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# Best practice features and practices guiding community service organisation governance

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*Southern Cross University*

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*Best practice features and practices  
guiding  
community service organisation governance.*

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DOCTOR OF BUSINESS ADMINISTRATION**

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## Abstract

The review of the literature and the results gained from this research suggest an important link between the effectiveness of a board, including its corporate governance practices, and organisational effectiveness. This link attests to the importance of a greater focus upon the governance approach used by organisations. There is extensive literature about corporate governance in the business sector and there is emerging research into corporate governance in the Third Sector. However there is very little literature about the community service component on the Third Sector in Australia and none in relation to community service organisations that are incorporated under the Tasmanian *Associations Incorporation Act 1964*.

This thesis aims to discover what is defined as best practice in the area of corporate governance for Tasmanian community service organisations and if selected organisations have adopted that best practice. For this purpose a research problem and three research sub-problems are identified. The research adopts a case study approach as the main research methodology using interviews, document reviews and a short self assessment questionnaire as data collection tools. The researcher approached six incorporated community service organisations funded by the Tasmanian Department of Health and Human Services and they agreed to participate in the research.

Following data collection and data analysis the following major findings emerge. Firstly, that case organisations have adopted a range of governance practices. There are significant gaps in some organisations and there is room for improvement in all of the case organisations. Secondly, that some case organisation boards are approaching corporate governance by managing compliance to a minimum standard although others are offering strategic leadership with a commitment to quality and best practice. Thirdly, the research identifies a number of factors that impact upon corporate governance in case organisations. Those factors include the role of the Chief Executive Officer; the

quest for competitive advantage; implementation of governance maintenance strategies and the impact of religion for religious-based organisations. Finally, the research also identifies three factors that were not determinative upon case organisations. They are the size of the organisation, the governance model being used, and the influence of the regulator (the Business Affairs Office) and the funding provider (the Department of Health and Human Services).

Consequently it is concluded that the principle based approach to corporate governance can be extended to Tasmania. Furthermore the implication of this research for community sector organisations is that they need to implement governance maintenance practices including board training, board performance review and governance review. There is also a call to both the Business Affairs Office and the Department of Health and Human Services to be more proactive in requiring community service organisations to adopt additional corporate governance practices.

Hence, based on the literature review and the analysis of the research data, a list of “Best practice features and practices guiding community service organisation governance” has been developed. This list can be used by organisations to provide direction for their approach to corporate governance.

Finally, the conclusions provide a solid foundation for further study. This will be useful in order to obtain a broader understanding of the issues involved.

**Key words:** best practice, case study, community sector organisations, corporate governance, Third Sector.

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## Abbreviations

Advocacy Tas.	Advocacy Tasmania Inc.
ASX	Australian Stock Exchange
BAO	Business Affairs Office within the Tasmanian Government's Department of Justice and Industrial Relations
CEO	Chief Executive Officer
CLERP	Corporate Law Economic Reform Program
CSO	Community Sector Organisation
CSOs	Community Sector Organisations
DHHS	Tasmanian Government's Department of Health and Human Services
FaCS	Australian Government's Department of Family and Community Services
GDP	Gross Domestic Product
HR	Human Resources
Inc.	Incorporated (an organisation incorporated under the <i>Tasmanian Associations Incorporation Act 1964</i> )
KPIs	Key Performance Indicators
OECD	Organisation for Economic Cooperation and Development
TasCOSS	Tasmanian Council of Social Services Inc.
YNOT	Youth Network of Tasmania Inc.

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## **Declaration of original authorship**

I certify that the content of this thesis has not been previously submitted for any degree and it is not currently being submitted for any other degree.

I also certify that to the best of my knowledge any assistance received in preparing this thesis and all sources used have been acknowledged accordingly.

Christopher Randall Jones

1 September 2005

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Chris Jones



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# Chapter 1

## Introduction

### 1.1 Background to the research

This thesis describes best practice in corporate governance and analyses the governance approach of certain community service organisations from the Third Sector in relation to that best practice. It provides a list of features and practices that guide community service organisation governance that will be helpful for organisations seeking to improve their approach to governance. The research was undertaken over a three and a half year period and includes interviews with those who work with community service organisations. There is a particular focus upon religious-based organisations as the researcher is an Anglican priest and the CEO of the largest community service organisation in Tasmania, Anglicare Tasmania Inc., which is a religious-based organisation.

This chapter introduces the area being researched, corporate governance in community service organisations, and is presented in eight sections as graphically presented in Figure 1.1. The chapter commences with this introduction (section 1.1) which outlines the research topic and gives the background to the research by outlining the broad field of study. This leads to a description (section 1.2) of the research problem and the sub-problems that are to be explored. The justification for the research is then argued (section 1.3). This is followed by some introductory comments about the methodology that has been adopted (section 1.4). Section 1.5 briefly describes the chapters in the thesis and the key terms used in the research are defined in section 1.6. The delimitations surrounding the thesis are given (section 1.7) and the chapter is concluded (section 1.8).

Figure 1.1. **Outline of introduction**

- 1.1 Background to the research
- 1.2 Research problem
- 1.3 Justification for the research
- 1.4 Methodology
- 1.5 Outline of the thesis
- 1.6 Definitions
- 1.7 Delimitations of scope
- 1.8 Conclusion

*Source: developed for this research.*

The first parent discipline of importance is corporate governance. Corporate governance may be seen to have originated in the Nineteenth Century when incorporation was used to limit liability and forms of legislation and regulation were being developed (Fletcher 1996; Vinten 2001, p.7). Yet the name “corporate governance” has only been in use since the 1980s (Parker 1996, p.2). Its emergence at that time follows action taken by countries in different parts of the world following stock market crashes. For many countries this was a period of ‘rampant excesses’ by corporations and Australia had its share of corporation failures (Tomasic 2001 see also Department of Treasury 1997, p.21; Francis 2000, p.10). One aspect of these failures is the legal action taken against corporation directors. An Australian example is the AWA Case (*Daniels v. Anderson* (1995) 12 A.C.L.C. 614) where it was determined that the board had adopted poor governance practices. Also noteworthy at the time is the case of governance failure in the Third Sector referred to as the National Safety Council Case (*Commonwealth Bank of Australia v Friedrich & ors* (1991) 5 ACLC 115)(McGregor-Lowndes 1995).

It is apparent that corporate excesses and failures are an impetus for improving the standard of corporate governance. Yet more is involved than an attempt to sort out the problems of the past so they do not reoccur. There was also an acknowledgement that there is a link between a corporation’s performance and the governance practices of its board (Gregg 2001, Hilmer 1998, Kiel & Nicholson 2002; OECD 1998). The publicity surrounding corporate failures, especially with

the increasing number of “mum and dad” shareholders contributes to the pressure for improved practices.

As the OECD (1998, pp.15-17) points out, there is not one model of corporate governance practice that is applicable to all corporations. Instead it argues for the adoption of a set of ‘policy perspectives and guiding norms.’ Keong agrees with this approach and argues that

while the “one size fits all” approach may be both unattainable and unrealistic, it is fortunately possible to identify and promote a set of guiding principles as the benchmark for best practices in corporate governance to which companies should aspire (Keong 2002, p.11).

The other parent discipline that is a focus of this thesis is the emerging literature and research dealing with the Third Sector. The Third Sector is a term that has more wide spread use internationally than in Australia, but this is changing, as evidenced by Lyons’ (2001) recent book. The Third Sector is a sector distinct from government and for-profit businesses and is sometimes referred to as the not-for-profit or nonprofit sector (Ryan 1999).

The Third Sector makes a considerable contribution to the Australian economy as it makes up 4.7% of Gross Domestic Product and accounts for 6.8% of total employment (Woodward & Marshall 2004, p.1). In addition to this economic benefit the sector serves local communities in ways that lead to capacity building and therefore to an improvement in the overall quality of life in those communities (McPhee & Bare 2001, p.1 see also Lyons 2001, p.204). Third Sector organisations contribute to communities through a vital advocacy role for those who are most disadvantaged within that community. A significant sub-set of the Third Sector is those organisations that provide community services. They have a broad scope of activities and are commonly referred to as community service organisations (CSOs).

The immediate discipline is the corporate governance practices of Third Sector organisations. Research into Third Sector governance has been minimal in Australia. The survey by Woodward and Marshall (2004) into Third Sector companies limited by guarantee had a focus upon regulation and provides limited

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information about governance practices. According to Lyons (2001, p.130) there is limited information about the governance practices of Australian CSOs. This is despite the research that has been undertaken in recent years into other aspects of CSOs. There is also very little literature about the theory of governance as it applies to Australian CSOs (Steane 2001). Accordingly this thesis addresses a gap in the literature as well as seeking to be of assistance to the sector.

## 1.2 Research problem

The broad area being researched is corporate governance in community service organisations. The specific problem addressed in this research is:

To discover what is defined as best practice in the area of corporate governance for community service organisations, funded by the Tasmanian Department of Health and Human Services and if organisations have adopted best practice.

Essentially the thesis concludes that there is a wide range of corporate governance practices being used by CSOs. The research framework is outlined in chapter two and especially in Figure 2.14, with three sub-problems being developed.

Sub-problem one is to analyse what constitutes best practice in the area of corporate governance for selected CSOs funded by the Tasmanian DHHS. This is responded to by a review of the literature that identifies a list of best practice features and practices guiding CSO governance as presented in chapter two. The identification of a list is in line with the focus in the literature on guiding principles and not a specific model (Brudney & Murray 1997; Fishel 2003; Keong 2002). This list is then discussed with stakeholders to determine a normative set of best practice features and practices guiding corporate governance within CSOs funded by the Tasmanian DHHS, as presented in section 4.2. This list is proposed as a useful evaluative tool for the community services sector and may be used by individual organisations to review their governance practices. It may have a wider application as a basis for any sector wide survey that may be undertaken. Another possible use is as an element in any DHHS review of its service agreements with CSOs.

Sub-problem two is to discover what corporate governance principles and practices have been adopted by selected CSOs funded by the Tasmanian DHHS.

This is responded to by the use of case studies where organisations are examined to ascertain the corporate governance features and practices they have in place, as presented in section 4.3. A report is provided to the case organisations as to what was revealed in the examination, and suggestions were made when areas for improvement were identified. A schedule of interview questions, a self-assessment questionnaire and a list for recording evidence of governance activity have been developed and can be used with other organisations to provide a review of those organisations' governance effectiveness (FaCS 2001; Gill et al. 2005). Such tools may be used by the organisation itself or by an external facilitator.

Sub-problem three is to compare the analysis to see what is revealed. This is responded to by an assessment of the case organisations against the normative list of practices, and includes cross-case analysis as presented in section 4.4. Each of the organisations is lined up against the list and an evaluation is provided against the list in each governance feature area. The cross-case analysis provides further insight into what organisations have in place and some indicators as to the reasons behind why in some areas further development is required. Specific themes are recognised and discussed including how the organisation maintains its governance approach, the use of governance models and organisational size.

In addressing the research problem this thesis makes five contributions. Firstly, it identifies what is best practice in the area of corporate governance for CSOs funded by the Tasmanian DHHS. Secondly, it describes what governance practices selected CSOs have adopted. Thirdly, it provides practical tools for CSOs and other stakeholders to make use of in reviewing governance. Fourthly, it makes recommendations about governance policy and practice for CSOs and stakeholders including training and development. Finally, it opens the way for further research into corporate governance in the Third Sector.

### 1.3 Justification for the research

Research into Third Sector governance is minimal in Australia with Lyons (2001) finding that there is limited information about the governance practices of Australian CSOs. In addition Steane (2001) is clear that there is little in the literature about the theory of governance as it applies to Australian CSOs. Consequently this thesis addresses a gap in the literature. This is particularly important given the signs that corporate governance of CSOs is in a parlous state (Consumer Affairs Victoria 2004; Fishel 2003; Woodward & Marshall 2004).

The other gap this research seeks to fill is that arising from the specific needs of CSOs in Tasmania. Those CSOs which are incorporated under the *Tasmanian Associations Incorporation Act 1964* and funded by the DHHS have to comply with the governance demands that are placed on them by legislation and the funding provider, as presented in sections 4.2.1 and 4.2.2. These demands may require governance to be exercised in a certain way, but there is no published research to assist organisations facing this specific need. This thesis provides information for Tasmanian CSOs.

There is a more important justification for this research arising from the significance that CSOs play in the lives of many people. The range of services provided by CSOs contributes positively to the quality of life of individuals and the capacity of the whole community. Effective provision of service is therefore of vital concern to us all. There is a connection between the performance of organisations in the provision of quality services and good corporate governance as outlined in section 2.3.2 (Strategy Unit 2002; Wiseman & Warburton 2002). Accordingly research into corporate governance in CSOs that can be utilised in improving CSO governance is worthwhile. This thesis focuses upon developing best practice corporate governance and as such is a useful resource for the boards of CSOs as they seek to govern well so that quality services are provided.

The final justification for this research lies with the difficulties a number of organisations find themselves in when it comes to governance and the need to improve governance practices (Tasmanian Council of Social Services 2002).

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There are three examples from recent legal action involving Tasmanian CSOs which are illustrative. In *Australian Municipal, Administrative, Clerical and Services Union v Migrant Resource Centre (Southern Tasmania) Inc.* (2001) Tasmanian Industrial Commission T9406 the Commissioner said that board policy was 'inconsistent with sensible management practice.' In *Health Services Union of Australia, Tasmania No.1 Branch v Our Place Inc.* (2002) Tasmanian Industrial Commission T8934 of 2000 the question of redundancy entitlements was being discussed. However, the evidence presented chronicled the inadequate governance practices of the organisation. In the final example *R v Watling; ex parte Northern Residential Support Group Inc.* (1999) TASSC 99 a failure to articulate governance policies led to legal action. This thesis develops a list that is normative for CSO corporate governance.

#### **1.4 Methodology**

There are five main research methods: experiment, survey, archival analysis, history and case study (Yin 1994). Each of these is considered for this research and the case study method is chosen as the most appropriate. The reasons for this choice are outlined in detail in section 3.3.

The research problem requires descriptive or explanatory information about contemporary events over which the researcher does not exercise control. Accordingly, the use of experiments, archival analysis and historical methodologies are excluded. Either the survey or case study methods could be used to address the problem. However, the case study method is chosen as it provides a greater range of detailed data about what is actually happening within organisations. According to Jensen and Rodgers (2001, p.235) case studies 'contain golden nuggets that await discovery.'

The literature review leads to the identification of a list of corporate governance features and practices that are considered best practice for CSOs. This list is verified with stakeholders and is used to inform the data collection activities in six CSOs.

There are a variety of views as to how many case organisations are required ranging from a minimum of two to a maximum of 15 (Kumar 1996; Patton 1990; Yin 1994). In this research six organisations are selected using the maximum variation sampling technique (Perry 1998b). The six organisations give the 'information-richness' that Patton (1990, p.185) argues should determine the number of cases.

In each organisation interviews are conducted with the chair of the organisation's board and the CEO. Depending on the willingness of the organisation, additional interviews are held with another board member and/or another employee. There are three parts to the interviews: open-ended questions, focus questions and a list of questions requiring brief answers. The interviews are recorded and transcribed for referencing purposes and then subject to content analysis (Kumar 1996). The list of questions is Likert-scaled, summarising the interviewees' overall perception of the corporate governance of their organisation.

In addition to the interviews, data is also collected through reading various documents that are provided by the interviewees or published on the organisation's web site. A document review database is developed to ensure that a 'systematic search' of the information is made (Yin 1994, p.81).

The data collected is analysed and a case description was prepared for each organisation. The data is then used to provide cross-case analysis. As Patton (1990, p.377) argues, cross case analysis means 'growing together answers from different people to common questions or analyzing different perspectives on central issues.'

The case studies describe what corporate governance practices CSOs have in place and how they compare with the list of normative practices. The data analysis allows for implications to be drawn for the policy and practice of CSOs and suggestions to be made to funding providers and regulators.



## 1.5 Outline of the thesis

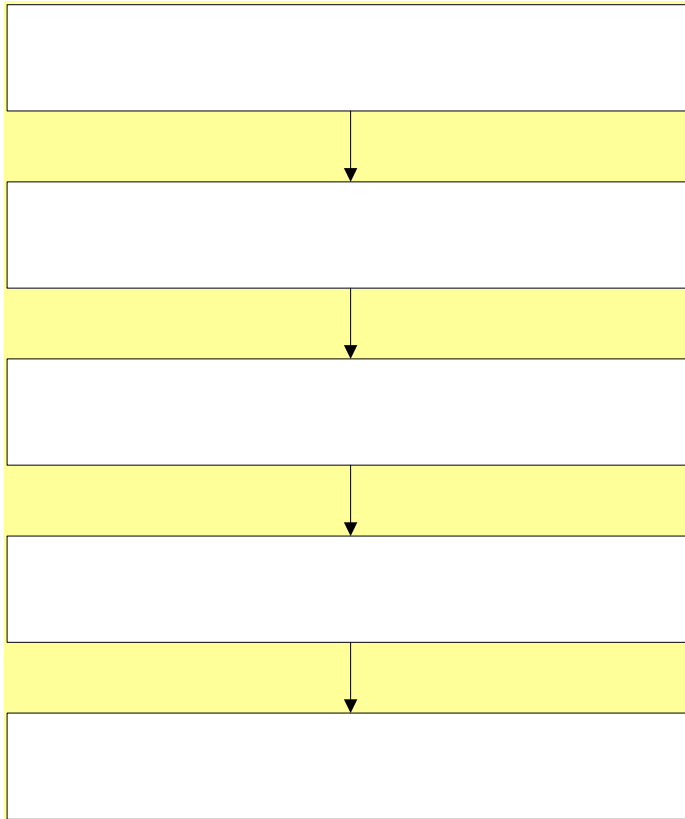
This thesis is prepared using the five chapter approach advocated by Perry (1998a). This introductory chapter is followed by a further four chapters.

In chapter two the foundational information about the research problem is presented from a review of the literature. This leads to an outline of the theoretical framework, research problems and sub-problems that are responded to in subsequent chapters.

In chapter three the research methodology is presented. It begins with a discussion about paradigms and moves through to a justification of the case study methodology in discovering data about best practice corporate governance. Attention is given to what is required to ensure quality research. The procedures and protocols for the case studies are outlined together with how the data is to be analysed. The chapter concludes with comments about the limitations of the case study method and ethics committee approval.

Chapter four contains the data collected from stakeholder organisations and the case studies. In addition to the descriptions of the six case organisations the results of the cross-case analysis are provided.

In chapter five conclusions are drawn about the research problem. Attention is given to the analysis of what makes for best practice and the description of corporate governance practices in organisations. This analysis and description has implications for theory as well as for the policy and practice of CSOs and stakeholders and these are discussed. The chapter concludes with a caution about the limitations of the thesis and hints for further research. The sequence of the thesis is outlined in Figure 1.2.

Figure 1.2. **Sequence of the thesis**

*Source: developed for this research.*

## 1.6 Definitions

There are some terms for which there are a variety of definitions. This section defines the key terms that are used in this research.

*Corporate governance*, at first glance, may give the sense of a system of directing and controlling the actions, affairs, policies and functions of a united group. However, we need to go beyond such a rudimentary approach to how the term is used within the business world, where we are told that

corporate governance comprehends that structure of relationships and corresponding responsibilities among a core group consisting of shareholders, board members and managers designed to foster the competitive performance required to achieve the corporation's primary objective (OECD 1998, p.13).

What others are

Although this definition arises from the business world it is equally applicable to the non-profit or Third Sector.

The *Third Sector* is a sector distinct from government and for-profit businesses and is sometimes referred to as the not-for-profit or nonprofit sector. It is defined by Lyons (2001, p.5) in the following way:

The Third Sector consists of private organisations

1. that are formed and sustained by groups of people (members) acting voluntarily and without seeking personal profit to provide benefits for themselves or for others,
2. that are democratically controlled and
3. where any material benefit gained by a member is proportionate to their use of the organisation.

This definition is similar to that adopted by the United Nations' Global Nonprofit Information System Project (Sheppard et al. 2001, p.87). It is also similar to the 'social economy' definition that has been used within the European Union (OECD 1998). However, it is interesting to note that in the United States the focus is narrower with attention being given primarily to 'public serving or charitable nonprofits' (Lyons 2001, p.198).

*Community service organisations* (CSOs) are a significant sub-set of the Third Sector that provide a broad scope of activities. As Lyons (2001, p.33) suggests

community services include children's services; various forms of supported accommodation (for older people, people with disabilities, including psychiatric disabilities, women escaping domestic violence, younger people, families and single men and women); various forms of support to enable people with a disability to remain in their own home (including respite for their carers) and to enjoy in as full a way as possible life in the community, including help in finding paid employment; child protection and substitute care; youth work; family support, including counselling; financial counselling and emergency relief; information and advice; individual and class advocacy; and community development.

The common thread is that CSOs provide services focussed upon support, care and encouragement, but not for profit.

There is a particular sub-set of CSOs that have distinctive characteristics; *religious-based organisations*. They can be distinguished from other CSOs because their foundation lies in a faith community of one type or another. According to Smith and Sosin (2001, p.653) religious-based organisations are those

that have any of the following: a formal funding or administrative arrangement with a religious authority or authorities; a historical tie of this kind; a specific commitment to act within the dictates of a particular established faith; or a commitment to work together that stems from a common religion.

The final term requiring definition is *best practice*. Best practice is widely used in the business sector to mean 'outstanding performance within an activity or process' and it has the sense about it of practices being 'more creative and effective than similar practices' (Cortada & Woods 1995, p.42). The term is also used in other sectors and is defined by the Department of Health and Family Services (1996, p.v) in the following way:

Best practice is a comprehensive, integrated and cooperative approach to the continuous improvement of all facets or an organisation's operations. It is the way leading edge organisations manage the delivery of world class standards of performance in all aspects of their operations. The concept of continuous improvement is integral to the achievement of international best practice.

The use of the term "best practice" is problematic as there is a concern that insufficient attention is given to the applicability of the practices being promoted to organisations (Bollinger 2005) and that the practices often require adaptation prior to them being introduced into organisations (Lee 2005). Yet Gratton and Ghoshal (2005) seek to build on the concept and develop it further. Given the as yet unresolved debate this research has adopted the above Department of Health and Family Services (1996) definition.

## **1.7 Delimitations of scope**

This section describes the limits to the significance of the research described in this thesis. There are three major limitations on the research.

The first is that only community service organisations are selected from the range of Third Sector organisations. This is because it is the field in which the researcher works and because of the vital importance of CSOs to the whole community. This importance is in part demonstrated by the number of organisations and the level of funding that the DHHS make available, as shown in Table 1.1.

**Table 1.1. Numbers of organisations and services funded through DHHS administered payments 2003-04**

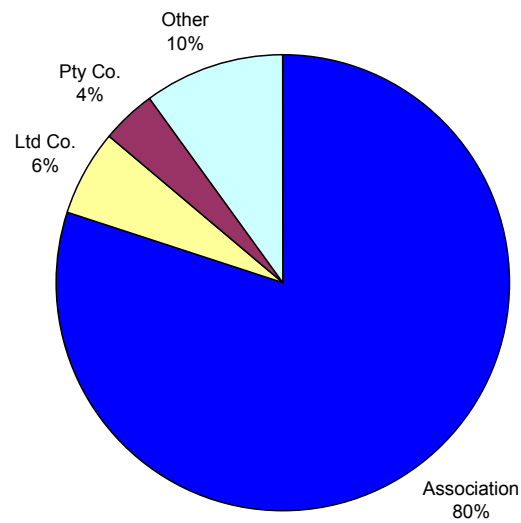
	<b>Organisations</b>	<b>Services</b>	<b>\$'000</b>
Community Support Program (CSP)	63	85	5 207
Disability	90	181	50 261
Home and Community Care (HACC)	59	59	14 979
Mental Health	12	12	1 760
Alcohol & Drug	8	9	1 694
Aged Rural & Community Health	15	20	5 512
Population Health	11	13	1 537
Other	1	1	55
Palliative Care	3	3	448
Supported Accommodation Assistance Program (SAAP)	23	54	11 583
	<b>285</b>	<b>437</b>	<b>93 036</b>

*Source: R Lette (DHHS) 2003 pers. comm., 1 December.*

The second limitation is the focus on the State of Tasmania. One State has been chosen because it is where the researcher resides. In addition, there is separate legislation<sup>1</sup> to incorporate associations in each Australian State and Territory and each jurisdiction also has its own arrangements for funding community services, further research is needed to test the applicability of the findings of this study to other jurisdictions.

The final limitation is only selecting incorporated associations. They are an important group of organisations in Tasmania, with over 3,500 incorporated associations (Auditor-General 2003a). Tasmanian incorporated associations represent 80% of the number of organisations funded by the DHHS to deliver community services. As shown in Figure 1.3.

<sup>1</sup> A comparative table of incorporated associations legislation can be found in Appendix 5 of Woodward and Marshall (2004). Fletcher (1996) refers to similarities/differences between Acts.

**Figure 1.3. Entity status of DHHS funded organisations**

*Source: developed for this research.*

## 1.8 Conclusion

This chapter lays the foundations for the thesis. It introduces the research problem and why it is important. The methodology used to address this problem is also presented along with an outline of the thesis. The definitions and delimitations of scope in the research are given. The following chapters describe the research in greater detail.

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## **Chapter 2**

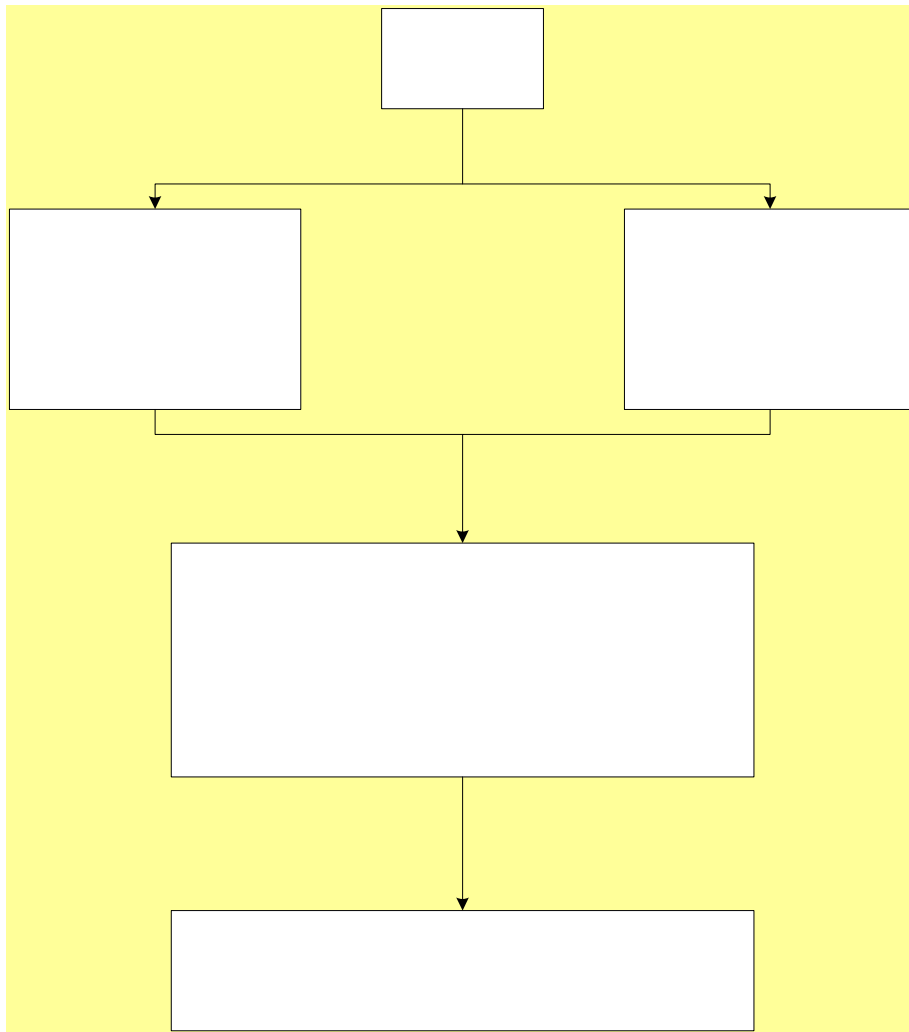
### **Literature review**

#### **2.1 Outline of the review of the relevant literature**

The previous chapter provided a summary of the thesis by introducing the research problem and the method used to undertake the research. This chapter provides the foundational information about the research problem from a review of the literature.

The chapter is presented in five main sections, as graphically outlined in Figure 2.1. After this introductory section (2.1) the first parent discipline of corporate governance is reviewed (section 2.2). This review begins with a definition of corporate governance, moving to an examination of global trends. It then focuses upon what corporations are doing within Australia. The second parent discipline (section 2.3) begins with a definition of Third Sector organisations derived from the literature within which the research problem emerges. The chapter then moves in section 2.4 to the immediate discipline, namely an exploration of corporate governance for community service organisations (CSOs). The specific governance requirements of these CSOs are outlined, recognising that various models of governance are used within the sector. This is followed by the articulation of best practice principles (section 2.4.4) and a comparison is made with business corporations (section 2.4.5). A focus is then given to a sub-set of CSOs, which is those that are religious-based, with some preliminary comments made about their governance (section 2.4.6). Following this review of the literature a theoretical framework for the thesis is explored in section 2.5 and the chapter is concluded with section 2.6.

Figure 2.1. Outline of literature review



Source: developed for this research.

**2.2 Parent discipline one: corporate governance**

The first parent discipline of importance was corporate governance. At first, the term “corporate governance” gave the sense of a system of directing and controlling the actions, affairs, policies and functions of a united group. However, we needed to move beyond such a rudimentary approach to how it was used within the business world, where we were told that

corporate governance generally refers to the processes by which organisations are directed, controlled and held to account. It

**Parent discipline 1:**  
**2.2 Corporate governance**  
 2.2.1 Global approach  
 2.2.2 Australian approach  
 2.2.3 Board performance  
 2.2.4 Ethics  
 2.2.5 Summary



encompasses, authority, accountability, stewardship, leadership, direction and control exercised in the organisation (Australian Standard 2003, p.8).

In essence then, corporate governance was about ensuring that a corporation does what it is meant to do.

### 2.2.1 Global approach

Corporate governance, though not called by that name, originated in the Nineteenth Century when incorporation was used to limit liability and forms of legislation and regulation were being developed (Fletcher 1996; Vinten 2001, p.7). The concept was developed further by Berle and Means (1932) with their work on shareholders and the separation of ownership and control. There was also influential work done on stakeholders by Freeman (Bonnafeous-Boucher 2005). The theoretical foundations of corporate governance continued to expand to include agency theory, managerial hegemony and stewardship theory (Clarke 2004).

The phrase “corporate governance” has been more commonly used and spoken about since the 1980s (Parker 1996, p.2). Its emergence at that time followed action taken by countries in different parts of the world following stock market crashes. For many countries this was a period of ‘rampant excesses’ by corporations and Australia had its share of corporation failures (Tomasic 2001; see also Department of Treasury 1997, p.21; Francis 2000, p.10). One aspect of these failures was the legal action taken against corporation directors. An example in Australia was the AWA Case (*Daniels v. Anderson* (1995) 12 A.C.L.C. 614) where it was determined that the board had adopted poor governance practices.

