakeholders possess the same number of attributes, as is characteristically the case for POs.

By introducing the notion of stakeholder involvability, our study may contribute to resolving this issue. Stakeholder involvability captures the extent to which it *would* be possible for an organization to involve a given stakeholder group in its governance processes. When stakeholders are individually identifiable, physically approachable and capable of effective and meaningful communication with mangers, it is easier for managers to learn about the stakeholders' interests and involve these in organizational processes. Thus, based on our research we predict that when two or more stakeholders possess the same number of stakeholder attributes, decision-makers tend to prioritize the interests of that stakeholder group whose voice is most easily heard. This finding implies that aside from the specific attributes of a particular stakeholder group, stakeholder salience also depends on the attributes of the relationship between the stakeholder and the organization, and specifically on how easy it is to engage with a given stakeholder group.

Natural extensions of our theory: the governance of social enterprises and hybrids

Although the theory outlined in this study was developed specifically for POs, it can be extended to the governance of all organizations having a non-paying stakeholder group that is critical for performing its economic function. Social enterprises are an obvious case in point, as they typically serve both clients who pay for the goods or services delivered, as well as beneficiaries who are non-paying third party stakeholders who consume the goods or services produced by the social enterprise. Seen from the perspective of our theory, the core governance challenge of social enterprises is to ensure that the interests of their clients and beneficiaries are mediated and well-balanced through organizational governance practices.

Recent findings in the emerging literature on hybrid organizations can be seen to provide empirical support for the core predictions of our theory (Battilana & Dorado, 2010; Pache & Santos, 2010; Pache & Santos, 2013). Social enterprises are hybrid organizations because they combine organizational practices resulting from both the commercial and social institutional logics that shape their mission. Battilana and Dorado (2010), for example, studied microfinance organizations and concluded that to be sustainable, these organizations must "strike a balance between the logics they combine" (p. 1419). They also document that microfinance organizations face the risk of mission drift because they have a tendency to prioritize "the banking logic over the development one" (p. 1423). This is finding echoes a similar tendency we found to characterize the Gold Minder type of POs we describe.

Likewise, Pache and Santos (2013) studied work integration social enterprises and present empirical evidence consistent with the imbalance correcting governance practices we describe in this study. They found that in order to gain legitimacy in the work integration field, for profit social enterprises adopt the majority of the practices enacting the social welfare logic rather than the commercial logic. Seen from the governance theory developed in this study, such practices may also serve to enhance beneficiary involvement while restricting client involvement, and thereby contribute to correcting the dispositional tendency for imbalance between client and beneficiary interests that burden social enterprises.

Our nascent theory can even be extended to audit firms, who in advanced market economies provide third party assurance in respect to the financial disclosures of public firms (Healy & Palepu, 2001). Similar to the POs and social enterprises, audit firms create value for *one* stakeholder group that is critical for performing its economic function, i.e. investors, but are paid for by *another* primary stakeholder group, i.e. the public firms whose disclosures audit firms serve to verify. Like POs and social enterprises, audit firms have been found to prioritize the needs and interests of their paying clients over those of its other primary stakeholders, and even over the interests of society at large, as is evidenced by the recurrent gatekeeper failures and the severe economic crises that these failures have contributed to (Coffee, 2002; Partnoi, 2006; Sikka, 2009). Our nascent theory may not only help us to further understand the governance challenges and practices of gatekeeper firms in general, but may ultimately also contribute to shaping the governance practices of such firms in order to reduce the chance of gatekeeper failures in the future.

