Effective Corporate Governance in Not-for-profit Organisations

Steven T. Reynolds
Bachelor of Business (Accounting)
Graduate Diploma in Accounting Information Systems
Graduate Diploma of Applied Science (Computing)
Master of Business Administration

Victoria Law School
College of Law and Justice
Victoria University
Melbourne

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Abstract

This thesis explores corporate governance effectiveness in not-for-profit organisations by identifying and developing the types of performance indicators used in the not-for-profit sector. Only by agreement, between all affected parties, on the criteria is one able to assess corporate governance effectiveness. This thesis contributes not only analytically but also by the provision of several empirical datasets: they are contributions from interviews with expert practitioners, action research data available from an individual board that developed its own performance indicators and a review of published annual reports. Two main research questions were posed. The first was: What are the performance indicators of effective Australian not-for-profit corporate governance? And the second question was: What is the process for determining the performance indicators of effective Australian not-for-profit corporate governance?

The thesis starts by briefly examining the literature on traditional corporate governance paradigms and theories and then more holistic theories, settling on the Board Intellectual Capital Framework (Nicholson & Kiel 2004) as a schema to consider the broader literature on corporate governance. The literature on not-for-profit organisations is reviewed, concluding they are diverse in nature and complexity. Finally, the literature on performance measurement generally and performance indicators more particularly are reviewed, concluding the need for an appropriate level of validity and reliability of performance indicators. The review of the literature revealed that not only is data on this topic scarce but that boards are reluctant to provide access to their inner workings.

The methodological and analytical approach is based on an adaptation of Glaser and Strauss' (1967) grounded theory, using interviews with experts, an action research study and a review of annual reports. Whilst a grounded theory approach is adopted the initial investment of conceptualisation owes much to the Board Intellectual Capital Framework as a point of departure insofar as the Board Intellectual Capital Framework was the basis for examining the literature and for the researcher's thinking. The thesis did not have any formal hypotheses but took an inductive approach to establishing conceptual propositions by examining theories, models and research on corporate governance performance indicators in order to create a more holistic appraisal. Four data sets were used; these were the literature contribution, semi-structured interviews, an action research study and analysis of published annual reports.

From the analysis of the data collected the usage of performance indicators for corporate governance activities in Australia is rare; however the usage of corporate governance statements as a way to introduce such corporate governance performance indicators may be possible. The thesis examines the current methods of developing corporate governance performance indicators, and establishes the need for a new process. A framework is proposed for not-for-profit boards to establish performance indicators that can be applied to corporate governance activities.

Student Declaration

I, Steven T. Reynolds, declare that the DBA thesis entitled Effective governance in not-for-profit organisations is no more than 65,000 words in length including quotes and exclusive of tables, figures, appendices and references. This thesis contains no material that has been submitted previously, in whole or in part, for the award of any other academic degree or diploma. Except where otherwise indicated, this thesis is my own work.

Signature: Date:

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Finally, this thesis is dedicated to my wife Julie Sullivan who has kept me up when this thesis was down, who acted as counsellor and coach, who never waived her conviction that it would be completed, and did everything in her power to see that this was so. I am truly blessed to have her by my side.

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Abbreviations

ABS	Australian Bureau of Statistics
ACNC	Australian Charities and Not-for-profit Commission
AICD	Australian Institute of Company Directors
ANAO	Australian National Audit Office
ASIC	Australian Securities Investment Commission
ASX	Australian Stock Exchange
BICF	Board Intellectual Capital Framework (Nicholson & Kiel 2004)
CEO	Chief Executive Officer
CPA	Certified Practicing Accountants
CSA	Chartered Secretaries Australia, now renamed the Governance Institute of Australia
Cwlth	Commonwealth of Australia
GDP	Gross Domestic Product
INCPO	International Classification of Non-Profit Organisations
NYSE	New York Stock Exchange
OECD	Organisation for Economic Cooperation and Development
UK	United Kingdom
US	United States
VCOSS	Victorian Council of Social Service

VIC	Victoria, Australia

CHAPTER 1: INTRODUCTION

This thesis is concerned with the development of performance indicators applicable to Australian not-for-profit boards' corporate governance activities. Confidence in the effective functioning of not-for-profit organisations is paramount in the continuing support that the public vests with such organisations. This combined with the fact that corporate governance and particularly the performance of boards have become topical in recent years, creates the expectation that boards will carry out their roles in a manner that accords with stakeholder and community standards. A clear way that boards can demonstrate and ensure effective corporate governance is by using performance management techniques, particularly performance indicators. This study focuses on an Australian board of a not-for-profit organisation (Bicycle Victoria Incorporated), and applies that research to a wider context of not-for-profit organisations and practitioners in an effort to establish external validity. The essential focus is upon the type and nature of performance indicators that might be used to measure the effectiveness of corporate governance outcomes. There are restrictions to the data set used in this thesis: five subjects with broad experience in not-for-profit organisations participated in semi-structured interviews, the action research study of a Victorian domiciled charity was conducted and 106 annual reports published by not-for-profit organisations were analysed. Notwithstanding this limited data set, it is held that the findings are validated sufficiently to apply universally.

This chapter discusses the objectives, significance and justification of the study, introduces the main research questions and the main contexts and themes of this study. To that end, this chapter introduces not-for-profit organisations, provides an overview of corporate governance and establishes the need for board performance appraisals. Finally, this chapter concludes with an outline of the remaining seven chapters in this thesis.

1.1 Objectives of the thesis

Broadly, this thesis is an investigation into corporate governance effectiveness in Australian not-for-profit organisations by using performance indicators of boards' corporate governance activities. Not-for-profit organisations are organisations that 'may make a profit but whose constitution prevents any being distributed to their members' (Dawson & Dunn 2006, p.33). The constitution is the document establishing the rules of the organisation.

A preliminary discussion of not-for-profit organisations is provided in section 1.5.2; however a more comprehensive discussion is provided in chapter three at section 3.1. It should be noted, at the outset, that this thesis is concerned with those not-for-profit organisations which are economically significant, as defined by the Productivity Commission (2010, p.xvi), that is, they have 'one or more paid employees or revenue above a set annual threshold'. The annual revenue threshold varies by industry code such that those organisations included in the scope of 'economically significant not-for-profit organisations make up at least 97.5 per cent of total estimated turnover within that industry code' (Productivity Commission 2010, p.xvi).

Specifically, this thesis aims to fill a research gap by identifying key literature and annual reports, undertaking interviews and an action research study of a working board. Its aim is to provide relevant and current data and analysis to explore the usage of corporate governance performance indicators of effective board corporate governance activities in Australian not-for-profit organisations and further propose a methodology for the development of such indicators.

An account of the conceptual approaches to this work is given in this chapter, and the predominant theories and paradigms are introduced in chapter two, where traditional and holistic corporate governance theories are considered in detail. In principle, the theoretical contribution to be made by this thesis emerged as the data was analysed. A form of grounded theory was employed to give an overarching view of the issues that emerged.

1.2 Significance of the thesis

This thesis adopted an approach, which is significant in its practicality. It is the first of its type in examining both a set of performance indicators for Australian not-for-profit board activities and a methodology for the establishment of those indicators. This thesis by way of action research specifically considers matters related to the development and implementation of corporate governance performance indicators for Bicycle Victoria Incorporated, for the five years prior to the acceptance of a Board

Performance Report, using those performance indicators in October 2010. This research was triangulated with other research as described in the methodology in chapter four. The research should lead to an improvement in not-for-profit board performance assessment, whether by self-evaluation or by external experts, by enabling customised indicators applicable to the specific not-for-profit organisation rather than requiring the not-for-profit organisation to use broad non-sector specific criteria. It provides a template (or methodology) for not-for-profit boards to use in the assessment of their own performance and it further tests the validity of the 'holistic' view of corporate governance. This view of corporate governance is introduced in this chapter and will be discussed in more detail in chapter two.

Improvement in not-for-profit board governance will occur because it is known that not-for-profit board members generally want to do a good job (Carter & Atkinson 2006; AICD 2010). Thus it follows that if they are better enabled to evaluate their own corporate governance effectiveness, they will act to improve their effectiveness.

1.3 Contribution to knowledge

As will be discussed more extensively in this chapter, little international research involving performance indicators for board activities is evident and there is even less research in relation to not-for-profit organisations in Australia.

By addressing board performance indicators in Australian not-for-profit organisations, this thesis significantly contributes to the research and theory of such organisations in relation to corporate governance effectiveness. This thesis goes some way towards redressing the current research gap in not-for-profit organisational board performance and adds to the body of knowledge available for academics by making it available for use in other settings. This thesis takes a practical approach; it provides not-for-profit corporate governance practitioners with a range of performance measurement tools to assess and improve their corporate governance efforts. Key among them is a methodology for the development of organisational performance indicators that may also be appropriate to other organisations in the sector.

Some of the knowledge generated by this research was acquired by participant action research, hereafter referred to as 'action research'. Such knowledge is especially difficult to acquire as very few researchers are able to access the inner workings of boards. The researcher was in a unique position, having a strong working relationship with a not-for-profit board. The researcher had been the company secretary from 2005 to 2011 and attended virtually every Board and Committee meeting. Before the study commenced, the preparedness of the board to participate in the study was met with enthusiasm, perhaps further validating the theory that not-for-profit board members want to do the best job they can.

It needs to be acknowledged that such a close relationship between the board and the researcher means the study is not conducted at arm's length. The major benefit, however, of this strong working relationship is that without it such agreement to research would be most unlikely.

1.4 Guiding research questions and approach

The major research questions are:

1. What are the performance indicators of effective Australian not-for-profit corporate governance?

In attempting to answer this research question various research methodologies are employed, which provide the answer to the second guiding research question.

2. What is the process for determining the performance indicators of effective Australian not-for-profit corporate governance?

These questions are answered in the context of economically significant Australian not-for-profit organisations (Productivity Commission 2010, p.xvi) and current corporate governance theory. These performance indicators will likely be expressed and determined by the boards of the not-for-profit organisations, perhaps with the assistance of management and or a skilled consultant. They may be contextual, that is subject to not only current corporate governance theory and practice but also not-for-profit organisation specific factors such as the skill of a particular board and management or the past success of the organisation.

Throughout the research process the research questions were kept central and prominent in the mind of the researcher (Bryman & Bell 2003) and this research remained true to its intent to answer those research questions, notwithstanding that the answers were not entirely what the researcher was initially expecting.

The research does not have a committed theoretical base, but rather it is exploratory, using a modified grounded theoretical approach. The methodology, including the research questions, is discussed in detail in chapter four. In summary, the research was qualitative and exploratory using action research, interviews with corporate governance experts and the literature including published annual reports for not-for-profit organisations. A thematic analysis of these data sources using grounded theory provided conceptual propositions that can be applied to the research questions. As this is exploratory research there are limitations to the conclusions and these are set out in detail in the concluding chapter. Limited access to data, combined with the paucity of previous studies in the area, requires further research and caution before heavily relying on the results.

1.5 Main concepts and themes

Chapters two and three examine corporate governance theory, not-for-profit organisations and performance management in detail. However, a brief introductory discussion on the main concepts and themes around which the thesis is located, introducing corporate governance theory, defining not-for-profit organisations, and discussing board performance management and appraisals follow.

1.5.1 Corporate governance theory

This section briefly examines what is understood as corporate governance and the historical development of governance. When considered in its broadest perspective, corporate governance is concerned with the systems by which organisations are directed and controlled (Anheier 2005; Cadbury 2000), including the dual functions of conformance and performance: conformance to the regulatory, legislature, societal requirements and performance of the organisation. However, what this specifically means, particularly in practice, is not commonly accepted or understood. For instance, Standards Australia (2003, p.8) observed, 'There is no one global … definition' of corporate governance.

At the broad level, variations of corporate governance practices emerge depending upon the type of organisation governed, for example, local government organisations seem to have slightly different corporate governance practices to listed public companies. See for example the publication 'Excellence in Governance' (CPA Australia 2005) which provides a nuanced governance approach for local government bodies. In reality, however, a dichotomy drawn from the type of organisations being governed does not explain the variations in corporate governance interpretation. Turnbull (1997, p.181) described corporate governance 'as all the influences affecting institutional processes' and he noted, 'described this way, corporate governance includes all types of firms whether or not they are incorporated under civil law'. This thesis will therefore use the term 'corporate governance'.

Some, such as Tricker (2000, p.289), saw corporate governance as an exercise in power, while others saw it as decision making (Pound 1995; Productivity Commission 2010). Yet Francis (2000) saw corporate governance as having both non-moral dimensions, such as decision making, as well as moral dimensions such as promoting an ethical climate. Standards Australia (2003, p.4) stated that 'the essence of good corporate governance is accountability'. There are various manifestations of accountability beyond the commonly agreed process of being called to account, such as responsibility, control, responsiveness and dialogue (Mulgan 2000). Corporate governance codes, which require disclosure and appropriate checks and balances, have been developed (Cadbury 2000). These codes however require reporting against certain principles or recommendations and 'have no statutory backing' (Cadbury 2000, p.9). Some authors see the communication of performance indicator data to stakeholders as improving accountability (see for example Minichilli, Gabrielson & Huse 2007).

It is instructive in placing modern corporate governance in context to briefly review the historical evolution of corporate governance. 'The phrase "corporate governance" was not used until the 1980s' (Tricker 2000, p.289), nevertheless the direction and control of corporations has been with us since the first East India Company in 1601 (Garratt 2003).

From the literature it is evident that Australia's corporate governance approaches are similar to those in the United Kingdom (UK), particularly in terms of underpinning corporate governance theories and legislative regimes, having both emerged from the same British common and company law. This initial legal grounding was very much orientated in a compliance type environment—an orientation held firm until very recently. The British influence continued and Tricker (2000, p.293) noted that the work by the UK's Sir Adrian Cadbury (1992) 'became significant in influencing thinking around the world'. Corporate governance theory is still emerging.

Less than 20 years ago the Australian Independent Working Party into Corporate Governance Committee (Hilmer 1993) advanced the view that corporate governance was also about organisational performance. In 2000, Tricker (p.294) stated, 'corporate governance as yet does not have an accepted theoretical base or commonly accepted paradigm'. In Australia, since 2003, ASX listed entities have been required to report against a code of corporate governance principles (ASX Corporate Governance Council 2003; ASX Corporate Governance Council 2010). This to some extent has established a form of paradigm as is evidenced by its adoption by other non-ASX listed entities. Boards owe much to cross-referenced criteria, for example, the adoption by not-for-profit organisations of the ASX Corporate Governance Council (2010) corporate governance principles to help establish corporate governance credibility, and the adoption by for-profit entities of certain moral imperatives, such as establishing charitable foundations, in order to help establish customer appeal. In reality, there is no shortage of theories that attempt to underpin or guide practitioners in carrying out corporate governance activities.

Much of the literature to date has centred on narrow mono theories or paradigms, which are discussed in section 2.1. However, there is no single theoretical perspective that can adequately explain the complex phenomenon of corporate governance (Hung 1998). These mono-theoretical approaches or paradigms may have some application in a specific circumstance, but not for others (Donaldson & Davis 1991). For example, a theory that considers that management is more concerned with its own vested interest (see section 2.1 for a discussion on agency theory) has dubious relevance where not-for-profit management is intrinsically motivated to achieve the organisation's objectives. This is, especially so if those organisational objectives are not primarily financial as noted by Hough, McGregor-Lowndes and Ryan (2004, p.528) who said that ‘evidence is that the managers of not for profit [sic] organisations might have a stronger sense of stewardship (see section 2.1 for a discussion on stewardship theory) than do their for-profit counterparts’.

The search for Tricker’s (2000, p.294) ‘commonly accepted paradigm’ continues, yet others consider that ‘different perspectives in theory result in different diagnosis of and solutions to the problems of corporate governance practice’ (Letza, Sun & Kirkbride 2004). These authors (2004, p.243) found the current prevailing analyses ‘over abstracted [sic] and over static [sic] in modelling and theorising corporate governance’. They argued that corporate governance practices ‘reflect the priorities, preoccupations, political inclinations and local conditions of a particular community’ and ‘corporate governance needs to be flexible, adaptable and innovative’ (pp.254, 256). Similarly, in 2004, Nicholson and Kiel highlighted a significant risk in that many existing corporate governance models fail to reflect reality. Hung (1998) also argued that there is no single competent and integrative theory or model to explain the roles played by governing boards.

From this it follows that theoretical models need to be workable and explicable in practice, just as there is a need to develop approaches and models which better explain the idiosyncratic workings of local corporate governance, rather than trying to ‘force-fit reality into the established abstracted templates’ (Letza, Sun & Kirkbride 2004, p.256). Corporate governance action should be at least consistent with established and accepted values of society. Furthermore, Letza, Sun and Kirkbride (2004) argued that corporate governance is completely changeable and transformable, and there is no permanent or universal principle that covers all societies’ cultures and business situations. Similarly, Cadbury (2000, pp.7, 11) argued there is ‘no single right corporate governance model and that the best approach is to start with whatever system is in place and seek ways of improving it’, and ‘they [corporate governance models] should be tailored to their particular circumstances, rather than borrowed, not always happily, from the corporate scene’.

On the other hand, Carver (2010) argued that his ‘Policy Governance’ model is a prescriptive global theory centred upon the principles of an owner-representative function. Carver eschewed attempts to develop models built from examining what is currently thought to be the practice of governance, arguing ‘because governance is a social construct rather than a natural phenomenon, theory must be driven by and anchored in the purpose of boards rather than derived from analyses of current practices’ (2010, p.150).

Whilst some authors argued that there is no single model of good corporate governance (Cadbury 2000; Hilb 2005; Hung 1998; Nicholson & Kiel 2004; OECD 2004) notions of good corporate governance are nonetheless developing (Francis 2000; Letza, Sun & Kirkbride 2004). The notion that good corporate governance leads to better organisational outcomes, where corporate governance is concerned with the systems by which organisations are directed and controlled, is becoming increasingly accepted (Anheier 2005; Cadbury 2000; Standards Australia 2003).

Corporate governance is on a journey of continuing development. There are some well-established corporate governance paradigms that explain certain actions and situations in some specific contexts, such as agency theory’s concern with aligning the interests of owners and managers (Fama 1980; Fama & Jensen 1983; Jensen & Meckling 1976), alluded to earlier but discussed more fully in section 2.1.

Recently some authors have advocated a ‘holistic’ approach to corporate governance theory (see for example Hilb 2005; Nicholson & Kiel 2004; Young & Thyil 2008). This approach posits that a range of inputs affects corporate governance outcomes and rejects simple mono theories, such as agency theory, as predictors of corporate governance outcomes, instead seeking to factor in a range of (the whole) matters influencing corporate governance outcomes. A holistic theoretical approach, discussed more extensively in the next chapter at section 2.2, will be adopted as the guiding theoretical schema to the discussion at section 2.3. These discussions will enable a more complete exploration and understanding of effective corporate governance in not-for-profit organisations and should assist in answering the first research question.

1.5.2 Not-for-profit organisations

Generally, three sectors of organisational activity are considered to exist in most western societies. These comprise the for-profit sector, the government sector and the not-for-profit sector. The defining feature of not-for-profit organisations is that they are not established with the motive of making a profit for distribution to the owners (Productivity Commission 2010).

It is the absence of *distribution* to owners that is important in the definition of a not-for-profit organisation. It is important to note that not-for-profit organisations are not prohibited from making or seeking a profit—they simply must not distribute it to equity holders. It is ironic that a sector can be described for what it is not; however, it logically follows that if they do not exist primarily to make and distribute profit to owners, not-for-profit organisations must therefore exist primarily for some other reason or activity (Steane & Christie 2001). These reasons and activities vary broadly but include philanthropy, social good, sport and professional and educational purposes. Because they are so broad they are not a defining characteristic of not-for-profit organisations. In general, the sector refuses simple categorisation, but it is nonetheless very significant and diversified. The Productivity Commission (2009, p.2.23) aptly warns that not-for-profits are 'not like business organisations, government agencies, or even like each other'.

This is certainly true as it relates to the activities which not-for-profit organisations undertake; however, with the exception of single director proprietary limited companies, all corporate bodies, irrespective of the manner in which they are incorporated, require a group of individuals who are charged with running the organisation; not-for-profit organisations are no different. A differentiation to be made at this point in the thesis is between a Committee of Management and a Board of Directors. In reality the distinction is not always clear but Committees of Management are generally associated with smaller, and therefore, not 'economically significant' (see previous discussion at section 1.1, Productivity Commission 2010, p.xvi) not-for-profit organisations, whereas Boards of Directors are generally associated with the larger and economically significant not-for-profit organisations.

In section 1.5.1 it was noted that boards owe much to cross referenced criteria and the example provided was the adoption by some not-for-profit organisations of the ASX Corporate Governance Council (2010) corporate governance principles. It is important to note the influence of neoliberalism (or economic rationalism) in the manner in which not-for-profit organisations now operate and its influence in this thesis. Hartman (2005) describes neoliberalism as a free market economic doctrine and she notes that as a political ideology it is adopted by parties at either end of the political spectrum in Australia. Lyons (2001, p.221) points to what he describes as neo-liberal or economic rational views that are subjected upon not-for-profit organisations. These he describes as emanating from the view that ‘there is only one economically efficient form of organisation and that is profit-seeking firm’. Such a view significantly affects the way in which government liaises with (and funds) the not-for-profit sector (Earles & Moon, 2000).

Belief in the free market system is fuelled by, amongst other things the belief that competition delivers better services at lower cost and it follows therefore, that not-for-profit organisations should be subjected to free market forces (O’Neill & McGuire 2006) and employ a ‘business’ model approach rather than a community focused approach (Evans, Richmond & Shields 2005).

Given that many board members are from a for-profit background where free market managerial approaches exist it is likely that at least some of the board members would have endorsed such practices. This is notwithstanding the adoption of these behaviours is problematic for some. O’Neill and McGuire (1999, p.417) observed that much of the neoliberal agenda ‘flew in the face of traditional values of the sector’. For example some people working within not-for-profit organisations who are highly motivated by compassion for the persons that they are seeking to serve, find it very difficult to limit assistance due to contractual and resource constraints.

Van Gramberg and Bassett (2005, p.7) argued that ‘there has been a deliberate strategy to embed the government’s neoliberal agenda into the operation of third sector organisations’. This has been achieved by changes to the funding of not-for-profit organisations where the principles of competition and contracts take precedence, in other words government funds are now tied to specific contractual provisions. These contractual provisions include the ‘development of monitoring and measurement frameworks to manage the performance of [those government] funded programs’ (O’Neill & McGuire, 2006 p.420).

The introduction of government contracted performance measurement frameworks together with the concomitant usage of performance management as common business techniques facilitate this thesis. Central to this thesis is the hitherto application of performance management to the not-for-profit board and by what criteria should they be judged.

1.5.3 Performance management and appraisal

This thesis is located within both the theoretical and the practical realms of performance management. Performance management is a process which comprises four major components including planning performance requirements, implementing planned activities, monitoring performance levels or performance appraisal and improving activities (CPA Australia 2001). The benefit that performance management yields is sought in all aspects and areas of organisations.

The demand for effective corporate governance in the for-profit sector has led to calls for explicit performance appraisal of board corporate governance activities by influential organisations such as the CPA Australia (2005), ASX Corporate Governance Council (2003) and Chartered Secretaries Australia (2005).

Whilst such performance appraisal demands span over a decade, there is little research available to support practitioners in undertaking performance appraisal of corporate governance activities (BoardWorks International [Australia] P/L 1999; Leblanc 2004; Minichilli, Gabrielsson & Huse 2007). Several building blocks establish objective performance evaluations of board activities, such as articulating what to evaluate, determining who shall carry out the evaluation and deciding the purpose of the evaluation (Minichilli, Gabrielsson & Huse 2007). As Belcourt & Kluge (1999, p.28) noted, 'monitoring and evaluating a board against established criteria is an essential first step toward improving board performance'. However, before this first step can be taken, criteria need to be established.

These criteria must relate to the board's key task, which is corporate governance. In section 1.5.1, and later in chapter two, consideration is given to the ambiguous concept of corporate governance in much more detail. For now, consider Speckbacher's (2008) view, which was that at the core of corporate governance is the need to enforce a contract between the organisation and those providing a resource. This he argues in a for-profit organisation is clearly the shareholder. However, in a not-for-profit organisation, where a broader group provides resources, he labels this group as stakeholders. One might consider that a responsibility of boards of many not-for-profit organisations is the wider good, a point that is explored in chapter three in section 3.1.1. According to Speckbacher (2008) it is the stakeholders in a not-for-profit organisation whose interest corporate governance is seeking to protect. Protection can be afforded by ensuring that they receive the fruits of the moral contract in which they have entered. A clear way to ensure this is the case is to measure the outputs of the contract, and at this point it becomes ambiguous. The output of most not-for-profit organisations is difficult to measure, and often multi-faceted, aimed at various and discrete audiences or stakeholders.

As if the establishment of organisational performance was not difficult enough, given this thesis is studying board corporate governance activities, it also needs to address the causal relationship of board activities to organisational performance, a concept that may be difficult in not-for-profit organisations. The establishment of causal links between effective boards and strong organisational performance, however, is fraught with difficulties and will be discussed later in this chapter.

In designing board performance evaluations, the literature discusses many of the factors mentioned above, but also the practical issues, such as: who should conduct the review, who to evaluate (individuals or the team), what method to use, how to evaluate the range of contributions, what information is available, frequency of evaluations, and whether to disclose results and to whom (AICD 2006; Conger 2002; Conger, Finegold & Lawler 1998; Ferguson 2001; Forbes & Milliken 1999; Kazanjian 2000; Minichilli, Gabrielsson & Huse 2007; Murphy & McIntyre 2007; Sponberg 2007). What is clear from the literature review and central to this thesis is the need to establish standards against which to appraise performance (see for example Epstein & Roy 2004; Ferguson 2001; Kazanjian 2000; Leblanc 2005).

The terms, standards, measures, metrics, index or indicators, are often used interchangeably in the literature. For the purpose of this thesis, the most appropriate reference is indicators, as actual measurement or direct observation of the underlying phenomena is often not possible or at least problematic, and therefore the use of the term ‘indicators’ is more likely to be commonly accepted. Section 3.2.3 justifies the usage of this term more fully.

The building block central to this thesis is the establishment of indicators against which board performance is evaluated.

A more thorough discussion of the attributes and definitions of such indicators is provided in chapter three. Nevertheless, at this stage, it is suffice to say that key performance indicators are a ‘set of measures focusing on those aspects of organisational performance that are the most critical for the current and future success of the organisation’ (Parmenter 2007, p.4). Tovey (2001, p.30) noted that key performance indicators are based on the critical success factors which are ‘the few things that must go well to ensure success’. Similarly, Chartered Secretaries Australia (2005, p.29) noted, ‘Establishing key performance indicators that are measurable and relate directly to the board’s role and sphere of influence is important in ensuring a valid assessment process’.

As previously outlined, there have been a number of calls for explicit performance appraisal of board corporate governance activities by researchers, professional associations and regulators. The Productivity Commission (2010, p.xxx) has observed the ‘push for greater accountability by not-for-profits by governments and the community’. Indeed, in the wider society, company scandals, failures and market crashes are increasingly focusing the public’s attention on the way that boards conduct their roles, triggering the need for mechanisms, such as board evaluation, to provide external accountability (Minichilli, Gabrielson & Huse 2007).

In 2004 (p.2), Epstein and Roy stated that a ‘lack of performance metrics has led in part to the lack of both actual and perceived accountability of corporate boards to their various stakeholders’. These factors combined with an increasing culture of performance management and measurement in organisations have led to a situation where ‘board and director evaluation is an idea whose time has come’ (Carter & Atkinson 2006, p.36). Whilst the time might have come, it has only just arrived. Neubauer reported in 1997 that 26% of major US firms conduct performance evaluations while in 2002, Conger put that figure as only 40%. In an Australian context De Lacy & De Lacy (2004) put the figure at 40 to 50%.

Furthermore, it is evident from the literature that there are difficulties associated with performance appraisals. The literature on board performance appraisals is plentiful, identifying such difficulties as the fact that evaluations will be discoverable and therefore exposed in litigation (Daily & Dalton 2003) and such documents may be used to establish personal liability of directors (Belcourt & Kluge 1999).

Other difficulties are the potential to create conflict (Conger 2002; Kazanjian 2000), disrupting board collegiality (Kazanjian 2000) and drawing into question the fairness of evaluating part-time and busy executives (Conger 2002). Some authors acknowledged that performance evaluations do not ‘enjoy a high degree of unanimity in principle’ (Scissons 2002, p.21), and may be regarded as a distracting challenge (Kazanjian 2000; Preston & Brown 2004), whose very existence may drive away good board member candidates and which may result in data that is practically difficult to do anything with (Belcourt & Kluge 1999; Conger 2002).

Despite these well-documented difficulties, many board members report a keen desire to be involved in activities that improve their performance (AICD 2006). Done properly the literature suggests performance evaluations can improve working relationships (Congor, Finegold & Lawler 1998), clarify roles (Congor, Finegold & Lawler 1998; Kazanjian 2000; Minichilli, Gabrielson & Huse 2007), and identify areas for improvement and provide accountability to stakeholders (Kazanjian 2000; Minichilli, Gabrielson & Huse 2007).

According to Carter and Atkinson (2006), the idea of board evaluation is no longer controversial and the main question is how to do it. Again, there is an abundance of literature on this matter. Many authors have argued that there is no best way to conduct such reviews, instead urging boards to develop an approach that is right for them, considering the prevailing circumstances of the board at that particular time (see for example AICD 2006; DeLacy & DeLacy 2004; Ferguson 2001; Leblanc 2005; Sponberg 2007).

De Lacy and De Lacy stated in 2004 that the board performance management system should be simple and reflect the skills required by directors, and indeed the methodology proposed at that time by them was simple. Carter and Atkinson (2006) adopted a similar view that the process is best kept simple. The AICD (2006) also warned of the pitfalls of making the evaluation system too complicated, formal and confronting.

Despite calls for the use of Balanced Scorecards, key performance indicators or any other performance indicators there has been little academic work on the topic of establishing performance standards for board activities, especially in the difficult area of not-for-profit corporate governance in Australia.

Within the literature there is a body of work that deals with board performance factors that should be assessed (see for example Conger, Finegold & Lawler 1998; Conger 2002; Ferguson 2001; Kazanjian 2000; Kiel & Nicholson 2005; Neubauer 1997; Sponberg 2007), but taking it to the next step, by identifying the actual establishment of performance indicators, is largely absent.

In 2010, the present researcher conducted a search of the electronic databases Academic Search Premier, AGIS Plus Text, Business Source Complete, Emerald Full text and Scholar.Google. When the combination of key terms used in the title field were 'corporate governance', 'governance', 'board', 'directors', 'director' together with 'key performance indicator', 'kpi', 'scorecard', 'performance metric', 'performance measures' only approximately 130 results were found. Given the vast volume of articles and research concerning corporate governance this is somewhat surprising, but does support Simpson (2002), who found a paucity of material, although it should be noted he confined his searches to the Balanced Scorecard. A review of the search results plus wider reading on corporate governance and board performance evaluation established there is little relevant material that relates to performance indicators for board activities and none that deals specifically with Australian not-for-profit organisations.

One of the rare pieces of academic work identified is by North Americans, Epstein and Roy (2004). Their work focused on for-profit entities. They are the principal authors of the work by *The Society of Management Accountants of Canada* (2002), which has documented an approach for the measurement and improvement of performance of corporate boards using a Balanced Scorecard. These authors claimed the approach can be applied to not-for-profit organisations but do not discuss how to instead focus on for-profit organisations.

Another piece of work emanating from Austria is an article by Speckbacher (2003) where the author proposed a modified Balanced Scorecard approach to be used by not-for-profit organisations for performance assessment. Essentially, Speckbacher (2003) proposed that the broader stakeholder focus replace the shareholder focus of the Balanced Scorecard process. Another approach is proposed by Niven (2003) who suggested a re-orientation of the Balanced Scorecard, placing customers on top and connecting them to the organisations' missions. Both Speckbacher (2003) and Niven (2003), however, looked to evaluating the whole organisation and not the specific performance of the board group within the organisation.

Boards are asked to perform ill-defined functions where the notion and approach of good corporate governance functioning is still emerging. The purposes of not-for-profit organisations are broad and often imprecise. Success, both for the organisation and for the board, is often difficult to recognise or agree upon. The clear gap in the research and literature identified is the absence of a set of documented performance indicators for not-for-profit organisations in Australia or a framework for the development of such indicators. This thesis attempts to bridge that gap by developing these performance indicators using a theoretical framework of corporate governance, adopting a holistic focus to ensure that all appropriate performance indicators are considered. In so doing, the thesis advances the body of knowledge in and around holistic corporate governance theory.

1.6 The structure of the thesis

This chapter introduced the thesis and located the study within the context of not-for-profit organisations and holistic corporate governance theory. The guiding research issues were outlined and the objectives of the thesis were described along with the significance and contribution the thesis makes. Board performance appraisals were discussed and the need to determine performance indicators was established.

In chapter two, traditional and holistic corporate governance theory is examined, culminating in an examination of corporate governance processes evident in the literature using the Board Intellectual Capital Framework (Nicholson & Kiel 2004), hereafter called the BICF, as a schema.

In chapter three, the literature on not-for-profit organisations is examined and the literature on deriving and utilising performance indicators in a board setting is discussed, and finally linkages between corporate governance theory, not-for-profit organisations and performance management are made.

In chapter four, the main research questions guiding the thesis are restated, the research methodology is described, and the data collection and data analysis approach is discussed.

Chapter five reports the findings of the data collection and chapter six analyses and discusses that data and sets out the conclusions of appropriate performance indicators for not-for-profit organisations, and in so doing addressing the first research question. The implications for corporate governance theory presented by the data are also discussed.

Chapter seven proposes a framework for the development of customised performance indicators by not-for-profit organisations based on what was learned in the thesis, and in so doing addressing the second research question.

The final chapter draws the thesis to a close by summarising the conclusions and considering the implications of the study for not-for-profit organisation corporate governance theory including the BICF. The implications for future research and the limitations of this thesis are then discussed.

CHAPTER 2: CORPORATE GOVERNANCE THEORY

In section 1.5.1 corporate governance theory was introduced; this chapter considers traditional and more holistic theory generally. A process approach will be taken, by using the BICF as a schema, to consider the factors influencing corporate governance in more detail. Such discussion will help position this thesis regarding the vast array of factors that the literature currently considers that influence corporate governance practice.

2.1 Traditional corporate governance theory

Section 1.5.1 also mentioned agency theory and stewardship theory, describing them as mono theories that fail to explain all corporate governance action. The term mono theories refers to the validity of theories that are based on particular expectations of human action, such as the 'notion of an in-built conflict of interest between the owner and manager' (Donaldson & Davis 1991, p.51), when in fact such theories only have validity when that human action is present. When that action is not present the theory is invalid. This section will briefly consider the predominant theories and paradigms that have emerged and been the subject of academic discussion before moving to a description of what might be termed a more holistic theory of corporate governance.

The most prevalent theories and paradigms are:

- Agency theory (Jensen & Meckling 1976) is concerned with the relationship between the principal and the agent, specifically where the principal delegates work to the agent (Eisenhardt 1989). The theory assumes that the principal and agent will have different and competing interests (Cornforth 2003). These different interests lead to a misalignment of action by the agent to the principals' interest. The misalignments are referred to as agency problems or agency costs and they include issues such as self-interest, shirking, risk aversion and measurability of agent tasks (Cornforth & Edwards 1999; Donaldson & Davis 1991; Dulewicz & Herbert 2004; Eisenhardt 1989; Zahra & Pearce-II 1989). Cornforth and Edwards (1999) argue that from an agency perspective the main task of the board is to control managers. Agency theory has been the dominant theory, driving legal, economic and financial theorists, informing legislators, regulators and standard-setters of corporate governance arrangements (Cornforth 2003; Houghs, McGregor-Lowndes and Ryan 2004).

- The legalistic perspective posits that by carrying out their legally mandated responsibilities, boards contribute to the performance of the organisation (Zahra & Pearce-II 1989). The agency theory definition is similar to that of the legalistic approach where the board is seen to represent the interests of the owners of the organisation, however the board role set is confined to selecting and replacing the chief executive officer, providing advice to and monitoring management and organisation performance (Zahra & Pearce-II 1989).
- Stewardship theory (Donaldson & Davis 1991) is described by Cornforth (2003) as a partnership model, and specifically a partnership between the board and the chief executive officer. Rather than requiring vigilant monitoring to stop the chief executive officer succumbing to agency problems, the chief executive officers are motivated by a need to achieve, to gain intrinsic satisfaction through successfully performing inherently challenging work, to respect authority, to have a work ethic and a need to exercise responsibility and authority, thereby gaining recognition from peers and bosses (Donaldson & Davis 1991; Letza, Sun & Kirkbride, 2004; Muth & Donaldson 1998).
- Resource Dependency theory (Donaldson & Preston 1995; Provan 1984) views organisations as interdependent with their environment. The main function of the board is to maintain good relations with external stakeholders to ensure the availability of resources and information for the organisation (Cornforth 2003; Pfeffer 1972). An allied perspective to the resource dependency approach is board interlocking, where directors sit on allied boards, and use their influence and access to information to assist either organisation.
- The democratic perspective sees the board as responsible for representing the interests of wider constituencies which the organisation serves. Central to this perspective are premises of Western society's democracy, such as one person one vote, that representatives may represent different interests and electorate accountability. Thus the democratic perspective infers that the role of an

individual board member is to represent the interests of his or her constituency (Cornforth & Edwards 1999).

- Stakeholder theory (Freeman 1984) is premised on the notion that the corporation should be responsible to a group of wider external stakeholders interests rather than merely shareholders (Cornforth 2003; Dulewicz & Herbert 2004; Letza, Sun & Kirkbride, 2004; Thomsen 2004). This wider group may include suppliers, staff and customers for instance.
- Managerial Hegemony theory states that although shareholders may legally own and theoretically control large corporations, they no longer effectively control them, as control has been ceded to a new professional managerial class (Mace 1971).
- Institutional theory considers the environmental norms and rules that an organisation must conform to in order to achieve legitimacy, thus ensuring actors within those institutions behave in ways that conform to and reinforce norms (DiMaggio & Powell 1983).

Over time as these theories have emerged they have to a greater or lesser extent enjoyed prominence in the research field, as noted in section 1.5.1. However, none have been able to become the commonly accepted corporate governance paradigm, thus the quest to find a more accepted paradigm continues. The next section considers some modern interpretations of ‘holistic’ corporate governance theory.

2.2 Holistic corporate governance theory

It has been observed that research on corporate governance has been on a journey of continual development and there is no commonly accepted universal theory for corporate governance. Emerging and recent literature claims a holistic approach that purports to enable a wider perspective be applied. ‘Holistic’ approaches seek to incorporate factors that may impact corporate governance outcomes such as priorities, preoccupations and political inclinations as indicated by Letza, Sun and Kirkbride (2004) (see section 1.5.1). Similarly, in calling for a more ‘holistic’ approach, Nicholson and Kiel (2004, p.442) argued ‘frameworks, models and advice that centre on one element of corporate governance ignore the complexity of how boards work’.

In trying to capture this complexity, one such ‘holistic’ work by Hilb (2005) proposed an integrated corporate governance framework that he called *New Corporate Governance*. That framework sought to achieve a holistic focus by advocating a multifaceted approach to corporate governance, integrating four dimensions labelled: situational, strategic direction, integrated board and management, and controlling dimensions. Another type of ‘holistic’ approach was introduced by Kiel and Nicholson (2003), who provided a corporate governance charter framework, whereby the essential elements of corporate governance are characterised and considered in four quadrants: defining corporate governance roles, improving board processes, key board functions, and continuing improvement. Yet another framework purporting to be ‘holistic’ was that posited by Young and Thyil (2008), which ‘embedded the firm-specific and micro-internal factors’, such as leadership, human resource management, legal frameworks and so forth within ‘country-specific or macro-external factors’, for example, legal systems and social responsibility (Young & Thyil 2008, p.103). In this framework, ‘shareholders and stakeholders are shown to be only one component of the model with other important aspects’, including, the authors suggest, ‘corporate governance using multi discipline perspectives’ (Young & Thyil 2008, p.103). What all these approaches have in common is an attempt to broaden the frame of reference within which corporate governance should be viewed.

Whilst all of these more holistic approaches may be useful from an analytical perspective, such as using the dimensions as perspectives to analyse an organisation’s corporate governance, the loose relationships between the dimensions renders the models ineffective in establishing causality. In other words, the models or frameworks are not able to identify definitively which of the dimensions, when followed by an organisation, lead to good corporate governance. Given that this thesis is concerned with *effective* corporate governance, a theory that provides causality will help to establish efficacy. One way forward was suggested by Nicholson and Kiel (2004, p.442) who argued, ‘there are three major factors that dictate how a board functions and how it achieves a greater control over corporate governance outcomes’. The authors listed these factors, as follows:

1) institutional and historical factors, such as the environment the organisation operates and the resources available to it;

2) each board's capability set, such as the intellectual ability and work ethic of the board; and

3) board level interventions, such as changing the agenda or reviewing its own performance.

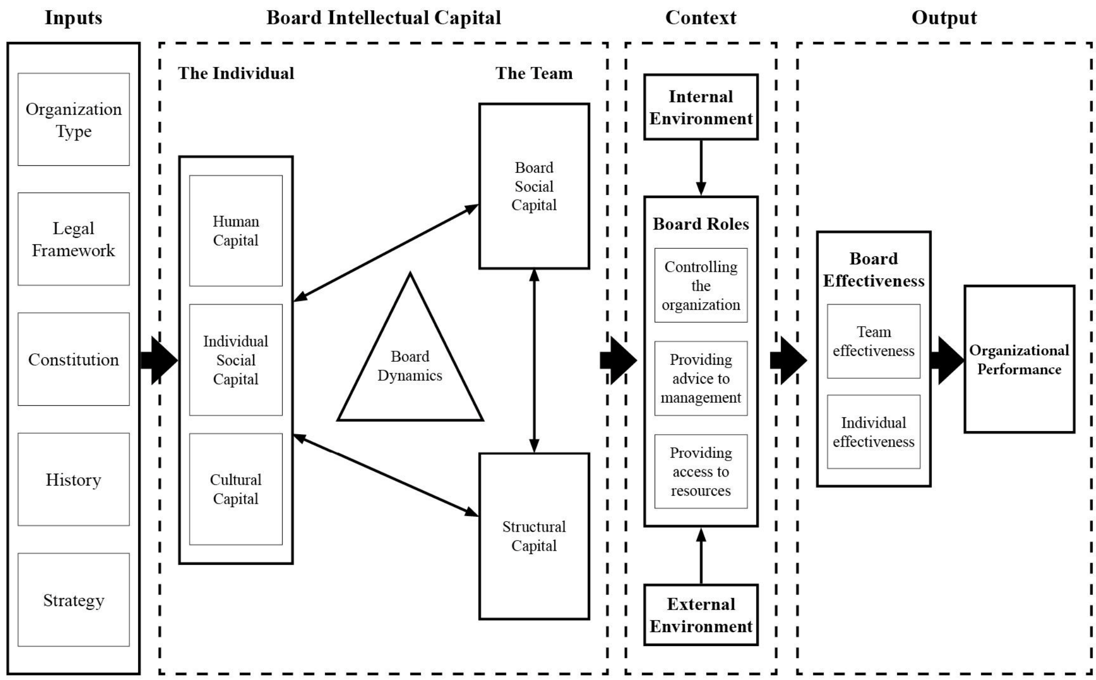
To that end, the BICF also offered by Nicholson and Kiel (2004) appears to provide a more 'holistic' view, and importantly, as far as this research is concerned, goes some way towards offering cause and effect relationships and links and therefore, some level of causality. This is described more fully below.

Nicholson and Kiel (2004) posited that inputs undergo a transformational process within the board to affect outputs. Put another way, inputs stimulate board intellectual capital, which is then screened by contexts resulting in corporate governance outputs. Nicholson and Kiel (2004, pp. 444, 457) maintained that their model conceptualises the board as an 'open system with an emphasis on the transformational processes, in that the board will need to interact with the firms environment', whilst at the same time acknowledging that the model 'raises more questions than it answers'. In seeking to employ the construct of intellectual capital, Nicholson and Kiel (2004, p.445) recognised that the board's intellectual capital brings about changes in board behaviour and ultimately corporate performance. The extent of the causality afforded to the BICF is, however, loose and the causal value is likely to require a significant amount of judgement by practitioners and researchers. It has not been extensively or empirically tested and the validity and robustness of the Nicholson and Kiel (2004) framework at this point in time is far from Tricker's (2000, p.294) 'accepted theoretical base or commonly accepted paradigm'; indeed, no theories have yet achieved that exalted position.

The BICF has two central weaknesses. First, causality between the components of the BICF is not established and second, the framework component of board roles is insufficiently articulated. Nicholson and Kiel (2004) acknowledge the first weakness, and Nicholson and Newton (2010) effectively acknowledge the second weakness in their research on board roles. Nonetheless, the framework is just a framework, that is, it provides pointers to the components that influence effective board activities.

It does however provide a logical framework to carry out a structured and holistic approach to establishing the conceptual propositions of the performance indicators of Australian not-for-profit corporate governance.

The BICF is represented in figure 2.1 below and the next section of this chapter moves to discuss it in greater depth, particularly in reference to its use as a model for this thesis, by utilising elements of the framework to systematically consider and discuss other relevant literature.