It was apparent that corporate excesses and failures were an impetus for improving the standard of corporate governance. But it was more than an attempt to sort out the problems of the past so they did not reoccur. There was also an acknowledgement that improved corporate governance was crucial for the private sector's growth and development and therefore for the whole economy of a country (Clarke 2004, p.2; Department of Treasury 1997, p.59).

This led to the development of governance systems that reflect the particular circumstances faced within countries. There were two main approaches that can be identified, with distinctions which arose from the different legal system at work in countries. Within so-called civil law countries such as France, Germany, the Netherlands, and Italy the approach that was established was focused upon stakeholders. The role of corporate governance was to balance the interests of a variety of key groups: employees, management, creditors, suppliers, customers and the wider community. It is those who were closest to the actual workings of the corporation who were in control which is why it was referred to as the insider model of corporate control (Department of Treasury 1997, p.60).

It was a different matter within those countries that have a tradition of common law. In countries like Australia, United Kingdom, USA, Canada and New Zealand the focus was upon shareholders. The role of corporate governance was to ensure the corporation achieves its objectives for the owners of the corporation. Shareholders held the management of a corporation responsible for the attainment of the corporation's goals which includes a profit. Given the distance between the management of the corporation and the shareholders who own it this approach was sometimes referred to as the outsider model of corporate control (Department of Treasury 1997, p.60).

**Table 2.1. Legal systems and governance roles**

<b>Legal system</b>	<b>Civil Law</b>	<b>Common Law</b>
<b>Countries (examples)</b>	France, German, Netherlands	USA, UK, Australia
<b>Focus</b>	Stakeholders	Shareholders
<b>Corporate control model</b>	Insider	Outsider
<b>Governance role</b>	Balance interests of stakeholders	Maximise shareholder return

*Source: developed for this research.*

This was not to suggest that there were no shared governance approaches between civil and common law countries, but it was clear that there was a difference in emphasis. The most significant common approach that was developed was where the board was elected by shareholders, set policy and then

delegates to management the authority to actually manage the corporation (Hilmer 1998, p.25).

In the light of the common features mentioned above it was recognised that the work of the United Kingdom's Committee on the Financial Aspects of Corporate Governance (1992) was groundbreaking (Vinten 2001, p.5). This Committee's report is usually referred to as the Cadbury Report after its chair, Sir Adrian Cadbury. Its 1992 Code of Best Practice addressed significant issues in relation to financial reporting and accountability. A copy of the Code can be found in Appendix A. It built on the work of the Treadway Report from the USA but went further and has provided a benchmark for corporate governance in many countries since (Monks & Minow 1996, p.30). As part of this cross country work the Organisation for Economic Cooperation and Development (OECD) established an advisory group to further develop corporate governance practices. Clearly the globalisation of the economy has resulted in corporate governance becoming an international topic.

The OECD (1998, pp.15-17) was at pains to point out that there is not one model of corporate governance practice that is applicable to all corporations. Instead it argued for the adoption of a set of 'policy perspectives and guiding norms.' A copy of the OECD Principles of Corporate Governance (1999) can be found in Appendix B. Keong agrees with this approach and argues that

while the "one size fits all" approach may be both unattainable and unrealistic, it is fortunately possible to identify and promote a set of guiding principles as the benchmark for best practices in corporate governance to which companies should aspire (Keong 2002, p.11).

The evidence to support this contention was found in various sets of principles including the Principles of the International Corporate Governance Network, the Commonwealth Association of Corporate Governance Guidelines, the Guidelines for Good Corporate Governance Practice by the Pacific Economic Cooperation Council and the American Law Institute's Principles of Corporate Governance (Keong 2002). There was a similarity in the content of each of these documents that was reflective of the concerns that were shared.

The collapse of Enron and WorldCom in the United States and the Golden Quadrilateral in India challenged the prevailing view that the existing corporate governance approaches were adequate (Kakabadse & Kakabadse 2004). This led to a discussion about the failure of corporate governance (Clarke 2004; Kakabadse & Kakabadse 2003; Monks 2000). In response there have been further developments as to what ought to be contained within a corporate governance framework including recommendations about specific practices such as greater use of independent directors, access to outside advice for boards, review of board and executive remuneration, and limitations on the power of the CEO (Cutting and Kouzim 2002; Monks 2000). The principle based approach to corporate governance was still appropriate provided that the content improved (Bonnafeous-Boucher 2005; Kakabadse & Kakabadse 2003).

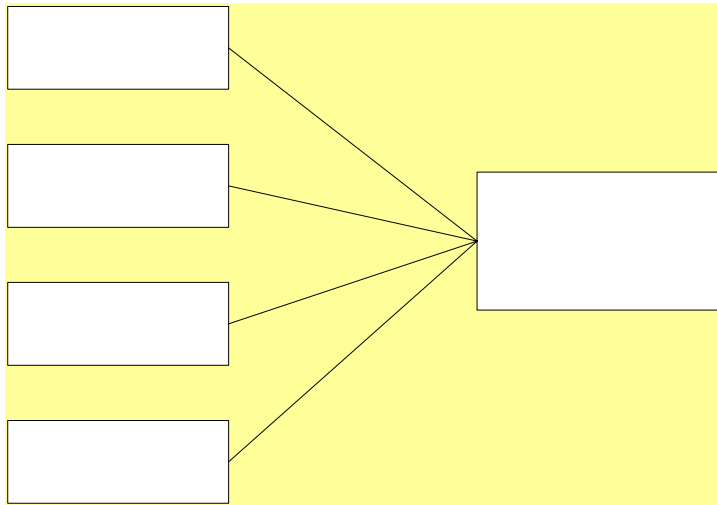
It was evident from the foregoing that the global trend was towards the adoption of corporate governance principles. There were common elements within the various “guidelines”, but no one particular method of applying the principles to corporations was promoted. This led to the examination of the guiding principle approach within the Australian context.

### **2.2.2 Australian approach**

Within Australia the Commonwealth Government through the Department of the Treasury (1997, 1999) responded to these global developments and especially the OECD Principles of Corporate Governance as part of its Corporate Law Economic Reform Program (CLERP). In CLERP it was argued that there was a specific Australian framework for corporate governance. The four key elements in the framework were legal regulation, accounting standards, the listing rules of the Australian Stock Exchange (ASX 2003) and various voluntary codes of practice (Department of the Treasury 1999, p.19). There has been criticism of corporate governance in Australia especially during the 1980s (Tomasic 2001). It was evident given the size of some corporations that ‘the typical board no more makes business policy than it manages the business’ (Hilmer 1998, p.27). The Commonwealth’s approach to such criticisms has been to rely on each of the four elements and not simply impose additional legislative requirements (Department

of the Treasury 1999, p.21). This was reflective of the current Commonwealth government's "light touch" approach to legislation.

Figure 2.2 **Australian corporate governance framework**



Source: developed for this research.

#### 2.2.2.1 Legislation

When CLERP was launched in March 1997 it included corporate governance among the areas to be addressed. There were various discussion papers and parliamentary committee hearings in subsequent years. When the CLERP Act was proclaimed in March 2000 it included the following reforms to the *Corporations Act 2001* with regard to corporate governance:

- clarification of the standard of care and diligence;
- a reformation of the duty to act 'honestly' in terms of a duty to act in good faith and for proper purposes;
- the introduction of a statutory business judgement rule;
- the introduction of a 'safe harbour' for directors who rely on information or advice provided by others; and
- the introduction of a statutory derivative action (Black et al. 2000, p.4).

The changes applied to both large and small corporations and it was argued that, when combined with common law principles, were 'consistent with international best practice' (Department of Treasury 1999, p.20). The Australian Securities and Investments Commission (ASIC) is responsible for enforcing the regulations

Legislation

Accounting Standards

ASX Listing Rule

and performs a monitoring role in terms of the Act. However, there was still an emphasis on 'self-regulation' (Lipton 2002, p.111). The legislation enabled either adoption of a particular governance model or use of the flexible guiding principles approach.

#### 2.2.2.2 Accounting Standards

The role of the Australian Accounting Standards in the area of corporate governance was focussed upon disclosure. For example AASB 1017 required corporations to list payments made to directors in the financial statements. It was interesting to note that the new auditing standard AUS210 had a different focus. It addressed fraud and error in the audit of financial reports and is leading auditors to require certain assurances from directors and officers of corporations (Kiel 2002a, p.9). The Standards had a narrow focus and did not address the broader range of governance concerns. There was a requirement within the Standards for things to be done in a certain way. The emphasis was upon compliance, with no room for the use of interpretation that was required with a flexible guiding principles approach.

#### 2.2.2.3 ASX Listing Rule

The ASX Listing Rule 4.10 obliged those corporations listed on the exchange to include in their annual report information about the corporate governance practices that they have used in the past year. This rule (ASX 2003) was established following a review of governance practices in 1994 and took effect from 30<sup>th</sup> June 1996 (Department of Treasury 1997, pp.62-3). Appendix 4A of the Listing Rule provided an indicative list for corporations to follow, however the ASX has further developed its requirements.

In June 2002 it established the ASX Corporate Governance Council comprising 21 business groups. This Council subsequently published Principles of Good Corporate Governance and Best Practice Recommendations (ASX Corporate Governance Council 2003). These guidelines enumerated principles, provide practical recommendations and gave a guide to reporting. A list of the principles can be found in Appendix C. The failure of a company to follow any recommendation has to be reported in the company's annual report.

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The ethos in operation was that self-regulation was appropriate and indeed that it 'encourages higher standards of corporate governance through the operation of disclosure to the market' (Lipton 2002, p.108). As the rule only applied to listed corporations it had no effect on the vast number of corporations that were not listed, for example small privately owned companies and companies limited by guarantee that were member based.

#### 2.2.2.4 Codes of practice

In this self-regulatory environment there was no one model that was appropriate. Instead there were a range of voluntary codes of practice that sought to provide direction to the directors of corporations. Some of these codes were published as part of other resources that were available to directors. An example of this was found in *Good Governance Principles AS 8000-2003* published in 2003 by Australian Standards. For corporations who use International and/or Australian Standards this was a resource that addressed the area of corporate governance. According to Lipton (2002) the two reference books that were most widely referred to within the literature and have been the most influential were authored by Bosch (1995) and Hilmer (1998). Both books arose out of working parties. Bosch was supported by the Australian Institute of Company Directors and Hilmer by the Sydney Institute. The approach adopted in both books was similar. Hilmer (1998) has been revised more recently so it is referred to in the following sections.

#### 2.2.2.5 Independent Working Party Into Corporate Governance

In Australia the Independent Working Party into Corporate Governance was established with Professor Fred Hilmer as Chair (Hilmer 1998). Their 1993 report was revised in 1998 and was a leading contribution to the topic in Australia. They focused on five main areas and the practices that flow from them (Hilmer 1998, pp.41ff). Table 2.2 provides a summary of the recommended approach. As Hilmer suggested, these areas and practices were hallmarks of good corporate governance, which in turn led to improved board effectiveness and increased corporation performance. This is expressed in the concept map in Figure 2.3.

Table 2.2. Corporate governance areas and practices

Areas	Practices
Appointment of the CEO & human resource issues.	Appoint and reward (or remove) CEO on basis of performance & approve key appointments reporting to CEO. Review key executive performance & approve compensation & compensation policy and succession plans.
Strategy & policy.	Review & approve management's proposed strategy. Approve & foster corporate culture. Ensure that appropriate policies on key issues, including exposure to various risks, are in place & to review compliance. Approve major decisions &, where appropriate, make recommendations to shareholders.
Budgeting & planning.	Approve budgets & other performance goals. Review performance against goals & corrective actions.
Reporting to shareholders & regulatory compliance.	Through an independent audit committee, appoint auditors, oversee audit process & review reports. Require & monitor systems for keeping the market informed; approve announcements, prospectuses & reports to shareholders. Require & monitor regulatory compliance.
Ensuring own effectiveness.	Regularly review & assess own performance. Establish committee structures to assist effective operations of the board.

Source: developed for this research based on Hilmer (1998, pp.44-8).

The first area tackled was the *appointment of the CEO*. This was to be completely the responsibility of the board as were the related issues of the CEO's remuneration and performance appraisal. The board should also have a role in approving the appointment, level of remuneration and setting of performance indicators for key members of the senior management team, as they were crucial in any succession plan. The criteria used by the board in relation to these appointments provided the basis of a policy to be used in the rest of the corporation.

The second area was *strategy and policy*. In this area it was not possible for the board to assume full responsibility for developing strategy, formulating policy, focussing the culture and ethos of the corporation or enacting major decisions. Instead the role of the board was to approve the strategy, endorse policy, adopt the risk management plan, encourage the direction of culture and ethos, and make major decisions. The management team had responsibility for providing to the board the material with which to work.

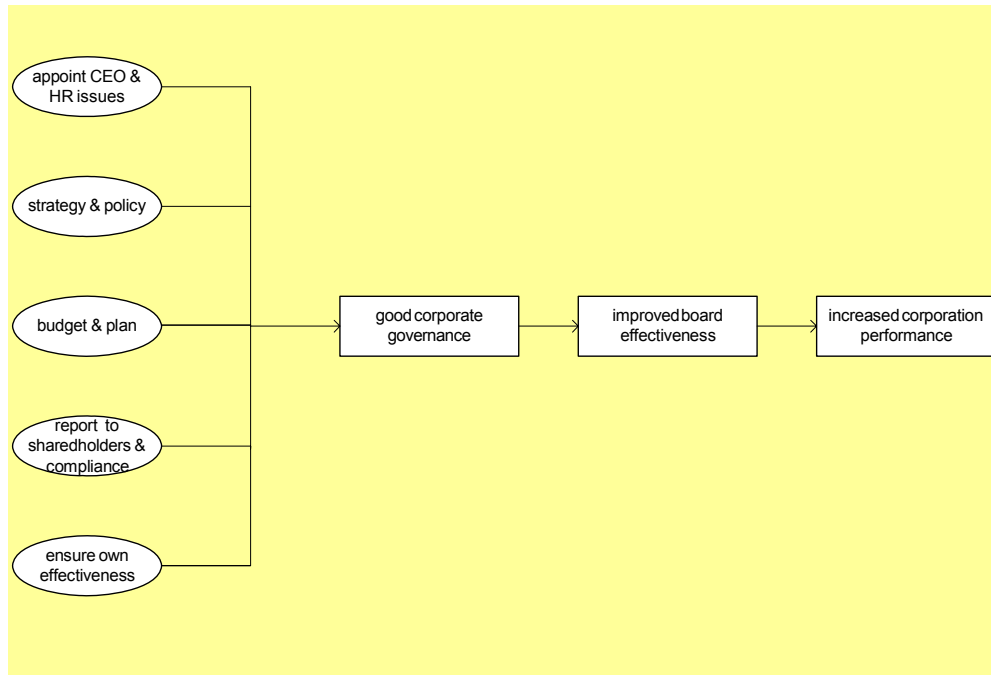


In the third area, *budgeting and planning*, it was a similar approach. The board did not need to develop the annual budget and performance indicators, as management performed that function. The role of the board was to approve the budget and indicators with a longer time view in mind upon reflection of the current performance of the corporation.

When it came to the fourth area, *reporting to shareholders and regulatory compliance*, the board had a clear monitoring role. It was common for some of this monitoring function to be overseen by an audit committee and this included the external audit. A strong internal audit regime was required so that all regulations were adhered to. There were specific requirements contained in legislation about reporting to shareholders and it was up to the board to ensure that they were followed in detail. In addition there was other legislation, for example workplace safety, that had to be complied with.

The final area was about the board *ensuring its own effectiveness*. It was important for the board to assess the way it functioned. This included reviewing the membership of the board, participation of individual board members, the level of resources available to the board and the way the board and its committees structured their operations.

Figure 2.3. Concept map - corporate governance



*Source: developed for this research.*

This material of Hilmer (1998) was quite useful within our Australian context. It covered the significant areas that were in the various sets of principles mentioned previously. It made the link between principle and practice well and provided direction for action. Some areas could be expanded. For example reference could be made to industrial relations and the importance of capital budgeting. It was an example of the outsider model of control within a common law tradition. This was best evidenced by the lack of concern for reporting to the wider community

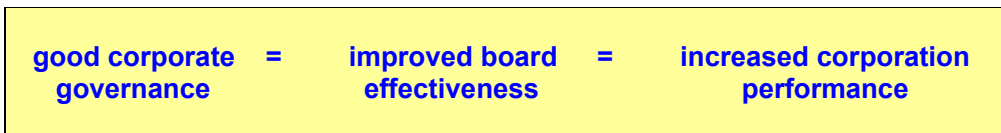
### 2.2.3 Board performance

To this point a trend within the literature has been described. This trend pointed to the use of guiding principles in the area of corporate governance. There was evidence of this trend at a global level and there were strong indicators of its adoption within Australia. With this in mind it is now time to turn to the purpose of corporate governance.

The key message within the guiding principles approach adopted by Hilmer (1998) was that the focus should not be on the corporation's *conformance*, but its *performance*. This message goes to the heart of the purpose of corporate governance. There would be little utility in a system of governance that did not ensure that the corporation was able to achieve its performance objectives. According to Hilmer (1998) the performance of corporations was defined in terms of shareholder return. That is, a corporation's performance can be measured by its growth as it relates to the share price and level of dividend. The board acts as a steward for the shareholders' interests.

The literature confirmed there is a link between a corporation's performance and the governance practices of its board as shown in Figure 2.4 (Gregg 2001, p.17; Hilmer 1998, p.32; Kiel & Nicholson 2002, p.2; OECD 1998, p.14).

Figure 2.4. **Link between governance and performance**



*Source: developed for this research.*

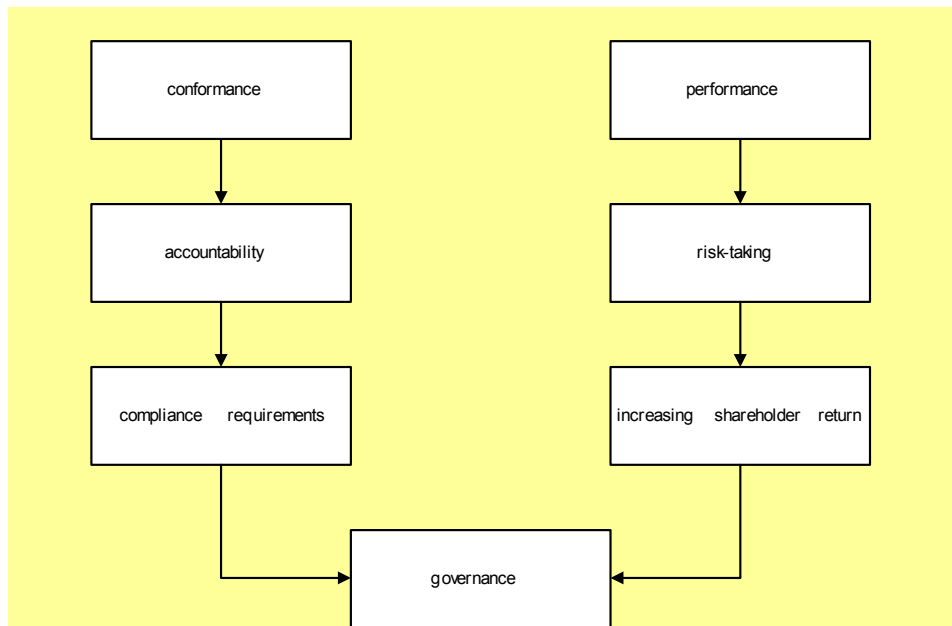
However, there was some literature (Cutting & Kouzim 2000) which took an opposing view. For example Korac-Kakabadse et al. (2001, p.24) argue 'there is no conclusive evidence to support the connection between corporate governance and corporate performance.' There was some support for this view when attention was given to those corporations that had performed really well in economic terms for a period and then were later exposed as having unsatisfactory governance practices (Arbouw 2002). Yet the evidence in Gregg (2001), Hilmer (1998) and OECD (1998) was compelling due to the broad range of organisations that were considered. Accordingly, it was important to focus on governance practices given this positive effect on performance.

It appeared that the use of a guiding principles approach to corporate governance will assist a corporation in improving its performance. Corporations were

therefore required to develop corporate governance practices based upon the guiding principles approach. In such development corporations were cautioned to balance the need for increasing shareholder return, which involves risk taking and governance principles, which involved accountability (Black et al. 2000).

It was possible that the balance between accountability and risk-taking can be weighted inappropriately (Berns & Baron 1998). It was clear that corporations needed to have corporate governance practices in place that ensured the directors were accountable for their actions. However, this must not prevent them from taking the risks necessary to ensure the corporation achieves its objectives. Corporations need to strive for balance. The introduction of the business judgement rule into section 180(2) of the Corporations Act gave comfort to directors and provided a way to ensure that it was possible to achieve the necessary balance between accountability and risk-taking (Baxt 2002). It should have fostered the appropriate use of 'entrepreneurial flair' (Kiel 2002a, p.10). It was due to the flexibility of the guiding principles approach that such "flair" was allowed.

Figure 2.5. Paths to governance



Source: developed for this research.

By way of contrast there may be some corporations that have developed governance practices from principles in such a way that caused difficulties. It was possible for there to be an over exuberance in implementing governance practices. The real danger for smaller companies is 'unrealistic compliance burdens' (Lipton 2002, p.112). The same was true for some other corporations as they became overloaded with governance reporting requirements which were concerned more about form than substance and perhaps were unnecessary in their context (Vinten 2001, p.6).

This is why we need to be cautious about checklists. There are checklists which can be used by corporations in assessing their corporate governance practices based on a set of guiding principles. For an example see Appendix D. The danger comes when such lists are applied with rigidity. Instead there should be an environment created where governance activity is assessed with a focus upon innovation and the development of best practice (Kiel 2002a, p.10; Lipton 2002, p.112). This is why the governance practices adopted by a corporation need to be contextual. That is, a corporation's needs may vary from time to time and governance practices can be developed for the specific circumstances at that point in time (Australian Standard 2003; Cutting & Kouzim 2002; Kiel & Nicholson 2002, p.2;).

#### **2.2.4 Ethics**

In the foregoing the emphasis has been on governance improving corporation performance which we saw was concerned with shareholder return. It was possible to consider a broader understanding of corporation performance. Such an understanding could conceivably have taken into account the impact of the corporation upon the environment and the community in which it was located. This broader understanding has led to the concept of triple bottom line reporting (Gregg 2001). The same guiding principles for governance could still be developed into practices. They would assist a corporation in achieving more comprehensive performance indicators than simply shareholder return.

This raised consideration of the role of ethics in governance - that is, corporations being aware of the moral principles that inform their practices. For example

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Gregg (2001, p.17) described the duties of corporation directors as requiring them 'to exercise prudential judgement, and to demonstrate moral courage'. Also Francis (2000, p.11) wrote of the moral sense of good corporate governance which led to the use of the term 'ethical corporate governance'. The use of this term and ethical language was sometimes used, but it was not common.

### **2.2.5 Summary**

The parent discipline of corporate governance has been defined in this section. Reference has been made to the global trend towards a guiding principles approach and how that trend has been adopted in this country. The four key elements that comprise the Australian governance framework are legislation, accounting standards, the ASX and codes of practice. One of the voluntary codes was detailed as an example of the guiding principles approach. The purpose of corporate governance was outlined and its impact upon the performance of corporations was noted. It was evident that a guiding principles approach to corporate governance affects the performance of a corporation. However, that performance can be more than shareholder return as there was an ethical dimension to the practice of corporate governance.

### **2.3 Parent discipline two: Third Sector organisations**

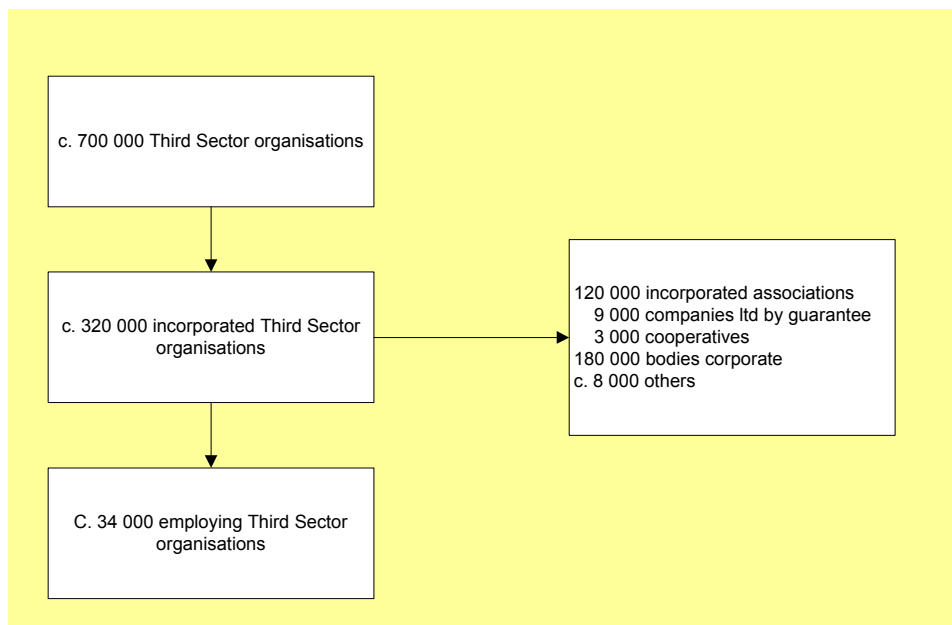
The second discipline of importance for this study is that addressing Third Sector organisations. The Third Sector is a term that has more widespread use internationally than in Australia, but this is changing, as evidenced by Lyons' (2001) recent book. The Third Sector is a sector distinct from government and for-profit businesses and is sometimes referred to as the not-for-profit or nonprofit sector. It is defined in section 1.6.

The Third Sector is distinct from the public sector and the business sector. The public sector is accountable to parliament and the business sector needs to make a profit that can be distributed. Those organisations that do not fit into these two sectors are generally in the Third Sector. The range of organisations covered includes the local football club, parents and friends association, church affiliated aged care facility and hospital. However, there are some activities that are

performed by organisations in each of the three sectors, for example hospitals. The distinguishing feature is not activity but how and why the organisations were formed.

In 1996 there were approximately 700 000 Third Sector organisations in Australia as shown in Figure 2.6. The Third Sector makes a considerable contribution to the Australian economy as it contributes 4.7% of Gross Domestic Product and accounts for 6.8% of total employment (Woodward & Marshall 2004, p.1). In addition to this economic benefit the sector serves local communities in ways that lead to capacity building and therefore to an improvement in the overall quality of life in those communities (McPhee & Bare 2001, p.1 see also Lyons 2001, p.204). A way that Third Sector organisations contribute to communities is through a vital advocacy role for those who are most disadvantaged within that community.

Figure 2.6. **Numbers of Third Sector organisations, 1996**



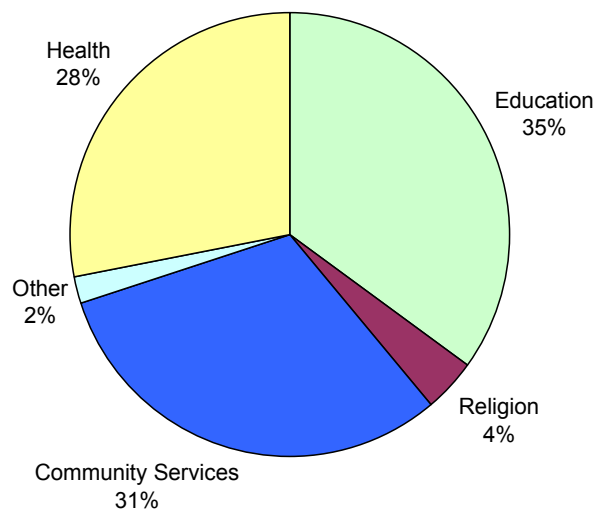
Source: Lyons (2001, p.21).

### 2.3.1 Community service organisations (CSOs)

The point has been made that the Third Sector is quite large and includes a sizable number of smaller organisations that do not employ people and may not be incorporated. For the purposes of the following sections a sub-set, community service organisations, has been chosen to examine in some detail. They are defined in section 1.6. Figure 2.7 shows that they are a significant sub-set of the Third Sector and they cover a broad scope of activities.

The common thread was that CSOs provided services focussed upon support, care and encouragement, but not for profit. The motivation for the services arose from a relationship with the client that included a commitment to client autonomy, client participation and, where possible community-based care, including integration in the community. CSOs sought to make a difference in the lives of individuals who were in need. They were often formed to specifically respond to the particular needs of a group of people.

Figure 2.7. **Third Sector organisations  
- employment by field of activity, June 1996**



Source: Lyons and Hocking (2000).



There are an ever increasing number of organisations within the community which have such a focus. Given the spread of activities it was not surprising that the size of this sub-set of the Third Sector is significant as Table 2.3 shows.

**Table 2.3. Third Sector community service organisations, 1995/96**

Operating expenditure (\$m)	3 700
Income (\$m)	3 870
By source	
Fees and sales	700
Government	1 919
Fundraising	1 043
Other	139
No. of employees	132 247

*Source: Lyons (2001, p.40).*

Many CSOs were dependent upon government for funding to enable their work to take place. Indeed the growth of CSOs was a direct result of government preferring the delivery of services through CSOs as opposed to its own agencies (Sheppard et al. 2001, p.57). So it was that government had in turn become dependent upon CSOs to deliver a range of services. This had led to what has been identified by Herman and Renz (2004) as interdependence between government and CSOs.

### **2.3.2 CSO board performance**

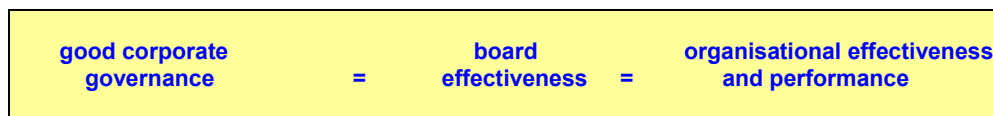
Given the importance of CSOs to the community and their interdependence with government it was not surprising that research had been undertaken into the effectiveness and performance of CSOs. It was noted that performance related to CSOs was different from that of business corporations. As we have argued earlier the performance of corporations was defined in terms of shareholder return. In CSOs performance was defined in terms of the effectiveness of the services that were delivered to people in need (Lyons 2001). The emphasis was on the difference the service makes in the lives of people. At a fundamental level, if an organisation did not provide the services it was formed to provide then it had failed. The measurement of performance for CSOs was problematic, but

various quality management tools involving various standards were frequently used (Letts et al. 1999).

The literature confirmed that a way to ensure an organisation performs well was to have an effective board (Alexander & Weiner 1998; Brown 2005; Gill et al. 2005; Goldschmid 1998; Herman & Renz 2004; Holland & Jackson 1998; Letts et al. 1999). The board had the capacity to ensure that the organisation applied itself to those tasks necessary to achieve the performance indicators it set; namely effective service provision. As we found when examining the literature regarding boards in the business sector the key determinant in board effectiveness was good corporate governance. So it is that we can posit a link, as shown in Figure 2.8, between good corporate governance, board effectiveness and organisational performance (Strategy Unit 2002, p.69; Wiseman & Warburton 2002, p.67).

