

A Contingency-based Accountability and Governance Framework for the Non-profit Sector in the Post-COVID-19 Era

Abstract

Purpose – The COVID-19 global pandemic has caused significant disruptions to the non-profit sector, highlighting the issues that the narrowly focused, traditional conception of governance fails to address. To support future empirical research on non-profit governance and accountability practices, this paper proposes a contingency-based framework with its theoretical underpinnings in the existing literature.

Design/methodology/approach – From a theoretical perspective, this paper synthesizes relevant existing literature and proposes a contingency-based accountability and governance framework in the non-profit sector. It draws on Ostrower and Stone's (2010) contingency-based framework on boards and Hyndman and McDonnell's (2009) conception of governance systems. This paper engages with the New Zealand and Australia context while reviewing relevant literature and relevant regulations.

Findings - The global pandemic has caused severe world-wide disruptions both socially and economically. There have been dramatic changes to the ways in which non-profit organisations operate. There is an urgent need to understand how such changes in the external environment impact on non-profit organizations' governance and accountability practices. In this context, the contingency-based accountability and governance framework proposed in this paper has important implications for non-profit research, while opening up an avenue for future research in this field.

Originality - This paper contributes to the literature by proposing a contingency-based accountability and governance framework in the non-profit sector in order to support future research in this field. It also sheds light on competing theoretical debates relating to the conceptualization and operationalization of accountability and governance.

Research limitations – This paper does not involve empirical analysis.

Practical implications - This paper contributes by facilitating better understanding on how external contingencies like the COVID-19 global pandemic affect the external and internal environment of an NPO, how they impact on stakeholders and their interplay with an NPO's governance and accountability systems. It also suggests that regulators of the non-profit sector, umbrella support organizations, and funders proactively encourage and guide non-profit organizations to embrace a wider scope of governance and strengthen the level of governance in the sector.

1. Introduction

The COVID-19 outbreak in December 2019 badly affected the global economic system. This global crisis presents an interesting setting whereby an unexpected shock to the economic system led to a rapid decay in the economic landscape, causing dramatic changes across all sectors (Lacker *et al.*, 2020). When the world is struggling with the threat of COVID-19 and its related social and economic issues, this global pandemic has also caused a great deal of disruption to the operation of non-profit organizations (NPOs), highlighting issues that have been insufficiently dealt with in the narrowly focused, traditional conception of governance (Ostrower and Stone, 2010). Many NPOs and their boards of trustees are wrestling with challenging questions and decisions, for example, how to strengthen organizational infrastructure and capabilities in response to a crisis (e.g., to enable more remote service delivery and data sharing via clouds), how to collaborate more between organizations, and how to strengthen financial management and governance knowledge and skills (Centre for Social Impact, 2020).

The current study is strongly motivated by the external pressure exerted by the COVID-19 pandemic. At the end of 2020, a global vaccination campaign was rolled out. However, the social and economic fallout from the pandemic is still direful. It includes COVID-related deaths, company bankruptcies and increased unemployment rates, disrupted supply chains, rising government debt, social and mental health issues related to lockdown policies, and so forth (Brammer *et al.*, 2020). As a result, NPOs are facing a higher than ever level of uncertainty and financial constraint (Kober and Thambar, 2021). The COVID-19 global pandemic has caused fundamental revenue disruptions to the non-profit sector. Many NPOs were unable to anticipate such disruptions and were therefore slow to respond through appropriate strategic and operational planning (Molk and Sokol, 2021). NPOs have also been negatively affected because of reductions in donations and funding coupled with a rising demand in services (Kober and Thambar, 2021). Various internal and external contingencies have engendered enormous amount of pressure on the effectiveness of NPOs' governance systems.

The non-profit sector is very important to society and the economy. The non-profit sector consists of a wide range of NPOs, such as charities, clubs, non-governmental organizations (NGOs), incorporated and unincorporated societies, and many others. Good governance underpins effective performance and ensures that NPOs meet the legitimate aspirations of key

stakeholders. The COVID-19 pandemic has created pressures for NPOs to reassess the adequacy and public acceptability of their governance practices. In the non-profit literature, governance has traditionally been conceptualised at an organizational level where the board of directors' operations are the primary focus of the governing system (Stone and Ostrower, 2007). Such a narrow focus overlooks the multilevel and multifaceted governance system (Ostrower and Stone, 2010), from which NPOs attempt to discharge accountability to various stakeholder groups within a framework of regulatory compliance, reporting requirements, and accountabilities (Hyndman and McDonnell, 2009; Coule, 2015).