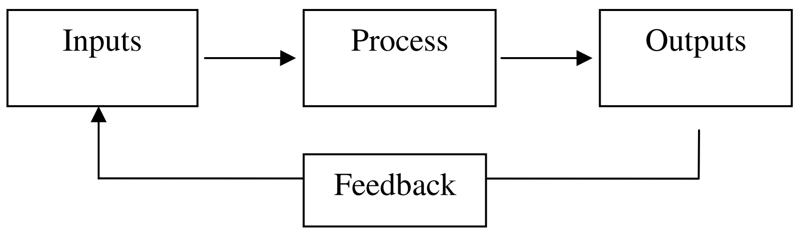
Source: Nicholson and Kiel (2004)

Figure 2.1 – Board Intellectual Capital Framework

The first thing to note regarding the model outlined above in figure 2.1 is that the BICF presents a process view of corporate governance. As the authors note: ‘There are many ways of thinking about boards of directors and how they influence corporate performance’ (Nicholson & Kiel 2004, p.443). We could adopt a view that corporate governance is about principles, such as taking responsibility (Taylor 2000), or accountability (Standards Australia 2003). Such differing views do not necessarily exclude others. Similarly, various conceptual models may be applied to explain board performance (Ong & Wan 2008). The next section considers this process as embodied in the model.

2.3 Corporate governance process

It is common to regard corporate governance as a system or process (see for example ASX Corporate Governance Council 2003; Cornforth & Edwards 1999; Epstein & Roy 2004; Forbes & Milliken 1999; Standards Australia 2003). A process approach put simply, views inputs as being subject to transformation by a process to become an output. The inputs may be subject to feedback. See figure 2.2 for a diagrammatic representation.

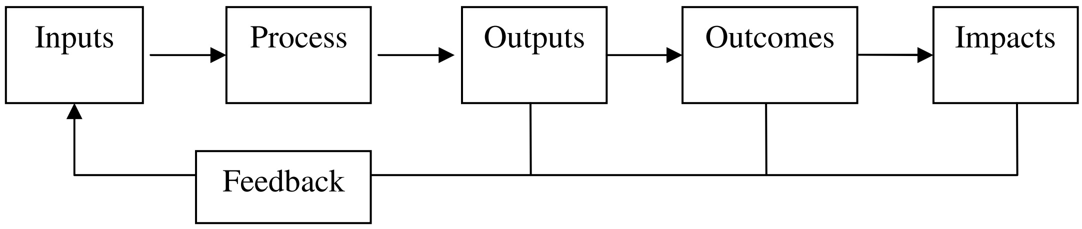


Source: Adapted from United Way of America (1996)

Figure 2.2 – Simple process model

Such a view is consistent with that advocated by the Australian Productivity Commission (2010) in seeking to evaluate the contribution of the not-for-profit sector, and also that proposed by the United Way of America in its approach to measuring not-for-profit program outputs in the US (United Way of America 1996). In fact, the former extends the view put forward by the latter by incorporating the model proposed by the Urban Institute in the United States to extend the process approach from outputs to contemplate outcomes and impacts. Such an expanded view goes beyond the organisation to create a societal view and this is depicted in figure 2.3 below. This view seeks to recognise the effect of an organisation's outputs; to consider the outcomes of the programs; and how they impact upon society.

Implicit in all of these models is the elapsing of time, the models suggest that one phenomena or action leads to another phenomena or action. However for not-for-profit organisations using such models it is important not just that results are realised but often more importantly when the results are realised. For instance, the provision of drinking water to the impoverished is pointless if they have all died from thirst due to the lack of timely provision of drinking water. Section 3.2 deals more fully with the importance of accurate assessment of processes, particularly of outputs, outcomes and impacts.



Source: Adapted from the Australian Productivity Commission (2010)

Figure 2.3 – Extended process model with feedback loop

This thesis is concerned with the board effectively fulfilling its functions so the organisation can successfully achieve its purpose. There is a distinction that needs to be made between the board's function and the organisation's purpose or function; the former role is that of enabler to achieve organisational success. A board ought to put in place factors that ensure the organisation is successful, but it may not succeed in this role, and yet the organisation may still perform successfully. Boards carry out roles that they largely set and define for themselves. By understanding the processes and their linkages to specific roles and outputs one is better able to study board effectiveness (McIntyre & Murphy 2008; Ong & Wan 2008). Such a process approach provides a 'more comprehensive picture to understanding the relationship between structure and board performance' (Ong & Wan 2008, p.325). The more comprehensive the process framework used (to consider a board fulfilling its roles) the more likely the board shall come to understand the factors and contexts (inputs) that are transformed into a result (output). Designing or mapping the process requires ‘experience, intuition and creativity’ (Reynolds 1992, p.25). Epstein and Roy (2004) developed a process model that contemplated: inputs, process, outputs, outcomes and feedback, something between the simple model depicted in figure 2.2 and the extended model depicted in figure 2.3. Their model was compiled using as the key success factors determinants distilled from ‘various guidelines, codes of best practice, requirements from stock exchanges and regulations’ coupled with their own research experience (Epstein & Roy 2004, p.3). From this process model they went on to develop a set of performance indicators, particularly relevant to for-profit organisations.

As discussed earlier, the BICF provides a comprehensive schema, which does enable consideration of the factors that influence the context in which the board conducts it roles and which directly influences the capacity of the board to carry out its role, including those orientated to not-for-profit organisations. The BICF follows a process approach and appears less saddled with a for-profit orientation. The BICF was adopted in this thesis because it appears more complete, and can be distinguished from the Epstein and Roy (2004) approach, which is orientated towards for-profit organisations and, more importantly, their process approach is somewhat superficial as it does not sufficiently contemplate the human aspect of board actions. Using the factors articulated in the BICF as a schema the remainder of this chapter will discuss the factors affecting the board carrying out its work.

The BICF has a range of factors that affect what it identifies as *board effectiveness.* The framework seeks to break down these factors into what it describes as inputs, board intellectual capital and context, in an endeavour to highlight the key components causing board effectiveness.

Notwithstanding the framework claims a process approach, causality has not been established and causal relationships between the various factors in the framework are not adequately addressed by Nicholson and Kiel (2004). The present researcher argues, for example, that internal and external environments may also be inputs.

The reasons that the BICF has been adopted as a schema to discuss corporate governance in this thesis are because it has the potential to inform causality, it has not previously been tested in a not-for-profit environment, and it provides the scope to add a wide range of factors which may play a part in bringing about board effectiveness. Clearly, corporate governance processes are central to the way boards carry out their roles, and what follows is a discussion concerning what Nicholson and Kiel (2004) call inputs.

2.3.1 Inputs

The BICF describes inputs as 'the basic boundaries within which the board needs to operate' (Nicholson & Kiel 2004, p.445). Table 2.1, adapted from Nicholson and Kiel (2004, p.446) defines these inputs, followed by a discussion on key aspects.

Table 2-1 – Inputs to BICF

Input	Definition
Organisation type	Underlying purpose of the organisation
Legislative and societal framework	Society endorsed rules that govern the operation of this organisation
Constitution	Governance agreements that govern the organisation that were agreed by the corporate owners
History	Patterns of past activity, behaviours and effectiveness of the organisation that may affect current board structure and functioning
Strategy	Strategy is the way in which a company uses its resources

Each of these 'inputs' will be considered in turn.

An entity's organisation type in the context discussed by Nicholson and Kiel (2004) is the underlying purpose of the organisation. Section 1.5.2 identified the difficulty in categorising not-for-profit organisations. The purposes of these organisations are varied and considerably impact their operations. Section 3.1.1 in the following chapter will discuss difficulties concerning clarity of purpose in not-for-profit organisations.

Leaving the difficulties in categorising not-for-profit organisations there are also issues presented by the various sizes of not-for-profit organisations, the usage of volunteers and particularly volunteers board members. These are discussed in sections 3.1.2, 3.1.3 and 3.1.4.

The next 'input' discussed is legislative and societal framework. The legislative and societal framework in which not-for-profit organisations operate is critical. In terms of this thesis, compliance with legislative and societal factors is likely to be very important to corporate governance performance indicators. This section will consider legislative requirements, societal notions of good governance, ethical principals and contemporary reporting, all these factors will influence corporate governance practice. Over time these factors may change and with them how corporate governance is practiced, for example the ASX Corporate Governance Council Corporate Governance Principles and Recommendations (2003, 2010) have been subject to two substantial revisions and at the time of the writing of this thesis are again up for review. Such reviews are designed to reflect changes to contemporary and best practice.

A further example is, during the writing of this thesis the Australian Federal Government formed the Australian Charities and Not-for-profit Commission Taskforce; the objective of this task force was to facilitate the introduction of a broad reform agenda (Treasury 2011B). As part of that agenda a new regulator for charities, the Australian Charities and Not-for-profit Commission (ACNC), came into effect on 3 December 2012. Initially the ACNC applied to only charities acting predominantly as a registrar; however over time the ACNC will more likely have a profound effect on both charities and not-for-profit organisations generally. This thesis will deal with the main legislative and societal frameworks currently impacting the sector; first, legislation is examined and then societal frameworks are discussed.

The key pieces of legislation are:

1. Statute governing the conduct of incorporated entities, mostly in the form of the Corporations Act 2001 (No. 50 as amended) (Cwlth) and the various state based Acts such as the Associations Incorporation Act 1981 (no 9713 of 1981) (VIC)

2. Statute governing the taxation or otherwise of a not-for-profit organisation, chiefly the Income Tax Assessment Act 1997 (Act No. 38 of 1997 as amended) (Cwlth) and various state based Acts imposing levies, for instance the Payroll Tax Act 2007 (VIC) and the Accident Compensation Act 1985 (VIC).

Each of these pieces of legislation will be discussed, firstly incorporation.

Not-for-profit organisation structures take many forms, from a simple and small group of people to large incorporated entities. The majority of unincorporated not-for-profits are not economically significant notwithstanding they constitute the vast numerical majority of not-for-profit organisations (Productivity Commission 2010). Generally, the larger, economically significant not-for-profits are incorporated entities. Incorporation is a legal concept of 'being' or existence; the law recognises an incorporated entity as existing in its own right just as a person exists in his/her own right. On the other hand, the law does not recognise an unincorporated group's existence, so for example, where there is a group of people helping an elderly neighbour; the individual people exist but the group itself does not have a legal entity in its own right.

This thesis is concerned with economically significant not-for-profit organisations. There are two major forms of legal entity adopted by these organisations in Australia: *Associations* formed under the various stated based associations legislation and *Companies Limited by Guarantee* formed under federal corporation legislation (Productivity Commission 2010). Association legislation in Australia is similar from state to state. For example, in Victoria, its key purpose is 'for the establishment, operation and dissolution of not-for-profits' (State Services Authority 2007, p.17). The Victorian legislation was 'introduced in 1981 to provide a simple and inexpensive means by which small voluntary organisations could obtain legal status' (Consumer Affairs Victoria 2005, p.7). A company limited by guarantee on the other hand is one of many forms of companies formed under the Corporations Act 2001 (No.50 as amended) (Cwlth). Such a company is 'formed on the principle that the liability of the members is limited to the amount agreed in the constitution' (Chapple 2009, p.240). Each of these approaches to incorporation has its advantages and disadvantages although these are often not properly understood. At the outset, both offer the following advantages:

- Perpetual succession, such entities exist at law in their own right, as noted above.
- Liability of the owners is limited, that is to say the owners, usually called members, may not be personally liable for debts of the entity.
- Contractual capacity means they can enter into contracts in their own right.
- Formalised rules of management, commonly called constitutions, in written form explaining how the organisation is to act and rights of members. These rules are important as they generally dictate the purpose of the organisation, although as noted in section 3.1.1 they may be broadly worded, non-specific and unclear.

Similarly, both have some disadvantages such as:

- Compliance costs, they need to be administratively maintained at the cost of filing fees, record keeping and so forth.
- Enforcement, the rules or constitution are enforced by an independent regulator, such as the Australian Securities Investments Commission (ASIC) or Consumer Affairs Victoria.
- Disclosure, companies are required to disclose certain information about themselves.

A common perception is that a company limited by guarantee is a more suitable form of incorporation for larger not-for-profits (Woodward & Marshall 2004). It is beyond the scope of this thesis to weigh up the various benefits and disadvantages, but suffice to say, this perception may be unfounded, for example 'there is no legal provision for amalgamation' of companies limited by guarantee (Lang 2010, p.1). The impact of this legislation on board roles is dealt with at section 2.3.3 but the legislation imposes certain requirements on not-for-profit organisations.

It is relevant to this thesis that section 300B(3)(b) and 300B(3) of the Corporations Act 2001 (No.50 as amended) (Cwlth) states:

The directors' report for a financial year for a company limited by guarantee must also include details of: …

(b) each director's qualifications, experience and special responsibilities; and (c) the number of meetings of the board of directors held during the year and each director's attendance at those meetings; and…

Section 300B(1)(e) of the Corporations Act 2001 (No.50 as amended) (Cwlth) states:

The directors' report for a financial year for a company limited by guarantee must: (e) state how the entity measures its performance, including any key performance indicators used by the entity

The impact of these requirements is discussed at sections 6.1.1 and 6.1.2 of this thesis.

The second key legislative factor is that of taxation.

Federal and state governments often provide tax concessions to some not-for-profit organisations by way of Income Tax exemption, Goods and Services Tax concessions, Fringe Benefits Tax exemptions and rebates, Deductible Gift Recipient status, and exemptions from Stamp Duty, Payroll Tax, Land Tax and Rates (Treasury 2011A). Understandably, the influence of taxation law is profound, as not-for-profit organisations which fail to operate within the various taxation concessions may find their very existence threatened. For example, without Deductible Gift Recipient status many not-for-profit organisations would be unable to attract donations from the public, which they require to fund their services. The application of such taxes and their exemptions is very complicated and, therefore, not without cost to the not-for-profit organisation. This cost, from a societal perspective, either in the form of requiring a sophisticated understanding of the various taxation regimes, compliance costs or the expectation that not-for-profit organisations will operate in the best interest of the community in order to earn or justify the concessions, are not unreasonable expectations.

A critical test for the granting of such concessions is the requirement that the organisation's constitution prohibits the distribution of profits to its members (Income Tax Rates Act 1986). This is complemented by the provisions of the relevant state based Associations Incorporation Act or section 254SA of the Corporations Act 2001 (No.50 as amended) (Cwlth) requiring that companies limited by guarantee should not distribute profits to its members. These incorporation and taxation mandates are used to assist this thesis in ensuring that legitimate not-for-profit organisations are included in the data collection and analysis is discussed at chapters five and six.

The other factor that Nicholson and Kiel (2004) consider under this subheading is that of societal frameworks.

Notions of good governance represent a societal construct that influences the way corporate governance is carried out. These notions often extend beyond the legislative requirements; however, 'good governance' is not mandated by law, except to the extent that it is a good defence should something go wrong. Black letter law, which is rigid application of the letter of the law and sometimes disregard for the intent of the law, is seldom tolerated in modern Australian society. Increasingly, societal notions of ethical behaviour are confronting Australian society and this has impacted corporate governance. Good corporate governance includes promoting an ethical climate (Francis 2000).

Ethical principles arise from high-level issues, such as 'dignity, equitability, prudence, honesty, openness and goodwill', as well as second-level principles; for example, conditions for avoiding conflict of interest (Francis 2000, p.116) or creating an ethical climate. An ethical climate in an organisation is usually set by articulating overarching principles and rules governing individual and organisational behaviour (Australian Compliance Institute 2005). These are often set out in codes of ethics developed and/or approved by boards, and where a board is seen to be committed to an ethical stance this will enhance the likelihood that the organisation will behave ethically (Francis 2000).

However, not all studies support the establishment of such codes. Farrell, Cobbin and Farrell (2002, p. 472), for example, found there was no discernable association between 'extensive strategies, procedures and structures designed to support… an ethical culture' and moral behaviours. Instead, Farrell, Cobbin and Farrell (2002) suggested that such an ethical culture came from an unidentified, external shared environment. Despite the support or otherwise for codes of ethics, an ethical organisation is nonetheless critical and many authors call for ethics to be included in corporate governance assessment (see for example van de Walt & Ingley 2001 and Vo 2008).

On perhaps a more tangible level, one example of good governance is the production and publication of a fully informative annual report (Chartered Secretaries Australia 2006; Martin 2006). The annual report is one way of communicating to members and other stakeholders the performance of the organisation and the means by which boards can be seen to hold themselves and the organisation to account to its members. A contemporary annual report goes far beyond the minimum required by legislation (discussed below). Such a report informs the reader about the organisation and the board's work, providing a balanced and accurate assessment of the organisation and board performance, and explaining how the organisation and board achieve compliance with relevant legislation and its own internal values.

As stated above, a contemporary annual report extends beyond that required by sections 300B and 316 of the Corporations Act 2001 (No.50 as amended) (Cwlth) and the various state based Associations Incorporation Acts; see for example part VI of the Associations Incorporation Act 1981(no 9713 of 1981) (VIC), which requires only the production of annual financial statements and, in the case of companies, directors' reports. Beyond the minimum required by law, as discussed above, some not-for-profit organisation constitutions require the production of an annual report and the presentation of the report to its members; see for example section 18.2(b) of the constitution of Bicycle Victoria Incorporated (2010).

Another example of societal frameworks influencing corporate governance practice is that some organisations demonstrate their compliance to the law and societal expectations by reporting against a code of good governance, usually in the form of a corporate governance statement in their annual report. Appendix 11 summarises four corporate governance codes of best practice or statements; it will be noted that they are generally written as statements of intent. The most widely used corporate governance code in Australia is the ASX Corporate Governance Council Corporate Governance Principles and Recommendations (2010). These principles, however, are weak, barely extending much more than is required by legislation. The ASX listing rules require that all listed companies report in their annual report the organisations compliance to these principles. Not-for-profit organisations are not ASX listed entities and there is no mandatory requirement on not-for-profit organisations to report against them; indeed some parts of the ASX code are simply not relevant to not-for-profit organisations. Notwithstanding this fact, many not-for-profit organisations choose to report against this code, citing this as evidence that they are well governed. Presumably, not-for-profit organisations choose to report against the ASX principles because they are the most commonly used in Australia and/or corporate society. Arguably, however, there are better codes against which not-for-profit organisations could demonstrate good corporate governance, such as the Governance Hub code (National Council of Voluntary Organisations 2010) or the code of governance for the Australian Community Sector (Our Community 2008). An analysis of these codes reveals the key tasks/ roles/ practices. Corporate governance statements are discussed in more depth in section 3.2.2 in the following chapter and section 6.2.1 in chapter six. (also see summary presented in appendix 11).

The next 'input' is the organisation's constitution. The constitution sets out several key demands of the entity and of its directors. Often in not-for-profit organisations this includes that directors are to be drawn from members of the organisation. The constitution may also impose other requirements upon the directors such as compulsory training and so forth. The constitution will also provide for the resignation and removal of directors; the removal of a director(s) is rare and usually only under very specific circumstances. More often non-performing directors are simply asked to resign and the knowledge that they are no longer wanted on the board is sufficient to secure the resignation. However, in some circumstances such a resignation may not be forthcoming; in this case recalcitrant directors may require removal by the courts, should they deem it appropriate. Clearly, the history of the organisation plays an important role in the way the constitution is framed, but it also obviously impacts the resources available to the organisation, as it is the historical financial performance, for example, that determines assets available. How an organisation employs those resources is usually set out in its strategy. A curious inclusion in the Nicholson and Kiel (2004) set of inputs is strategy; this is because many authors see setting strategy as the board's role. Strategy is discussed in section 2.3.3, in the context of board roles. Notwithstanding strategy's inclusion as an input, all or at least most inputs could be subject to influence by the board, if it chooses.

Inputs are therefore not fixed or immovable. After the benefit of receiving feedback, a board can decide to act to change its inputs. For example, it can attempt to convince members to change the purpose of the organisation. Clearly, a board can change the strategy an organisation uses.

As the corporate governance process emerges from one domain or depiction in the BICF to the next, such as when one considers inputs affecting the activity of board intellectual capital, this thesis avoids strictly interpreting and delimiting the boundaries. As discussed earlier, inputs may be affected by board activities, but it is also true that the boundaries are often blurred or imprecise.

Cornforth and Edwards (1999) for example see board skills and experience as an input. Epstein and Roy (2004, p.4) on the other hand have aspects ('competence and diligence') as an input, ('strategic information') as a process and ('superior strategic guidance') as an output. Yet, to Nicholson and Kiel (2004), these were seen as human capital factors, which are part of the transformational process, being the exercise of board intellectual capital. This is discussed more fully in section 2.3.2. All views may be correct to the extent that boards can select, develop and employ skills and experience as they choose. For example, if a board is unable to select board members (with particular skills and experience) due to, for example, the rules or their constitutions requiring that they are elected democratically by the owners (membership); in such circumstances board skill and experience will be an input. The presence or absence of specific skills and experience would then be something that the board must deal with, perhaps by developing skills and experience in that given input set, or altering the constitution or by bringing in advisory consultants. On the other hand, if a board is capable of recruiting the requisite skills and experience, the act of recruiting is the application of a transformation process.

A key point here is not that the BICF properly order all the subcomponents, but that rather the subcomponents are in some way identified, so that the board can consider the extent to which they are critical success factors for corporate governance.

2.3.2 Board Intellectual Capital

A valuable contribution made by the BICF is the concept that the board is a social phenomenon, subject to dynamic interplays from other elements or attributes of the system. It was noted in chapter one that Carver (2010) observed that governance is a social construct. Table 2-2, adapted from Nicholson and Kiel (2004, p.450), defines the key components of Board Intellectual Capital as they saw them.

Table 2-2 – Board Intellectual Capital components of the BICF

Component	Definition
Human capital	Innate and learned abilities, expertise and knowledge
Social capital	Implicit and tangible set of resources available by virtue of relevant social relationships
Structural capital	Explicit and codified knowledge
Cultural capital	Implicit and tangible resources available by identification with the values, norms and rules sanctioned by the dominant group

As Fitz-enz (2009, p.20) noted: 'Human capital is the combination of [people's] skills, motivation, engagement, and commitment'. Much has been written about human capital in a corporate governance context, particularly as it relates to the selection of directors. Selecting directors focusing on introducing skills, experience and characteristics that will be available to and benefit the board is so common it has spawned a consulting industry. Knowledge is clearly the basis for many organisational capabilities (Marr, Schiuma & Neely 2004), and the ability of a board to both grow and utilise available knowledge is very important in carrying out its roles.

The assessment of skills, experience and characteristics of directors as individuals not only occurs at the time of selection, but is increasingly common during the whole term of the board, as discussed in section 1.5.3. A regular part of this assessment procedure is not just the assessment of the skills, experience and characteristics required to be an ordinary director, but also where ordinary directors are called upon to undertake special roles such as chair or chief executive officer (Neubauer 1997). The proper fulfilment of the roles of chair and chief executive officer are vital to the proper functioning of the board; for example, if the chair is not able to facilitate the discussion and hearing of all views around the board table, then it is unlikely that optimal decisions will be made. Similarly, if the chief executive officer is not able or unwilling to properly inform the board, then again it is unlikely that optimal decisions will be made, or indeed if the chief executive officer is not capable of implementing board decisions, it is unlikely the organisation will accordingly be effective.

According to Nicholson and Kiel (2004, p.450) a board's human capital capacity dictates the upper limits of its capability. They stated 'no amount of teamwork, processes or even ethical behaviour can substitute for lack of basic ability'. The authors further argued that the 'board's potential performance is determined by the sum of the human capital' and 'a board's actual performance will always be less than its potential performance' (Nicholson & Kiel 2004, p.451). Furthermore, it is the 'three sub-domains – social capital, cultural capital and structural capital – that will determine the size of the performance gap' (Nicholson and Kiel 2004, p.451).

Such a point of view seemingly rejects the notion of synergy, or that human capital can be leveraged by the other sub-domains. It would appear that Nicholson and Kiel (2004) are focusing on things that may limit rather than enhance a board's performance. Forbes and Milliken (1999, p.490) observed that 'the very existence of the board as an institution is rooted in the wise belief that the effective oversight of an organisation exceeds the capabilities of any individual and that collective knowledge and deliberation are better suited to the task'.

Beyond human capital, other forms of intellectual capital exist in the BICF. According to Nicholson and Kiel (2004) a board's social capital is vested in the key relationships held by board members, be that between board members or between board members and management and external parties. Whilst Baker, Onyx & Edwards (2011, p22) acknowledge social capital is "subjected to disputed definition', it is sufficient for this research to accept the definition by Lyons (2001, p135) who describes social capital as 'norms such as trust and reciprocity that enable members of a group or community to work together'. See the works by Australian Bureau of Statistics (2004), Putnam (1994) and Bourdieu (1978) for a discussion and further definitions of social capital. The 'work together' notion in a social capital context must be both voluntary and equal (Onyx and Bullen 2000). Furthermore, social capital may be produced anywhere but it is in the not-for-profit sector that it has the highest probability of developing (Onyx and Bullen 2000). Therefore it is in not-for-profit boards where most board members are voluntary, that social capital and the relationship between board members is of obvious importance.

Similarly, the effect of relationships between board members and with management is obvious, it is critical, especially given the access and control of information that the chief executive officer holds. The relationship between board members and external parties however is less obvious. External parties can supply resources, such as information, funding, opportunities and so forth. Goffee and Jones (2009, p.25) noted that a great deal of board members' cleverness resides 'not in *what* they know but *who* they know and *how* they know it'. Structural capital is explicit and implicit codified knowledge, essentially the way things are done. It includes board protocols, routines and practices and may be documented or undocumented, but it is known (Nicholson & Kiel 2004).

There are likely to be two variables that deserve consideration in any future development of corporate governance measurement. The first is that corporate governance is always exercised through meetings: to that end knowledge of the rules of meetings is vital. The second point is that the personalities of incumbents is critical to good meetings, and particularly so for those in positions of responsibility such as the chairman, secretary or chief executive officer.

A critical component of structural capital is meetings procedures. Meetings are held for a variety of reasons including seeking approval, informing, reporting and to fulfil statutory obligations (Bush 2003). Many constitutions of not-for-profit organisations require that the board meet a minimum number of times per annum. Participation in meetings is a means of influencing the operations or objectives of the organisation (Lang 2006), and this is the key way that board members carry out their work. The proper conduct of a meeting is therefore critical, unless the meeting is conducted in a manner whereby views are properly aired, information is relayed and exchanged and decisions are considered and measured, otherwise it is likely the meeting will descend into farce.

The key means that meetings are conducted to avoid farce is by the usage of meeting procedure; this is generally as simple as enabling the chair to manage the dialogue, views and information are exchanged at the direction of the chair and individual decisions are sought at the direction of the chair. Here the skill of the chair can be critical. The chair is responsible for preserving order, ensuring that members are heard and that the meeting reaches a majority decision (Francis & Armstrong 2012). The extent of the formality of the meeting depends upon its constituents, usually if they are able to exchange views in a respectful and civil manner, then formalised procedures, such as Robert's Rules of Order (see Robert 1915 for the 1915 version), is not necessary.

This thesis has observed in section 2.3.3 that individual directors have certain obligations that are personal, yet the board as a whole is charged with the good governance of the organisation. It is for this reason that unanimous consensual decisions are so often sought. However, sometimes consent cannot be achieved, and in such circumstances reliance to formal meeting procedures is used to reach a decision (Francis & Armstrong 2012). Formal meetings procedures include that all "business should be handled by motion" with a seconder and votes cast and that points of order be addressed immediately by the chair (Francis & Armstrong 2012, p.15).

Beyond the conduct of the meeting are other structural capital matters such as the format and issuance of agendas and board papers. If such things are well managed this can significantly enhance the smooth running of the meeting and facilitate the decision-making process. Here the skill of the secretary is important.

These three sub-domains of intellectual capital all react with each other, which leads us to a critical component of board intellectual capital: board dynamics (Nicholson & Kiel 2004). And this leads us to the second point of personalities of the incumbents, which is critical to good meetings. Nicholson and Kiel (2004) viewed board dynamics as the interplay between various components of intellectual capital – human capital, social capital, cultural capital and structural capital. The authors described board dynamics as 'the "sparks" that fly from the interplay between the "flints" of intellectual capital' (2004, p.452). Goodwill of the incumbents on the board is important to its smooth running. Goodwill is a first level principle of ethics, as discussed in section 2.3.1, and is often evident in both human capital and cultural capital; it is crucial to relationships and group functioning (Francis 2000).

The utilisation and generation of intellectual capital by groups is clearly of significance when one considers the activities of a board, yet Goffee and Jones (2009, p.97) noted that 'the human dynamics at work in [boards] are sometimes barely acknowledged' and under researched. The interplay between various board members can generate conflict, which can be either positive or negative (Francis & Armstrong 2012). Kemp (2006) discussed constructive conflict and team work as being of high importance and interest to board members. A good level of trust between board members goes a long way to resolving negative conflict and encouraging team work. It is within this component that Nicholson and Kiel (2004, p.452) acknowledge the opportunity to 'change the stock of a boards capital' (as discussed earlier in this section, perhaps this is synergy by another name).

It is well understood that diversity of perspectives enables top teams to thrive (Goffee & Jones 2009) yet diversity, at least in the early stages of a boards inter-relationships has the possibility of raising the spectre of conflict amongst board members. Such conflict can sometimes be healthy and at other times less so; unhealthy conflict may be reduced to the extent that goal alignment amongst the members of a board exists, that is to say the tensions that may arise from board dynamics are generally well lubricated when board members share a common goal.

The combined effect of human capital, social capital, structural capital and board dynamics thus constitute a board's intellectual capital, which according to Nicholson and Kiel (2004, pp.449-53), can only be assessed 'in light of its alignments with the board's role'.

2.3.3 Context

The BICF importantly provides for the board's role set to be influenced by external factors, such as the competitive environment the organisation finds itself in, and internal factors, such as the organisational culture or the organisational strategy. In not-for-profit organisations the impact of stakeholders is often important. Section 1.5.3 noted Speckbacher's (2008) view that corporate governance had, as a goal, the protection of stakeholders. According to Freeman (1984, p.53), a stakeholder is 'any group or individual who can affect or is affected by the achievement of an organisation's purpose' (see also Freeman & McVea, 2001). Speckbacher (2008, p.302) also provided narrower definitions, for example ‘only groups that make an active and specific contribution to the organization are considered to be stakeholders’. The internal and external factors influencing the board are very likely to be broad and wide ranging. The inclusion of these factors provides a valuable capacity to ensure that any review of a board’s functionality includes as many of the issues likely to impact efficacy as possible.

As noted above the internal and external environment together with the board’s intellectual capital stock will influence how the board’s intellectual capital is applied in fulfilling its role.

The legislation (Corporations Act 2001 (No.50 as amended) (Cwlth), & state based Association Incorporation Acts, such as the Associations Incorporation Act 1981(no 9713 of 1981) (VIC)) discussed in section 2.3.1, provides an overall framework for board roles, and these duties are described below. It is interesting to note that these duties are imposed on directors as individuals, yet the board as a group of individuals has vested control of the entity.

The key board roles articulated by these laws may be summarised as follows:

1. A director must exercise reasonable care and diligence (s 180)
2. A director must exercise good faith and proper purpose (s 181)
3. A director must not improperly use their position (s 182)
4. A director must not improperly use information (s 183)
5. A director must disclose a material personal interest (s 191-195)
6. A director must prevent insolvent trading
7. A director must carry out his /her fiduciary duties, that is:
    a. act in good faith for the benefit of the organisation
    b. adequate consideration of matters for decision
    c. act honestly
    d. avoid conflict of interest.

These laws have been defined in common law over the decades; for instance the term good faith means that directors must be well intentioned for the benefit of the organisation, exercising their powers in the organisations interest, not misusing those powers, avoiding conflicts of interest and not misappropriating organisation assets.

These duties are not commonly regarded as the only duties that individual board members and the board as a whole must undertake. Importantly, the entity's constitution usually imposes obligations upon the board, as a whole, to be responsible for the governance and management of the entity. This obligation serves to significantly widen the scope of director's duties.

The legislative and societal framework is of critical importance in the articulation of the board's roles. However, such legislation and societal framework is only part of the picture. Nicholson and Kiel (2004, p.454) stated that there is general agreement on three key activities that a board needs to fulfil:

1. Controlling the organisation
2. Providing advice to management
3. Providing access to resources.

Yet how one defines these terms is important, for example, controlling the organisation may include the setting of the strategy, and indeed the provision of advice to management may include advice concerning the development of strategy. There is a subtlety and nuance in how various authors considered board roles. Nicholson and Kiel (2004) contemplate such matters as industry and economic regulation, ownership concentration, management entrenchment, organisational complexity, alternative monitoring mechanisms, organisational life cycle and management motivations within the control role. Furthermore rather than a separate role Nicholson and Kiel (2004) consider that setting strategic direction is a subset of the control role. On the other hand Zahra and Pearce (1989) contemplate establishment and monitoring of rules whereas Van den Berge and Levrau (2004, p.291-292) discussed the control role from a perspective of how they were influenced by the board attributes such as 'composition, characteristics, structure and control'. These authors saw a separate role for strategy.

Finally Nicholson and Newton (2010) studied how directors and senior managers perceived their roles and that these roles are perceived differently, highlighting the variability in definitions of the role set. All the authors summarised in table 2-3 acknowledged board roles are a complex phenomenon.

Table 2-3 – Board roles evident in the literature

Nicholson and Kiel (2004)	**Zahra and Pearce (1989)**	**Van den Berge and Levrau (2004)**	**Ong and Wan (2008)**	**Nicholson and Newton (2010)**
Controlling the organisation (including strategy)	Control	Control		
Providing advice to management				
Providing access to resources			Resource provision	Resources
	Strategy	Strategic	Strategy	Strategy
	Service		Service	
			Monitoring	
		Linking		
		Coordinating		
		Maintenance		
		Support		
				Risk and compliance
				Governance
				Management development

Table 2-3 summarises some of the literature on board's roles. Whilst there is little commonality in those studies, it is clear that when one infers broad, high level general definitions of role sets there would seem to be 'general agreement' in the literature, yet if one delves into the deeper meaning behind these terms it is less clear. The issue, it would seem, depends on how narrowly one wants to define the roles.

It should be noted at this point that Nicholson and Kiel (2004) wrote about elements of strategy in both controlling and providing advisory roles. Even considering this, the above list of activities is too narrow and simple; at the very least the board's capacity to receive and act on feedback in order to transform itself or the environment in which it operates should be included in the list. The above list also seems to take a common denominator approach to considering board roles.

Other authors have contributed extensively to the conversation. Johnson, Daily and Ellstrand (1996) noted that propositions of a board's role are dependent upon the chosen theoretical perspective. In the academic literature, six board roles are identified, derived from the different competing theories of corporate governance (Van den Berghe & Levrau, 2004). These are identified by Hung (1998), who sought to provide a typology of the theories relating to roles of governing boards, articulating six roles: linking, coordinating, control, strategic, maintenance and support. For each, he was able to link to mono theories as discussed in section 2.1. Again, when one infers broad definitions of role sets there would seem to be 'general agreement' in the literature, but it would depend on how narrowly one wanted to define the roles.

Very recently Nicholson and Newton (2010, p.19) extended the conversation further by suggesting that perhaps 'specific topic based mechanisms', such as strategy, risk and compliance, governance, management development and resources, may be a better way to consider a board's contribution rather than activities focusing on how the board does things such as controlling, advising and providing.

Over time, this topic based mechanisms approach may herald a new way of thinking about the way a board fulfils its role but such thinking will be hard pressed to displace the momentum of the one role that is common to all boards as dictated by the law. Consistently legislators and the courts have charged boards with the ultimate responsibility for *controlling* the organisation. A regulatory requirement certainly provides a compelling impetus for the conduct of boards (Judge & Zeithaml 1992), and sanctions for deviation from satisfactorily undertaking such regulatory duties are mostly well understood, at least amongst the larger not-for-profit organisations. A case that drove home the point is the finding of personal liability amounting to about $97M by the Chairman of the Australian not-for-profit National Safety Council in 1991 (Hubbard 2003). A very recent case is that of ASIC v Healey & Ors ([2011] FCA 717), where the Centro board was held to account for its failure to ensure the financial statements were accurate. The conspiracy of under-resourced, voluntary boards with broad stakeholder constituency and unclear objectives leads many not-for-profit boards to be extremely focused on regulatory requirements (Edwards & Cornforth 2003), which according to Harrow and Palmer (2003) leads to risk aversion.

The past influence of agency theory upon the regulator's conceptual mindset and thus the current regulations, legislation and the current standards cement in place, for better or for worse the impact of agency theory upon governance practices (Hough, McGregor-Lowndes et al. 2004). Of course, the capacity for many boards to properly fulfil this control requirement is questionable; in practice they delegate control to managers, but how they generally achieve control is via monitoring. This includes monitoring managerial and organisation performance as well as overseeing owners' interests (Leatherwood & O'Neal 1996). This manifestation of control, that is monitoring, is a very crucial board role (Ong & Wan 2008). And yet directors monitor managerial and organisation performance based on information provided by the chief executive officer (Zahra & Pearce 1989, p.295). Nicholson and Kiel (2004, p.454) stated that an aspect of control is establishing 'the strategic direction of the firm'. But in this function too many boards are reliant upon management, and as Zahra and Pearce (1989, p.310) observed, 'without access to managerial analysis, directors are not in a position to contribute meaningfully to the strategic initiatives under examination'.

Another significant manifestation of control using a legalistic agency approach is the selection and replacement of the chief executive officer (Leatherwood & O'Neal 1996). As Mizruchi (1983, p.426) noted, 'the act of hiring and firing provides an empirical illustration of the board's power, but it is set in the failure of management to act within the framework set by the board that may provoke the board's response'. Given the chief executive officer is the primary manager who oversees the activities the organisation carries out in pursuit of its purpose, a chief executive officer who operates in accordance with the board's wishes is important. Seldom is the chief executive officer replaced before he or she receives some level of advice from the board, which of course leads us to the next board role, that of providing advice to management.

Boards of directors are often well suited to the provision of advice to management, especially where directors are able to bring particular skills, competencies, experience and knowledge. These directors can act as sounding boards for the chief executive officer. The capacity and effectiveness of not-for-profit organisation boards to fulfil this advisory role is often dependent on several factors including:

- *Depth of the management team* (Nicholson & Kiel, 2004). Has the management team sufficient depth such that it depends upon the board to carry out its roles; note the reverse may also be true where the management team is far stronger than the board and, therefore, does not rely upon the board to fulfil its role. See managerial hegemony theory discussed previously at section 2.1.
- *Organisational complexity* (Nicholson & Kiel, 2004). Specific knowledge concerning the organisation and the environment in which it operates can directly affect the capability of the board to advise the management.
- *Openness of management* (Nicholson & Kiel, 2004). Where management is open to advice it will more likely receive advice. Some scholars, such as Fama and Jensen (1983), argued that the receiving of advice is more likely in an environment where board monitoring is less required.

In effect, the provision of advice to management is the provision of a resource to management and the organisation. The resources that a board can provide, beyond advice, are very broad and can include:

- *Funds and capital*. Some boards actively provide access to funds or capital for the organisation, often by the way of specific donations from directors or contact to people who make such donations. Zahra and Pearce (1989, p.297) noted that because of their 'prestige in their professions and communities, directors are able to extract resources' for their organisations.
- *Contacts*. Boards can provide access to people and organisations with specific skills, experience and power that can be of assistance to the organisation. In

some cases directors may also be directors with other organisations which can provide support for the organisation, as previously stated, this concept is known as ‘director interlock’ in the literature.

- *Legitimacy.* Directors with highly regarded reputations can provide legitimacy to organisations; see for example the prevalence of patrons to not-for-profit organisations.

Nicholson and Kiel (2004) have noted that the board’s provision of advice on strategy may fall within the advisory role, but may also be classified as a control role, rather than a separate and distinct role in itself as suggested by Hung (1998), Ong and Wan (2008) or Zahra and Pearce (1989). However, such an omission as a role in its own right is not to downplay its importance. Indeed, there are plenty of proponents for boards taking a greater involvement in strategy (see for example Conger, Finegold and Lawler 1998, Kemp 2006 and Nadler 2004). It was noted at section 2.3.1 that Nicholson and Kiel (2004) include strategy as an input. They use the definition of strategy by Judge and Zeithaml (1992) as ‘the way in which a company used its resources’ and further argued that by using its resources in this way, will help determine its roles (Nicholson & Kiel 2004, p.447). Indeed Nicholson and Kiel (2004) seem to accept that strategy may be a central plank in the way the board optimises organisational performance.

Boards must not only be capable of providing advice to management, but they must be capable of determining and taking their own advice. The board’s capacity to seek, receive and react to feedback, data and information is important. Without such a capacity, a board is unlikely to be able to properly fulfil its roles or importantly, develop. It is essential that the board consider its own functioning, processes and behaviours. In other words, a key intellectual capital output of the board is to impact upon its own inputs and functioning in order to improve the organisation’s performance.

Despite the large volume of literature and entrenched practice, there is also widespread acknowledgement and caution against prescribing tasks for boards. Chait, Ryan & Taylor (2005, p.31), for example, wrote ‘governance as leadership is a complex activity and cannot be practiced through reliance on prescribed tasks alone’.

Clearly, how the board decides to interpret its roles and apply its effort can and should vary widely. When one delves below these broad high level role descriptions, as discussed above, the specific range of roles that boards undertake is indeed very broad and varied, and importantly variously defined. However, at the broadest level, board roles can be defined by a handful of descriptions, for instance: control, advice, resource provision, capacity to solicit and receive information and strategy. These descriptions are adequate as a guide in a high level review of board roles, providing at all times it is remembered that the specific functioning of these roles can be very dependent on the organisation's particular factors, such as environment or a particular board's intellectual capital. Section 2.3.2 considered the existence, application and development of the board's intellectual capital. This section considered factors contextualising intellectual capital and the interpretation of board roles.

Whatever the way in which a board determines and fulfils its role, that fulfilment is ultimately directed towards the desired output of improving the organisation's performance, and it sees this through the prism of being an effective board.

2.3.4 Outputs

According to Ong and Wan (2007, p.317) the 'current literature provides little consensus as to the factors for effective board performance'. However, Nicholson and Kiel (2004, p.455) aptly stated, 'the problem is not to find the 'one best way' of governing, but rather to understand how effective combinations of intellectual capital fit together and lead to congruence with a firm's needs.' Furthermore Nicholson and Kiel (2004) suggested three ways that boards add value:

1. individual outputs or individual effectiveness
2. group level outputs or team effectiveness
3. organisational outputs.

This current section deals with individual and group outputs or effectiveness; the organisation outputs could be regarded as an outcome of board efficacy and as such, it is discussed later in this section. Both a team's performance and an individual's performance are the function of effort norms, cohesiveness, and the utilisation of knowledge and skills. The stronger these attributes the greater the contribution will be. Individual board members, by what they bring to the board, can produce individual outputs which are of great value to the organisation; these outputs can be the provision of resources such as philanthropic funds, advice or business contacts. It is for this reason that some boards specifically seek people with the capacity to make such a contribution. However, most would agree that such contributions are likely to be limited, due to constraints of what an individual is capable of providing, and it is unlikely that a single individual will be capable of satisfying all the requirements a board or organisation may require.

Beyond such contributions however is the significance of decision making. There is a common view that a team of individuals is capable of producing outputs or value greater than the sum of its parts. This notion of synergy is fundamental to the rationale of why we have boards: 'The very existence of the board as an institution is rooted in the wise belief that the effective oversight of an organisation exceeds the capabilities of any individual and that the collective knowledge and deliberation are better suited to the task' (Forbes & Milliken 1999, p.490). Goffee and Jones (2009, p.67) argued that 'clever people, as usually board members are, make their biggest contribution when they are part of a team.' The authors go on to define a team: 'The simplest definition that distinguishes a team is that there are shared objectives; there are interdependent tasks; and members are aware of each other's existence' (Goffee & Jones 2009, p.77). Whilst section 2.3.2 acknowledged the factors limiting the maximum output of intellectual capital, it is undeniable that the utilisation of collective knowledge and deliberation as a team leads to a more effective output for that group.

All such board activity is an intellectual exercise, involving reasoning, intelligence and judgement. The assessment of such an intellectual exercise is however problematic. Additionally, varied purposes and interpretations thereof, lead to varied outputs and this factor alone makes for difficulty in assessing performance; obscure or multiple purposes considerably complicate the assessment of success. Section 1.5.3 briefly considered performance management and section 3.2 in the following chapter will discuss the issue of performance assessment in more detail. In section 2.3 the extended process model was introduced and a distinction was drawn between the board's function and the organisation's purpose or function: an effective board is an output; an effective organisation is an outcome. The next section will discuss the outcome or impact of board effectiveness, which is effective organisational performance.

2.3.5 Outcomes

As discussed previously, the process view of a board's activities considers inputs (and board intellectual capital) and activities, influenced by contexts resulting in outputs (board effectiveness). This thesis, so far, has sought to discuss board activities culminating in its effectiveness. It is perhaps timely now to briefly consider the link between board performance (or effectiveness) and organisational performance (or effectiveness). The process view would consider this as linking outputs (decisions) to outcomes or impacts (effectiveness) as described at section 2.3 and illustrated in figure 2.3.

There are many studies that suggest that the output of effective board performance leads to good organisational performance (see for example Mordaunt & Cornforth 2004). Nevertheless, there is no definitive study that confirms the link (Conger, Finegold & Lawler 1998; Nicholson & Kiel 2007). Herman and Renz (1999, p.116) stated, 'there is little evidence that proves a causal relation[ship]' between effective boards and effective organisations, despite many people wishing to believe that such a causal relationship exits.

However, Herman and Renz (1999) in reviewing the literature found that board effectiveness is related to organisational effectiveness, although the authors were not able to conclude what actions or social contributions boards undertook that could be attributable to such organisational effectiveness. In the public company (stock) market there is certainly evidence that the market values good board governance (see for example Felton, Hudnut & van Heeckeren 1996; Korac-Kakabadse, Kakabadse & Kouzim 2001), but in the not-for-profit sector, we are not provided with a market measure to support this suggestion.

Despite the legalistic perspectives' penchant for holding the board ultimately accountable for using organisational performance, especially poor performance, using market performance as a proxy measure for board performance is problematic, not the least because market measures are not available for not-for-profit organisations. Nicholson and Kiel (2004) discussed organisational performance by considering a matrix where performance is contributed by both management and the board. It is possible that an organisation can thrive or fail, despite poor or good performance from either group.