It is my view that the reason resources should be applied to corporate governance is so that organisations can perform well. Or to put it another way there are people who are in need that require services and a way to ensure they receive them is to get the governance of CSOs right. In light of the significant needs that people have, and the difference to their lives that community services can make, the quest for good governance is worthwhile, indeed vital for communities.

**Figure 2.8. Link between governance and performance (CSOs)**



*Source: developed for this research.*

There was some anecdotal evidence that takes an opposing view and does not see the link (Taylor et al. 1996). Yet when this as lined up against the abovementioned studies it was left wanting given the significant difference in approach and depth that supported the link.

Despite the importance of the presumed link between governance and performance not all CSOs gave full attention to their governance responsibilities (Herman & Renz 2004; Lyons 2001). They resisted making the necessary investment of resources to improve their governance performance and therefore the performance of their organisation (Goldschmid 1998). Indeed it was suggested by Taylor et al. (1996, p.4) that

effective governance by the board of a nonprofit organisation is a rare and unnatural act.

Although this was a comment made in the American context according to Sievers (1996) it was also true in Australia. Examining the Tasmanian context Griggs (2000, p.4) concludes

there is however surprisingly little evidence of not-for-profit organisations adopting corporate governance (including organisational performance and strategic planning) practices.

It was also acknowledged that the size of organisations may have an influence upon what governance practices that they have in place. Brown (2005, p.333) suggested 'that larger organisations attract more effective board members' and goes on to posit that there was also an impact upon governance practice.

### **2.3.3 Summary**

Third Sector organisations made a significant contribution to Australian society. The community services sub-set of the sector responded to the needs of a range of people. There was a connection between the effectiveness of CSOs and their corporate governance.

Research into Third Sector governance has been minimal in Australia. The survey by Woodward and Marshall (2004) into Third Sector companies limited by guarantee had a focus upon regulation and provides limited information about governance practices. According to Lyons (2001) and Steane and Christie (2001) there was limited information about the governance practices of Australian CSOs. This was despite the research that had been undertaken in recent years into other aspects of CSOs. There was also very little literature about the theory

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of governance as it applied to Australian CSOs (Steane 2001). Accordingly this thesis addresses a gap in the literature as well as being of assistance to the sector.

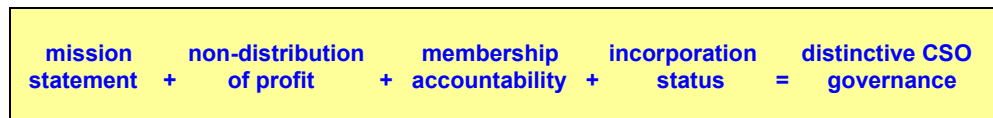
## 2.4 Immediate discipline: corporate governance within the Third Sector

With the above initial engagement between the two parent disciplines of corporate governance and Third Sector organisations in mind we now turn to the marrying of the two. Support for the marriage comes from Alexander and Weiner (1998) who have argued that the relationship is important and they strongly urged CSOs to adopt corporate governance to ensure their survival.

### 2.4.1 Requirements of community sector organisations

There was a distinction made in the literature between the governance requirements of CSOs and those of the business sector (Lyons 2001, p.121; McFarlan 1999). The detail as to the extent of this distinction needed to be identified as there will be some CSO board members more familiar with business sector governance. Steane (2001, p.15) made the point that if board members were not aware of the 'unique characteristics of nonprofits' they would fail in their responsibilities. The distinctive elements of CSO governance are shown in Figures 2.9.

Figure 2.9. Elements of distinctive CSO governance



Source: developed for this research.

The key distinction could usually be found in the *mission statements* of CSOs (McFarlan 1999). They generally addressed the reason why they were formed which, as we have mentioned above, was usually to provide services to people in need on a nonprofit basis. The whole purpose of CSOs was to respond to people's specific needs through the provision of appropriate services. This was a fundamental difference from the purpose of corporations within the business

sector which was to maximise returns to shareholders (Brown 2005; Goldschmid 1998). Accordingly the measurement of performance for CSOs was vastly different to that of the business sector given this emphasis on the provision of services in response to people in need. A CSO's statement of values also provided evidence of their distinctive nature (Hester 2000; Letts et al. 1999).

Another difference was that the *profit distribution focus* of the business corporation's board was also absent from the boards of CSOs. Indeed Lyons (2001, p.227) goes to the extreme by saying that 'bottom line' reporting was a totally inappropriate measure for organisations. However, it was not true to say that CSOs are not to make a profit. Indeed for many CSOs there was a need to make a profit to fund further expansion, build reserves for contingencies and provide for future demands. So we found that some CSOs placed a great deal of emphasis on generating a profit. The difference was that the profit was not distributed to shareholders, instead it was invested back into the organisation (O'Connor & Raber 2001). For some CSOs it was possible to run at a deficit or to operate certain parts of the organisation at a loss on the basis that the shortfall would be met from accumulated funds. This decision may be made because the services that were being delivered were more important than immediate profits. Such decisions to allow loss-making activities would be due to the significance that the organisations place upon their services and their importance to the people they serve (McFarlan 1999). Clearly loss making cannot continue indefinitely and organisations will be dependent on future or past profit to be sustainable.

The next distinctive aspect of CSOs was *accountability*. For the board of a business corporation accountability was to shareholders, whereas in a CSO it was to the membership (Steane 2001). As Letts et al. (1999) argued, accountability was connected to performance, and boards of nonprofit organisations had to ensure that appropriate governance practices were in place to enhance and monitor performance. This was especially the case as the performance indicators were not about share price, market capitalisation and so on. However, there was accountability for CSO boards as the members of the organisation were often those who received the services or their

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relatives/advocates (McFarlan 1999). This meant that the accountability could be very direct and related to the provision of services. It was possible for members to be very demanding and have appropriately high expectations of the services that the organisation provided. It was also not uncommon for those who received services, or their relatives/advocates, to be members of the organisation's board (Steane 2001, p.19). This added to the complexity of the CSO faithfully being accountable to all its members.

The final distinction between business corporations and nonprofit organisations was their different *incorporation status*. Business corporations were incorporated under the general provisions of the Corporations Act. The vast majority of CSOs were incorporated using the provisions of state based Associations Incorporation Acts. As at 30<sup>th</sup> June 2000 there were 119 464 incorporated associations across the states and territories (Sievers 2001, p.142). Generally the duties of the board members of these associations were 'similar to the statutory duties imposed on directors under the Corporations Law' (Fisher 2001, p.149). However, despite the large numbers of associations there has been limited testing of the proposition through the courts. This has led to Fisher (2001, p.156) to conclude that 'although there is an increasing number of incorporated associations in the delivery of community services, the issue of the standard expected of those involved in the governance of these structures remains unclear.' This situation required CSO board members to be aware of the particular responsibilities contained in the relevant acts.

It should be noted that there was another method of incorporation available to CSOs. Section 150 of the Corporations Act provides for the incorporation of a company limited by guarantee. This provision was specifically for nonprofit organisations with charitable purposes. There was no limit to the size of organisations that can be incorporated under this Act and it allowed organisations to operate in more than one state. As at 1<sup>st</sup> March 2002 there were 9 800 registered public companies limited by guarantee (Woodward & Marshall 2004, p.1). The governance requirements of the Act that applied to business corporations also applied to corporations limited by guarantee.

An argument has been made for the identification of a distinctive approach to the governance of CSOs (Holland 2002). Although each of the components by themselves did not make the case, when they were combined it was evident that certain requirements were necessary. These requirements were reflective of the difference between business corporations and CSOs. They resulted in measures that can address the specific areas of uniqueness of CSO's namely: their purpose, the non-distribution of profit, accountability to a membership and incorporation status.

#### 2.4.2 Models

In the light of the particular requirements of CSOs it was not surprising to learn that specific corporate governance models had been developed for the sector. The following is a list of models (derived from Fishel 2003, pp.225-30; Lyons 2001, pp.126-9). The models were examined to see what they tell us about governance within CSOs.

Figure 2.10. **Governance models in CSOs**

<b>Operational</b>	<b>Collective</b>	<b>Advisory</b>
<b>Patron</b>	<b>Traditional</b>	<b>Management</b>
<b>Policy Governance (Carver)</b>	<b>Corporate</b>	<b>Constituent Representational</b>

Source: *developed for the research.*

The first we looked at was the *operational model* where the boards did the work of the organisation as well as govern it. The organisation often did not employ staff and relied on the board and other volunteers. Where staff were employed they were usually only in administrative capacities and control remained with the board.

A second model was sometimes seen in feminist organisations and was the *collective model*. This was where the board and staff were involved in 'single team' consensus decision making about governance and the work of the

organisation. It was not unusual to find that some board members were in the paid employment of the organisation.

In the *advisory model* the emphasis was upon the board as supporting the CEO. It usually occurred where the CEO was the founder of the organisation. The governance responsibilities were exercised by the CEO with informal CEO dominated board meetings. In the *patron model* the board had even less influence within the organisation, as board members were figure heads. The governance responsibilities were exercised outside of any board meetings that may have taken place.

More common was the *management model* where the board managed the operations, finances, personnel and so on. There may have been staff employed, but the board undertook the management functions. Board members were usually members of the local community or community of interest who had management skills.

This was very similar to the *traditional model* where the board governed and had oversight of operations through committees, but delegated the management functions to the CEO. Committees were used to process information for the board and they sometimes did the work of the board.

An increasingly popular model came from the United States and was the *policy governance model*. It was also referred to as the Carver model and was where the board governed through policies that establish organisational aims, management limitations and the relationship between the board and the CEO.

The final two models were a variation of the above models. The first was the *corporate model* where the board included the CEO as a non-voting member. The CEO had substantial influence over policy development and was given autonomy to achieve the objectives set by the board. Committees were used for monitoring performance of the board, CEO and organisation. The second was the *constituent representational model* where the main responsibility of the board was to balance the interests of the constituents against the best interests of the overall organisation.

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This list was fairly comprehensive and picked up most of the models that are in use. Some of these models were less developed than others. It is worth noting that the Carver policy governance model is very influential in North America (Brudney & Murray 1997, p.14). It has been aggressively promoted here in Australia. Indeed Carver claimed that his model 'works well in any situation' (Carver & Carver 1997, p.4). Yet as Hough (2002, p.9) pointed out there was a 'lack of empirical research in relation to Carver's model.'

In relation to models Gill et al. (2005, p.288) discovered that there is 'no relationship between the governance model and either board or organisational effectiveness.' They went on to argue that it was not the particular approach to governance that mattered, rather that the board was paying attention to its governance practices.

Even if organisations indicate that they have adopted a particular model of governance it was more likely that they had some features of one model and probably some from other models as well (Lyons 2001, p.127). It seemed that 'hybrid governance configurations' were common (Alexander & Weiner 1998). If a model was to be relied upon to ensure good governance then an assessment as required to ascertain the extent to which an organisation had implemented the model.

### **2.4.3 Not-one-size fits all**

Yet there were some who argued that no one model contains all the answers and there was no one way for boards to exercise their governance responsibilities (Brudney & Murray 1997, p.14; Harris 1993; Holland & Jackson 1998, p.127; Kakabadse & Kakabadse 2004, p.5). It was also claimed that all the various models failed to cater for the differences between organisations and they did not take into account the mission, history or current context in the development of individual organisations (Kiel 2002b; Korac-Kakabadse et al. 2001, p.27; Robinson 2001, pp.20-25). Instead of applying a model the alternative being promoted was for each board to engage in exploring how it was to exercise its governance responsibilities. A process was required that allowed the knowledge of the governance area to be brought into dialogue with the particular

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circumstances of the organisation. This led to the development of a unique pattern that suited the organisation (Brudney & Murray 1997, p.16). There may have been particular circumstances where a failure in governance practice, for example board member conflict of interest, precipitated a review of practices leading to a change in approach (Fishel 2003, p.15). There was also the need to avoid applying a model that involved the board in micro-governing instead of fully accepting their broader responsibilities (Chait et al. 2005, p.5).

#### **2.4.4 Best practice principles**

The alternative to the implementation of a particular governance model was the adoption of a framework of underlying principles as suggested by Totten and Orlikoff (2002, p.68) in their concept of 'principle based governance.' This concept was analogous to the guiding principles approach to corporate governance used by Hilmer (1998) and others referred to above.

According to Robinson (2001, p.30) a guiding principles governance approach for CSOs has three dimensions: legal, functional and symbolic. The first was the legal dimension where the board fulfilled the requirements of the legislation under which it was incorporated or constituted. In addition it ensured that contractual arrangements were met. The next was the functional dimension and this was where the board made sure that the work was done and in some cases may have done the work itself. The final dimension was the symbolic where the membership of the board was seen to be providing credible leadership to the organisation and its stakeholders. Although this provided an interesting framework it did not provide sufficient structure and detail to organisations to be as useful as it could be. The same criticism was true of the six dimensions of board competency identified by Holland and Jackson (1998, p.122). The dimensions listed there were: 'contextual, educational, interpersonal, analytical, political and strategic.'

With these criticisms in mind we need to examine further alternative approaches. One was found in Gill et al. (2005) where the approach there led to the development of a 'Governance Effectiveness Quick Check'. Another was in Department of Family and Community Services (FaCS 2001 pp.5-10) an extract

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of which is reproduced as Appendix E. It provided a useful listing of the key features of good governance for CSOs. The list was comprehensive with structure and detail provided, as shown in Table 2.4.

**Table 2.4. FaCS suggested features of good corporate governance**

<b>Features</b>	<b>Practices</b>
Strategy setting & planning.	Set the overall strategic goals for the organisation & set plans to achieve those goals.
Risk management.	Ensure that there is a framework in place to identify, assess & treat risks.
Consultation.	Facilitate consultation with its stakeholders & in particular the local community or community of interest that the CSO serves.
Roles & responsibilities.	Exercise specific roles and responsibilities as outlined in the legislation under which the organisation is incorporated or constituted.
Skills, independence & resources.	Ensure that its membership has the right mix of skills to facilitate the organisation in reaching its goals.
Conduct and ethics.	Develop a code of conduct that will guide its members in their interactions with one another & the organisation's employees.
Performance.	Put in place a means of assessing board performance
Succession planning.	Create a plan to appoint the successor of the CEO.
Financial & operational reporting.	Implement a schedule of financial & operational reporting.

*Source: developed for this research based on FaCS (2001, pp.5-10).*

Each of the features has associated practices and they can be further explored. This exploration follows and includes references to other sources that support the importance of the features and practices. There are also some suggestions made to improve the feature/practice.

*Strategy setting and planning.* The board was to set the overall strategic goals for the organisation and make plans to achieve those goals (Letts et al. 1999). This work was to be clearly documented and communicated internally so that those involved with the organisation could fully participate. Evaluation measures were to be included in the plan so that progress could be monitored and feedback provided to staff (Kiel 2002a). There was a tendency within some CSOs to be frustrated by the time involved in planning as it took them away from service provision and so they adopted a minimalist approach (Ott 2001). This meant that they only planned for the current financial year and failed to recognise the shifts in the environment in which they were providing services. It was considered

essential for boards to plan and set strategy that is both wide and long enough - sometimes termed 'horizon planning' (Carver & Carver 1997). Boards needed to structure their agendas so that sufficient time was given to the planning process. In many CSOs 'the strategic plans of non-profits are more utopian portraits than blue prints for action' (Chait et al. 2005, p.57).

*Risk management.* The board was to ensure that there was a framework in place to identify, assess and treat risks (Kiel & Nicholson 2002). In the past the focus of risk management had been on insurance and audit committees. Although both had a role to play it was vital that the risk management framework was applied to the whole of the organisation. This included the service delivery areas of CSOs. It was in those areas where individuals may be negatively affected and the increasing litigious nature of Australian society may impact (Smith & Bowman 2002, p.3.3.5). It was not a once off exercise, but required continuous monitoring and review and the board was well advised to include a review of the framework as part of their annual agenda plan (McGregor-Lowndes 1996). Those CSOs who had adopted quality management systems could have used the ISO standard for risk management as a helpful place from which to develop their framework.

*Consultation.* A key task of CSOs was to consult with their members. The members are, in Carver and Carver's (1997), terminology the 'owners'. It was possible for this consultation to be limited to an organisation's AGM or as provided in the rules/constitutions of the organisations. However, it was also possible for a more regular dynamic process to be entered into (Holland & Jackson 1998, p.122). Consultations were not to be limited to members, but to the multiple stakeholders that CSOs had such as funding providers, referral agencies, donors, clients, volunteers and staff (Balsler & McClusky 2005). In relation to the client stakeholder group Taylor et al. (1996, p.6) suggested that boards needed to be prepared to arrange processes that enabled them to become 'vulnerable to constituents'. Another stakeholder group was the broader community. The necessity for this consultation arose from the need to ensure that the mission of CSOs, which usually arrived from identification of a need within a community, was still appropriate. Funding providers may have particular

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requirements in any contractual arrangements that they have in place. Consultation could occur through a variety of means, for example: search conferences, focus groups and community meetings (Oliver 1999, p.118). Balsler and McClusky (2005) urged organisations to be proactive in managing their relationship with stakeholders as it led to greater organisation effectiveness.

*Roles and responsibilities.* Boards have had specific roles and responsibilities defined within their rules or constitutions. In addition there were requirements that boards needed to meet outlined in the legislation under which the organisation was incorporated or constituted. It should be remembered that there were obligations imposed under common and general law (Kiel 2002b). There was further legislation that places demands upon CSO boards. For example, organisations had to comply with occupational health and safety and environmental protection acts (Sievers 1996, p.49). A breach of some pieces of legislation (for example the Workplace Health and Safety Act) carried penalties for individual board members if there was non-compliance (Smith & Bowman 2002). Given the seriousness and potential impact on board members of the above duties and responsibilities they should be documented and made available to board members (Carver & Carver 1997, p.94).

*Skills, independence and resources.* In CSOs the recruitment of board members was often focussed on a narrow source (Taylor et al. 1996). It was usually connected to the community in which the need was identified and more often than not included relatives/advocates of the organisation's clients. This could be a less than satisfactory arrangement as boards were to ensure that their membership had the right mix of skills to facilitate each organisation in achieving its mission. In part this meant that the board had members who had a voice separate from and independent of those people who were provided with services (Carver & Carver 1997). It was frequently identified that a particular skill set based upon business acumen and expertise was required (Kiel 2002b). However, a board had to include more than just business people and there was a need to avoid the 'Noah's ark of professional experts' (Chait et al. 2005, p.4). It should also have members who could bring their professional resources to the organisation in the areas that the CSO was functioning. Recruitment of this type

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needed to pay attention to the requirement for sufficient diversity in terms of the work of the organisation (Letts et al. 1999). If there were gaps in particular skill areas or a resource deficiency then a program of board member development would be necessary (Holland & Jackson 1998).

*Conduct and ethics.* The way that people interacted with another as board members could be problematic. They may have been clear about their role and responsibilities with an understanding of what skills and resources they contributed, but fail to work together (Carver & Carver 1997). Accordingly, it was important that CSO boards developed a code of conduct that guided its members in their interactions with one another. It included matters such as obligations to listen to each other, preparation and attendance. Another area which the code had to address was how board members were to interact with the organisation's employees. This was especially important with the board member who is a relative/advocate of a client of the organisation (Letts et al. 1999). An essential component of the code was the method whereby board members' conflict of interest was to be dealt with (Roberts 2004). At a minimum the code ensured that conflicts were declared and affected members did not participate in related decisions. In addition, any ethical frameworks that the organisation had adopted were articulated and made available to members (Fishel 2003). Such frameworks found expression in the mission statements of the organisation and were reflected in a statement of the organisation's values (Walford 2000)

*Performance.* CSOs were to focus upon three aspects of performance (Holland 2002). The first was about the board's own performance. This necessitated the establishment of a formal board evaluation process (Kiel 2002a). This process allowed consideration of the way the board functioned, an assessment of the contribution of individual board members and identified areas for improvement (Georgiou 2004a & 2004b). There were various methods of undertaking such an evaluation, but they usually involved making use of a person independent from the board (Gill et al. 2005). The second aspect of performance was the board's responsibilities relating to a regular performance appraisal of the CEO. This was a crucial role for the board that needed to happen regularly against agreed indicators (Carver & Carver 1997). One of the indicators was about how the CEO

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gave focus and support to the leadership of the board (Heimovics et al. 1993). The literature recognised that in organisations that were performing well there was a positive and significant relationship between the board and the CEO (Balsler & McClusky 2005). The final performance area was about the whole organisation. If the organisation was not performing well then this needed to be included in both the board and CEO performance reviews. Again it was essential that 'critical indicators of success' were developed (Taylor et al. 1996, p.7). Letts et al. (1999) claimed that high performance organisations will have adopted some form of benchmarking to enable them to plot their performance. The regular reporting provided by management of the organisation on operational and service provision matters should be against the benchmarks or indicators. This provided both a focus and framework for such reporting. Conroy (2005, p.109) urged organisations to make sure that whatever performance indicators were in place they measure whether the organisation was 'achieving its mission' and not just counting an increase in turnover or similar.

*Succession planning.* The board was to create a plan to appoint the successor of the CEO (Carver & Carver 1997). This plan was to be reflective of the context in which such recruitment took place and address any particular barriers to a successful appointment. The significance of this task could not be stressed too much as 'selecting a new CEO is perhaps the most important duty of any for-profit board ... just as important for non profits' (McFarlan 1999, p.3). There were two other succession plans boards should ensure were in place. The first relates to board vacancies, as that can also be a significant event for an organisation (Smith & Bowman 2002). Attention in the plan needed to be given to the particular requirements that have been spoken about above with regard to skills, independence and resources. The second plan was perhaps not a direct board responsibility, but was concerned with success for key management or service provision staff. Sometimes in an organisation there was a key person whose departure would have such a significant impact upon the capacity of the organisation that a plan needed to be in place for such eventualities. Although it was true that it was important that there was a succession plan for the CEO and other staff, attention should be given to staff retention. This raised the broader area of human resource (HR) practices which the board must ensure were

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adequate (Kiel 2002b). This area should therefore be referred to as *HR and Succession Planning*.

*Financial and operational reporting.* When it came to the finances, the board was to exercise 'financial oversight and enlightened curiosity' (Robinson 2001, p.87). This was a task for the whole board and could not be left to the board appointed treasurer. To meet this challenge the board needed to implement a schedule of financial reporting and disclosure. The reports were to be timely and reveal the actual results with comparisons to budget with material variations highlighted. The disclosures should reveal the results of the external and internal audit functions and any emerging trends that could affect the ability of the organisation to fulfil its purposes. To this end some CSOs made use of an audit committee to facilitate the board's oversight of financial reporting (Fishel 2003). The oversight had a strategic dimension so will extend to approval of the budgets as they 'breathe life into mission statements and goals' (Ott 2001, p.283). These budgets should preferably be multiyear and provide clear direction about how the resources of the organisation were to be allocated. Operational reporting has been subsumed under the above performance area and given the strategic dimension to the duties discussed in this section it should be referred to as *Financial Strategy and Reporting*.

The list of features has been reviewed and can be updated on the basis of the above comments. Table 2.5 shows the revised list of best practice features and practices for guiding CSO governance with amendments from the previous list shown in bold.

**Table 2.5. Literature review summary: best practice features and practices guiding CSO governance**

<i>Feature</i>	<i>Practices</i>
HR & succession planning.	<b>Ensure that there are adequate HR policies &amp; procedures in place.</b> Create a plan to appoint the successor of the CEO <b>&amp; to fill board vacancies.</b>
Strategy setting & planning.	Set the overall strategic goals for the organisation. Establish plans to achieve those goals <b>&amp; evaluation measures.</b>
Risk management.	Ensure that there is a framework in place to identify, assess & treat risks <b>on a continuing basis.</b>
Financial strategy & reporting.	Implement a schedule of financial reporting.

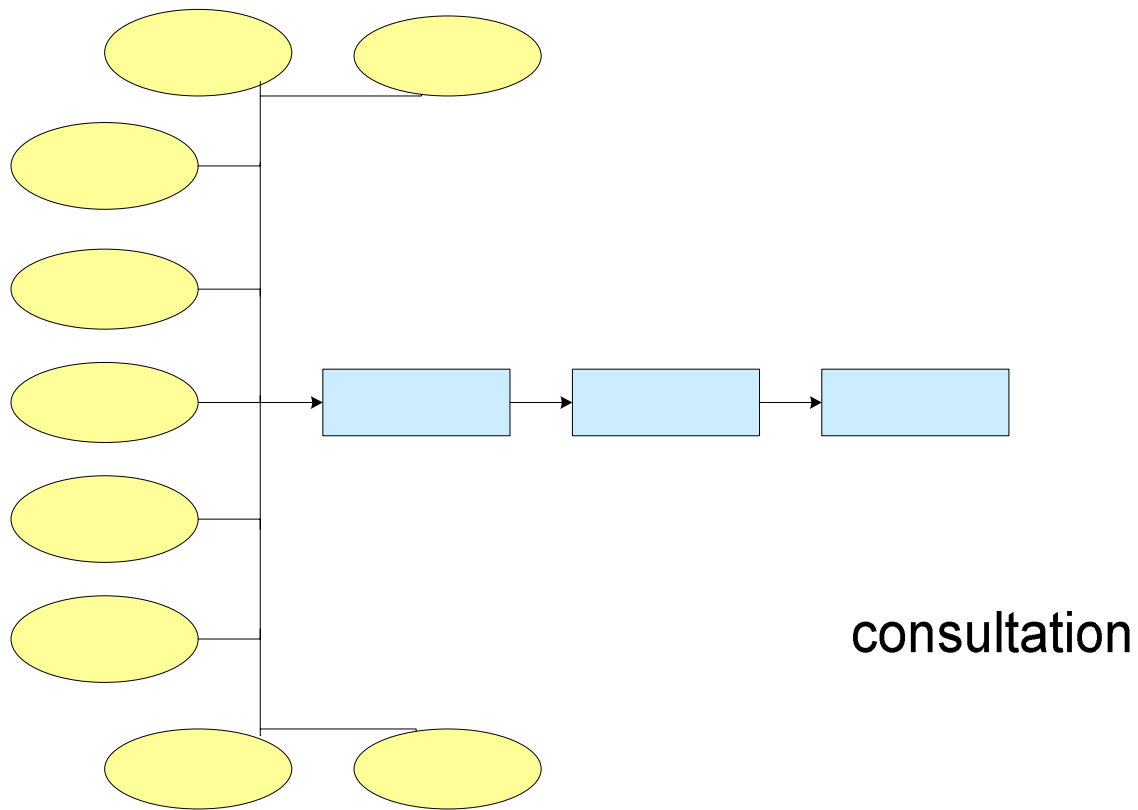


<p>Consultation.</p> <p>Roles &amp; responsibilities.</p> <p>Performance.</p> <p>Skills, independence &amp; resources.</p> <p>Conduct &amp; ethics.</p>	<p><b>Ensure there is a regime of external &amp; internal audit.</b> <b>Approve budgets.</b></p> <p>Facilitate consultation with its stakeholders: members, clients/ consumers, the community &amp; funding providers.</p> <p>Exercise specific roles &amp; responsibilities as outlined in the legislation under which the organisation is incorporated or constituted <b>as well as the demands required in other legislation.</b></p> <p>Put in place a means of assessing three areas of performance: the board, <b>the CEO &amp; the organisation as a whole.</b></p> <p>Ensure that its membership has the right mix of skills to facilitate the organisation in reaching its goals.</p> <p>Develop a code of conduct that will guide its members in their interactions with one another &amp; the organisation's employees.</p>
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*Source: developed for this research based on FaCS (2001, pp.5-10).*

The support these features received in the literature led me to presume that they are normative and represent a set of best practice guiding features and practices for CSO governance - see the concept map in Figure 2.11. The way that these practices are implemented within CSOs will vary and it could be in terms of one of the above models or a combination thereof. However it is not so much the model(s) that are important but that for each guiding principle CSOs will have in place an appropriate practice (Herman & Renz 2004). If organisations take the best practice features and implement them via appropriate practices then their boards will have a good corporate governance system. Following the argument presented earlier this will ensure that the board is effective. This effective board will in turn ensure that there is effective organisational performance.

Figure 2.11. **Concept map - best practice guiding features for CSO corporate governance**



Source: developed for this research.

Given the importance of CSOs to people in need, and therefore to the wider community, consideration has been given to those factors that promote organisational effectiveness. Specifically the link between board governance practice, board effectiveness and organisational performance. To this end organisations would be well served by an examination of their adoption of best practice governance features as well as an assessment of the practices that derive from them. The results of the examination and assessment will enable organisations to identify areas for improvement and facilitate the sharing of practices. This form of research is relatively rare as there has been little research undertaken in Australia and none published regarding the Tasmanian jurisdiction about the adoption of best practice governance features in CSOs.

### **2.4.5 Corporate governance in business corporations and CSOs**

The claim has been made that a list of best practice features for corporate governance for CSOs has been identified and is shown in Table 2.5. This claim was supported by extensive reference to the normative literature regarding governance within CSOs. It was useful to compare this list with those hallmarks of good governance referred to in the previous section about the business sector. Table 2.6 shows the business corporations information in the first two columns and then in the last two columns CSOs information is lined up.

There are clear similarities between the two lists, especially when you discount for some language differences and reflect upon the suggested refinements that support the contention that there is some convergence between the sectors (Steane 2001, p.19). Yet there are significant areas of divergence that cannot be overlooked.

The first area of divergence relates to consultation and the requirement of CSOs to consult with stakeholders. A business corporation has to report to shareholders and obtain their approval for certain actions and this will require some consultation with them. However, this is the limit of what they are required to undertake. A CSO has a much broader range of consultative responsibilities beyond its membership.

The second area of divergence relates to the area of performance, specifically that of the organisation as a whole (Woodward & Marshall 2004, p.182). For CSOs it is not something that can be done by measuring shareholder return, but has to be of a different nature. It must provide a mechanism that allows board members to know that the organisation is achieving its mission that is, services are being adequately provided and the needs of people are being met.

Even with these differences in mind the comparison still gives me confidence that the CSOs list covers the areas of significance. It is reasonable to claim the description “best practice” for it.