Leoni et al. (2021), in their review of 14 studies published in the *Accounting, Auditing, and Accountability* special issue on the COVID-19 crisis, highlight the importance of institutional contexts, values, and culture in shaping accountability, and the need to advance academic research in understanding the interplay of accounting and accountability systems at not only the organizational level, but the country and global levels. However, similar discussion on governance systems in the context of a global pandemic is seldom seen in the non-profit sector. This study thus proposes a contingency-based accountability and governance framework for NPOs and calls for future research in this field.

This paper engages with the New Zealand and Australia context while reviewing the relevant literature forming the basis of much of the discussion on accountability and governance in NPOs. The contingency-based accountability and governance framework proposed in this study extends Ostrower and Stone's (2010) contingency-based framework. Ostrower and Stone's (2010) contingency-based framework for board research has a specific focus on board attributes and the specific internal and external attributes that may affect board effectiveness in NPOs. The framework proposed in the current study, however, draws from Hyndman and McDonnell (2009) to incorporate a much broader concept of internal and external forms of governance systems. It is hoped that such an analytical framework will support NPOs in selecting a suitable combination of internal and external forms of governance mechanisms according to their internal and external contingencies, and strengthen their level of governance in the post-COVID-19 era. Drawing from the proposed analytical framework, this study also attempts to offer future research opportunities for those interested in contributing knowledge in this field.

This study contributes to the non-profit accountability and governance literature. First, this study constructs a contingency-based accountability and governance framework for future

research in the non-profit sector. The framework extends Ostrower and Stone's (2010) contingency-based framework for boards to the wider governance system. By drawing attention to the contingent nature of governance practices, it is hoped that the proposed framework can promote future research that advances a deeper understanding of the complexities of organizational governance. Second, in the context of a global pandemic, this study highlights the importance of reconceptualizing and reintegrating the external contingent factors into governance research in the non-profit sector. Recognizing that Covid-19's impact on governance practices may have a long-term effect, this study addresses the need to reintegrate elements of the external environment into governance research in the non-profit sector. Last, this research offers suggestions for future research to be carried out using the proposed framework.

The remainder of this study is structured as follows. Section 2 proposes a contingency-based accountability and governance framework in the non-profit sector. The need for a broader conceptualization of governance is highlighted and, as a result, Hyndman and McDonnell's (2009) internal and external forms of governance are carefully elaborated on, with an intention to support the operationalization of a broader governance system. Each element of the framework is carefully discussed with reference to prior literature in accountability and governance. This section also provides an expanded discussion on how the COVID-19 global pandemic, a significant external contingent factor, influences various elements of the framework. For example, we discuss COVID-19's impact on other external contingencies, internal contingent factors, and external and internal forms of governance, and the operationalization of accountability and its interplay with various stakeholder groups in this broader governance system. Section 3 offers future research opportunities. Section 4 provides concluding remarks for this study.

2. A contingency-based framework of accountability and governance

The main topics for research in non-profit governance have focused on boards, including the composition of boards (e.g. Garrett, 2007), the relations between boards and managers or staff/volunteers (Du Bois et al., 2009), roles and responsibilities of the board (Brown and Guo, 2010), and board effectiveness and its relation with organizational effectiveness (Callen et al., 2010). Morrison and Salipante (2007) and Speckbacher (2008) explore the interplay among governance, accountability and stakeholders in the charity sector, although their focus remains on the role of board.

With a specific focus on board research, Ostrower and Stone (2010) construct a “contingency-based” framework which integrates internal and external contingent factors into research on the non-profit governance. They suggest that the factors that influence boards are dependent on both the board’s and the organization’s circumstances. Albeit Ostrower and Stone’s (2010) endeavour to develop a contingency-based framework. Their model specifically focuses on board practices only. Prior literature has also criticized the non-profit governance research for being narrowly focused on the roles, composition, and effectiveness of boards (Cornforth, 2012). Such a narrow focus overlooks the wider and complex governance systems from which NPOs attempt to discharge holistic accountability to their upward, internal and downward stakeholder groups¹. Non-profit research should embrace a broader view of organizational governance as a multilevel and multifaceted system, in which multiple stakeholders are engaged.