TABLE 1

Sample characteristics

	# of cases	Case ID
Activity		
Grant-making	9	C01, C02, C05, C09, C12, C17, C19, C26, C31
Fundraising	23	C03, C04, C06-C08, C10, C11, C13-C16, C18, C20-C23, C25, C28-30, C32-C34
Hybrid	2	C24, C27
Legal form		
Association	9	C04, C06, C07, C10, C13, C21, C30, C34
Foundation	25	C01-C03, C05, C08, C09, C11, C12, C14-C20, C22-C29, C31-C33
Industry		
Public-social benefits	11	C01, C09, C13, C19, C22, C25, C26, C28, C27, C33, C34
International relief	7	C04, C05, C17, C20, C23, C29, C32
Culture & arts	3	C06, C24, C30
Health	5	C03, C12, C15, C16, C18
Environment/animals	4	C07, C08, C11, C21
Sports	2	C10, C14
Mixed	2	C02, C31
Total income		
≤ €100,000	3	C07, C10, C28
€100,000 - €1 million	4	C06, C15, C20, C22, C33
€1 - €10 million	9	C01, C08, C12, C14, C17, C19, C25, C26, C30
€10 - €25 million	9	C02-C05, C13, C18, C27, C32, C34
€25 - €50 million	5	C09, C11, C23, C24, C31
≥ €50 million	3	C16, C21, C29
Total paid staff		
≤ 5	7	C01, C06, C10, C12, C26, C28, C33
5 - 15	7	C02, C14, C15, C19, C20, C22, C30
15 - 50	7	C05, C08, C09, C17, C25, C27, C31
50 - 100	7	C03, C07, C18, C23, C24, C29, C32
100 - 250	4	C04, C11, C16, C34
≥ 250	2	C13, C21
Age		
≤ 10 years	7	C01, C02, C12, C16, C20, C25, C33
10 - 50 years	12	C03, C08-C11, C14, C15, C17, C18, C22, C28, C32
50 - 100 years	8	C04, C05, C13, C23, C24, C27, C29, C34
100 - 300 years	5	C06, C07, C21, C30, C31
≥ 300 years	2	C19, C26
Geographical scope		
Dutch city/region	4	C09, C26, C28, C33
Nationwide	17	C01, C03, C06, C07, C10, C13-C16, C18, C21, C22, C24, C25, C30, C31, C34
Some foreign countries	5	C05, C12, C19, C20, C27
Worldwide	8	C02, C04, C08, C11, C17, C23, C29, C32

TABLE 2

Data structure

Organizational objectives		Governance challenges	Description	Cover-age
Mission achievement	Decision-making	Defining mission	Challenges resulting from the fact that there is no competitive market for the PO's products/services: What is the PO going to produce? And for whom? When is the PO 'finished'?	9,4%
		Mapping needs	Challenges related to how the PO identifies the specific needs it wishes to address. Given the PO's mission, which specific needs or beneficiaries should it prioritize?	10,7%
		Managing organizational scope	The difficulty of staying focused and close to the core activity on the one hand, and being flexible and responsive to beneficiary needs on the other.	7,9%
		Need for expertise	Deals with complexities resulting from the need and importance of expert knowledge to make strategic decisions.	4,7%
	Accountability	Performance evaluation	Challenges related to both the importance and difficulty of performance measurement and evaluation.	6,8%
		Board's or its members' ability to monitor	Challenges related to the difficulty of effectively monitoring PO performance due to board members' lack of time or understanding of the PO's activities.	12,1%
Acquiring resources	Decision-making	Acquiring financial donations	Deals with complexities resulting from the PO's dependence on financial donations and the difficulty of acquiring them.	10,5%
		Managing relationship with financial donors	Challenges related to managing the demands of donors. How does the PO try to please its donors? How should the PO balance donor needs with beneficiary needs?	10,5%
		Managing relationship with association members	Only applicable to associations: Challenges related to managing the demands of members. How does the PO try to please its members? How should the PO balance member needs with beneficiary needs?	3,3%
		Managing relationship with volunteers	Challenges related to managing the demands of volunteers. How does the PO try to please its volunteers? How should the PO balance the demands of volunteers with beneficiary needs?	5,4%
	Accountability	Meeting legitimacy demands	Deals with the challenge of meeting the accountability expectations of external institutions such as certifiers and regulators.	11,0%
		Reputation management	External stakeholders use reputation to evaluate a PO's performance and therefore managing it is very important: how does the PO avoid reputation damage?	7,7%