Table 2.6. Corporate governance in corporations and CSOs

<i>Business Corporations</i>		<i>CSOs</i>	
<i>Areas</i>	<i>Practices</i>	<i>Features</i>	<i>Practices</i>
Appointment of the CEO & human resource issues.	Appoint and reward (or remove) CEO on basis of performance & approve key appointments reporting to CEO. Review key executive performance & approve compensation & compensation policy & succession plans.	HR & succession planning.	Ensure that there are adequate HR policies & procedures in place. Create a plan to appoint the successor of the CEO & to fill board vacancies.
Strategy & policy.	Review & approve management's proposed strategy. Approve & foster corporate culture. Ensure that appropriate policies on key issues, including exposure to various risks, are in place & to review compliance. Approve major decisions &, where appropriate, make recommendations to shareholders.	Strategy setting & planning. Risk management.	Set the overall strategic goals for the organisation. Establish plans to achieve those goals & evaluation measures. Ensure that there is a framework in place to identify, assess & treat risks on a continuing basis.
Budgeting & planning.	Approve budgets & other performance goals. Review performance against goals & corrective actions.	Financial strategy & reporting.	Implement a schedule of financial reporting. Ensure there is a regime of external & internal audit. Approve budgets.
Reporting to shareholders & regulatory compliance.	Through an independent audit committee, appoint auditors, oversee audit process & review reports. Require & monitor systems for keeping the market informed; approve announcements, prospectuses & reports to shareholders. Require & monitor regulatory compliance.	Consultation. Roles & responsibilities.	Facilitate consultation with its stakeholders: members, clients/ consumers, the community & funding providers. Exercise specific roles & responsibilities as outlined in the legislation under which the organisation is incorporated or constituted as well as the demands required in other legislation.
Ensuring own effectiveness.	Regularly review & assess own performance. Establish committee structures to assist effective operations of the board.	Performance. Skills, independence & resources. Conduct & ethics.	Put in place a means of assessing three areas of performance: the board, the CEO & the organisation as a whole. Ensure that its membership has the right mix of skills to facilitate the organisation in reaching its goals. Develop a code of conduct that will guide its members in their interactions with one another & the organisation's employees.

*Source: developed from summary of Hilmer (1998, pp.44-8) and based on FaCS (2001, pp.5-10).*

#### 2.4.6 Governance in religious-based organisations

This review of the literature has established the best practice guiding features for corporate governance in CSOs. However, there was a sub-set of CSOs that warranted closer attention given their distinctive characteristics. The particular sub-set of CSOs that have distinctive characteristics that is being referred to is religious-based organisations. They were distinguished from other CSOs

because their foundation lay in a faith community of one type or another. For the purposes of this thesis religious-based organisations were defined in section 1.6. The extent to which the arrangements, ties and commitments referred to in the definition impact upon organisations varies, but for our purposes it was useful to use such features to distinguish religious-based organisations from others.

Religious-based organisations were worthy of attention for two related reasons. The first was that the use of such organisations for the delivery of community services was advocated by 'politicians, contemporary public policy makers, essayists, ministers, and many lay people' (Smith & Sosin 2001, p.652 also see Harris et al. 2003). It was in large measure due to this support that religious-based organisations made up a significant, although un-quantified, portion of CSOs. It was surprising that definitive figures do not exist. In the main research project into the quantum of the Australian Third Sector by Lyons and Hocking (2000) religious-based organisations were not separately identified. However, the contention that they were a significant proportion of the sector was supported by the reference to the large size and number of organisations that were church-based (Lyons & Hocking 2000, pp.75-6); the reference to the number of 'church-sponsored organisations' in Lyons (2001, p.126); the diagrammatic representation of the sector in Sheppard et al. (2001, p.2) and Cleary's (2001, p.6) claim that 'Catholic Church human service organisations represent over 20% of all nonprofit expenditure.'

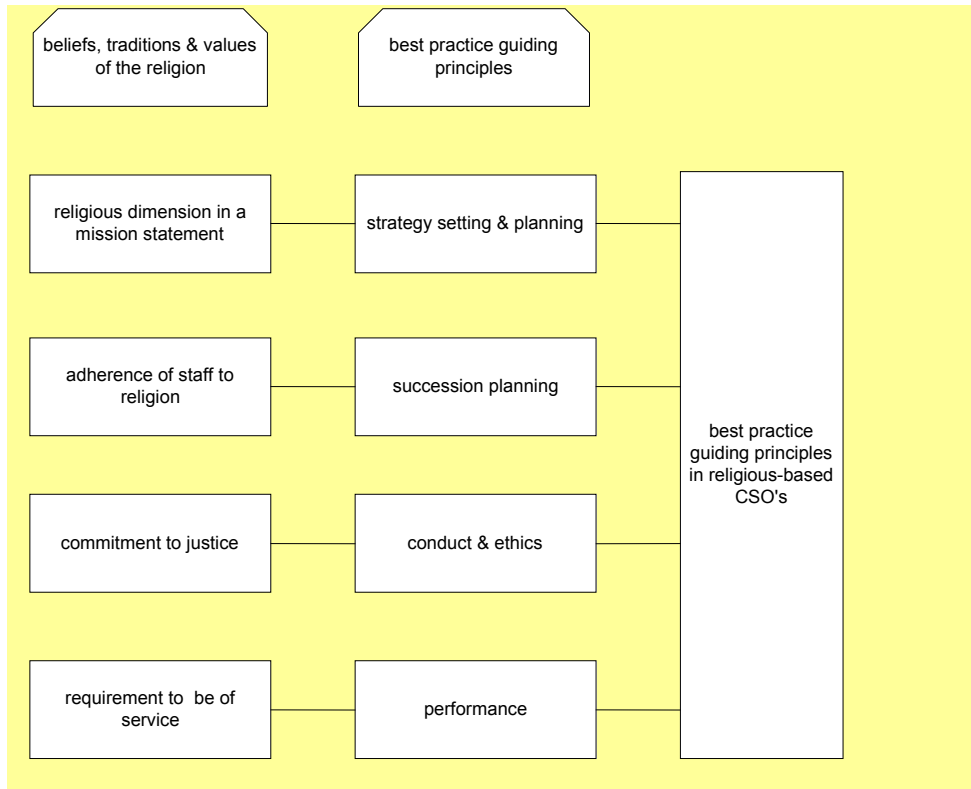
In light of the foregoing it was possible to claim that religious-based organisations are favoured in the delivery of community services and represent a large segment of the overall community services sector. It was therefore not surprising that in the literature the governance of such organisations had received some attention. In both Jeavons (1994) and Holland (2000) the corporate governance responsibilities referred to were reflective of the above best practice guiding features. Indeed they supported the case for a guiding principles approach to corporate governance. For example, Holland (2000, p.26) outlined the specific roles and responsibilities of the board and its members and Jeavons (1994, p.132) argued that organisations need to engage in strategic planning. However, these studies were both from the United States.

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Research by Rudge (1968, pp.3,66), who was educated in Tasmania, examined 'ecclesiastical administration' and established a link between 'organisational theory and theological doctrines.' However it was noted that in more recent times there was no published research in Australia that addressed the specific topic of corporate governance within religious-based organisations. Cleary's (2001, p.164) as yet unpublished PhD thesis, in one part, addressed the question: 'How have the governance structures of Catholic human service organisations shaped their management arrangements?' However, the emphasis within the thesis was on the religious meaning system operating within the organisation with only a limited focus on corporate governance as defined earlier. No material was identified by Cleary (2001) that attended to the governance issue in our Australian context for religious-based organisations so this proposed research will provide important information and analysis.

So the question we had to wrestle with is whether there were any distinctive characteristics of religious-based CSOs that had implications for the governance of such organisations. An outline of the characteristics and their relationship to governance is shown in Figure 2.12 and detailed below.

Figure 2.12. Governance in religious-based CSOs



Source: developed for this research.

An insight into the distinctive characteristics of the board of a religious-based CSO could often be found in its mission statement. It usually contained an expression of the faith tradition that led to the creation of the organisation. Holland (2000, pp.25-6) describes it this way:

Drawing on the history and traditions of the organisation's religious identification, the board interprets and sustains the mission of the organisation, ensuring that every component is consistent with the mission and focussing on accomplishing it.

The practice of governance in these organisations had, at its heart, a particular orientation that informed the best practice features outlined above. It was not a matter of adding a new feature called 'religious principles'; rather it was ensuring that the already identified features were reflective of the religious tradition as defined by the organisation. As Warford (2000, p.14) correctly pointed out, the

challenge for Christian organisations is to be constant in the application of their faith position to governance matters otherwise 'God becomes simply a distant reference in the opening devotional of the meeting.' The implication was that when, for example, the board practices the governance responsibility of setting strategy and planning, the beliefs, traditions and values of the faith community of which it is part are taken into account. In his research of organisations Gill (2001, p.17) found that

the specific mission itself did not appear as a significant variable in determining which particular governance model was selected. However, it did effect how boards might attend to specific aspects of their responsibilities.

The argument was that there were distinctive characteristics of religious-based organisations that affected the way such organisations carried out their corporate governance responsibilities.

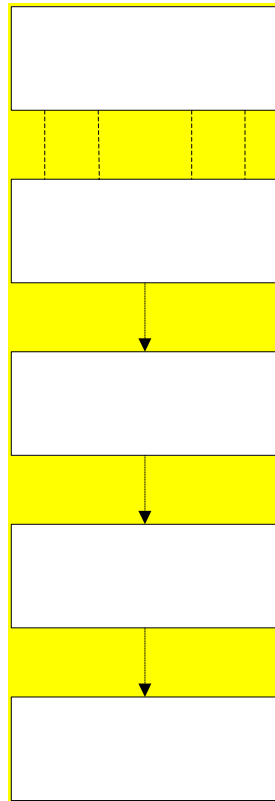
Another example of where governance was impacted upon by the religious base of the organisation was in the area of succession planning. Holland's (2000) research in the United States found that new board members must be committed to the faith community from which the organisation was sourced. A similar requirement was usually imposed upon the recruitment process for the CEO. In her Australian study of Catholic human service organisations Cleary (2001) found that 89% of board chairs and CEOs were members of the Catholic Church. The research went further and also discovered that there was even an expectation that senior management should have a commitment to the religion of the organisation (Cleary 2001, p.208). These requirements and expectations had the practical effect of filtering out prospective employees and board members who did not hold the necessary faith commitment. That is, there would be people who would not apply for positions within organisations that placed such demands upon their staff (Smith & Sosin 2001, p.664). The decision of a religious-based organisation that adherence to its religion and ethos was essential for participation in its board and senior management impacted upon the corporate governance practices associated with it such as succession planning.



To reinforce this connection between the beliefs of a religion and governance principles there were two further examples. The first related to the principle of conduct and ethics. Within the Christian religion there was the requirement that its adherents seek justice. This quest applied equally to individuals as to organisations that were connected to that religion. That is, the way an organisation arranged its affairs, related to external bodies and managed internal relationships was to be in ways that fostered justice (Savage 2000, p.121). All that was in a code of conduct was to be reflective of the value and importance placed by the religion on justice.

The final example related to the principle of performance and in particular the performance of the organisation as a whole. Taking the central Christian value of love for neighbour Savage (2000, p.121) argued that a critical performance indicator for Christian CSOs was 'how well others - namely, those being served, are doing.' It was interesting that Jeavons (1994) shared this view, but expressed it in terms of a warning. He warned that religious-based organisations could get caught up in performance measurement that suggested their 'goals are no longer to serve as much as they are to grow' (Jeavons 1994, p.120). Again it was shown that the particular beliefs, traditions and values of the religion had an effect on the application of the principles of corporate governance. This is represented in Figure 2.13.

Figure 2.13. Path to organisational effectiveness



*Source: developed for this research.*

This posited effect was not without its tensions. For instance although board members and the CEO were required to have a demonstrated commitment to a faith community there could still be differences of opinion as to how that faith impacted upon the board's work. This generally arose due to the lack of material explicitly addressing this area of governance of religious-based organisations (Hester 2000). For example under the principle of financial reporting Sachs (2000) had not been able to identify any distinctive input from a faith perspective.

The other time this tension manifested was when religious-based CSOs 'adopt secular, for-profit management practices - and, through this mechanism ... absorb and assimilate secular values' (Jeavons 1994, p.75). There was no doubting that unless these tensions were properly relieved organisations that were religious-based could become 'secularised and quite like other nonprofit

providers' (Smith & Sosin 2001, p.652). It was for this reason that religious-based CSOs needed to be strong in ensuring that their beliefs, traditions and values influenced their governance principles and practices.

The beliefs, traditions and values of religious-based organisations permeated the best practice guiding features for corporate governance that are set out above. The principles were enhanced when board members brought their faith into dialogue with their governance responsibilities; when they undertook what Huster (2000, p.77) called 'practical theological reflection' and ensured that 'God was present for the whole meeting.'<sup>2</sup> In this research a number of case organisations will be religious-based. Cross case analysis will show the extent to which there are differences between the adoption of governance principles and implementation of governance practices in non-religious-based CSOs and religious-based CSOs.

#### **2.4.7 Summary**

The immediate discipline of corporate governance within the Third Sector has been defined in this section. Following a review of the dimensions of the sector the specific governance requirements of CSOs were discussed. In response to these requirements a list of guiding features for corporate governance in CSOs was developed from the normative literature and was shown in Table 2.5. It has been convincingly argued that this list represents best practice. It compared favourably with those principles used within business corporations. The features enunciated in the list are reflective of and meet the specific requirements that CSOs face. Attention was also given in this section to the sub-set of CSOs that are religious-based organisations. The impact of the beliefs, traditions and values of the religion upon the application of the governance features within the religious-based organisation sub-set is something examined in this research.

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<sup>2</sup> Weber (1976) spoke about this in terms of the Protestant ethic. Similarly Sachs (2000, p.45) identifies a 'Protestant instinct' that motivates individuals to participate.

## 2.5 Research framework, issues and questions

The preceding sections provide an outline of the parent literature and the immediate literature for the research question outlined in the introduction. With the literature in mind it is proposed to tackle the research topic using the framework outlined in Figure 2.14. The first question that has to be answered is: “What constitutes best practice?” (Sub-problem 1). A normative list of best practice guiding features for CSO corporate governance has been identified from the literature:

- conduct and ethics
- consultation
- financial strategy and reporting
- human resource and succession planning
- performance
- risk management
- roles and responsibilities
- skills, independence and resources
- strategy setting and planning.

The intention is to verify that these features are best practice in light of the delimitations of the scope of the research outlined above - see section 1.7. The focus of this research is on CSOs which are funded through the Tasmanian Government’s Department of Health and Human Services (DHHS). The list of features will be discussed with the Grant Contracts and Purchasing Branch within the DHHS to ensure that their requirements and expectations are encapsulated. A further delimitation on this research is the focus on CSOs incorporated under the Tasmanian Associations Incorporation Act. The list of features and associated practices will be discussed with Business Affairs in the Department of Justice and Industrial Relations which has the responsibility to administer the Act.

In addition the features will be circulated to and discussed with representatives of consumers via organisational peak bodies (TasCOSS and YNOT) and an advocacy organisation (Advocacy Tas.). This will ensure that the perspective of

clients, that is, those who receive the services of CSOs, are considered in what constitutes governance best practice.

It is envisaged that these discussions will allow the list of identified features that generally apply to CSOs to be endorsed specifically as a set of best practice guiding features for corporate governance within CSOs funded by the Tasmanian Department of Health and Human Services. The approach being suggested here was used successfully by Herman and Renz (2004). They developed a list of practices from the normative literature and consulted with CEOs of nonprofit organisations prior to undertaking their survey.

It will then be possible to move to the second question. That is, what features have been adopted and associated practices implemented by CSOs ([Sub-problem 2](#))? The case study research component of the thesis will provide the necessary data. According to the literature the data is likely to show that some CSOs have given little attention to governance (Herman & Renz 2004); some will have adopted a particular governance model in full (Carver 2002); others will have a hybrid approach (Alexander & Weiner 1998) and some will have rejected a model altogether (Robinson 2001). It is likely that the adoption by organisations of the best practice guiding features will follow this pattern.

The most significant outcome from the case studies is not likely to be about models. Rather it is the gap between what is identified as normative in the literature, stakeholder interviews and what organisations have adopted. The rhetoric within organisations will probably endorse the importance of governance and perhaps even a particular approach to guiding features, yet the organisation may not have practices in place that ensure it has the capacity to meet the requirements of the features.

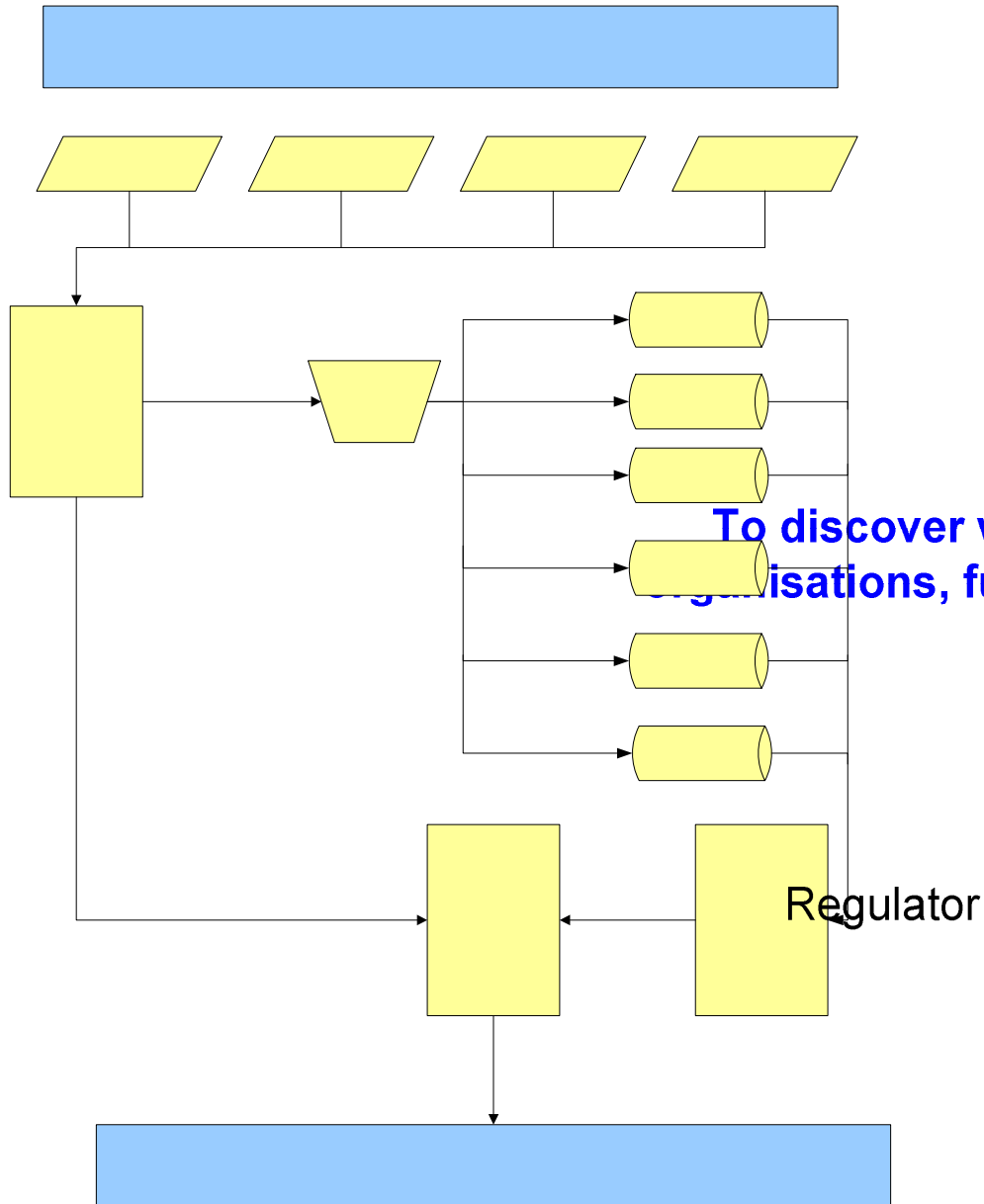
This gap between rhetoric and reality may take a particular form when it comes to religious-based CSOs. In addition to implementing practices that give effect to the governance features they adopt they also seek to permeate the features with the beliefs, traditions and values of their religion. Again it will be interesting to

see whether there is a gap between those beliefs, traditions and values and the governance features and practices.

The identification of these gaps will be significant to the organisations and will provide them with information about how they can improve their governance performance. This is vital given the link between good governance and organisational effectiveness. Similarly the DHHS will be interested in these gaps as they will want to ensure that the organisations they fund are governed well. Good governance reduces the demands on the DHHS for additional financial assistance and ensures the services for which they provide the funding are delivered. It is due to this link between governance and service delivery that clients and their advocates, will also be interested in what gaps exist between principle and practice.

The governance features and practices that are identified in the case studies will then be compared ([Sub-problem 3](#)) with the best practice governance features and practices identified earlier. The results of the comparison will provide information about the extent that CSOs funded by the Tasmanian Department of Health and Human Services are operating at best practice in relation to corporate governance. It will expose any difficulties faced by some organisations in implementing practices to support adopted features. This exposure will provide direction for training and development within the sector.

Figure 2.14 Research framework



Source: developed for this research.

Subproblem 1:  
To analyse what  
constitutes best  
practice in the  
area of corporate  
governance for  
selected CSOs  
funded by the Tas.  
DHHS

## 2.6 Conclusion

This literature review has outlined the major contributions in the area of corporate governance. Some background references were made prior to an examination of recent trends within corporate Australia in the governance area. The second area that was reviewed was the Third Sector and the place of community service organisations (CSOs) within that Sector. These two areas were then related to each other and this led to an examination of corporate governance practices of CSOs including information about practices within religious-based organisations. A framework was presented that outlines how the research is to be approached and included the questions that will be addressed.

There has been little published in Australia about corporate governance as it relates to CSOs and even less when it comes to religious-based CSOs. This chapter moves beyond simply looking at governance models and has identified best practice guiding governance features. The data from the case research will then be compared to these features. Any differences of approach by religious-based CSOs will be revealed by the cross case analysis. This thesis will provide helpful information about what organisations have put into place in the governance area and who has adopted best practice.



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## Chapter 3 Methodology

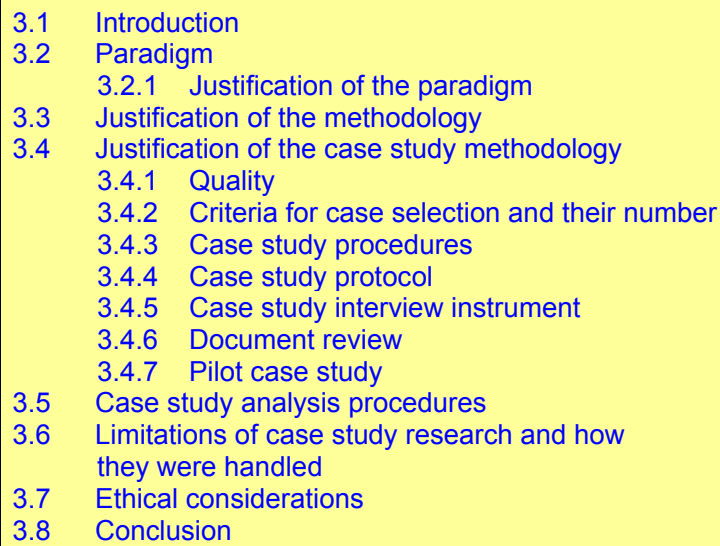
### 3.1 Introduction

The previous chapter reviewed the literature relevant to the research area which is corporate governance in Third Sector organisations. In this chapter details are provided about the methodology used to address the research problem:

To discover what is defined as best practice in the area of corporate governance for community service organisations, funded by the Tasmanian Department of Health and Human Services and if organisations have adopted best practice (see section 1.2).

The chapter is presented in eight sections as graphically presented in Figure 3.1. The chapter commences with this introduction (section 3.1) and then moves to a series of justifications. The first (section 3.2) deals with the general concept of paradigm and in particular the realism paradigm as it relates to research. The second justification section (3.3) addresses the methodologies used within business research and identifies case study research as appropriate for the research problem. As a paradigm and methodology are selected the remainder of the chapter deals specifically with aspects of the case study methodology (section 3.4). This includes sections on quality in case study research (3.4.1), the criteria for case selection (3.4.2), case study procedures (3.4.3), case study protocol (3.4.4), the interview instrument (3.4.5), and information about the pilot case study (3.4.6). The way the data is analysed is provided in section 3.5. The chapter draws to a close with a discussion of the limitations of case study research (section 3.6) and how they were addressed as well as consideration of ethical issues (section 3.7).

Figure 3.1. **Outline of chapter 3**

- 
- |       |  |
|-------|--|
| 3.1   | Introduction   |
| 3.2   | Paradigm   |
| 3.2.1 | Justification of the paradigm                                |
| 3.3   | Justification of the methodology                             |
| 3.4   | Justification of the case study methodology                  |
| 3.4.1 | Quality  |
| 3.4.2 | Criteria for case selection and their number                 |
| 3.4.3 | Case study procedures  |
| 3.4.4 | Case study protocol  |
| 3.4.5 | Case study interview instrument                              |
| 3.4.6 | Document review  |
| 3.4.7 | Pilot case study   |
| 3.5   | Case study analysis procedures                               |
| 3.6   | Limitations of case study research and how they were handled |
| 3.7   | Ethical considerations                                       |
| 3.8   | Conclusion   |

*Source: developed for this research.*

## **3.2 Paradigm**

The concept of paradigm (Kuhn 1996) is addressed as we consider the methodology that has been adopted for this research. This is because it is imperative that researchers articulate the particular paradigm within which they function (Kumar 1996). The choice of paradigm influenced the approach adopted in the whole research (Guba & Lincoln 1994) so it is useful for it to be disclosed as the particular methodology is discussed. Guba and Lincoln (1994, p.107) define a paradigm as

a set of basic beliefs that deals with ultimates or first principles. It represents a worldview that defines, for its holders, the nature of the 'world', the individual's place in it, and the range of possible relationships to that world and its parts.

It is also useful to think of the levels of use that the term paradigm has in relationship to the task of research (Easterby, Thorpe & Lowe 1991, p.28). At one level, the philosophical, the above definition is accurate. At the social level it means the guidelines about how researchers undertake their research. Then at

the technical level it provides details about the methods and techniques that are to be used in the research.

Four research paradigms had been identified by Guba and Lincoln (1994) and Perry, Riege and Brown (1999) and a summary of them follows. This was done to identify where research methods were located and the attributes each paradigm provided in relation to the research problem.

The first paradigm was **positivism** and was based upon a focus on a single reality that is apprehended through careful study with the application of appropriate methodologies. It involved the collection of data and analysis to enable the testing of theories and proving of hypotheses. The researcher was completely separate from the research and had no influence upon the area being researched. The methodologies that were utilised were quantitative including experiments and surveys.

The second paradigm considered was **constructivism**, which postulates reality was apprehended through the perceptions of individuals. This resulted in there being multiple realities that were subjective. The researcher interacted with the area being researched and indeed the researcher became a participant in the area. The methodologies that were utilised were qualitative and included dialogue and consensus.

Within the **critical theory** paradigm it was understood that there are social realities that were structurally created over time. The researcher engaged in a dialogue with the area being researched so that there was the capacity to interpret and critique the realities. The methodologies that were utilised were qualitative and include focus groups.

The final paradigm was **realism**. This approach assumed that there was an external reality that could only probably and partially be apprehended. It involved the triangulation of various methods to verify what was known. The researcher participated in the research process, but remained as distant as possible. The methodologies that were utilised were qualitative and included case studies and

convergent interviews. However, the need for triangulation included quantitative methods such as structural equation modelling. For ease of reference the information about paradigms is presented in tabular form in Table 3.1.

**Table 3.1. Research paradigms**

	<i>Positivism paradigm</i>	<i>Constructivism paradigm</i>	<i>Critical theory paradigm</i>	<i>Realism paradigm</i>
<b>Ontology</b> refers to the fundamental beliefs of each paradigm	Science is able to discover the true nature of reality. There is a single apprehensible reality whose nature can be known and characterised.	Relativism - truth is subjective, based on the individual's perceptions of reality, resulting in a state of multiple realities.	Social realities are apprehensible based on historically situated structures. Focuses on analysis and transformation of social, political, cultural, economic, ethnic and gender values.	Critical realism - reality is apprehensible but can only be imperfectly and probabilistically comprehended.
<b>Epistemology</b> is the theory or grounds of knowledge	Observer is separate from the research process; findings are value-free and may be generalised to entire population. Theory-free, findings true.	Researcher and respondent create findings jointly; researcher and research subject are mutually interactive.	Interactive link between researcher and research object. Reality is based on perceptions held by a group of individuals.	Researcher is part of research process, but remains as objective as possible. Modified dualist/ objectivist. Findings are probably true.
<b>Common methodologies and processes</b> of conducting research within each paradigm	Experimental/ Manipulative; verification of hypotheses; chiefly quantitative methods such as experiments/ surveys.	Depends on a researcher being a 'passionate participant' in research process; consensus; dialogues. Principally qualitative.	Depends on the interpretative ability of the researcher who is a 'transformative intellectual'; focus groups. Principally qualitative.	Depends on triangulating several perceptions of reality to capture a better picture of phenomenon. Modified experimental/ manipulative; case studies/ convergent interviewing. Principally quantitative, but may include qualitative techniques.

*Source: based on O'Leary (2001).*

### 3.2.1 Justification of the paradigm

With an awareness of the various paradigms, consideration was given to which of them was appropriate to address the research problem.

The **positivism paradigm** stated that reality was real and apprehensible. Accordingly the governance features of CSOs could have been identified and quantified. However, this would have only provided a snapshot of the issue. A survey or similar did not allow various nuances to be explored, especially in view

of the small population and those operating in different spheres of activity. This paradigm also did not provide a mechanism for drawing out any subtleties that may have existed within organisations. In addition there was a dilemma with regard to the need for there to be some separation or distance between the researcher and the organisations (n = 276) subject to this research. The researcher was confident that there would be an insufficient response rate to a survey of the population. This was principally due to the researcher's employment as CEO of the largest organisation within the population. Furthermore the researcher's employing organisation was perceived to be predatory to the extent that it was said to be on the look out for organisations it can take over. With these difficulties in mind the second paradigm was examined.

The [constructivism paradigm](#) stated that there were many realities constructed in the perceptions of individuals. Adoption of this paradigm would have required the researcher to work within an organisation to ascertain what governance features had been adopted and then to develop a level of interaction with board and management regarding how those features were put into practice. This would provide a significant insight into one organisation, but not others. The breadth of community service sector activity was considerable, as was the variety of organisations in terms of their size. A broader perspective was required to address the topic given the context outlined previously (see section 1.1). Again, the researcher's existing involvement within the sector was problematic in establishing how to become a "passionate participant" in another organisation that would not be to the detriment of the researcher's employer. That is to say nothing of the difficulties in recruiting a willing organisation. This led to a consideration of the third paradigm.

The [critical theory paradigm](#) stated that there were social realities that were structurally created over time. Methodologies within this paradigm would necessitate facilitation of various groups. These groups would be used to ascertain what structures had been put in place to respond to any corporate governance features that organisations may have adopted. This may have been possible to undertake, but would have depended on sufficient organisations being

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willing to participate to generate useful data from the groups. This was especially problematic given the competitive nature of the sector. The type of group work envisaged required voluntary frank participation to ensure sufficient information was revealed about the topic under consideration. Although there were various partnerships at work across the sector (Agency Sector Forum 2001) there was very limited trust and no disclosure of detail about governance of organisations.

Finally the **realism paradigm** stated there was an external reality that may be true, but it needed to be apprehended by triangulation. A research methodology within this paradigm would have to be realistic about the likely level of comprehension of the research problem. By implication a range of perspectives would also have to be obtained about the research problem. Within this paradigm it would be possible to undertake a multiple case study approach with a range of data collection techniques including interviews and secondary source analysis.