Existing non-profit literature focuses on advancing our understanding of the interplay between accountability and accounting in the context of the global pandemic, whereas less attention has been paid on promoting a more in-depth understanding of the complex non-profit governance systems. In an attempt to support broader accountability and governance research in future in light of the impact of COVID-19 on NPOs, the current study constructs **a contingency-based framework of accountability and governance in the non-profit sector** (hereinafter called **the framework**). Importantly, this paper argues for a wider governance system beyond the board, by including various internal and external forms of governance mechanisms. This broader view of organizational governance as a multilevel and multifaceted system is critical to fulfil multifaceted accountability demands from various stakeholder groups. Moreover, recognizing the possible long-term impact of COVID-19 on NPOs’ governance practices, this framework attempts to reconceptualize the governance system by reintegrating elements of the external environment into the non-profit governance systems. The framework as depicted in Figure 1 will be discussed in detail below.

[INSERT FIGURE 1 ABOUT HERE]

2.1 External contingent factor – COVID-19 global pandemic

¹ Individual donors, philanthropic funders, corporate sponsors, and regulators are often considered to be ‘upward stakeholders’ (Ebrahim, 2003a). In contrast, beneficiaries and clients are considered to be ‘downward stakeholders’ who are directly affected by the services and activities performed by the charities (Najam, 1996). Moreover, board members and staff (both paid employees and volunteers) are regarded as ‘internal stakeholders’ (Ebrahim, 2010).

Governance practices and their effectiveness in an NPO could be influenced by and respond to external contingencies (i.e. contextual factors) in the institutional environment (Ostrower and Stone, 2010). Prior literature suggests that such **external contingencies** are, in general, related to factors outside the NPO, such as government regulations, economic and institutional environments, fields of activity, and funding relationships (Ostrower, 2007; Abzug and Galaskiewicz, 2001). Institutional theory suggests that organizations face normative pressures from the environment to adopt certain policies and practices to demonstrate their public legitimacy (DiMaggio and Powell, 1983). Regulatory changes such as Sarbanes-Oxley 2002 in the US, the enactment of XRB PBEs standards² (XRB, 2020), as well as the mandatory audit requirements for charities³ in New Zealand (New Zealand Parliament, 2015), have profoundly influenced the debate on good non-profit governance practices. A contingency-based framework therefore also directs attention to understanding the impact of public policy development on the governance of NPOs (Ostrower and Stone, 2010).

These aforementioned external contingencies as identified by previous studies, are relatively stable. In contrast, a global crisis like the COVID-19 pandemic is continuously evolving and it is challenging for any government or organisation to predict its next stage of development. The world has entered its third year of fighting the COVID-19 pandemic, and in late 2021 and early 2022, there have been global outbreaks caused by new COVID variants (e.g. Delta and Omicron) (World Health Organization, 2022). What governments are trying to manage today seems to be very different from what they managed two years ago. It is therefore important that the framework highlights the COVID-19 pandemic as a significant **exogenous shock** and differentiates it from other external contingency factors (as shown in Figure 1). Such a global crisis has caused significant changes to other **external contingent factors**, such as changes in public policy and the economic and funding environment, as well as **internal contingent factors** which will eventually affect NPOs' governance structures, mechanisms, practices and effectiveness. Furthermore, the crisis significantly impacts on upward, downward and internal stakeholders in different ways. It thus has implications on

² From 1 April 2015, the Amendments to Charities Act 2005 required charities to follow a new Accounting Standards Framework developed by the XRB that is based on a multi-sector, multi-tier reporting approach (New Zealand Parliament, 2015). A four-tier XRB standards framework has been implemented, and a new set of sector-specific accounting standards for Public Benefit Entities (PBEs) has been enforced from 1 April 2015 (XRB, 2015). For more details on the financial reporting requirements of charities, please refer to footnote 4.

³ Refer to Footnote 4 for a comprehensive description of the mandatory audit requirements on charities in New Zealand.

how NPOs fulfil their various forms of **accountability**. The following sub-sections will discuss each element in the framework with reference to the accountability and governance literature. They will also provide an expanded discussion on how the COVID-19 global pandemic affects different elements of the proposed framework.

This study focuses on discussing COVID-19 as a unique external contingent factor. However, future studies should be able to utilise the framework to analyse other types of global crises, such as economic recession, a global financial crisis, and significant regional and global natural or humanitarian disasters.