TABLE 3

Determinants of stakeholder involvability

Beneficiaries:	**Donors:**
Are they identifiable? Beneficiaries are easily individually identifiable when they have a one-on-one, formalized relationship with the PO.	**Are they identifiable?** Donors are easily individually identifiable when they have a direct and formalized relationship with the PO.
High: C14, C22 These POs have a contractual relationship with each of their beneficiaries, which typically lasts for a long time.	High: C02, C05 These POs were founded by family philanthropists, and rely exclusively on the returns of the family endowment to finance their operations.
Low: C04, C08 The mission of these POs is so broad and affects so many people that it is impossible to identify the individual beneficiaries.	Low: C16, C29 These POs are highly dependent on lottery and street fundraising which makes it impossible to trace the identity of the individual donors.
Are they approachable? Beneficiaries are easily physically approachable when the geographic distance between them and the PO is small.	**Are they approachable?** Donors are easily physically approachable when the geographic distance between them and the PO is small.
High: C09, C26 The statutes of these POs dictate that they can only serve beneficiaries that are located within their own city or region.	High: C28, C34 These POs are fully dependent on volunteers to execute their mission and these volunteers work in close proximity to the PO.
Low: C12, C20 While C12 exclusively serves beneficiaries in Sub-Saharan Africa, C20's beneficiaries are all located in Bangladesh.	Low: C19, C31 These POs do not have volunteers or association members, but only financial donors that are not located in close proximity to the PO.
Are they able to communicate meaningfully? Beneficiaries are capable of meaningful communication with the PO if they are knowledgeable about their own needs as well as the broader mission of the PO.	**Are they able to communicate effectively?** Donors are able to communicate with the PO and effectively influence its actions when they have formal decision-making power within the organization.
High: C13, C33, C34 The beneficiaries of these POs are adults that are fully knowledgeable about their needs. Since satisfying these needs is the PO's mission, beneficiaries' feedback is useful and meaningful.	High: C01, C02, C12 C02 is a family foundation in which the founding family members are still involved with the PO's management. C01 and C12 are associations whose members have formal decision-making power.
Low: C07, C11, C16 C07 and C11 are environmental organizations whose beneficiaries are the natural environment. C16 is a PO that finances cancer research and its ultimate beneficiaries, i.e. cancer patients, often cannot provide meaningful feedback to the PO.	Low: C05, C26, C29 The original donors of C05 and C26 have passed away and their voice is only represented by their will or articles of incorporation. C29 is a large multinational PO that relies on many small and large donors who only have withholding power.

TABLE 4
Organizational practices that aggravate or remedy PO's dispositional tendencies for imbalance

		Aggravating imbalance		Correcting imbalance
Beneficiary involvability > donor involvability	C18	This PO builds houses nearby hospitals where parents of sick children can stay during their child's treatment. The involvability of the beneficiaries, i.e. the guests of the houses, is high. For each house a separate foundation is established where volunteers are responsible for acquiring donations and maintaining the house. Because these volunteers are in very close contact with the beneficiaries, they tend to use the donations to fund whatever it is that they believe the beneficiaries need, irrespective of whether it is in line with the PO's objectives. Such practices lead to excessive beneficiary representation in decision-making.	C22	This PO has a long-term and close relationship with its beneficiaries, while its donors are highly dispersed and sometimes unknown to the PO. The CEO attempts to correct for this imbalance by putting significant effort to have face-to-face contact with donors, for example by organizing in-house days and gatherings. The CEO said: "one of the things I make sure I do is to remember by heart who my donors are, what they do, what they want, where they are. [...], you try to build some kind of personal relationship with those people because that gives them a sense of openness and transparency".
	C26	This is a grant-making foundation that received its endowment almost 400 years ago. Since the original donor passed away, donor involvability is extremely low. In such cases the PO is only accountable to the Dutch government because of the tax exemption it receives. Even though this PO is one of the largest endowments funds in our sample, it is one of the few POs that does not publish a public annual report. Such lack of transparency aggravates the under-representation of donors in accountability practices.	C24	This is a large hybrid grant-making organization that derives its income from an endowment as well as from street fundraising, lotteries, and donor advised funds. Donor involvability is therefore low. The PO's beneficiaries are cultural institutions located in The Netherlands with whom the PO has close contact through its local offices. The respondent talked about the PO's intention to adopt a new approach: "we actually want to move more in the direction of becoming a broker between our donors and the cultural institutions". The PO is now accepting donor advised funds where the donor specifies exactly to which cultural institutions the donations must go. The respondent explained that in this situation: "they [the donors] take care of the funding, and we [the PO] provide the back office. We take care of the financial management of the funds because they don't know how to do that." This approach allows for much more donor representation in the PO's grant-making decisions.
	C33	This PO offers volunteering opportunities for people that have been unemployed for a long time due to minor physical or mental problems or language barriers. Through volunteering the PO helps them to obtain valuable work experiences and skills to integrate in society. It is a very small and locally operating PO that is primarily driven by serving the needs of its beneficiaries. The relative under-representation of donor interests in decision-making and accountability is enhanced by the fact that the CEO was not aware of the existence of the Dutch Fundraising Office, and also never applied for a certificate of good governance.		