This section has outlined how it may have been possible for the research to be undertaken using any of the four paradigms depending upon the level of detail and degree of information required. However, this research sought a high degree of information and from a range of sources. It was also made clear that due to the researcher's involvement in the Tasmanian CSO sector the choice was limited. A researcher without the same level of involvement and from a different employer would have been able to consider use of an alternative paradigm. So the realism paradigm has been adopted to provide the world view in which the data is to be collected.

### **3.3 Justification of the methodology**

In the previous section the concept of paradigm was explored and its application to the research problem (section 1.2) was discussed. It was determined that given the researcher's role in the sector the realism paradigm was the most appropriate. As we came to further explore the question of methodology it was noted that the methodology used to undertake any research was reflective of the paradigm adopted by the researcher (Zikmund 2000). Examples of methodologies and their paradigms were mentioned in Table 3.1 but a summary is extracted below in Table 3.2.

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Table 3.2. Paradigms and examples of methodology

<i>Paradigm</i>	<i>Examples of methodology</i>
positivism	survey
constructivism	action research
critical theory	focus groups
realism	case study

*Source: developed for this research.*

Given the comments made it would be possible to simply adopt the case study methodology as it fits the paradigm. However, before taking that step consideration needed to be given to what methods were available and their appropriateness in addressing the research problem. Yin (1994, p.3) suggested that there were five main research methods or as he called them ‘strategies: experiment, survey, archival analysis, history and case study.’ A choice was made among the five on the basis of an assessment of the research problem in relation to three conditions.

The first condition that was used to distinguish between the various methods was the type of research question posed (Yin 1994, p.4). Each method was only able to answer certain types of questions and Yin (1994, p.5) categorised the questions as those that ask “who,” “what,” “where,” “how” and “why”. The “who,” “what” and “where” questions were answered using a survey or archival analysis, whereas the “how” and “why” questions were answered using an experiment, history or case study. The research problem outlined in section 1.2 was fundamentally a “how” question.

The second condition used to differentiate between methods was whether the research problem required the researcher to have ‘control over and access to actual behavioural events’ (Yin 1994, p.8). The experiment was the only method that gave this control. Such control was not necessary to address the research problem as there was no intention to have that level of engagement with the CSOs that were the target population.

The final condition was the 'degree of focus on contemporary as opposed to historical event' (Yin 1994, p.8). Apart from history, and perhaps archival analysis all of the other methods responded to current events. The research problem was about what CSOs were doing now and so a history study was inappropriate.

**Table 3.3. Relevant situations for different research strategies**

Strategy	Form of research question	Requires control over behavioural events?	Focuses on contemporary events?
experiment	how, why	yes	yes
survey	who, what, where, how many, how much	no	yes
archival analysis	who, what, where, how many, how much	no	yes/no
history	how, why	no	no
case study	how, why	no	yes

Source: Yin (1994, p.6).

Table 3.3 graphically represents how the conditions and methods (strategy) line up. In responding to the three conditions it was evident that of the five main research methods the case study could satisfactorily be used to undertake research into the problem named previously. According to Jensen and Rodgers (2001, p.235) case studies 'contain golden nuggets that await discovery'. With the identification of the realism paradigm and the case study research methodology the following section outlines the case study methodology in further detail and how it was applied to the research problem.

### 3.4 Justification of the case study methodology

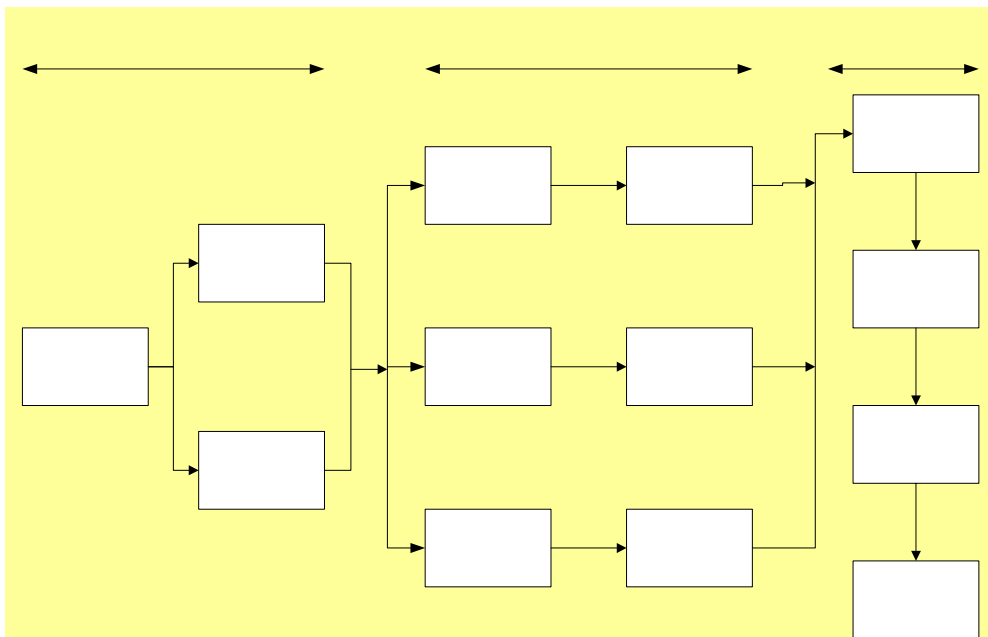
This section provides information about the case study methodology. The case study methodology is appropriate in circumstances where descriptive or explanatory information was required about a contemporary research problem and did not involve activities in which the researcher was involved (Yin 1994, p.9). According to Perry (1998b, p.786) the case study methodology also



included 'some prior theory' in the design stage. Another component of the case study method was that it 'relies on multiple sources of evidence' (Yin 1994, p.13).

Yin (1994, p.49) described the case study method as having three phases. The first was where the theory that informs the research project was developed through a process of definition and design. The second phase was where data was collected from a number of case studies using a variety of tools and reports were prepared on each study. The third phase was where the data that had been collected went through cross-case analysis and conclusions in relation to theory and policy were reported upon. The various phases of the method are graphically outlined in Figure 3.2. As the figure shows there is a relationship between the three phases from the initial theory development through to the final report. The procedures that inform the various tools and steps within the phases are covered in the remainder of this chapter.

Figure 3.2. **Case study method**



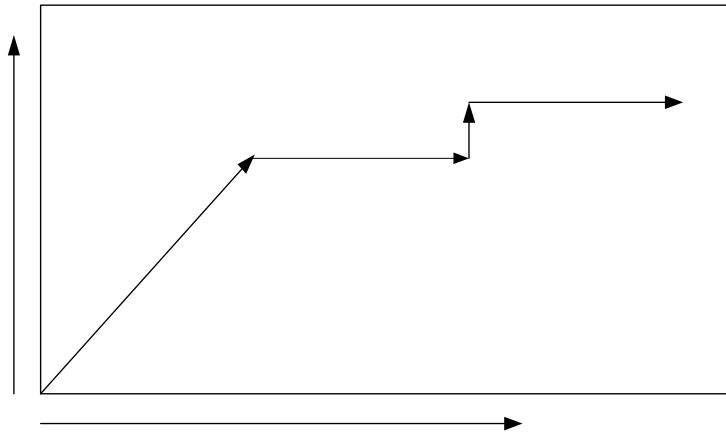
Source: Yin (1994, p.49).

With this overview of the case study method in mind it is contended that it can be utilised to undertake research into the problem detailed in section 1.2. There was

a significant amount of literature available to inform the research design as can be seen in the previous chapter. This led to the identification of a list of corporate governance features and practices that were considered best practice for CSOs and are shown in Table 2.5. This list was verified with a range of stakeholder groups and then used to inform the data collection activities in case organisations. It has been possible to ensure that there were sufficient organisations which were willing to participate in the research. They were prepared to disclose information that will provide the data to describe what they were currently doing. The data collection activity took place without a high degree of involvement from the researcher in the organisation. The data was collected from a range of sources including interviews and document review.

The challenge that was presented to the researcher at the beginning of the thesis was how much prior theory is appropriate for various types of research. According to Perry (2001, p.308 also see Edwards 1998, p.40) the amount of prior theory can be represented in three stages and is diagrammatically shown in Figure 3.3. The first stage uses a small number of exploratory interviews and a limited literature review to build a theory. In the second stage more interviews are conducted and a greater exposure to the literature has been undertaken. This leads to the capacity to have a particular theory confirmed or disconfirmed. It is at this stage where case research is most useful. The third stage is about testing theory and usually involves use of a research method such as a survey.

Figure 3.3. Relevant situations for different research strategies



Source: Perry 2001, p.308.

This understanding of prior theory was applied to this research in the following way. Exploratory interviews with stakeholders were undertaken to ascertain how best practice in the area of corporate governance was being defined by them. This took place after the literature review where a preliminary list of features and practices had been identified as best practice. This was in response to sub-problem 1: “To analyse what constitutes best practice in the area of corporate governance for selected CSOs funded by the Tasmanian DHHS.” The outcome of this work, that is the literature review and stakeholder interviews, was the provision of a normative set of best practice guiding features and practices for corporate governance within CSOs funded by the Tasmanian DHHS.

Level of prior  
theory used  
in data  
collection  
and analysis

Following this step interviews and document analysis of case organisations took place to see what corporate governance features and practices organisations had adopted. This was done in the light of the literature review and interviews with stakeholder organisations. This was in response to Sub-problem 2: “To discover what corporate governance principles and practices have been adopted by selected CSOs funded by the Tasmanian DHHS.”

The response from these two steps enabled a comparison (sub-problem 3 “To compare the analysis and discovery to see what is revealed”) to take place which served to provide information about the extent to which best practice had been adopted in case organisations. This was in response to the overall research problem: “To discover what is defined as best practice in the area of corporate governance for community service organisations, funded by the Tasmanian Department of Health and Human Services and if organisations have adopted best practice.” In terms of Figure 3.3 the use of theory in this way positions this case study research in the middle of the theory confirmation/disconfirmation stage. It was expected that there would be a gap between what was identified as normative in the literature and stakeholder interviews and what case organisations had adopted.

With this preliminary information in mind about the case study methodology the following sections detail how the methodology was to be applied to this specific research problem. As part of that process it was important to ensure that the quality of the research was the best possible and in particular that issues related to quality were addressed (Edwards 1998, p.48).

#### **3.4.1 Quality**

This subsection addresses the essential issue of ensuring that the research is undertaken at an appropriate level of quality. There were four tests (Yin 1994) used to establish the quality of research and these are summarised in Table 3.4.

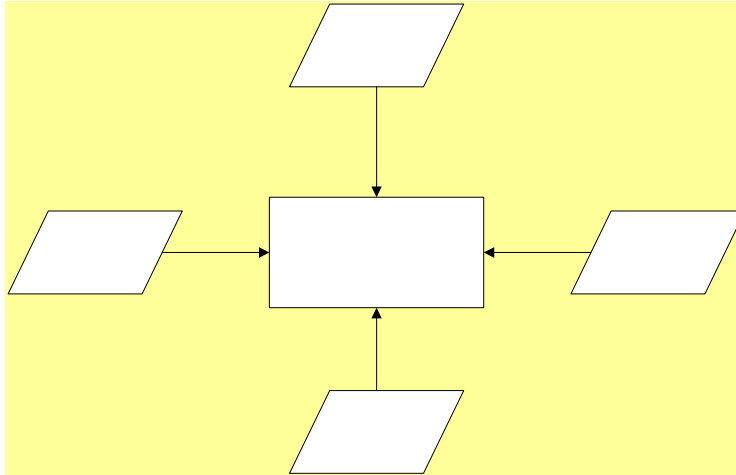
Table 3.4. Four tests for quality research

Tests	Descriptions
Construct validity	Establishing correct operational measures for the concepts being studied.
Internal validity (for explanatory or causal studies only, and not for descriptive or exploratory studies)	Establishing a causal relationship, whereby certain conditions are shown to lead to other conditions, as distinguished from spurious relationships.
External validity	Establishing the domain to which a study's findings can be generalised.
Reliability	Demonstrating that the operations of a study - such as the data collection procedures can be repeated, with the same results.

*Source: developed for this research from Yin (1994, p.33).*

The first, **construct validity**, 'refers to the formation of suitable operational measures for the concepts being investigated' (Perry 2001, p.318). The most important step was to ensure that this occurred in the exploratory stage where effort was applied to refining the concept that was the subject of the research. Perry (2001, p.318-9) described this as 'the use of prior theory before and during the exploratory interviews, that is, checking and cross-checking ideas with previous researchers in the literature, helps to keep a researcher on the track as far as construct validity is concerned.' In this research the intention was to undertake an exploratory interview with an organisation to validate the interview schedule and provide a reflection as to what prior theory had emerged from the literature. Interviews were also undertaken with stakeholder organisations to verify the list of best practice features and practices.

Another tool that can positively impact upon construct validity is **triangulation**. Triangulation is the use of multiple sources to develop various perspectives of the research problem (Leedy & Ormrod 2001, p.105). It was proposed to do this in two ways. The first was the use of various data collection tools which are outlined in Figure 3.4.

Figure 3.4. **Data triangulation**

*Source: developed for this research.*

The first data collection tool to be utilised was the interviews of chairs of the boards of management and CEOs of the case organisations. At their core these interviews had some focus questions (see section 3.4.5 and Appendix H) that enabled a broad conversation to take place on the research problem without being too directional. The interviews concluded with a series of Likert-scaled questions (see section 3.4.5 and Appendix H). Responses to these questions provided a further source of data for analysis. The final data source was an examination of documents. Information from the annual reports and minutes of case organisations were collected into the case study database (see section 3.4.6). This information was then available for later analysis.

The other form of triangulation that was used was investigator or researcher focused triangulation (Patton 1990, p.197). This was where some of the research was undertaken by another researcher or a second researcher was present and taking notes during an interview undertaken by the principal researcher. This assistant had experience in conducting interviews and research writing. A detailed case study protocol (see section 3.6) provided the information necessary for the research assistant to undertake interviews. The interview outcomes were written up by the assistant researcher, but the analysis was completed by the principal researcher.

**focused  
Interviews**

The case study reports for individual organisations that were developed from this data and researcher triangulation were provided to research participants in case organisations. They were asked to review the report and provide comment. This added a further level of accountability and a measure of construct validity.

The second quality measure was [internal validity](#). This was concerned with ensuring there was demonstrable support for any 'cause and effect relationships' that were identified in the research (Perry 2001, p.320). Such relationships were only identified where there was support from the prior theory, interview responses and review of documents. However, these relationships were not sought in this research so this measure was not utilised.

The next quality measure, [external validity](#), was also redundant when it came to this research. This tool ensures that it was possible to generalise the research findings beyond the specific case organisations to all organisations (Perry 2001, p.319). Case studies only provide results that are 'generalisable to theoretical propositions and not to populations or universes' (Yin 1994, p.10). Accordingly it was not used in this research.

The final quality measure was [reliability](#) which seeks to ensure that any errors or bias were minimised (Yin 1994). It also referred to how 'consistently a technique measures concepts so that other researchers will get the same results' (Perry 2001, p.320). There were three tools that were used to achieve reliability within the research. The first was the development of a case study protocol (Yin 1994, p.63) as outlined in section 3.6. This protocol set out the structure being followed, prior theory, interview schedule, procedures for case selection and the approach taken in regard to data analysis. This protocol was a ready reference guide and was available for frequent use whilst the research was being undertaken.

The second reliability tool was the development of a case study data base (see section 3.4.3). This data base captured information derived from examination of documents, such as minute books and annual reports, in case organisations. The information contained in the data base enabled the findings to be supported

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by quotations and other references (Perry 2001, p.321). The data base is available to future researchers and others who want to verify the material contained in the thesis.

The final reliability tool was what Yin (1994, p.33) refers to as 'collaboration.' In this research it took two forms. The first was with the research assistant who, as mentioned above, assisted with the interviews. They were also available as a sounding board during the data analysis (Perry 2001, p.320). The second form of collaboration was drawing in a couple of additional people and establishing a steering committee. This committee met once the data collection activity began and monitored the research including overseeing procedures. For this research the steering committee comprised a representative of the DHHS, a TasCOSS staff member, the research assistant and the researcher. Each of these people provided 'some objectivity' to the research (Perry 2001, p.320).

This section has outlined how the quality of the case study methodology was maintained. Two of the four research tests were applied in specific ways during the research. A summary of the tests and the above application to this research is provided in Table 3.5.

**Table 3.5 Case study quality tests and tactics**

<b>Tests</b>	<b>Case study tactics</b>	<b>Phase of research in which tactic occurs</b>
Construct validity	Exploratory interview	Data collection
	Use multiple sources of evidence (data & researcher triangulation)	Data collection
	Establish sources of evidence	Data collection
	Have participants review draft case study report	Report writing
Reliability	Use case study protocol	Data collection
	Develop case study data base	Data collection
	Collaboration (research assistant, steering committee)	All

*Source: developed for this research based on Yin (1994, p.33).*



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### 3.4.2 Criteria for case selection and their number

The previous section addressed the important area of quality for the case study methodology. We now move to a closer consideration of the application of the methodology and specifically case selection. This section outlines the criteria used to make case selection and how the number of case organisations was arrived at. We start with a consideration of the number of case and stakeholder organisations.

#### 3.4.2.1 Number of cases

There was no consensus in the literature how many cases were required. It was evident that there should be a number so that cross-case analysis could occur (Patton 1990, p.184). However, the number ranged from a minimum of two to a maximum of fifteen. In the absence of an exact number the focus was on having enough cases to provide 'theoretical saturation' or enough to get 'to the point of redundancy' (Perry 1998b, p.787). This view did not appreciate the tensions that arose from limited resources of time and money to undertake the research. (There are 276 organisations that are within the defined population, that is, CSOs funded by the DHHS and incorporated under the Tasmanian Associations Incorporation Act.) Instead of establishing a set number in this research it was decided to agree that there was a preferred range, but that the final number would be decided upon via the case selection criteria. This followed the lead of Patton (1990, p.185) with a quest for organisations that could provide 'information-richness.' It was done within the range that the literature enumerates.

#### 3.4.2.2 Selection of case organisations

In light of the above comments about the number of case organisations the next important issue was the case selection criteria. The key to selecting case organisations was replication logic.

Each case must be carefully selected so that it either  
(a) predicts similar results (a literal replication) or  
(b) produces contrasting results, but for predictable reasons (a theoretical replication) (Yin 1994, p.46).

In the review of the literature contained in chapter two there were limited references to what factors may impact upon CSOs in the implementation of their corporate governance regime. Accordingly it was necessary to apply a method of case selection that was not based on representativeness or random sampling, but was more purposeful (Perry 1998b, p.787).

There are a variety of methods that can be used to establish criteria for case selection. It was important to identify which method was being used as some were less appropriate than others in ensuring the purposes of the research were met. For example, convenience sampling was about doing what is expedient. The temptation to adopt this approach was real given the comments made above about resource limitations and the researcher's connections to the sector. Lack of money and time combined with ease of access to certain CSOs, to which the researcher was already linked made a convenience sample attractive. However, Patton (1990, p.181) was clear that this 'is neither purposeful nor strategic.'

The emphasis on purposeful and strategic was a helpful one and Patton (1990) outlined fourteen methods that satisfied this emphasis and led to the identification of information rich cases. The one that was adopted in this research is maximum variation sampling as it 'is the most appropriate for our analytical and general purposes' (Perry 1998b, p.787). The essential component of maximum variation sampling is, as its name suggests, the selection of cases that are different from each other. The aim was to collect information about the research problem across a variety of cases and then to see if there were any insights to be learnt from cross case analysis using the replication logic referred to earlier.

The target population for this research, CSOs that are associations and DHHS funded, is relatively large and so it was possible to draw distinctions between CSOs in a number of areas. The three areas that were targeted for the purposes of this study were income, religious-base and sphere of activity. These three categories were common reference points within the Third Sector and they could be used to categorise CSOs.

This categorisation needed further refinement as the numbers within groups were still too large. Approaches were then made to CSOs within the categories using a population list provided by the DHHS. During this process some organisations were excluded as there was a potential conflict of interest with the information being released to the researcher given the researcher's employer. Some organisations excluded themselves as they were not interested in the research. There was a third group of organisations that were not included. This was due to confidentiality requirements given their funding negotiations with the DHHS and their current state as an organisation. These exclusions reflected the application of a 'politically important cases' method whereby some cases were included (or excluded) due to the sensitivities of the case (Patton 1990, p.180).

Despite these exclusions the dominant criterion for case selection was maximum variation sampling. The first category of variation was the level of *income* of an organisation. This provided an insight about the organisation's level of activity and there was, within the target population, a link between income and the number of staff employed. Income included funds received from the DHHS, fundraising, trading activities and other sources. A ceiling was placed at \$1M pa to enable a distinction to take place. In this research two case organisations had an income level exceeding \$1M pa.

The second category was of an entirely different nature. *Religious-based* CSOs have distinctive characteristics as discussed in section 2.4.6. Religious-based organisations are defined in section 1.6. The extent to which these arrangements, ties and commitments impact upon organisations varies, but it was useful to use such features to distinguish religious-based organisations from others. In this research three case organisations were religious-based.

The final area of variation used to categorise CSOs was the *sphere of activity* in which they provided services. In section 2.3.1 a comprehensive list of CSO activity was provided that indicated the variety that exists. However, it also showed that there were spheres of activities that could be grouped together. Given the range of activities that is present within the population each of the chosen case organisations operated in different spheres.

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Table 3.6. Variation in case organisations

Organisation	Funded by DHHS	Incorporated association	Income exceeding \$1M	Religious-based organisation	Sphere of activity
A	X	X	--	X	Accommodation Support
B	X	X	X	--	Personal support
C	X	X	--	--	Advocacy
D	X	X	X	--	Disability
E	X	X	X	X	Large range of services
F	X	X	--	X	Family support

*Source: developed for this research.*

Table 3.6 shows that six case organisations were selected. They have not been named as confidentiality was promised to interviewees and their organisation. The variation between the organisations has been mentioned and is shown in Table 3.6. The six case organisations were able to provide the data that was required for this research. The data collection covered interviews and a significant review of documents. The analysis of the data, was outlined in section 3.5 was based on the replication logic that lay behind the selection of the case organisations.

#### 3.4.2.3 Selection of stakeholder organisations

The other organisations that were to be interviewed were the stakeholders. Wiseman and Warburton (2002, p.66) referred to the legitimate role that stakeholders had in relation to the governance practices of organisations (see also Balser & McClusky 2005; Donaldson & Preston 1995). As discussed in section 2.5 these interviews were to verify a normative list of best practice features and practices for corporate governance. This list of features and practices was developed from the literature review (see section 2.4.4 and Table 2.5). It showed that the literature review identified limited Australian resources in this area of corporate governance for Third Sector organisations and certainly none had a Tasmanian focus. Accordingly it was important that what was found

in the literature was verified as appropriate in the Tasmanian context. This was important given that the Tasmanian Department which is the major provider of funds for CSOs in Tasmania has specific governance requirements. Also the Tasmanian Associations Incorporation Act imposed certain obligations upon organisations. So it was that the “Tasmanianisation” of the normative list of best practice features and practices for corporate governance was undertaken.

The stakeholder organisations were divided into three types related to funding, legislation and consumers. The most significant stakeholder organisation was the [Grants, Contracts and Purchasing Branch](#) within the DHHS, as it provides the majority of funding for CSOs. This Branch has responsibility for the administration of grant monies to CSOs. This includes monitoring organisational performance in terms of the service agreements that organisations sign. Staff members in this Branch were best placed to provide an insight into what the Department considered important in the area of corporate governance.

The other government stakeholder organisation was the [Business Affairs Office](#) within the Office of Consumer Affairs and Fair Trading which is a division of the Tasmanian Department of Justice and Industrial Relations. The Business Affairs Office has the responsibility for overseeing the Associations Incorporation Act. This includes receiving the annual report of associations and the recording of any changes associations make to their rules of association. It also has a role to play when an association is formed and wound up. To the extent to which the legislation imposes specific corporate governance requirements on organisations will be known by Business Affairs. In addition, the manager of this office was able to provide information about what developments, if any, related to corporate governance could be expected from any review of the legislation.

The third stakeholder group was that which could be said to [represent consumers](#) of services provided by CSOs. Three organisations had to be consulted as there was no consumer advocacy organisation in Tasmania. The first organisation was the Tasmanian Council of Social Services Inc. (TasCOSS) which is the peak body that represents the concerns of low income Tasmanians as well as exercising a development role for CSOs. It has a membership of almost 100

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organisations and individuals. Another peak organisation that was consulted was the Youth Network of Tasmania Inc. (YNOT). Its membership is CSOs that provide services to young people and it considers its client group as all young people in Tasmania. The final stakeholder organisation was Advocacy Tasmania Inc. It is an independent, non-government organisation that provides advocacy services to older people and people with disabilities. Each of these three consumer stakeholder organisations were themselves incorporated associations and two were funded by the DHHS.

Information about the stakeholder organisations, their web sites and the position and the contact person of each is shown in Table 3.7. The name has been deleted as it is unnecessary to publish although the information is available on the websites. The interviewee in each organisation was the person in charge of the organisation and this meant in some situations the person who was acting in the position was interviewed. This was necessary given various absences for leave.

**Table 3.7. Stakeholder organisations**

<b>Organisations</b>	<b>Web sites</b>	<b>Positions</b>
Grants, Contracts and Purchasing Branch within DHHS	<a href="http://www.dhhs.tas.gov.au/partnerships/doingbusinesswithdhhs/">www.dhhs.tas.gov.au /partnerships/doingbusinesswithdhhs/</a>	Manager
Business Affairs within the Office of Consumer Affairs and Fair Trading	<a href="http://www.justice.tas.gov.au/breg/index.htm">www.justice.tas.gov.au /breg/index.htm</a>	Manager
Tasmanian Council of Social Service Inc. (TasCOSS)	<a href="http://www.tascoss.org.au">www.tascoss.org.au</a>	Policy Officer
Youth Network of Tasmania Inc. (YNOT)	<a href="http://www.ynot.org.au">www.ynot.org.au</a>	Executive Director
Advocacy Tasmania Inc.	<a href="http://www.advocacytasmania.com.au">www.advocacytasmania.com.au</a>	Manager

*Source: developed for this research.*

There were two difficulties in approaching stakeholder organisations. The first was that within the organisations and interviewees there was a variety of knowledge and interest in the area of corporate governance. Indeed in some organisations the person interviewed had a rudimentary knowledge of the area.

This was especially true for those whose exposure to corporate governance was limited to an observer's standpoint and with no actual involvement in the area. The particular dilemma facing two of the consumer organisations was that they were DHHS funded associations and may 'exhibit many of the same problems and issues' as case organisations (Wiseman & Warburton 2002, p.66). However it was envisaged that given the prevalence of concerns, as outlined in section 1.3, at least some knowledge could reasonably be assumed. The following chapter details information about the data received.

The second difficulty was what to do when interviewees fundamentally disagreed with the list of best practice corporate governance features and practices as derived from the literature review. To ensure that the list could be described as normative for the Tasmanian context if any interviewee requested either an addition or deletion to the list then this would need consideration by all the stakeholder interviewees. This was to be accomplished by a further round of interviews, or at least telephone contact. When a consensus could not be reached after the follow up contact then the majority view prevailed. Details about what transpired in the data collection are contained in chapter four.

#### **3.4.2.4 Summary**

This section has provided information about the criteria used to determine case selection. The case organisations were selected using replication logic. To assist the selection process maximum variation sampling was utilised. A de-identified list of case organisations was shown that demonstrated the range of organisations. The case organisation interviews, together with documentation review, provided sufficient data for analysis. In addition to this data collection interviews were conducted with five stakeholder organisations.

#### **3.4.3 Case study procedures**

To this point in the chapter the case study methodology has been justified and quality issues addressed. The basis on which case organisations were selected has also been outlined. This raised some practical matters about the research procedures. These practicalities can be divided into four topics and are in the following sections:

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3.4.4 protocol

3.4.5 interview instrument

3.4.6 document review

3.4.7 pilot

#### **3.4.4 Case study protocol**

The first practical topic was the case study protocol. This was similar to a manual of work instructions. It was a tool that was used during the research and not left on the shelf. The protocol document provided an overview of the research, the case study method, the procedures to be followed, what data collection tools were to be used and information about how the data was to be analysed. The protocol for the research has been re-produced as Appendix F. The protocol in the appendix has been altered from that used in the research with the removal of any information that may lead to the identification of case organisations. This includes the notes made by the researcher and research assistant that resulted from the initial contact with representatives of case organisations. A list of the areas covered in the protocol is outlined in Figure 3.5.



Figure 3.5. Case study protocol - list of contents

<b>Case study protocol</b>	
<b>List of contents</b>	
<b>1. Purpose</b>	Research problem Sub-problem 1 Sub-problem 2
<b>2. Key features of the case study method</b>	
<b>3. Procedures</b>	A. Review of preliminary information B. Persons to be interviewed Table - Stakeholders Table - Case organisations C. Training for research assistant D. Case study database
<b>4. Data collection</b>	A. Interview questions B. Documentation review i. Stakeholders ii. Case organisations
<b>5. Data analysis</b>	A. Stakeholders B. Individual case studies i. Description ii. Report C. Cross-case
<b>6. References</b>	

*Source: developed for this research.*

The protocol served a two-fold purpose. The first was that it gave to the researcher and research assistant clear direction about the research and the method of data collection. The background information about the research it contained was especially important to the research assistant who was not as familiar with the literature. This was also true of the case study procedures which were defined to ensure that those who made use of the protocol followed the procedures that were used by the researcher.

The second purpose of the protocol was to improve the reliability of the research. The issue of reliability is referred to above in section 3.4.1 and was a criteria used to establish the quality of the research. The protocol increased the likelihood that the procedures for the research were followed by those undertaking it. It was important that in the midst of the data collection activity there was a ready reference guide to what the research was about, how it was to happen and how the data was to be analysed. The protocol also contained information that

another researcher could use to replicate this case study research if they were required to do so.

The core component of the protocol was the schedules of interview questions. The approach taken to the interviews are detailed in the following section.

#### **3.4.5 Case study interview instrument**

The key data collection tool for this research has been interviews. This was in line with Yin's (1994, p.84) view that interviews are a vital source of case study data. Two sets of interviews were undertaken, the first in stakeholder organisations and the second in case organisations.

There were three parts to the interviews: open-ended questions, focus questions and a list of questions requiring brief answers.

Open-ended questions were the usual beginning point and allowed the interviewee to provide their insights (Yin 1994, p.84). The interviews were commenced with the following questions. For case organisations the question was: "What is your organisation's story about corporate governance?" In stakeholder organisations the interview was opened with: "What is your story in relation to the corporate governance of CSOs?" These questions allowed interviewees to express their views without any influence from the researcher (Perry 1998b, p.787).

The second part of the interview was the asking of focus or probe questions. These questions were developed to ensure that the interviewee covered all the areas raised in the prior theory (Yin 1994, p.85). In the stakeholder organisations this enabled a response to the matters raised in the literature review. For case organisations it provided an opportunity for an indication against the normative list of governance features and practices. It was not necessary to ask all the questions in each interview as many of the areas were covered in the open-ended question that started the interview (Perry 1998b).