2.2 Other external contingent factors

As depicted in Figure 1, the COVID-19 pandemic exerts enormous influence over other external contingent factors, including: (1) legal, economic, social, and institutional environments; (2) fields of activity (i.e. sub-sectors within which non-profits operate); and (3) funding environments (i.e. percentage of funding and other revenue from various sources). As discussed earlier, the COVID-19 pandemic has had a significant impact on the global economy, and this could be even more catastrophic than the Global Financial Crisis (Nathanson and Boyer, 2020). In retrospect, the Global Financial Crisis (GFC) during the 2008–2009 period, reduced total charitable giving in the United States (US) by an average of 6.5%. The level of charitable giving had not adequately recovered in three years' time (with only a 1.3% and 0.9% increase in 2010 and 2011, respectively) (Reich and Wimer, 2012). At the end of 2020, a global vaccination campaign was rolled out. However, the social and economic fallout from the pandemic is still direful. It includes COVID-related deaths, company bankruptcies and increased unemployment rates, disrupted supply chains, rising government debt, social and mental health issues related to lockdown policies, and so forth (Brammer et al., 2020). The COVID-19 pandemic has also increased organisations' awareness of employee wellbeing and workplace culture. New employment relations issues have emerged, such as workplace vaccine mandates, and health and safety risks that require changes to the legal environment (PWC New Zealand, 2022). Such issues are particularly significant in many NPOs as they often work closely with the most vulnerable people.

NPOs are also facing a higher than ever level of uncertainty and financial constraint due to dramatic changes in funding environment caused by the global pandemic (Kober and Thambar, 2021). In a recent national COVID-19 Community Sector Impact survey on 366 Australian NPOs, two thirds of the respondents observed a decline in fundraising and one

third of the organizations had already cut down their staff numbers (Institute of Community Directors Australia, 2020a). On this side of the Tasman Sea, the situation is clearly not pleasant either. According to the recent New Zealand COVID-19 Impact Community Survey conducted by the Centre for Social Impact, over 74% of the 1400 respondents claimed that they have experienced or were expecting reduced funding. A total of 35% of the participants only had funds to maintain operational activities for fewer than six months (Centre for Social Impact, 2020). The global pandemic has thus caused continuous disruption on the external environment where NPOs operate. As Rev. Tim Costello said, “There’s no way to sugar-coat this – the COVID-19 pandemic is seismic” (Institute of Community Directors Australia, 2020b).

2.3 External forms of governance

The COVID-19 global pandemic has made significant disruption on the external legal, social, economic, and institutional environment, which has also caused dramatic changes to the funding environment in the NFP sector. Prior literature suggests that the external environment primarily influences externally oriented roles (Ostrower and Stone, 2010), thus affecting external forms of governance. A broader conceptualization of governance requires the recognition of both external and internal forms of governance that may potentially contribute to the operationalization of governance functions. This interplay is explained in Figure 1. In terms of external forms of governance, Hyndman and McDonnell (2009) outline a few public discourse mechanisms, including reporting of financial and non-financial information, other voluntary documents produced for stakeholders, compliance with government regulations, and engagement with external auditors.

Annual report is considered to be a primary formal accountability mechanism for NPOs to discharge their accountability to their (predominantly upward) stakeholders; furthermore, well-prepared good quality reports can also improve the level of confidence and trust from the wider community, that is, both upward and downward stakeholders (Connolly *et al.*, 2013). Government regulation on formal reporting could therefore form a vital part of external governance in the non-profit sector, particularly in those smaller NPOs with weak internal governance systems (Connolly and Hyndman, 2017). As part of the annual report, annual audit of financial information provides assurance by reviewing a NPO’s financial health and its going concern status (Molk and Sokol, 2021). Audit of non-financial

information is emerging as government regulations mandate that charities⁴ provide non-financial information about their performance (e.g. Statement of Service Performance in New Zealand). In addition, Molk and Sokol (2021) suggest that external forms of governance include establishing adequate compliance reporting systems and assessing these control mechanisms to make sure the systems function properly.