Nicholson and Kiel (2004, p.448) acknowledge that effective organisational performance can be achieved by an effective board and effective management, and there is widespread agreement that a board works with and through management, (Nicolson & Kiel cited Lorsch & MacIver 1989; Tricker 1994). There are examples of management, particularly not-for-profit management, performing well with a less than effective board. Certainly a study prepared by the Centre for Corporate Governance, University of Technology, Sydney (Australian Council of Superannuation Investors Inc. & The Centre for Corporate Governance, University of Technology Sydney 2010, p.48) found 'a clear preference for a good CEO over a good board'.

There is growing recognition that a board is heavily reliant upon management due to its dependence upon management for information and the part-time episodic nature of the board, such that it could not do its job without effective management (Herman & Heimovics 2005). Therefore, it is difficult to imagine a successful organisation with an enduring and ineffective management; a good board would replace ineffective management.

Notions of effectiveness are, however, not usually absolute or static. For example, increasingly we are seeing in the public company markets that shareholders are requiring more than just good financial returns but also, for example, indicators of corporate social responsibility. Section 2.3.2 described social capital and Lyons (2001) noted that effectiveness of a not-for-profit organisation could be seen not just as efficient provision of a service but also from how successfully they generate social capital. Some would consider *effectiveness* as a social construct requiring stakeholder judgement (see Herman & Renz 1999, for more discussion). There is often no consistency in the criteria by which the various stakeholders use to assess effectiveness. For example, an employee stakeholder may be interested in the number of clients reached, whereas a sponsor stakeholder may be interested in the number of opportunities for promoting his or her brand.

As discussed previously, organisational performance may or may not be causally attributable to the board; it could [equally] be attributable to other factors, such as an effective chief executive officer, or even just good luck. Herman and Heimovics (2005) discussed the chief executive officer–board relationship and argue that the chief executive officer is ‘centrally responsible for what happens in non-profit organisations’ (Herman & Heimovics 2005, p.156). They recommend that chief executive officers accept this centrality and ensure that they support the board as an enabler and facilitator. This would seem to be a good reason for not-for-profit organisations to abandon outdated agency approaches to governance, instead accepting the stewardship approach, and including the chief executive officer as a member of the governance team.

2.4 Chapter summary

This chapter has briefly reviewed traditional corporate governance theories and paradigms, such as agency and stewardship theories, arguing that they have application in limited circumstances. More holistic corporate governance theories were then discussed and the BICF was introduced and used as a logical framework to carrying out a structured approach from which to consider and discuss the relevant literature. Importantly, the BICF encompasses the concept of board intellectual capital and this is described in several domains, such as human capital, social capital, cultural capital and structural capital. It was noted that the BICF employs a process approach of sufficient depth, so as to enable conceptual propositions of performance indicators for Australian not-for-profit corporate governance to be established.

The next chapter considers the measurement of performance indicators for boards with particular reference to the performance of not-for-profit organisations.

CHAPTER 3: BACKGROUND TO THE THESIS

This chapter continues to examine the literature that is relevant to this thesis. Specifically, it will examine the unique characteristics of not-for-profit organisations that complicate the subject of this thesis and then review the literature concerned with performance measurement and developing performance indicators generally. The themes canvassed in the first three chapters are linked and the need for corporate governance performance indicators and possible ways in which they may be derived is proposed.

3.1 Characteristics of not-for-profit organisations

Section 1.5.2 introduced not-for-profit organisations. This section delves deeper into aspects of not-for-profit organisations important to this thesis by discussing the diverse purposes of not-for-profit organisations, the size of the sector, and the impact that volunteers, including volunteer board members, have on not-for-profit organisations.

3.1.1 Purposes

Section 2.3.1 referred to organisational purpose as an input to corporate governance. The Productivity Commission in 2009 and 2010 undertook a broad study of not-for-profit organisations, noting they were ‘driven by their community purpose’ (Productivity Commission 2010, p.15). The Productivity Commission (2010) noted that little information is available for the bulk of the not-for-profit sector, thus researchers are forced to rely on whatever information is available.

One source of information that the Productivity Commission (2010) reviewed was the Australian Bureau of Statistics (ABS) Satellite Accounts (Australian Bureau of Statistics, 2009 Cat 5256.0), which dealt with economically significant organisations. The term ‘economically significant’ was introduced as a concept in section 1.1, and was described as ‘organisations which employed staff or non-employing organisations whose revenue exceeded a threshold level (determined by the ABS) (Productivity Commission 2010, p.63).

The ABS classification schema referred to above is based on the International Classification of Non-Profit Organisations (INCPO), which details twelve categories, comprising: Culture and Recreation; Education and Research; Health; Social Services; Environment; Development and Housing; Law, Advocacy and Politics; Philanthropic intermediaries and voluntarism promotion; International; Religion; Business and Professional Associations and Unions; and Not elsewhere classified (Australian Bureau of Statistics 2009).

As can be seen from table 3-1, adapted from data published by the Productivity Commission (2010, p.66), no single category dominates the sector.

Table 3-1 – Australian economically significant organisations, June 2007

	Number	**Employees**	**Volunteers**	**Gross Value Added**
Culture and recreation	11510 (20%)	102.1 (11%)	2072.3 (41%)	12.2 (25%)
Education and research	6621 (11%)	218.4 (25%)	608 (12%)	11.7 (24%)
Hospitals	102 (0%)	55.7 (6%)	41.4 (1%)	3.6 (7%)
Health	919 (2%)	99.7 (11%)	389.8 (8%)	4.4 (9%)
Social services	7811 (13%)	221.5 (25%)	1474.6 (29%)	10.6 (21%)
Religion	12174 (21%)	40.7 (5%)	Na	Na
Associations	3224 (5%)	22.5 (3%)	102.6 (2%)	2.3 (5%)
Environment	11972 (20%)	110.5 (12%)	344 (7%)	4.7 (9%)
Not elsewhere classified	4446 (8%)	18.3 (2%)	Na	Na
Total	58779	889.4	4616.1	55.8

Na = Not available

Source: Productivity Commission (2010)

Another source is the Woodward and Marshall (2004) study into Australian companies limited by guarantee. The study found that ‘the largest group of respondents were Sports and Recreation (21%), Community Services (19%) and Education and Education-Related (15%), followed by Religious (10%). There was a fairly even spread of other categories’ (Woodward & Marshall 2004, p.26). This study used a different classification schema to that of the Productivity Commission, but again there is no single category dominating the sector.

Irrespective of the uniformity of classification schemas or the completeness of various studies, considerable diversity is evident in the activities and purposes of not-for-profit organisations. This thesis has already noted two different classification schemas, namely that employed by the Productivity Commission (2010) and that employed by Woodward and Marshall (2004). However, with any classification schema definition difficulties may arise such as when a not-for-profit organisation straddles the various divides. For example, in the classification of purpose or activities the Salvation Army, with its dual purpose of 'preaching of the gospel and alleviating human suffering' (Salvation Army 2008, p.ii), may be confounding. Is it a religion, a social service or some other type of organisation?

Furthermore, not-for-profit organisations are not always primarily for the wider communities' benefit; many are concerned with the promotion of benefits to their own members or promoting their own messages or dogmas. The notion that not-for-profit organisations have obligations to serve the wider community is an interesting issue. Organisational purposes in these organisations are often open to interpretation, not the least because statements of purpose are often broadly framed to allow the organisation flexibility to pursue its activities. It is widely assumed that all not-for-profit organisations are for the wider public good, but this is not always the case; for instance it is arguable that no public good is required under the Constitution of the Australian Turf Club Ltd. (2011), whose purpose is as follows:

> The Company has been established for the encouragement of horse racing, and other incidental related purposes and to carry on any other activity which is calculated directly or indirectly to enhance or further the interests of registered horse racing.

The Australian Turf Club Ltd's (2011) purpose as stated in its constitution is clearly open to interpretation, insofar as it allows *any other activity…* This flexibility of interpretation can also result in discord, as various parties interpret the purpose differently or provide a slightly different nuance. The interpretation can be influenced by the individual stakeholder's perspective; for example, a gambler on a horse race may expect (rightly or wrongly) that a turf club not-for-profit organisation benefits society generally, by protecting the integrity of punting, whereas a turf club member may be looking for value from his or her membership fee, such as special access to a spring racing carnival.

Even organisations with comparable purposes, may not be comparable in other respects; for example, Bicycle Victoria Incorporated and Bicycle New South Wales Inc., have very similar purposes, yet the size and scope of the two organisations is vastly different. The point here is that the purpose of a not-for-profit organisation should not be taken for granted; they are often varied and nuanced. What follows is a discussion concerning size of not-for-profit organisations.

3.1.2 Size

The Woodward and Marshall (2004, p.40) study of 1,700 of the 9,800 companies limited by guarantee in Australia found that '30% has an income of less than $100,000' in 2003, and 'just over half (53%) had an income of less than $500,000'. The Productivity Commission (2010) estimates that there are about 600,000 not-for-profits in Australia, of which about 59,000 are 'economically significant' accounting for 97.5% of the total sector turnover. Using the Productivity Commissions (2010) numbers, it follows, therefore, that some 540,000 not-for-profit organisations are economically insignificant; they have low annual turnovers or do not employ people.

Despite the small turnover of the majority of not-for-profit organisations, the sector is of significant importance to Australian society. In economic terms, it generates 4.7% of Gross Domestic Product (GDP) and employs 6.8% of the labour force (Woodward & Marshall 2004, p.1).

Such turnover figures, however, understate the economic significance of the sector, as much of its contribution cannot be valued in dollar terms, as GDP and labour force figures do not include voluntary work. For instance, during 1994–95 about 2.3 million people undertook voluntary work contributing 374 million hours of their time at a value of A$7.5 billion (Hubbard 2003, p.10) and a report produced by the Households Research Unit, Department of Economics, University of Melbourne put the economic value of volunteering at $10 billion per year in Victoria alone (Soupourmas & Ironmonger 2002).

Whilst such economic arguments are impressive, possibly of more significance to the community is the investment and commitment that stakeholders, such as volunteers, have in such organisations.

3.1.3 Volunteers

There were an estimated 4.6 million volunteers participating in not-for-profit organisations in 2007 in Australia (Productivity Commission 2010). By sheer weight of numbers alone, this is a stakeholder group of significance. It is common for not-for-profit organisations to be reliant upon, or at least use, volunteers. In small not-for-profit organisations, volunteers provide all the human resources, as there are no paid employees. In larger not-for-profit organisations volunteers can be involved in all manner of activities, from office duties and management through to service delivery.

The use of volunteers is not without cost. These workers volunteer their labour and intellect for a variety of reasons, not always altruistic and they bring a mixed level of skill and application. A not-for-profit organisation's capacity to attract volunteers may depend on a range of factors, such as the experience the organisation can offer the volunteer, such as the provision of a specific new skill, or the identification with organisations mission, or even the opportunity to travel and experience a form of a holiday by volunteering on the *Great Victorian Bike Ride* for example, (the Great Victorian Bike Ride is a 9 day camping and bike riding event typically covering 500 kilometres ran by Bicycle Victoria Incorporated, the action research study organisation outlined in section 5.4 of this thesis.

Human resources, including volunteers, need guidance, management, motivation and leadership. A not-for-profit organisation's capacity to recruit and manage volunteers depends not only upon its value proposition, discussed in the preceding paragraph but also upon the resources of the not-for-profit organisation. An organisation with a strong and competent management is likely to be better able to manage volunteers and thus maximise their utility. The converse is also true and where this is the case this may be a cause for concern for the board. For instance Lyons (2001, p155) describes as a paradox an exhibition of poor management evident in parts of the [not-for-profit] sector that rely on paid staff who are 'prone to exploit their volunteers, to treat them as a costless resource, not recognising that, to get the best value from volunteers it is necessary to spend some time and money on them'. According to Lyons (2001, p.154) the ‘values orientation of many not-for-profit organisations, their origins in voluntary associations and their perennial shortage of finance makes them prone to exploit their staff’ including volunteers.

The attraction and retention of volunteer talent is a significant issue for not-for-profit organisations, where 97% of not-for-profit organisations report volunteer recruitment as an issue (Volunteering Australia 2006). Given the cost associated with attracting and training volunteers, understanding the causes of turnover and how such turnover can be addressed is critical. Similarly, the interface between the use of volunteers and paid staff may be an issue with 28% reporting being ‘aware of confusion, uncertainty or conflict between the roles of volunteers and paid employees in their organisation’ (Volunteering Australia 2006).

Clearly, the potential for significant disconnect between the not-for-profit organisation and the volunteer are possible and good management is required to properly manage this interaction. Perhaps nowhere is this interface more acute than in the corporate governance activities of not-for-profit organisations, where most board members are volunteers (Productivity Commission 2009).

3.1.4 Not-for-profit boards

It is not unusual for volunteer board members to suffer confusion concerning their roles or the purpose of the organisation, particularly when they are new to the role. Often people are asked to join boards for their particular professional experience that they possess and whilst they are asked to bring that experience to the board decision making process they should not be expected to provide free professional advice. For example, often a lawyer is asked to be a member of a board for the perspectives that he or she can bring to the board but it is an entirely different matter for that lawyer to provide specific advice, advice that may be complicated and time consuming to provide. Often considerable effort and expense is required to induct and train new volunteer board members, who may have little corporate governance experience. Organisations are usually run in accordance with constitutions or rules of the entity. Such constitutions generally stipulate how many board members are to serve on the board; how often they are to meet; and how they are elected. Also these rules may stipulate that they are to be elected by the members and whilst this is common, it is not always the case. For instance, particularly in for-profit entities, the members elect board members not necessarily from membership, that is to say a candidate outside of the membership is elected. Such an externally appointed board member is generally selected based on skills and competencies they bring to the board. Such corporations seek to obtain the best candidate for the role, and such decisions are usually enabled by the organisation's constitution, but not so far as requiring specific qualifications or talent; rather this is left to the particular board to exercise its discretion. Selecting not-for-profit organisations' board members based on whether they are fit and competent is often problematic. Such persons are often hard to find and in demand, unlike their for-profit counterparts, who are able to pay a retainer to attract that candidate, thus payment to a board member in a not-for-profit environment is rare (Steane & Christie 2001).

The requirement or practice that board members volunteer their services (Lyons 2001), coupled with the fact that most 'able' board members are usually successful and busy people with lives and or businesses outside the corporate governance role, also limits the pool of available board talent. In some not-for-profit organisations, a key board member role makes provision for access to resources and sometimes significant amounts of philanthropic dollars! It should not be taken for granted that volunteer board members have their own needs that must be met, especially if those people are to continue to volunteer their time or provide resources (Lyons 2001). If these needs are congruent with those of the organisation, this will be enough to satisfy the volunteer board member. However, where the fulfilment of the organisation's needs is not enough to fully satisfy the individual's needs, a diversion of some of the organisations resources is often required. The limited availability of talent often leads the organisation to devote resources to training and induction of new board members as it seeks to bridge the expertise gap.

It was noted in section 3.1.2 that the size of not-for-profit organisations varies enormously and therefore the resources available to bridge this training gap also varies enormously. In addition, the breadth of the sector is such that a diversity of size and resources influences the business models and available strategies able to be employed by the not-for-profit organisations more generally. This diversity will influence the nuances and types of corporate governance that these organisations are able to practice. That is to say, notwithstanding the general applicability of broad definitions of cg described in section 1.5.1, where it was noted that Turnbull (1997, p.181) described corporate governance 'as all the influences affecting institutional processes'. The purpose, size, resources and structure of not-for-profit organisation can often influence the subtle nuances and nature of corporate governance for example section some volunteer board members fail to have even a basic understanding of corporate governance theory as discussed in chapter two. Indeed the term not-for-profit causes some to reject that a not-for-profit organisation must make a profit (or surplus) or another example, some volunteer board members eschew the term corporate governance which they consider to have a hard commercial edge instead preferring the term community governance. Such nuances must inevitably influence the conduct in the board rooms of not-for-profit organisations.

It is not without irony that a volunteer board may be lacking talent or expertise in leadership, yet the very purpose of the board is to contribute these attributes at board level.

From the above discussion, it is evident that some not-for-profit organisations may be presented with a limited pool of board member candidates, resulting in less than optimal availability of human capital. These boards often end up with the appointment of time constrained and inexperienced corporate governance practitioners, and such factors serve to extenuate the difficulties of not-for-profit corporate governance. On the positive side, such volunteer board members are generally enthusiastic, hardworking people who are passionate about the organisation's purpose, as they interpret it. This factor significantly enhances the possibility of favourable board dynamics or inter-board interactions. It is a combination of these factors that culminate in the need for performance management in not-for-profit organisations.

3.2 Performance measurement

Not-for-profit organisations do engage in performance management. It is common to use performance management techniques including the usage of performance indicators for paid staff. David Parmenter's (2012) book *Key Performance Indicators for Government and Non Profit Agencies* is a good resource in this regard. However as disclosed in section 1.5.3 rarely it would seem are performance indicators used for boards, what is more common is a less formal approach of peer assessment.

This section considers the issues of performance measurement, as relevant to board activities. In chapter one, at section 1.5.3 it was established that effective performance is high on the board's agenda and that this leads to the need for setting objectives, or at least clearly measuring criteria against which performance can be judged. This thesis will now consider the issues associated with arriving at that performance criterion.

Firstly, what is effective or good performance as far as a board is concerned? As McIntyre & Murphy (2008, p.171) stated, 'at a high level of abstraction one might argue that firm performance is the most relevant measure of BOD [Board of Director] performance. Some might also argue that financial returns are the most relevant measure of firm performance'. A common performance measure in for-profit organisations is obviously profit. Most people readily understand the concept of profit, there are international standards by which it is calculated, and it is relatively easily determined. Speckbacher (2003, p.268) observed that profit is a 'clear and accessible ultimate scorecard of performance'; indeed, that surely is the case in for-profit organisations; however, in not-for-profit organisations where the pursuit of profit is not the reason for existence, the clarity of the profit performance measure is not paramount.

At this high level, organisation or firm performance or success in a not-for-profit organisation is rarely easily determined or measured. Not-for-profit organisations may have multiple, sometimes even competing objectives judged by an array of stakeholders from different perspectives. For example, clients may look for client service, philanthropists may look for efficiency of purpose, volunteers may look for collegiality, experience, etc. Staff may look for work–life balance, an attractive salary, etc. The assessment of performance in not-for-profit organisations can thus be more problematic.

Compounding the difficulty of assessing performance generally are issues associated with the board's work. It is widely understood that a unique characteristic is that the board largely decides for itself what work it will do. And this work will almost certainly be an intellectual activity as noted at section 2.3.4, where it was also argued that the assessment of an intellectual exercise can be problematic. Despite these difficulties, practitioners nonetheless have been able to measure performance. Perhaps these measures have been imprecise but their imprecision is presumably outweighed by the benefits derived from their usage.

3.2.1 How board performance indicators are used

There are three uses for performance measures of corporate governance activities, which include:

1. improve the performance of the chief executive officer
2. improve the performance of boards and individual directors
3. communicating performance to stakeholders.

(Source: Society of Management Accountants of Canada, 2002)

Improving performance is an obvious motive and application for using performance measures. Epstein and Roy (2004) make the important point (as does this thesis) that the chief executive officer is an important member of the corporate governance team, and therefore the

> 'results from th[e] evaluation process should be widely communicated among directors and top managers. In a well-governed company, it is in the manager's interest to have a well-qualified, competent, diligent board providing critical guidance and support. The performance evaluation system will have little impact if results are not fully discussed. Results should be monitored regularly and used to identify areas of weakness, challenge the plan and systems in place, and establish new initiatives to correct deficiencies' (p.19).

Improving performance of the chief executive officer, board or individual directors, as outlined in the first two points is quite clear and self-evident, the compliance aspect of corporate governance theory, that is say the assurance that the rules of the law and the organisation are upheld including that the purposes are met and that there is no strategic drift, is less obvious. Arguably, a chief executive officer, board or individual director could hardly be said to be performing if the organisation was performing contrary to the law or its rules and purposes or even for that matter the expectations of society.

The third point above, that is the merits of using performance measures to communicate to stakeholders are less evident. The AICD (2006, p.25) argued against public disclosure of performance evaluation results when it stated that such an action 'will be self- defeating because it will inevitably result in bland comments and lack of candour by participants in the process'. Perhaps the AICD could have said it may be self-defeating, rather than the certainty of self-defeat.

A competing point of view to this non-disclosure stance, however, would be where (and when) corporate governance benchmarking between organisations occurs. This is an approach that seeks to enable benchmarking against other organisations, where the availability of benchmarking data influences the selection of indicators (Wall & Martin 2003). In such an environment, the disadvantages associated with public disclosure cited above may be outweighed by the advantages afforded from benchmarking against other organisations. A common form of disclosure is reporting corporate governance practice against codes of practice, for example the ASX Corporate Governance Council (2010) code. Such codes offer guidance as well as a template to report against, as discussed at section 2.3.1.

Within the literature, there is limited guidance on what may be appropriate performance indicators to assess in a boards' performance of its corporate governance activities. The most obvious example would be the various corporate governance codes of practice published.

3.2.2 Performance indicators evident from the literature

Corporate governance codes of practice are expected to not only influence stakeholders' opinions about what constitutes good corporate governance, but importantly, provide guidance to practitioners as to what is currently considered the elements of contemporary good corporate governance. It has been previously noted at section 2.3 that Epstein and Roy (2004) used corporate governance codes as a basis to arrive at their performance indicators. Internationally, there are many corporate governance codes, such as OECD Principles of Corporate Governance (2004); however, the review in this thesis will be limited to those codes thought most likely to influence corporate governance practice in Australian not-for-profit organisations.

Several codes of corporate governance were therefore selected for analysis:

1. Good Governance Principles (Standards Australia 2003)
2. Code of Governance for the Australian Community Sector (Our Community 2008)
3. Good Governance: A code for the Voluntary and Community Sector – also known as the UK Governance Hub code (National Council of Voluntary Organisations 2010)
4. Corporate Governance Principles and Recommendations (ASX Corporate Governance Council 2010).

The Australian Standards seem lost to posterity, inexplicably not having received any updating, except for a minor amendment in 2004. The 'principles loosely follow the OECD Principles of Corporate Governance' (Standards Australia 2003, p.13). According to Standards Australia, the standard AS8000-2003 complements existing guidelines produced by the ASX Corporate Governance Council (2003) and seeks to enhance the legislation. Indeed, it goes marginally beyond a restatement of the law and provides some guidance to practitioners. Section 2 of the Australian Standard establishes that a system for good governance should be developed and implemented, and that it should be underpinned by a series of good governance principles, articulated in section 3. Historically, this code was important, but now more targeted works have superseded it.

A code specifically designed for the Australian not-for-profit sector is the Code of Governance for the Australian Community Sector (Our Community 2008); however, there is not much evidence of usage. This code is a solid attempt to provide guidance to practitioners, however, better guidance is provided by the UK's Governance Hub (National Council of Voluntary Organisations 2010); this is an excellent and practical code where at least some Australian practitioners, this researcher for one, are interested in developing an Australian version.

This UK Governance Hub code is drafted by the not-for-profit sector and therefore has real authority, at least for the UK. Finally, the most widely accessed code in a practical sense is that by the ASX Corporate Governance Council (2010), and this is discussed further in the light of the findings at section 6.1.3. The shortcoming of this code is that it offers little in the way of practical advice to practitioners and barely surpasses that required by statute and common law. The Standards Australia, UK Governance Hub (National Council of Voluntary Organisations 2010) and the ASX codes provide high-level principles supplemented with more specific recommendations, whereas the Our Community code sets out specific edicts more directly.

These four codes are examined in a table in appendix 11. This table compares and contrasts the key elements of each of these codes. What is evident is the superiority of the UK Governance Hub code (National Council of Voluntary Organisations 2010). It is far more thorough than any of the others, albeit the Our Community code does provide some direction to board members to consider such matters as board member terms and expulsion. Additionally, the Our Community code directs boards to specifically consider such matters as social disadvantage and employee health and safety. Arguably though, these matters could be considered in the context of community responsibilities or compliance with legal responsibilities articulated in the UK Governance Hub code (National Council of Voluntary Organisations 2010).

The key themes revealed in the above analysis provide pointers to the critical success factors of good corporate governance. Within the literature there are also some examples of checklists of good corporate governance proposed by various authors. Although none have been found that relate specifically to Australian not-for-profit corporate governance, there are some checklists which could provide assistance.

One such checklist is the Directors' Checklist (provided at appendix 2) in the discussion paper on Principles and Better Practices: Corporate Governance in Commonwealth Authorities and Companies (Australian National Audit Office 1999). This document is intended for public sector boards but nonetheless offers sound categories for consideration that can be adapted to not-for-profit organisations. The board categories are:

- definition of roles and powers
- board appointments
- board skills, independence and resources
- code of conduct
- strategy setting
- business and community consultation
- financial and operational reporting
- monitoring the performance of the board
- audit committees
- statutory accountability.

(Australian National Audit Office 1999, p.18)

To these we might add codes of ethics, agreed value systems and the vital issue of proper management of conflict of interest.

Another source of criteria that might be appropriate to measure is that used by commercial ratings agencies. Commercial ratings agencies rate corporate governance practices, but unfortunately, specifics of the criteria are usually kept confidential. Some authors, however, have been able to make some observations.

Donker and Zahir (2008) examined rating system categories from four well-known corporate governance ratings systems: Institutional Share Services, Standard and Poor, Governance Metric International and The Corporate Library. These agencies use data available in the public arena to provide investor guidance and according to Donker and Zahir (2008, p.89) the most popular rating system categories are:

- Board structure and accountability, including 'independency of board members, board size, board attendance, chairman / chief executive officer separation, directors serving on boards of other companies, composition of audit committees, nominating committees and compensation committees, annual election of the board of directors, disclosure of corporate governance guidelines and code of conducts and ethics, share ownership of executive directors'

- Executive and director compensation, including 'level and form of compensation; performance evaluation criteria; independence and integrity of compensation setting process; shareholder approval of compensation policy; pension plans; option-repricing policy; directors and executives are subject to stock ownership guidelines; presence of company loans to employees'
- Audit, crucially the audit committee
- Shareholder rights and takeover practice, including 'one-share, one vote system; a simple majority vote of shareholders is required to amend the charter or bylaws; shareholders may call special meetings; shareholders may act by written consent; presence of a majority shareholder, poison pills, staggered board' (Donker & Zahir 2008, pp.89–90).

Vo (2008) argued that missing from the rating agencies' purview is an assessment of actual conduct, decision making and ethics of the management group, which he argued could be assessed by a company-wide survey of employees. Clearly, these ratings agency approaches are directed towards public companies. Nonetheless the broad categories do offer insights into what those agencies consider are the categories to assess in evaluating good corporate governance practice. Sloan (2009) published the rating criteria from the Better Business Bureau, which offers guidance to US charity donors. The criteria covered four broad categories of:

1. **Governance and oversight** Described as 'a board of directors that provides adequate oversight of the charity's operations and its staff', and to this is added various prescriptions that are considered (by them) good practice, such as a certain structure, number of meetings per annum, limitations on remuneration
2. **Measuring effectiveness** Described as 'have a board policy of assessing, no less than every 2 years, the organisation's performance and effectiveness and of determining future actions required to achieve its mission, submit to the organization's governing body, for its approval, a written report that outlines the results of the aforementioned performance and effectiveness assessment and recommendations for future actions'
3. **Finances** Described as 'spend at least 65% of its total expenses on program activities, spend no more than 35% of related contributions on fund-raising

and avoid accumulating funds that could be used for current program activities'. This description is augmented with certain prescriptions concerning such things as the production of financial statements in accordance with accounting principles and having board approved annual budgets

4. **Fund-raising and informational materials** Described as 'have solicitations and informational materials, distributed by any means, that are accurate, truthful, and not misleading'. Again, this description is augmented with certain prescriptions concerning annual reports and disclosure of such matters as tax status, privacy policy and anticipated applications of donations (Sloan 2009, pp.231–2).

These all provide pointers to what could be regarded as good corporate governance and they should be valuable for not-for-profit board members to consider when assessing their own corporate governance practices.

In section 2.2 the corporate governance process approach was discussed. Epstein and Roy (2004) adopt a process approach and suggest metrics for boards. Appendix 1 provides a reproduction of their process approach. Briefly, the approach entails a set of metrics for inputs (independence, diligence, competence and ethics); processes (board structure, productive meetings, succession planning system, financial reporting and risk assessment systems, strategic information systems and performance evaluation and compensation systems); outputs (strategic guidance, accountable organisation and a highly qualified executive team); and outcomes (long-term financial success).

Clearly, all of the preceding works, to varying degrees offer guidance to practitioners on what might be appropriate performance measures to employ to improve the effectiveness of the boards' corporate governance activities. Some of the criteria mentioned above are clearly not appropriate for not-for-profit organisations. Chapter six onwards examines in greater detail some of the specific criteria and performance indicators mentioned above in conjunction with the other data sources employed in this thesis.

The next section considers the literature concerning technical aspects of developing performance indicators.

3.2.3 Technical issues of performance indicators

In chapter one a superficial definition of performance indicators was provided. There it was described as a ‘set of measures focusing on those aspects of organisational performance that are the most critical for the current and future success of the organisation’ (Parmenter 2007, p.4). This definition is fine, to a point; however, there are a range of technical and definitional issues concerning performance measures that require clarification and observation at this stage in this thesis.

According to Parmenter (2010, p.1) there are four types of performance measures:

1. Key result indicators tell you how you have done in a perspective or critical success factor
2. Result indicators tell you what you have to do
3. Performance indicators tell you what to do
4. KPI’s tell you what to do to increase performance dramatically.

Prior to discussing the difference between these performance measures, the first thing to note is that Parmenter (2010) described them all as *indicators*. Section 1.5.3 introduced the notion that the board’s measures be called indicators. A more robust argument for the term *indicators* follows.

Tovey (2001) stated that indicators are items to be measured. A better view is that an indicator can be basic or symbolic. An indicator is basic ‘if it is obtained as a direct observation of an empirical system’ (Francheschini, Galetto & Maisano 2007, p.56). If direct observation and measurement of the phenomena under study is possible, then clearly the measurement task is simplified. In social settings, such as boardrooms where the corporate governance phenomenon is not directly observable, the assignment of performance measures is more complex. Similarly, ‘performance’ may not usually be directly observable, where it is the outcome of some other function or activity. It is held here that indicators are the agreed measures by which performance is assessed.

However, where the phenomenon is not able to be directly observed it may be symbolic, that is, it represents a proxy to the unit or phenomenon being measured:

‘referring to the representation theory of measurement, an indicator can be considered as a ‘map’ from an empirical system (the real world) into a symbolic system (usually a numerical system)’ (Francheschini, Galetto & Maisano 2007, p.59). An indicator can also be derived ‘if it is obtained by the synthesis of two or more indicators’ (Francheschini, Galetto & Maisano 2007, p.61).

Irrespective of whether we are able to identify basic proxy or derived indicators, care must be exercised to ensure that the indicators do in fact measure what we think they are representing: ‘indicators that provide incorrect measures, which organizations then rely upon, are worse than not having the metric at all. Relying on the known fact that we have zero knowledge is far better than relying on knowledge that is assumed to be good but in fact is bad’ (Caddy 2002, p.80). This refers back to Poister’s (2003) definition above, where he imposes objectivity, which refers to existing in the real world and not biased. As this thesis is concerned with corporate governance, establishing validity of a social construct is problematic because these constructs are usually not directly observable and may be variously interpreted.

At the root of developing performance indicators is the concern for validity. In this context, validity is taken to mean that the indicator must be a fair representation or proxy of the phenomena being studied.

Validity can be considered in terms of levels as follows:

1. The first level or level one validity is achieved when the metric is valid from a first principles basis, meaning the there is an underlying logic to the measure.
2. Level two is achieved when the measurement scale is well understood including linear, exponential or logarithmic scales.
3. Level three is achieved when the metric allows valid comparisons with other internal measurement data, and finally
4. Level four is achieved when the metric allows comparisons with data from other organisations (Caddy 2002).

This thesis is concerned with effective corporate governance. It is also concerned (see section 2.3) with the board effectively fulfilling its function so the organisation can successfully achieve its purpose. Chapter two observed that corporate governance theory is emerging. It is noted in chapter 6 (section 6.2.2) that practitioners do not have an overarching corporate governance theory to guide them in carrying out their corporate governance actions. The complexity of not-for-profit organisations was noted earlier in this chapter. Thus judgement is required as to what constitutes effective corporate governance; such judgement is likely to be very specific to the particular circumstance of a board. See further discussion in this section, in the context of the Australian National Audit Office's (ANAO) recommendation of SMART criteria plus benchmarks and targets, on the assessment of appropriate performance indicators. A performance indicator that may otherwise appear to be valid, in accordance with the principles laid out by Caddy (2002), may not be valid unless the first of Caddy's (2002) criteria are strictly enforced. Put simply, the performance indicators must relate to the board effectively fulfilling its function in order that the organisation can successfully achieve its purpose.

The highest level of validation cited by Caddy (2002) was level four above, where indicators can be compared to other organisations. However, such comparison would require 'similar data gathering and data calculation procedures' (Caddy 2002, p.85) and deep levels of disclosure in order to avoid confounding issues. Caddy (2002) suggested that one way to lessen the requirement for deep level disclosure would be to establish commonly agreed standards of how the measure is calculated, 'similar to the international accounting standards' (Caddy 2002, p.85).

There is literature that deals with other aspects of performance indicator development beyond validity—matters that select particular performance indicators over others. Franceschini, Galetto and Maisano (2007, p.84) provide a useful taxonomy of indicator properties, based on the classification described in table 3-2 below.

Table 3-2 – Indicators properties taxonomy

Category	Properties	Short Description
General properties	Consistency with representation-target	The indicator should properly represent the operation aimed at making the context, for example, making corporate governance or parts of it 'tangible' in order to perform actions, such as modify behaviour or systems
	Level of detail	The indicator should not provide more than the required information
	Non counter-productivity	Indicators should not create incentives for counter-productive acts
	Economic impact	Each indicator should be defined by considering the expenses to collect the information needed
	Simplicity of use	Each indicator should be easy to understand and use
Properties of sets of indicators S=…Properties of derived indicators (…)	Exhaustiveness	The indicator should properly represent all the systems dimensions, without omissions
	Non redundancy	Indicators should not include redundant indicators
	Monotony	The increase/ decrease of one of the aggregated indicators should be associated to a corresponding increase/decrease of the derived indicator
	Compensation	Changes of different aggregated indicators may compensate each other, without making the derived indicator change
Accessory properties	Long-term goals	Indicators should encourage the achievement of process long-term goals
	Impact on stakeholders	For each indicator the impact on process stakeholders should be carefully analysed

Source: Franceschini, Galetto and Maisano (2007, p.84)

Table 3-3 – Caddy's 2002 non confounding general property

Category	Properties	Short Description
General property	Non confounding	The indicator should not mix 'effects due to different variables, which can make it look like there is a direct association' (Caddy 2002).

On closer examination Parmenter (2010) is concerned with indicators that influence outcomes and those which are historical, and he is just keen to avoid any confusion in attempting to apply the label 'lead' or 'lag' to an already derived indicator.

It was noted in section that 2.3 the process models all imply a time element so plainly lead and lag are relevant considerations in the setting of performance indicators. This is discussed further in this section in the context of SMART characteristics, depicted in table 3.4 and discussed below.

The literature identifies other concepts that may be useful in establishing board performance indicators including:

1. Shahin and Mahbod (2007, pp.227–8) observed that 'little has been done to design a standard method in prioritizing key performance indicators' and found that 'the set of criteria most often referenced is SMART (Specific, Measurable, Attainable and Aggressive, Realistic and result orientated and Time sensitive)'.
2. The Australian National Audit Office (ANAO) recommends the usage of SMART criteria plus benchmarks and targets. Reproduced at table 3-4 is material which the ANAO published to explain SMART criteria.

Importantly, the inclusion of Benchmarks and Targets adds the important dimension of performance standards. Common in education literature, a performance standard seeks to attribute judgement concerning the appropriate standard and the achievement of that standard. Without this inclusion, users of performance indicators, particularly in a corporate governance setting will have difficulty assessing the achievement of a performance indicator and further have difficulty in seeking continuous improvement of the phenomena being measured.

Table 3-4 – Extended SMART criteria characteristics

<table>
<tr><th colspan="3">Underpinning characteristics of KPIs</th></tr>
<tr><td>Specific</td><td>Clear and concise to avoid misinterpretation of what is to be achieved</td><td rowspan="5">The five characteristics are known collectively as ‘SMART criteria’</td></tr>
<tr><td>Measurable</td><td>Can be quantified and results can be compared to other data and able to show trend if measured over time</td></tr>
<tr><td>Achievable</td><td>Practical, reasonable and credible, given available resources and expected conditions</td></tr>
<tr><td>Relevant</td><td>Informative and useful to stakeholders having regards to the context in which the entity operates</td></tr>
<tr><td>Timed</td><td>Specifies a timeframe for achievement and measurement</td></tr>
<tr><td>Benchmarks</td><td colspan="2">Reference to appropriate standards for comparison where possible</td></tr>
<tr><td>Targets</td><td colspan="2">Includes an indication of the desired level of achievement</td></tr>
</table>

Australian National Audit Office (2011, p.45)

A report by the ANAO into the development and implementation of key performance indicators (Australian National Audit Office 2011) makes an interesting observation that is relevant to this thesis: roughly half of the programs assessed failed to satisfy that SMART criteria. If arguably highly resourced, at least in comparison to not-for-profit organisations, government organisations cannot satisfy SMART criteria, and under-resourced not-for-profit organisations are likely to find this extremely challenging.

The concept of timing was previously alluded to at section 2.3 in the context of process models and in this section in the context of lead and lag. Indeed, the characteristics of timing, relevancy and targets are often problematic for not-for-profit organisations especially as it relates to program outcomes. However in a corporate governance context such characteristics ought to be less difficult concepts except as they relate to organisational performance. Boards ought to be capable of setting relevant, timed and targets for themselves.

Nonetheless, the concept of SMART criteria discussed in points one and two above, is relatively well understood.

3. Schneier, Shaw and Beatty (1992, p.283) list the following important matters to be borne in mind when developing performance measures:

   a) signalling what to measure
   b) determining appropriate ways to measure
   c) fixing accountability for performance on the measures.

4. Walsh (1996) also proposes that performance indicators should satisfy the following conditions:

   a) not too few, not too many – typically between 6 and 10 major corporate indicators
   b) avoidance of 'turf protection'
   c) relevant to all people.

These four concepts above provide acuity to the measures. Points three and four are valuable because they go to the human dimensions such as fixing accountability and avoidance of turf protection. Point four above is supported by point five below.

5. Kaplan and Norton (1996) and Parmenter (2010) on the subject of introducing key performance indicators into organisations mostly recommend using such tools in the context of improving the whole organisation. They suggest in the order of 10 key performance measures for the whole organisation. Parmenter (2010, p.6) defines key performance indicators as having seven characteristics comprising the following that:

   i. 'are non-financial measures
   ii. are measured frequently
   iii. are acted on by the CEO and senior management team
   iv. clearly indicate what action is required by staff

v. are measures that tie responsibility down to a team
vi. have a significant impact and
vii. encourage appropriate action.'

Given this definition, it would seem unlikely key performance indicators which are associated mainly in the domain of board activities satisfy those seven characteristics, particularly characteristics ii, iii and iv. They are thus more likely to be performance indicators as distinct from 'key' indicators.

If the contributions by various authors discussed in the last few pages were adopted and placed into the format adopted by Franceshini, Galetto and Maisano (2007) in table 3-2, the indicators property taxonomy presented at table 3-2 would be extended by that presented in table 3-5.

Together table 3-2 and table 3-5 provides a very comprehensive checklist guiding the persons wising to select optimal performance indicators.

Table 3-5 – Extension to Franceschini, Galetto and Maisano (2007) taxonomy table

Category	Properties	Short Description
General property	Non confounding	The indicator should not mix 'effects due to different variables, which can make it look like there is a direct association' (Caddy 2002)
General properties	Consistency with representation target	
	Level of detail	
	Non counter-productivity	The indicators should avoid 'turf protection' (Walsh 1996)
	Economic impact	
	Simplicity of use	
Properties of sets of indicators S=…Properties	Exhaustiveness	
	Non redundancy	Consideration of SMART (Specific, Measurable, Attainable and Aggressive, Realistic and result orientated and Time

of derived indicators (…)		sensitive) principles should be considered (Shahin & Mahbod 2007, p.227) There should be an appropriate number of indicators – not too few, not too many – • typically between 6 and 10 major corporate indicators (Walsh, 1996) • Typically in the order of 10 key performance measures for the whole organization (Kaplan & Norton 1996; Parmenter, 2010)
	Monotony	
	Compensation	
Accessory properties	Long-term goals	‘Key result indicators [should] tell you how you have done in a perspective or critical success factor Result indicators [should] tell you what you have to do Performance indicators [should] tell you what to do KPI’s [should] tell you what to do to increase performance dramatically’ (Parmenter 2010, p.1). The indicators should be directed to improving the whole of the organization (Kaplan & Norton 1996; Parmenter, 2010)
	Impact on stakeholders	The indicators should fix accountability for performance on the measures (Schneier, Shaw & Beatty 1992, p.283)

		The indicators should be relevant to all people Walsh (1996)

What can be seen from the above commentary is that there are many aspects in the determination of performance indicators, which the various authors argued must be or at least should be considered. Apart from the fact that any particular performance indicator may struggle to meet the taxonomy presented by a combination of table 3-2 and 3-5 and high levels of validity discussed at the outset of this chapter is the issue that corporate governance is a social phenomenon. The fact is, however, that in a corporate governance setting, generally it is not possible to directly observe the phenomena. This goes to the heart of the need to have consistency with the representation target. Instead, there is a reliance on proxy measures, which makes for a complicated and difficult performance indicator setting. Put another way, corporate governance cannot be seen because it is a complicated social construct open to a variety of interpretations in a variety of settings; this means one is required to agree and measure phenomena that are aspects of the social construct.

It has been established that performance indicators are objective, quantifiable measures of the performance of an activity and they are usually designed to track a particular dimension of performance, such as effectiveness, quality, customer satisfaction and cost effectiveness (Poister 2003). Quantifiable can include binary, which the Macquarie dictionary defines as 'using, involving, or expressed in the binary number system'. Binary may be relevant where statements of action or fact are the most appropriate performance indicators. It has also been established that the literature entertains notions of various levels of validity or objectivity. Clearly, the indicators developed by the not-for-profit organisation, or utilising the methodology proposed by this thesis in chapter seven, need some level of validity. The question then becomes how much validity is appropriate? Put another way, we are faced with the question 'to what extent should we satisfy the other levels of the validity and taxonomy discussed above?' It was noted in section 1.5.3 by the AICD (2006), Carter and Atkinson (2006) and De Lacy and De Lacy (2004) that it may well be preferable to keep the solution as simple as possible. On the flip side the AICD (2006, p.4) cautioned the use of generic materials manifested in 'box ticking and ratings done for conformity'. The next section will focus more specifically on performance measurement in a corporate governance setting.

3.2.4 Board performance indicator development

In the previous section the definitions and issue of validity and taxonomy generally around performance indicators were examined. This section considers the practical and pragmatic issues associated with establishing performance indicators for a board's corporate governance activities.

What is evident from the literature presented in both this chapter and the previous chapter is the potential difficulty in arriving at objective notions of performance for board's activities because:

1. not-for-profit organisation performance is often not easily judged or measured
2. the nexus between the not-for-profit organisation performance and the boards performance is often not clearly established
3. the factors and activities of an effectively performing board and indeed the notion of corporate governance is continually developing, thus resulting in effective not-for-profit organisation performance which is varied, multifaceted and difficult to measure.

Perhaps the first issue to consider when developing such performance indicators is the question of who should establish them. There are two schools of thought as to who can best establish the measurement criteria. On the one hand, it may be argued that external experts are the only ones with sufficient objectivity and expertise. On the other hand, it may be argued that only the board itself is capable of comprehending and understanding the range of factors impacting on its own performance. The protagonists for the experts argue that boards generally think they are doing a good job. If they did not, they would do something about it, thus the criteria against which they will choose to be assessed will be inadequate. Clearly, it is possible to combine the approaches and the approach that the present researcher favours: an external person facilitating the board to establish its own performance criteria.

The previous section noted the range of views in defining performance indicators and their various guises. A decision at some point in time needs to be made as to the extent of the adherence to such taxonomies that shall be imposed. This decision is likely to be made by the external person, the board itself, or a combination of both.

Having decided who will take the key decisions in the establishment of such performance indicators, the next decision is the methodological approach to be carried out in developing them. Walsh (1996, p.511) made the general observation in 1996 that 'current approaches to key performance indicators tend to be constructed in a "piecemeal fashion", lacking an integrating framework'. Some approaches appear unplanned and accidental, emanating from:

- outcome measurement – an approach that seeks to satisfy users, such as managers, investors, etc. needs for indicators by which to judge performance, described by Walsh as 'edicts from above'
- quality systems – an approach driven from the quality systems movement of measuring input and outputs.

For those authors who advocate a more deliberate approach to the construction of performance indicators, many have advocated that these indicators should be aligned with the strategy of the organisation (The Society of Management Accountants of Canada 2002; Kaplan & Norton 1996; Tovey 2001; Wall & Martin 2003). They should at least have an eye to the organisation's strategy (Epstein & Roy 2004). Tovey (2001) said that performance indicators are developed from critical success factors identified in the organisation's strategic and operational plans. It is accepted that strategies are 'the means by which an organisation has decided that its aims can be achieved' (Otley 1999, p367). There can be little doubt that the development and implementation of strategies is an important source in setting a board's performance measure. Beyond factoring in strategy, there is, however, a range of views expressed on what other grounds performance indicators should be based. The literature variously suggests that the strategy dimension ought to be coupled with either a critical success factor approach or processes approach.

