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Paper Proposal

Organizational Transformations and Strategic Leadership of Social Service Nonprofits

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Abstract

In view of the imbalance in the literature of welfare state reform between social policy retrenchment and social service restructuring, we attempted to construct a theory to characterize the latter through studying major nonprofit service providers in Hong Kong which faced challenges post by increasing marketization of social provision in the past 40 years. We adopted grounded theory methodology to study the phenomenon of transformations of major nonprofit social service providers in response to welfare state retrenchment and marketization of social provision. Special attention was paid to the role of leadership in designing institutions catalyzing the emergence of three adaptive dynamics conducive to organizational change.

1   Research rationale, questions and objectives

1.1   New public management reform and nonprofit sector

New public management (NPM) has been a global movement and given rise to reforms in areas of economic, administrative and social governance. NPM is characterized by privatization of public services and the use of market tools to achieve policy objectives and enhance efficiency of the administration. It is worth noting that the diverse manifestations of NPM across countries reflect differences in macroeconomic considerations, party politics and welfare state traditions (Hood 1996; Green-Pedersen 2002). In view of the foregoing factors, the state may employ different mechanisms to reform social service provision, which entails different governance logics in restructuring the nonprofit sector. Salamon, Sokolowski and Anheier (2000) classified nonprofit regimes into four types based on the level of state social spending and the size of the nonprofit sector—statist, liberal, social democratic and corporatist. Under each regime, nonprofit organizations face a unique set of challenges with regard to the relations with the state and the market and associated constraints and opportunities (Andrews, Boyne and Walker 2011).

However, the legitimacy of the nonprofit sector not only is drawn from its relation with the state but also from its relation with the community. The civil society, as embodied in the nonprofit sector, can play a very important role in governance in spite of political and economic constraints if provided with enabling conditions for collective actions (Lam and Perry 2000). In this research, we aim to provide insights and construct a theory on the organizational transformation of nonprofits in response to welfare state retrenchment. We leveraged the analysis with data on the growth and transformation of the social welfare sector of Hong Kong, where NGOs struggle with drastic changes to the funding and policy regime.

1.2   Privatization and marketization of welfare provision in Hong Kong

In the early 1970s, the autocratic colonial state in Hong Kong had to quickly establish a welfare system to tackle social problems arising from rapid industrialization and urbanization. Moreover, the limited capacity of the colonial state necessitated their engagement of certain NGOs in making social policies and delivering social services on account of the historical role of NGOs in pioneering large-scale charity work and the networks formed among them (Cheung 2005; Lee 2005). However, the shared governance of social welfare provision ended in 1991. Right after the handover in 1997, Hong Kong encountered the Asia financial crisis which exposed the inadequacy of the liberal, residual welfare state. This nevertheless did not compel the government to upgrade its system of social provision and mode of financing (Lee 2012), possibly due to path dependent welfare state institutions and increasing fragmentation of power in the political system of Hong Kong. Instead, budget cutbacks and retrenchment of the residual welfare state were instituted through the introduction of the Lump Sum Grant (LSG) funding model) (Lee 2005; 2012).

The Lump Sum Grant model was substituted for the Standard Cost model in financing nonprofits in

2001. The LSG subvention system is intended to hold nonprofits accountable for program outcome, give nonprofits more financial flexibility to deploy resources to meeting evolving priorities and changing community needs, and facilitate the process of service re-prioritization and re-engineering as well as ensure value for money. Specifically, a nonprofit organization receives a block grant to deliver services according to its Funding and Service Agreement with the Social Welfare Department and Service Quality Standards. By de-linking the employment conditions of nonprofit employees from the civil service, the state has essentially privatized its social provision. The Social Welfare Department negotiates service contracts with NGOs individually and monitors service performance. Moreover, only the NGOs which have historically been major service providers can receive government subvention. In order to increase marketization level, the government adopted a competitive bidding system to introduce more competition in the provision of certain social services, such as elderly care services, amongst NGOs and private sector organizations. Interestingly, Hong Kong government does not seem to be more generous in social spending after economy bounced back after the 1997 Asia financial crisis. In a nutshell, Hong Kong has remained as a liberal, residual welfare state characterized by heavy state involvement in financing and regulating social provision through NGOs (Lee 2012). The loss of partnership in policy making and the change of funding models ushered in organizational transformation of the major nonprofit service providers.

By organizational transformation here, we refer to the emergence of different dynamics within the NGO and its interactions with other NGOs and sectors. For example, more strategic planning exercises and fee-charging services were observed. Informal networks among NGOs were formed to discuss various issues encountered in this transition period, ranging from modifying HR cost structures to revising service performance standards. Moreover, ties with the private sector were sought through conferring board directorships or collaborating on corporate social responsibility (CSR) projects to leverage its competencies and resources for the benefit of NGO governance and the community. It is worth noting that the government is piloting voucher schemes such as elderly health care voucher scheme in an attempt to elevating marketization of social provision. The market may gradually be substituted for the state in governing or regulating social services. NGOs, particularly those major service providers, are aware of the emerging trends of marketization and are actively strategizing to prepare for the impact.