The interviews concluded with a short list of questions. For stakeholders the questions consisted of yes/no responses and for case organisations Likert-scaled questions. These final questions summarised the interviewees overall perception of the issues raised and provided useful data for analysis (Perry 1998b, p.787).

#### 3.4.5.1 Stakeholder organisations

The first set of interviews related to sub-problem 1: “To analyse what constitutes best practice in the area of corporate governance for selected CSOs funded by the Tasmanian DHHS.” As mentioned above the review of the literature led to the identification of a normative list of best practice guiding features for CSO corporate governance - see section 2.5. Interviews were conducted with key stakeholder organisations to seek verification of this normative list as best practice for CSOs. See section 3.4.2.3 for the selection of stakeholder organisations. The composition of the stakeholder group is shown in Table 3.7 and the schedule of interviews is shown in Table 3.8. Arrangements for the interviews were made through the person responsible for each organisation. Initially there was a telephone call from the researcher giving a brief outline and this was followed up with an introductory letter to the interviewee.

An interview schedule can be found in Appendix G. An open-ended question was followed by some focus questions to ensure the full range of issues was covered. Then a brief list of yes/no questions was asked to summarise the perspective of the interviewee in each of the major areas.

Table 3.8. **Schedule of stakeholder interviews**

Organisation	Position	Interviewer	Location	Date
Grants, Contracts and Purchasing Branch within DHHS	Manager	Researcher	At organisation	01/12/03
Business Affairs within the Office of Consumer Affairs and Fair Trading	Manager	Researcher	At organisation	26/02/04
Tasmanian Council of Social Service Inc. (TasCOSS)	Policy Officer	Researcher	At organisation	01/12/03
Youth Network of Tasmania Inc. (YNOT)	Executive Director	Researcher	At organisation	12/12/03
Advocacy Tasmania Inc.	Manager	Researcher	At organisation	12/12/03

*Source: developed for this research.*

#### 3.4.5.2 Case organisation interviews

The next set of interviews related to sub-problem 2: “To discover what corporate governance principles & practices have been adopted by selected CSOs funded by the Tasmanian DHHS” was responded to by a second set of interviews. These were interviews of case organisations that had been selected using the criteria in section 3.4.2.2. In each organisation interviews were conducted with a board member, usually the chairperson, and the CEO. Additional interviews were sought with another board member and staff member. This ensured a broad range of responses from various parts of the organisation. It avoided the over-reliance on one key interviewee (Yin 1994, p.84).

The composition of the case organisations are shown in Table 3.6 and the schedule of case organisation interviews is shown in Table 3.9. An interview schedule can be found in Appendix H. An open-ended question was followed by some focus questions to ensure the full range of issues was covered. A brief list of Likert-scaled questions was asked to summarise the perspective of the interviewee in each of the major areas.

Table 3.9. Schedule of case interviews

Organisation	Position in organisation	Interviewer	Location	Date
A	Chair	Researcher	At organisation	10/03/04
	CEO	Researcher	At organisation	10/03/04
	Board member	Researcher	At organisation	10/03/04
B	Chair	Researcher	At home	13/04/04
	CEO	Researcher	At organisation	22/03/04
	Staff member	Researcher	At organisation	14/04/04
C	Chair	Researcher	At organisation	02/09/04
	CEO	Researcher	At organisation	30/07/04
	Board member	Research Assistant	At his/her office	04/03/05
D	Chair	Research Assistant	At his/her office	12/04/05
	CEO	Research Assistant	At organisation	10/03/05
E	Chair	Research Assistant	At organisation	11/04/05
	CEO	Research Assistant	At organisation	11/04/05
	Staff member	Research Assistant	At organisation	11/04/05
F	Chair	Research Assistant	At organisation	09/05/05
	CEO	Research Assistant	At organisation	09/05/05
	Board member	Research Assistant	At organisation	09/05/05

Source: developed for this research.

Before moving beyond this consideration of the primary data collection tool, interviews, there were some practical aspects that needed to be addressed. The first was that the interviews were taped and later transcribed. This occurred with the permission of interviewees and assisted with the triangulation of data (Perry 1998b, p.788). In addition to the taping the interviewer took notes during the interview. The interviewee was guaranteed confidentiality and nothing was used from the interviews that will allow the interviewee or their organisation to be identified. Procedures have been put in place to secure notes, tapes and transcripts of interviews and they will be destroyed five years after the completion of the thesis. The informed consent form - see Appendix J - gives assurances to the interviewee in this regard. The other assurance given to the interviewee was that any quotes from the interview would be verified with them before inclusion in any publication. This also added to the quality of the research (Yin 1994, p.144).

It was also important that the probe questions in the interview schedule functioned as a guide. Further questions were asked when the answer was

unclear or confusing. On some occasions the wording of questions was changed to reflect the terminology being used by the interviewee or if the question was not understood (Dick 1998).

#### **3.4.6 Document review**

Interviews, as outlined in the previous section, were a valuable source of data for this research. However there was another source of data, documents, which also provided useful information. The use of this multiple data source approach was a quality measure as outlined in section 3.4.1. This was especially important when interviews were a data source, as corroboration was important to overcome any 'bias, poor recall, and poor or inaccurate articulation' (Yin 1994, p.85).

The document review for stakeholder organisations was focussed on their area of specialty. The DHHS had a standard service agreement that formed the basis of its relationship with CSOs. The agreement provided the framework for the funding relationship. There were policy documents that addressed the area that were revealed during the interview and these were reviewed. The essential document to be reviewed for the Business Affairs office as the Associations Incorporation Act referred to above. Related to this Act were the model rules contained in regulations. During the interview other documents were mentioned that were reviewed when they were made available.

The document review for consumer organisations focussed upon documents referred to in the interviews.

The essential document in each case organisation to be reviewed was the Rules of Association. (A check was made to ensure that the copy provided matched that filed with Business Affairs.) The other document reviewed were the Policies and Procedures Manual or similar (for example board member induction package). In addition the organisation's Annual Report was reviewed to determine whether or not it provided insight into governance practices. It would have been desirable to review board of management meeting minutes but this was not possible because of issues of confidentiality. One of the results of the document review was to provide the evidence for the "List of corporate

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governance features and practices that organisations have in place” that was completed for each case organisation - see Appendix I.

The key feature of the document review was that it was a ‘systematic search’ (Yin 1994, p.81). This was to ensure that the most was made of the review to provide data triangulation. As part of the systematic approach a case study base was maintained. This tool ensured that information could be retrieved where necessary. The key purpose of the data base was to capture sufficient detail to enable ready reference for all data that was collected. The data base was not included in this thesis but is accessible if requested. An extensive coded file system is held by the researcher. The data base fields include an identification number, the name of the organisation (coded), followed by the type, location and source of data as shown in Table 3.10.

**Table 3.10 Data base fields and example**

<b>ID no.</b>	<b>Organisation name</b>	<b>Data type</b>	<b>Location of data</b>	<b>Source of data</b>
001	A	Interview notes, transcripts, annual reports, policy manual	Interview tape #, at organisation's office	Provided by organisation

*Source: developed for this research.*

However, there was a potential problem in the use of data derived from a review of documents. This arose from the fact that the documents were ‘written for a specific purpose or some specific audience other than those of the case study being done’ (Yin 1994, p.82). This required the researcher to be aware of the original context and ensure that any interpretation of the document was reflective of the context in which it was written.

A further consideration that the researcher was alert to was the extent to which documents reviewed from the same organisation provided information that was ‘contradictory or corroboratory’ between document sources as well as other data sources (Yin 1994, p.81).

### **3.4.7 Pilot case study**

The data collection tools mentioned in the previous two sections were refined by undertaking a pilot case study. The case study protocol reflected the lessons learnt. In terms of research quality it was necessary to ensure that the interview instrument and document review procedures were well designed (Yin 1994). Following the suggestion of Perry (1998b) the pilot case study was undertaken as the procedures were being finalised. Minor amendments were made to the case organisation interview instrument so that the focus questions were less directive than originally drafted. Also in the Likert-scaled questions a general question was added prior to the “specific features” questions. The open-ended question used to initiate the interview did not require amendment.

The pilot case study organisation was chosen because of its accessibility (location) for the researcher and the preparedness of the people from that organisation to participate in a pilot. According to Yin (1994, p.75) this selection of a pilot organisation on the basis of convenience was appropriate. The data from the pilot study has been included in the thesis as Organisation A - see section 4.3.1.

### **3.5 Case study analysis procedures**

The preceding sections have outlined data collection. The step following the collection of the data is analysis.

The collection of data from stakeholders was used to verify as normative the list of best practice guiding features for corporate governance in CSOs. The results from individual stakeholder organisations were outlined as were the results of cross-case comparison. This comparison was focussed upon identification of similarities and differences through pattern matching (Yin 1994, p.106). The outcome was that it was possible to determine “what constitutes best practice in the area of corporate governance for CSOs funded by the Tasmanian DHHS” (sub-problem 1).



The collection of data from case organisations has resulted in a case description for each organisation. This individual report contains information gained from the interviews and document review following the list of features and practices derived from the literature review and verified through stakeholder interviews. The report contains a comparison seeking to identify any incongruence between the various interviews as well as between interview results and the document review. Following the suggestion of Yin (1994, p.144 also Edwards 1998, p.49) a draft of the individual case organisation reports was reviewed by the interviewees.

The analysis then moved to focus upon cross-case analysis (Perry 1998b, p.788). Cross-case analysis means 'growing together answers from different people to common questions or analysing different perspectives on central issues' (Patton 1990, p.377). This analysis enabled the frequency of differences to be tabulated and examined (Yin 1994, p.103). To assist in this analysis there has been accurate coding of the interview transcripts and tabulated results of the Likert-scaled questions (Carson et al. 2001). The coding established the link between the data collected and the list derived from the literature review that was the prior theory. The outcome of this analysis was the discovery of what "corporate governance principles and practices have been adopted" (sub-problem 2). A distinctive contribution to the area of governance of Third Sector organisations was made as the analysis of the two sub-problems was compared and conclusions drawn.

Content analysis was used on the interview transcripts (Weber 1990). This analysis technique divided the text into distinct categories that were then coded (Kumar 1996, pp.210-11). Information for individual case organisation reports and cross-case analysis was drawn from the categorisations. Coding refers to the labels assigned to the word, phrases or paragraphs that allowed the researcher to differentiate and combine the interview data. It provided a mechanism that allowed the researcher to sort and organise the data collected into categories that creates ideas, themes or concepts (Carson et al. 2001). It also allowed the use of quotations from interviews that were used to 'justify conclusions about differences between cases in cross-case analysis' (Perry

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2001, p.316). The detailed analysis of the data collected is given in the following chapter.

This concludes the sections that have dealt with various procedures related to the case study. The chapter now appropriately moves to a consideration of the limitations of case study research.

### **3.6 Limitations of case study research and how they were handled**

The case study research method has been the subject of criticisms from scholars who believed that it was not an appropriate method for postgraduate research because of examples they identified of descriptive case studies that were said to be 'non rigorous' (Perry 2001, pp.303-4 also see Jensen & Rodgers 2001, p.248). The basis of the criticism may have been well founded for some case study research especially when procedures and protocols were not followed (Yin 1994). However, Perry (1998a, 1998b, 2001) argued forcibly that it was possible to develop a rigorous approach that attended to the criticism. It was this "Perry" approach that was adopted for this research together with the learning of Yin (1994). Evidence was found in the presentation of the various sections and the application of procedures and guidelines. In addition, to this overall criticism there were four specific limitations related to case study research that were referred to in the literature and have been attended to.

The first specific limitation was about the *literature review* and stated that in case study research there was usually only a 'token literature review' (Edwards 1998, p.49). In such projects the researcher would not have been fully aware of the current writings in the research area and it placed boundaries around the design of the research methodology. In this thesis a comprehensive literature review is contained in chapter two and was undertaken in consultation with the researcher's supervisor. In addition, contact was made with those who published in the area, albeit a small number, to ensure all current literature was included. The other way that the extent of the literature was tested was by the researcher presenting the literature review to the research reference group.

The second limitation was connected to the *quality of the research* and concerned validity (Edwards 1998, p.48; Jensen & Rodgers 2001, p.235). The approach to quality for this research was extensive and is outlined in section 3.4.1. Comprehensive structures have been put in place including measures to ensure construct validity including triangulation of both data and researcher.

The third limitation was about the *case selection method* because if not done properly it could have led to a 'distortion in the findings' (Patton 1990, p.181). The criteria for case selection in this research are outlined in section 3.4.2.2 for case organisations and section 3.4.2.3 for stakeholder organisations. The criteria addressed the concern and ensured that there were no dilemmas with the data due to case selection.

The final limitation regarding case study research was a concern that the *findings may be based on biased views or 'equivocal evidence'* (Yin 1994, p.9). To prevent this occurring the procedures for ensuring quality (section 3.4.1) and undertaking data analysis (section 3.5) were reflective of the approach recommended by Yin (1994).

Although there were some limitations with regard to case study research it was possible to address each of them. This ensured that this case study research was robust and sufficiently rigorous to enable the research problem to be tackled.

### **3.7 Ethical considerations**

The final area to be covered in this chapter relates to ethics. In carrying out any form of research formal consideration must be given to ethical issues that will, or may potentially, arise throughout the research. This is to ensure that the individuals and organisations that participate are protected from harm or adverse consequence that may result from the research activities (Patton 1990).

For this research the formal ethical evaluation process was initiated via an application to Southern Cross University's Human Research Ethics Committee. An application was made using the form "Proposed project involving research

with human participants.” In completing this form various questions were responded to and a risk management analysis was completed.

Two specific issues were addressed. The first issue was informed consent. Informed consent was obtained from participants using the form in Appendix J. Interviewees were allowed to withdraw from the research at any time and all information that they provided destroyed. The second issue was confidentiality and specific undertakings were given to interviewees to ensure confidentiality. Also procedures were put in place to ensure both the individual’s and organisation’s identity was not revealed. The procedures included the secure storage of data and the arrangements for its subsequent destruction. Permission for the research was given by the Ethics Committee and the approval number is ECN-03-134.

### **3.8 Conclusion**

This chapter has outlined the methodology adopted in this research. The various research paradigms were discussed and the realism paradigm was justified as being appropriate for the thesis. The case study methodology was then outlined including information that addressed issues of quality, case selection and data collection techniques. The procedures to be used in analysing data were delineated prior to details being provided about responses to the limitations of case study research. The chapter was concluded with consideration of the ethical issues arising from the research. The following chapter moves to describe what data was collected applying this methodology.

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## **Chapter 4**

### **Analysis of data**

#### **4.1 Introduction**

The previous chapter described, discussed and reviewed the methodology adopted to collect and analyse the data for this research. The case study methodology, with its descriptive capacity and the use of multiple sources of evidence, has been applied to address the research problem:

To discover what is defined as best practice in the area of corporate governance for community service organisations, funded by the Tasmanian Department of Health and Human Services, and if organisations have adopted best practice (see section 1.2).

The chapter is presented in five sections as graphically presented in Figure 4.1. The chapter commences with this introduction (section 4.1) and then provides a presentation of data collected from five stakeholder organisations and analysis regarding a normative list of best practice guiding features for CSO corporate governance (section 4.2). The number of case organisations has been limited to six, one of which was used as a pilot, and the data from these organisations is presented (section 4.3). This is followed by cross-case analysis (section 4.4) prior to the chapter being concluded (section 4.5).

Figure 4.1. **Outline of chapter 4**

4.1	Introduction
4.2	Stakeholder organisations
4.2.1	Funding provider
4.2.2	Regulator
4.2.3	Consumer organisations
4.2.3.1	TasCOSS
4.2.3.2	YNOT
4.2.3.3	Advocacy Tas.
4.2.4	Summary
4.3	Case organisations
4.3.1	Organisation A
4.3.2	Organisation B
4.3.3	Organisation C
4.3.4	Organisation D
4.3.5	Organisation E
4.3.6	Organisation F
4.4	Cross-case analysis
4.4.1	Features and practices
4.4.2	Self-assessment
4.4.3	Themes
4.5	Conclusion

*Source: developed for this research.*

## **4.2 Stakeholder organisations**

In the research framework outlined in Figure 2.14 sub-problem 1 was identified as:

To analyse what constitutes best practice in the area of corporate governance for CSOs funded by the Tasmanian DHHS.

To address this problem a normative list of best practice guiding features for CSO corporate governance was identified from the literature – see Table 2.5. The next step was to seek verification that these features were considered best practice in light of the delimitation of the scope for the research, that is CSOs funded by the Tasmanian DHHS – see section 1.7. This verification was undertaken by interviews with stakeholder organisations. The average length of time for the interviews was 45 minutes. The selection of these stakeholder organisations is discussed in section 3.4.2.3 as is the “Tasmanianisation” of the normative list.

Stakeholder organisations were divided into three types related to funding, regulation and consumers. The first organisation was the major provider of funding for CSOs in Tasmania which is the DHHS. The second stakeholder organisation was the State Government's Department of Justice and Industrial Relations that has regulatory oversight of the Associations Incorporation Act including various statutory functions. The final stakeholder group was consumers and these were represented by three organisations as there is no generic consumer organisation in Tasmania.

In relation to the topic of corporate governance, information follows that explains the stakeholder organisation's involvement with CSOs, its expectations, its responses to problems and its role in ensuring appropriate corporate governance. Most importantly each stakeholder was asked to comment upon the list of best practice guiding features derived from the literature – see Table 2.5. Data was collected via an interview with a person from each organisation (see Table 3.8) and a review of the documentation which they provided or to which they referred.

#### **4.2.1 Funding provider**

The first stakeholder organisation to be considered was the Tasmanian Government's Department of Health and Human Services (DHHS). This was appropriate given the interdependence of government and CSOs identified by Herman and Renz (2004) and discussed in section 2.3.1. The Grants, Contracts and Purchasing Branch within the DHHS has responsibility for the relationship between the Department and funded CSOs. This includes the administration of payments. The manager of this Branch was interviewed for this research at the suggestion of the Secretary of the DHHS. The manager was in a senior role within the DHHS and had significant experience and expertise in dealing with CSOs. He was familiar with the Tasmanian government's policy and direction and regularly attended meetings held between the Minister and CSOs in an advisory role. Any concerns or issues that the DHHS had regarding the governance of funded CSOs were dealt with by this manager and his Branch. Given that this Branch has a particular focus upon financial management it was not surprising that this financial lens influences the view taken by them in relation to corporate governance.

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It was claimed by the DHHS manager that the DHHS see that

*corporate governance ... has been a concern for some time ... very hard to know exactly what needs to be done.*

*(SO1 2003, pers. comm., 1 December)*

However, the Department has undertaken no research to ascertain what was happening in CSOs, but there had apparently been enough incidents for the DHHS to have concerns. An incident that the DHHS would have been aware of was the closure of the disability service provider Our Place Inc. and the resultant transfer of clients and redundancies of staff (*Health Services Union of Tasmania, Tasmania No.1 Branch v Our Place Inc. (2002) Tasmanian Industrial Commission T8934 of 2000.*) They would also have been aware of another incident where the Commissioner said that the board policy of a funded CSO was 'inconsistent with sensible management practice' (*Australian Municipal, Administrative, Clerical and Services Union v Migrant Resource Centre (Southern Tasmania) Inc. (2001) Tasmanian Industrial Commission T9406.*)

The nature of the concerns expressed by the DHHS was not referred to in detail, but the indication was that they related to a lack of proper oversight of the finances leading to questions about solvency (Laugher 2002). There were also doubts about the ability of some CSOs to meet their obligations under the Workplace Health and Safety Act. Furthermore there was discussion about an instance of failure by a CSO to plan future service provision with adequate staffing at a reasonable level of quality. A reason given for this failure was the limited corporate governance experience of the CSO's board members. There was an acknowledgement that additional resources were required to attend to the concerns, but there was no clarity as to where or how they should be applied to improve governance practices. It was also evident that the allocation of such additional resources was not a DHHS priority.

The corporate governance expectations of the DHHS were expressed

*within the body of the service agreement and the explanatory notes.*

*(SO1 2003, pers. comm., 1 December)*



This was a legal contract between individual CSOs and the DHHS. It contained a dispute resolution procedure and termination provisions that could be used by the DHHS as a mechanism to respond to governance issues that were raised regarding any CSO. Clause 2.7.1 of the standard service agreement (DHHS 2003) made it clear that CSOs ‘must comply with all relevant obligations that may arise under any applicable State and Commonwealth law.’ This included any governance requirement contained in the Associations Incorporation Act and other legislation (for example the Workplace Health and Safety Act).

According to the interviewee the DHHS did not have a micro-management approach to CSOs as they

*are very conscious of the fact that the community sector and the organisations we fund are actually independent entities. We haven't wanted to take a big brother approach ... more about risk mitigation than anything.*

*(SO1 2003, pers. comm., 1 December)*

No evidence was provided to show that a risk management strategy was in place. Instead it appeared that the focus was a reaction to potential financial loss. Accordingly most attention was given to financial management and evidence for this was found in the service agreement. The narrowness of the DHHS governance concerns was shown in how mention of services to clients in the interview was limited to any impact upon service provision following a governance problem in the area of financial management.

A copy of the standard Service Agreement was supplied by the Department. It included the following general statement:

*The Organisation is responsible for ensuring that there is efficient and appropriate management of the Organisation. In this respect, the Organisation must ensure that good governance procedures are applied.*

*(DHHS 2003 clause 2.13.1)*

Then there were a number of specific clauses that were related to governance in the Agreement:

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- 2.5.5(e) solvency of the organisation;
- 2.5.5(i) properly constituted board and inquorate board meetings;
- 2.13.1 regular review of service performance;
- 3.1.1 accounting standards and practices; and
- 3.2.1(i) external audit.

It was interesting to note that governance was only referred to once. Some funding programs imposed additional governance requirements on CSOs. For example Neighbourhood Houses had specific requirements placed on them arising from the *Strategic Framework for Neighbourhood Houses* document (DHHS 2002). However, these requirements were still of a broad and general nature.

The DHHS did not have any particular corporate governance model or framework that it recommended. Indeed it saw diversity in this area intrinsically connected to the positive contribution CSOs made to the community. There was recognition that

*a one-size-fits-all approach I don't think works ... to try and provide rigid frameworks from which we expect organisations to operate would detract something, you lose something, in terms of contribution they can make to the community more generally.*

*(SO1 2003, pers. comm., 1 December)*

The list proposed in this study of best practices for corporate governance was discussed and the results are shown in Table 4.1. The interviewee agreed that the list was comprehensive and

*there's nothing there that I couldn't say wasn't best practice. It should be aspired to by all funded organisations.*

*(SO1 2003, pers. comm., 1 December)*

Although there were no additions or omissions noted, the prioritisation of practices was queried by the DHHS manager. Also the actual processes used to implement the practices were seen as important. The view expressed in the interview was that without adequate implementation a commitment to the list of the best practice features would be to no avail.

Table 4.1. **DHHS response to corporate governance features and practices**

<b>What is best practice corporate governance in community service organisations?</b>		
<i>Features</i>	<i>Practices</i>	<i>Best practice Yes/No/?</i>
HR & Succession planning.	Ensure that there are adequate HR policies and procedures in place. Create a plan to appoint the successor of the CEO & to fill board vacancies.	<b>Yes</b>
Strategy setting & planning.	Set the overall strategic goals for the organisation. Establish plans to achieve those goals and evaluation measures.	<b>Yes</b>
Risk management.	Ensure that there is a framework in place to identify, assess & treat risks on a continuing basis.	<b>Yes</b>
Financial strategy & reporting.	Implement a schedule of financial reporting. Ensure there is a regime of external & internal audit. Approve budgets.	<b>Yes</b>
Consultation.	Facilitate consultation with its stakeholders: members, clients/ consumers, the community & funding providers.	<b>Yes</b>
Roles & responsibilities.	Exercise specific roles & responsibilities as outlined in the legislation under which the organisation is incorporated or constituted as well as the demands required in other legislation.	<b>Yes</b>
Performance.	Put in place a means of assessing three areas of performance: the board, the CEO and the organisation as a whole.	<b>Yes</b>
Skills, independence & resources.	Ensure that its membership has the right mix of skills to facilitate the organisation in reaching its goals.	<b>Yes</b>
Conduct & ethics.	Develop a code of conduct that will guide its members in their interactions with one another and the organisation's employees.	<b>Yes</b>

*Source: developed for this research.*

In summary, funded CSOs were expected to have appropriate corporate governance practices in operation and they were especially concerned about financial management. The expectation with regard to corporate governance practices was encapsulated in the service agreement and various pieces of legislation. The Department did not provide a comprehensive list of features and practices, however, it did indicate that the list of features and practices guiding CSO governance shown in Table 2.5 covered the required areas. There was acknowledgement that improvements in the corporate governance of CSOs were required but that this was not a funding priority for government, and therefore the Department, in the current environment.

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### 4.2.2 Regulator

The second stakeholder organisation to be considered was the State Government's Department of Justice and Industrial Relations. The Business Affairs Office (BAO) within this Department had responsibility to administer the Tasmanian Associations Incorporation Act. The manager of the BAO was the Assistant Commissioner for Corporate Affairs and in relation to incorporated associations acted as the delegate for the Commissioner for Corporate Affairs. As discussed in section 1.7 all of the case organisations considered in this research were incorporated associations and accordingly came under the jurisdiction of the BAO. The manager of the BAO was interviewed to represent the perspective of the regulator. The referral was made by the Secretary of the Department. As will be discussed below the Department took little interest in the regulation of associations, however the BAO manager was familiar with the limited activity that took place. If there was to be a change in regulation then he would be involved in such considerations on behalf of government.

The Associations Incorporation Act provides the legal mechanism for the formation of a corporate entity called an incorporated association and limits the liability of association members. There were approximately 3,500 incorporated associations in Tasmania (Auditor-General 2003a, p.2) and the existence of associations is dependent upon the provisions contained in the legislation. All of the case organisations in this study fall under the Act. The various actions required to achieve and maintain incorporated status are set out in the Act. An examination of the Act revealed that the

*current legislation plays a very minor role in determining the corporate governance of incorporated bodies. The majority of the provisions in the Associations Incorporation Act work to ensure certain documents are available on file for the public to scrutinise.*

*(SO2 2005, pers. comm., 25 July)*

The regulations made under the Act included a set of model rules and these were outlined in the Associations Incorporation (Model Rules) Regulations. An association was not required to adopt the model rules as the

*the Model Rules Regulations were developed as a guide constitution, however, in circumstances where an association's rules do not address a matter covered by the model rules in their own rules, these provisions automatically form part of their rules.*

*(SO2 2005, pers. comm., 25 July)*

The rules covered matters such as: objects and purposes, membership, finance and asset management, meetings and the committee of management. However, they did not provide detailed information about corporate governance features. For example there was the requirement for accounts to be audited, but no requirement to use particular accounting policies or comply with general purpose accounting standards. Another example was the clause related to conflict of interest which was limited to disclosure in relation to contracts that the association may enter into, but did not require disclosure about the full range of conflicts that may arise or a code of conduct for board members.

There were provisions within the Associations Incorporation Act to bring incorporated associations under the provisions of the legislation applying to corporations as the Act has ensured

*that specific provisions of the Corporations Act do apply to bodies incorporated under the Associations Incorporation Act.*

*(SO2 2005, pers. comm., 25 July)*

These included imposition of rules regarding making debentures, inviting public deposits and transfer of incorporation status. More significantly there were requirements relating to special investigations, administration and winding up of the association. Again these provisions did not include detailed information about the corporate governance features and practices that associations were to have in place.

The filing of the annual return was probably the only time that an incorporated association had contact with the BAO albeit in a formal sense. Overall, the BAO considered that it had a limited role in providing oversight with regard to incorporated associations. This limitation was referred to in a report to the Tasmanian Parliament by the Auditor-General (2003a, p.17) who

concluded that BAO is currently very narrow in its focus, concentrating more on the procedural side of the legislation while paying little attention to compliance and enforcement.

The BAO would concur with the manager indicating

*That the content of an incorporated body's rules is not checked by officers from this Office. This responsibility was removed from the Commissioner for Corporate Affairs around 1993.*

*(SO2 2005, pers. comm., 25 July)*

This was somewhat different to other States and the differences in approach are outlined by Sally Sievers in Appendix 5 of Woodward and Marshall (2004, pp.265ff). In some jurisdictions the regulator even 'pushed' an incorporated association to become a company due to its size (Woodward & Marshall 2004, p.15).

Despite the limited role undertaken by the BAO it is a place where concerns about incorporated associations can be raised. A process of review of the operations of associations is allowed for in the Act and it even includes provisions for the cancellation of incorporation status. This process was intended to allow the review of a particular association about which concerns existed. It is in some senses a latent capacity, as the manager could not recall any time the provision had been used in relation to an organisation for which concerns existed. The BAO can exercise considerable power if there are sufficient reasons and one such reason could be governance failure.

Given the minimal amount of regulation that is in place it was not possible to develop a list of corporate governance features and practices from the Act and related material. The expectation was that associations will exercise appropriate governance, but there was no handbook or similar provided on what this might mean. The manager of the BAO was asked to comment upon the best practice features and practices proposed in this study – see Table 4.1. He limited his comment to indicating that there was nothing on the list that was in conflict with the Act but that

*at the end of the day for us that is not something we are able to comment upon because it is not a requirement under the legislation.*

*(SO2 2004, pers. comm., 26 February)*

In summary, incorporated associations, including CSOs, are regulated under the Associations Incorporation Act. This Act places high level corporate governance responsibilities upon associations although the description of what these responsibilities were was limited. The administration of the Act is focused upon file maintenance which was all that can be managed in the resources being provided to the BAO. It would appear that additional resources to allow increased monitoring of incorporated associations, including their corporate governance practices, was not a priority for government.

### **4.2.3 Consumer organisations**

There is another stakeholder perspective which was important; consumers. As discussed in section 3.4.2.3 there is no generic consumer advocacy organisation in Tasmania. Accordingly three organisations were consulted to ensure that the perspective of consumers, as it relates to CSO corporate governance, was obtained. Each of the organisations is an incorporated association and TasCOSS and Advocacy Tas. are funded by the DHHS. YNOT is funded through the Tasmanian Department of Education.

#### **4.2.3.1 TasCOSS**

The first consumer focused organisation approached was the Tasmanian Council of Social Services Inc. (TasCOSS) which is a peak body that represents the concerns of low income Tasmanians. It is also funded by the DHHS to play a role in the development of the sector that comprises CSOs in receipt of DHHS funding and this development activity

*includes a quite specifically named up component around corporate governance.*

*(SO3 2003, pers. comm., 1 December)*

TasCOSS has a membership of almost 100 organisations and individuals. The majority of member organisations are incorporated associations who are the

funded CSOs. As a peak body TasCOSS does not compete with its members, or other CSOs, for funding to deliver services to clients. In many ways it is uniquely placed to provide some insight into the interplay between CSOs and consumers. Its sector development role leads it to be involved in discussions around a range of issues one of which is corporate governance for CSOs. The TasCOSS Policy Officer was interviewed to obtain the organisation's perspective. This position was chosen as it is a key role within TasCOSS and its occupant works widely with the sector. The occupant has a vast experience of the sector and is active in a number of CSOs. He participates in an Australian Competition and Consumer Commission working group on communications services for low income people.