The critical success or key results approach establishes measures focusing on the factors or areas that are most crucial for the continued success of the organisation

(Parmenter 2007; Schneier, Shaw & Beatty 1992; Tovey 2001). Similarly, The Society of Management Accountants of Canada (2002) sought to identify key success factors. Walsh (1996) observed that outcome based measures are lag indicators and they are difficult to manage without understanding the factors influencing them. Walsh (1996), whilst not objecting to the inclusion of outcome measures, stated that the focus of improvement efforts should be on the drivers. Further, he argued that these can be identified by examining the processes that influence the desired outcome. It has been previously acknowledged that corporate governance is a system; therefore it would seem logical that at least some of the critical success factors or key result areas may be process related. This view implies that business processes ought to be identified before performance indicators are developed, and that those performance indicators should be aligned primarily with processes (Zwikael & Globerson 2006) or traceable to key business processes. Thus each key business process should have at least one key performance indicator (Walsh 1996). Implicit in this approach is the concept of program logic models where a logical model of an actual process is derived (Poister 2003).

The Productivity Commission (2010) in its most recent study of contributions in the not-for-profit sector proposes a measurement framework which is consistent with a process view of corporate governance (see section 2.3) and depicted in figure 2.3. This approach adapted from the United Way of America (1996, p.11) called for the consideration of program logic and proposed eight non-sequential steps to developing a system for measuring program outcomes, which are:

- get ready
- choose the outcomes you want to measure
- specify the indicators for your outcomes
- prepare to collect data on your indicators
- try out your outcome measurement system
- analyse and report your findings
- improve your system
- use your findings.

The Society of Management Accountants of Canada (2002) also identified elements bringing into play a board's activities, effectively acknowledging the role process plays. This thesis has introduced a range of perspectives from which one can approach developing performance indicators, which include being planned, incorporating strategy, critical success factors, key result areas and processes. No doubt each of these approaches would deliver different performance indicators. Given the infancy of board performance indicator theory and research, none of these approaches has been proven superior to any other; it is no wonder then that some practitioners look to a range of indicators.

A discussion of development approaches for performance indicators would be bereft without examining Balanced Scorecard categories, which attempt to achieve:

> …balance between external measures and for shareholders and customers, and internal measures of critical business processes, innovation, and learning and growth. The measures are balanced between outcome measures – the results from past efforts – and the measures that drive future performance (Kaplan & Norton 1996, p.10).

Similarly, Epstein and Roy (2004, p.2) advocated 'careful attention to both inputs and process', but also output and outcome, and they developed an approach from, amongst other things, existing, corporate governance codes. Of course, such an approach assumed that the structural imperatives built into the prevailing corporate governance codes were valid and complete.

Performance metric luminaries, Kaplan and Norton (2006, pp.200, 208), observed the 'emerging new application' of using the Balanced Scorecard by boards of directors to enhance corporate governance processes, describing the approach as 'novel'. Kaplan and Norton (2006, p.200) advocated using Balanced Scorecards for board annual performance assessment. According to these authors 'the use of the Balanced Scorecard by boards of directors is an emerging new application, although one that [they] feel will increase over time'. Walsh, Lok and Jones (2006, p.3) argued that the Balanced Scorecard drove a recent transformation in performance management, which is founded on the belief that 'measurement drives behaviour' and 'key performance indicators are needed to focus all the individuals in an organisation on the vital aspects of its operation'.

Interestingly, the policy corporate governance advocate Carver (2001) cautioned boards in adopting specifically the Balanced Scorecard as a tool for their own assessment, due to the categories that too closely mimicked management rather than corporate governance. Carver's (2001) caution seemed to apply to the areas evaluated by the Balanced Scorecard rather than directed at performance indicators generally.

In section 3.2.3 the matter of performance standard was outlined, that is judgement concerning the appropriate standard and the achievement of that standard. In this regard decisions discussed earlier in this section, concerning who should establish the measurement criteria, what level of taxonomy is required and the method used to establish the performance indicators are critical. Finally and similarly to the issue of performance standards, the concept of a necessary but not sufficient condition needs to considered; for example, it is necessary to attend board meetings but that alone is not sufficient because one needs to be prepared, engaged and contribute to these meetings. Given the complexity of corporate governance, corporate governance practitioners must be mindful of the adequacy of any corporate governance performance indicators selected and the limitations inherent in such performance indicators.

3.3 Derivation of the thesis: Connecting themes

In the first three chapters this thesis has canvassed the almost universal recognition of the need for performance appraisals. The intersection of corporate governance (activities or system) and the establishment of performance indicators is where this thesis is located. In chapter two, the amorphous concept of corporate governance (which could be holistic, focused on board roles and critical success factors, strategy or systems approach) was reviewed. This chapter explores the complexity of both not-for-profit organisations and performance measurement including performance indicators.

It was previously noted that the AICD (2006) and others caution practitioners in not overly complicating the performance evaluation process in contrast to the discussion which calls for high levels of validity. The unanswered question is: What is best? Simplicity may be fine to start with, if that is the best that a particular board can achieve at that particular time, given that the performance management exercise is a journey of continual improvement. However 'simple' may not be the eventual destination.

The literature is interpreted to mean that approaches available to the board for establishing its performance indicators can be based on:

a. an unplanned approach
b. an approach underpinned by strategy
c. critical success factors
d. board roles
e. a corporate governance systems approach
f. a balance or combination of these.

This thesis will consider these approaches and deliver a proposed approach to determining performance indicators in Australia in chapter seven.

3.4 Chapter summary

This chapter examined the characteristics of not-for-profit organisations with particular emphasis on those characteristics which impact effective corporate governance in not-for-profit organisations, namely the varied purpose and size together with the impact of volunteers and the nature of not-for-profit boards. The chapter then examined the performance indicators evident in the literature and the technical aspects to be applied to the development and use of such performance indicators. Finally, this chapter linked with previous chapters, noting the vague nature of corporate governance, the complexity of not-for-profit organisations, the calls for validity in performance indicators and summarised the available approaches to establishing performance indicators evident in the literature. It is now appropriate to consider, by way of direct research, some of the unique characteristics of establishing performance indicators for corporate governance activities of boards. The following chapter will outline the research approach and methodology used in this thesis.

CHAPTER 4: RESEARCH METHODOLOGY

Chapters one to three considered the literature covering corporate governance theory, not-for-profit organisations and performance measurement and indicators. This chapter provides an overview and discussion of the eight elements Veal (2005) describes in the research process, effectively describing how the research questions will be addressed. In doing so, a justification of the research methodology will be provided. In summary the research adopts a hybrid grounded theory approach with a multi-layer approach to available data. This data comprises interviews with experts, an action research study and an analysis of published annual reports, and will be considered both separately and together.

4.1 Overview

Research may be pure or fundamental academic research, governed by theoretical disciplines (Veal 2005), aiming to generate a body of knowledge (Sekaran & Bougie 2010). However, there is also applied research, which focuses on a practical aspect of business (Sekaran & Bougie 2010; Veal 2005). The objective of this research is to investigate corporate governance effectiveness in not-for-profit organisations by studying, developing and identifying the sorts of performance indicators of corporate governance used in the whole not-for-profit sector. Whilst empirical evidence is used, the research is primarily applied research.

This thesis does not have any formal hypotheses, although it owes much to the BICF (Nicholson & Kiel 2004) as a basis for examining the literature and for the researcher's thinking. Various writers such as Collis and Hussey (2003), Huberman and Miles (2002) and Yin (2003) have stated such applied research studies may have a legitimate reason for not having any propositions or theories to test. This thesis did not take the route of examining hypotheses but rather took an inductive approach to establishing conceptual propositions by examining the theories, models and research on corporate governance performance indicators to help create a more holistic appraisal of effective corporate governance. Glaser and Strauss (1967) stated that conflict is created when researchers do not clearly and consciously state which of *theory verification* or *theory generation* is to have the greater emphasis in their research. The inductive approach taken in this thesis will assist in theory generation with respect to corporate governance in the not-for-profit-sector. Veal (2005, p.4) identifies three types of research:

- Descriptive research – finding out, describing what is, but not necessarily to explain
- Explanatory research – explaining how or why things are as they are (and using this to predict demand, sales, impacts, etc.)
- Evaluative research – evaluation of policies, strategies, programs and practices.

As outlined in the first three chapters, there is very little data in the public realm on this topic. If we are to categorise the research in this thesis using Veal's (2005) three types, it would be described as descriptive, particularly in its early stages, including the literature review and interviews with experts involved with various not-for-profit entities, where the research seeks to describe contemporary corporate governance practice in not-for-profit organisations.

Hussey and Hussey (1997) add exploratory research, which concentrates on gathering a wide range of data and impressions, and rarely provides conclusive answers to problems or issues but gives guidance on what future research should be considered. Hussey and Hussey (1997, p.10) stated that exploratory research is used when 'there are very few or no earlier studies to which we can refer' and such research is aimed at looking for 'patterns, ideas or hypotheses, rather than testing or confirming a hypothesis'. In this sense, the research in this thesis, particularly in the latter stages, is exploratory. It seeks to uncover phenomena (performance indicators in this case) or at least aspects of those phenomena, which have not previously been revealed. It draws from a variety of data sources to try to find out the applicable performance indicators and the process for determining them. The thesis uses four individual data collection sources as follows:

1. Literature review
2. Semi-structured interviews
3. Action research study
4. Annual report review.

In effect, the thesis employs a hybrid, grounded theory approach for the analysis of data. In 1967, Glaser and Strauss conceived a methodology that has been subject to much remodelling and adaptation since (Simmons 2010). Notably Glaser and Strauss each went in distinct directions after the original collaboration in 1967 (Bryant and Charmaz, 2007). This is very evident from Glaser's robust critique (Glaser 1992) of the publication of Strauss and Corbin's work *Basics of Qualitative Research* (1990). Nevertheless, grounded theory is 'currently the most widely used and popular qualitative research method across a wide range of disciplines and subject areas' (Bryant & Charmaz 2007, p.1).

Grounded theory method, as defined today has two central features, 1/ it is the development of theory out of data, and 2/, it is iterative, cycling through examining the data, formulating conclusions, back to re-examine the data in the light of the conclusion, until no new information about the subject emerges also known as "theoretical saturation" (Sekaran and Bougie 2010). This research leant on the guidelines, advice and perspectives prided by Charmaz (2006, p.xi) who says her version of 'grounded theory returns to the classic statements of the past century and reexamines [sic] them through a methodological lens of the present century'.

Put simply, there are four lines of inquiry or data sources in this thesis that seek to answer the two research questions.

1. The data and subsequent analysis provided an examination of performance indicators for effective not-for-profit organisations whence conclusions can be drawn concerning the first research question.
2. The data and subsequent analysis provided a proposed process for determining performance indicators for effective not-for-profit organisations; whence conclusions can be drawn concerning the second research question.

Figure 4.1 depicts the research framework for this thesis and outlines each of the lines of enquiry, which lead to addressing the two research questions, outlined in chapter one and further discussed in this chapter.

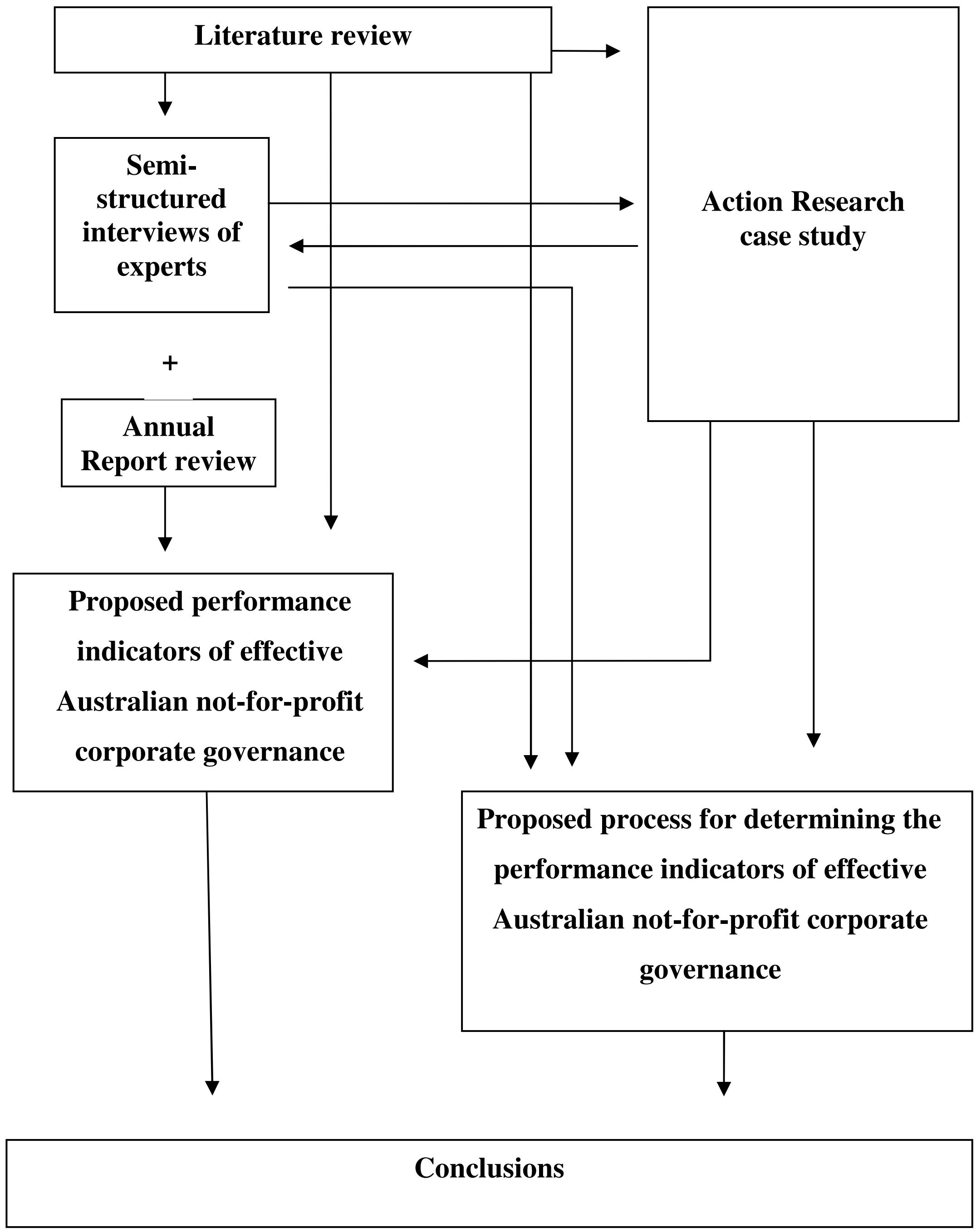


Figure 4.1 – Research method outline diagram

Having provided an overview of the philosophy of the research and a diagram of the research framework, this chapter considers in greater detail the elements of the research process. Veal (2005) stated as previously mentioned that the research process can be divided into eight elements encompassing: select topic, review literature, devise conceptual framework, decide research questions, list information needs and operationalise, decide research strategy, conduct research and report findings. Whilst

Veal (2005) observed that the first four elements are rarely sequential, there is logic in discussing why this topic was selected.

4.2 Rationale for topic selection

The selection of the topic *effective corporate governance in not-for-profit organisations* was largely driven by an interest, piqued by the researcher's experience with what he regarded as ineffective corporate governance in not-for-profit organisations. It should be noted that this experience dated back before his employment with Bicycle Victoria Incorporated. He had seen firsthand not-for-profit boards that were ignorant of their roles and duties and therefore failing their constituency, which is often the community at large. This was compounded by the fact that research in the discipline of corporate governance is still emerging and therefore unclear. It provided both the rationale and a research gap in which to place the current thesis.

In dealings with individual board members, it was evident that they were generally men and women of good intent but they were often bewildered by the roles that they had taken on. If they were not bewildered, they often misconstrued at least some aspects of their role. Performance assessment and management is the common approach used by organisations to bring about improvement. This generally involves setting performance targets, measuring results and instigating some change activity where performance is thought to be lacking. The provision or development of performance indicators was seen by the researcher as a way of both educating board members about their roles and better board outcomes. An obvious place to attempt to better understand a topic is by searching the literature.

4.3 How the literature was reviewed

There is a considerable volume of literature on the topic of corporate governance. In the first instance the researcher's review of the literature was too wide ranging and non-specific; however, as the thesis started to take shape it became more targeted, eventually seeking to focus on the specific phenomena of performance indicators for corporate governance activities. As previously stated in chapter two, the wide ranging literature revealed there is no commonly accepted corporate governance paradigm.

The focused review of literature revealed scant material on board performance assessment and virtually nothing on the establishment of performance indicators applicable to a board's corporate governance activities. This thesis illuminates an area where after a thorough literature search no other such studies have been found. As the later chapters, particularly chapter six of this thesis will reinforce, the phenomena of performance indicators for corporate governance activities is relatively new.

The literature review provided the background to examine the main concepts and themes of corporate governance in not-for-profit organisations, and it was used to facilitate semi-structured interviews with corporate governance practitioners discussed at section 4.8.1. In addition, where identified in the literature, evidence of the usage of performance indicators in organisations was incorporated into the findings and conclusions, for instance, the sample performance indicators put forward by Epstein and Roy (2004) were considered.

A review of the literature has revealed not only that data is scarce but that boards are reluctant to provide access to their inner workings (Chait, Ryan & Taylor 2005). This reluctance partly explains the paucity of empirical literature. The paucity of data provides an imperative to use every effort to gain access to boards, with their permission and with clear undertaking of privacy. The drawback to being involved is that it might imply both bias and pressure to come to a particular conclusion. This is to be offset by the researcher being an independent scholar responsible to the university, and to openness, and to gaining access to some data that would otherwise be unavailable. It is argued, however, that such an advantage outweighs the drawbacks.

As discussed in chapter two, the general literature review revealed the BICF proposed by Nicholson and Kiel (2004), and this framework resonated with the researcher. However, the BICF is not at this stage a universally accepted and authoritative corporate governance theory, but to the researcher's mind, it is a useful basic framework from which thinking about corporate governance and its elements can take place.

4.4 Conceptual framework

A conceptual framework enables the researcher to identify the factors and their relationship to each other (Nicholson & Kiel 2004; Veal 2005). As stated in the first chapter the overarching aim of this thesis was to examine corporate governance effectiveness in not-for-profit organisation. It was hoped this would be achieved by identifying performance indicators of effective Australian not-for-profit corporate governance.

At a basic level the conceptual framework could be described as simply the critical activities that a board undertakes to determine its effectiveness. This can be extended by utilising a framework for examining board activities. The BICF proposed by Nicholson and Kiel (2004) was adopted as the basis for such an examination. Initially this was used as a conceptual framework to order the phenomena revealed in the data collection. The framework was not presented as a hypothesis to be proven or disproved, but rather as a model for ordering phenomena and as a basis for initial coding as discussed in section 4.8.

To overcome the inherent limitations associated with using such a framework, which has not been empirically tested or accepted, the broadest definition of the framework factors or constructs, such as organisational type, cultural capital or external environment, were applied by the researcher so as not to limit the scope of the thesis. These factors were loosely matched to those in the BICF (Nicholson & Kiel 2004) to avoid discounting data that did not appear to be relevant because the data did not neatly fit into the BICF (Nicholson & Kiel 2004). This *laissez faire* approach enabled any new factors (or constructs) influencing corporate governance behaviour to emerge during the research for inclusion and consideration. Later in this chapter, under the heading Operationalisation, the coding of the data based initially on the BICF will be discussed.

4.5 What are the research questions

As noted in section 4.3, the literature review revealed virtually nothing on performance indicators applicable to not-for-profit board corporate governance activities and a general reluctance by boards to provide access to their inner workings

(Chait, Ryan & Taylor 2005). The research questions emanated from this evident knowledge gap and the researchers desire to understand the phenomena.

As stated in chapter one, the key research question in this thesis is: What are the performance indicators of effective Australian not-for-profit corporate governance? During the course of the study the answer to the initial research question led to a second major research question: What is the process for determining the performance indicators of effective Australian not-for-profit governance?

These research questions provide pointers to the appropriate type of research methodology to employ (Dawson 2009). According to Yin (2003, p.7) the 'first and most important condition for differentiating among various research strategies is to identify the type of research question being asked'.

In this thesis it can be seen that the research questions are 'what' questions. Yin (2003) argued that 'what' questions, which are exploratory as the research questions in this thesis are, may be examined by any of the available research strategies.

4.6 Operationalisation

According to Veal (2005, p.59) 'Research questions or objectives should give rise to a list of information needs'. As previously stated, data enabling the answering of the research questions is not widely available. The difficulty in accessing data, due to the board's reluctance to provide access to inner workings, coupled with time constraints, could have placed serious limitations on the thesis. It is held, therefore, that limited data is available for this thesis, and so it is necessary to gather additional data from other various available sources.

This limitation was only overcome by the unique position that the researcher was in—having intimate access to a working not-for-profit board that not only wanted to continually improve its own corporate governance performance—but also embraced the logic of developing its own performance indicators. Access to the action research study organisation was truly unique; this was enabled by the present researcher's personal circumstances, as he was employed by and directly involved in the exercise by that board in establishing its own performance indicators. This access was unique because there is not much evidence of not-for-profit boards establishing performance indicators of their own corporate governance activities, generally, and none where open access was afforded to researchers.

Another source of data that is accessible is interviews with corporate governance experts. The researcher's personal network was used to access consultants and practitioners operating in the field for semi-structured interviews, and again subsequent chapters report on how these sources helped answer the research questions. One readily available source that provides some insight into the workings of boards is published annual reports, and whilst the information provided is limited, these publications were included.

The various data sources were triangulated to attempt to provide validity to the conclusions, but nonetheless, access to the data meant that the research, and therefore the conclusions, was confined to a narrow and specific set of organisations. These would best be described as Australian not-for-profit organisations of sufficient size with the resources to employ staff and or consultants and have a web presence.

From these considerations there is a need to explain the research strategies.

4.7 The research strategy employed

This thesis has so far sought to argue the following premises:

1. Corporate governance is a complex social phenomena
2. There is no accepted theoretical base but rather notions of corporate governance are developing
3. The availability and access to data is limited
4. This research is primarily descriptive or exploratory
5. Any of the available research methods may be used to answer the research question posed in this thesis.

In designing the research, the main task was to explore and describe the subject, because as previously stated the research is descriptive and exploratory in nature, and there is not a great deal of extant knowledge that has surfaced. A recursive and semi-structured methodological approach utilising a range of empirical data and analysis methods was therefore used. This allowed for a richer provision of data and greater understanding by the researcher of the phenomena. The semi-structured approach included accessing secondary and primary data sources.

4.8 How the research was conducted

In this thesis data collection and analysis proceeded simultaneously. Data was initially coded and memos were drafted concerning phenomena observed. From this further analysis and focused coding took place and this was compared to the other data sources, resulting in some re-examination of the data, initial codes and focused codes. The coding was not conducted using software rather it was coded manually and, as proposed by Charmez (2006) the initial coding was conducted quickly and spontaneously, the codes fitted the data and were simple. Again, as proposed by Charmaz (2006) the focused codes were derived from the initial coding using the most significant and frequent codes but sometimes they were modified to capture the essence of the phenomena observed.

A recurrent iterative data gathering and data examination approach was used, as issues, themes or knowledge emerged, and these led to further questions and examination of the data. This thesis used a process of discovery that allowed the answers to the major research questions to be made in evidence. It utilised various data sources in an endeavour to use the technique of induction, by observing the same phenomena in the different data sources to construct a general theory. In inductive research 'general inferences are induced from particular instances' (Hussey & Hussey 1997, p.13). A modified, grounded theory approach is adopted; however the initial investment of conceptualisation owes much to the BICF (Nicholson & Kiel 2004) as a point of departure. This thesis collected both primary and secondary data from multiple sources and these are discussed below.

The primary data was obtained from two empirical data collection approaches, comprising interviews with corporate governance experts and action research. The next section will deal with interviews.

4.8.1 Interviews

As mentioned earlier, the researcher has an in-depth understanding of the not-for-profit sector having worked in senior roles in that sector for 12 years. During that time he developed an extensive professional network. An initial pool of 16 candidates considered by the researcher to be leaders in their respective fields and who were personally known to the researcher were identified in 2009; this list was expanded as the research progressed and as new contacts were made by referrals. It was decided to interview people who were highly knowledgeable in the not-for-profit sector generally, but who could also provide specific perspectives and expertise obtained from the affiliated roles they held in:

1. Academia—experienced in all types of not-for-profit organisations in all Australian states and territories
2. Consulting—experienced in all types of not-for-profit organisations in all Australian states and territories
3. Legal Practice—experienced in all types of not-for-profit organisations in all Australian states and territories
4. Executive management—experienced in most types of not-for-profit organisations in predominantly eastern seaboard Australian states and territories
5. Chairperson of the board—experienced in most types of not-for-profit organisations on predominantly eastern seaboard Australian states and territories.

This mix of perspective and expertise was thought to provide a rounded and complete reflection of all aspects of not-for-profit board corporate governance activities. In any research the collection of data must be efficient, and by using interviewees with significant experience, this reduced the need to interview more widely. The selection of interviewees was made having regard to the specific skill and perspective that each interviewee brought. The rationale for only 5 interviews was because of time limitations and availability of persons of such expertise and perspective. All those interviewed were highly regarded in their field by there peers and the researcher. All interviews were conducted from late 2009 through to 2011. As well as the formal interviews (discussed below), pilot interviews and discussions were also conducted, they were not recorded and were unstructured, serving to assist the present researcher to develop the semi-structured questions used in this thesis.

Semi-structured questions for interviews with corporate governance practitioners were derived from the literature review, but also from other data sources. A recurrent iterative approach was used as issues, themes or knowledge emerged, and these led to further questions. A copy of a later iteration of semi-structured questions is available in appendix 3.

All interviews were conducted with the aid of semi-structured questions, but these served only as a guide to the conduct of the interview, allowing interesting and relevant themes to be uncovered. All interview subjects were provided with the Victoria University Ethics Committee approved information sheet and formal written consent was obtained (see appendices 4 & 5); importantly, this provided that no information would be attributed to individuals but that rather it would be summarised and incorporated into the findings. By seeking common themes running through interviews, it was possible to draw conclusions concerning the topic area. All interviews were digitally recorded and the present researcher made contemporaneous handwritten notes; a written transcript was made available to interviewees.

The first interview was with an academic who was familiar with not-for-profit organisations and corporate governance theories, including the BICF (Nicholson & Kiel 2004).

The second interview was with a consultant who had experience working with over 5,000 not-for-profit organisations in Australia over the past 21 years.

The third interview was with a lawyer and barrister specialising in the law for not-for-profit organisations in excess of 20 years, and has worked with somewhere between 300 and 500 not-for-profit organisations; he also serves on the board of directors for a large peak body in the not-for-profit welfare sector.

The fourth interview was with an experienced senior executive with 15 years' experience in the not-for-profit sector, obtained in six separate not-for-profit organisations. Her recent chief executive officer roles included a charity and a not-for-profit peak association whose members have close links to the not-for-profit sector. In that role she engaged with approximately 300 individual not-for-profit organisations.

The final interview was with an experienced not-for-profit board member and chair. He has served on 16 different not-for-profit organisation boards and committees over 44 years, in many cases as the chair or deputy chair. In addition to this, his human resource consulting work has allowed him to work with over 600 not-for-profit organisation clients over the past 20 years, advising boards and recruiting board members, chief executive officers and general managers.

In addition to interviews the other primary data source was the action research study, focusing on Bicycle Victoria Incorporated. As noted in section 4.6, the action research study board was the researcher's employer.

4.8.2 Action research study

The action research study was another source of primary data for this thesis as it enabled a full variety of methods and observation of phenomena. Participant action research is where the researcher is involved in actively participating with a group of people to improve a situation, sometimes using a variety of research methods (Dawson 2009). As noted in sections 1.3 and 4.2, access to the inner working of boards is difficult to acquire, in this case study however access was granted but on a strict condition of confidentiality. This was required by the case study organisation (see appendix 13) and was a condition of the approval provided by the Victoria University Human Ethics Committee approval. In this case study the case study organisation obtained a set of performance indicators that apply to its corporate governance activities and the researcher was able to conduct this research. Confidentiality, in this case was provided by the non disclosure of those actual performance indicators. Anonymity (or de-identifying) the organisation would not achieve the required need for confidentiality because of the researchers well known and long standing connection to the organisation. Equally, an embargo would not overcome issues of a large membership base with small elements hostile to board members who they see as not ensuring that strategic priority is applied to single issues that may concern that small group. The lack of publication whilst somewhat limiting is overcome by the triangulation of the findings with the literature, semi structured interviews of experts and an annual report review.

This action research involved the researcher being personally involved in the research, constantly evolving understanding of the phenomenon being studied and acting iteratively—the research was not driven by a dogmatic plan. Rather the researcher conducted the data gathering, while at the same time revising his understanding, and guided the thesis accordingly. According to Veal (2005, p.125) 'this iterative process results in what Glaser and Strauss (1967) termed grounded theory.' In the social research paradigm, the researcher is seen to be part of the research process (Veal 2005, p.24).

Such participant observation provides the researcher with unusual opportunities to gain access to events or groups otherwise inaccessible and provide an opportunity to perceive reality from the inside; however, the major problem from such studies is the potential biases produced (Yin 2003). To overcome this bias the researcher adopted the three principles recommended by Yin (2003) to establish construct validity and reliability. Multiple sources of evidence were collected where possible (as noted above), the action research study database was created and a chain of evidence was maintained.

During the course of the action research study, the researcher was actively involved in all stages of the development of performance indicators by the Bicycle Victoria Incorporated Board; he attended all the significant meetings between the Consultant, Board Chair, CEO, the Board Committees and the Board itself: in total 19 meetings spanning 30 months. The researcher was the main liaison between the Consultant and as Board Secretary, managed the carriage of the matter through the Bicycle Victoria Incorporated Committees and Board. A trade off, of sorts was that in return for permitting and encouraging the researcher to carry out this research the case study board benefitted by developing a better understanding its role and by receiving a set corporate governance performance indicators that are custom designed for its own corporate governance activities. During the course of the research, 111 documents were collected and analysed, which together with notes and the researcher's antecedent knowledge, provided an in-depth understanding of the issues illuminated in this thesis. This includes assisting in the drafting of the Constitution, Board

Charter, CEO Interrelationship Policy and the facilitation of previous Board Effectiveness Reviews conducted by BoardWorks International Pty. Ltd.

There were no problems, such as conflicts presented to Bicycle Victoria Incorporated, due to the following factors: the researcher offered to execute confidentiality agreements, the researcher had already participated in board meetings and the board itself is best placed to assess problems but did not do so.

The following steps were taken in collecting case study material:

1. A letter, approved by the Ethics Committee of Victoria University was addressed to all the human prospective participants advising them of the nature of the research, potential conflict of interests and inviting them to participate. Signed consent to participate in the research was obtained from each of the action research study board members and the consultant assisting them at the time of their involvement in August and October 2009 and February 2010 (See appendices 6 & 7).
2. A letter providing access to the researcher and his supervisors to action research study data was obtained from the chief executive officer. A copy of this letter was subsequently included as an information item, in the board pack relating to the board meeting on 28 March 2011 (See appendix 13). Email confirmation of the preparedness of Bicycle Victoria Incorporated to be named as the action research study organisation was obtained in September 2012 (See appendix 14). Under the terms of access documents that are not in the public domain must not be published without explicit consent from the action research study organisation.
3. The researcher collected and copied the action research study data and kept it in a secure cabinet in a locked room, on password protected files and on a password protected computer.
4. A detailed review and summary of the documents was kept on the action research study database. Yin (2003) recommends that to overcome potential for bias the researcher should adopt three principles to establish construct validity and reliability. Thus multiple sources of evidence were collected where possible (as noted above), the action research study database was created and a chain of evidence was maintained. Specific details of the

documents were recorded in the action research study database summary (See appendix 8).

It is appropriate here to report that the Bicycle Victoria Incorporated board developed and selected a set of performance indicators, which were a measure of the appropriate critical success factors having regard to its core organisational purpose. Validity and reliability was improved by the iterative development of those critical success factors and performance indicators by the not-for-profit board.

Secondary data was obtained from the general literature and published material such as annual reports. The general literature has been discussed in the first three chapters of this thesis; the next section deals with annual reports.

4.8.3 Annual Reports

An important source of secondary data was published annual reports of Australian not-for-profit organisations. These reports were not difficult to access, where the organisations themselves choose to publish them on the internet, and as reported in subsequent chapters this source of data assisted in answering the research questions. As this thesis is concerned with ‘economically significant’ organisations (Productivity Commission, 2010) the not-for-profit organisation’s web presence along with the resource capacity to publish an annual report was not seen to be a limiting factor. The presence or otherwise of published annual reports was considered important because, as noted in section 2.3.1, the production and presentation of annual reports is good governance.

The objective of the annual reports review was to obtain data from the not-for-profit sector on what practices are currently being carried out. Specifically the researcher was looking for evidence and instances of performance indicators being used by not-for-profit boards for the evaluation of their own performance. Furthermore, data concerning the development of such performance indicators was sought.

There is no complete and readily available public list of all the not-for-profit organisations in Australia (Treasury 2011C). Some lists, such as The Australian Directory of Not for Profit Organisations (ProBono Australia 2010), offer thousands of names of not-for-profit organisations; however, they are all advertising or seeking donations and hence are likely to be charitable organisations. As section 3.1.1 revealed the purposes of not-for-profit organisations in Australia is varied and not restricted to charities. In the first instance, two lists, which appear untainted by advertising, were sourced; naming 239 Australian not-for-profit organisations in total; however, 19 not-for-profit organisations appeared on both lists. The lists used were *The Good Giving Guide* (Amy & Pearce 2008) and a list obtained from the website Wikipedia <www.wikipedia.com> on 20 April 2011. During the course of the data collection, 17 not-for-profit organisations of which the researcher became aware were added to this list. Whilst it is acknowledged that these lists are by no means representative of all not-for-profit organisations in Australia, such a methodology identified 237 that appeared to be Australian not-for-profit organisations.

Eight of those organisations did not have a website. Where the organisation had a website, it was reviewed, and the initial observations were recorded in a spreadsheet, noting:

- organisation name
- the date the website was accessed
- website address
- if an annual or financial report was or was not found.

As noted in section 2.3.1 of this thesis the publication of annual reports has traditionally been a means by which boards can demonstrate their good governance practices to stakeholders. The failure by a not-for-profit organisation to meet this basic standard of good governance by producing and publishing an annual report on their website was seen to cast significant doubt on the corporate governance effectiveness of the particular not-for-profit organisation. 126 organisations produced an annual report. Where an annual or financial report was found, it was:

- downloaded and stored for later analysis; two annual reports did not readily download and these were subsequently analysed online
- downloaded and linked to the spreadsheet for easy access.

Of the 126 organisations producing annual reports, seven were found to be church institutions, seven were arms of government and six were not economically significant, because they had a very low turnover and assets or did not employ staff.

See appendix 9 for a table detailing the 106 not-for-profit organisations with publishing reports subjected to later analysis.

In terms of that analysis, firstly, by analysing the annual report and not-for-profit organisation website coupled with a review of other government websites, such as <www.search.asic.gov.au/gns001html> or <www.abr.business.gov.au>, the researcher was able to confirm if particular organisations were in fact economically significant not-for-profit organisations. Hence, the 106 not-for-profit organisations discussed above were subject to further analysis.

Secondly, the annual reports were reviewed, assisted by the search engine function within Adobe, searching for the terms performance, metric, measure, indicator, role, board, director, council and governance.

Thirdly, the annual reports were systematically reviewed and the roles that boards had identified for themselves were recorded and thematically analysed.

4.8.4 Grounded theory analysis

This chapter at section 4.1 identified the thesis as employing grounded theory; a key process in grounded theory is coding, which gives labels or names to apparent phenomena encountered in the data, and from these labels emerge concepts, themes or categories (Bryman 2008). In terms of operationalisation, ‘coding’ was applied to all data sources, that is, all data sources were subjected to coding with a view to allowing conceptual propositions to emerge from the data.

As previously stated, the data sources are the literature, annual reports, interviews and the action research study. The analysis of these data sources comprised thematic analysis seeking the predominant themes thought to influence good corporate governance in Australian not-for-profit organisations by summarising the main point of an area of text, and then assigning an initial code. Such themes were then written up into memorandums. The conceptual framework used in this thesis—the BICF discussed in chapter two—formed the basis for identification of the initial codes. The initial coding exercise was executed quickly. This approach is consistent with that recommended by Charmaz (2006).

Bryman (2008, p.550) offers the following considerations in respect to coding:

1. Code as soon as possible
2. Read through your initial set of transcripts, field notes, documents, etc.
3. Do it again
4. Review your codes
5. Consider more general theoretical ideas in relation to the codes and data
6. Remember that any one slice of data can and often should be coded in more than one way
7. Do not worry about generating what seem to be too many codes
8. Keep coding in perspective. Do not equate coding with analysis.

Another feature of grounded theory coding is that initial codes may be dropped and new ones may emerge during the research. Indeed, the codes initially based on the BICF were replaced with more relevant focused codes. Using reiteration during the data analysis exercise, in the context of all the available data and their codes, focused codes were developed by drawing linkages between the various codes and data. At all times during the coding exercise, the main research questions were kept at the forefront, as will be reported in the remainder of this thesis. What emerged were themes that represented the critical success factors of performance indicators of effective corporate governance for Australian not-for-profit organisations.

As noted above, the various data sources were linked to arrive at focused codes, this was done iteratively throughout the data analysis. According to Yin (2003) four tests can be used to establish the quality of empirical social research. One of the four tests is not appropriate for descriptive or exploratory studies (Yin 2003). Section 4.2 established that this thesis is exploratory. Therefore three tests are relevant, and each will be discussed below.

This first test relates to construct reliability, which is about establishing correct operational measures, Yin (2003) provides three tactics: use multiple sources of evidence, establish a chain of evidence and in case studies, have key informants review the case study report. As noted in this chapter multiple sources of evidence were used and in relation to the action research study to be reported in section 5.3 a chain of evidence was established. In respect to the action research study, the present researcher's in-depth familiarity with the organisation is sufficient for the key informants' review. The second test relates to external validity, which is knowing where the thesis findings are analytically generalisable. In this thesis, the generalisability is reinforced by the use of multiple data sources as discussed in sections 4.6 and 4.7.

The final test relates to reliability, which is that 'if a later investigator followed the same procedures as described by an earlier investigator and conducted the same case study all over again, the later investigator should arrive at the same findings and conclusions' (Yin 2003, p.37). In respect to all of the data, it was noted in section 4.6 and 4.7 that multiple data sources enable achievement of greater reliability and validity.

In respect to case studies, Yin provides two tactics to address reliability. The first is to use case study protocol. Yin (2003) advises that whilst desirable in all case studies, a case study protocol is essential when undertaking multiple case studies. In this single action research study, because of the action learning component the present researcher worked alongside others, who were not involved in the research per se in developing the performance indicators for an actual not-for-profit organisation, thus the rigid compliance to a case study protocol was not possible. The second tactic is to develop a case study database as described in section 4.8.2.

All of the techniques detailed above, such as multiple sources of data, an established chain of evidence, informants review, the use of case study protocol and the establishment of a case study database are designed by Yin (2003) to overcome any scepticism concerning the generalisability and reliability of research such as this. Methodological triangulation was therefore possible, particularly as it relates to board roles. From this data, the researcher was able to examine performance indicators applicable for not-for-profit organisation corporate governance activities.

4.9 How the findings were reported

The main challenge to qualitative data analysis is, according to Robson (1993, p.370), that there is 'no clear and accepted set of conventions for analysis corresponding to those observed in quantitative data'. After the action research study, which saw the development of the performance indicators for Bicycle Victoria Incorporated, the researcher reviewed the action research study material again including his notes to identify themes and categories from which a theory could be induced.

This process was recurrent as new themes emerged which triggered a return to the data gathering. This approach developed sets of critical success factors and key performance indicators for a not-for-profit organisation via the development of a process conducted by a not-for-profit board and, most significantly, a process framework for determining performance indicators for effective not-for-profit corporate governance.

Veal (2005) stated that the writing up of the report is usually delayed for too long and indeed, consistent with this observation, the writing of this report commenced slowly. However, with experience and guidance from the university supervisors, the expression, clarification and pace was greatly improved.

4.10 Chapter summary

This chapter described the research process, which involved using multiple data sources to induce conceptual propositions. Five experts were interviewed, action research was undertaken and 126 annual reports of not-for-profit organisations were evaluated to arrive at conceptual propositions. These were arrived at after a recurrent, iterant and semi-structured approach cycling from the data to proposition and back to the data: in effect, a hybrid grounded theory. The research approach has been justified on the basis that the thesis:

1. is about corporate governance which does not have a well-developed and commonly accepted paradigm
2. operates in an interpretive paradigm
3. is descriptive or exploratory

4. is an area where access to data is difficult.

The next chapter reports the findings of the data collection, and chapter six begins the discussion on the analysis and conclusions drawn in this thesis.

CHAPTER 5: DATA COLLECTION FINDINGS

The previous chapter described the research process and justified the research methodology. This chapter reports the findings from the data analysis. The subsequent chapters in this thesis will provide discussion of the data together with the analysis and conclusions reached including a new design framework (see chapter seven).

5.1 Overview

As noted in section 4.8 and in particular 4.8.1, the data gathering was an iterative process, meaning that whilst the data is discussed sequentially below, no such sequential data collection occurred. Multiple data sources were used to induce conceptual propositions, these data sources were the literature, interviews with experts, an action research study and a review of published annual reports. Consistent with the view expressed by Charmaz (2006), the gathering of data from the various sources provided further lines of enquiry or perspectives, thus causing the researcher to revisit the previously examined data. Conceptual propositions were arrived at using a hybrid grounded theory, at all times the knowledge gap and in particular the research questions were kept before the researcher. What follows is a reporting of the data collection process, chapters 6 and 7 provide the analysis of this data.

5.2 Literature

The main literature search appears earlier in the thesis. This section however deals specifically with the literature that details what may be termed as 'performance indicators'. Essentially they take three forms:

1. Codes of best practice corporate governance summarised at appendix 11
2. Proposed key performance indicators for for-profit organisations by Epstein and Roy (2004) summarised at appendix 1
3. The specific factors reported to constitute corporate governance ratings summarised at appendix 12.

These items of literature are provided in the appendices because they may provide additional support to the phenomena revealed in other data sources.

A readily available source of data concerning corporate governance within not-for-profit organisations was published on their respective websites. The next section deals with the annual reports published on those websites.

5.3 Semi-structured interviews

As noted in chapter four, five semi-structured interviews were conducted with people who were highly knowledgeable in the not-for-profit sector generally, and who could provide specific perspectives and expertise obtained from the roles they held in: academia, consulting, legal practice, executive management and as chairpersons of boards.

A sample of a later iteration of semi-structured interview questions is provided at appendix 3. Again it needs emphasising that these questions were used only as a guide for the conversation. Not every question was put to the interviewee, although questions concerning each of the general themes were put all interviewees. The general themes were:

- Demographics
- Corporate governance performance and performance evaluation generally
- Performance indicators
- Board roles
- Critical success factors
- Other.

In some circumstances the questions included matters specific to the interviewee's expertise, for instance the barrister was asked specific questions concerning the law and the academic was asked specific questions concerning corporate governance theory. A relevant factor in the posing of questions was respect for interviewees' time. All interviews were requested on the basis that they would take no longer than an hour. However, it became very clear that unless answers were very perfunctory, and none were, all semi-structured questions could not be dealt with.

The information revealed in interviews allows conceptual propositions to be made and the next section of this thesis will report the information provided under the general themes noted above.

5.3.1 Demographics

In terms of this thesis, generally the first series of questions (termed 'demographic') were orientated to determine the expertise and appropriateness of including subsequent answers in the data. Questions concerning relevant experience and expertise were put to all interviewees, except the academic, whose publications and expertise were well known to the researcher. The experts had between 15 to 44 years' experience between them in a range of not-for-profit organisations throughout Australia. All interviewees were appropriately expert, as summarised in chapter four, section 4.8.1. The next section deals with the interviewees' opinions concerning corporate governance performance and performance evaluation.

5.3.2 Corporate governance performance and performance evaluation generally

All interviewees saw merit in conducting performance evaluations for boards, although the extent of that support varied. At one end of the spectrum the academic was actively engaged in large scale research, which amongst other things enabled a wide variety of not-for-profit boards to assess and compare their own performance; and at the other end of the spectrum only in principle support was forthcoming, with reservations expressed concerning such matters as the intent and cost associated with carrying out the task in a proper way.

Carrying out the performance evaluation properly is clearly a matter of concern with such comments as:

> *…they had what I called the happy sheet that will do the evaluation in the end of every meeting. So everyone will see, were we nice to everyone, yes, tick, did we communicate nicely, tick* (Interviewee 4, 19 October 2011)

Similarly, another interviewee reported:

…it's often done in a very perfunctory way; it's done for the sake of doing it as a formality. I don't know many organisations that devote enough effort to doing it properly (Interviewee 3, 25 October 2011)

with the same expert saying:

…you would want to make sure that they were metrics that people thought were appropriate (Interviewee 3, 25 October 2011)

and again:

It's a tool. You want people to engage with it honestly. You don't want people to become defensive and you want people to hopefully learn from it. (Interviewee 3, 25 October 2011)

Perhaps, the following statement best summarises these sentiments:

I've never yet found in my frame of thinking any board anywhere in Australia that's got a complete performance management system. They certainly haven't got a performance management framework in behind that (Interviewee 2, 29 July 2010)

One of the experts interviewed had been involved with the introduction of superficial performance indicators at an Australian not-for-profit organisation, and whilst able to point to some instances of how performance evaluation was useful, he had this to say in respect to the use of performance evaluations:

I think you can live without it because you do know who's not working (Interviewee 5, 6 December 2012)

On the other hand another interviewee, in respect to insiders being able to assess their own performance observed:

There are some things that other people know a lot better (Interviewee 1, 15 September 2009)

Four interviewees were able to report recent experiences with board performance evaluation but none were able to demonstrate a complete performance management system. Section 1.5.3 described a performance management system as having four major components. Nonetheless, even without the foundation of a complete performance management framework, the next section reports on various factors reported which might be construed to be performance indicators.