1.3　Challenges facing major nonprofit service providers—transformation of NGOs

New public management reform in Hong Kong post many challenges for major nonprofit service providers. First, as discussed above that the Hong Kong government seems to be less committed in upgrading to institutionalized welfare state than in deepening new public management reform, these NGOs face sustainability issues such as whether or not they are equipped to handle the impact of marketization. Second, the nonprofit sector is growing bigger whereas the civil society is shrinking in Hong Kong. Since 1990, many NGOs have been established, indicating a rapidly growing civil society. However, these "young" NGOs have little chance to get long-term stable funding support

from the government. They rely on short-term contracts, private and intermediary foundations, and collaborations with NGOs with similar status and the community (Lee and Liu 2012). It seems that young NGOs are well connected with the community and fast and innovative in responding to emerging community needs as well as resource mobilization, therefore might be more resilience under market forces. This puts a lot of adaptive pressure on the traditional NGOs. Third, the marketization measures could undermine perceived legitimacy of those traditionally state-funded NGOs. As these NGOs allocate public resources to the citizens using their services, they make decisions which have a redistributive effect. The public can question NGOs' discretion and hold them accountable for poor outcomes. NGOs need to find their own ways (e.g., vision, mission, core values, strategic planning) to justify their decisions and actions.

1.4 Research questions

In this research, we aim to answer questions concerned with transformations of social service provision in response to NPM movement vis-à-vis social welfare. First, what measures or strategies have been taken by NGOs to effect adaptive change to uphold legitimacy (why) and ensure sustainability (how)? Second, is leadership manifested in the dynamics of organizational transformations?

2 Literature review

We learn from previous research and everyday management experiences that adaptive change happens and it is often attributed to effective strategic leadership. In this research, we adopt an institutional processualism approach to studying transformations of social services, which analyzes interactions between institutional factors, such as regulations, culture and norms, (historical and sociology institutionalism) and agency/decision-making factors (rational choice institutionalism) in the emergence of adaptive change.

2.1 Adaptive organizational change and strategic management

Traditionally, strategic management is circular process of planning, implementing and evaluating to achieve competitive advantages, organizational goals and development. In the private sector, many analytic tools, such as SWOT analysis (strengths, weaknesses, opportunities and threats), PEST analysis (political, economic, social and technological) and 5 forces analysis (bargaining power of suppliers, bargaining power of customers, threat of new entrants, threat of substitute products, competitive rivalry within an industry), have been developed to assist decision-makers in analyzing external and internal environments and formulate strategies at the business level and corporate level (Hitt, Ireland and Hoskisson 2012).

World economy in 21st century is characterized by fast changing conditions in the market and organizations often find themselves losing competitive advantages sooner than before. Many companies which were dominating the market in the last century are falling behind, particularly those in the industries involve high-tech products. Internet and IT have dramatically changed the

way of life in the past two decades. People have easy accesses to information and convenience in information exchange or communication expedites globalization and reduces barriers to entry which in turn blurs market boundaries. Moreover, customers are much more educated about different choices in the market and in turn are less loyal to one brand. Life cycle of products is much shorter now because of foregoing factors. Therefore, fast changing business environments in the 21st century render the traditional circular approach to strategic management inept. The complexity in the dynamics of today's market requires organizations to be very adaptive and strategic management to be deft. It calls for not only insights of dynamics of various forces in business environments but also a different approach to strategic management characterized by a much shorter and decentralized circle of strategy formulation, implementation and evaluation as opposed to the conventional approach. Accordingly, a different set of tools such as case-based decision analysis and qualitative scenario analysis are becoming more popular among strategic decision-makers facing high degrees of uncertainty (Courtney, Lovallo and Clarke 2013).

2.2   Organizational publicness and implication for nonprofit strategic management

Do these foregoing factors affect the strategic management of for-profit organizations as much as they do to nonprofits? In Hong Kong, after the government relinquished the partnership with major NGOs in welfare planning, NGOs needed to find other ways to ensure sustainability (e.g., competencies and resources) and uphold legitimacy (e.g., justifications for its action). Other sources of income and partnerships have been sought (Lee and Liu 2012), which also expose major NGOs to forces in the market. We draw on the theory of organizational publicness to address differences between the public sector, the nonprofit sector and the private sector and implications for strategic management for the nonprofit sector.

The empirical and normative research paradigms of publicness literature focus on the publicness of forces (e.g., a mix of political and economic/market forces) determining organizational configurations and designs (e.g., business and management strategies) and the publicness of values created by organizations. Both perspectives are important, as they provide a heuristic framework for strategic management of public and nonprofit organizations (Bozeman and Moulton 2011). Bozeman (2007, p.18) contends that, "a knowledge of the political and economic authority of institutions and policies is a prerequisite of understanding the potential of institutions and policies to achieve public values and to work toward public interest ideals". Furthermore, through a review of 31 studies which examined relationships between empirical dimensions of publicness (e.g., ownership, funding and control/regulations) and public organization performance (e.g., efficiency and equity), Andrews, Boyne and Walker (2011) suggest that publicness makes a difference to organizational performance. The approach of organizational publicness to strategic analysis is similar to strategic analysis approaches often used in private sector. Organizations of all types are influenced by both economic/market and political forces which are not only generated by government influence, but also by competitors, interest groups, interested citizens, beneficiaries,

and for private corporations, even shareholders. These forces affect organizational behaviors and outcomes (Rainey 2009; Bozeman and Moulton 2011). Strategic management in 21st century requires systems thinking and complexity leadership.