COVID-19 has had a significant impact on external forms of governance. For instance, most NPOs face difficulties in meeting their reporting deadlines (BDO New Zealand, 2020). In recognition of COVID-19's disruption on NPOs' operations, most authorities have extended their due dates. For instance, the Australian Charities and Not-for-profits Commission (ACNC) has extended the six-month standard requirement by one month for the year ending 30 June 2021. Moreover, the ACNC Commissioner announced that they will not investigate some breaches of the External Conduct and Governance Standards occurring between 25 March and 31 December 2020 (ACNC, 2022). However, the extension of reporting deadlines and exceptions on investigation were not extended to the 2021 financial year when this study was completed. COVID-19's disruption on external governance is likely to be temporary, rather than permanent.

2.4 The interplay between governance and accountability towards upward, downward and internal stakeholders

NPOs play a critical role in supporting public services and promoting social goods (Hyndman and McDonnell, 2009). Increasingly, NPOs find themselves part of public governance regimes wherein they are expected to discharge accountability to multiple stakeholder groups (Ebrahim, 2003). It is thus important to acknowledge 'good' governance in NPOs as a basis for underpinning effective performance, and for ensuring that NPOs meet the legitimate aspirations of key stakeholders. The global pandemic has engendered exogenous pressures on NPOs to reassess the adequacy and public acceptability of their governance practices. Moreover, COVID-19 has not only disrupted the external environment and, consequently,

⁴ A "charity" is classed as a sub-group in the non-profit sector. Medium and large registered charities' financial statements are also subject to mandatory audit or review requirements under the Charities Act 2005 (as amended) (New Zealand Parliament, 2015). In November 2017, the newly introduced PBE FRS48 "Service Performance Reporting" requires Tier 1 and 2 charities to prepare and present service (non-financial) performance information from 1 January 2022 (early adoption permitted). As such, both financial statements and (non-financial) service performance reports will need to be audited and reviewed for Tier 1 and Tier 2 charities (XRB, 2020). Charities are therefore held accountable to regulators in producing true and fair financial reports and service performance reports.

NPOs' governance systems, it has also had a direct impact on various stakeholder groups⁵. The adoption of accountability related practices thus varies depending on the external and internal forms of governance practice engaged by the NPOs. The following section therefore attempts to explain how the framework could help understand the interplay between contingencies, governance systems, and variations in the conception and operationalization of accountability in NPOs.

As shown in Figure 1, the framework integrates the notions of three types of ideal non-profit accountability within governance systems: upward, felt, and downward accountability. The notion of **upward accountability** suggests that accountability is a form of formal monitoring and a control mechanism imposed on NPOs (Najam, 1996; Ebrahim, 2003, 2010). Evidence of upward accountability is often found when funders place emphasis on financial measures in assessing the performance of NPOs (Ebrahim, 2010). NPOs' accountability to groups receiving their services (such as their beneficiaries and/or clients) has been referred to as **downward accountability** (Ebrahim, 2003). Participation has been primarily adopted by non-profits as a tool of discharging downward accountability to communities or clients (Ebrahim, 2003). Internally driven **felt accountability** is expressed through individual actions and organizational mission (Fry, 1995). It involves establishing a shared vision among the employees and managers of the NPOs, so that they can voluntarily take responsibility for shaping the organization's values, missions, culture, and outcomes (Ebrahim, 2003). Many scholars have advocated that NPOs move beyond a narrow accountability focus; that is, to reconceptualise accountability so as to embrace broader forms of "holistic accountability", meaning the impact a NPO's actions has on other organizations, individuals, and the wider society (Najam, 1996; Connolly and Hyndman, 2017).

The COVID-19 global pandemic has been a disruptive force both socially and economically, which may have provided NPOs with greater challenges in fulfilling their accountability to various stakeholders. Prior research has identified a lack of resources, expertise, and guidance as predominant difficulties in achieving a meaningful holistic accountability (Connolly and Hyndman, 2013). Taking an example from the social perspective, the pandemic has significantly affected some of the most vulnerable people (Leoni et al., 2021). The World Bank's 2020 data⁶ on poverty estimated that compared with the percentage of world

⁵ Prior literature has identified three main groups of stakeholders, including upward, downward, and internal stakeholders. Refer to Footnote 1 for definition of various stakeholder groups.

⁶ For more detailed information about poverty, please refer to the report produced by World Bank (2020).

population in extreme poverty in 2017 (9.2%, equivalent to around 689 million people), approximately 88 to 115 million more people have been pushed into extreme poverty as a result of the COVID-19 global pandemic. NPOs are facing increasing demand from downward stakeholders, in particular, their beneficiaries. At the same time, they find themselves financially constrained and with a shortage of workers and volunteers. Despite a moral imperative to be accountable to their beneficiaries, NPOs may prioritize accountability to their upward stakeholders in order to secure funding for the survival of their organization. Internal stakeholders (managers, board members, and staff who work in an NPO) may find themselves in a moral dilemma when their accountability towards their beneficiaries cannot be prioritized.