5.3.3 Performance indicators

The academic was able to demonstrate an online performance evaluation survey that he and his colleagues were developing and using, within this some questions could loosely be termed performance indicators. Other than this none of the interviewees, again, except the academic as noted above was able to point to the usage of comprehensive corporate governance performance indicators. But even those developed by academic and his colleagues were generic performance indicators applicable to a wide variety of boards that were capable of validation. These performance indicators were designed to gather data for a research project and they were not customisable to a particular board's circumstances.

To some extent the usage of corporate governance performance indicators applicable to particular boards were reported. One of the interviewees was able to show the researcher considerable evidence of usage, over multiple boards, of the usage of performance indicators that track the key board role of strategy. This evidence was in the form of strategic plans, including implementation plans with key deliverables, he had facilitated development of. In these instances the strategic plan is work-shopped in a facilitated board retreat, an integrated strategic plan is developed and importantly that the strategic plan includes performance milestones and indicators applicable to all the parties involved in the implementation of that plan, including the board.

Other performance indicators reported by the interviewees were less sophisticated. Attendance as a measure of an aspect of board performance was mentioned by three out of five of the interviewees with such comments doubtful as to its efficacy as a measure, such as:

…there's a question between what they measure and whether I think it's important. You can measure attendance at board meetings, and it probably is, okay, if you don't turn up at board meetings, you don't [perform] (Interviewee 1 - 15 September 2009)

Other interviewees saw attendance as important, as demonstrated by such comments as:

[Organisation Name] had a board member, for example who … was elected board member. She used to take four months off each year and go and winter in the Northern Hemisphere. I wish I could've done it. Taking four months off each year from the board, I just thought was ridiculous. Eventually she stood down, which was a good thing (Interviewee 3 – 25 October 2011)

Similarly another interviewee supported the measurement of time but extended the phenomena being measured to add 'treasure and talent'; these are explained in the quotation below. He gave the example of three simple performance indicators used in an American not-for-profit organisation he had experience with, saying:

We have three broad headings; time, treasure and talent.

Time – these are the Americans. Time, treasure and talent.

The time is have you put your time into it, the treasure is have you given money or have you raised money and finally, the talent is have you been innovative, have you contributed to strategic development, have you given introductions, have you been an ambassador (Interviewee 5 – 6 December 2011)

The notion of intellectual talent was mentioned by the same expert who looked to see fellow board members with sufficient seniority and experience, with such comments as:

They've made some bad mistakes with their chairs… But two of their chairs have been bad appointments and the [organisation] *has suffered as a result. Four years ago they got a woman who's got a very vivacious personality but*

> *she was the fundraiser at a school, never – she was a teacher who couldn't teach so she became a fundraiser. She didn't have any staff and because she had this lovely outgoing personality – I'd already left the board – people said* [named person] *will be great. And also* [named person] *had breast cancer and made a terrific brave recovery, thank God, but they thought isn't she a hero. So what happens,*[named person] *comes on the board, she's never managed anything, she's the chair and what they had to do was – I don't know how they did it, allowed her to become chair, she'd been on the committee, allowed her to become chair, but the good board members began leaving, they fell off the tree. So that now four, five years later, there aren't sufficient* [calibre of] *people on the board to be the chair.* (Interviewee 5 – 6 December 2011)

The same interviewee when asked what was one of the things he looked for in fellow board members effectively cited intellect, saying:

> *Yes, the level of board members… Seniority, the level of thought.* (Interviewee 5 – 6 December 2011)

This interviewee then went on to describe both good and bad examples of intellect of members of boards that he had been a member.

The same interviewee also provided an example of where a board evaluation did assist in identifying specific skills lacking in a board, saying;

> *This evaluation did partially help us to look at the criteria we were seeking in new board members. So one of them should be that – a few of them should be that on the board we didn't have enough people with clinical background and we were a health organization* (Interviewee 5 – 6 December 2011)

Interestingly, only one of the experts considered intellectual talent in terms of performance indicators; additionally qualifications were not mentioned.

Finally, in terms of performance indicators one of the interviewees was able to describe a situation where individual board members were required to meet membership recruitment targets applicable to districts from which they came, saying:

> *[We] wanted them to actually be proactive within their own state based areas for recruitment of new members. So if [we] had 20% growth expected to the membership for the next year then the board might need to be accountable for, let's say 5% of that.* (Interviewee 4 – 10 October 2011)

Beyond these simple examples of performance indicators, discussion of board roles illuminated the research. The next section reports the responses concerning board roles.

5.3.4 Board roles

In four of the five interviews the three board roles (controlling the organisation, providing advice to management and providing access to resources) as suggested by the BICF were put to the interviewees and whilst they did not reject them, most of the interviewees had difficultly reconciling them to their own frame of reference. It was clear from the body language in the form of perplexed looks, hesitation and stumbling responses that four of the interviewees were not engaged is considering a theoretical model such as the BICF, so the in the interests of this project the researcher moved the discussion forward.

There was a pretty clear understanding by all the interviewees that the board can decide for itself what its role can be, with one interviewee saying:

> *…practically speaking, if they take the vanilla solution. The company or the organization shall be managed by or under the direction of the board of directors. So, it [board role] is whatever they want it to be… boards have to interpret what their role is, because it varies* (Interviewee 1 – 15 September 2009)

Some were clear on what a board can do with statements such as:

…at the end of the day have the board got timely, accurate information   It can do one thing and that's make decisions (Interviewee 2 – 29 July 2010)

At least one of the experts had adopted the Carver Policy Governance model (Carver 1997) saying:

I'm a firm believer in what I call the governance management dichotomy, the Carver model …I think it's important that the Board understand what their role is. Their role is policy and governance is part of policy at that level.

The board is responsible for setting policies. The CEO, leading the staff, is responsible for implementing policies. The board does not get involved in attempting to micromanage the staff. (Interviewee 3 – 25 October 2011)

Such clarity is apparently not always evident with one interviewee saying:

most of the boards are very intelligent directors, very intelligent people in businesses their own business life and they often walk that through door in the boardroom and they leave their brains at the door. Leave their commonsense at the door in lots of ways and really do not have understanding of the responsibilities and their roles. (Interviewee 4 – 19 October 2011)

With another expert responding to a question from the researcher, asking - Do you think that there's clarity of not-for-profit board member's roles? - responded

I'm think in many organizations, there isn't. (Interviewee 3 – 25 October 2011)

But not all were as pessimistic, with another saying

75% of them have got the basic, or well developed governance principles and practices (Interviewee 2 – 29 July 2010)

The same interviewee when questioned further went on to say:

Well ultimately, you know there is only one acid test… How does our individual or group behaviour stack up and are we really flying the helicopter *and governing or are we pushing the lawnmower and working in the business not on the business* (Interviewee 2 – 29 July 2010)

It is not surprising given the expertise of the interviewees that all of the interviewees understood the Board Management dichotomy, with one saying;

> *The board is responsible for both the governance and management of the company. That establishes that there are two separate things. One's called governance and one's called management. The board must by regulation delegate the management of the company to the CEO* (Interviewee 3 – 25 October 2011)

Finally one of the interviewees went on to try and list an array of board roles, by saying:

> *Well, I mean really they are your general governance requirements. Your legal client requirements, your financial accountability requirements and all the must do things that would move across regardless of what board you sat on. We would have a requirement to have those in place…* (Interviewee 4 – 19 October 2011)

These will be discussed in the next section dealing with critical success factors.

5.3.5 Critical success factors

It was clear from the interviews that monitoring the financial of performance of the organisation was thought to be a critical success factor to at least four of the five interviewees. This sentiment is best demonstrated in the following statement from one of the interviewees:

> *The thing that is critical in all of this, which I sort of said but I'll say a bit explicitly, financial oversight is absolutely key. Ninety per cent of organizations that have terminal illness, it's due to financial problems. If the finances are healthy, chances are the rest of the organization is healthy. If the finances are at shit, it doesn't matter how good the organization is. It's very*

boring but I really put a lot of emphasis on the finances. (Interviewee 3 – 25 October 2011)

The same expert went on to say:

> *Critical, absolutely critical. If they're getting monthly financial statements, that is an indication that lots of other things are right. If they're not getting monthly financial statements that's an indication that lots of other things are wrong. It's just a simple test. It's simplistic but it's a good starting point.* (Interviewee 3 – 25 October 2011)

Another had this to say:

> *What are they measuring? Mainly measuring money in its various forms Some really brilliantly in the way they measure and report all that and others at the other end shocking or even no reports or few reports They measure contractual or funding or service agreement outcomes or results because they're required; all those sorts of things* (Interviewee 1 – 15 September 2009)

Another major critical matter that the interviewees discussed was the organisational strategic plan. This matter was raised by three out of the five interviewees. It has already been noted at section 5.3.3 that one of the interviewees was able point to a sophisticated approach to developing strategy and ensuring its implementation by the usage of performance indicators.

One of the experts had this to say concerning board performance evaluations, thus underlying the criticality of strategy:

> *I think what you need to do is to look at the – first of all, base it upon the strategic plan* (Interviewee 5 – 6 December 2011)

Interestingly, staff, volunteer and board turnover was raised as a critical matter by three of the five interviewees. There was a recognition that turnover can be both too high and too low, that is to say the loss of corporate memory can be a problem and so too can be the stifling of new ideas.

Comments such as those that follow demonstrate this concern. One of the experts had this to say:

> *I do like to have happy staff. I don't like an organisation that has high staff turnover. It troubles me* (Interviewee 5, 6 December 2011)

And

> *In terms of measures, you want a CEO that stays for long enough to do what they want to do. You don't want a CEO who stays for so long they become stale. That's a really tricky balancing exercise. Staff turnover is a really good indicator of how an organisation is doing. If you've got an organisation that's high staff turnover, then there is a problem. Staff turnover is bad or too high staff turnover is bad because of the loss of corporate memory. It's just very inefficient… Equally, you don't want to have an organisation where people who are known to be poor performers are feather bedded and not got rid of. You want to performance manage those people out the organisation and encourage the CEO to do that. Similarly with the board,* (Interviewee 3, 25 October 2011)

In respect to board turnover the same expert said

> *you don't want to have a board that has been dominated by the same people for a long time, where new people are not welcome. Equally, you want to have a board where there's sufficient corporate memory that are not constantly reinventing the wheel* (Interviewee 3, 25 October 2011)

Another expert lamented high board turnover:

> *You also had board members that often turn over quite quickly. And I mean, I thought, the chairman can actually sit in the role in a lot of the not-for-profits for one or two-year terms and I just think that's crazy because you are only just really bedding down things. And then you lose sight and they are gone and you start all over again. So this – you go from one extreme to the other* (Interviewee 4, 19 October 2011)

Other matters were variously raised as critical success factors by interviewees and these are summarised at appendix 10, but there was not sufficient apparent consensus to report them in this chapter. This may be more to do with the free ranging nature of the interviews, rather than because the item is not shared by the other interviewees. Notwithstanding this, it is noted somewhat surprisingly, that transparency was only mentioned by one of the five interviewees. The next section details a collection of miscellaneous data revealed by interviewees that are relevant to this thesis.

5.3.6 Other

This section will mention the range of matters raised by the experts that are relevant to this thesis. One of the interviewees provided a Board Governance Policy, which he had introduced to a not-for-profit organisation for which he was a board member. This statement was developed by the interviewee based on the Governance Hub code (National Council of Voluntary Organisations 2010) discussed at section 2.3.1 of this thesis. He saw that this policy would be used as the benchmark for future reporting of that board's corporate governance performance.

Several interviewees made relevant observations concerning the implementation of performance indicators. In developing critical success factors and performance indicators, follow through with subsequent action was also observed as a critical success factor by three out of five interviewees. This of course is a key premise of the four major components of a complete performance management system as outlined in section 1.5.3.

One interviewee said:

> *I certainly don't think you could be criticised for introducing performance metrics. I guess there's a potential danger if you didn't act on it. If you've got an adverse assessment of someone and you didn't replace them, then questions could be asked* (Interviewee 3, 25 October 2011)

Another expert said:

> *…the biggest single trap is if the board is in a state of readiness and openness, we can take them on a careful journey, but if they're not in a state of*

readiness, openness or willingness to learn and develop and enhance the organisation [this is a trap]. (Interviewee 2, 29 July 2010)

Another highlighted the importance of good communication:

> *The CEO also speaks to each of the board members regularly, just phones them up maybe once a quarter, apart from the board meeting, has a cup of tea or has a chat. You know [Name], we haven't spoken, we just want to find out how things are going, how you're going, how's Australia, how's the family, how's [Organisation] going, what do you think about some of these things that – you know, he sends us a monthly CEO's report which is three pages which is nothing, just a dashboard* (Interviewee 5, 6 December 2011)

It was observed in section 5.3.4 that one interviewee observed that most not-for-profit board members have a reasonable knowledge of corporate governance but lack the practical tools:

> *…the biggest single challenge still remains to turn theory and framework into practical tools, templates, processes that they can apply in the boardroom including therein the intersection to measurement* (Interviewee 2 – 29 July 2010)

The usage of such toolkits underpins the consultancy approach by that expert; he advocates an approach that presents boards with a series of modules, such as a strategic planning module or a risk management module. The basis behind this approach is that boards do not have the time to invent such things from scratch. Over time as the usage becomes more familiar, skilled boards are then encouraged to adapt or develop their own modules. The expert revealed that in the development of strategic plans, his organisation presents the board with thousands of performance measures of strategy from which boards can select as being most relevant for them.

Finally, three of the five interviewees reported the need for the engagement of an external consultant to assist the board in a project to develop its performance indicators.

The next section reports on the action research which was a major component of this study.

5.4 Action research study

As stated previously, significant learning and access to knowledge was afforded by the present researcher's direct experience working with the action research study board (Bicycle Victoria Incorporated) in establishing performance indicators used to evaluate their own corporate governance performance. In addition to the action research component the documentation recorded in the action research study database (see appendix 8) was accessed. Whilst the access was unfettered, it was not without conditions, for example, the authorisation to access data specifically provided that all information was to be kept confidential. This means that the specific performance indicators developed by Bicycle Victoria Incorporated cannot be revealed. This action research project was also not without bias, and may have rendered the research invalid and unreliable were it not for the other forms of data gathering that complemented the present approach.

5.4.1 Bicycle Victoria Incorporated background

The purpose of Bicycle Victoria Incorporated is to '*promote the health of the community through the prevention and control of disease by 'More People Cycling More Often'* (Bicycle Victoria Incorporated 2010, p.5). As a Charitable Institution and a Victorian Incorporated Association, the organisation was formed in 1975. At the time of data gathering it had approximately 55 full-time equivalent staff and a member base of 45,000 people who participate in and support the physical activity of bicycle riding. At the time of data collection the organisation was successful, financially sound and growing. It was competently led by a longstanding motivated Chief Executive Officer who was supported by a competent staff. However, the volunteers, who often are not necessarily members, have contributed most to past financial successes. The organisation's business model was such that it largely generates its own funding by running bike riding related business activities, staffed almost solely by volunteers and by fees from members; some of these funds are used to deliver services to paying participants and members but the surplus funds (profit from such activities) are then used to promote the physical activity of bicycle riding for which the organisation advocates. The organisation is able to attract some government funding and, being classified as a charity, enjoys some income tax exemptions.

There were two main ways that the organisation addressed its purpose. The first is by behaviour change programs, essentially mass participation events. These programs are designed to address people's day-to-day behaviour, introducing physical activity into their everyday commute. The other main way that the organisation addresses its purpose is by development activities. These activities are directed at improving the facilities available to bike riders, in so doing lessening the barriers that impinge upon people riding bikes.

The board of directors is comprised of nine volunteers who are elected from amongst the organisation's members by the members themselves. The Constitution of the organisation provides that board members are elected for three-year terms with these terms aligned so that three board member positions fall vacant each year. During the period in which the data was collected, there were no effective mechanisms for the organisation itself or for the current board to insist that board member candidates have appropriate corporate governance skills and experience. The board and management sought to address this potential lack of ability in individual board members by two means, by increasing the information available to board member candidates and simplifying the voting process.

Recently candidates have been asked to provide information on their corporate governance qualifications and experience. This information was then made available to the membership at a point in time when they are asked to vote for new board members, in the hope that this will influence voting towards suitably qualified candidates. In November 2011, the Constitution of the organisation was amended to enable the co-option of members to the board to access suitably qualified board members, but this is after the action research study data collection period. Generally, the number of board member candidates exceeds the number of positions falling vacant each year. It is not uncommon for certain individual candidates to be supported by bicycle user groups or localised bike clubs. These groups or clubs may not necessarily be representative of broader action research study organisation membership. Notwithstanding the interest shown by board member candidates in standing for the board, less than 2% of members of the organisation actually vote in the action research study organisation board election, indicating an apparent disinterest by the broader membership in corporate governance of the organisation.

The lack of corporate governance skill and experience and the apparent disinterest by the broader membership in corporate governance, combined with the minority bicycle user group voting cohort, has led to a situation where the corporate governance skills sets of the board may be described as 'patchy'. In recognition of the likelihood that such corporate governance skillsets may be lacking, the Constitution requires (at clause 37.3) that board members participate in the training program and performance reviews. This is the second means by which the board and management attempt to address potential gaps in corporate governance board skills. The board and management required all new board members to undertake a training course by Leadership Victoria and attend board induction sessions. Additionally, the Board Charter Regulation (Bicycle Victoria Incorporated 2007) requires an annual review of board performance. It is in this context in 2009 and 2010 that the board sought to identify the criteria against which its performance ought to be judged.

5.4.2 The key events and issues

The documents examined revealed seven key events that are directly relevant to this thesis, as follows:

1. Development and establishment of a new Constitution in 2005
2. Development and establishment of a Board Charter and Board – Chief Executive Officer Interrelationship Policies in 2005
3. The publication of corporate governance statements, reporting against the ASX Corporate Governance Councils (2003) principles of good corporate governance and best practice recommendations from 2006 onwards
4. Governance Effectiveness Reviews conducted by an external consultant in 2006 and 2007

The following three events related to the action research component of this research.

5. Board resolution in 2008 for the board to develop performance metrics that apply to its own governance activities
6. Development of those performance indicators in 2009 and 2010
7. Performance review and report against those performance indicators in 2010.

5.4.3 Performance indicators

The events listed from one to four in section 5.4.2, that is, the new Constitution, Board Charter and Board – Chief Executive Officer Interrelationship Policies, Corporate Governance statements and the corporate governance reviews in 2006 and 2007, provided the impetus to embark on this project.

Key aspects of board charter are that it advocates a Carver (1997) policy governance approach and articulate the board roles set. An external consultant, whose role is explained later in this section, summarised the key elements of board roles set out in the board charter as:

- Taking responsibility for stewardship and the future well-being of Bicycle Victoria
- Exercising leadership, enterprise, integrity and judgement
- Assuring Bicycle Victoria's continuing and lasting prosperity
- Maintaining the highest possible standards of corporate governance
- Always acting in the best interest of Bicycle Victoria as a whole, irrespective of personal or other interests
- Serving the members with transparency, accountability and responsibility
- Focusing on the 'what' and the 'why'.

The consultant also summarised specific board responsibilities as:

- ensuring legal requirements are met, including directors duties
- ensuring new and potential board members fully understand their role
- taking a governance philosophy and approach, including a proactive, future focus on strategic issues, diversity of views and continuous improvement
- providing strategic leadership: insight and foresight
- monitoring operating performance: oversight

- identifying risks and ensuring appropriate risk management systems are in place
- appointing the chief executive officer and clearly defining the chief executive officer's accountabilities and authorities
- ensuring ethical behaviour, compliance and integrity
- ensuring the board's effectiveness and accountability to members.

The consultant also summarised the responsibilities of individual directors as:

- understanding and meeting their responsibilities
- having a strategic orientation
- acting with integrity and taking collective accountability
- exercising informed and independent judgement
- having financial literacy
- participating constructively in board discussions.

For each year the corporate governance statement was drafted by the present researcher in his capacity as board secretary, and considered by a few board members, before being submitted for approval at a board meeting in the context of approving the annual statutory financial accounts. In 2009, the Board / Audit Committee considered reporting against the UK Governance code but decided not to proceed.

These events set in train a continuous improvement approach and momentum to kickstart the project. Nevertheless it was a protracted exercise which began in August 2008 and was largely completed in March 2010. In reality the project is never likely to cease, unless it is abandoned, as such a project requires the board to review the appropriateness of its critical success factors and performance indicators regularly.

In terms of this specific case, the engagement of an external consultant in April 2009 added impetus; without the consultant's interaction with the board and this researcher the project may have faced further delays. The consultant was a lawyer and very experienced company secretary having been employed in a company secretarial role by one of the largest listed companies in Australia and having worked previously with the Chair and President of Bicycle Victoria Incorporated. The basis for the first key steps was to consider board roles as articulated in the Board Chief Executive Officer

Interrelationship policies. These roles were put to the board and the various committees largely as a given, and they were not challenged. The board allocated these roles under one of three general headings: Insight, Foresight and Oversight, and from these developed critical success factors and performance indicators. It should be noted that the specific factors and indicators required iterative workings of six committee and board meetings plus consideration at a board retreat before being accepted.

Following these discussions, the various committees and board centred on high level statements of behaviour for the board and the organisation, and these were fairly quickly agreed upon, but the attachment to them of specific performance indicators took longer and it was more difficult to achieve consensus.

To a large extent, the critical success factors tended to be behaviour based statements characterised by verbs, such as understands and contribute. with the performance indicators characterised by nouns, such as program and plan. This was because it is far easier and less subjective to measure nouns. That is not to say that it is not possible to assign measurement to verbs. Whilst arriving at critical success factors was a relatively speedy process for the Bicycle Victoria Incorporated board, the selection of performance indicators was far more difficult. In the first instance the definition of performance indicators provided by the consultant and this researcher was inadequate, the notion of engaging with a process map was not taken up and the board was left to flounder around searching for appropriate performance indicators. At the very end of the corporate governance performance indicators development process, almost as an afterthought, performance indicators were reconciled to organisational strategy.

In the action research, existing documentations such as the constitution, regulations requiring performance reviews, training and the charter articulating the role of the board (and to some extent how it should go about fulfilling those roles) were a critical launching place. The board charter, for example, paved the way for using SMART criteria as discussed in section 3.2.3, because this criteria was specifically familiar to the board, having been introduced in that board charter. For the Bicycle Victoria Incorporated board, not having to devote much time to the validity and taxonomy questions raised in section 3.2.3 was clearly an advantage. These introductions were valuable in enabling the Bicycle Victoria Incorporated board to start from common ground in developing its own corporate governance performance indicators. The need to reach common understanding is discussed further in section 7.4.3.

It was clear from the researcher's notes that the Bicycle Victoria Incorporated Constitution Committee (see appendix 17 for an organisation chart describing Bicycle Victoria Incorporated's governance structure) considered that its role was to put before the board more success factors than were needed, and from this large shopping list the board could select relevant critical success factors. The themes were risk, strategy, finance, induction, chief executive officer, board and management functions, insight, oversight and foresight, ethical behaviour, accountability, stakeholders, organisational culture, whistleblowing, communication and transparency, recognition of conflict, board processes and remuneration. The derivation of critical success factors was achieved fairly quickly, but what was significantly more difficult for the Bicycle Victoria Incorporated board was the derivation of performance indicators.

After many iterant meetings the result was a complicated set of performance indicators that mixed critical success factors and measures and combined performance indicators. As previously stated the actual performance indicators derived by the Bicycle Victoria Incorporated Board cannot be revealed. The board sought to assign SMART methodology to the performance indicators but this was largely abandoned when the difficultly of arriving at the performance indicators was realised. However, in a presentation delivered by the researcher, with the permission of the Bicycle Victoria Incorporated chief executive officer to the BetterBoards conference in July 2010, the following example of a critical success factor and accompanying performance indicator was revealed.

Critical success factor

- The organisation has appropriate and effective systems to ensure:
    - 1. ethical behaviour
    - 2. compliance with regulatory requirements
    - 3. risks are understood and managed appropriately.

Performance indicators

- The board annually reviews the control framework
- The board reviews the communication and whistleblowing mechanism by DATE
- The board reports annually against the agreed control framework and whistleblowing mechanism.

Furthermore the general themes for the critical success factors and performance indicators can be summarised. The critical success factors covered such things as:

- understanding of the internal and external environment
- the strategic planning support of the organisation's purpose
- ethical, compliance and risk systems
- accountability
- management and board relationship
- board decision making.

These were then matched, not always obviously, to performance indicators that covered such things as:

- board systems, including annual program of work and the use of committees
- strategy implementation and organisation performance
- board skills, experience and training
- control frameworks and compliance generally
- key decisions and how they were arrived at.

Almost all of these critical success factors and performance indicators were written as statements, such as 'the board will establish a [mechanism] by [Date] and review it annually'.

The first real test of those critical success factors and performance indicators was the report considered at the board retreat in October 2010.

The acceptance of the report and its conclusions confirms the validity of particular critical success factors and performance indicators. Unfortunately, as noted earlier in this section, due to confidentiality, the specific details of these factors and indicators cannot be reported here; however, they are available to the researcher for thematic analysis. Notwithstanding the need for confidentiality it can be reported here that 10 critical success factors and nine performance indicators were developed. However, within each of these were many sub-critical success factors and sub-performance indicators, rendering the detailed criteria both complicated and specific. Judgement of achievement or otherwise requires largely subjective assessment, as only one of the critical success factors and/or performance indicators was numeric, and that was simply a count of the usage of a particular board reporting template. Having observed this usage most of these critical success factor and performance indicators could be converted to numeric, if a binary scale was applied (in effect either 'yes' or 'no').

The next section reintroduces the literature available by way of published annual reports.

5.5 Annual reports review

As noted in section 4.8.3 of this thesis, 237 organisations were identified that on the surface appeared to be not-for-profit organisations, and from these 106 annual reports were identified and subjected to further analysis. It is relevant at this point to note that only 45% of not-for-profit organisation websites visited choose to adopt this method of accountability.

Some reports went no further than the statutory reports required by accounting standards, whilst others went much further in providing information concerning their performance. The objective of the annual report review was primarily to seek evidence of the usage of performance indicators by not-for-profit organisations.

In addition it was hoped that some sort of objective conclusion could be reached in respect to the *effectiveness* of the particular not-for-profit organisation; however, perhaps not surprisingly, all of the not-for-profit organisations choose to write the annual report in a positive light. That is not to say some of the annual reports were necessarily untrue, but rather ineffective not-for-profit organisations were rarely highlighted.

An extreme example of wishing to tell a good news story is presented by Alzheimer's Australia NSW (2009), where in the year ended 30 June 2009, they reported a sharp decline in bequests and a sizable decrease in government and non-government capital grants. A rise in expenses and a decrease in state and federal government grants, resulting in a loss of $1,491,436, were added to the devaluation of investment assets of $202,045, coupled with the receivership of an investment advisor and member of the investor advisory committee, job losses and the failure to contribute to website development (Alzheimer's Australia NSW 2009). Notwithstanding this bleak predicament, the chair was able to lead with the statement:

> *John Watkins joined us as CEO just before the last AGM and we have had a great year together. He has related well to the staff with whom he has worked, has guided the organisation through a difficult economic period and has gained for us some wonderful publicity and media exposure* (Alzheimer's Australia NSW 2009, p.4).

It should be noted that Alzheimer's Australia NSW choose not to publish an annual report for the year ended June 2010 or 2011, yet its financial reports were published, and they reported a surplus of $3,476,341 and $158,177 respectively (Alzheimer's Australia NSW 2010, 2011).

The remainder of this section continues to report the evidence that was presented in the annual reports. A primary objective of analysing these annual reports was, of course, to gather evidence.

5.5.1 Evidence of the usage of performance indicators

Whilst some organisations, such as the Cancer Council NSW (2010), disclose performance indicators for the whole organisation, the most striking result emanating from the data is the apparent lack of widespread use of performance indicators by Australian not-for-profit boards to manage their own performance. Certainly, there is some reporting of attendance at meetings, as required by section 300 B (3) (c) of the Corporations Act 2001, and this is discussed further at section 6.1.2. In fact, beyond this requirement, there was no detailed reporting/observation in any of the 237 websites searched or the annual reports viewed of the use of comprehensive corporate governance performance indicators by not-for-profit boards. That is not to say that performance indicators were not evident in some form, but the detail was lacking. The review of 106 annual reports revealed there are only three instances where there is some evidence of a narrow use of performance indicators that arguably fit within the board's domain. Plan International Australia (2010) is one of those who report using key performance indicators for its annual board and director performance review; unfortunately, however, they do not reveal what those key performance indicators are.

The Australian Children's Television Foundation (2010), for example, is another organisation who listed key performance indicators in its corporate plan items relating to accountability. Also the Mental Health Council of Australia (2009) have, as one of many key performance indicators, a corporate governance best practice index, but did not explain what it was. The other valuable information obtained from the annual reports concerned board roles, discussed in the next section.

5.5.2 Board roles

The second intention of reviewing the annual reports was to determine what boards identified as their respective roles. Of the 106 annual reports reviewed, 56 detailed their roles. Table 5-1 summarises what the boards stated as their role and the occurrence of particular roles in percentages.

Table 5-1 – Board roles as reported in annual reports

Board Role	Explanation	Occurrence
Strategy	Development, approval, monitoring, implementation	75%
Oversight	Guides and monitors of strategy, organisational performance, risk management, finances, compliance, external and internal environment	75%
Finances	Including approval of budget, maintenance against insolvency, protecting assets and investments	63%

Board Role	Explanation	Occurrence
Organisational performance	Including specific programs, manage competently	59%
Control / Compliance	Including with legal, ethical requirements, constitution, codes	54%
Chief Executive Officer or Senior Management	Mentoring, supervising, hiring, firing, succession planning	54%
Policy	Development of, approval of, monitoring	46%
Governance	Establishing governance frameworks, board effectiveness	46%
Risk Management	Including internal control, audit, risk identification, risk control, risk monitoring, risk reporting	45%
Accountability	To stakeholders, defines stakeholders, communication with, excludes Chief Executive Officer accountability	29%
Ethics	Honesty, act in best interest of organisation	25%
Mission, Vision, Values	Interpretation of, protection of, determination of, achievement	18%
Leadership	Including directing	14%
Provision of resources	Including advice to management, fundraising, protects, aligning	11%
Reputation	Company announcements, protecting, annual reports	11%
Transparency	Reporting, high standards	4%

Finally, valuable information obtained from not-for-profit organisations' websites concerns corporate governance statements dealt with in the next section.

5.5.3 Corporate governance statements

Of the 237 annual reports and not-for-profit organisations websites visited, 124 not-for-profits issued corporate governance statements. The comprehensiveness of these statements varied enormously, some were a quarter of a page in length (see for example the Australian Children's Television Foundation 2010) and others were seven pages in length (see for example World Vision 2010). It is evident that some not-for-profit organisations use corporate governance codes as a guide to determine the effectiveness of their corporate governance activities; for instance, Ronald McDonald House (2009, p.26) states that their corporate governance framework is reviewed in line with the ASX Corporate Governance Council (2010) code to ensure that the corporate governance framework reflects best practice. Similarly, the Shepherd Centre (2011) states that these guidelines are used as a basis for their governance arrangements.

Some organisations, such as the AICD, CSA, and Bicycle Victoria Incorporated, go further than such non-specific statements and actually report on how they meet ASX Corporate Governance Council (2010) principles, which of course is the intention of the principles. Others, such as Australian Library and Information Association (2010), claim adherence to the Australian Standards checklist for governance.

Others use a more values driven approach. Berry Street Victoria Incorporated (2010), for example, concentrate on informing the reader of key activities the board has become involved in over the past year, disclosure of which, they say, is underpinned by the value of accountability. Opportunity International Australia (2010) also states that accountability is a key to the work it does, they take a broader view than Berry Street by reporting against a version of the ASX Good Corporate Governance (2010) principles. Others such as the Old Colonist Association (2010) report against what in essence are the ASX Good Corporate Governance Principles but do not state that these are in fact the ASX Corporate Governance Principles; however, they do not include every ASX principle and do not inform the reader why they consider it not appropriate to report against all ASX principles.

Most of the reporting organisations studied did not report against a published corporate governance code, but instead adopt a grab bag of headings to report against, the most common of which are drawn from the list below:

- Structure and composition of the board and committees, including the fact that the board is a volunteer board
- Roles and responsibilities of the board
- Management responsibility and delegation
- Risk management
- Audit and compliance
- Ethical standards and conflict of interest
- Planning and budgeting
- Board performance and professional development including board member induction
- Board compensation.

5.6 Chapter summary

This chapter has reported the results of four different data collection lines of inquiry.

Section 5.3 reported the findings from five semi-structured interviews with highly knowledgeable people with specific expertise in academia, consulting, legal practice, executive management and chair of not-for-profit boards. Section 5.4 reported the findings of the action research study involving the board of Bicycle Victoria Incorporated and the development of performance indicators that are to apply for their corporate governance activities. Section 5.5 reported the findings of the annual reports review which encompassed a review of 106 annual reports.

The following chapter six and seven provides a discussion of these findings and describe and report the grounded theory analysis of that data, analysis using triangulated research techniques and from whence conclusions are drawn. Chapter six addresses the first research question posed at section 1.4. The subsequent chapter seven addresses the second research question.

CHAPTER 6: PERFORMANCE INDICATORS OF EFFECTIVE AUSTRALIAN CORPORATE GOVERNANCE

The evidence available from the literature has been discussed in chapters one to three of this thesis, the research methodology was discussed in chapter four, and chapter five outlined the findings of the data collection process. This chapter discusses and draws together the data collected and makes conclusions that essentially address the first research question: What are the performance indicators of effective Australian not-for-profit corporate governance?

In order to answer such a question, section 4.1 argued that the data and subsequent analysis provided an examination of performance indicators for effective not-for-profit organisations whence conclusions can be drawn concerning the first research question.

To do this, three aspects must be addressed:

1. examine the performance indicators revealed in the data gathering exercise (see section 6.1)
2. consider what is effective corporate governance in Australia (see section 6.2)
3. consider what are valid performance indicators (see section 6.3).

The second research question is addressed in chapter seven, and because this topic deals with a wide array of concepts and attempts to cover these concepts in sufficient depth to make meaningful conclusions, chapter eight notes that care must be taken with regard to the limited scope of this study.

6.1 Performance indicators in Australia

Answering the first research question regarding the identification of performance indicators is problematic; currently the existence of corporate governance performance indicators as revealed by the data collection is insufficient to enable this question to be fully addressed, except to conclude that performance indicators for Australian not-for-profit corporate governance currently do not exist.

Implicit in this question is a set of corporate governance performance indicators applicable to <u>all</u> or at least most Australian not-for-profit organisations. Also implicit is the need to examine <u>effective</u> not-for-profit corporate governance and that those performance indicators should be valid (see section 6.2 and 6.3 respectively).

In terms of examining the performance indicators revealed in the data, three matters require addressing:

1. The paucity of meaningful not-for-profit corporate governance performance indicators makes it difficult to reliably conclude what performance indicators ought to be detailed (see section 6.1.1)
2. Whilst director's qualifications, experience and attendance are commonly disclosed, there is no evidence to suggest that these are considered as performance indicators (see section 6.1.2)
3. Corporate governance statements may be a pseudonym for performance indicators (see section 6.1.3).

The next three subsections address these points in turn.

6.1.1 Performance indicators for corporate governance not widespread

The corporate governance practitioners interviewed struggled to identify Australian not-for-profit organisations that had identified corporate governance performance indicators solely for the board's activities. As reported in section 5.3.3, one of the experts interviewed was able to identify simple performance indicators used by a US based international not-for-profit, which was a peak body to an Australian not-for-profit organisation. This US organisation was measuring time devoted by board members, funds contributed by board members and a subjective assessment centred on the talent board members bring to the table. Time, treasure and talent will be discussed later in this chapter, but it is timely to observe that these are in use in a US not-for-profit organisation, and this thesis is concerned with Australian not-for-profit corporate governance.

On the Australian scene, some of the experts interviewed were aware of a narrow usage of performance indicators, keeping track of a particular activity for which the board may be involved in, or even have responsibility for, such as the implementation of strategy or growth in the membership.

This leaves three potential examples of performance indicators as revealed by the experts:

- Strategy
- Membership growth
- Attendance.

It must be noted that these three performance indicators relate to a very narrow context of board work and not Australian corporate governance generally. Put another way whilst these specific performance indicators were identified by the experts, if a particular board saw a need, context or board role others performance indicators could have emerged.

In terms of the annual report data, leaving aside directors' qualifications, experience and attendance (see section 6.1.2), in section 5.5.1 it was reported that the review of annual reports revealed only three references to the narrow use, in some circumstances, of what may be termed 'performance indicators' that arguably fit within the board's domain. In considering the data revealed in annual reports; it was previously noted in section 5.5.1 that Plan International (2010), whilst mentioning key performance indicators, did not reveal what they were. Similarly, the Mental Health Council of Australia (2009) did not disclose the nature of what it termed corporate governance best practice index. Clearly, the action research study revealed to the researcher, but not the reader, a fuller set of performance indicators that relate to a particular not-for-profit organisation.

The Bicycle Victoria Incorporated performance indicators described in section 5.4.3 were based on critical success factors; they are statements of intent and (mostly) do not relate to other organisational measures. Validity and taxonomy characteristics as discussed in section 3.2.3 were sought but not wholly achieved; instead some level of SMART methodology was obtained.

What has been presented in chapter five is a handful of instances of performance indicators relating to some corporate governance activities. It was noted in section 2.3.1 that section 300(1)(e) of the Corporations Act 2001 (No.50 as amended) (Cwlth) requires that directors' reports must state how the entity measures its performance including any key performance indicators. Section 300(1)(e) came into effect on 28 June 2010, so not all the annual reports viewed were subjected to this legislation. The director's report is usually located in either the financial report or the annual report. It is telling therefore that so few performance indicators were observed; there are three possibilities:

1. performance indicators are not widely used
2. there is widespread ignorance of section 300(1)(e) and/or
3. directors do not reveal them and are not being held to account.

It needs noting that section 300(1)(e) requirements do not apply to Incorporated Associations, such as Bicycle Victoria Incorporated and section 300(1)(e) only applies to companies limited by guarantee. Directors' reports are not the subject of the auditor purview, so there can be less certainty of accurate reporting. Possibilities two and three, therefore are only possible if the regulator, the Australian Securities and Investment Commission, chooses not to consider the requirement of section 300(1)(e) sufficiently important to enforce the provision. Whilst it is believed by the researcher that the usage of corporate governance performance indicators is sometimes more prevalent than these statistics reveal, it would seem unlikely on a broad scale that directors and the regulator are so manifestly deceptive or incompetent that possibilities two and three are highly credible; therefore the only valid conclusion is that corporate governance performance indicators are not widely used by not-for-profit organisations at this time.

In terms of the action research study data, regrettably it cannot be disclosed, but as disclosed in section 5.4.3, mostly the performance indicators were statements. The validity of classifying statements as performance indicators is discussed in section 6.3. Such statements are similar in many ways to the statements of intent in corporate governance codes of practice (see chapters one and two), especially sections 2.3.1 and 6.1.3.

This section made the statement 'leaving aside directors qualifications, experience and attendance'; the next section will consider directors' qualifications, experience and attendance.

6.1.2 Statements of qualifications, experience and attendance are mediocre performance indicators

It was noted in section 2.3.1 that sections 300B(3)(b) and 300B(3) of the Corporations Act 2001 (No.50 as amended) (Cwlth) requires that directors' qualifications, experience and attendance at board meetings be reported in the director's report, which is usually included in the annual report or the financial report. Clearly, the legislators considered it sufficiently important, such that disclosure of qualifications, experience and attendance is one of the few measures mandated by legislation. In Australia there are no mandated formal qualifications required to be a company director. In general terms formal qualifications in governance from professional bodies such as the Australian Institute of Company Directors or the Governance Institute of Australia, formally known as Chartered Secretaries Australia are generally well regarded but they are not mandatory for directorship. Indeed beyond such qualifications it is likely that other characteristics, such as an enquiring mind are more important. The question is, however, do formal qualifications have sufficient importance to be classified as a performance indicator of corporate governance activity? The answer is not clear.

In terms of qualifications and experience, section 5.3.3 observed the importance of intellectual competence of board members, yet none sought to ascribe performance indicators against that phenomenon. As observed in section 5.4.1, in the action research study organisation the capacity to influence the qualifications and experience of the board members may be severely limited; as noted in sections 3.1.3 and 3.1.4 the availability of suitably qualified and experienced board members may be a major issue. Leaving aside the availability of board members, the whole notion of 'suitably qualified and experienced' is a vexed issue. It is not uncommon to look to professional qualifications, such as law or accountancy, as indicators of suitable skills, yet in many cases the requisite skill may be a strong moral compass, or understanding of the client base or capacity to ask searching questions. Section 2.3.2 discussed intellectual capital requirements in the many guises of human capital, social capital, structural capital and cultural capital needed by a board, and these clearly are not capable of being summarised into simple statements of qualifications and experience.

Attendance as a performance indicator was discussed by the experts. As reported in section 5.3.3, most experts interviewed commented on the critical necessity to attend board meetings. It is clearly very difficult to meet one's obligations as a board member if you do not attend meetings; however, attendance as a performance indicator was not universally thought to be an appropriate measure as was noted by experts in section 5.3.3.

Attendance is clearly important but it is not mindless attendance that is important; diligence is more likely to be required and it would seem at least some experts may not accept simple attendance as a sufficiently robust indicator of diligence. As a performance indicator this would be a necessary, but not sufficient condition, as discussed in section 3.2.4. Whilst qualifications, experience and attendance are of some importance they are unlikely to be sufficiently logical to meet Caddy's (2002) level one measure of validity, and certainly in the case of qualifications and experience, good understanding of the measurement scale is likely to be difficult to achieve.

A phenomena observed in the data that provides some promise is that of corporate governance statements, to be discussed in the next section.

6.1.3 Corporate governance statements usage is more prevalent

Corporate governance statements are in many ways statements of intent, as described in section 2.3.1. There is much evidence of reporting by not-for-profit organisations against corporate governance codes of best practice, particularly the ASX Corporate Governance Council (2010) best practice principles. It was noted at section 2.3 that using corporate governance statements as a methodology for developing performance indicators was carried out by Epstein and Roy (2004). This section will consider the usage of corporate governance statements as revealed in the data.

It was reported at section 5.5.3, that 124 of the 237 not-for-profit organisations producing annual reports issued corporate governance statements. Notwithstanding the many inadequacies that corporate governance statements may have, as discussed in section 2.3.1, they are clearly accepted by many not-for-profit organisations as a mechanism that boards can use to fulfil part of its role. Some not-for-profit organisations report faithfully against codes of best practice published by organisations like the ASX Corporate Governance Council (2010), while others use such codes as a loose guide only. The advantage of reporting against an established code is that they are kept relatively contemporary, that is, they evolve over time; for example, recent versions of the ASX code reflect societies concern about gender diversity. The other advantage is that they have external credibility, in so far as these codes have been developed by an expert group external to the relevant board: no doubt those failing to properly report against a particular code are hoping the general public will remain ignorant. Clearly, boards are comfortable issuing corporate governance statements; these are tools that boards can readily understand.

Corporate governance statements, where reported against a commonly accepted set of principles, such as the ASX Corporate Governance Council principles and Recommendations (ASX Corporate Governance Council 2010) or the Governance Hub code (National Council of Voluntary Organisations 2010), may provide an easier introductory path for not-for-profit organisations to embrace corporate governance performance indicators. Whilst there is a question about validity in its purest form (as described in section 3.2.3), for instance they are generally not quantifiable (unless expressed in binary terms) in many other ways it would seem to have sensible levels of validity , insofar as there are generally an underlying logic, corporate governance statements are generally well understood and they can be compared with other organisations.

So far this section has considered apparent performance indicators in the form of action research study data, some examples provided by experts and those provided in annual reports and financial reports regarding qualifications and experience of board members, attendance and conformance to corporate governance codes of best practice. Only the latter example seems sufficiently complete enough to be able to draw conclusions in this thesis. This paucity of evidence of satisfactory performance indicators is only one aspect of the problem in answering the first research question, that is, the capacity to establish what are *effective* not-for-profit organisations and the link to effective corporate governance problematic.

6.2: Effective corporate governance in Australia

Chapters one and two established that the notion of corporate governance is a social construct and is continually developing and transforming. And further, there is no one 'commonly accepted' corporate governance paradigm (Tricker 2000). Indeed, the first three chapters considered corporate governance in a variety of dimensions and complexity including broad notions of accountability, ethics and control, as well as more specific notions such as implementing strategy and monitoring finance. Similarly, not-for-profit organisations were seen to have a variety of complexities and dimensions. It would seem therefore that few would argue that not-for-profit corporate governance is one-dimensional and uncomplicated.

Section 2.3.5 discussed board effectiveness and noted that organisational effectiveness can be achieved by an effective board, effective management or a combination of both; organisational performance can even be achieved when the board is ineffective. Long-term organisational performance is more likely to be achieved by an effective board replacing ineffective management. What this suggests is that an effective organisation is unlikely to exist when the board and management are ineffective. Chapter 3 argued that because of the diversity of purposes, size, stakeholders, and so forth, not-for-profit organisational performance is not easily determined.

It was noted in section 2.3.1 that the production of annual reports is good governance and furthermore section 5.5 observed that only 45% of not-for-profit organisation websites choose to adopt this method accountability. This apparent absence of accountability seems to this researcher to be a cause for concern and requires further investigation as to why stakeholders are allowing this to occur.