On the other hand, publicness of nonprofit organizations put constrains on strategic options. For example, for a private and profit-making organization, flexibility is critical to its adaptivity and survival in the market. For-profits can stop providing certain products or services because of deficits and lay-off employees associated with that product or service. However, NGOs cannot be that flexible because of their "political, social or moral" accountabilities to funders, community, employees and volunteers. In addition, performance or impact of services is not as easily and readily shown as performance of businesses because of market mechanism. The performance of services often takes longer time to manifest. Without strong, clear and timely market feedback such as bad turnover, top decision-makers might fail to be attentive to and in turn less motivated to improve performance or impact of services. NGOs may keep running a service program just because there is continuous funding in spite of a lack of evidence on its utility, which could result in waste of resources. Therefore, the foregoing factors could render nonprofits less responsive and adaptive to changes of community needs. In a nutshell, strategic management of nonprofits faces unique challenges with regard to inflexibility in resource deployment and inconspicuous performance feedback of services quality. In other words, there are more competing values (e.g., mission impact and financial viability) and uncertainties for governance in nonprofits, increasing complexity in strategic decision-making (Allison and Kaye 2005).

2.3   Complexity and strategic leadership

In today's dynamic political, economic, social and technological environments, how to effectively lead nonprofits is a question to which answers cannot be simply found in main-stream leadership research. The dominant focus of leadership research is leadership of others or "supervisory" leadership in the private sector. Leading an organization takes more than just being a good supervisor. Moreover, strategic leaders of nonprofits are not passive recipients of changes in internal and external environments, but rather can be dominant forces in effecting change. Boal and Hooijberg (2001) called for researchers to describe processes whereby strategic leadership affects organizational outcomes. Strategic leadership involves interpreting the environment, crafting strategies, and building an organization that thrives in dynamic environments (Crossan, Vera and Nanjad 2008).

Strategic leadership is processes of enabling and leveraging dynamics (e.g., informal institutions such as norms) conducive to organizational change and mission achievement. In other words, strategic leadership is to provide mechanisms or institutional support (e.g., knowledge sharing platform) to enable conditions (i.e., interactions) conductive to the emergence of dynamics necessary for complex adaptive system (Uhl-Bien, Marion and McKelvey 2007). "The aim of

complex adaptive leadership is to establish a dynamic 'far from equilibrium', and a context where requisite and effective action can flow naturally in a highly complex and adaptive way without the need for action from the assigned leader. This is especially important for complex situations." (Obolensky 2010, p. 9)

3　Research objectives

Using Hong Kong as a case, this research was an attempt to theorize organizational transformation of social service nonprofits in response to welfare state retrenchment and marketization of social provision and strategic leadership manifested in the processes of transformations.

4　Methods

4.1　*Grounded theory methodology*

In this research, we theorize the phenomenon of organizational transformations and strategic leadership from a critical realism perspective. Specifically, the positivist paradigm has greatly increased our knowledge of the physical world and has illuminated many interesting areas to be explored in-depth in the social sciences, including leadership (Kempster and Parry 2011). However, in light of the accumulating evidence on the complexity in leadership manifestation and dynamics involved, critical realists, unlike positivists, do not assume a perspective wherein leadership is capable of being measured as a phenomenon that is static and with universal dimensions regardless of different dynamics in varied contexts. Grounded theory is a methodology that seeks to construct a theory of a particular phenomenon manifested in a social system and captures a contextually rich perspective of the processes shaping leadership (Strauss and Corbin 1994; 1997). As suggested by Kempster and Parry (2011), "Grounded theory provides a methodological way forward to addressing our understanding of how to make sense of and explain the manifestation of contextualised leadership. Further, it may allow us to suggest causal explanations of the leadership manifestation in particular contexts and across contexts through levels of abstraction related to level of analysis." Last but not least, grounded theory can address a major criticism of qualitative studies as unscientific and lack of rigor. In view of unique political and socioeconomic environments of the social welfare sector in Hong Kong, we chose grounded theory methodology to construct a theory about organizational transformations and strategic leadership in social service NGOs in Hong Kong.