By and large, the notion of accountability is relational in nature, and it can only be comprehensively understood in the context of an interplay among the NPOs, its organizational environment, and its stakeholders (Ebrahim, 2003). The three notions of accountability as depicted in Figure 1 can therefore be seen as a coherent whole, each interacting with various internal and external contingencies and governance mechanisms.

2.5 Internal contingent factors and internal form of governance

Internal forms of governance could include board practices, the composition and effectiveness of sub-committees and advisory groups, the design of compensation schemes, and other forms of internal control mechanisms such as an internal audit function (Hyndman and McDonnell, 2009). Board roles and policies of NPOs have been found to be closely related to **internal contingent factors** such as an organization's age, size, life cycle, and degree of professionalism (Ostrower and Stone, 2010). For instance, a mature, large-size non-profit organization would have more sub-committees, advisory groups, and due to the size of the organization, an internal audit function might be necessary to strengthen internal control. On the other hand, a smaller start-up type of NPO may not have these resources and therefore need to set up complex internal governance mechanisms.

Kober and Thambar's (2021) study of an Australian NPO suggests that there is general consensus on the importance of accounting systems and practices in supporting NPOs to assess and improve their financial resilience during a crisis. Nevertheless, during the COVID-19 pandemic, they find there were still differences in the perception and use of some accountability systems as a tool for coordination and control. Internal and external contingencies such as cultural characteristics, presence of accounting tools in place prior to

the crisis, and uncertainty on the level of funding constraints could all contribute to such differences (Leoni et al., 2021).

Previous studies also suggest that internal contingent factors could affect how the management and board of a NPO perceive their accountability. The differences in their perceptions towards the scope of accountability may be attributable to a range of factors, such as size, age, degree of professionalism of the organization, as well as the level of a NPO's human and financial capital. For instance, by surveying the top 169 Australian charities ranked by revenue, Dellaportas et al. (2012) provide evidence that large charities support the notion of holistic accountability; that is, they acknowledge the importance of achieving both financial efficiency and programme effectiveness. Habib and Huang (2019) also offer empirical support for the notion of holistic accountability in large charities' resource allocation decisions in New Zealand during normal periods and crisis periods such as the Global Financial Crisis and earthquakes. They find external contingencies, such as field of activity, also contribute to the variation in resource allocation decisions. Their paper further suggests that small charities struggle to follow the notion of holistic accountability, as they have to cut down their service expense by a significant extent when they face dramatic revenue drop. Hence, those large NPOs with more financial and human capital available to develop financial efficiency prior to COVID-19, are more likely to be financially resilient during the crisis. As a result, they might be capable of fulfilling holistic accountability, despite the disruption of COVID-19. In contrast, small NPOs with limited cash reserves and funding may not have the resources to develop financial resilience, despite it being critical to their survival during a crisis.

The internal governance function of NPOs also faces greater challenges in discharging accountability via producing financial reports and other forms of accountability reports during COVID-19. The global capital markets are volatile, and the property market has also experienced a greater level of volatility since the global pandemic (BDO New Zealand, 2020). It is a challenging task for many large NPOs with investment portfolios and/or real estate investments to negotiate with their auditor to confirm valuations of real estate investments. Moreover, many small NPOs face material uncertainty on donations or grant funding (Charities Services, 2020). It is unclear whether these NPOs can continue operating, and this going concern issue will require discussion and negotiation between the board and the management of the NPOs and their auditor, based on existing evidence and their limited forecasts of future revenue streams.

To summarize, the conception of ‘governance’ in NPOs connotes a wider system beyond the board, which also comprises an interplay among various stakeholder groups. The narrowly focused, traditional concept of governance may not be able to support the effective operationalization of governance systems in the non-profit sector. Embracing a broader governance system is particularly critical for NPOs to survive and strive through this global pandemic. NPOs can adopt a mixture of internal and external forms of governance depending on a range of internal and external contingent factors, including the wider environment (e.g. economic, social, and political environment), their sub-sector, objectives, mission, size, skill sets of the board, and other factors. In light of the long-lasting negative effects of the COVID-19 pandemic on the global economic system (Leoni et al., 2021), this proposed analytical framework therefore sheds light on the importance of understanding the interplay among external contingencies, governance and accountability mechanisms, and NPOs.