Instead it seems that the annual report primarily may have become a marketing tool. It was noted at section 5.5 that annual reports tended to track the organisation's performance in favourable terms because they also act as a marketing tool. Perhaps this is why almost every annual report viewed appeared to paint the organisation's (and board's) performance in a glowing manner. Even organisations that would appear to have had a difficult year, such as Alzheimer's Australia (NSW 2009) for 2008/9, (see section 5.5), saw positives not evident to the present researcher, where a great financial year was proclaimed, despite the bleak predicament the organisation found itself in.

Many not-for-profit organisations rightly recognise that the annual report is used by some stakeholders in deciding if they will support the organisation; seen in this light, the positive statement reported in section 5.5 by the Alzheimer Australia's chair is understandable, perhaps even more so, as it is makes no secret of the fact that the organisation experienced a difficult year, but he has just chosen to sandwich the setbacks between the good news.

It is perhaps not surprising that not-for-profit organisations choose not to reveal the nature of any such performance indicators nor their performance against them, because of the confidential nature of such assessments. What would appear to be an obvious indicator of poor corporate governance, which is ineffective organisational performance, is not obvious to the outside observer. As an insider, the researcher is able to attest to Bicycle Victoria Incorporated's good organisational performance. The action research study material for this organisation revealed actual board performance indicators, however as noted in section 5.4 full disclosure of those is not permitted in this thesis under the arrangement for access.

The literature on corporate governance was introduced in section 1.5.1 and more fully considered in chapter two. There was no generally agreed set of principles or models that adequately explained corporate governance. The next section now, firstly recaps what might be considered as corporate governance first principles, then the holistic derivations that flow from those. The section then considers the data revealed in this thesis and concludes that current principles and models do not support the practitioner in developing corporate governance performance indicators.

6.2.1 Contemporary corporate governance theory

As discussed in chapter two, broadly speaking corporate governance theories centre on two levels: primary mono theory and holistic theory. Section 2.1 considered the predominant mono theories and paradigms, such as agency and stewardship theory, and argued that they adequately explained certain phenomena which enabled greater understanding. Section 2.1 noted that academics had examined these specific theories and paradigms with some success. To that end, such theories are useful to the corporate governance practitioner who seeks to influence corporate governance outcomes which are moderated by particular phenomena. The problem became evident that both academics and practitioners were cognisant that such theories and paradigms have limited application. On the next level holistic theories go more toward the core of corporate governance activities: they focus on more practical, holistic outcomes of corporate governance. These were considered in section 2.2; however, it was argued that they were so vague and general so as to be of little assistance to the corporate governance practitioner. This section considers the evidence of corporate governance theory.

There is little evidence in the data to suggest that practitioners use theoretical models or frameworks to guide their actions, this is reinforced by their reluctance to engage with the BICF (see section 5.3.4). There are some tenuous references to corporate governance frameworks. For example, Bicycle Victoria Incorporated adopted a broad theoretical framework of insight, oversight and foresight, as discussed in 5.4.3. However, a consultant engaged by the organisation in 2005 promoted this particular framework but it does not appear in the broader literature. Similarly, another expert (see section 5.3.6) was able to point to the usage of another proprietary governance framework in not-for-profit organisations promoted by a consultant; again, this framework does not figure in the broader literature. On the other hand, one of the experts described the usage of the Carver (1997) policy governance model (see section 5.3.6) and Bicycle Victoria Incorporated's board charter espoused a Carver policy governance approach. However, in practice, that board failed to make any meaningful policy decisions over five years, as evidenced by the failure to publish any new policies, in the form of a regulation, on its website.

Irrespective of whether the frameworks are plentiful in the literature or more proprietary in nature, such traditional views of corporate governance would appear to be of limited use to practitioners who wish to develop board performance indicators.

Holistic corporate governance theory it would seem has not yet become holistic enough, nor has sufficient causality been established, in order to satisfy practitioners.

In the next section, the evidence from the data is examined to determine corporate governance action.

6.2.2 Contemporary corporate governance action

There was no evidence to suggest that either the experts interviewed, with the exception of the academic and the policy governance advocate, or the action research study participants used a process view or an overarching corporate governance theory to underpin corporate governance activities. When the specific model of the BICF was put to the experts, it was generally thought to be interesting, but none showed any interest in its application. Clearly, the academic was accomplished at considering corporate governance in a variety of ways, but he noted the BICF "model lacks precision" because the model is "so holistic, to do robust academic work makes it difficult" (Interviewee 1, 15 September 2009).

If the practitioners apparently do not have an overall theoretical framework to guide them, what is the guiding framework? It has been noted that a board has great influence over its roles.

The action research study material and some of the experts interviewed have suggested that by examining the roles the board undertakes, this will point to relevant critical success factors and then to appropriate performance indicators. It was noted (see section 2.3.3), that the literature on this topic is diverse and at a high level, there is general agreement on a handful of role descriptions. These include control, resource provision, including advice to management and strategy, but the problem with these descriptors is the extent to which they are implemented at a high level.

As noted in the literature, boards do one thing and one thing only, and that is make decisions. Individual board members make decisions and collective decisions flow from these decisions. Ultimately the key to any board success is its capacity to make good evidenced based decisions, and this was specifically stated in one of the nine critical success factors determined by the Bicycle Victoria Incorporated board.

As observed earlier in this section boards are at the pinnacle of decision making, thus they can and do interpret their roles widely and variously. How these decisions are made and how board roles are interpreted is the issue and this is paramount to the organisation. As previously mentioned in chapter two, Chait, Ryan and Taylor (2005) cautioned the use of task assignments as a way of defining the boards' governance role. It is also noted that the corporate governance code of practice issued by Our Community (2008, p.3) makes a similar point, when it notes: 'The code should stress what boards should actually do. A long list of things boards shouldn't do leads to caution, inertia, bureaucracy, and many other undesirable organisational traits' (Our Community 2008, p. 3).

The experts interviewed reinforced the notion that boards set their roles. Section 5.5.2 reported board roles as revealed in the annual reports. Clearly, general role descriptions may overlap. For example, oversight can relate to many other themes such as strategy or risk management. This lack of precision and the small research sample makes it difficult to place too much emphasis on the data. Nevertheless, it is noted that some themes appear to have more prominence. These are strategy, oversight, finance, organisation, performance, control / compliance, management of the chief executive officer, policy and governance and risk management. It is not clear however what governance is understood to be in this thematic context. Other themes with less prominence are transparency, reputation and provision of resources, leadership, mission / vision/ values, ethics and accountability.

The experts similarly indicated that the critical success factors that had high prominence were strategy, finances, organisational performance, chief executive officer and risk management. However, they also included leadership and reputation; these roles of course were less emphasised in the annual report data.

An attempt to reconcile the board roles articulated above to the action research study data demonstrated that boards do not draw neat boundaries around their roles. Indeed, such decisions are influenced by a range factors and it is incumbent upon any framework guiding the development of corporate governance performance indicators that it makes provision for these imperatives. Each of the critical success factors and performance indicators revealed in the action research study data could be attributed to several board roles articulated above; indeed, a particular critical success factor could be attributed to a set of board roles and the associated performance indicators could be attributed to an entirely different set of board roles.

In addition to these roles are the legal obligations and societal expectations articulated in codes of best practice. Societal expectations change. Notably, the Australian Government wants to improve the transparency and accountability of the not-for-profit sector (Treasury 2011D). These endeavours will affect how boards carry out their roles, yet it is noted in table 5-1 that boards cite transparency as a board role only 4% of the time.

If the Australian Government's desire for greater transparency is to gain any traction, the reluctance of boards to cite transparency as a key board role must be overcome. Also, as previously mentioned, almost every annual report that was viewed appeared to paint the organisation's (and board's) performance in a glowing manner.

The action research study data suggested the critical success factors and performance indicators are predicated on board roles and responsibilities as articulated in the board charter. Yet the means to which this is to be achieved was not as clear as it could have been. An issue evident in the data collection was the failure by the Bicycle Victoria Incorporated board to understand what policy governance (Carver 1997) means, even when espoused in their own documents. As noted in section 6.2.1, the Bicycle Victoria Incorporated board charter called for a policy governance approach, yet there is no evidence of policy formulation.

A clear output of the board and management may be policies. At a corporate governance level this is often known as the Carver policy governance model (Carver 1997). Policies are the bedrock of an organisation; they serve to ensure the will of the board and management is carried out and importantly they can be used to ensure that an individual's activities comply with the organisational purpose or strategy decided by the board. Because policies are respected by most industrial tribunals under threat of termination of employment, they can also be used to ensure individuals within the organisation comply with other requirements of the board or management such as executing the strategic plan, providing safe working conditions, ethical behaviour, avoidance of discriminatory practices, etc. The existence of policies also provides a powerful platform of legal defence in the event of illegal actions by management or staff.

In practice, many boards are not guided by a philosophy, but rather an agenda, it is a mechanism that influences the way most boards undertake their work. This simple mechanism orders the work carried out at board meetings. Often the agenda stems from a board's annual calendar of work, and many boards at the beginning of the year plan what they must and expect to achieve. And this, unless diverted by matters emerging throughout the year, directly influences the agenda at each meeting.

The way each item of business is framed in the agenda often serves to set how the item is dealt with in the meeting, for example, if the agenda item is 'approve the minutes' of the past meeting, then this is generally what happens. If the agenda item is to receive the financial statements, then that is what the minutes generally reflect and this is what the board generally does. However, this is not the full story; seldom does the agenda vis-a-vis financial statements draw conclusions that the organisation is solvent, financially well managed, likely to meet the budget in achieving its strategic and mission objectives, is sustainable, utilises its resources optimally, is not breaching any laws, has a competent chief executive officer, is ethical and so forth. Yet all of these conclusions, to greater or lesser extent, can be made and, more importantly, are expected to be made from the simple act of receiving the financial statements. How individual board members actually go about complicated tasks, often with hidden meaning, such as receiving the financial statements is not clear.

How boards operate behind closed doors varies considerably, as previously argued. Furthermore, as established in sections 1.3 and 4.3, actual board practice is difficult to study because many boards are reluctant to reveal their inner workings.

This, however, is only the tip of the iceberg; there has not been enough recognition in corporate governance models per se that individual decision making affects collective decision making. The BICF goes some way towards addressing this issue by recognising such things as group dynamics but it fails to contemplate adequately the inner workings of individual decision making. The reason is obvious: it is notoriously difficult. Given these facts, one is left to wonder whether any model that is simple enough to be communicated and understood can ever be developed and which can have adequate causality to enable a predictable outcome.

Yet somehow practitioners have established frameworks that enable them to operate. This section has argued that in practice these frameworks were developed around the carrying out of specific tasks: they receive the finance report and they approve a budget allocation that directs the chief executive officer to allocate resources in accordance with a certain strategy. Either way, practitioners develop a framework of reference that makes sense to them; accordingly, they should be able to develop a set of corporate governance performance indicators that also make sense. Certainly, as observed in section 5.4.3, the Bicycle Victoria Incorporated board was able to arrive at critical success factors fairly quickly.

This thesis has not been able to establish a corporate governance role set that is universally applicable, and it is open to interpretation because individual board members may have different and potentially unique visions.

The activities that occupy the boards could be selected from the set described in table 5-1 above, but it was interesting that only one of the practitioners conceptualised corporate governance as a decision-making role, yet he was very focused on strategy formulation and implementation. The expert practitioners described the factors that are important in terms of activities.

6.2.3 Corporate governance toolkits

One of the phenomena promising greater transparency is the usage of corporate governance statements. The usage of these mechanisms was considered in section 6.1.3, where it was argued that corporate governance statements can be likened to corporate governance performance indicators.

A board's performance evaluation and corporate governance performance indicators are also mechanisms that boards use to improve their performance; however, it is not clear how they go about using these tools. It was previously noted that section 300B(1)(e) of the Corporations Act 2001 (No.50 as amended) (Cwlth) requires disclosure of how performance evaluations are conducted but few not-for-profit organisations meaningfully do so. Clearly, some boards do not use them at all; this may be because they lack a clear understanding of how to implement them. There are two advantages in a board using mechanisms and tools familiar to board members: 1. they know how they work and are less threatened by them, and 2. because such tools in their own right are the way boards and often organisations carry out their work, such mechanisms are of central importance to what corporate governance performance indicators should be based on. However, not all boards will see the centrality; what is important is that boards use an approach for the development and implementation of corporate governance performance indicators that make sense. For example, it was noted that boards are using corporate governance statements (see section 6.1.3) because they are tools which they can see and understand. Similarly, some consultants use toolkits.

The experience in the action research study organisation was similar, although a large shopping list of performance indicators was not initially available (see section 5.4.3). It was clear to the Bicycle Victoria Incorporated Constitution Committee that its role was to put before the board more success factors than were needed, and from this list the board could select relevant critical success factors. The themes were risk, strategy, finance, insight, induction, chief executive officer, board and management functions, oversight and foresight, ethical behaviour, accountability, stakeholders, organisational culture, whistleblowing, communication and transparency, recognition of conflict, board processes and remuneration.

Other experts discussed a range of broad themes which could be added to the shopping list, for example, membership recruitment or staff turnover and financial oversight was highlighted as critical.

The same lack of clarity can be said of most board roles outlined in section 5.5.2 including strategy. A key mechanism that boards are involved in is the strategic plan, which is central to resource allocation and action. Whilst the organisational purpose ought to set the overall objectives, the purpose is seldom redirected on a frequent basis; however, it is the strategic plan that has currency and relevance and, of course, it articulates how an organisation will achieve its purpose. Agenda items often simply refer to approving the strategic plan. As was noted in section 2.3.3, exactly how boards and individual board members go about approving a strategic plan is not clear; the reality is that they muster all the information at their disposal to assess, in some cases contribute, or even devise the strategic plan. Given its central importance to the organisation, it is little wonder then that several of the experts and the Bicycle Victoria Incorporated action research study sought to link corporate governance performance indicators to the strategic plan.

6.2.4 Possible critical success factor and performance indicator phenomena

The interviews with corporate governance experts yielded several phenomena that they considered important in the development of critical success factors and performance indicators. As noted previously, none were able to the point to the usage of a comprehensive set of corporate governance performance indicators.

In fact, one of the two most prominent themes that emerged from interviews with corporate governance experts was strategy. Four referred to strategy or the strategic plan as key to developing performance indicators.

The incidences of strategy referred to by interviewees includes various manifestations within the board's domain, including developing and monitoring compliance, but also as a document in which to ground the board's consideration of overall organisation performance. The prominence of strategy is matched by finances. A common measure that featured in the expert's discussion was measuring money; the prevalence and importance of receiving financial reports was referred to by four interviewees. As one expert noted (see section 5.3.5), financial oversight is absolutely key. The last item with a high degree of prominence was people turnover.

These three themes were the most common; the remainder of the themes seemed to be situational and individual dependent, except that most saw the development of corporate governance as difficult. It nevertheless was widely supported and most experts saw merit in the development of such performance indicators; some experts were convinced that the development of such performance indicators would lift the performance of the board.

It is therefore not surprising (see section 5.3.6) that most of the experts expressed concern for follow through, that is to say if a board does undertake the arduous task of developing its own corporate governance performance indicators it must follow up with action.

The lack of wide acceptance, precision and holism in corporate governance theory, coupled with the practitioner's capacity to put activities into a context by evaluating a very broad range of data, leads this thesis to propose a framework with a very open approach to enabling the board to determine its own critical success factors and performance indicators.

6.3: Choosing valid performance indicators

As alluded to above, of the few performance indicators evident, there is a very real question as to the validity of classifying any as performance indicators of corporate governance activities identified in chapter five and here. Section 3.2.3 initially discussed issues of validity, arguing that it can exist at several levels, that section then went on to discuss issues concerning the taxonomy of performance indicators, providing an opportunity to select the more effective of the valid performance indicators available.

Section 3.2.3 stated that validity is taken to mean that the indicator must be a fair representation or proxy of the phenomena being studied. The literature established that performance indicators are objective quantifiable measures of the performance of an activity, and they are usually designed to track a particular dimension of performance. The phenomenon being studied here is effective corporate governance in Australian not-for-profit organisations. Notions of such governance were discussed in section 6.2, where it was far from clear; it is clearly a social construct with some common but many varying aspects. The most challenging part of establishing performance indicators for a social construct is establishing quantifiable measures as shown by the Bicycle Victoria Incorporated case, where arriving at critical success factors was quicker but the development of performance indicators was difficult.

It was noted at section 3.2.3 that validity can be considered in terms of the following levels:

1. level one is achieved when the metric is valid from a first principles basis, meaning there is an underlying logic to the measure

2. level two is achieved when the measurement scale is well understood including linear, exponential or logarithmic scales
3. level three is achieved when the metric allows valid comparisons with other internal measurement data
4. level four is achieved when the metric allows comparisons with data from other organisations (Caddy 2002).

The experts identified performance indicators for strategy, membership growth and attendance. As performance indicators of not-for-profit corporate governance in all of its dimensions and complexity, strategy, membership growth and attendance probably fail to achieve level one above for the purposes of this thesis. However, in their own right, they may very well be logical for a single dimension of corporate governance as it applies to any particular not-for-profit organisation. The first question in respect to Caddy's (2002) criteria is that there is an underlying logic to the use of either strategy—membership growth or attendance—as an indicator of effective corporate governance.

As noted in chapter 5 and in section 6.1.1 above, none of the experts interviewed (although some had unique insights about organisation performance) were able to point to the comprehensive usage of performance indicators for the corporate governance function. However, one was able to show an extensive use of performance metrics usage in the implementation of the strategic plan, including performance indicators for the board itself as they relate to the strategic plan. There was acceptance of the importance of strategy, finance and staff and board turnover (intellectual capital) as important phenomena warranting performance indicators, but with the exception of strategy, no examples provided were being used as corporate governance performance indicators.

The performance indicators arrived at in the action research study were certainly multi-dimensional in terms of aspects of corporate governance (as discussed in section 6.1.1) and they did achieve level one validity, described by Caddy (2002) as having an underlying logic. The critical success factor and performance indicator for Bicycle Victoria Incorporated reported in section 5.4.3 clearly have an underlying logic of seeking appropriate and effective systems to ensure ethical behaviour, compliance with regulations and proper risk management.

In consideration of level two validity, that is to say that is they have a measurement scale was understood (as discussed in section 3.2.3), notwithstanding the clarity of the two aspects of the measurement scale in the performance indicator reported for Bicycle Victoria Incorporated at section 5.4.3, it was noted in section 6.1.1 that they were mostly statements of intent. For example the objective to establish a communication and whistleblowing mechanism by some date in the future is a statement of an intention that may or may not be achieved. Section 3.2.3 also noted that performance indicators are quantifiable but that this could be on a binary scale. Therefore if the statement is written in such a manner that the phenomena is either achieved or not achieved, with no other possible result, then such statements are able to be classified as performance indicators, providing other levels of validity are satisfied. In terms of being understood (as noted in section 5.4.3), the acceptance of the performance report at the October 2010 meeting suggests this did occur. Level two validity was therefore achieved.

The only Bicycle Victoria Incorporated performance indicators that have been specifically revealed to the reader are those set out in section 5.4.3; however, the entire set was available to the researcher. These were numbered as set out in the first column in appendix 15. An assessment of the achievement of validity based on Caddy's (2002) criteria utilising the researcher's in-depth knowledge of the case organisation was made. Those performance indicators were designated the numbers 4.1, 4.2 and 4.3. As can be seen from appendix 15 the researcher judged that the Bicycle Victoria Incorporated Board did not understand the measurement scale for performance indicator 3.1 and 8.1.1; these related to using the appropriate mix of skills and experience and processes to ensure that the Bicycle Victoria Incorporated Board understands certain documents. Clearly, these are very perplexing concepts to measure.

In terms of validity levels three and four, the action research study performance indicators mostly did not enable valid comparisons with other internal measurement data, nor allow comparisons with data from other organisations, with the exception of: 4.1 (The board annually reviews the control framework); 7 and 8.1.2 to 8.3 achieved level 3 validity, which related to an internal control framework, communication policies and aspects of communication between the board and management. In each of these instances a comparison was possible within the perceptions (or realities) of internal management. For instance, both board and management are able to review (and make conclusions on) the internal control framework.

Another characteristic of the action research study indicators was that they could be described more as statements of intent, requiring subjective assessment of achievement or otherwise, rather than being measurable as sought by SMART criteria (as discussed in 3.2.3).

Very little evidence of the usage of corporate governance performance indicators was revealed by the review of annual reports. Arguably, reporting against corporate governance statements is the reporting of performance indicators; in most aspects there is an underlying logic to the criteria, which is well understood, and certainly comparisons are able to be made with other organisations. Therefore the use of corporate governance codes of practice generally achieves one, two and four levels of validity. Level three validity is difficult and unlikely to be achieved because of the unique perspective that boards operate from, that is, many of the tasks are solely within the board's domain thus valid comparisons with other internal measurement data, as previously mentioned, is likely to be difficult.

Allied to this is that where such corporate governance statements are made using a particular code, such as the ASX Corporate Governance Council (2010) best practice recommendations, here greater levels of validity, perhaps even level four validity, are possible using Caddy's (2002) criteria. Section 3.2.3 noted Caddy's (2002, p.85) statements that the highest levels of validity require 'similar data gathering and data calculation procedures'. A corporate governance statement thus largely requires subjective assessment that an organisation meets certain criteria.

In terms of arriving at the performance indicators of effective Australian not-for-profit corporate governance the most comprehensive data set was revealed in the action research study; however, a single action research study data achieving levels one and two validity is not sufficient to draw meaningful conclusions, although it can support data revealed in other domains.

The only valid conclusion that can be drawn regarding the first research question is that there are currently no performance indicators of effective Australian corporate governance, notwithstanding that some exist or are emerging for specific organisations or specific contexts. Central to this finding is:

1. an absence of sufficient actual performance indicators observed in the population to enable any assessment of *the* performance indicators
2. an absence of sufficient data available to establish *effectiveness* of not-for-profit corporate governance
3. even where moderate instances could loosely be described as performance indicators, such as those indicators relating to strategy or pseudonyms for performance indicators, such as corporate governance statements, they are not valid in accordance with the principles set out in section 3.2.3 or not expressed in ways that provide sufficient validity to be classified as performance indicators.

The chapter summary calls for the need for a new framework for the development of corporate governance performance indicators.

6.4 Chapter summary

This chapter discussed the findings of the data collection: the comprehensive use of performance indicators by boards is not common, probably because the development of such performance indicators is difficult, and the high capacity for boards to variously interpret their roles affects individual not-for-profit organisations. The findings did reveal reluctance by boards to embrace transparency; however, this reluctance is not absolute because there is indication that not-for-profit organisations are prepared to disclose corporate governance practices by way of corporate governance statements.

The chapter then considered corporate governance theory in Australia. In summary, there is no evidence to support the use or validity of the BICF. It is suggested that the embracing of corporate governance statements is because these are mechanisms that boards can readily understand and embrace. These statements may offer a way for not-for-profit boards to lead in to corporate governance performance indicators in the future. This leads to the conclusion that boards need a new framework and this is more thoroughly discussed in chapter seven. This chapter re-examined traditional corporate governance principles and practice and set the scene for a new framework. Lastly, the chapter considered the issue of validity of corporate governance performance indicators in the Australian context.

Table 6-1 summarises the key conclusions made in this chapter.

Table 6-1 – Key conclusions of chapter 6

Summary of key conclusion	Discussion in section
Comprehensive usage of performance indicators by not-for-profit board is not common	6.1 & 6.1.1
Statements of qualifications, experience and attendance is a mediocre performance indicator	6.1.2
Corporate governance statement usage is prevalent	6.1.3
There is little evidence that practitioners use theoretical models of frameworks to guide their corporate governance action	6.2.1
Board set their roles and they appear to be specific tasks; prominent tasks are strategy, oversight, finance, organisational performance, control, compliance and management of the chief executive officer	6.2.2
Board use tools to carry out their work and therefore a tool to establish performance indicators is needed	6.2.3
Common ideas for performance indicators are strategy, finance and people turnover	6.2.4
The first research question can not be answered	6.3

This chapter has discussed the available evidence and concluded that the first research question can only be answered in the negative, that is to say there are currently no performance indicators for Australian not-for-profit corporate governance. This is due to the absence of sufficient actual performance indicators observed in the population to enable any assessment of *the* performance indicators, and the absence of sufficient data available to establish *effectiveness* of not-for-profit corporate governance generally. Finally, where context specific or pseudonym performance indicators are evident, they are generally not valid in terms of the principles outlined in section 3.2.3.

The next chapter discusses the process for determining performance indicators for not-for-profit corporate governance.

CHAPTER 7: PROCESS FOR DETERMINING PERFORMANCE INDICATORS

This chapter discusses and draws together the data collected and makes conclusions that address the second research question: What is the process for determining the performance indicators of effective Australian not-for-profit governance?

The findings presented in chapter six make it clear that there are currently no performance indicators for Australian not-for-profit corporate governance and importantly that boards tend to use tasks to carry out their roles and they prefer to work with established tools. A tool that not-for-profit boards are comfortable with is corporate governance statements. Reinforcing these points is the knowledge gap established in the first three chapters, which is whilst the usage of performance indicators is common outside of the board room it is lacking within.

This chapter firstly considers the approaches to develop performance indicators in not-for-profit organisations in Australia as presented in the findings, and then argues that a new framework is needed and presents the drivers for this new framework. It then goes on to propose a new framework for the development of performance indicators by not-for-profit organisations including consideration of how best to implement such a framework. In summary, the proposed framework is a simple process model with sufficient flexibility to enable the particular board to determine their own roles and critical success factors. And by considering those together with the mechanisms that they employ, valid performance indicators can be assigned.

7.1 Evident approaches to determining performance indicators in Australia

This section considers the approaches to determining performance indicators for corporate governance activities for not-for-profit organisations as revealed in the data, which identifies four approaches to the development of performance indicators. These are:

1. Corporate governance statements. An expert's contribution and discussion in relation to the action research study organisation in section 7.1.1
2. A board's role approach utilised by the action research study organisation is dealt with in section 7.1.2
3. Section 7.1.3 considers a simplistic approach revealed by several experts
4. Section 7.1.4 considers an approach whereby the strategic plan is the primary objective.

Although these four approaches are not exhaustive, it is useful to examine them. The remainder of this section considers each in turn.

No doubt other approaches to developing corporate governance performance indicators are being used in the not-for-profit sector in Australia. At the very least, a Balanced Scorecard approach (as discussed in section 3.2.4) is absent; however, as discussed in sections 1.3 and 4.1.2 access to any board's inner workings is difficult to acquire and, based on what access was available, conclusions can nevertheless be drawn, and these were largely discussed in chapter five.

7.1.1 Corporate governance statements approach

It was noted in sections 2.3 and 6.1.3 that corporate governance statements can be the basis for developing corporate governance performance indicators. For instance, it was also noted in section 2.3 that Epstein and Roy's (2004) approach was based on, amongst other things, corporate governance codes. One of the experts interviewed provided a copy of his board governance policy based on the UK Governance Hub code (National Council of Voluntary Organisations 2010) (see section 2.3.1). He developed this code of practice with the help of some members of his board. This document extends the UK Governance Hub code (National Council of Voluntary Organisations 2010) to detail specifically how the principles are to be addressed. As noted in section 5.3.6, the expert has stated that, in his opinion, the board will eventually monitor and report such documents as board governance policy. Clearly, therefore, such a document can be central to the development of corporate governance performance indicators. A similar observation can be made from the action research study organisation, which used a board charter as a basis for developing corporate governance performance indicators, notwithstanding that as discussed in section 5.4.3, the Bicycle Victoria Incorporated board charter was not underpinned by an externally validated governance code, such as the UK Governance Hub or the ASX Corporate Governance Council (2010) best practice principles.

As noted in 5.4.2 the action research study organisation has been making corporate governance statements since before 2003. From 2006, the organisation started to report against the ASX Corporate Governance Council (2003, 2010) best practice principles. As noted in section 5.4.3, these were drafted by the researcher and approved by the Bicycle Victoria Incorporated Board. The prevalence of corporate governance statements may be a way for professional bodies to introduce performance indicators, particularly if a version of the UK governance hub code is adopted.

Throughout the development of the performance indicators exercise discussed in the next section, there is no evidence to suggest that the Bicycle Victoria Incorporated Board viewed these corporate governance statements in the context of a performance indicator. In fact, a board role approach beginning with the board charter approach was adopted by the action research study organisation. The next section discusses that approach.

7.1.2 Board role approach

As noted in section 5.4.3 Bicycle Victoria Incorporated developed its performance indicators by taking an approach which used, as a basis, the board roles as articulated in the board charter, and then brainstormed and workshopped a number of factors that were thought to be critical success factors in the successful fulfilment of board roles. A large number of critical success factors and performance indicators were derived and these were modified (over multiple meetings of the board and various committees) to arrive at a set that was acceptable to the whole board. The critical success factors were arrived at fairly quickly; however, arriving at performance indicators was a time-consuming process.

The Bicycle Victoria Incorporated action research study took nearly four years to develop a reasonably comprehensive set of performance indicators. The desirability of developing key governance indicators was first mooted by the organisation's board in October 2006, supported by the Bicycle Victoria Incorporated Constitution

Committee in May 2008 and by the board in August 2008, but was only queued for action by the board in April 2009. The following month's negotiations started with an external governance consultant; the Bicycle Victoria Incorporated Constitution Committee reviewed this engagement in July 2009 before it was resolved by the board to devote one half day of its October 2009 retreat to the topic. In the interim, the Bicycle Victoria Incorporated Constitution Committee worked with the consultant from August 2009 to prepare for the retreat. After the retreat, some further work was required by the Bicycle Victoria Incorporated Board Renewal Committee to settle on some due dates, and this was finally concluded in August 2010. In all, the exercise took nearly four years, from its initial germination in 2006 to the culmination of a final report on board performance in September 2010.

It was noted in section 5.4.3 that there was a disconnect between the critical success factor and the resultant performance indicators; this is partly due to the lack of clarity on how to arrive at performance indicators and, in particular, the failure to consider the mechanisms the board utilises to influence or affect that critical success factor.

Even though the definition used by Bicycle Victoria Incorporated of performance indicators called for objective, quantitative indicators, the board mostly did not arrive at quantitative performance indicators, but rather statements. It is unclear if the approach adopted by Bicycle Victoria Incorporated is sustainable over the long term due to exit of key staff and champions amongst the Board including a change of the Board Chair. The next section discusses an approach mooted by some of the experts interviewed.

7.1.3 Simplistic approach

Notwithstanding the discussion in section 6.1.2 concerning attendance as an inferior performance indicator, the available evidence from the experts nonetheless points to acceptance of very simple performance indicators embracing aspects of the corporate governance role set. That is to say, some practitioners are prepared to accept mostly mono-dimensional performance indicators covering simple things like the funds that board members are able to generate for the organisation or the attraction of new members by a particular board member, to more complicated but nevertheless mono-dimensional tasks associated with strategy development and implementation. It has been previously noted (see section 6.1.1) that one expert accepted membership growth in a region. This may be due to the difficulties revealed in the discussion at 3.2.3 concerning some of the validity and taxonomy difficulties in establishing corporate governance performance indicators, but unfortunately this is not the only difficulty presented. The last of the approaches observed in the data was a multi-dimensional approach orientated towards implementing organisational strategy.

7.1.4 Strategy approach

One corporate governance expert was able to provide considerable information on an approach designed to develop and deliver on a strategic plan. This approach utilised a template driven approach, whereby information is fed into the strategic plan by a facilitated board and senior managers' retreat. During this retreat, the board is taken by the consultant through various steps that lead to the development of the strategic plan. One of these steps includes the exposure to thousands of standard strategy performance metrics from which the board can select. From this information the consultancy company is able to put together a glossy strategic plan and present to the management team a number of reporting templates, including the agreed performance indicators for future use in reporting implementation progress of the strategic plan. These performance indicators apply to all staff involved in the implementation of the particular strategy, including performance indicators for which aspects of the strategy the board may be responsible. The consultancy company looks to have iterative and continuous contact with the not-for-profit organisation and in so doing improve future robustness and integrity of the plan and reporting systems. Another key is that the consultancy company provides a series of modularised tools, such as risk management tools, which feed into and nourish the developed strategic plan and its implementation.

All of the approaches discussed earlier in this chapter illuminated the thesis and provided input to the proposed new methodology to be discussed later in this chapter. The data concerning the need for a framework of tools or mechanisms which boards can utilise to develop their own corporate governance performance indicators will now be considered.

7.2 A new framework

Sections 6.1.1 and 6.1.2 established that the incidence of the usage of corporate governance performance indicators in Australian not-for-profit organisations is rare, yet corporate governance statements are reasonably prevalent. As noted previously, such statements in many ways fulfil the requirements to be classified as valid performance indicators, if expressed in quantifiable terms, which may be possible if they were binary measures. Section 6.2.3 described the dependence that boards have on tools that they can readily understand and implement.

Section 2.3.4 discussed board roles at length and sections 6.2.3 and 6.2.4 canvassed a variety of mechanisms that boards fulfil those roles.

A review of the literature has established that there is very little in the way of established processes or tool kits and mechanisms to determine corporate governance performance indicators and this has been reinforced by the findings so far, in this and the previous chapter. Where tool kits or mechanisms are established, not-for-profit boards have readily adopted them, consider for example, the usage of corporate governance statements. A key premise of this thesis is that boards need toolkits or mechanisms that they can readily understand and implement, and this premise is discussed in this section. It was noted above, that boards are free to determine their own role set, but in addition, they are free to determine how they carry out that role set. It has been previously stated in section 6.2.3 that boards use mechanisms and tools to carry out their work, and this section considers this proposition. A too narrow definition of 'mechanisms' would serve to limit the boards' capacity to determine what means it employs to go about its work; mechanisms could include such systemic mechanisms as financial systems, risk management systems, compliance systems and strategic systems. These mechanisms often take the form of a commercial or business type orientation; ideally, they reflect the way not-for-profit organisations operate.

However, mechanisms in this context can mean more than just using commercial or business systems and practices; it could mean using a certain higher order philosophical approach. In a religious not-for-profit organisation, for example, this could be having regard for Christian values such as *"Lives changing and communities growing by care through Jesus Christ"* described in the Anglicare (2010, p.2.) annual report; as well as this sort of philosophical approach, an approach promoting virtues, such as ethics, accountability and transparency, may be added, and in a board context the Carver policy governance model (Carver 1997) could be added. As noted previously, one of the experts was very clear that the Carver model was the appropriate way to carry out a board's role.

Boards use mechanisms to order and assist in the making of decisions; for example, they use agendas to order the items they will consider at a meeting and they use financial, risk and chief executive officer reports to oversee such matters as solvency, organisation performance and strategy implementation. Overall, these mechanisms are well developed and understood. Often underpinning these mechanisms are conceptual frameworks or an underlying set of ideas. In the financial reporting context, the underlying framework would be general accounting conventions and specific accounting standards; in the risk reporting context this may be the Australian Risk Standards (Standards Australia 2004) and in the chief executive officer reports, these may be general business communication techniques or perhaps even formats adopted in the organisation's strategic plan.

It has been argued in this thesis that one way a board's performance can be improved over time is to implement performance reviews of its own corporate governance activities against pre-agreed performance criteria. For boards to be able to successfully pull this off, they need a readily understood and accepted methodology, and before this can be derived a board framework also needs to be understood and accepted.

There can be no doubt that the difficulties and delays experienced by the Bicycle Victoria Incorporated board can be attributed to the episodic nature of the board and particularly board committees. This exercise was but one of the many tasks that the board decided to tackle at any one time. In addition, contributing to the difficulty was the fact that generally understood and accepted methodologies or frameworks did not support such work. The action research study makes it extremely clear that this is a difficult and arduous task that should not be underestimated. The wider data, not just the action research study, provides guidance to boards wishing to establish their own performance indicators.

The literature review observed that several authors, such as De Lacy and De Lacy (2004), Carter and Atkinson (2006) and the AICD (2006), advocated the improvement of corporate governance practice by keeping it simple and building on what is currently in existence. As noted in section 5.4.3, Bicycle Victoria Incorporated continuously improved its corporate governance performance. Similarly, it was recommended in section 1.5.3 to start with what you have got and build on that, and it is notable that the usage of corporate governance statements is more prevalent.

This section has established that current mechanisms of developing corporate governance performance indicators is mostly impractical, because they are either too time consuming or they fail to produce valid corporate governance performance indicators, yet there are two factors that offer opportunity for not-for-profit boards to enable them to reach their goals:

1. the current usage and acceptance of corporate governance statements
2. evidence that continual improvement and ‘small steps’ may be possible.

The next section advances the argument for the drivers of a new performance indicator framework.

7.3 Imperatives of the new framework

Sections 1.5.3 and 3.2.1 of this thesis revealed that authors and commentators see merit in establishing performance indicators that apply to the boards’ corporate governance activities. This view was reinforced by the interviewed experts (described in section 5.3) and action research study (described in section 5.4).

Chapter two established that corporate governance is developing and changeable. Sections 1.5.1 and 2.1 argued that traditional corporate governance models, whilst having relevance in some narrow circumstances, are inadequate in broader contexts. Traditional models that look to assign causality to some specific factors, such as chief executive officer opportunism (Cornforth & Edwards 1999), are examples where too limited a scope often render them invalid. It was argued in section 2.1 that single dimension theories, such as agency theory, may not be valid because the theory inadequately explains the phenomena influencing corporate governance action.

Similarly, in sections 5.3.4 and 7.1 it was argued that there is no evidence to support the validity and usage of elaborate holistic models, such as the BICF, notwithstanding that such models do contribute to understanding board behaviour.

That is not to say that systems and tools, such as the BICF, are not relevant. A valuable contribution is that holistic process models, like the BICF, introduce the notion that board activities are influenced by inputs; a tool is but one of these inputs and places the centrality of intellectual capital squarely within a board's function. Beyond the insights this model can provide is the irony that boards often carry out decision making by using systems or tools; for example, the financial reporting system enables the board to carry out an overview of the organisation and the chief executive officer, and it is central to decision making concerning the allocation of resources and the development of future initiatives or strategy. At another level, the use of the board's annual calendar of work is a simple process that allows the board to plan and carry out its work for the year. Similarly, the use of board committees for detailed thinking and work is a process utilised by many boards. The list of processes is large and likely to expand over time, as new technologies emerge and corporate governance thinking advances.

Chapter three discussed the very wide variety of areas and issues that not-for-profit organisations face, so complicated that in-depth familiarity with the organisation, its purpose and its environment is difficult to achieve. The board of directors and chief executive officer is best placed to achieve this.

Section 2.4 concluded from the literature that the approaches available to the board to establish its performance indicators could be based on:

a. an unplanned approach
b. an approach underpinned by strategy
c. critical success factors
d. board roles
e. a corporate governance systems approach
f. a balance or combination of these.

This thesis has added:

g. simplistic mono-dimensional performance indicators.

To a limited extent, these approaches were examined in contemporary practice. Section 7.1.2 considered a combination of critical success factors and board roles and section 7.1.4 considered a strategy driven approach. The evidence is clear that this is a difficult task for boards and this is supported by the literature. Section 1.5.3 for instance noted the need to keep the performance management task simple. The same would apply to the development of performance indicators.

Sections 6.2.2 and 6.2.3 argued that boards engage with mechanisms to carry out their work; while these mechanisms ought to be broadly defined they can include relatively sophisticated mechanisms, such as the BICF, or simple tools such as agendas; they can also include social principles or virtues such as ethics and accountability. Section 6.1.3 noted the apparent acceptance of corporate governance statements and that where these were expressed in such a way so as to have binary answers or responses, they could be considered as performance indicators achieving Caddy's (2002) level one, level two and possibly level four.

A critical driver in most boards is gradual change and continuous improvement as not-for-profit boards are usually conservative and slow moving.

Proper scope and definition of the process map is critical (as introduced in section 2.3). A scope that is too narrow eliminates potential critical success factors and a scope that is too wide leads to the exercise taking too long and becoming more complex than necessary. As noted in the literature review, 'this step requires experience, intuition and creativity' (Reynolds 1992, p.25). This thesis recommends that the board engage a skilled consultant to help it perform this task; this is more extensively discussed in section 6.3.1. Here it is argued that because corporate governance is not universally defined and commonly accepted and not-for-profit organisations are varied, the board is crucially and decisively placed to determine its own performance indicators. Thus there is a need within the not-for-profit organisation's corporate governance practitioner's community for a methodology that can be applied to satisfy the need for the development of performance indicators.

To summarise, the factors establishing the need and imperative for a new framework are:

- Authors and commentators see merit in establishing performance indicators
- Corporate governance is developing and changeable
- A wide variety of areas and issues are faced by not-for-profit organisations
- Literature offers little guidance for the board in how to attend to the task and the action research study material demonstrates the difficulty
- Boards engage with mechanisms to carry out their work
- The widespread acceptance and usage of corporate governance statements and argument that where these were expressed in such a way so as to have binary answers or responses they could be considered as performance indicators
- Change in most boards is gradual and not-for-profit boards are usually conservative and slow moving.

Together these factors provide an opportunity to propose a new design framework building upon these factors. The proposed new design framework is fully described in the next section.

7.4 New design framework

Effective corporate governance can only be achieved by the successful carrying out of a properly defined board role set. Furthermore, boards must have effective mechanisms that enable them to fulfil those sets. The proposed new framework has three tenets:

1. The critical success factors will be drawn from the role set that a board articulates for itself, these could be informed by the BICF or corporate governance codes of practice
2. The performance indicators will be based on the mechanisms that the board engages to carry out that role set or the critical success factor, and again these could be informed by the BICF or other process map
3. The performance indicators must be simple and continuously improve and these should be moderated by the technical issues of performance indicators as discussed in section 3.2.3.

By reaching agreement on board roles and by considering how its task is fulfilled or what mechanisms the board can or does utilise to undertake the critical success factor, this can be used as the basis for measuring performance.

This is diagrammatically represented in figure 7-1 in the next section. Section 7.4.2 considers the major building blocks in the framework, however, it would be dangerous to limit these, as the environment is constantly changing and boards will be subject to new factors at all times. Notwithstanding this fluidity, some sort of conceptual model is required to assist the board to develop performance indicators, as outlined in sections 7.2 and 7.3.

7.4.1 Design methodology

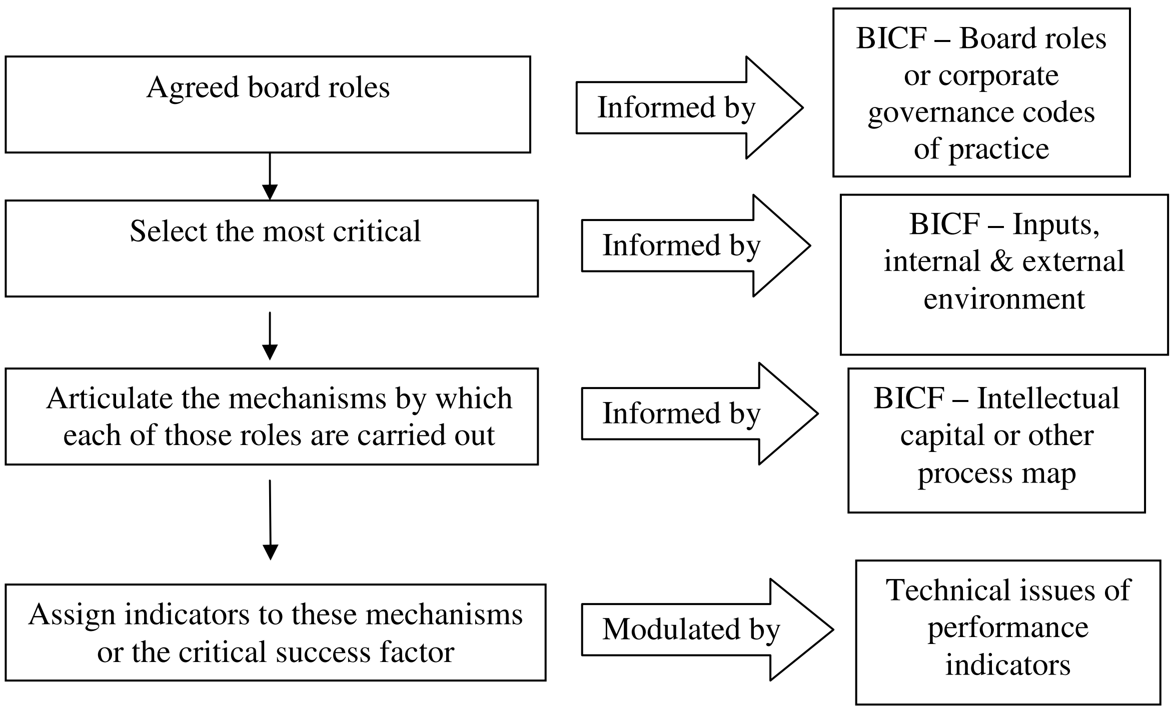


Figure 7.1 – Diagrammatic view of the new design framework

It is important not to pre-design board roles or the mechanisms that are used to fulfil them; because the particular roles and resources are so varied in not-for-profit organisations the articulation of these roles must be determined by the board.

Put another way, an important aspect of this framework is that the board decides what they are going to be involved in and what factors are critical to their success. The individual board needs to reach sufficient agreement on key board roles and the established mechanisms, circumstances and resources available for that individual not-for-profit organisation to influence that role.

Board members and corporate governance practitioners can insert any factors or models they choose. For instance, a modified BICF could be inserted into the mechanisms inputs; for example, this could be a sound basis for debate in the boardroom about which factors are to be retained and which ones should be discarded, thus reaching a consensus and shared understanding on key inputs. From there, performance indicators can be developed. The proposed framework does not call for the rigid application of the BICF or high levels of validity (as discussed in section 3.2.3) but simply that these have the potential to inform or moderate the decisions. Equally, if board members do not wish to start with a specific theory, tasks or organisation specific circumstances can be inserted.

Clearly, this is a simple framework and whilst causality is subjective, the framework is unlikely to appeal to academics because it is so loose as to be almost impossible to study using traditional techniques to establish causality. That is to say, it will be very hard to empirically prove its validity. The framework, at least in the context of designing performance indicators, is likely to be embraced by corporate governance practitioners as the framework is simple, complete, flexible and practical. The next section discussed key building blocks in the proposed framework.