4.2　*Sample*

An initial sample of twenty NGOs in the social welfare sector of Hong Kong and their CEOs and/or service directors were nominated by the advisory committee of the research project consisting of 4 CEOs (one of them was just retired), 1 senior executive, 1 HR expert and 1 social work professor. The criteria of nomination include annual budget above 10 million Hong Kong dollars, having a good public reputation in the social welfare sector and CEO having worked at least 3 years in the current position. Sixteen NGOs were included in the final sample of the study. We stopped data collection when "*category saturation*" was reached. Next section—data collection and

analysis—detailed the process. All of these 16 social service NGOs regularly received government funding to run programs. At the time of interview in 2013, the average of the percentages of income from government funding was 60% ranging from 34% to 90%. All of participating NGOs were multiservice organizations, delivering service programs from youth, to elderly, to family and to people with special needs. All of them had self-sustaining service programs in forms of fee-charging services and social enterprises. They were all established before 1990.

4.3 *Data collection and analysis*

The CEOs and/or service directors of nominated NGOs were invited to participate in in-depth interviews. Invitations and consent forms were sent to CEOs before the interview. All interviews were tape recorded and transcribed.

To produce a grounded theory of organizational transformations and strategic leadership in state-funded social service NGOs, research was conducted iteratively (Suddaby 2006; Kempster and Parry 2011). Data collection and analysis were carried out simultaneously. Different aspects of CEO's work emerged after a few interviews. Three interviewers with a background in organizational behavior, public administration and sociology were also the coders of the interviews. To achieve better inter-coder consistency (i.e., investigator triangulation), at least two interviewers were required to be present for each interview and the coding of each interview was discussed with the other interviewer. Moreover, a pilot *open coding* exercise was designed to help coders gain *theoretical sensitivity* (i.e., sensitivity to or level of insight into themes and patterns which are meaningful in explaining a phenomenon of interest). In this open coding exercise, each coder needed to analyze two interview transcripts and three interview transcripts were used in the exercise. Inconsistencies in coding were discussed among coders to identify different dimensions of the phenomenon of interest and to clarify meanings of the code chosen for a dimension. After the pilot open coding exercise, preliminary code categories or dimensions were identified such as challenges and responses. In addition, when describing their work to researchers, CEOs tended to divide their work into phases (e.g., engagement, development, consolidation, development) and/or areas (e.g., service development and organization development, internal affairs and external affairs).

In order to facilitate the process of theorization of organizational transformations and strategic leadership of NGOs in the social welfare sector in Hong Kong, we drew upon the behavioral event interview (BEI) technique and Strauss and Corbin's (1994, 1997) coding paradigm to guide the data collection and analysis. Specifically, the technique of BEI was developed by David C. McClelland, a professor of psychology at Harvard University, and colleagues at McBer and Company. It is derived from Flanagan's Critical Incident Method. "Critical Incident" interviews ask people to identify and describe the most critical situations they have encountered on their jobs. The interviewer asks what the situation or task was, who was involved, what the interviewee did, and what the result or outcome was. It is in line with Strauss and Corbin's (1994, 1997) coding

paradigm (i.e., conditions, actions/strategies, consequences). McClelland's BEI method goes beyond Flanagan's in important ways. The BEI technique includes "thematic apperception test (TAT)" probes that yield data about the interviewees' *strategic thinking and intent* (e.g., what they think about, feel, and want to accomplish in dealing with the situation). This allowed the interviewers to identify innate qualities and cognitive processes (e.g., willing to take risk, defining coordination problems) giving rise to interviewees' leadership behaviors (e.g., initiating task structures). In other words, "Critical Incident Method", like job task analysis, identifies aspects of the job, while BEI technique identifies the "competencies" needed to do the job well (Sanchez and Levine 2009, 2012).

Competencies are sets of behaviors or behavioral themes that are instrumental in the delivery of desired strategic results or outcomes (Bartram 2005; Sanchez and Levine 2009, 2012). Note that competencies are not exactly knowledge and skills which can be obtained through traditional job analysis. In their reviews of competency modeling and job analysis, Sanchez and Levine (2009, 2012) suggested that "whereas the purpose of job analysis is to better understand and measure work assignments, the primary purpose of competency modeling (CM) is to influence the manner in which such assignments are performed so that presumably strategic, behavioral themes are emphasized when performing every job". They drew a parallel with the notions of "channel" and "volume" in signal detection theory (Tett and Burnett 2003). In other words, whereas job analysis is concerned with determining "trait relevance" (e.g., knowledge, skills) or the appropriate "channels" (e.g., work attributes) that are called for by the nature of work assignments, CM attempts to raise the volume of those channels that signal the importance of certain behavioral themes reflecting strategic intents. Moreover, asking people to focus on the most critical situations they have faced produces data on the most important competencies (Spencer and Spencer 1993). In addition, BEI technique can avoid the disadvantages of other methods such as expert panels which may identify folklore competencies such as communication. These competencies might be only reflecting the traditions of the organization or certain knowledge and skills which might not be essential in producing desirable organizational outcomes.