TABLE 4 (*continued*)

Organizational practices that aggravate or remedy PO's dispositional tendencies for imbalance

	Aggravating imbalance	Correcting imbalance
Beneficiary involvability < donor involvability	C12 This is a corporate foundation working in the area of healthcare, whose sole donor is a company. Donor dominance in decision-making is aggravated in this PO by the fact that when it receives grant applications that concern healthcare for children, it immediately rejects it because the company is a liquor producer. The respondent explained: "I already notice with certain grant applications, for example for babies or neonatal nursing... because if you engage with school children.. then we are already extremely reserved, it doesn't matter how young they are [...] we just don't want to enter a grey area where people can accuse us of some kind of promotion of [brand name] to youngsters." C21 This is an association that protects natural reserves in The Netherlands. The respondent explained that the goose population has been growing so rapidly that it is causing problems to other natural reserves and that therefore, it might be better to kill a number of these geese. He said "So this topic has been raised in the last years and we talk about it with the General Assembly. We talk about it intensely; not once, but I believe three times, before we make a decision. If the General Assembly says 'hell no!', then we are not going to do it." This example shows how much weight the PO gives to donor preferences in decision-making. Such practices aggravate imbalance by favoring donor preferences rather than beneficiary needs in decision-making.	C02 This PO is a Dutch family foundation that was established less than ten years ago. Donor involvability is therefore high. The PO supports a very wide range of activities of which beneficiary involvability varies per project. While in the initial years the whole family was strongly involved in designing and managing the PO, now that the key focus areas have been identified, only the son of the family has formal power as the chairman of the PO's board, which reduced the PO's tendency to favor donor interests over beneficiary interests in organizational processes and corrects imbalance. C07 This is an animal rescue and protection organization, and because its beneficiaries are animals, their involvability is extremely low. The PO is an association with many local offices across the country, each operated by volunteers. Donor involvement became excessive as volunteers just started doing what they saw fit rather than following the specific goals and activities outlined by the association. The PO corrected for the over-representation of donors by reducing the number of local offices from 100 to 20 and staffing each local office with an employee who manages the volunteers. C11 This is an environment protection organization that due to its target group, i.e. nature and animals, faces low beneficiary involvability. To avoid the over-representation of donors in organizational practices the PO chose not to accept donations from powerful donors. On their website they explicitly state that: "[PO name] is independent. So we do not accept donations from companies or subsidies from governments." Such practices reduce donor representation in governance processes and correct imbalance.