7.4.2 Building blocks

This section will discuss the building blocks of the proposed framework by discussing role sets, critical success factors, mechanisms and performance indicators.

Despite the absence of a universally accepted corporate governance paradigm, as discussed previously in chapter two, there is nonetheless some form of shared understanding about what the nature of board work is. Whilst corporate governance practitioners may not be able to operate within or articulate a neatly defined theoretical model, there is clear evidence that they are able to use some tools that enable them to fulfil their role sets, and these help practitioners articulate the inputs affecting individual and collective decisions. Firstly, in section 6.2.2 it was confirmed that boards establish their own role sets, and that some specific tasks, such as strategy, have very high acceptance.

The proposed first step is to consider performance and how this can be achieved by the board. The inevitable answer lies in the carrying out of a particular role set. Its articulation requires a sufficient degree of specificity to be meaningful; for instance, it is not useful to simply state that the board's role is to make clear decisions, although clearly that is its central role.

A challenge is proper articulation of that role set, because it has been shown that what is required for one not-for-profit organisation may be different to another because of varying factors such as size, history and so forth. It is for this reason that the board is best placed to identify and articulate its role set.

A good place for a board to start is by examination of what is already in place in the organisation, including:

- original documents, that is, governing documents such as the constitution, and board charters
- previous board decisions including policies, instructions and permissions
- feedback on past board decisions, performance indicators and organisational performance
- entrenched practices; for example, the board meets on Mondays at 6.30pm and the meeting must conclude by 9.00pm
- mechanisms, systems and tools used by and available to the board; for example, the board reviews the monthly management accounts or uses an annual program of work.

A legitimate role set may be to promote virtues such as accountability, transparency, ethical behaviour or control. It is important that the board reach consensus on the role sets selected; failure to reach consensus provides an opportunity to discuss until consensus is reached. One of the clear advantages that can be gained from the exercise of developing performance indicators is the potential to come to a shared understanding and agreement about board roles: the clarity that this can offer to not-for-profit boards should not be underestimated. As noted in section 3.1.3, not-for-profit board members are usually volunteers and new to the practice of governance. They are often more committed to the cause of the organisation than to the professional practice of corporate governance. It is for these reasons that they are often unclear about their roles. Reaching a shared understanding of board roles is an important step toward improving their effectiveness.

Once consensus is reached, the next task of the board is to agree on which roles are most critical for the board at this time. These are the critical success factors. Again consensus is important. The individual board of the particular not-for-profit organisation should consider the appropriateness of each critical success factor and dismiss (or include), such that they do not exceed 12 in number.

From these critical success factors boards are called to consider what mechanisms they use (or can use) to influence the favourable outcome of each factor; these could be simple mechanisms, such as agendas, or may involve complex frameworks, such the BICF, or may involve principles and virtues such as ethics, transparency and so forth.

Put simply, the proposed new framework suggests examining corporate governance mechanisms currently in place in the particular not-for-profit organisation, which includes theoretical and conceptual models, frameworks, processes, systems, rules, policies and procedures. These will provide the process from which the critical success factor is achieved.

In section 1.5.1, it was noted that Cadbury (2000) argued that there is ‘no single right corporate governance model and the best approach is to start with whatever system is in place and seek ways of improvement, and they should be tailored to their particular circumstances’. It was also noted at section 5.4.3 that the action research study organisation started its journey by examining existing documentation—in this case, the board charter. It is for this reason that this thesis recommends starting the development of corporate governance performance indicators by considering the mechanisms currently being used by the particular board. This can be approached in several ways.

These mechanisms could be in the form of corporate governance charters, corporate governance statements, previous corporate governance performance reviews, current policies or even the organisation's strategy. The mechanisms could be drawn from a holistic corporate governance theory or from some other source. For example, some of the most obvious factors that should be regarded as inputs are:

- individual board members intellect, previous experiences
- board team dynamics
- shared understandings, for example, the board has reached a shared agreement on its role
- the environment the board, organisation and/or individual board member operate in, including problems presented
- resources available to the board and organisation including staff and volunteer intellect, consultants and people they know
- societal expectations including the law, ethics and morality.

Some of these factors deserve more discussion. A board decision to take direct action in the organisation is an interesting one. Despite the principle of unity of control, that is where the chief executive officer is held singularly responsible for the implementation of board decisions; in some circumstances the board may find it necessary, because of say a poor financial position, to empower an individual board member to act. This is not as some would see it. In fact, it is not a decision for the board to intervene, it is a decision to appoint a board member to intervene. If that board member seeks board confirmation of his/her actions or board instructions, these too are regarded as separate decisions.

Original documents, such as the constitution, often establish such things as the structure of the board, where its members are sourced, how often it meets and how the board will operate; these important factors affect the effectiveness of the board. Importantly, original documents may mandate how a board is to go about its deliberations and tasks. For example, some boards have chosen to utilise the Carver (1997) policy governance model.

Clearly all of these factors influence decision making by the relevant board member—how much influence they exert however is likely to be entirely variable. It is known that individuals interpret factors in differing ways, that is, a particular factor may be highly significant to one board member but less so for another. It is this variability in decision-making styles, intellects, previous experiences and so forth that makes it difficult to predict and model. In theory, the sum of individual decisions ought to be a collective decision; however, these can only be derailed by factors such as corrupt practices, group think and dominant personalities, and these should be considered as inputs to the decision-making process.

Lastly, feedback needs to be considered. It can be solicited directly by the board or obtained by reflecting on the impact board decisions have had on the organisation. The financial results often figure highly in a board's analysis, because the financial reporting and control function is usually very well developed, as the ramifications of a poorly developed control function may result in insolvency and the termination of the enterprise. However, this should not be the only system and tool used by the board. Others can also yield valuable data in considering board effectiveness or decision making. For example, the human resource management function can provide data on staff turnover, which provides feedback on the extent to which intellectual property is exiting the organisation or the culture the chief executive officer is creating within the organisation. This thesis argues that the utilisation by the board of the systems and tools available and those used in the organisation for measuring the board's own performance, will improve the likelihood of success by the board in establishing its own performance indicators.

Once these mechanisms are identified the board (and consultant) should establish appropriate performance indicators which should achieve at least Caddy's (2002) first two levels of validity. Where several potential performance indicators are available for a particular critical success factor and the process by which it is achieved, the final taxonomy described previously in section 3.2.3 should be employed. The next section describes the expected outcome of the new framework. Section 7.4.4 will then discuss the technical aspects of performance indicators in detail.

7.4.3 Expected outcome

The one significant outcome expected to emerge if not-for-profit organisation corporate governance practitioners embrace this new framework is improved corporate governance practice, especially if boards properly design performance indicators and appropriately act upon the results. This is expected to enable improvement in two significant respects: 1. by boards generally and 2. by individual board members as they seek ways to improve their own personal effectiveness.

Clearly, for this new framework to achieve any utility it must result in changed behaviour by the board and individuals, unless the board is in the unlikely circumstance that it is already operating optimally. A significant theme that emerged from the data collection and analysis, particularly from the experts, was the importance of the board taking concrete action as a result of examining its own performance. The board can live without this exercise, which is difficult and arduous, indeed pointless, if the board is not going to pay heed to the improvements available.

The experts, the action research study and the literature indicate that the establishment of performance indicators is part of the journey of continual improvement; a higher calibre board attracts higher calibre board members, which of course serves to lift the quality of the board generally, and so the virtuous upward spiral continues. However, the reverse can also be the case. One expert told the story about a board in decline, with quality board members leaving, and this led to other quality board members resigning. The journey to the bottom can be halted or reversed where quality board members see prospects of improving performance because of such initiatives as those proposed in this thesis. Such initiatives as enhanced common understanding and the identification of training can lead to performance improvements. Similarly, other board candidates are more likely to join a board that may not be performing at its peak, especially if mechanisms are in place that are likely to lift the performance. One of the experts identified the desire to personally grow and learn from the experience of being associated with the board, and again objective performance data can help board members. Over time, if boards embrace such performance indicators, it is more likely to see intelligence gathering, but this could mature into benchmarking between not-for-profit organisations taking place.

7.4.4 Technical aspects

Section 3.2.3 discussed at length the technical characteristics of good performance indicators. There are two compelling advantages to getting the actual performance indicators technically correct; however, these advantages must be tempered with those available if performance indicators are less than technically perfect, and the difficulty for boards in developing and implementing such indicators.

The two reasons to get the performance indicators technically correct at Caddy's (2002) level four status are 1. they are intellectually rigorous and thus not likely to be subject to challenge by boards or individuals and 2. most importantly, they can allow for benchmarking with all of the associated improvements in performance that this can provide.

As the usage of performance indicators becomes commonplace, particularly if they are reported in the public domain, then benchmarking can take place. In this benchmarking situation, the integrity of the performance indicators as discussed in section 3.2.3 will become paramount.

Over time, benchmarking will become more central to the exercise of setting performance indicators; however, initially performance improvements are readily available, even if a lesser standard of technical correctness is sought. With regard to this factor plus the difficulty that boards are likely to encounter in establishing such performance indicators, this thesis recommends a 'just do it' approach, seeking to achieve Caddy's (2002) levels one and two validity and preferably the SMART level of technical taxonomy (see section 3.2.3).

This thesis acknowledged issues in section 3.2.4 associated with the difficulty that boards are likely to have in developing and introducing performance indicators. The next section recommends that boards link their performance with the organisation's performance and, where possible, use measures readily available.

7.4.5 Linkages – optimal performing methodology

Section 2.3.5 concluded that the boards' purpose is to improve the organisation's performance. In section 2.2.4, it was also revealed that largely the board determines how they will go about this. It would be rare that a board overseeing a poorly performing organisation could claim good board performance, at least in the long term. Of course, measures of organisation performance may be subjective, and the board is the penultimate arbiter—the ultimate arbiter being members.

To this end, this thesis recommends that the board include indicators of the organisation's performance. Such inclusion fulfils two purposes:

1. Organisation performance measures should be readily available
2. They provide a good lag indicator of board performance.

As acknowledged in section 2.3.5, an organisation's performance can be the outcome of many factors, notwithstanding board performance. It is for this reason that the organisation's performance should not be the only corporate governance performance indicator because there ought to be others.

Furthermore, there is evidence to suggest that where the board integrates its work, it will be better able to perform that work. A board resource that clearly is in short supply is time; it was previously noted that boards meet episodically and, in section 2.3.3, that they often have vague role sets. Shortage of time leads to a situation where boards are often challenged by more than simple tasks, therefore it follows that where these tasks can be integrated this will free up time. For instance, where the fulfilment of one task furthers the performance of another, this will be optimised.

It was noted in section 6.2.3 that boards carry out activities by the use of tools. They use the systems and methods available to them, and this proposed performance indicator's framework is yet another tool that is available to them. In order to optimise available board time, good sets of tools should be linked to each other and built around the organisation carrying out its work. Section 7.3 dealt more fully with the use of tools; it is suffice to say that this thesis recommends that the board use, where possible, its existing arsenal of tools / methods and systems. In section 7.3 it was argued that the utilisation by the board of the systems and tools available, used in the organisation for measuring performance, will improve the likelihood of board success in establishing its own performance indicators.

In order to be receptive to considering performance, the board must be made open to the possibility that its performance can be improved and that board development initiatives can assist. In chapter five, it was observed that boards develop depending on how long the board has been together, the size of the organisation, and the existence of a continuous improvement culture. It was also noted how difficult the development of performance indicators may be and the reluctance that may be evident in some boards. It is important, therefore, to put the board into a framework where it is receptive to developing and introducing performance indicators.

It was observed in section 3.1.3 that most not-for-profit board members volunteer their time, are conscientious and care very deeply about the mission of the organisation; this in itself bodes well. However, because they are volunteers the exercise must be seen as non-threatening and not unrealistically difficult.

A critical factor in the likelihood of successfully implementing corporate governance performance indicators is the board culture that exists within the particular board. The data suggested that there was a variety of ways that board culture can be manifested and influenced. It was clear that good documentation in terms of constitution, constituent documents and governance documents could set the tone, as discussed in section 7.3. The constitution and regulations of the action research study organisation made it abundantly clear that board performance evaluations and board training were required at Bicycle Victoria Incorporated. This made it clear to all board members that some form of performance evaluation and training would be required; the board were therefore much more open to the task of developing and implementing their own corporate governance performance indicators.

7.5 Chapter summary

Chapter seven has examined the methods for developing corporate governance performance indicators evident in the data collection and concluded that a new framework is needed. The chapter discussed the drivers for the new framework and then described it; central to this new framework is the understanding of the mechanisms that boards use to carry out the roles they themselves have largely determined. This chapter acknowledged that how boards fulfil their roles is highly variable and may be unclear; indeed, this chapter has argued that for many boards it is more about task fulfilment. In any event, this new framework enables boards to arrive at the critical success factors which influence the carrying out of a particular role set. Key among these is fostering a journey that aims, in the longer term, to lead to improved corporate governance and organisation effectiveness, in essence a *just do it* approach is proposed, hence the need for a simple framework. The proposed new model is a simple process model, with sufficient flexibility to enable the board to determine its own roles and critical success factors, and by considering those together with the mechanisms employed to affect them, the board itself assigns valid performance indicators. The next chapter draws some general conclusions, considers the future for corporate governance performance indicators, and considers the limitations of this thesis and how future research can address them.

CHAPTER 8: GENERAL CONCLUSIONS

This chapter summarises the major conclusions and considers the implications of the thesis for not-for-profit organisations. The chapter also considers the implications for theory and the limitations of this research. Finally, other avenues for future research are suggested.

8.1 Summary of conclusions in this thesis

Section 1.5.3 reported that there is little relevant literature concerning performance indicators for board activities and this thesis succeeds in its aim to provide relevant and current data and analysis to explore the usage of performance indicators of effective corporate governance in Australian not-for-profit organisations. Furthermore, a methodology for development of such indicators is proposed. The broader literature review examined mono-theoretical corporate governance approaches or paradigms that may have some application in specific circumstances as well as what have been termed holistic theories, concentrating on the BICF. The evident knowledge gap in literature led the researcher to employ exploratory research using a modified grounded theory approach. Section 6.2.1 concluded that there is little evidence to suggest that practitioners use theoretical models or frameworks to guide their actions. Importantly section 6.1 concluded that the existence of corporate governance performance indicators as revealed by the data collection was insufficient to enable the answering of the first major research question. The data collected and the findings led the researcher to propose a methodology for answering the second research questions. The conclusions concerning main research questions are discussed more fully in the next section. To recap, the two main research questions were:

1. What are the performance indicators of effective Australian not-for-profit corporate governance?
2. What is the process for determining the performance indicators of effective Australian not-for-profit corporate governance?

8.2 Present and future of performance indicators for corporate governance activities

This thesis established the need for performance management initiatives by not-for-profit boards and furthermore, that there is a critical need to establish performance indicators that a board can use to manage such performance. The thesis was not able to conclude what the ultimate performance indicators are or that all not-for-profit organisations ought to use them. This is due to the variability of circumstances in which not-for-profit organisations find themselves. Not-for-profit boards need to determine corporate governance performance indicators that are unique to their own circumstances, while recognising that there are supervening factors common to all boards. Several methodologies were considered but again applicability is highly dependent upon the unique variables. This thesis also established that there is little in the way of conceptual methodologies to support the not-for-profit board in establishing performance indicators. A simple framework was proposed, with a key premise that boards are primarily decision-making bodies and they use mechanisms to make those decisions via a self-determined role set; this framework is as yet untested and this is most evident in the potential implications for future research, discussed further in section 8.4.

Despite the lack of empirical testing of any methodological frameworks, there can be no doubt that performance management of corporate governance activities is the way of the future. Equally, at least initially, there can be no doubt that this includes the development and usage of corporate governance performance indicators that are unique to an individual board and not-for-profit organisation. Of less certainty, however, is whether a universal set of corporate governance performance indicators will emerge that is underpinned by standards that enable benchmarking. However, there is evidence interpretable to mean that corporate governance statements may be the solution. Equally with further development and maturation of corporate governance activities within the sector, not-for-profit specific corporate governance statements may emerge along with the need to embracing corporate governance performance indicators.

The usage of mechanisms, be they consultant led strategy or applying methodologies, appears to be something which not-for-profit boards are comfortable with. And the provision of tools, such as corporate governance statements appropriate to not-for-profit organisations, will help the sector deal with the considerable demands placed upon them.

8.3 Implications for not-for-profit organisations

Recent government activity concerning not-for-profit organisations, particularly the Australian Charities and Not-for-Profits Commission (ACNC), may herald a new era of challenge for the sector. Key to that challenge is uncertainty concerning the ACNC itself. After with the recent change of government at the federal level it is unclear if continuation, changed direction or renaming the ACNC may be undertaken. Certainly prior to the election the policy the now current government took to the election was unclear but unsupportive and now after the election the governments appetite for change remains unclear, especially in an environment where it does not have a clear majority in the upper house or senate. As its stands at the present time the ACNC is a limited information portal providing some corporate governance information concerning charities, such as board members names (Treasury 2011C). In the absence of changed legislation the ACNC has basically continued in its quest to increase the information available to the public concerning the governance of charities, if this is allowed to continue then interest in charity governance will increase. On the other hand charity sector governance may receive more attention in the media if major changes to the ACNC are sought, again raising the interest if charity sector governance.

In addition, the constant threat of corporate governance misdeeds leading to a cessation of public and government support, with the threat to funding that that entails ought to keep attention on good corporate governance practice.

In that same vein, this thesis noted the acceptance by much of the not-for-profit sector for the usage of corporate governance statements particularly the ASX Corporate Governance Council Corporate Governance Principles and Recommendations (2003, 2010). These were clearly developed within the for-profit sector, any further emergence of good corporate governance practices within the for-profit sector will likely flow through to the not-for-profit corporate governance practice. An example may be the emergence of agencies and groups similar to those rating agencies and shareholder groups concentrating in the for-profit sector (see appendix 12) and with that accompanying tools, practices and performance indicators that are employed.

Combined, these imperatives will lead to a situation where not-for-profit corporate governance will be under scrutiny. Boards will seek ways to demonstrate that the organisations for which they are responsible are well governed, and the usage of corporate governance performance indicators will ensure this happens.

There is also evidence that corporate governance statements are used by some not-for-profit organisations as a means of assessing and improving corporate governance action. The key contribution of this thesis has been to raise awareness of the need for not-for-profit corporate governance performance indicators and further propose a way they can be developed. This may well be the beginning of the journey toward better corporate governance.

8.4 Implications for theory

This thesis was exploratory and did not set out to test contemporary corporate governance theory; instead, it set out to canvas current practice and propose solutions to improve current practice. Put another way, this research was not deterministic, it sought to faithfully answer the research questions, which were exploratory, by employing a modified form of grounded theory. The thesis engaged with the BICF and whilst it was sufficiently holistic to provide a handy schema of reference for the relevant factors, it failed to achieve sufficient levels of causality so as to be adequate. Whilst finding it interesting, practitioners did not embrace causal holistic corporate governance theory. The fact that practitioners appear to be more task focused rather than theoretical sets a challenge for other researchers and this is elaborated in section 8.6.

The thesis was unable to conclude that corporate governance action is guided by theory, but nonetheless corporate governance action was evident, and this action is what boards need to appraise and improve and to sustain such improvement in their corporate governance activities. The highly variable nature of such activities coupled with the highly variable nature of not-for-profit organisations leads to the need to develop and test methodologies that can enable them to improve their own corporate governance activities. This thesis addressed an indentified knowledge gap by employing triangulated exploratory research methods and will aid future researchers wishing to investigate this phenomenon in their own research.

8.5 Limitations of the thesis

This thesis has detailed some limitations: one is that the thesis is a preliminary consideration of the two main questions. The second is that of a possible contamination by being part of the system. Although the researcher could be accused of bias, as he was closely involved in the action research study, this is offset by the recognition that professional connections and entrée afforded a unique opportunity to see a board in action. The other major limitation was the small sample size of the annual report review. The research was entirely in an Australian context it could be argued that this is a limitation and a wider study looking overseas, particularly the U.K. given its well developed charity regulator and the influence of U.K. law on Australian law, would add to the findings. That being said, the thesis is considered as valuable as it is one of the first to consider this topic, and could thus lead to future research in the field.

8.6 Important questions derived from this study.

It is clear that this thesis has given rise to a number of interesting propositions.
Among them are:

1. Future research should test / examine this research / phenomena with larger data sets in particular the new design framework proposed in section 7.4 would benefit from greater testing.
2. From this study a key performance indicator kit may have the components as set out in appendix 16, such a kit could be further developed, tested and further examined.
3. A larger sample review of the published annual reports is desirable. In particular the notion that the use of annual reports is not primarily for

accountability and good governance but rather a marketing tool should be examined.

4. Study the emerging impact that the ACNC has on the sector
5. Examine the current barriers to boards developing and using corporate governance performance indicators.
6. Examine the apparent lack of transparency by not-for-profit organisations who do not publish annual reports.
7. One of the few metrics that seem to be relatively readily available is attendance by board members to meetings and good financial management, this phenomena could be further examined.
8. Consider if the articulated roles of the board go beyond that required by law.
9. Can the roles of the board, as indicated by annual returns, be extended and automated by a cleverly written computer program that searches for not-for-profit annual reports and respective board roles.
10. This research identified that practitioners appeared reluctant to engage in theoretical models of corporate governance, instead preferring to engage with tasks. Section 2.3.2 briefly considered the research by Nicholson & Newton (2010) concerning how directors and senior managers perceive their roles, there is opportunity to explore this perspective more fully.
11. It may be appropriate to study how individual board members might want to go about developing their own performance indicators in order to improve their own performance.
12. Social scientists could look at how people make individual and collective decisions.
13. As noted in section 1.1.2, further work could test the methodology in another sector.

These questions are seen as a valuable contribution to the issues being addressed.

8.7 Chapter summary

This chapter summarised the main conclusions and considered the implications of the thesis for both not-for-profit organisations and corporate governance theory. This thesis concluded that there are no ultimate performance indicators that all not-for-profit organisations should use, rather this thesis concluded due to the variability of the individual not-for-profit organisations and the variability of the corporate governance practiced by them that boards need to develop their own corporate governance performance indicators. This thesis also found that there is little in the way of conceptual methodologies to support the board in establishing such corporate governance performance indicators. This thesis proposed a simple framework that boards can use. Usage of this framework will support boards in demonstrating that they governing well. This research was exploratory and concluded that corporate governance action was evident and methodologies are needed to enable improvement in corporate governance activities. The limitations of the thesis were considered and this thesis has contributed by identifying avenues for future research.

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Appendices

Appendix 1 – Proposed key performance indicators for for-profit organisations by Epstein and Roy (2004)

Inputs	
Independence	*Level of compliance of corporate definition of independence with NYSE's definition*
	% of independent members
Diligence	*# of hours spent on preparation*
	Overall attendance of meetings
	# of Boards directors serve on
	# of visits to company sites by individual directors
Competence	*% of directors financially literate*
	Diversity of Board – race and gender (% represented)
	# of hours of raining for directors
Ethics	*Existence of a code of conduct for directors*
	Results of ethics audit
Processes	
Board structure	*Leadership of the Board (CEO, or lead director, independent chairman)*
	% of meetings without CEO (executive sessions)
	# of committees
	# of directors (total and per committee)
Productive meetings	*# of meetings with management other than CEO*
	# of days in advance that agenda and material are sent
	Average duration and number of meetings
	% of meeting time allocated to opposing points of view
	% of meeting time for discussion
Succession planning system	*Existence of a position description for CEO*
	Annual report on succession planning
	Interim CEO identified

Financial reporting and risk assessment systems	*Adherence to code of ethics / code of conduct*
	# of ethical / legal violations
	# of voluntary disclosures
	# of risk audit performed and results
Strategic Information systems	*# of meetings with stakeholders*
	Existence of communication channels with Board
	Evaluation of list of information provided to Board to assess projects (financial and non-financial)
	# of hours spent on long term strategic issues
Performance evaluation and compensation systems	*Evaluation systems include non-financial data*
	Evaluations systems include external and objective data
	% of compensation linked to performance
	% of performance linked to non-financial performance (social, environmental)
	% of compensation linked to stock ownership
	# of Board members owning stock
	Goals and objectives clearly defined for CEO, Board etc
Outputs	
Strategic guidance	*% of projects accepted by Board that met or exceeded projected ROI*
	Risk profile (industry audit)
	# of complaints (employees, community, customers)
Accountable organization	*Stakeholders satisfaction survey*
	Evaluation of quality of external disclosures by stakeholders (survey) or by experts
	Credit rating
	% of major projects that met operating goals

Highly qualified executive team	*% of major projects that met or exceeded projected ROI*
	Turnover rate among senior executives
	Revenue per employee
	Earning growth trends
	Market growth
Outcomes	
Long term financial success	*EVA*
	Stock price
	ROI
	Earnings (overall and per business units)

= Number

Appendix 2 – Directors' checklist (Australian National Audit Office 1999)

Definition of Roles and Powers

1. Are the roles of the Minister, Board and CEO clearly defined?
2. Is the role of the Board documented in a Board Charter?
3. Is there a clearly defined division of responsibilities within your organisation?
4. Are governance responsibilities effectively communicated to individual members of the Board/ managers?
5. Has management understood and accepted the responsibility for internal control?
6. Is there a framework of strategic control that includes formal procedural and financial delegations to govern the conduct of the organisations business?
7. Does the framework of strategic control include a formal schedule of those matters specifically reserved for decision by the Board?
8. Are management processes for policy development, implementation, review and Board approval clearly documented, understood and adhered to?

Board Appointments

9. Are new Board members appropriately briefed on appointment regarding the organisation generally and specifically, their governance responsibilities?
10. Is the basis for Board appointments clearly stated?
11. Are directors subject to regular renomination, say every three years?
12. Are Board appointments made on the basis of the skill requirements of the Board?

Board Skills, Independence and Resources

13. Is there a sufficient number of independent members on the Board to facilitate effective monitoring of management performance and to provide a challenge, where required?
14. Is the Board Chair independent of management?
15. Is there a sufficient mix of financial, operational and compliance skills within the Board to ensure it can effectively direct and monitor the organisations activities?
16. Are there appropriate arrangements to ensure that the Board has access to all relevant information, to high quality advice and to the resources necessary to enable it to carry out its functions efficiently and effectively?
17. Are there written procedures to address the process required where a Board member has a conflict of interest?

Code of Conduct

18. Has the Board clearly communicated its policy in relation to Corporate Governance, including its ethical values?
19. Has the Board developed a formal code of conduct defining the standards of personal behaviour to which the members of the Board and all employees of the organisation are required to adhere?
20. Does the Board and senior management lead by example in relation to the code of conduct?
21. Is adherence to the code of conduct regularly reviewed and is intermediate action taken where necessary?
22. Are there appropriate mechanisms to ensure that staff are not influenced by prejudice, bias or conflicts of interest?

Strategy Setting

23. Are the long term objectives of the CAC clearly stated in a long term corporate strategy (3 year minimum) approved by the Board?
24. Are annual measurable objectives set out in an annual plan approved by the Board?
25. Is an annual budget prepared by management and approved (or rejected) by the Board?

Business and Community Consultation

26. Has the Board:
- clearly documented and gained approval for the organisation's community obligations?
- identified all relevant stakeholders, their needs and the business risks associated with managing these?
- established clear channels of communication with it's clients and other stakeholders?

- implemented appropriate processes to ensure that such channels operate effectively in practice?
- clearly communicated the strategic objectives of the organisation?

27. Is there an explicit commitment to transparency and openness as far as practicable in the organisation's activities?
28. Is there a process to regularly monitor business and community satisfaction through surveys, liaison and other feedback mechanisms?

Financial and Operational Reporting

29. Does Board and management reporting include an appropriate mix of financial and operational information to facilitate comprehensive review?
30. Has the Board decided what performance reports to see, and how frequently?
31. Are the users of the reports satisfied with the amount and quality of the information provided?
32. Is there a senior executive responsible for ensuring that appropriate advice is given on all financial matters including fraud and risk management?
33. Is there a senior executive responsible for ensuring effective management, co-ordination and delivery of information (including related technology)?
34. Is the financial information reported prepared on an accrual basis?
35. Does the financial information report year to date actual and budget, full year budget and full year forecast on an accrual basis?
36. Is the Board regularly briefed on the financial situation of the organisation by the management team?
37. Does Board reporting include the status of significant initiatives determined by the Board and/or management?
38. Are there appropriate mechanisms to identify external reporting requirements?
39. Are data collection and information management systems adequate to support reporting requirements?
40. Does the Board:

¥ ensure that performance reporting processes directly link objectives, strategies and business operations?
¥ periodically review reported information to ensure that all stakeholders are receiving what they require to meet their obligations and requirements?

41. Does the organisation:

- publish on a timely basis an objective, balanced and readable annual report?
- include a statement of the major corporate governance practices in place?
- include selected performance measures which are linked to the organisations business strategy and that are regularly used for internal assessment and operational purposes as well as for external performance information?

Monitoring the Performance of the Board

42. Is there a process to regularly review the effectiveness of the Board, and individual directors where possible?

Audit Committees

43. Has an Audit Committee been established?
44. Are there sufficient members of the Audit Committee who are independent of management?
45. Do members of the Audit Committee have the requisite financial and accounting skills to discharge their responsibilities?
46. Does the Audit Committee have a written charter setting out its role and responsibilities?
47. Does the Audit Committee take responsibility for independent review of systems of internal control, risk management and maintenance of effective complementary links with the external audit process (and internal audit, where applicable)?
48. Does the Audit Committee have sufficient resources to discharge its responsibilities effectively, including internal audit and specialist consultants, where required?
49. Does the audit committee take steps to gain assurance that systems of internal control:

- are appropriate to the corporate plan or business charter?
- provide timely and useful management information?
- include an effective internal audit function?
- address all existing and emerging risks?

50. Is the audit committee satisfied that there is a formal risk management program which assists the Board to assess the effectiveness of internal
control and the emergence of new threats?
51. Is the audit committee satisfied that there are formal arrangements in place to ensure the privacy of data entrusted to the organisation?

Statutory Accountability

52. Is there a senior executive responsible for ensuring compliance with the organisations legislative obligations?
53. Is there formal reporting of compliance for critical compliance obligations and exception reporting for other compliance obligations?
54. Is all applicable legislation, regulations etc
- identified?
- readily available to all staff?; and
- included in staff training arrangements?

55. Are there effective arrangements to ensure compliance with all applicable statutes and regulations, and other relevant statements, guidelines and statements of sound administrative and financial management practice?

Appendix 3 – Semi-structured interview questions

Semi structured questions - Expert Governance Practitioners

Instructions Prompts for the interviewer (Me)

- Hand over the Information & Consent Form and obtain signature on the Consent Form.

- Reiterate that the information provided will be kept confidential, responses will not be attributed to you.

- As you are aware this is formal research therefore it is important that I accurately collect your responses, it for this reason that I would like to tape this interview. I will provide you with the transcript of interview and you may correct or elaborate any points that you make, within 3 months of receiving the transcript. Can I tape the interview?

Bryman & Bell 2003, P353 Quotes Heritage 1984;238 with the following advantages of recording and transcribing –

1. *"helps correct the natural limitations of our memories and the intuitive glosses that we might place on what people say,*
2. *it allows a more thorough examination of what people say,*
3. *it permits repeated examination of the interviewees answers,*
4. *it opens up the data to public scrutiny by other researchers, who can evaluate the analysis that is carried out by the original researchers of the data (that is, a secondary analysis)*
5. *it therefore helps to counter accusations that an analysis might have been influenced by a researchers values or biases,*
6. *it allows the data to be reused in other ways from those intended by the original researcher for example, in the light of new theoretical ideas or analytic strategies*

<u>Demographic data</u>

- Firstly, can you summarise your expertise and experience with not-for-profit organisations and corporate governance , by addressing such questions as
    - How many not-for-profit organisations have you been associated with
    - Over how many years
    - How many years have you served on / been involved with not-for-profit boards of directors?
    - What other experience or qualifications have you gained that is relevant to not-for-profit corporate governance?

Firstly I would like to look in broad terms at Board performance

Performance and performance evaluation

1. What does good corporate governance look like

   Trying to triangulate from other data sources

2. What influences good performance as far as the board's actions are concerned?

   Trying to identify critical success factor's, key result areas

3. What influences bad performance as far as the boards actions are concerned?

   Trying to identify critical success factor's, key result areas

4. Do you see any merit in carrying out performance evaluation of the Board?
5. Can you recount your experience with performance evaluation of the Board?
6. Do you see any merit in carrying out performance evaluation of individual board members?
7. What do you think are the traps to avoid in carrying performance evaluation of individual board members or the board generally?
8. What are the reasons not to carry out board performance appraisal or individual board member performance appraisal?
9. Does board or individual board member performance evaluation lead to improved corporate governance outcomes?
10. What factors come into play in board or individual board member performance evaluation?

Turning now to more specific questions on metrics

Project Specific Questions

Performance metrics

11. Do you know of any board which has established performance metrics for its own corporate governance activities
    - If yes, can you tell me about it
      - Are you able identify them (the board)
      - Are you able to detail the actual measures or the themes they sought to measure
      - How were they established
      - Was a consultant used to help
      - What were the issues in establishing them
      - What were the issues in using them
      - How successful is their usage
    - If no, why do you think that is so

- Why are the not applying the same performance management techniques to themselves that they are applying to their management

12. Do you see any merit in establishing performance metrics?

13. What is the likelihood that not-for-profit boards may use performance metrics in the future

14. If you were charged with assisting a board in establishing critical success factors for the corporate governance of an organisation, how do you think you would do that?

Board roles

15. What do you think the roles for a not-for-profit board are? Why? Elaborate?

h. *The question seeks to test the Board Intellectual Capital Model (Nicholson and Kiel, 2004) by examining if the articulated roles fit within or extend the three roles identified in the model.*
i. *This question goes to the heart of the why the board exists and how one judges effectiveness, we need to identify what the board is to do and from that what the critical success factors are, which then leads us to examine what might be a suitable performance metric.*

16. What is the most critical thing that determines a board's performance? Why? Elaborate?

1. *Again this question tests the applicability of the Board Intellectual Capital Model (Nicholson and Kiel, 2004)*
2. *In essence it asks question 2 again*
3. *This question should correspond with a critical success factor previously articulated*
4. *This question should be useful for the case study organisation in phase 2*

17. Do you think the boards role should include …. Controlling the organisation, Providing advise to management, Providing access to resources?

1. *This is an opportunity for the interviewer to explore gaps as revealed by consideration to the Board Intellectual Capital Model (Nicholson and Kiel, 2004) that may have been evident*

Critical Success Factors

18. What do you think are the critical success factors of effective corporate governance in not-for-profit organisations? Why? Elaborate?

19. How do these critical success factors fit with what you see as the not-for-profit organisation board roles? Why? Elaborate?

j. *This question seeks to tie the board role and critical success factor*

k. *This question examines the direct connection between the three constructs of Board Intellectual Capital, Internal and External Environment, and critical success factor and the board roles.*

20. How can the board find the optimal balance of those critical success factors? Why? Elaborate?

l. *This question seeks to provide pointers as to the relative importance of each construct*
m. *Again, examine the direct connection between the three constructs of Board Intellectual Capital, Internal and External Environment, and critical success factor and the board roles.*
n. *To what extent is Board Dynamic a factor here*

o. *Questions 5 to 11 are designed to provide data that may be useful in phase 2 of the research, where the case study organisations establish their own critical success factor's and performance metrics.*

21. What do you think not-for-profit organisation stakeholders would perceive as the critical success factor's for the organisation? Why? Elaborate?

22. For the critical success factor's that you have identified, being…… What measurements would you apply to gauge success? Why? Elaborate?

<u>Past experience if relevant</u>

23. Have you been involved in establishing critical success factors and or performance metrics for corporate governance activities? Why? Elaborate?

24. Can you recount your experience in establishing critical success factors and or performance metrics for corporate governance activities? Why? Elaborate?

25. Do you see any merit in establishing critical success factors and or performance metrics for corporate governance activities? Why? Elaborate?

26. What are / might be the difficulties in establishing critical success factors and or performance metrics for corporate governance activities? Why? Elaborate?

27. How would you go about overcoming those difficulties? Why? Elaborate?

<u>Last question</u>

28. Do you think the *read below* are critical success factors
    - Human capital
        - General Knowledge
        - Industry experience
        - Organisational experience
        - Company specific knowledge and experience
        - Functional experience and knowledge

        - General Business knowledge and experience
    - Social capital
        - Network of extra organisational contacts – scope of resources and nature of contacts
        - Relationship with Chief Executive Officer, both as a board and as individuals
        - Relationships between board members
    - Structural capital
        - Documented board policies including manuals, charters and guidelines
        - Board culture
        - Implicit board procedures and norms
    - Cultural capital
        - Individual work norms
        - Individual morals
        - Individual motivations
    - Dynamics
        - Interpersonal skills
        - Previous relationships
        - Dominant chair

2. *This is an opportunity for the interviewer to explore gaps as revealed by consideration to the Board Intellectual Capital Model (Nicholson and Kiel, 2004) that may have been evident*
3. *This question tests the Board Intellectual Capital Model (Nicholson and Kiel, 2004) by seeing if the articulated critical success factor fits within or extends beyond the three constructs of Board Intellectual Capital, Internal and External environment.*
4. *Where Board Intellectual Capital is the "bundle of Intellectual Capital that enables a Board to enact its role set" (Nicholson and Kiel, 2004, p 449) and comprises*
5. *Human Capital being the "innate and learned abilities, expertise and knowledge" of individual directors (Nicholson and Kiel, 2004, p 450).*
6. *Social Capital being the "implicit and tangible set of resources available by virtue of relevant social relationships" of individual directors (Nicholson and Kiel, 2004, p 450).*
7. *Structural Capital being the "explicit and implicit codified knowledge (e.g. routines, policies and procedures)" of the Board (Nicholson and Kiel, 2004, p 450).*
8. *Cultural Capital being the "implicit and tangible resources available by identification with the values, norms and rules sanctioned by the dominant group' of individual directors (Nicholson and Kiel, 2004, p 450).*
9. *Board Dynamics being the "interplay between the various components of intellectual capital" (Nicholson and Kiel, 2004, p 452).*
10. *Where Internal Environment is the "internal organisational environment" (Nicholson and Kiel, 2004, p 444).*
11. *Where External Environment is the "external operating (or business) environment" (Nicholson and Kiel, 2004, p 444).*

Appendix 4 –Victoria University Ethics Committee approved information sheet - Interviews

INFORMATION TO PARTICIPANTS INVOLVED IN RESEARCH

You are invited to participate

You are invited to participate in a research project entitled *Effective corporate governance in not-for-profit organisations.*

This project is being conducted by a student researcher, Steve Reynolds as part of a Doctor of Business Administration degree at Victoria University under the supervision of Professor Ronald Francis from the Centre for International Corporate Governance Research and Associate Professor Bernadine Van Gramberg from the faculty of Business and Law.

Project explanation

The project seeks to identify the performance metrics of effective corporate governance in not-for-profit organisations.

What will I be asked to do?

As a corporate governance practitioner you will be asked to participate in phase 1 of the research, which involves soliciting your opinions on board roles, critical success factors and performance metrics of effective corporate governance in not-for-profit organisations. Such interviews will take up to 1 hour.

What will I gain from participating?

You will not personally gain from participating. You may assist the not-for-profit sector generally by aiding in the development of performance metrics of corporate governance activities which may improve the standard of corporate governance in not-for-profit organisations. When the research is complete you may request a one page summary be emailed to you of the research findings.

How will the information I give be used?

The information will be used to develop appropriate performance metrics for corporate governance activities of not-for-profit organisations.

What are the potential risks of participating in this project?

Sensitive and confidential information concerning your opinions on various aspects of corporate governance may be collected during the research, this information will be treated confidentially by the researchers and will not be attributed to you, instead it will be summarised and incorporated into the findings.

How will this project be conducted?

In this, the first phase of the research, a literature review and corporate governance practitioner's opinions, such as yours will be used to draw up a potential list of critical success factors and performance metrics of effective corporate governance activities.
In phase 2 of the research three case study boards will determine performance metrics that are to apply to their own corporate governance activities. The appropriateness of the initially selected performance metrics will be the subject of a survey of the organisations stakeholders and the performance metrics may be modified as a result of that survey.
In phase 3 of the research a broader survey of corporate governance practitioners will be asked for opinions on appropriate performance metrics of corporate governance activities in not-for-profit organisations.
The final phase of the research involved the student developing a model of best practice performance metrics.

Who is conducting the study?

Title	*First Name*	*Surname*	*School/Centre*	*Phone Number*	*Mobile Number*	*VU E-Mail Address*
Prof.	Ronald	Francis	CICGR	9919 1212		Ronald.Francis@vu.edu.au
Ass. Prof	Bernadine	VanGramberg	Business & Law	9919 4489		Bernadine.VanGramberg@vu.edu.au
Mr	Steven	Reynolds	CICGR	8622 8364	0428585 191	steven.reynolds1@live.vu.edu.au

Any queries about your participation in this project may be directed to the Principal Researcher listed above.
If you have any queries or complaints about the way you have been treated, you may contact the Secretary, Victoria University Human Research Ethics Committee, Victoria University, PO Box 14428, Melbourne, VIC, 8001 phone (03) 9919 4781.

Appendix 5 – Victoria University Ethics Committee approved formal written consent form – Interviews

CONSENT FORM
FOR PARTICIPANTS
INVOLVED IN RESEARCH

INFORMATION TO PARTICIPANTS:
We would like to invite you to be a part of a study into effective corporate governance of not-for-profit organisations by using performance metrics of boards' governance activities. The research employs semi-structured interviews, case studies and surveys, you are asked to participate in phase 1 which employs semi-structured interviews.

Sensitive and confidential information concerning your opinions on various aspects of corporate governance may be collected during the research. This information will be treated confidentially by the researchers and will not be attributed to you, instead it will be summarised and incorporated into the general findings.

CERTIFICATION BY SUBJECT

I, [Interviewee name] of [Interviewee address] certify that I am at least 18 years old* and that I am voluntarily giving my consent to participate in the study, *Effective corporate governance in not-for-profit organisation's* being conducted at Victoria University by the supervisors, Professors Ronald Francis and Bernadine Van Gramberg and the supervised student Steve Reynolds.

I certify that the objectives of the study, together with any risks and safeguards associated with the procedures listed hereunder to be carried out in the research, have been fully explained to me by Steve Reynolds and that I freely consent to participation involving semi-structured interviews.

I certify that I have had the opportunity to have any questions answered, and that I understand that I can withdraw from this study at any time and that this withdrawal will not jeopardise me in any way.

I have been informed that the information I provide will be kept confidential.

Signed:

Date:

Any queries about your participation in this project may be directed to the researcher Professor Ronald Francis, Ph 9919 1212. If you have any queries or complaints about the way you have been treated, you may contact the Secretary, Victoria University Human Research Ethics Committee, Victoria University, PO Box 14428, Melbourne, VIC, 8001 phone (03) 9919 4781

Appendix 6 –Victoria University Ethics Committee approved information sheet - Board

INFORMATION TO PARTICIPANTS INVOLVED IN RESEARCH

You are invited to participate

You are invited to participate in a research project entitled *Effective corporate governance in not-for-profit organisations.*

This project is being conducted by a student researcher, Steve Reynolds as part of a Doctor of Business Administration degree at Victoria University under the supervision of Professor Ronald Francis from the Centre for International Corporate Governance Research and Associate Professor Bernadine Van Gramberg from the faculty of Business and Law.

Project explanation

The project seeks to identify the performance metrics of effective corporate governance in not-for-profit organisations.

What will I be asked to do?

You and the board of which you are a member will be asked to act as a focus group to determine the performance metrics that would apply to your board corporate governance activity. The discussion and determination of appropriate metrics is likely to occupy a part of two or three board meetings. You may withdraw your participation at any time by advising the persons conducting the study or the Chairperson of the board of which you are a member.

What will I gain from participating?

You will not personally gain from participating. You may assist the not-for-profit sector generally by aiding in the development of performance metrics of corporate governance activities which may improve the standard of corporate governance in not-for-profit organisations. You may assist the not-for-profit organisation of which you are a board member by improving its corporate governance activities. When the research is complete you may request a one page summary be emailed to you of the research findings.

How will the information I give be used?

The information will be used to develop appropriate performance metrics for corporate governance activities of not-for-profit organisations.

What are the potential risks of participating in this project?

Sensitive and confidential information, including intellectual property concerning your not-for-profit organisation and/ or your opinions on various aspects of corporate governance may be collected during the research, this information will be treated confidentially by the researchers and will not be attributed to you or your organisation, instead it will be summarised and incorporated into the findings.

How will this project be conducted?

In phase 1 of the research. a literature review and corporate governance practitioner's opinions elicited from interviews were used to draw up a potential list of critical success factors and performance metrics of effective corporate governance activity.
In phase 2 (this phase) of the research three case study boards will determine performance metrics that are to apply to their own corporate governance activity. The appropriateness of the initially selected performance metrics will be the subject of a survey of the organisations stakeholders and the performance metrics may be modified as a result of that survey.
In phase 3 of the research a broader survey of corporate governance practitioners will be asked for opinions on appropriate performance metrics of corporate governance activities in not-for-profit organisations.
The final phase of the research involved the student developing a model of best practice performance metrics.

Who is conducting the study?

Title	*First Name*	*Surname*	*School/Centre*	*Phone Number*	*Mobile Number*	*VU E-Mail Address*
Prof.	Ronald	Francis	CICGR	9919 1212		Ronald.Francis@vu.edu.au
Ass. Prof	Bernadine	VanGramberg	Business & Law	9919 4489		Bernadine.VanGramberg@vu.edu.au
Mr	Steven	Reynolds	CICGR	8622 8364	0428585 191	Stever@bv.com.au

Any queries about your participation in this project may be directed to the Principal Researcher listed above.
If you have any queries or complaints about the way you have been treated, you may contact the Secretary, Victoria University Human Research Ethics Committee, Victoria University, PO Box 14428, Melbourne, VIC, 8001 phone (03) 9919 4781.