Accordingly, the three interviewers were trained on the BEI technique and applied it in the interviews. The interviewer asked the interviewee to describe work foci/phases during his or her term as a CEO or a service director, select critical management incidents in each work focus/phase and reflect upon the whole process from framing the problem faced in the critical management incident, to identifying formulating strategies, to implementing strategies and to evaluating results. Strauss and Corbin's (1994, 1997) coding paradigm (i.e., conditions, actions/interactions, and consequences of categories) was then used to abstract categories or dimensions—*axial coding* or *theoretical coding*. At this stage, each interview was analyzed by one coder. Regular meetings were held among coders to enhance theoretical sensitivity of the coding team and the shared understanding of "the nuances and complexity of the participant's words and actions" (Strauss &

Corbin, 1990, p.44). In the meeting, critical incidents were discussed so that each coder could express his or her understanding of what they were about and what leadership behaviors as well as other factors are crucial to the resolution of this incident.

The challenge for the researchers was to develop a way of identifying recurrent leadership behaviors which could be associated consistently with particular organization processes and outcomes (Rowland and Perry 2009). Specifically, researchers met this challenge, using the patterning technique (i.e., constant comparison) by which the presence and absence of leadership behaviors in the dynamics of organization processes could be compared across critical incidents and organizations. The discussions helped coders converge their opinions on a tentative core factor and its definition which navigate the team in the following coding—*selective coding*. For example, in this study, after many rounds of discussion, the coders agreed that the strategic intent underlying the design of mechanisms or institutions in the resolution of a challenging problem should be the level of abstraction, rather than knowledge and skills employed in the resolution.

As shown in the process described above, constant comparison, within-subject and between-subject, was employed throughout the whole process of coding. Suddaby (2006, p. 636) described a key component of the constant comparison as "critical evaluation of emerging constructs against ongoing observations". It is core to the grounded theory methodology — abduction by which a research moves between induction and deduction while practicing constant comparison, permitting the qualitative story-line for the research study to emerge.

After developing tentative factors, researchers return to the field to gain specific data to illuminate these factors. In the present study, we revised our interviews to build in focused questions about factors to develop its properties; compared them with new data, and assessed its robustness and usefulness in analyzing the new data. *Theoretical sampling* is a novel strategy for increasing the power and usefulness of an emergent theoretical category and constitutes a pivotal step in theory construction (Charmaz, 2006; Hood, 2007). It helps the researcher engage in several iterations of data gathering and analysis such that emerging explanation is as valid and reliable as possible. Silverman (2011) noted that constant comparison of these iterations of data gathering contributes to the validity of this research. The researchers kept collect data by interviewing more NGO leaders in the social welfare sector of Hong Kong until no new evidence appeared. This process—*category saturation*—is one of the primary means of verification in grounded theory (Strauss & Corbin, 1997). As well put by Suddaby (2006, p.636), "Premature departure from the field may well result in data that are only partly analyzed and therefore fail to elevate obvious categorizations to a more abstract theoretical level".

5   Results

5.1   Hierarchy of abstraction model—a grounded theory of nonprofit transformation as

result of NPM reform

In present study, 65 management critical incidents from 16 major nonprofit social service providers were used to construct a grounded theory on organizational transformation as a result of NPM reform. As suggested by Rowland and Perry (2009), the extensive use of in-depth interviews for validation purposes allowed for primary data to be reliably grouped under nodes at a higher level of abstraction. Goulding (2002, p.169) defines abstraction as "… the process of lifting the analysis of the data from the descriptive level to a conceptual or theoretical interpretation which offers an explanation of the phenomenon under study." Following the lead of Kan & Parry (2004) and Rowland and Perry (2009), we drew relationships between lower and higher level nodes through development of a thematic tree—a hierarchy of abstraction model—which was progressively refined as further data were gathered and validated (See Figure 1). In other words, the hierarchy of abstraction model is an embedded-process representation of dynamics accounting for the organizational transformation of nonprofits.
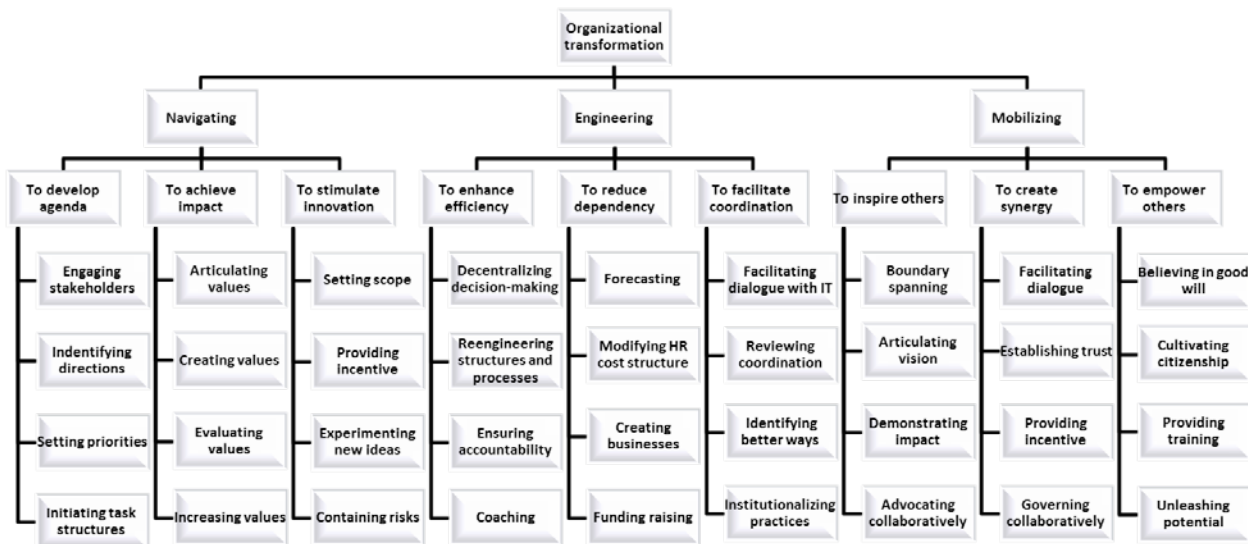