3. Suggestions for future research

Prior research has examined how changes in the external environment impact on NPOs’ revenue and resource allocation decisions (Reich and Wimer, 2012; Habib and Huang, 2019). However, very little attention has been paid to the impact of external contingent factors on NPOs’ governance functions. The global pandemic has caused severe world-wide disruptions both socially and economically. To enhance the resilience of the non-profit sector, there is an urgent need to understand how such changes in the external environment impact on NPOs’ governance and accountability practices, thus also opening up an avenue for future research.

One area of governance research that requires attention is related to NPO advisory groups in particular and that is the involvement of independent community members and representatives of upward and/or downward stakeholders in the advisory groups. The crisis caused by the COVID-19 pandemic has highlighted the importance of financial literacy skills for NPOs. Kober and Thambar (2021) offer insights on understanding the role of accounting in enhancing financial resilience of charitable organizations in Australia during the COVID-19 pandemic. However, their study does not address the role that governance systems play in the crisis, specifically, the role that advisory groups play in supporting NPOs in navigating through the pandemic, while mitigating the somewhat conflicting demands from various stakeholder groups.

Molk and Sokol’s (2021) recent study on NPOs in the United States shows that independent board members hold a remarkable interest in NPOs, in the absence of mandatory

requirements. It is thus worthwhile for future research to extend such research interests into understanding the appetite for independent community members in advisory groups or sub-committees of NPOs. Discharging downward accountability through mechanisms such as “participation” can be merely a symbolic sign of community involvement if there is unequal power relations between NPOs and their clients and community members (Najam, 1996). More in-depth investigation into the power relations and the effectiveness of “participation” from community members is therefore worth exploring. Future research in these directions could utilize the framework proposed in this study, which conceptualizes the interplay among downward stakeholder groups, external forms of governance, and internal forms of governance (e.g. the formation and operation of advisory groups, and in particular the involvement of downward stakeholders from the community) in the context of COVID-19 pandemic.

Further, Ebrahim (2010) contends that adaptive learning is an important mechanism to discharge accountability more effectively. Adaptive learning means NPOs need to regularly make critical reflection on their performance in a supportive learning environment, enable capacity building and sharing of information, and have adequate resources and leadership to support such learning processes (Garvin, *et al.*, 2008). Such a learning process, therefore, seeks to improve NPOs’ performance through better knowledge and understanding (Ebrahim, 2010). Nevertheless, adaptive learning cannot be achieved without funders’ and regulators’ support and understanding. For example, although some philanthropic funders in New Zealand support capacity building, many are still reluctant to fund the overhead costs for performance review and organizational learning processes (Huang and Hooper, 2011). COVID-19 has raised awareness of the importance of building financial resilience in NPOs during crises (Kober and Thambar, 2021). Many funders may have changed their perceptions on giving away grant funding for information technology and accounting systems upgrades and thus this is an interesting area for future investigation. It is also yet to be discovered whether specific internal and/or external contingencies such as cultural characteristics, field of activity, and the presence of accounting tools prior to the crisis might play an important role in facilitating adaptive learning within the NPOs during and after the COVID-19 pandemic. Furthermore, it is yet to be discovered whether involvement of funders on an NPO’s advisory group or sub-committee might facilitate better understanding of such learning processes or hinder them. The proposed framework could potentially illuminate the impact of contingent factors on hindering or supporting upward stakeholders’ understanding

of the importance of capacity building in NPOs. While acknowledging the impact of COVID-19 and other external contingencies, the framework highlights the complex interconnections between upward stakeholders, internal stakeholders, and NPOs' governance systems. These are important empirical questions given that adaptive learning is critical to capacity building in NPOs, which in turn supports the sector in enhancing resilience in the post-COVID-19 era.