FIGURE 1

Scatterplot of donor and beneficiary involvability

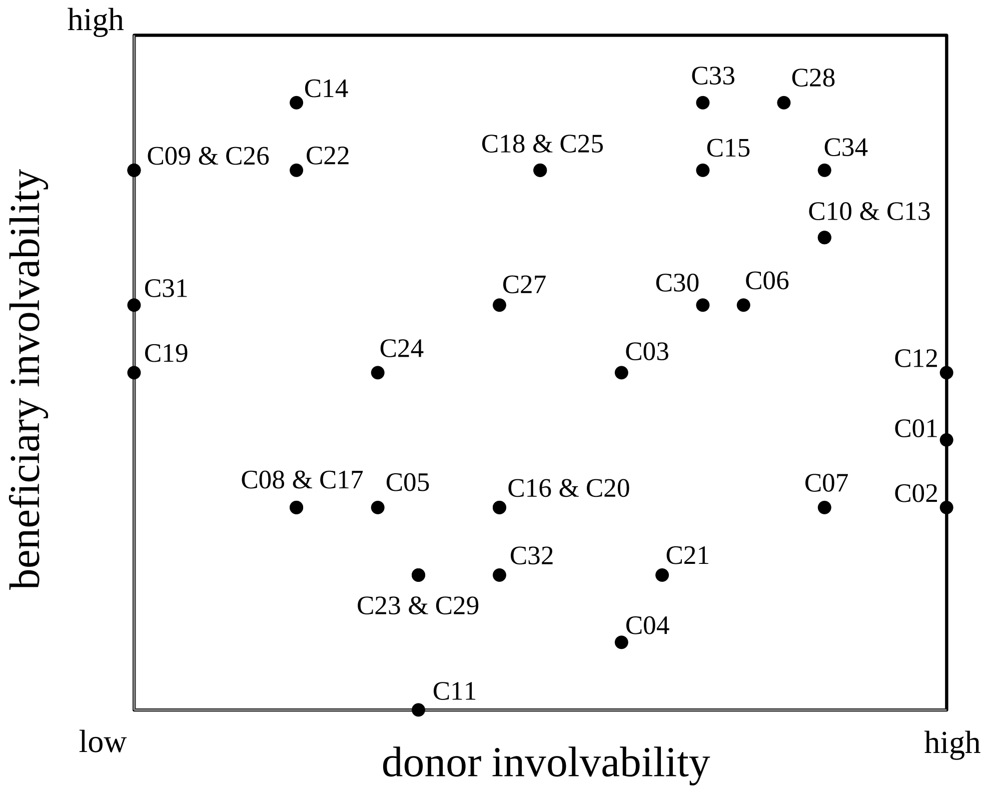
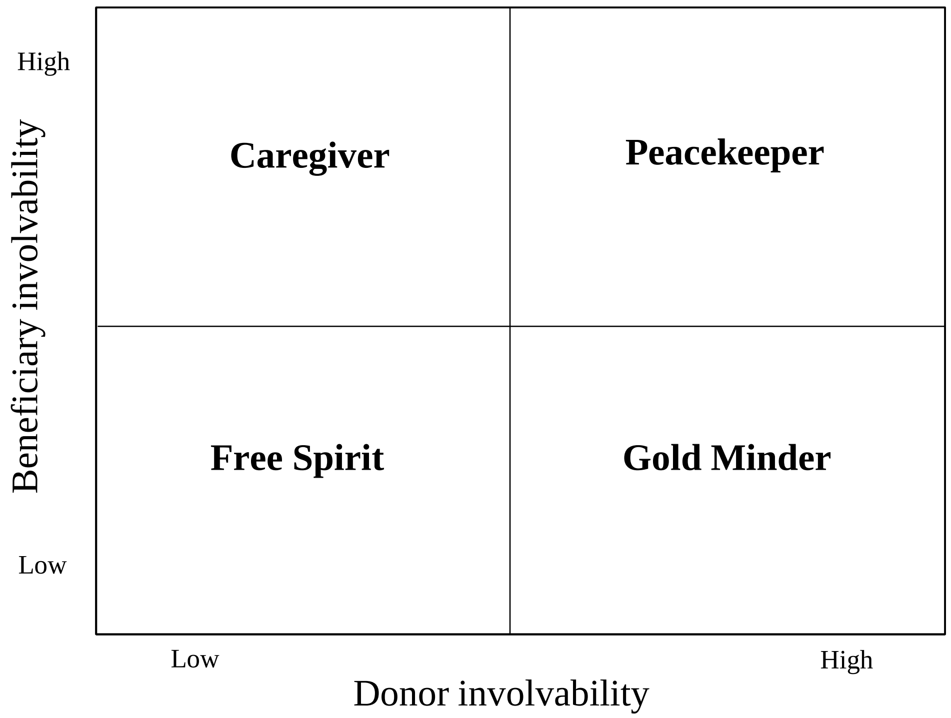


FIGURE 2

A typology of POs



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[1] Note that the size of the philanthropic sector in this study is measured as the sum of private volunteering and giving as a share of GDP for the period 1995-2002.

[2] Such as those articulated in the *Code Wijffels*; the Dutch good governance code for POs.

[3] Due to privacy considerations, we were unable to record and transcribe our focus group sessions, but one of the co-authors took detailed notes during each session.

[4] The scoring protocol has been submitted as a separate appendix. Please see appendix A.