The expectation held by TasCOSS is that organisations will be well governed so that quality services are provided for low income Tasmanians. However, the interviewee was aware of a number of organisations who in the last four years had failed in their governance responsibilities. The consequence of these failures has been serious for clients, the organisation's staff and board as well as for the Department. There have also been occasions when organisations have approached TasCOSS seeking to avert such governance failure. When these approaches have occurred TasCOSS has sought to provide a range of responses which included giving information to the organisation, working directly with the board of management on a solution and/or liaison with the Department. Although there is the requisite level of skill and expertise within TasCOSS to fulfil these functions the interviewee was concerned that in the sector

*there really isn't enough expertise; enough understanding on the part of people on our boards, but also in terms of key staff and managers about what is required in order to properly govern any CSO ... number of organisations in recent times essentially get to the point of being dysfunctional where they are not able to carry on in terms of governance.*

*(SO3 2003, pers. comm., 1 December)*

TasCOSS believes that education in governance responsibilities is crucial but is aware that this view is not shared by all of its members. There is a considerable amount of work to be done to expose CSOs to the opportunities that can be wrought from an improvement in governance practices. Board membership has specific duties and tasks, but the extent of these is not universally acknowledged.

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The level of complexity required in the service delivery context for CSOs has implications for the way in which governance responsibilities are exercised. In the absence of a willingness from board members to undertake training some incentives or imposed obligations may be required from the funding provider. TasCOSS also acknowledged that a number of CSOs have invested time and money into their regime of corporate governance, however this can be a cause for further dilemmas, as there is much variety in the systems that organisations have in place. TasCOSS did not endorse any particular model of corporate governance, but welcomed any approach that improves what CSOs have in place.

TasCOSS has sought to work with the DHHS to develop a common view about what is required as it considers it

*now has a reasonably central role, in terms of at least identifying, if not addressing, some of the issues around corporate governance within CSOs.*

*(SO3 2003, pers. comm., 1 December)*

Governance was to be a topic addressed in a survey of CSOs that TasCOSS was to undertake in 2003/4 for the DHHS, but funding was not made available to complete it. In the meantime

*TasCOSS is seeing itself as an organisation that has to work with government in terms of ensuring that there is some kind of shared understanding about what appropriate governance practices look like.*

*(SO3 2003, pers. comm., 1 December)*

Energy is being devoted by TasCOSS staff to creating stronger links between CSOs as a sharing of governance resources may be beneficial. If the development of common approaches receives widespread support in the sector then it would be possible for the funding agreement that the DHHS has with CSOs to be amended to reflect additional governance requirements. Provided that there is sufficient flexibility this course of action would be preferred by TasCOSS as it would give to CSOs a clear set of expectations that they would then be required to meet. The only caveat is that funding would need to be made

available for any additional costs associated with implementation, for example extra costs arising from training board members.

The TasCOSS Policy Officer concurred that the list of guiding features and practices proposed in this study was best practice – see Table 4.2. The point was made that the list should be seen as a whole and organisations would need to consider each feature, not simply pick some and omit others. Indeed a caution was given by the Policy Officer against a piecemeal approach to governance that exists in some CSOs as

*not only are they all important elements individually but that they come together in an integrated way that is important in its own right.*

*(SO3 2003, pers. comm., 1 December)*

Mention was made of change management as a specific practice that CSOs are required to be involved in regularly. It was agreed that this is subsumed under the practices associated with the strategy setting and planning governance feature.

**Table 4.2. TasCOSS response to corporate governance features and practices**

<b>What is best practice corporate governance in community service organisations?</b>		
<i>Features</i>	<i>Practices</i>	<i>Best practice Yes/No/?</i>
HR & Succession planning.	Ensure that there are adequate HR policies and procedures in place. Create a plan to appoint the successor of the CEO & to fill board vacancies.	<b>Yes</b>
Strategy setting & planning.	Set the overall strategic goals for the organisation. Establish plans to achieve those goals and evaluation measures.	<b>Yes</b>
Risk management.	Ensure that there is a framework in place to identify, assess & treat risks on a continuing basis.	<b>Yes</b>
Financial strategy & reporting.	Implement a schedule of financial reporting. Ensure there is a regime of external & internal audit. Approve budgets.	<b>Yes</b>
Consultation.	Facilitate consultation with its stakeholders: members, clients/ consumers, the community & funding providers.	<b>Yes</b>
Roles & responsibilities.	Exercise specific roles & responsibilities as outlined in the legislation under which the organisation is incorporated or constituted as well as the demands required in other legislation.	<b>Yes</b>
Performance.	Put in place a means of assessing three areas of	<b>Yes</b>

	performance: the board, the CEO and the organisation as a whole.	
Skills, independence & resources.	Ensure that its membership has the right mix of skills to facilitate the organisation in reaching its goals.	<b>Yes</b>
Conduct & ethics.	Develop a code of conduct that will guide its members in their interactions with one another and the organisation's employees.	<b>Yes</b>

*Source: developed for this research.*

In summary, the TasCOSS Policy Officer was aware that corporate governance failure of CSOs can have a negative impact upon clients. TasCOSS has been associated with the provision of support and advice to a number of organisations that have had difficulties in the area of governance. The requirements of board members have evolved in recent years and the training and resources for board members needs to increase. TasCOSS is not committed to a particular model of corporate governance, but agrees that the establishment of a best practice list would be beneficial. It is consulting with government about how to develop the sector's knowledge of corporate governance practices.

#### 4.2.3.2 YNOT

The second organisation contacted to provide a consumer voice was the Youth Network of Tasmania Inc. (YNOT). It is the peak body for those organisations that provide services to young people and it also has individual members who have an interest in youth affairs. The majority of member organisations are incorporated associations funded by the DHHS. The YNOT considers its client group to be all Tasmanian young people and it has responsibility for representing the views of young people in various forums. The Executive Officer of the YNOT was interviewed for this research. He has been in the YNOT role for several years and came into the position from a youth focused CSO. He holds positions as a representative of the youth sector including being a member of the Commissioner for Children's consultative committee.

The YNOT has an expectation that its member

*organisations need to have a very professional approach to governance. Be very clear about how they are governed.*

*(SO4 2003, pers. comm., 12 December)*

However the YNOT has no capacity to ensure that this is the case. It does seek a commitment from members to sound management practice. It acknowledges that good governance practice is important to ensure that organisations provide the required services for clients. The interviewee made the assumption that the funding provider, usually the DHHS, ensured organisations have an appropriate governance structure in place. He believes that the development of governance structures can only take place in dialogue with CSOs and not be imposed by the Department. The YNOT is aware that there has been governance failure in some organisations from other spheres of CSO activity. To avoid this occurring in the youth sector it is keen to have its members receive information and training about corporate governance responsibilities. The need for training has been identified by the YNOT, particularly for smaller CSOs, but the YNOT maintains that it should be made available to all organisations regardless of size.

The YNOT Executive Officer was opposed to the one-size-fits-all approach to corporate governance that is advocated by some CSOs, especially the promotion that has taken place of the Policy Governance model (Carver & Carver 1997). The opposition to the Carver model was based on the difficult language used around limitations and how inaccessible some of the basic concepts are for board members. However he was suspicious of any model as

*I don't have a clear model of what constitutes good governance, and I'm not sure that the model is the right thing ... its not the model that's necessarily the key ingredient, it's the organisation's commitment to good management practice.*

*(SO4 2003, pers. comm., 12 December)*

The executive officer had a preference for user friendly tools that allowed for flexibility and could respond to the particular context in which organisations were placed. He expressed a view that when considering a governance approach

*you need to think about where your organisation's philosophy fits within that framework of what's considered best practice.*

*(SO4 2003, pers. comm., 12 December)*

He also spoke about the merit in encouraging greater sharing between organisations about various governance practices.

The list of corporate governance features and practices was discussed with the YNOT Executive Officer – see Table 4.3. He expressed surprise at the length of the list but thought

*I think it is a good list. Your list does very effectively point out, you know, a whole range of elements .. I thought it was rigorous and comprehensive.*

*(SO4 2003, pers. comm., 12 December)*

Following discussion no suggestions were made as to what items should be deleted. The development of a checklist was considered a positive as it provided a framework that would allow an organisation to put in place an approach to corporate governance that reflected its needs.

Table 4.3. **YNOT response to corporate governance features and practices**

<b>What is best practice corporate governance in community service organisations?</b>		
<i>Features</i>	<i>Practices</i>	<i>Best practice Yes/No/?</i>
HR & succession planning.	Ensure that there are adequate HR policies & procedures in place. Create a plan to appoint the successor of the CEO & to fill board vacancies.	<b>Yes</b>
Strategy setting & planning.	Set the overall strategic goals for the organisation. Establish plans to achieve those goals & evaluation measures.	<b>Yes</b>
Risk management.	Ensure that there is a framework in place to identify, assess & treat risks on a continuing basis.	<b>Yes</b>
Financial strategy & reporting.	Implement a schedule of financial reporting. Ensure there is a regime of external & internal audit. Approve budgets.	<b>Yes</b>
Consultation.	Facilitate consultation with its stakeholders: members, clients/ consumers, the community & funding providers.	<b>Yes</b>
Roles & responsibilities.	Exercise specific roles & responsibilities as outlined in the legislation under which the organisation is incorporated or constituted as well as the demands required in other legislation.	<b>Yes</b>
Performance.	Put in place a means of assessing three areas of performance: the board, the CEO and the organisation as a whole.	<b>Yes</b>
Skills, independence & resources.	Ensure that its membership has the right mix of skills to facilitate the organisation in reaching its goals.	<b>Yes</b>
Conduct & ethics.	Develop a code of conduct that will guide its members in their interactions with one another and the organisation's employees.	<b>Yes</b>

*Source: developed for this research.*

In summary, the YNOT was aware of the need for there to be increased training in the area of corporate governance for CSOs. According to the executive officer at a fundamental level the funding provider has the responsibility to ensure governance practice is adequate. There was no commitment to a particular governance model and instead preference was expressed for flexibility so that the governance approach that is implemented within an organisation reflects the philosophy and values of the organisation. Confidence was expressed in the best practice list of features and practices as a useful tool for CSOs.

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#### 4.2.3.3 Advocacy Tas.

The final consumer orientated organisation that was contacted was Advocacy Tasmania Inc. (Advocacy Tas.). It is an incorporated association that is funded by the Australian and Tasmanian governments to provide advocacy services to older people and people with disabilities. It has been in existence since 1990 and offers a statewide service. It receives funding from the DHHS and many of the clients for whom it advocates are in turn clients of other CSOs that are DHHS funded. Although it refers to its clients as consumers it has a narrow role in advocating for those who are clients of certain CSOs as determined by their DHHS service agreement. In addition to working for individuals, Advocacy Tas. also engages in systemic advocacy, as it seeks to change the policies and practices of governments and services providers. The manager of the organisation was interviewed to obtain a consumer perspective on the research problem arising from the organisation's advocacy work. He has been involved in the area for eight years moving from the role of advocate to that of management three years ago.

Advocacy Tas. was clear that governance issues do have an effect on consumers. In their dealings with CSOs they have been frustrated by inadequate governance practices that have prevented the resolution of client complaints as they

*are often supporting consumers through a complaints process ... and you get to see the best of it and the worst of it in terms of the way an organisation is governed.*

*(SO5 2003, pers. comm., 12 December)*

In addition Advocacy Tas. has been aware that there have been a number of governance failures in CSOs that have impacted the provision of services to clients. Although this consumer complaint focus was narrow, it provided a perspective on governance from clients of CSOs.

The complexity of organisational governance has increased over recent years as

*organisations, lots of them are growing and becoming more and more complex ... the demand on those that are on boards of management to be across all the issues is becoming more and more difficult.*

(SO5 2003, pers. comm., 12 December)

Accordingly Advocacy Tas. believes the demands being placed on volunteer board members has also risen. This has led to difficulties in recruiting board members with the appropriate level of knowledge and skill. One of the responses to the recruitment dilemma has been agitation for consumer participation in boards of management. However this is without a commensurate allocation of resources to facilitate such participation.

From its extensive contact with CSOs Advocacy Tas. was aware

*that there is a very wide variation in the way organisations are governed.*

(SO5 2003, pers. comm., 12 December)

No particular model dominates nor is there any comprehensive training of boards in corporate governance issues. Advocacy Tas. saw no evidence of effective control being exercised by the DHHS in relation to the governance arrangements that CSOs have in place. This was also true for the BAO other than requiring returns to be completed. Furthermore that

*the Associations Incorporation Act doesn't seem to have any accountability from the governance side.*

(SO5 2003, pers. comm., 12 December)

The list of best practice corporate governance features and practices was reviewed and the responses are shown in Table 4.4. The manager considered the list and commented:

*even if you only wanted to do it to a minimum standard of governance you have got to attend to all of those things at least to a basic level and then if you are talking about best practice ... then obviously you will be wanting to do each of those things in a particular fashion to the best degree possible.*

(SO5 2003, pers. comm., 12 December)

Suggestions of refined or focused practices were discussed that could enhance the list. For example, a specific practice could be included that placed an

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emphasis on the consumer in the consultation feature. However, in an overall sense the list was deemed adequate.

**Table 4.4. Advocacy Tas. response to corporate governance features and practices**

<b>What is best practice corporate governance in community service organisations?</b>		
<i>Features</i>	<i>Practices</i>	<i>Best practice Yes/No/?</i>
HR & succession planning.	Ensure that there are adequate HR policies & procedures in place. Create a plan to appoint the successor of the CEO & to fill board vacancies.	<b>Yes</b>
Strategy setting & planning.	Set the overall strategic goals for the organisation. Establish plans to achieve those goals & evaluation measures.	<b>Yes</b>
Risk management.	Ensure that there is a framework in place to identify, assess & treat risks on a continuing basis.	<b>Yes</b>
Financial strategy & reporting.	Implement a schedule of financial reporting. Ensure there is a regime of external & internal audit. Approve budgets.	<b>Yes</b>
Consultation.	Facilitate consultation with its stakeholders: members, clients/ consumers, the community & funding providers.	<b>Yes</b>
Roles & responsibilities.	Exercise specific roles & responsibilities as outlined in the legislation under which the organisation is incorporated or constituted as well as the demands required in other legislation.	<b>Yes</b>
Performance.	Put in place a means of assessing three areas of performance: the board, the CEO and the organisation as a whole.	<b>Yes</b>
Skills, independence & resources.	Ensure that its membership has the right mix of skills to facilitate the organisation in reaching its goals.	<b>Yes</b>
Conduct & ethics.	Develop a code of conduct that will guide its members in their interactions with one another and the organisation's employees.	<b>Yes</b>

*Source: developed for this research.*

In summary, the interview with Advocacy Tas. suggested that the corporate governance practices of a CSO could affect its service provision to clients. Advocacy Tas. has had experience of a variety of governance practices within organisations and has seen organisational failure due to poor governance. It believes there should be greater accountability of CSOs in the way that they exercise their corporate governance responsibilities. The list of best practice features and practices was endorsed.

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#### 4.2.4 Summary

The purpose of this section has been to verify the normative list of best practice features and practices for CSO corporate governance that was derived from the literature review. This has been undertaken in terms of the delimitation of the scope for the research, that is CSOs funded by the Tasmanian DHHS. The process involved interviews with stakeholder organisations. Five interviews were undertaken representing three stakeholder areas: funding, regulation and consumers.

Each of the stakeholder organisations expected CSOs to be well governed, but none of them currently have a comprehensive list as to what would signify good governance. There was acknowledgement of a variety of models of corporate governance being used by CSOs and specific reference to this being positive. However there was no particular governance model that was being promoted. Concerns about the impact of a failure in corporate governance were expressed by each of the stakeholders albeit for differing reasons. The history of recent organisational failure due to governance errors was well known by the stakeholders.

The stakeholder organisations also noted that the demands being placed upon boards of management has increased. The complexity associated with service delivery and the demands that are made of an organisation were also highlighted. Training and development of board members was not something that is funded by the DHHS to date.

It was interesting to note the expectations of the consumer stakeholders of the regulator and funding stakeholders. They expected the BAO to exercise responsibility for CSOs that are incorporated associations. They also expected the DHHS to exercise responsibility for the CSOs it funds. It was clear from the interviews referred to above that when it came to CSO corporate governance the responsibility was not being taken up by the regulator or funding provider.

The list of best practice features and associated practices received endorsement as is shown in Table 4.5. None of those interviewed dissented from the inclusion

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of any of the practices proposed. It was viewed as an accurate reflection of what is required by CSOs. It was also seen as a helpful aid to those who have governance responsibility for CSOs. The BAO was unable to provide endorsement as it was considered by them to be outside their scope of responsibility. However, there was nothing in the Associations Incorporation Act that contradicts what is in the list. Some stakeholder organisations raised questions about some practices, but this was about emphasis and they did not request any amendment to the list. It was referred to as the minimum standard and as such would need to be implemented as a whole and not just in part.

**Table 4.5. Stakeholder responses to list of best practice features and practices**

Stakeholder organisations	Is it a list of best practice?
Funding provider (DHHS)	Yes
Regulator (Business Affairs)	Unable to comment
Consumers (3 organisations)	
TasCOSS	Yes
YNOT	Yes
Advocacy Tas.	Yes

*Source: developed for this research.*

Armed with a normative list derived from the literature and verified by stakeholder organisations the next step was to undertake enquiries into what CSOs have in place.

### 4.3 Case organisations

In the research framework outlined in Figure 2.14 sub-problem 2 was identified as:

To discover how corporate governance principles and practices have been adopted by selected CSOs funded by the Tasmanian DHHS.

To address this problem data was collected from six organisations and the method of their selection is discussed in section 3.4.2.2. The data collection was through a series of interviews, a review of documents and from a self-assessment exercise. The average length of the interviews was 45 minutes. In

the following sections an overview of the governance for each case organisation is provided in light of the features and practices identified in this study. A list of responses has been tabulated and shown for each organisation. This is followed by cross case analysis.

#### 4.3.1 Organisation A<sup>4</sup>

Case Organisation A (COA) was an incorporated association that provides accommodation support. It had a religious base having begun as a ministry of a local church. The organisation continued to have close connections to its founding church and others in its community of operation. It received the majority of its funding, which is less than \$1M, from the DHHS.

A group interview was undertaken by the researcher with the Board Chair, CEO and a board member and individual responses to the governance rating table were obtained. Various documents were referred to during the interview. These included a comprehensive folder of guidelines and policies and a board member's manual. Only minimal documentation was given that could be taken away. The organisation's web site was accessed and the Business Affairs Office file was inspected.

The CEO said that the organisation has a 'management model' of corporate governance suggesting

*the manager reports back to the board on issues that come up.*

*(COA CEO 2004, pers. comm., 10 March)*

The web site also stated that it has a 'management model.' In section 2.4.2 the various models are discussed and the management model is described as where the board manages the operations. However the information given by the interviewees was more like the 'traditional model.' That is, the board governs and oversees operations, but the board delegates the management functions to the

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<sup>4</sup> The interview questions (Appendix G) and List of Evidence (Appendix H) were trialled on this organisation as a pilot – see section 3.4.7 above. Following a review of the information gathered it was decided no changes were required and subsequent data collection then took place.

CEO. Evidence as to what governance practices the organisation has in place was collected and is shown in Table 4.6.

**Table 4.6. List of corporate governance features & practices that Case Organisation A has in place**

<i>Features and practices</i>	<i>Evidence</i>
<p><b>HR &amp; succession planning.</b> Ensure that there are adequate HR policies &amp; procedures in place. Create a plan to appoint the successor of the CEO &amp; to fill board vacancies.</p>	<p>Folder of Guidelines &amp; Policies</p> <p>None</p>
<p><b>Strategy setting &amp; planning.</b> Set the overall strategic goals for the organisation. Establish plans to achieve those goals &amp; evaluation measures.</p>	<p>Constitution, Mission Statement Plan document</p>
<p><b>Risk management.</b> Ensure that there is a framework in place to identify, assess &amp; treat risks on a continuing basis.</p>	<p>None</p> <p>None</p>
<p><b>Financial strategy &amp; reporting.</b> Implement a schedule of financial reporting. Ensure there is a regime of external &amp; internal audit. Approve budgets.</p>	<p>Board monthly &amp; Treasurer weekly External auditors &amp; Treasurer internal Board sign off</p>
<p><b>Consultation.</b> Facilitate consultation with its stakeholders: members, clients/ consumers, the community &amp; funding providers.</p>	<p>Newsletter, AGM, website Client feedback forms Newsletter, AGM, website Service agreement reporting, data set</p>
<p><b>Roles &amp; responsibilities.</b> Exercise specific roles &amp; responsibilities as outlined in the legislation under which the organisation is incorporated or constituted as well as the demands required in other legislation.</p>	<p>Board member manual, training sessions</p> <p>Board member manual, training sessions</p>
<p><b>Performance.</b> Put in place a means of assessing three areas of performance: the board, the CEO and the organisation as a whole.</p>	<p>None</p> <p>None Monthly reports</p>
<p><b>Skills, independence &amp; resources.</b> Ensure that its membership has the right mix of skills to facilitate the organisation in reaching its goals.</p>	<p>Skills matrix</p>
<p><b>Conduct &amp; ethics.</b> Develop a code of conduct that will guide its members in their interactions with one another &amp; the organisation's employees.</p>	<p>Board member manual</p> <p>Folder of Guidelines &amp; Policies</p>

*Source: developed for this research.*

It is clear from Table 4.6 that there are gaps in some areas and these include succession planning and performance review for both the CEO and the Board. Also insufficient attention has been given to the whole area of risk management. Interviewees readily acknowledged the organisation's deficiencies in risk

management and performance review however when it came to succession planning this was not the case. When speaking about what the organisation did when there was a vacancy the board chair said:

*We will commit it to God. Prayer is what we do!*

*(COA Board Chair 2004, pers. comm., 10 March)*

The values and beliefs of the organisation, derived from its Christian foundation, impacted upon its corporate governance practice and there were several examples to note. The organisation's mission statement included a Bible verse and the aims and purposes contained in the Rules of Association made reference to Christian principles. Then there was the 'Christian Foundation and Philosophy Statement' that interviewees referred to as a guiding document when it came to the organisation's planning activity. The values even went as far as informing the board endorsed policy on grievances. This policy had within it a reference to a Biblical principle for conflict resolution that is found in Matthew 18:15-17 (NRSV):

If another member of the church sins against you, go and point out the fault when the two of you are alone. If the member listens to you, you have regained that one. But if you are not listened to, take one or two others along with you, so that every word may be confirmed by the evidence of two or three witnesses. If the member refuses to listen to them, tell it to the church; and if the offender refuses to listen even to the church, let such a one be to you as a Gentile and a tax collector.

In addition all board members, employees and volunteers are Christians. This is a practice of the organisation although it was not reflected in any policy statement.

The organisation maintained its governance structure through the provision of training opportunities for board members and by keeping its board member manual up to date. In addition to these approaches the important role of the CEO in assisting the board meet its governance obligations was acknowledged by the board chair:

*... because of the manager more so than anything else*

*(COA Board Chair 2004, pers. comm., 10 March)*

The board had a sense of what its responsibilities were and what duties it should undertake. It was this sense of responsibility that was a motivating force encouraging the board to tackle corporate governance. This was expressed in the board member manual. This manual included a copy of the Rules of Association. The Rules were seen not just as an historic document but as a living document that provided direction to the organisation. The significance and living nature of the Rules was testified to by the revision that they underwent three years ago. Reference is also made in the board member manual to the service agreement with funding providers, but only in a generalised way. Another significant motivating force for the organisation to maintain good governance practice arose from the organisation's history. Ten years ago the organisation underwent a restructure following internal difficulties and according to the CEO it

*was not a good time, but we learnt a lot out of it about good governance I suppose.*

*(COA CEO 2004, pers. comm., 10 March)*

These tensions included a dispute within the board and concerns about the direction of the organisation. In response to those circumstances the organisation developed many of the policies that it has in place today including the Christian Foundations and Philosophy Statement and the grievance policy.

The results of the governance self-assessment rating by interviewees are shown in Table 4.7. The differences in grading by interviewees may be due to awareness, or lack thereof, as to what governance practices the organisation has in place. There may be other factors such as position in the organisation and those will be considered further in the cross case analysis. I have rated the organisation as shown in Table 4.7. In terms of the Conduct and Ethics governance feature the organisation has some excellent practices and in part this is a reflection of its faith and beliefs. The other example about how the religious base of the organisation has a significant impact upon the way it is governed was the approach taken to planning where the Christian Foundations and Philosophy Statement was pivotal. The organisation needs to give urgent attention to the area of risk management as the current practices are inadequate. Attention is

also required to the areas of HR succession planning and performance, but this is not as crucial.

Table 4.7. **Case Organisation A – governance rating by interviewees**

Questions	Excellent	Above average	Average	Below average	Inadequate	Not applicable
Do you believe that the corporate governance principles and practices of your organisation are		CEO	Chair Member Researcher			
With regard to the following specific features do you believe your organisation's practices are						
HR & succession planning			Chair CEO Member	Researcher		
Strategy setting & planning		Chair CEO Member Researcher				
Risk management				Chair CEO Member	Researcher	
Financial strategy & reporting		Chair	CEO Member Researcher			
Consultation		Chair CEO Researcher	Member			
Roles & responsibilities		CEO Member	Chair Researcher			
Performance		Member		Chair CEO Researcher		
Skills, independence & resources	Chair		CEO Member Researcher			
Conduct & ethics	Chair CEO Member Researcher					

Source: developed for this research.

#### 4.3.2 Organisation B

Case Organisation B (COB) was an incorporated association that provides personal support. It was founded in the 1980s in response to community action about the need for additional services. Since that time the organisation has grown markedly and with a turnover in excess of \$1M. It received grants from both the Tasmanian and Australian Governments as well as fees from clients.

Separate interviews were undertaken by the researcher of the organisation's Board Chair, CEO and a staff member. Various documents were referred to during the interviews and, apart from the Performance Indicator Review



Schedule, they were all available on the organisation's web site. The majority of the documents referred to were contained within the organisation's Quality Manual. Other information, like the quarterly newsletters, was also on-line. Table 4.8 lists the corporate governance features and practices that the organisation had in place and the evidence to support it. The Business Affairs Office file of the organisation was inspected and it showed the usual correspondence in relation to filing annual returns and revision of rules.

The organisation revised its rules of association in 2004 to reflect its understanding of what was required of the organisation in the current environment. Part of the revision process included consultation with members, clients and funding providers. The catalyst for the revision was conflict between board members, but the exact nature of the difficulties and the connection with particular rule changes were not disclosed. However the Board Chair did say that:

*we have been in terrible trouble on the Board, we virtually got rid of one of the Board members!*

*(COB Board Chair 2004, pers. comm., 13 April)*

One of the changes that arose from the review was the change in name from 'board of management' to 'board of directors'. This identified the organisation with the traditional model of governance that was outlined in section 2.4.2 with the board members delegating significant responsibility to the CEO.

Table 4.8. **List of corporate governance features & practices that Case Organisation B has in place**

<i>Features and practices</i>	<i>Evidence</i>
<p><b>HR &amp; succession planning.</b> Ensure that there are adequate HR policies &amp; procedures in place. Create a plan to appoint the successor of the CEO &amp; to fill board vacancies.</p>	<p>Quality Manual - personnel Quality Manual – personnel, appendix 1</p>
<p><b>Strategy setting &amp; planning.</b> Set the overall strategic goals for the organisation. Establish plans to achieve those goals &amp; evaluation measures.</p>	<p>Strategic Plan 2004-2011 Performance Indicator Review Schedule</p>
<p><b>Risk management.</b> Ensure that there is a framework in place to identify, assess &amp; treat risks on a continuing basis.</p>	<p>Quality Manual – quality policy and management review Performance Indicator Review Schedule</p>
<p><b>Financial strategy &amp; reporting.</b> Implement a schedule of financial reporting. Ensure there is a regime of external &amp; internal audit. Approve budgets.</p>	<p>Performance Indicator Review Schedule Performance Indicator Review Schedule Performance Indicator Review Schedule</p>
<p><b>Consultation.</b> Facilitate consultation with its stakeholders: members, clients/ consumers, the community &amp; funding providers.</p>	<p>Annual meeting, newsletters Client survey Newsletters, Web site Service Agreement reporting, data set</p>
<p><b>Roles &amp; responsibilities.</b> Exercise specific roles &amp; responsibilities as outlined in the legislation under which the organisation is incorporated or constituted as well as the demands required in other legislation.</p>	<p>Quality Manual – board and committees, constitution Quality Manual – legal and other requirements</p>
<p><b>Performance.</b> Put in place a means of assessing three areas of performance: the board, the CEO and the organisation as a whole.</p>	<p>None Annual appraisal Quality Manual – monitoring and measurement</p>
<p><b>Skills, independence &amp; resources.</b> Ensure that its membership has the right mix of skills to facilitate the organisation in reaching its goals.</p>	<p>Quality Manual – appendix 1</p>
<p><b>Conduct &amp; ethics.</b> Develop a code of conduct that will guide its members in their interactions with one another &amp; the organisation's employees.</p>	<p>Quality Manual – ethics and conduct Quality Manual – ethics and conduct</p>

*Source: developed for this research.*

The actual composition of the board was changed when the rules were revised to remove the board member position for a person elected from the staff of the organisation. However, the focus upon client participation in the governance of the organisation was not changed with the requirement that five of the nine board members had to be clients of the organisation. To ensure that this requirement was met the organisation funded any additional support costs that were necessary to allow clients to participate. Despite there being a code of ethics that

applied to board members and a process for declaration of interest, it can be envisaged that there may be moments of tension for board members having to make a decision that affects a service they receive. This is a departure from the corporate model of governance.

This client or consumer focus, as the organisation referred to it, had its source in the organisation's origins and continues with the majority of its members being consumers. When the rules of association were updated the following clause was added that required the organisation to consult with members and consumers:

*Consultation with members and consumers shall be conducted on a regular basis, as the Board of Directors shall direct at all times meeting legislative and relevant standards.*

*(COB Constitution 2004 Rule 28)*

The focus of this consultation in 2005 has been a survey of over 200 consumers. It was the values associated with consumer rights and participation that have had the direct impact, already outlined, upon the governance practices of the organisation.

The organisation has established a "Performance Indicator Review Schedule" and this is overseen by the Board's Policy Review and Audit Committee. This Committee plays a pivotal part in ensuring that the organisation meets its governance responsibilities. The Review Schedule included a range of key indicators as shown in Table 4.8. The only gap that was identified related to the absence of any mechanism for the board to review its own performance. Indeed, this was the only limitation in the overall review mechanisms that the organisation had in place.

An area in which the organisation excels was strategy setting and planning. The organisation has in place a plan that covers the period 2004-2011. The comprehensive purview of the plan was matched by indicators that are reported regularly through the Review Schedule. The original focus of the plan was upon

the purchase of new premises, but has been expanded to cover all of the organisations operations.