Figure 1 Hierarchy of Abstraction Model of Organizational Transformation of Nonprofits in NPM Reform

Rowland and Perry (2009, p542) described the hierarchy of abstraction model as "at the lowest level of abstraction are the manifest variables which in grounded theory terminology are the open codes. Higher up the model are categories at higher level of abstraction and explanatory capability." Specifically, in present study, the initial descriptive/open coding of interview data was undertaken at a low level of abstraction. Examples of descriptors of coding at this level included "a resource problem identified", "a service gap identified", "within-agency factionalism identified", "task force

formed", "consultation exercises carried out", "pay structure adjusted", "employee training provided", "decision-making decentralized", "regular cross-service unit meetings held". The descriptors were grouped semantically to form open codes, such as "setting priorities" and "engineering processes" as shown in Figure 1. Categories at more abstract levels (e.g., institution level) included "to develop agenda", "to achieve impact", "to stimulate innovation", "to enhance efficiency", "to reduce dependency", "to facilitate coordination", "to inspire others", "to create synergy", "to empower others". The highest level of abstraction is the highest order category called "organizational transformation". This category integrates all the categories at lower levels of abstraction, and has the greatest explanatory power. In the present study, it refers to organizational transformation processes which major nonprofit social service providers have undergone in response to NPM reform measures and the deepening of marketization of social provision.

As indicated in the results, these nonprofits evolved three types of dynamics in the process of transformation. They were *navigating*, *engineering* and *mobilizing*. Just as interaction is the source of adaptivity for a complex adaptive system, it was also the interplay and reflexivity among these dynamics that drove organizational change (Boisot and Mckelvey 2010). We identified the three dynamics through grouping institutions emerged in critical incidents, using axial coding on conditions, actions/strategies and consequences. Since the present study is also concerned with the manifestation of strategic leadership or agency in the dynamics, the axial coding on BEI interview data about strategic intent (i.e., goal or expected outcome of institutions) allowed the researchers to analyze the decisions underlying the emergence of institutions.

5.2   Institutional designs embedded in adaptive dynamics

As aforementioned, the analysis of institutions and underlying strategic decisions may shed light on the emergence of three adaptive dynamics. Patterns in strategic leadership processes which emerged from comparisons across critical incidents included problem framing, goal and priority setting, strategy formulating, institution designing, evaluating and the like. These processes could be initiated by upper echelons, middle-level managers, frontline workers and/or external stakeholders. The patterning of strategic leadership processes enabled the researchers to identify institutions comprising formal and informal measures such as mechanisms, regulations, strategies, values and culture norms. In light of data collected from BEI questions on strategic intent, we were able to group institutions in terms of their functions under nice categories, including "to develop agenda", "to achieve impact", "to stimulate innovation", "to enhance efficiency", "to reduce dependency", "to facilitate coordination", "to inspire others", "to create synergy", "to empower others". The first three were conducive to the adaptive dynamics of navigating; the middle three contributed to the adaptive dynamics of engineering; the last three were embedded in the adaptive dynamics of mobilizing.

5.2.1 Three adaptive dynamics

The adaptive dynamics of navigating were characterized by institutions to develop agenda, to achieve impact and to stimulate innovation. Specifically, key strategic planning exercises were recalled as critical incidents in the interviews with the CEOs. Institutions or mechanisms designed to facilitate the processes of agenda development involved engaging stakeholders, identifying programs, setting priorities and building consensus. In addition, various critical incidents revolved around the advancement of service quality and impact. Institutions designed for this purpose ranged from articulating and evaluating values created by services, identifying service gaps and advancing services to achieve a bigger and more sustainable impact. Critical incidents reported were about efforts to stimulate innovation and cultivate innovative culture. The institutions ranged from setting scope, to providing incentive and platform to experiment on new ideas and to containing risks.

The adaptive dynamics of engineering were characterized by institutions to enhance efficiency, to reduce dependency and to facilitate learning. Specifically, as revealed in critical incidents, formal and informal measures were taken to enhance the efficiency of decision-making in the organization, comprising decentralization, reengineering processes, ensuring accountability and coaching. Institutional vehicles or measures to reduce recourse dependency were also revealed in critical incidents. They ranged from financial forecast, modifying cost structure (e.g., enabling, flexible, aligned but economical HR cost structure), fund raising to creating businesses. In addition, organization learning was found to be an integral part of the adaptive dynamics of engineering. Institutional vehicles designed to facilitate organization learning included feedback mechanisms (e.g., regular meetings, virtual communication platforms) to deepen the staff's understanding of existing formal and informal practices and mechanisms to consolidate learning in agency policies.