Another aspect of governance research that needs attention is the relationship between governance mechanisms and senior management. It is important to recognize the interdependent relationship between the board (an important internal form of governance) and managers (a critical group of internal stakeholder) in NPOs as illuminated in the framework. Cornforth and Edwards (1999) point out that interactions between boards (one form of internal governance) and staff (internal stakeholders) significantly contribute to the internal processes of governance. Agency theory and stewardship theory, despite their ongoing debate on the conflict or alignment of interests between the board and management, are not adequate in understanding the relationships between the board and the NPO manager (Muth and Donaldson, 1998). Crowding out theory offers a 'middle path' to explain this complex relationship; that is, the balance between monitoring (i.e. watchdog) and partnership roles of the board is dependent on a range of external and internal contingent factors such as a NPO's wider environment, interests and the specific skills board members are equipped with (Ostrower and Stone, 2005). Drawing on the proposed framework, future research could bring internal stakeholders' perspectives into the picture, and study how management could work collaboratively with those charged with governance functions in order to improve organizational performance. In particular, further research could be conducted into how the relationship between management and power dynamics is negotiated and adjusted during and post the COVID-19 crisis. As previously discussed, NPOs face challenging decisions on financial reporting, such as material uncertainty on the continuous operation of NPOs and considerations on the valuation of investment portfolios and real estate investments. Future studies could also explore how important financial reporting issues are negotiated and managed during the COVID-19 period.

As discussed in section 2, COVID-19 has been a disruptive force that may have driven significant changes in the governance and operation of NPOs. It has also created new challenges in employment relations due to increased remote working, isolated work environments at home, high workload, general anxiety and uncertainty caused by the pandemic (PWC New Zealand, 2022). Furthermore, reporting of non-financial information

(e.g. performance reporting) is becoming an increasingly important accountability mechanism to NPOs' long-term sustainable growth. Relevant and engaging performance reporting could become a powerful stakeholder engagement tool (CA ANZ, 2019). COVID-19 may have temporarily diverted organizations' resources away from their work towards performance reporting; thus, the contingency-based framework proposed in this study is useful to support empirical investigation into the impact of COVID-19 on the progress of performance reporting and how the governance system supports the implementation of accountability practice. Bruneel *et al.* (2020) suggest that both external and internal contingent factors could have important implications on the change process towards governance innovation. Future study seeking to understand the change process in improving governance functions could thus consider the framework as proposed in this paper. From a research method perspective, some of the aforementioned future research might consider involving engagement with key external stakeholders of the study objects, for example, funders, beneficiaries, and regulators.

4. Conclusion

The study supports the notion that the conception of 'governance' in NPOs connotes a wider system beyond the board, and thus requires the recognition of both internal and external actors that may potentially contribute to the operationalization of governance functions. The review of relevant literature also reveals that there has been limited prior research on the impact of external contingent factors on NPOs' governance functions.

To support future research in this area, this study makes theoretical contribution to the literature by proposing a contingency-based accountability and governance framework in the non-profit sector drawing on Ostrower and Stone (2010)'s contingency-based framework on boards, and Hyndman and McDonnell (2009)'s conception of governance systems. This study also has important practical implications. It contributes by facilitating a better understanding (in particular, among regulators and funders) of the importance of adaptive learning in discharging accountability in the non-profit sector. This study further suggests the non-profit sector's regulators, umbrella support organizations, and funders, proactively encourage and guide NPOs in embracing a wider scope of governance and in strengthening the level of governance in the sector. Finally, this study contributes by making suggestions for future research in non-profit governance. One area of governance research that requires attention is related to NPO advisory groups, in particular, the involvement of independent community members and representatives of upward and/or downward stakeholders on the advisory

groups. Another aspect of governance research that needs attention is the relationship between governance mechanisms and internal stakeholders; how the relationship and power dynamics between them are negotiated and adjusted during and post the COVID-19 crisis. Future studies seeking to understand the change process in improving governance functions could also consider a contingency-based framework as proposed in this study.

To conclude, it is vital for NPOs to engage in discourse with their stakeholders so as to shape their perceptions on accountability for the success of the organization's programmes and services. This study sheds light on the significance of governance in the success of NPOs' accountability for performance. To enhance the resilience of the non-profit sector in light of the COVID-19 crisis, NPOs need to strengthen their level of governance and seek innovation in improving their governance functions. Such improvement requires collective effort from regulators, philanthropic funders, academic researchers, NPO managers, those charged with governance roles, staff and volunteers, as well as beneficiaries/users. In the words of Albert Einstein, "in the midst of every crisis, lies great opportunity". This crisis can bring out great opportunities and inspire people to innovate, rebuild, and sustain the non-profit sector.

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7. Appendix

Figure 1. A Contingency-based Accountability and governance framework for the non-profit organizations