Appendix 7 – Victoria University Ethics Committee approved formal written consent form– Board

CONSENT FORM FOR PARTICIPANTS INVOLVED IN RESEARCH

INFORMATION TO PARTICIPANTS:
We would like to invite you to be a part of a study into effective corporate governance of not-for-profit organisations by using performance metrics of boards' governance activities. The research employs semi-structured interviews, case studies and surveys, you are asked to participate in the case studies and surveys.

Sensitive and confidential information concerning your organisation and/ or your opinions on various aspects of corporate governance may be collected during the research, this information will be treated confidentially by the researchers and will not be attributed to you, instead it will be summarised and incorporated into the general findings.

CERTIFICATION BY SUBJECT

I, Name of Address certify that I am at least 18 years old* and that I am voluntarily giving my consent to participate in the study, *Effective corporate governance in not-for-profit organisations* being conducted at Victoria University by the supervisors, Professors Ronald Francis and Bernadine Van Gramberg and the supervised student Steve Reynolds.

I certify that the objectives of the study, together with any risks and safeguards associated with the procedures listed hereunder to be carried out in the research, have been fully explained to me by Steve Reynolds and that I freely consent to participation involving focus group discussion and identification of performance metrics and survey of opinions on potential performance metrics

I certify that I have had the opportunity to have any questions answered, and that I understand that I can withdraw from this study at any time and that this withdrawal will not jeopardise me in any way.

I have been informed that the information I provide will be kept confidential.

Signed:

Date:

Any queries about your participation in this project may be directed to the researcher Professor Ronald Francis, Ph 9919 1212. If you have any queries or complaints about the way you have been treated, you may contact the Secretary, Victoria University Human Research Ethics Committee, Victoria University, PO Box 14428, Melbourne, VIC, 8001 phone (03) 9919 4781

Appendix 8 – Action research study database summary

Public	Importance	Document	Date from	Date to	Comment
	Constitution				
Yes		Explanatory Memorandum			Mandatory training and performance review requirement inserted
Yes		Constitution -2005	Nov-05		Clause 37.3 - performance review H68
Yes		Constitution -2009			
Yes		Constitution -2010			
	Board Charter CEO Interrelationship Policies				
No		Boardworks draft Board Charter			
No		Electronic versions of Board Charter			Evidence of broad board collaboration in redrafting generic
No		Board Paper proposing Board Charter and CEO Interrelationship Policies	12-Dec-05		Evidence of broad board collaboration in redrafting generic
No		Board Minutes	12-Dec-05		Charter passed unanimously as a regulation
Yes		Board Charter CEO Interrelationship Policies	12-Dec-05		
Yes		Board Charter CEO Interrelationship Policies	26-Feb-07		
Yes		Board Charter CEO Interrelationship Policies	28-Jul-08		
	Corporate Governance Statement				
Yes		2003 Corporate Governance Statement			
Yes		2005 Corporate Governance Statement			Not reported against ASX principles
Yes		2006 Corporate Governance Statement			Ist reported against ASX principles (10)
Yes		2007 Corporate Governance Statement			
Yes		2008 Corporate Governance Statement			
Yes		2009 Corporate Governance Statement			

Public	Importance	Document	Date from	Date to	Comment
Yes		2010 Corporate Governance Statement			
	Governance Effectiveness Reviews				
No		Governance Effectiveness survey form July 2006	Jul-06		
No		Constitution Committee Minutes	14/08/2006		
No		Governance Effectiveness Review 2006	Sep-06		
No		Chairman Feedback 2006	Sep-06		
Yes		Governance Effectiveness Review 2006 Extract	Sep-06		
No		Board Minutes	Oct-06		The notion of "develop a series of key governance indicators" discussed
Yes		Board Response and implementation plan			
No		Governance Effectiveness survey form July 2007	Aug-07		
No		Governance Effectiveness Review 2007- Original	Oct-07		
No		Email - from Terry Kilmister has Board Member response	01-Feb-08		
No		Governance Effectiveness Review 2007 - Revised	Feb-08		
No		Constitution Committee Minutes	19-May-08		
Yes		Governance Effectiveness Review 2007 Extract	Oct-07		
	Performance Metric development				
No	Key	Board Paper - Board Performance Review	25-Aug-08		Decision to establish own performance metrics; resolution doesn’t say to develop csf's but research proposal does
	Consultant era				

Public	Importance	Document	Date from	Date to	Comment
No		Outlook Task containing 35 emails *noted hereunder with (x)*and notes made by STR	18-May-09	12-May-10	
No		Board Minutes	27-Apr-09		Performance metrics queued
No		(1) Email from Consultant (SB) responding to first meeting (Today), request material	18-May-09		It took over 8 months from decision to develop Pm's to start discussions with a consultant
No		(2) Emails between SB and STR arranging engagement of SB	25-May-09		Proposes "identify the factors that are critical to its long-term success"; ties to Board Charter, proposes work shop
No		(3) Emails between SB and STR arranging engagement of SB	26-May-09	27-May-09	SB Draft Proposal
No		(4) Emails between SB and STR, arranging engagement of SB, suggest attendance at Board on 29 June 09- didn't happen	03-Jun-09		Initially proposed to go to Board
No		(5) Emails between SB and STR arranging attendance at Constitution Cttee 13 July 09	01-Jul-09	02-Jul-09	Delegated in the initial stage to Constitution Committee
No		(6) Repeat of (5) above			
No		(7) Email to Constitution Committee Chair re draft agenda for Constitution Cttee 13 Jul 09; Meeting paper Board Governance Review Action plan	30-Jun-09		
No		(8) Emails between SB and STR arranging attendance at the Constitution Cttee meeting 13 Jul 09; SB Bio	01-Jul-09	02-Jul-09	
No		Constitution Committee Paper - draft proposal from SN et el	13-Jul-09		
		Constitution Committee minutes	13-Jul-09		SC declaration

Public	Importance	Document	Date from	Date to	Comment
					knows SB; decided to engage SB
No		(9) Emails between SB and STR- pre Constitution Ctee prep amd post comment - went well	03-Jul-09	15-Jul-09	
No		(10) Emails between SB and STR request proposal for Board	21-Jul-09	22-Jul-09	
		Board paper -	27-Jul-09		Proposed engage SB to work with Constitution Committee initially; then Oct 09 Board retreat - board roles, csfs, pms and skills sets; assess against them
		Minutes Board meeting	27-Jul-09		Resolved engage SB to work with Constitution Committee initially; then Oct 09 Board retreat - board roles, csfs, pms and skills sets; assess against them
No		(11) Emails between SB and STR- advising Board agreed to engage for Oct retreat;	28-Jul-09	28-Jul-09	
No		(12) Emails between SB and STR; SB Drascombe engagement agreement	28-Jul-09	28-Jul-09	
No		SB Consultant Company engagement agreement	28-Jul-09		
No	Key	(13) Emails between SB and STR Prep for 31 Aug Constitution Ctee meeting, contract & consent forms, memo to Constitution Ctee from SB, defn CSFs and PM's, summarising baord roles, examples	24-Aug-09	26-Aug-09	

Public	Importance	Document	Date from	Date to	Comment
No	Key	(14) Emails between SB and STR provides defn of CSF, PMs, notes, Poister 2003 guidelines; darft paper from SB, final paper	25-Aug-09	26-Aug-09	
No		(15) Repeat of parts of (14) above			
No		(16) Email to Constitution Cttee memo from SB, consent forms	26-Aug-09		Proposed that Board roles are per Board Charter
No		Handwritten notes	31-Aug-09		
No		(17) Emails between SB and STR capturing Constitution Ctee views	08-Sep-09	11-Sep-09	
No	Key	email from SB with captured views of the Constitution Ctee	08-Sep-09		first draft of success factors and PM's
No		(18) Email from SB capturing Constitution Ctee views, draft sept evidencing consideration of the foresight, oversight and insight	08-Sep-09		
No		Board Paper - amending P&G, Feedback collection form used in Oct 09 retreat	28-Sep-09		
No		Board Paper - Retreat Agenda	28-Sep-09		
No		(19) Emails between SB and STR re getting agreement from members of the Constitution Ctee	09-Oct-09		
No		(20) Emails between SB and STR - Send Org Strategy to SB, SB liasing with Simon	07-Oct-09		
No		Email from SB to S Chair	08-Oct-09		
No		(21) Repeat of (19) above with draft from Constitution Ctee 8 Oct 09	09-Oct-09		
No		(23) Email from SB to STR - work groups for retreat	18-Oct-09		
No		(24) Emails between SB and Chair teams	18-Oct-09	19-Oct-09	
No		(22) Email from SB to STR draft Constitution Ctee 19 oct 09	19-Oct-09		
No		Paper from SB to Board, Instructions, draft Constitution Ctee 19 oct	19-Oct-09		

Public	Importance	Document	Date from	Date to	Comment
		09			
No		(25) Email from STR to Board material for retreat	20-Oct-09		
No		Oct 09 Retreat agenda Mt Eliza	24-Oct-09		
No		SB overhead slides for Oct 09 Retreat incomplete	24-Oct-09		
No		Results of review of P&G, priority for Oct 09 retreat	24-Oct-09		
No		Electronic Whiteboard printouts	24-Oct-09		
No		Consultant paper notes	24-Oct-09		
No		(26) Email from SB to STR; Draft from Board workshop 24 oct 09	30-Oct-09		
No		Same as above with STR's handwritten notes	30-Oct-09		
No		(27) Emails between SB and STR arranging meeting to finish items not fully complete on the CSF's and PM's	10-Nov-09	11-Nov-09	
No		meeting with SB ???	18-Nov-09		
No		(28) Emails between SB and STR - invoice	17-Dec-09	18-Dec-09	
No		(29) Repeat part of 28 above	19-Dec-09		
No		(30) Emails from SB to STR - invoice attached	21-Dec-09		
No		(31) Emails between SB and STR - start engagement for 20 Mar 09 retreat on skills mix	02-Feb-09	09-Feb-09	
No	Key	Board Renwal Committee papers recommending some changes following a Dec 09 meeting between SB and STR	08-Feb-10		
		Action Items emerging from MT Eliza retreat	20-Mar-10		
		Notes from 20 March 2010 Experience and skills workshop (By SB)	20-Mar-10		
No	Key	Board Paper - Board Success Factors and Performance Measures	29-Mar-10		Board adopted with some holes to be filled in by Renewal
No		Board Minutes	29-Mar-10		
No		(34) Emails between SB and STR - copy of Board finalised CSF's and PM's to SB	30-Mar-10		

Public	Importance	Document	Date from	Date to	Comment
No		(35) Emails between Chair and STR - draft minutes and sams notes	07-Apr-10		
No		(33) Emails from SB to STR - skills mix	19-Apr-10		
No		(32) Emails from SB to STR - Invoice note	21-Apr-10		
No		Board Renewal Committee papers - dates and workplan recommended	27-Apr-10		
No		Board Renewal Committee Papers - draft assessment of Board Performance against the PM's, stated CSF's and PM's, workplan	09-Aug-10		
		Board Renewal Committee paper	09-Aug-10		
		Board Renewal Committee minutes	09-Aug-10		
	Board Performance Report 2010				
No	Key	Board Retreat - Performance Review - to Sept 2010	Oct-10		
		Notes from Oct 2010 Retreat			

Appendix 9 – List of not-for-profit organisations examined

.au Domian Administration Ltd Accesssible Arts Achieve Australia Action Aid Australia Adelaide Benevolent Society Adventist Development and Relief Agency (ADRA) Australia Ltd Alice Springs Youth Accomodation and Support Services Inv (ASYASS) Alzheimer's Australia NSW Amnesty International Australia Ampersand Network Anglicare NSW Anziif Asia Society Association of Building Sustainability Assesors Ausflag Ltd Auspol - Police Welfare Foundation Australian Air League Australian Baptist World Aid Inc Australian Breastfeeding Association Australian Children's Television Foundation Australian Clearinghouse for Youth Studies Australian College of Midwives Inc. Australian Conservation Foundation Inc Australian Consumers Association - Choice Australian Council for Educational Research Australian Council of Social Service Australian Digital Alliance Australian Flag Society - Flag Society of Australia Inc Australian Foundation For The Peoples Of Asia And The Pacific Australian Institute of Company Directors Australian Institute of International Affairs Australian Kidney Foundation Australian Library and Information Association Australian National Kennel Council Australian National University Union In Australian Naval Institute Australian Open Garden Scheme Australian Red Cross Society (national office) Australian Skeptics Australian Space Research Institute Australian Tibet Council Australian Volunteers International Australian Wildlife Conservancy	Make-A-Wish Foundation of Australia Ltd March in March Marie Stopes International Australia Mater Health Services Maternity Coalition MECWA Medecins Sans Frontieres Australia Media Access Australia Mental Health Council of Australia Inc Millennium Kids Mission Australia Movember Multiple Sclerosis Ltd Murdoch Childrens Research Institute Musems Board Najidah Association Inc National Breast Cancer Foundation National Council of Women in Australia National Science Summer School Inc National Stroke Foundation National Trust of Australia National Womens Media Centre National Youth Science Forum New South Wales Institute for Educational Research New South Wales State Emergency Service Novita Childrens Services Inc NSW Wildlife Information Rescue and education Service Octapod Old Colonists OpenSkills Opportunity International Australia Ltd Overseas Christian Fellowship Oxfam Australia Pacific Linguistics Palms Australia ParaQuad Victoria Partners in Aid People and Animal Welfare Society (PAWS) Peter MacCallum Cancer Institute Plan International Australia Police & Community Youth Clubs NSW Ltd Prosh (University of Adelaide) Queensland Family History Society Queensland Institute of Medical Research Rainforest Rescue Reach Out (non-profit)

Baker Heart Research Institute
Barnardos Australia
Bay and Basin Community Resources
Berry Street Victoria Inc
Bicycle Federation of Australia
Blue Care /Unitingcare Queensland
Boys Town
Brotherhood of St Laurence
Building Adjudication Victoria
Bush Heritage Australia
CAMBIA
Camp Quality Ltd
Campaign Against Nuclear Energy
CanDo4Kids / Townsend House
Canine Control Council (Queensland)
Canteen - The Australian Organisation for Young People Living with Cancer
CARE Australia
CareFlight (NSW) Ltd
Caritas Australia
Catholic Mission
Centre for Appropriate Technology (Australia)
Chartered Secretaries Australia
Chatterton Institute
Child Flight
ChildFund Australia Ltd
Children's Cancer Institute Australia for Medical Research
Children's Hope in Action
Children's Medical research Institute
Choice / Australian Consumers Association
Christian Blind Mission International (Australia)
Clean Up Australia
Compassion Australia
Conflict Resolution Network Australia
Council of the Ageing
Deaf CanDo
Deaf Children Australia
Diabetes Australia
Diabetes Australia NSW
Diabetes Australia Victoria
Digital Liberty Coalition
Electronic Frountiers Australia
EMILY's List Australia
Endeavour Foundation
Energex Rescue Helicopter
Engage Media
Engineers Without Borders (Australia)
EW Tipping Foundation
Exit International
Feros Care
Foundation for National Parks and Wildlife

Redfern Legal Centre
Relationships Australia
Right to Life Australia
Ronald McDonald House Charities Trust
Royal Australasian Ornithologists Union
Royal District Nursing Service
Royal Flying Doctor Service of Australia (South Eastern section)
Royal Freemason's Homes of Victoria Ltd
Royal Institute for Deaf and Blind Children
Royal New South Wales Canine Council
RSPCA Qld Inc
RSPCA Vic Inc
Rural Health Education Foundation
SAHANZ
Sanctuary Refugee Foundation Inc
Save the Children Australia
Schizophrenia Australia Foundation
Schizophrenia Research Institute
Scope (Vic) Ltd
Screenrights: The Audio Visual Copyright Society
Silver Chain Nursing Association Inc
South Australian Olympic Council
Spinal Cord Injuries Australia
Sport at the University of Adelaide
St James Ethics Centre
St Lucy's School
St Vincent de Paul Society NSW
St Vincent's Institute of Medical Research (SVIMR)
Starlight Children's Foundation Australia
State Emergency Service
Sydney Eisteddfod
Tasmanian Land Conservancy
TEAR Australia Inc
Technical Aid to the Disabled (NSW)
The Australian Academy of the Humanities
The Australian Anthropological Society
The Australian Architecture Association Incorporated
The Australian Cancer Research Foundation
The Australian Literacy and Numeracy Foundation Ltd
The Benevolent Society
The Cancer Council New South Wales
The Foundation for Young Australians
The Fred Hollows Foundation
The Heart Research Institute Ltd
The House with No Steps
The Justice Project (Australia)
The Malian Foundation

Garvan Research Foundation Greenpeace Australia Pacific Ltd GROW Guide Dogs NSW/ACT Hanover Healthy Kids School Canteen Association Hypostasis (organization) IBBY Australia Institute for Economics and Peace Issues Deliberation Australia / America Juvenile Diabetes Research Foundation International Keep Australia Beautiful Kids Help Line Kindness House Kingsford Legal Centre Landcare Australia Ltd Leaukaemia Foundation Lebanese Moslems Association Legal Services Board Legal Services Commissioner Leukaemia Foundation Group Lifeline Australia Inc Lifeline Community Care Queensland	The Red Room Company The Salvation Army Australia Eastern Territory Social Work The Salvation Army Australia Southern Territory Social Fund The Shepherd Centre The Smith Family The Spastic Centre of New South Wales The Walter and Eliza Hall Institute of Medical Research The Wilderness Society Unity of First People of Australia Ltd User: Diabetes.victoria/Diabetes Australia Victoria User: Mango Time / War Widows Guild of Australia NSW Ltd VALA Vets Beyond Borders Victorian Jazz Archive Victorian Partnership for Advanced Computing Villa Maria Society Vision Australia Welfare Rights Centre (SA) Inc Wesley College Wesley Mission Melbourne Women's Electoral Lobby Work Ventures World Vision Australia World Wide Fund for Nature Australia Yooralla Youth Challenge Australia Youth Off The Streets Ltd Youthcare Hervey Bay

Appendix 10 – Critical success factors observed in interviews

Interviewee 1	Interviewee 2	Interviewee 3	Interviewee 4	Interviewee 5
Critical Success Factors				
Valid Board Intellectual Capital Framework (Nicholson and Kiel 2004)	Integrated tools	Structure	Business operations understanding	Board Management inter-relationship
	Make decisions	Documentation	Strategic focus	Financial performance
		Culture	Accountable and ethical	Calibre of board member
		Training		Competitive position
		Compliance	Compliance	Board collegiality
		Policies		Board size
	Strategic plan		Strategy	Strategic plan
			Board leadership	Board leadership
			Organisation reputation	Reputation
				Customer satisfaction
		Follow through	Follow through	Follow through
Performance Indicators				
Performance is multi-level	Select from a bank of measures		Happy sheet – communicate nicely	Time
Degrees		Relationships		Talent
Skills	Money	Finances	Financial performance	Treasure
Culture		Staff turnover	Staff & Director turnover	Staff Turnover
	Annual program of work - discipline	Annual program of work - discipline		
			Legal requirements	
			Transparency and ethics	

Appendix 11 – Summary of codes

Standards Australia (2003)	National Hub of Expertise in Governance (2005)	Code of Governance for the Australian Community Sector (2008)	ASX Corporate Governance Council (2010)
Relevant text summarised	**Relevant text summarised** Nolan Principles of Selflessness, Integrity, Objectivity, Accountability, Openness, Honesty, Leadership.	**Relevant text summarised**	**Relevant text summarised**
Accountability		**Board Membership**	*Applies to listed public companies but adopted by some nfpos*
DEVELOPING & IMPELMENTING SYSTEM	Growth cycle	1. Free and informed election of Board by Members	**Principle 1 – Lay solid foundations for management and oversight**
Structural elements	**Board Leadership**	2. Advance commitment by candidates to board policies	Companies should establish and disclose the respective roles and responsibilities of board and management • Recommendation 1.1: Companies should establish the functions reserved to the board and those delegated to senior executives and disclose those functions.
2.2.1. Commitment by all people involved in corporate governance	B1. Board statement of roles and delegations	3. Board to establish policy concerning consecutive terms	• Recommendation 1.2: Companies should disclose the process for evaluating the performance of senior executives
2.2.2. Implement governance policy	B2. Board ensures vision, mission and values true to objects	**Collective Commitment**	• Recommendation 1.3: Companies should provide the information indicated in the Guide to reporting on Principle 1.
2.2.3. Promote good governance	B3. Act in the best interest of the org and its beneficiaries or members	4. Independent board	
2.2.4. Continuous improvement	B4. All directors equally responsible	5. Culture of collective decision making	**Principle 2 - Structure the board to add value** Companies should have a board of an effective composition, size and commitment to adequately discharge its responsibilities and duties.
Operational elements	B5. Directors act personally not as representative	6. Argue and vote as conscience, then board unity	
2.3.1 Identify & manage governance issues	B6. Independent and not controlled		• Recommendation 2.1: A majority of the board should be independent directors.
2.3.2. Operating procedures for governance integrated into orgs day to day procedures	B7. CEO responsible for clear division between staff and Board and should be the link implementing strategy	7. Conflicts management mechanisms	• Recommendation 2.2: The chair should be an independent director. • Recommendation 2.3: The roles of chair and chief executive officer should not be exercised by the same individual.
2.3.3 System for dealing with governance breaches	B8. Directors not involved where delegated but to hold them to account through CEO	8. Board has policies frankness, honesty and respect	
2.3.4. Record keeping	B9. Where Directors work in the org, clear distinction between Governance and Operational work	9. Board members cannot be bound by sectional interests but must govern in the best interest of the organisation	• Recommendation 2.4: The board should establish a nomination committee. • Recommendation 2.5: Companies should disclose the process for evaluating the performance of the board, its committees and individual directors.
2.3.5. Internal reporting reflect strategy, clear links to governance system and strategy, operational and risk strategies	**The Board in Control**	**Democratic Governance**	• Recommendation 2.6: Companies should provide the information indicated in the Guide to reporting on Principle 2.
Risk management	C1. The Board ensure compliance	10. All Board members can bring issues to the board	
Internal controls	C2. Organisations must comply	11. Dissent can be put to the board without obstruction	**Principle 3 - Promote ethical and responsible decision-making**
governance issues reported and corrected	C3. The should have policies, procedures and reports to ensure compliance	12. Meet at least 6 times per year	Companies should actively promote ethical and responsible decision-

Standards Australia (2003)	National Hub of Expertise in Governance (2005)	Code of Governance for the Australian Community Sector (2008)	ASX Corporate Governance Council (2010)
			making.
Maintenance elements	C4. Organisations should comply	13. Board to support Chair	• Recommendation 3.1: Companies should establish a code of conduct and disclose the code or a summary of the code as to:
2.4.1. Education and training	C5. Maintain standing orders, systems of financial control, internal control, performance reporting and policies and procedures	14. Dissent without apprehension from Chair or assessment of collective	• the practices necessary to maintain confidence in the company's integrity
2.4.2. Visibility and communication	C6. System for regular review of effectiveness of internal controls	**Management of the Board**	• the practices necessary to maintain confidence in the company's integrity
2.4.3. Monitoring and assessment	C7. Set up Audit Committee	15. Induction and continuing support to board members	• the practices necessary to take into account their legal obligations and the reasonable expectations of their stakeholders
2.4.4. Review of governance system	C8. Consider quality assurance systems or other forms of accreditation	16. Policies and procedures to remove board members who cannot fulfil legal, ethical and social responsibilities	• the responsibility and accountability of individuals for reporting and investigating reports of unethical practices.
2.4.5. Liaison with shareholders, prof associations, etc, stakeholders for awareness	C9. Avoid undue risk	17. Policies and procedures to protect the rights of directors to voice own views	• Recommendation 3.2: Companies should establish a policy concerning diversity and disclose the policy or a summary of that policy. The policy should include requirements for the board to establish measurable objectives for achieving gender diversity for the board to assess annually both the objectives and progress in achieving them.
GOOD GOVERNANCE PRINCIPLES	C10. Care with money	18. Policies and procedures to deal with potential conflict through disclosure and recusal	• Recommendation 3.3: Companies should disclose in each annual report the measurable objectives for achieving gender diversity set by the board in accordance with the diversity policy and progress towards achieving them.
Follows loosely OECD principles	C11. Manage and understand and assess risk	**Direction**	• Recommendation 3.4: Companies should disclose in each annual report the proportion of women employees in the whole organisation, women in senior executive positions and women on the board.
3.2.1. System to ensure strategic guidance, management monitoring & board accountability	C12. Obtain advice where material risk	19. Board has ultimate responsibility	• Recommendation 3.5: Companies should provide the information indicated in the Guide to reporting on Principle 3.
2.2.2.1. Governance policy to specify directors rights, obligations and power, inc chair, ceo, company secretary	C13. Board to manage conflicts	20. Board approves mission, strategy, budget, financial affairs and policies on governance, management and program implementation	**Principle 4 - Safeguard integrity in financial reporting** Companies should have a structure to independently verify and safeguard the integrity of their financial reporting.
3.2.3.1a. Board responsible for strategic direction	C14. Whistle blowing	21. Board concerned with strategic direction and delegate operational issues to staff (paid or unpaid)	
3.2.3.1.a. Review and approve strategy	C15. Equal opportunity and diversity	22. Clear documentation of delegation by the board	• Recommendation 4.1: The board should establish an audit committee.
3.2.3.1.b. Approve & review budgets and performance indicators	C16. Board set equality and diversity strategies and reports	23. Board responsible and should institute effective monitoring and evaluation procedures	• Recommendation 4.2: The audit committee should be structured so that it:

Standards Australia (2003)	National Hub of Expertise in Governance (2005)	Code of Governance for the Australian Community Sector (2008)	ASX Corporate Governance Council (2010)
3.2.3.1c. Compliance with laws	C17. If org set up to serve a specific community the equality and diversity principles can be modified	24.0CEO should be responsible for operational management, if CEO delegates he/she remains accountable	• consists only of non-executive directors
3.2.3.1.d. Identify, assess & manage risk	**The high performance board**	25. Liaison between board and staff should be through the CEO	• consists of a majority of independent directors
3.2.3.1.e. Policies on key issues	D1. Directors sign letter/ statement setting out duties, responsibilities and expectations	**Risk Management**	• is chaired by an independent chair, who is not chair of the board
3.2.3.1.f. Most effective governance structure	D2. Letter include values, objectives, time, integrity	26. Board ensure robust risk management policies and procedures	• has at least three members.
3.2.3.1.g. Match corporate culture with values and strategies	D3. Individual directors must only act with approval of board	27. Board should test, review and refresh risk management policy and procedures	• Recommendation 4.3: The audit committee should have a formal charter.
3.2.3.1.h. Appoint and performance manage CEO against predetermined criteria	D4. Board meet regularly	28. Board ensure OH&S has equal priority with organisation performance	• Recommendation 4.4: Companies should provide the information indicated in the Guide to reporting on Principle 4.
3.2.3.2.a. Approve CEO & Snr Mgt remuneration, & policy and succession plans	D5. Sufficient skill and experienced board members	**Accountability**	**Principle 5 - Make timely and balanced disclosure**
3.2.3.2.b. Take into account all shareholder groups	D6. Chair should ensure all directors can contribute	29,. Board is ultimately accountable	Companies should promote timely and balanced disclosure of all material matters concerning the company.
3.2.4.a. Board independence	D7. Board should ensure it works efficiently and received information	30. Board also accountable to those served by its mission	• Recommendation 5.1: Companies should establish written policies designed to ensure compliance with ASX Listing Rule disclosure requirements and to ensure accountability at a senior executive level for that compliance and disclose those policies or a summary of those policies.
3.2.4.b. Chair independence	D8. Board take advice	31. Board ensure clear procedures for transparent conduct of its meetings, recording & communicating decisions, and receiving feedback	• Recommendation 5.2: Companies should provide the information indicated in the Guide to reporting on Principle 5.
3.2.4.c. Declare conflict & have procedures	Skill, experience, qualities and knowledge	**Transparency**	**Principle 6 - Respect the rights of shareholders** Companies should respect the rights of shareholders and facilitate the effective exercise of those rights.
3.2.4.d. Directors actively develop agenda	D10. Specific skills listed	32. All board operations should be open to stakeholders, except where specific motion	• Recommendation 6.1: Companies should design a communications policy for promoting effective communication with shareholders and encouraging their participation at general meetings and disclose their policy or a summary of that policy.
3.2.4.e. NED's consider meeting separately from CEO	D11. Diverse board and representative of community	33. At least an annual board report on orgs activities, enabling stakeholder to make decisions	
3.2.5.1. Document board appointment	D12. Open to membership from beneficiaries and users	34. Board establish and implement whistleblower policies and procedures	• Recommendation 6.2: Companies should provide the information indicated in the Guide to reporting on Principle 6.
3.2.5.1. Assess board and individual performance, *could be using key performance indicators or peer review*	D13. If staff on board, should be demonstratably in orgs interest	**Community Responsibility**	**Principle 7- Recognise and manage risk**
3.2.6. Appropriate board skills	D14. Develop board members	35. Board do its part to reduce systemic social disadvantage	Companies should establish a sound system of risk oversight and management and internal control.

Standards Australia (2003)	National Hub of Expertise in Governance (2005)	Code of Governance for the Australian Community Sector (2008)	ASX Corporate Governance Council (2010)
3.2.6. Appropriate personal qualities	D15. Board Induction	36. Board should encourage social diversity, access, inclusion and participation	• Recommendation 7.1: Companies should establish policies for the oversight and management of material business risks and disclose a summary of those policies.
3.2.7. Board induction & continuous development	D16. Development & induction of board members maybe delegated	37. Board should take into account the mission, the organisation, users, members, workforce, community sector, general public, and local and global human rights and be prepared to justify actions	• Recommendation 7.2: The board should require management to design and implement the risk management and internal control system to manage the company's material business risks and report to it on whether those risks are being managed effectively. The board should disclose that management has reported to it as to the effectiveness of the company's management of its material business risks.
3.2.8. Written code of conduct	D17. Supervise, appraise and develop CEO	**Environmental Responsibility**	• Recommendation 7.3: The board should disclose whether it has received assurance from the chief executive officer (or equivalent) and the chief financial officer (or equivalent) that the declaration provided in accordance with section 295A of the Corporations Act is founded on a sound system of risk management and internal control and that the system is operating effectively in all material respects in relation to financial reporting risks.
3.2.9.1.1.a. Governance policy should outline process for establishing agenda	D18. Set CEO remuneration	38. Board should actively work to preserve environmental sustainability	• Recommendation 7.4: Companies should provide the information indicated in the Guide to reporting on Principle 7.
3.2.9.1.1.b. Board meet regularly with adequate notice	D19. CEO salary fair, disclosed, linked to measurable targets	**Diversity and Empowerment**	**Principle 8- Remunerate fairly and responsibly**
3.2.9.1.1.c.Board paper for every item on agenda, adequate dispatch	D20. Board seek advise re CEO employment	39. Board should largely reflect Australian community. Tangible effort to increase women, minority, under-represented, disabled and indigenous	Companies should ensure that the level and composition of remuneration is sufficient and reasonable and that its relationship to performance is clear.
3.2.9.1.1.d. Minutes accurate and authorised by Chair	**Board review and renewal**	40. Organisation serves provided respond to & reflect Australia's community	• Recommendation 8.1: The board should establish a remuneration committee.
3.2.9.1.2. Preferably consensus, otherwise majority	E1. Board assess its own and individuals performance	41. User representation on the board	• Recommendation 8.2: The remuneration committee should be structured so that it:
3.2.9.2.1. Single motion	E2. Performance appraisal should lead to training and recruitment	42. Disadvantaged board members to be supported including more than one person from board	• consists of a majority of independent directors
3.2.10.1. Board Committees charter	E3. Succession plan	43. Board ensure organisation promotes empowerment	• is chaired by an independent chair
3.2.11. Audit Committee, charter, independent, financially literate, access to mgt and auditor, follow up, minutes	E4. Delegation to subcommittee Ok	44. Equal opportunity and diversity	• has at least three members.

Standards Australia (2003)	National Hub of Expertise in Governance (2005)	Code of Governance for the Australian Community Sector (2008)	ASX Corporate Governance Council (2010)
3.2.12.1. Disclose in ann report remuneration policies	E5. Recruit and appoint in accordance with governing document	**Ethical Fundraising**	• Recommendation 8.3: Companies should clearly distinguish the structure of non-executive directors' remuneration from that of executive directors and senior executives. • Recommendation 8.4: Companies should provide the information indicated in the Guide to reporting on Principle 8.
3.2.13 Board review own performance	E6. Consider max terms for steady renewal of directors	45. Materials accurate and truthful and funds used for stated purpose	
3.2.13. Monitor and manage conflict of interest	E7. Determine required attributes & knowledge put in role description and profile	46. Respect the privacy of donors	
3.2.13. Board members entitled to obtain independent professional or other advice	E8. Open recruitment	47. Board should have policies and procedures for refuse a donation	
3.2.13. Board members entitled to obtain certain resources and information from the entity, inl access to employees etc	E9. Appoint on merit	**Effectiveness**	
3.3.1 Disclosure of all material matters	E10. Ensure that required skills and experience of directors is known	48. Board periodically review its own effectiveness and take action to ensure it works well	
3.3.1. Annual audit	E11. Co-option for particular skills, experience and qualities	Board regularly reviews the CEO performance	
3.3.2. Disclose governance approach in annual report	E12. Clarity in joining and leaving board	Board regularly reviews org performance assessed against the mission	
3.4.2. Protect shareholders rights	E13. Periodic strategic review of orgs work		
3.5. Responsibly of shareholders	E14. Review areas covered by this code		
3.6 Consider interests of stakeholders	E15. Reviews inform org development, strategy, org activities, etc'		
	E16. Open with stakeholders		
	Board delegation		
	F1. Define and write down role of chair etc		
	F2. Chair role should include ….list		
	F3. Board ultimately in control not delegated officers		
	F4.Clear practical delegation		
	F5. Delegations must comply with Constitution and law		
	F6. Delegate through CEO		
	F7. Delegations in writing with clear limits		

Standards Australia (2003)	National Hub of Expertise in Governance (2005)	Code of Governance for the Australian Community Sector (2008)	ASX Corporate Governance Council (2010)
	F8. Terms of reference for committee etc		
	F9. Board in control of all delegations		
	Board and trustee integrity		
	G1. Avoid private benefit		
	G2. Payment must not exceed limit and be in org interest		
	G3. Board member not set own remuneration		
	G4. Disclose remuneration		
	G5. Procedures for expenses		
	G6. Procedures for managing and declaring conflict of interest		
	G7. Abstain from voting where conflict		
	G8. Where major or ongoing conflict offer to resign		
	G9. Where directors are clients board should have special procedures or standing orders		
	G10. Declare and record all gifts and hospitality		
	G11. Directors should not accept gifts with significant monetary value or lavish hospitality		
	G12. Directors should not accept gifts or hospitality where this could be seen to influence board decisions		
	Board openness		
	H1. Identify those with a legitimate interest in the orgs work as stakeholders		
	H2. Ensure board and stakeholders understand the boards role and the orgs objects and values		
	H3. Communicate with stakeholders		
	H4 Produce annual report		

Standards Australia (2003)	National Hub of Expertise in Governance (2005)	Code of Governance for the Australian Community Sector (2008)	ASX Corporate Governance Council (2010)
	H5. Communicate in accessible formats		
	H6. Annual General Meeting, invite stakeholders		
	H7. Upholds commitment to openness and accountability		
	H8 Stakeholders views taken into account in decision making and strategy		
	H9. Where directors elected by membership involve membership		

Appendix 12 – Summary of the specific factors reported to constitute corporate governance ratings

ISS Institutional Share Holder Services Rating Corporate Governance Quotient (CGQ)	**S&P Standard and Poor** Corporate Governance Quotient (CGQ)	**GMI Governance Metric International** Governance Metric International (GMI)	**TCL The Corporate Library** Board Effectiveness Rating (BER)
Overall +8 Cat.	Overall +4 Cat.	Overall +7 Cat.	Overall +6 Cat.
Board structure and compensation	Board structure and process	Board accountability	Board structure and make-up of skills
Executive and director compensation	Financial stakeholders' rights and relation	Executive compensation	CEO compensation contracts and compensation practices
D&O stock and ownership			
Ownership structure and influence		Ownership base and potential dilution	Outside director shareholdings
Charter and by-law provisions	Financial transparency and information disclosure	Financial disclosure and internal control	Ownership
Audit		Market for control	Accounting and audit oversight
Takeover practice		Reputational and socially responsible investment issues	Board decision making
Director education		Shareholder rights	
Qualitative factors			

Adapted from Donker & Zahir 2008

Better Business Bureau (BBB) Rating Criteria

Criterion	**Criterion Description**
Governance and oversight	a board of directors that provides adequate oversight of the charity's operations and its staff a board of directors with a minimum of five voting members a minimum of three evenly spaced meetings per year of the full governing body with a majority in attendance, with face-to-face participation not more than one or 10% (whichever is greater) directly or

	indirectly compensated person(s) serving as voting member(s) of the board; compensated members shall not serve as the board's chair or treasurer no transaction(s) in which any board or staff members have material conflicting interests with the charity resulting from any relationship or business affiliation
Measuring effectiveness	have a board policy of assessing, no less than every 2 years, the organization's performance and effectiveness and of determining future actions required to achieve its mission submit to the organization's governing body, for its approval, a written report that outlines the results of the aforementioned performance and effectiveness assessment and recommendations for future actions
Finances	spend at least 65% of its total expenses on program activities spend no more than 35% of related contributions on fund-raising avoid accumulating funds that could be used for current program activities; to meet this standard, the charity's unrestricted net assets available for use should not be more than three times the size of the past year's expenses or three times the size of the current year's budget, whichever is more make available to all, on request, complete annual financial statements prepared in accordance with generally accepted accounting principles include in the financial statements a breakdown of expenses (e.g., salaries, travel, postage, etc.) that shows what portion of these expenses was allocated to program, fund-raising, and administrative activities accurately report the charity's expenses, including any joint cost allocations, in its financial statements have a board-approved annual budget for its current fiscal year, outlining projected expenses for major program activities, fundraising, and administration
Fund-raising and informational materials	have solicitations and informational materials, distributed by any means, that are accurate, truthful, and not misleading, both in whole and in part have an annual report available to all, on request, that includes 1. the organization's mission statement 2. a summary of the past year's program service accomplishments 3. a roster of the officers and members of the board of directors 4. financial information that includes (a) total income in the past fiscal year, (b) expenses in the same program, fund-raising, and administrative categories as in the financial statements, and (c) ending net assets include on any charity Web sites that solicit contributions the same information that is recommended for annual reports, as well as the mailing address of the charity and electronic access to its most recent IRS Form 990 address privacy concerns of donors by 1. providing in written appeals, at least annually, a means (e.g., such as a check-off box) for both new and continuing donors to inform the charity if they do not want their name and address shared outside the organization 2. providing a clear, prominent, and easily accessible privacy policy on any of its Web sites that tells visitors (a) what information, if any, is being collected about them by the charity and how this information will be used, (b) how to contact the charity to review personal information collected and request corrections, (c) how to inform the charity (e.g., a check-off box) that the visitor does not wish his or her personal information to be shared outside the organization, and (d) what security measures the charity has in place to protect personal information clearly disclose how the charity benefits from the sale of products or services (i.e., cause-related marketing) that state or imply that a charity will benefit from a consumer sale or transaction; such promotions should disclose, at the point of solicitation, 1. the actual or anticipated portion of the purchase price that will benefit the charity (e.g., 5 cents will be contributed to abc charity for every xyz company product sold) 2. the duration of the campaign (e.g., the month of October) 3. any maximum or guaranteed minimum contribution amount (e.g., up to a maximum of $200,000) respond promptly to and act on omplaints brought to its attention by the BBB Wise Giving Alliance and/or local BBBs about fund-raising practices, privacy policy violations, and/or other issues

Source: Sloan 2009

Appendix 13 – Letter from Bicycle Victoria Incorporated granting access

bicyclevictoria
more people cycling more often

Steve Reynolds
By Hand Delivery

2 March 2011

Dear Steve

I refer to your request to use Bicycle Victoria as a case study organisation in your doctoral research.

I am aware of the objectives of the study, together with any risks and safeguards associated with the study and I have had the opportunity to have any questions answered, and that I understand that I can withdraw Bicycle Victoria's involvement from this study at any time and that this withdrawal will not jeopardise Bicycle Victoria in any way.

This letter is to confirm that you may access Bicycle Victoria's records and use Bicycle Victoria as a case study in your doctoral research under the following conditions:-

- subject to any over-riding legal requirement, all of the information accessed will be kept confidential,
- you will obtain explicit consent from Bicycle Victoria to publish in your thesis any documents which are not in the public domain,
- you may make copies of Bicycle Victoria data, such as board minutes, board performance measures, notes that you have made whilst in the context of your employment. etc, however,
    - you will keep these records secure at all times,
    - you will not disclose them to anyone except you may disclose them to your University supervisors, Professors Francis and Van Gramberg,
    - you will destroy or return these records upon the conclusion of your research,
- you will advise Bicycle Victoria of anything which you judge to be prejudicial to Bicycle Victoria best interest or likely to damage Bicycle Victoria's reputation.

Yours sincerely

Harry Barber
Chief Executive Officer
Bicycle Victoria Incorporated

Level 10, 446 Collins St
Melbourne VIC 3000
Melway 1A F7

PO Box 426
Collins St West
VIC 8007 Australia

Phone 03 8636 8888
Country Callers 1800 639 634
Fax 03 8636 8800

Website www.bv.com.au

Bicycle Victoria Incorporated
ABN 41 026 835 903 **ARBN** 054 009 871
Reg No A000860 7J

Appendix 14 – Email from Bicycle Victoria Incorporated confirming access

Subject	RE: Steve Reynolds' Thesis
Sender	Harry Barber
Recipient	steve@reynoldssullivan.com.au
Copy	Simon Crone <Simon.Crone@bettafoods.com.au> (Simon.Crone@bettafoods.com.au)
Date	Today 16:43

Good to hear the PhD is going well.
I am happy to confirm that our agreement still stands and is as you describe it below. I look forward to reading your work.
Cheers
Harry

From: steve@reynoldssullivan.com.au [mailto:steve@reynoldssullivan.com.au]
Sent: Thursday, 6 September 2012 2:40 PM
To: Harry Barber
Subject: Steve Reynolds' Thesis

Dear Harry

I was good to speak with you last night.

As we discussed my thesis is nearing completion and part of the reason for my call was to confirm that Bicycle Victoria is still prepared to be named as the case study organisation in that thesis.

You may recall that you issued me with a letter in March 2011 which amongst other things agreed to Bicycle Victoria's involvement in the case study provided that I obtain explicit consent to publish any documents not in the public domain required that I advise Bicycle Victoria of anything that I judge to be prejudicial to Bicycle Victoria.

I can confirm that I am not publishing any Bicycle Victoria documents not in the public domain, nor am I publishing or concluding anything prejudicial to Bicycle Victoria, nor am I naming any individual person.

The conclusions in the thesis, as they relate to Bicycle Victoria have all been, supported by one or more of the other data sources, which are the Literature, Published Annual Reports or Expert interviewees.

Please confirm that I can name Bicycle Victoria as the case study organisation.

Regards
Steve Reynolds

Appendix 15 – Researcher assessment of validity of Bicycle Victoria Incorporated performance indicators in terms of Caddy (2002) 4 levels of validity

Bicycle Victoria Incorporated Board performance indicator	Level 1 (underlying logic)	Level 2 (understood measurement scale)	Level 3 (Internal comparison)	Level 4 (External comparison)
1	Yes	Yes	No	No
2	Yes	Yes	No	No
3.1	Yes	No	No	No
3.2 to 3.7	Yes	Yes	No	No
4.1	Yes	Yes	Yes	No
4.2 to 4.3	Yes	Yes	No	No
5	Yes	Yes	No	No
6	Yes	Yes	No	No
7	Yes	Yes	Yes	No
8.1.1	Yes	No	No	No
8.1.2 to 8.3	Yes	Yes	Yes	No
9	Yes	Yes	No	No

Appendix 16 – Possible components of a key performance indicator kit

Component	**Discussed in section**
Critical success factors drawn from board role sets	7.4 & 7.4.1
Performance indicators based on mechanisms to influence those role sets	6.2.3 & 7.4
Strive for simplicity initially, temper desire for high level technical perfection and seek continuous improvement	6.3, 7.4 & 7.4.4
Consider indicators of role sets including adherence to corporate governance codes of best practice, financial oversight, people turnover, strategy and organisational performance	6.1.3, 6.2.2, 6.2.3, 6.2.4, 7.4, 7.4.5

Appendix 17 – Bicycle Victoria Incorporated governance structure

Governing Board

- 9 Members
- Elected by General Membership for three years
- 3 positions vacating every year
- Staff (including chief executive officer) can not be members of the board

Audit & Risk Committee

- Advisory Committee appointed by the Board
- Dealing with finance, risk management and matters referred to it by the board
- 3 or more Members may include non board members
- Staff (including chief executive officer) can not be members

Constitution Committee

- Advisory Committee appointed by the Board
- Dealing with corporate governance, particularly the constitution, board performance, casual vacancies, board training and matters referred to it by the board
- 2 or more Board Members
- Staff (including chief executive officer) can not be members

Election Committee

- Advisory Committee appointed by the Board
- Dealing with election of board members and matters referred to it by the board
- 3 or more Board Members
- Board Members seeking election within the year not eligible
- Staff (including chief executive officer) can not be members

Remuneration Committee

- Advisory Committee appointed by the Board
- Dealing with election of chief executive officer performance assessment and reward
- 2 to 4 Board Members
- Staff (including chief executive officer) can not be members