The adaptive dynamics of mobilizing were characterized by institutions to inspire others, to create synergy and to empower others. Specifically, promoting agendas, whether service agenda or social agenda, was often recalled as critical incidents in which formal and informal measures or institutions were designed to inspire others. These measures may include forming cross-boundary platforms or ties, articulating, establishing and advocating a collective vision and values and demonstrating collective impact. There were critical incidents in which synergy building was the main theme. Institutions or measures to bring out synergy among different parties and stakeholders started with establishing mechanisms to facilitate dialogue and establish trust, followed by identifying incentives and designing governance mechanisms for collaboration. Last but not least, the adaptive dynamics of mobilizing call for measures to empower others. Formal and informal institutions, such as humanistic agency values, management/leadership styles, staff development mechanisms, citizenship program were revealed to be empowering and mobilizing.

5.2.2 Interplay between adaptive dynamics

In the present study, we constructed a grounded theory to characterize organizational transformation of major nonprofit social service providers facing marketization of social provision and stronger

service performance monitoring by the government. In light of previous research findings on organizational change, we maintain that the nine types of institutions are conducive to the emergence of adaptive dynamics necessary for organizational transformation. Specifically, mobilizing adaptive dynamics could be brought about by formal and informal institutions meant to raise awareness, facilitate constructive dialogue and develop competencies among people who are concerned with a particular issue. Positive organizational outcomes of mobilizing adaptive dynamics might include shared visions, clearly defined problems and committed workforce. Navigating adaptive dynamics catalyze the former type of adaptive dynamics through providing formal and informal institutional support to enable actors to effectively and efficiently engage in translating vision into agenda for actions, experimenting on different tools and methods and effecting social change. Positive organizational outcomes of navigating adaptive dynamics might include not only social impact but also legitimacy for organization's actions. Engineering adaptive dynamics enable navigating adaptive dynamics through developing formal and informal institutions, such as accountability system, financing mechanisms and community system, to enhance the efficiency, independency, flexibility and coordination in decision-making processes. In other words, the stronger the engineering adaptive dynamics are; the more independency and discretion a NGO can have to decide what services to provide and how they can be provided effectively.

5.2.3 Strategic leadership and institutional designs

The analysis of institution development in critical incidents could illuminate strategic leadership or agency of nonprofits in the NPM reform in Hong Kong. In the present study, institution development illustrated in the critical incidents corroborates the complexity leadership theory (Uhl-Bien, Marion and McKelvey, 2007). In other words, strategic leadership is to establish or capitalize on a dynamic "far from equilibrium" so that desirable interaction can flow naturally in a highly complex and adaptive way without the need for action from the assigned leader (Obolensky, 2010). Specifically, strategic leadership here refers to processes of developing institutional measures, framework or vehicles (e.g., incentive system, integrated service project, a subsidiary, knowledge sharing platform) to create conditions (e.g., interaction and interdependency, heterogeneity, "a safe playground") conducive to the emergence of adaptive dynamics (e.g., collaboration, innovation, learning). Moreover, in line with the complexity leadership theory, strategic leadership was found not only to catalyze adaptive dynamics but also to steer and absorb the emergence of new institutions.

6   Discussion

6.1   NPM movement, social welfare governance and NGO strategic management

In the present study, the theoretical model of organizational transformation was constructed in the context of welfare state reforms in Hong Kong. There has been an imbalance in welfare reform research regarding social policy retrenchment and social provision restructuring (Klitgaard 2007; Alber 2010; Henriksen Smith Zimmer 2012). Given the fact that public provision of social services

such as elderly care constitutes a crucial dimension of public provision of social welfare in virtually all advanced capitalist societies (Esping-Andersen, 1990), it is important to study the effects of NPM movement on social provision (Clayton and Pontusson 1998; Starke 2006; Klitgaard 2007). Specifically, NPM movement entails different paths of welfare reform for social democratic, liberal and conservative states, partly due to the ideological roots and institutional frameworks associated with welfare state regimes (Schmidt 2002; Pierson 2001). For example, in comparison with social democratic states such as Sweden where public provision of social services is a predominant form, NPM movement in liberal, residualist welfare states entails more restructuring of the nonprofit sector given its traditional role in social provision. This may lead to different policy outcomes and performance on account of nonprofits' distinctive organizational characteristics.

As aforementioned, the autocratic colonial state in the early 1970s in Hong Kong had to quickly establish a welfare system to tackle social problems arising from rapid industrialization and urbanization. Moreover, the limited capacity of the colonial state necessitated their engagement of NGOs in delivering social services and a partner in shared governance on account of the historical role of NGOs in pioneering large-scale charity work and the networks formed among them in 1973 (Lee 2005; Lee 2012). NGOs were selected by the state to provide social services with government funding and also participated in making social policies. However, the latter ceased in 1991, ending shared governance. Right after returning to China in 1997, Hong Kong encountered the Asian financial crisis which exposed the inadequacy of the residual welfare state. This nevertheless did not compel the government to upgrade its system of social provision and mode of financing, possibly due to path dependent institutional arrangements of liberal welfare state regime and increasing fragmentation of power in the political system. Instead, budget cutbacks and retrenchment of the residual welfare were instituted through the introduction of the LSG funding model. In a nutshell, the loss of partnership in policy making and the change of funding model inevitably require organizational transformation of the major nonprofit service providers.

As shown in the results, NGOs demonstrated the development of strategic management capacity. Specifically, not only did nonprofits respond to the cutbacks of government subvention (i.e., change of funding model) but also showed discretion in resource management to reduce financial dependency and make investments in line with their visions, missions and core values. Through businesses (e.g., fee-charging services) and fund raising activities, NGOs were able to mobilize resources in the society to identify and finance services for emerging social problems, risks and needs, serving redistribution purposes. The strategic management capacity rendered NGOs less influenced by uncertainties resulting from lack of social welfare planning in Hong Kong and constrained by government contracts. Discretion in performance management was also observed in NGOs efforts to improve services' output and outcome. Furthermore, the autonomy gained through financial independence in organizing various services at the community level allowed NGOs to permeate the grassroots. We found that the nonprofits actively engaged community (e.g., through

media, associations) in their fund-raising and advocacy work not only towards the government but also the public and the private sector. This may help develop loyalties of other social classes and forge cross-class. According to power resources theory, cross-class coalitions are conducive to producing more egalitarian distributional outcomes and averting not-in-my-backyard syndrome. Similar to nonprofit sector sectors in other liberal states such as the United States, we maintain that the current Hong Kong nonprofit sector has taken on independent roles in dealing with government failure and market failure. It is worth noting that not all adaptive dynamics we found in the present study emerged were responses to welfare state retrenchment. For example, social innovation and community roots had always been the strengths of the major nonprofit service providers. It was just the years of being state agents (meaning no need to worry about funding, no incentive to improve and bureaucracy) that lowered their sensitivity to the pulse of the community, clouded their foresight and rendered them less responsive to the change in community needs.

In addition, levels of marketization result in differences in social welfare governance and resulting strategic management (Henriksen, Smith and Zimmer 2012). A service could be regulated by the state in the form of performance contracts, while it could also be regulated by the market in form of, say, voucher schemes. The governance of social provision relies on government monitoring for the former and market competition for the latter. These two governance logics could pose different challenges to NGO strategic management. In Hong Kong, social services were contracted out to a stable crowd of major social service providers which shields them from market competition. The commitment to the advancement of social services is therefore more likely to be driven by normative values such as professionalism and equality. Moreover, these values also give NGOs directions, meaning and a sense of ownership for their organization of social services, particularly under the circumstances of lacking state-level social welfare planning. We contend that as marketization deepens in Hong Kong, major nonprofit service providers may encounter increasing market competition from for-profit service providers and other nonprofits. They need to reinforce the adaptive dynamics of engineering, mobilizing and navigating, through further reducing financial dependency, initiating flexible and embracing organizational structures for both businesses and social services, increasing internal coordination and collaboration, strengthening value building, competency development and community engagement for better strategy formulation and implementation.

6.2 Implications for the development of the leadership of nonprofits during NPM reform

In particular we saw the work of Osborn, Hunt and Jauch (2002) as being of key importance because it frames the relationship between context and leadership behavior within a complex systems framework. When seen through the complex systems lens, context not only shapes leader behavior at a micro level, but by extension it also shapes an organization's relationship with its environment at a macro level. Drawing upon complexity leadership theory and organizational change literatures, we argue that in order to facilitate the emergence of three adaptive dynamics of

organizational transformation—navigating, engineering and mobilizing, NGO leaders need to pay attention to the three leadership forces in the organization. Adaptive leadership, administrative leadership and enabling leadership place emphasis on the effects of grassroots actors, upper-echelon actors and institutions respectively (Uhl-Bien, Marion & McKelvey, 2007). Enabling institutions not only could catalyze adaptive leadership in a more constructive way (mobilizing) but also create an encouraging environment for innovation and value creation (navigating) and provide mechanisms for efficient expansion (engineering). Therefore, in light of the results, we suggest that leadership development programs for should aim at enhancing three competencies of senior executives: service acumen, operation dexterity and multi-stakeholder savvy. For service acumen, upper echelons should be attentive to the emergence of service directions and play an active role in the processes of articulation and consolidation. In post-industrial society where market/business environment is changing rapidly/ very dynamic, information is readily available for not only top managers but also frontline managers to make educated judgment in a timely manner, the traditional model of chain of command could impede efficiency and adaptivity. Operation dexterity requires competencies of designing institutions conducive to devolution of, efficiency in, adaptivity of and accountability for decision-making process. Multi-stakeholder savvy involves competencies of cultivating enabling institutions which energize, inspire, bring together and motivate people to work for a shared vision.

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