There were two factors that contribute to the organisation's maintenance of its governance structure. The first was the crucial role of the CEO. According to the Board chair the organisation was struggling to have appropriate governance practices in place until the current CEO was appointed. Indeed the Board Chair credited the CEO with keeping the organisation on track as they had lost direction until

*[CEO's name] came along ...*

*(COB Board Chair 2004, pers. comm., 13 April)*

The second factor in governance maintenance was the organisation's commitment to quality assurance and its adoption of third part certification using Australian Standard 9001:2000. Although the organisation does not make use of the Australian Standard (8000:2003) on governance its approach to quality management ensured that there were processes in place that were monitored and reviewed. The board's Policy Review and Audit Committee was part of the quality monitoring and review process.

The results of the governance self-assessment rating by interviewees are shown in Table 4.9. There was a fair degree of consistency in the ratings given by interviewees. The inadequate rating by the chair of the HR and succession planning feature related to his concerns about the capacity of the organisation to recruit a new CEO when required. I have added my rating of the organisation to Table 4.9. In terms of the strategy setting and planning governance feature the organisation had excellent practices in place. For all the other features the organisation was above average or average. A feature where there could be improvement was performance measurement of the board itself.

Table 4.9. Case Organisation B – governance rating by interviewees

Questions	Excellent	Above average	Average	Below average	Inadequate	Not applicable
Do you believe that the corporate governance principles and practices of your organisation are		Chair CEO Staff Researcher				
With regard to the following specific features do you believe your organisation's practices are						
HR & succession planning	CEO	Staff Researcher		Chair		
Strategy setting & planning	CEO Researcher	Chair Staff				
Risk management		Chair CEO Staff Researcher				
Financial strategy & reporting		CEO Researcher	Chair Staff			
Consultation		Chair CEO Staff	Researcher			
Roles & responsibilities	CEO	Researcher	Chair Staff			
Performance		Chair CEO Staff Researcher				
Skills, independence & resources		Chair CEO Staff Researcher				
Conduct & ethics	CEO	Chair Staff	Researcher			

Source: developed for this research.

### 4.3.3 Organisation C

Case Organisation C (COC) was an incorporated association that provides advocacy services. The organisation was created approximately ten years ago by a group concerned about a range of factors that were impacting upon Tasmanians facing particular challenges. In response to those concerns government funding was sought to establish an organisation that would be able to advocate for the individuals in a number of areas, but especially for the services they require. The funding request was successful and an incorporated association was established. It received recurrent funding from the DHHS. The grant was significantly less than \$1M and apart from some sponsorship arrangements was its only source of income. The limited income means that the organisation employed few people.

The organisation's CEO, board chair and a board member were interviewed for this research. The board member who was interviewed was the newest member, having joined the organisation just prior to the interview with the CEO and board chair. Documentation was sighted during the interviews, but none was provided for the interviewer to take away. Some of the documentation referred to was able to be accessed on the organisation's web site, but this was limited. What was available has been recorded in the document review data base. The organisation's file in the Business Affairs Office was examined, but revealed nothing out of the ordinary. The evidence that was discovered about the organisation's governance features and practices is shown in Table 4.10.

The paucity of information obtained reflects the limited attention that the organisation has given to the whole area of corporate governance. No board member training has been undertaken in the past three years; nor has the board undertaken a review of its performance in that period. The organisation does have a policy manual that contains governance policies, but in the interviews and documentation review only passing reference was made to this manual.

**Table 4.10. List of corporate governance features & practices that Case Organisation C has in place**

<i>Features and practices</i>	<i>Evidence</i>
<b>HR &amp; succession planning.</b> Ensure that there are adequate HR policies & procedures in place. Create a plan to appoint the successor of the CEO & to fill board vacancies.	None None
<b>Strategy setting &amp; planning.</b> Set the overall strategic goals for the organisation. Establish plans to achieve those goals & evaluation measures.	Strategic Plan 2004-06 None
<b>Risk management.</b> Ensure that there is a framework in place to identify, assess & treat risks on a continuing basis.	None None
<b>Financial strategy &amp; reporting.</b> Implement a schedule of financial reporting. Ensure there is a regime of external & internal audit. Approve budgets.	Treasurer's Report to Board meetings External – yes, Internal – no Board meeting
<b>Consultation.</b> Facilitate consultation with its stakeholders: members, clients/ consumers, the community & funding providers.	None None None None
<b>Roles &amp; responsibilities.</b> Exercise specific roles & responsibilities as outlined in the legislation under which the organisation is incorporated or constituted as well as the demands required in other legislation.	None None
<b>Performance.</b> Put in place a means of assessing three areas of performance: the board, the CEO and the organisation as a whole.	None Performance review measures None
<b>Skills, independence &amp; resources.</b> Ensure that its membership has the right mix of skills to facilitate the organisation in reaching its goals.	None
<b>Conduct &amp; ethics.</b> Develop a code of conduct that will guide its members in their interactions with one another & the organisation's employees.	None None

*Source: developed for this research.*

The CEO acknowledged that

*there was a huge policy manual that was put in place before I arrived but it needs to be reviewed because there are parts of that policy that aren't relevant.*

*(COC CEO 2004, pers. comm., 30 July)*

Board members do not undergo any induction to the organisation when they join the board and the policy manual is not copied for distribution to them. There was no process in place to allow the organisation to maintain its governance structure. The CEO could not identify the organisation's approach to governance saying:

*guess we use the model that [national peak body] had ... yes the Carver model.*

*(COC CEO 2004, pers. comm., 30 July)*

The policy manual was developed three years ago when the organisation was sent a collection of policies from a national peak CSO. The circulation from the national body was to its associated organisations to assist them with their governance practices. However, when they received them the case organisation inserted their name and put them into a folder. No effort was made to identify if the policies were appropriate for the context in which the organisation functions; reflected the needs of the organisation in light of Tasmanian legislation; or whether the policies would actually assist the organisation to meet its governance obligations. The material from the national body was based on the policy governance approach to corporate governance (Carver & Carver 1997). This approach is mentioned in the above section 2.4.2 and is sometimes referred to as the Carver Model.

There are two further areas to be commented upon. The first is that there was no mention of what values inform the organisation as it goes about its activities. When it came to the governance features of 'Strategy setting & planning' and 'Conduct & ethics' this was notable. The second area was the lack of performance appraisal for the organisation as a whole as

*Organisation performance is not something that we sit down and do.*

*(COC CEO 2004, pers. comm., 30 July)*

Although there was a Strategic Plan 2004-06 there was no mechanism to measure the organisation's progress in achieving the plan's goals.



The results of the governance self-assessment rating by interviewees are shown in Table 4.11. There was a significant difference in the rating by the board member and the board chair and CEO. The board member was a relatively new member of the organisation, but had significant management experience within the community services sector including exposure to the corporate governance approaches used by former employers. The commitment of the board chair and CEO to the organisation was evident, as was their lack of knowledge in relation to corporate governance. I have included my rating of the organisation in Table 4.11. In all areas it is my assessment that the organisation needs to improve what it is doing.

**Table 4.11. Case Organisation C – governance rating by interviewees**

Questions	Excellent	Above average	Average	Below average	Inadequate	Not applicable
Do you believe that the corporate governance principles and practices of your organisation are		<i>Chair</i>	<i>CEO</i>	<i>Member</i>	<i>Researcher</i>	
With regard to the following specific features do you believe your organisation's practices are						
HR & succession planning			<i>Chair CEO</i>	<i>Member</i>	<i>Researcher</i>	
Strategy setting & planning		<i>Chair CEO</i>		<i>Member</i>	<i>Researcher</i>	
Risk management			<i>Chair CEO</i>	<i>Member</i>	<i>Researcher</i>	
Financial strategy & reporting		<i>Chair CEO</i>	<i>Member</i>	<i>Researcher</i>		
Consultation		<i>Chair</i>	<i>CEO</i>	<i>Member</i>	<i>Researcher</i>	
Roles & responsibilities		<i>Chair CEO</i>		<i>Member</i>	<i>Researcher</i>	
Performance	<i>Chair</i>		<i>CEO</i>	<i>Member</i>	<i>Researcher</i>	
Skills, independence & resources		<i>Chair CEO</i>		<i>Member</i>	<i>Researcher</i>	
Conduct & ethics		<i>Chair CEO</i>		<i>Member</i>	<i>Researcher</i>	

*Source: developed for this research.*

#### 4.3.4 Organisation D

Case organisation D (COD) was an incorporated association that provides services to people living with disabilities. It was formed in the early 1990s as a

consequence of the Tasmanian government's policy commitment to deinstitutionalisation of people with disabilities and their tendering of replacement services out to the community sector. The association had a turnover in excess of \$1M and was entirely funded by the DHHS.

The organisation's board chair and CEO were interviewed by the research assistant. During the interview with the CEO documentation was provided. The most significant document was the organisation's folder of policies, procedures and forms and it included the board's governance policies. The organisation's file with the Business Affairs Office was reviewed and it did not reveal anything out of the ordinary. The evidence that was discovered about the organisation's governance features and practices is shown in Table 4.12.

According to the CEO the organisation has in place the policy governance model or, as it is sometimes referred to, the Carver model – see section 2.4.2. The policies that were in the organisation's policies folder refer to the work of Carver and Carver (1997). Examination of the material showed that they are a set of policies that were circulated a couple of years ago to the organisation by a national peak CSO. They were the same policies that Case Organisation C has in place and, as in that case, they have not been customised for the particular context in which the organisation functions or reviewed for their ongoing appropriateness. They were, however, in use as evidenced by their inclusion in the policies folder and were referred to in the interview with the CEO. The board chair was familiar with the policies, but was unaware of their origins claiming that

*what we've done hasn't been based on something that anyone's read and so its just evolved.*

*(COD Board Chair 2005, pers. comm., 12 April)*

**Table 4.12. List of corporate governance features & practices that Case Organisation D has in place**

<i>Features and practices</i>	<i>Evidence</i>
<p><b>HR &amp; succession planning.</b> Ensure that there are adequate HR policies &amp; procedures in place. Create a plan to appoint the successor of the CEO &amp; to fill board vacancies.</p>	<p>Policies, Procedures &amp; Forms Folder CEO – none Board – standing agenda item</p>
<p><b>Strategy setting &amp; planning.</b> Set the overall strategic goals for the organisation. Establish plans to achieve those goals &amp; evaluation measures.</p>	<p>Strategic Plan Business Plan</p>
<p><b>Risk management.</b> Ensure that there is a framework in place to identify, assess &amp; treat risks on a continuing basis.</p>	<p>None None</p>
<p><b>Financial strategy &amp; reporting.</b> Implement a schedule of financial reporting. Ensure there is a regime of external &amp; internal audit. Approve budgets.</p>	<p>Monthly Finance Committee &amp; Board External auditors &amp; Finance Committee Annually</p>
<p><b>Consultation.</b> Facilitate consultation with its stakeholders: members, clients/ consumers, the community &amp; funding providers.</p>	<p>Annual meeting, Newsletter Consumer survey &amp; scheduled meetings Newsletter Service Agreement reporting</p>
<p><b>Roles &amp; responsibilities.</b> Exercise specific roles &amp; responsibilities as outlined in the legislation under which the organisation is incorporated or constituted as well as the demands required in other legislation.</p>	<p>Governance process policies including board job description Board job description</p>
<p><b>Performance.</b> Put in place a means of assessing three areas of performance: the board, the CEO and the organisation as a whole.</p>	<p>Governance sub-committee Board key performance indicators Board/CEO linkage policies DHHS evaluation</p>
<p><b>Skills, independence &amp; resources.</b> Ensure that its membership has the right mix of skills to facilitate the organisation in reaching its goals.</p>	<p>None</p>
<p><b>Conduct &amp; ethics.</b> Develop a code of conduct that will guide its members in their interactions with one another &amp; the organisation's employees.</p>	<p>Code of Ethics and Proper Practice Ethics sub-committee Code of Conduct policy</p>

*Source: developed for this research.*

Despite the confusion over the origins of the policies the organisation had a framework in place to maintain its governance structure. The key factor, according to the board chair, was the skill and expertise of the board members, many of whom have professional backgrounds, work in senior management positions and hold other board positions. The other factor referred to was the competency of the CEO. In fact the board chair indicated that if the CEO left then the board would need to reconsider its governance approach. The board was in

the process of reviewing all of its governance policies and has established a sub-committee to undertake the work involved.

The board had two other sub-committees that assist its work. The finance sub-committee meets as often as the board to review monthly financial reports and has responsibility for coordinating the external and internal audit functions. There was an ethics sub-committee that deals with ethical dilemmas when they arise. The dilemmas were usually related to client issues and the committee provides a mechanism for a review and discussion to take place quickly.

The board has established key performance indicators (KPIs) for the organisation as a whole in its business plan and they have put in place indicators for the board's performance. The use of KPIs is a tool that the board was using to maintain its approach to governance. To further ensure that the organisation retains its capacity to govern well it intends to implement a quality management system (ISO 9000:2000) in the 2005 calendar year.

The motivating force behind the organisation's commitment to corporate governance was described by the board chair in these terms:

*Covering one's butt, that's the guts of it!*

*(COD Board Chair 2005, pers. comm., 12 April)*

The board chair went on to refer to compliance with statutory responsibilities. In addition the organisation saw strategic advantages in operating at best practice not just in the service delivery area, but in everything they do including governance. The hope was that this will increase the organisation's success in DHHS tenders as

*strategically we wanted to be seen as a best practice organisation that the government would want to come to*

*(COD Board Chair 2005, pers. comm., 12 April)*

The focus on best practice did not extend to the board's approach to risk management. The organisation did not have a formal risk management strategy

in place; indeed it even lacks a basic risk register. The CEO named it as an area requiring attention and intends to have a strategy implemented by the end of the 2005 financial year. The other area where improvement is required is that of the skills, independence and resources of the board. The organisation had no formal process in place to ensure that the board was able to function well by having the right skill mix.

It was a different story when we looked at the area of consultation. The organisation's newsletter is circulated to members of the association and more widely in the community. The CEO actively engaged with the DHHS on a regular basis. It is in the area of consumer consultation that the organisation excels. There was a biennial client satisfaction survey undertaken by an independent consultant and there were regular consumer meetings facilitated by an advocate. This advocate also resourced a consumer to attend and contribute to board meetings. This was a significant commitment of resources by the board to ensure proper consultation.

The commitment of such resources was an example of where the organisation's values impact upon the way it functions.

*In the strategic plan there is actually the principles and values of the organisation so they are stated up front*

*(COD CEO 2005, pers. comm., 10 March)*

and these influenced the planning within the organisation.

The results of the governance self-rating by interviewees are shown in Table 4.13. Given the comments by the board chair about the importance and qualifications of the board members the excellent ratings were not surprising. There was a high degree of consistency in the responses. I have included my rating of the organisation in Table 4.13. The risk management and skills, independence and resources features were marked as inadequate and below average reflecting the lack of practices that were in place.

Table 4.13. Case Organisation D – governance rating by interviewees

Questions	Excellent	Above average	Average	Below average	Inadequate	Not applicable
Do you believe that the corporate governance principles and practices of your organisation are	Chair	CEO Researcher				
With regard to the following specific features do you believe your organisation's practices are						
HR & succession planning		Chair	CEO Researcher			
Strategy setting & planning	Chair	CEO Researcher				
Risk management	Chair		CEO		Researcher	
Financial strategy & reporting	Chair CEO		Researcher			
Consultation	Chair CEO Researcher					
Roles & responsibilities	Chair	CEO	Researcher			
Performance	Chair	CEO Researcher				
Skills, independence & resources	Chair	CEO		Researcher		
Conduct & ethics	Chair	CEO Researcher				

Source: developed for this research.

#### 4.3.5 Organisation E

Case Organisation E (COE) was an incorporated association that provides a wide range of community services. It was founded many years ago as a religious-based organisation as an ecumenical endeavour and was not connected to a particular church. It continued to have a significant level of support from the majority of churches in its area of operation. It had an income exceeding \$1M and although it had a diversified funding stream the majority of funding for its services comes from the DHHS.

The organisation's board chair, CEO and a staff member were interviewed by the research assistant. During the interview with the CEO a range of documentation was provided and these have been listed in the document review database. The organisation's file with the Business Affairs Office was examined and did not

reveal anything out of the ordinary. The evidence that was discovered about the organisation's governance features and practices is shown in Table 4.14.

The organisation's approach to corporate governance could be described as the traditional model, that is where the board governs and oversees operations through committees, but delegates the management functions to the CEO – see section 2.4.2. This was evidenced by what was listed in the organisation's rules of association and reflected in the limited amount of material contained in the board folder. However, there did not seem to be an awareness of any particular structure or approach to governance from the board chair who claimed that

*we virtually haven't got a structure .... it's more an individual saying 'I'm chairman now so I'm going to run it this way.'*

*(COE Board Chair 2005, pers. comm., 11 April)*

There was no information about external responsibilities of board members under, for example, the Associations Incorporation Act, Workplace Health and Safety Act and DHHS service agreements.

**Table 4.14. List of corporate governance features & practices that Case Organisation E has in place**

<i>Features and practices</i>	<i>Evidence</i>
<b>HR &amp; succession planning.</b> Ensure that there are adequate HR policies & procedures in place. Create a plan to appoint the successor of the CEO & to fill board vacancies.	Policy and Procedures Manual None
<b>Strategy setting &amp; planning.</b> Set the overall strategic goals for the organisation. Establish plans to achieve those goals & evaluation measures.	Summary of Goals None
<b>Risk management.</b> Ensure that there is a framework in place to identify, assess & treat risks on a continuing basis.	None None
<b>Financial strategy &amp; reporting.</b> Implement a schedule of financial reporting. Ensure there is a regime of external & internal audit. Approve budgets.	Monthly reports Annual external audit Annually
<b>Consultation.</b> Facilitate consultation with its stakeholders: members, clients/ consumers, the community & funding providers.	Annual meeting, newsletters None None None
<b>Roles &amp; responsibilities.</b> Exercise specific roles & responsibilities as outlined in the legislation under which the organisation is incorporated or constituted as well as the demands required in other legislation.	None None
<b>Performance.</b> Put in place a means of assessing three areas of performance: the board, the CEO and the organisation as a whole.	None None None
<b>Skills, independence &amp; resources.</b> Ensure that its membership has the right mix of skills to facilitate the organisation in reaching its goals.	None
<b>Conduct &amp; ethics.</b> Develop a code of conduct that will guide its members in their interactions with one another & the organisation's employees.	None Standards of Conduct, Code of Ethics

*Source: developed for this research.*

The limited amount of material contained within the board folder is reflected in Table 4.14. Given this paucity of information it was not surprising that there were a number of governance features that had not been attended to by the board and urgent attention needs to be given to them. Of particular significance was that there was no reference within the organisation's documentation to risk management. This was also the case with regard to the consultation, performance, roles/responsibilities and skills features. In another key area, that of



strategic planning, it was noted that a planning activity had recently commenced and is due for completion at the end of the 2005 calendar year. However the CEO pointed out that

*we don't do it every year, we had a session 12-13 years ago and we just thought it was time to start again and do something.*

*(COE CEO 2005, pers. comm., 11 April)*

There was no indication about how the organisation's approach to governance was maintained or developed. There was no formal induction or orientation process for board members and no training was provided to them. The organisation had a quality management system in place, but it did not apply this tool to the corporate governance responsibilities of the board.

The pivotal person in the organisation was the CEO. Although this was assumed in the traditional model of corporate governance, the dependency upon the CEO in this organisation was raised as a cause for concern by each of the interviewees. The Board Chair expressed the concern that

*the problem with the system at the moment is that it depends far too much on [CEO name], there's no problem whilst we've got [CEO name] but if we ever lost [CEO name] we just haven't got a structure for the [organisation]*

*(COE Board Chair 2005, pers. comm., 11 April)*

The over reliance upon the individual in the particular role without a robust structure surrounding can be problematic, especially where the board governance structure is lacking.

The governance practices of the organisation were influenced by the Christian foundation of the organisation in the following ways. Firstly, there was evidence in the recruitment of board members (staff and volunteers), in the board folder, staff/volunteer orientation handbook, web site, summary of goals, and policy and procedure manual. Secondly, the grievance procedure referred to Matthew 18 which was the same as for Case Organisation A. Finally the limited planning already undertaken by the organisation was informed by the board's faith position that stated

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*our financial strategy is, if God wants it done He'll find the money, and [CEO name] has that and it's the way we work.*

*(COE Board Chair 2005, pers. comm., 11 April)*

The results of the governance self-assessment rating by interviewees are shown in Table 4.15. The starkest difference in grading by interviewees was where in a number of incidents the staff member rated the organisation lower than the Chair or CEO. It was apparent from the interview that the staff member understands corporate governance and could identify where the organisation fell short. I have added my rating of the organisation to Table 4.15. The strategy setting and risk management features were marked as inadequate. The other features were all below average except for financial strategy and conduct and ethics which were average.

**Table 4.15. Case Organisation E – governance rating by interviewees**

Questions	Excellent	Above average	Average	Below average	Inadequate	Not applicable
Do you believe that the corporate governance principles and practices of your organisation are	CEO	Chair	Staff	Researcher		
With regard to the following specific features do you believe your organisation's practices are						
HR & succession planning		CEO	Chair Staff	Researcher		
Strategy setting & planning		Staff	CEO	Chair	Researcher	
Risk management	CEO	Chair	Staff		Researcher	
Financial strategy & reporting	CEO	Chair Staff	Researcher			
Consultation		Chair CEO		Staff Researcher		
Roles & responsibilities	CEO		Chair	Researcher	Staff	
Performance		Chair CEO	Staff	Researcher		
Skills, independence & resources	Chair	CEO		Staff Researcher		
Conduct & ethics	Chair Staff	CEO	Researcher			

*Source: developed for this research.*

#### 4.3.6 Organisation F

Case Organisation F (COF) was an incorporated association that provides family support services. It was established in the 1980s as a result of a group of churches being concerned about families in need. That initial connection had evolved over time with broad church and community support, however it was still a religious-based organisation. Although initially it raised its own funds it was now dependent on government funding with the majority of its income being grants from the DHHS. Its annual turnover is less than \$1M, but it had undergone significant growth in turnover in the last few years.

The organisation's CEO, acting board chair and board treasurer were interviewed for this research. The CEO referred to the organisation's operational policies and procedures folder during the interview and provided a copy of the 2003-04 annual report. The organisation's file with the Business Affairs Office was examined and showed nothing out of the ordinary. The evidence that was discovered about the organisation's governance features and practices is shown in Table 4.16.

The organisation's approach to corporate governance can be described as the traditional model, that is, where the board governs and oversees operations, but delegates the management functions to the CEO – see section 2.4.2. There was acknowledgement by the board members interviewed that the board, indeed the whole organisation, was dependent upon the CEO. Despite this dependency the organisation had no succession plan for the CEO, or board members and accordingly

*if we lost some one like [CEO] we would be very weak.*

*(COF Board Member 2005, pers. comm., 9 May)*

**Table 4.16. List of corporate governance features & practices that Case Organisation F has in place**

<i>Features and practices</i>	<i>Evidence</i>
<p><b>HR &amp; succession planning.</b> Ensure that there are adequate HR policies &amp; procedures in place. Create a plan to appoint the successor of the CEO &amp; to fill board vacancies.</p>	<p>Operational Policies and Procedures Manual None</p>
<p><b>Strategy setting &amp; planning.</b> Set the overall strategic goals for the organisation. Establish plans to achieve those goals &amp; evaluation measures.</p>	<p>Strategic Plan Strategic Plan and bi-monthly reports</p>
<p><b>Risk management.</b> Ensure that there is a framework in place to identify, assess &amp; treat risks on a continuing basis.</p>	<p>None None</p>
<p><b>Financial strategy &amp; reporting.</b> Implement a schedule of financial reporting. Ensure there is a regime of external &amp; internal audit. Approve budgets.</p>	<p>Monthly board reports External auditors &amp; board treasurer Annually</p>
<p><b>Consultation.</b> Facilitate consultation with its stakeholders: members, clients/ consumers, the community &amp; funding providers.</p>	<p>AGM None None Service Agreement reporting</p>
<p><b>Roles &amp; responsibilities.</b> Exercise specific roles &amp; responsibilities as outlined in the legislation under which the organisation is incorporated or constituted as well as the demands required in other legislation.</p>	<p>None None</p>
<p><b>Performance.</b> Put in place a means of assessing three areas of performance: the board, the CEO and the organisation as a whole.</p>	<p>None Annual performance review None</p>
<p><b>Skills, independence &amp; resources.</b> Ensure that its membership has the right mix of skills to facilitate the organisation in reaching its goals.</p>	<p>None</p>
<p><b>Conduct &amp; ethics.</b> Develop a code of conduct that will guide its members in their interactions with one another &amp; the organisation's employees.</p>	<p>None Code of conduct</p>

*Source: developed for this research.*

At the time of the interviews the organisation was going through a period of crisis or as the board member interviewed referred to it “a transition”. There were two factors contributing to this transition. The first was increased funding from the DHHS that led to a corresponding increase in the level of service activity. The additional funding placed extra demands upon the organisation including the board. There was also a reduced capacity for the organisation to act independently of government as the majority of the organisation’s funding for

services were subject to DHHS Service Agreements. The second factor is related to the first. The board had to change its policy in relation to recruitment as additional staff were required and they could not be sourced from local churches as had happened previously. As a result of these factors two board members resigned and the board commenced a review of its governance processes.

There was awareness within the organisation of the requirements of the Associations Incorporation Act and the need to submit returns to the Business Affairs Office. However, there was a lack of board policies, no board member handbook (or similar) and no induction/orientation material for board members. The Board Chair pointed out that

*the bigger issues of board policies haven't really been defined yet. Not all of them anyway but I guess it is evolving ... I mean we've got the idea, but I think that we just haven't transferred it to a written form.*

*(COF Board Chair 2005, pers. comm., 9 May)*

The organisation does hold an annual weekend retreat for board members and one of the sessions is called "governance training", but this was not translated into written documentation. This retreat weekend was the only structured opportunity that the organisation had to maintain its approach to corporate governance. The other item on the board retreat agenda was updating the organisation's strategic plan. Sometimes this had been a simple refinement and in other years a major revision. The strategic plan was a key document for the organisation as it

*directs the whole organisation ... it's the pinnacle of the organisation.*

*(COF CEO 2005, pers. comm., 9 May)*

The Christian foundation of the organisation was claimed by all interviewees to have a fundamental impact upon the organisation. Apart from passing references in the strategic plan document there was no formal evidence of its influence. Interviewees advised that board meetings commenced with prayer, AGMs were held in churches and board members, association members and management were all from local churches. The whole approach from the board

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members to their participation in the organisation was on the basis of it being Christian service, however they could not point out specific governance practices that were informed by that faith.

The board has put in place various measures to ensure that its governance responsibilities in relation to financial reporting and strategy are met. However, in relation to the 2003-04 financial year the organisation's external auditors issued a qualified report. The qualification did not pertain to the overall result, but indicated the allocation within various divisions could not be verified. The board has taken remedial action by retaining ongoing professional accounting assistance to work through the complexities associated with divisional reporting. The comments from the board treasurer suggested that this qualification was further evidence of an organisation in transition.

The results of the governance self-assessment rating by interviewees are shown in Table 4.17. It would appear that the interviewees had agreed on what responses to make as they were all exactly the same. The excellent rating for the overall situation was surprising given the number of above average and average responses that follow. I have added my rating of the organisation to Table 4.17. The HR/succession planning and risk management features are marked as inadequate.

Table 4.17. Case Organisation F – governance rating by interviewees

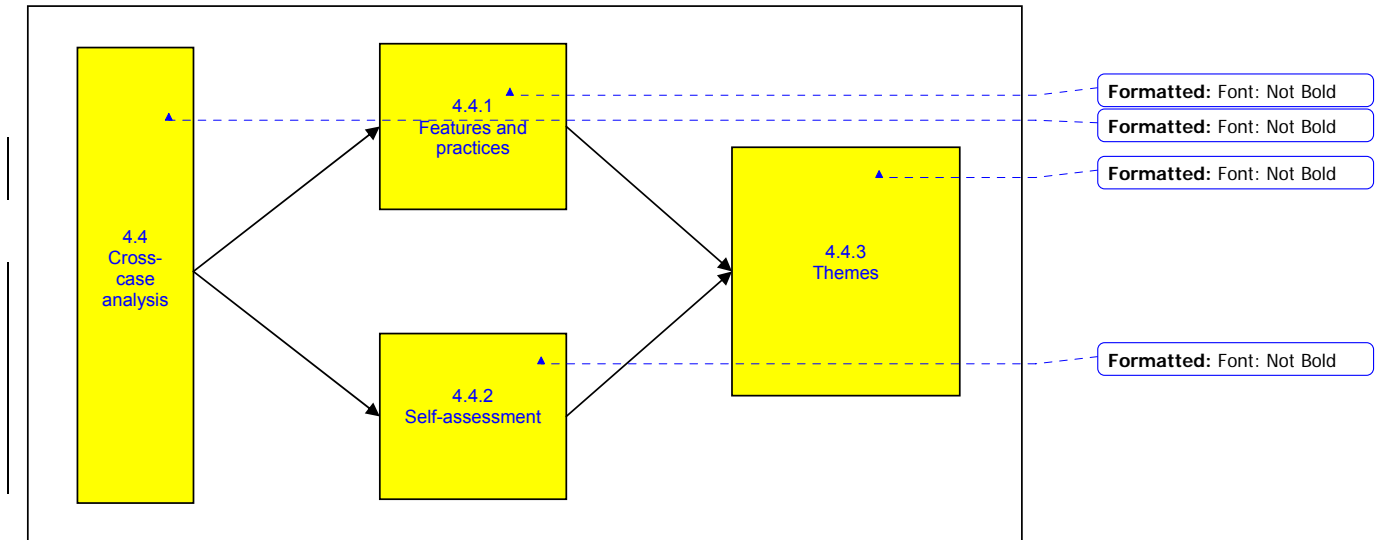
Questions	Excellent	Above average	Average	Below average	Inadequate	Not applicable
Do you believe that the corporate governance principles and practices of your organisation are	Chair Member CEO			Researcher		
With regard to the following specific features do you believe your organisation's practices are						
HR & succession planning					Chair Member CEO Researcher	
Strategy setting & planning		Chair Member CEO Researcher				
Risk management		Chair Member CEO			Researcher	
Financial strategy & reporting		Chair Member CEO	Researcher			
Consultation		Chair Member CEO		Researcher		
Roles & responsibilities			Chair Member CEO	Researcher		
Performance			Chair Member CEO	Researcher		
Skills, independence & resources		Chair Member CEO	Researcher			
Conduct & ethics	Chair Member CEO		Researcher			

Source: developed for this research.

#### 4.4 Cross-case analysis

With the above descriptions of the six case organisations now complete the cross-case analysis followed. As Figure 4.2 shows the analysis began with a consideration of what the case data revealed about the best practice governance features and practices and was followed by examination of the self-assessments from all the case interviews. During the course of this analysis eight themes were identified and these are presented prior to the chapter being concluded.

Figure 4.2. Outline of section 4.4 cross-case analysis



Source: developed for this research.

#### 4.4.1 Features and practices

Table 4.18 lists what corporate governance features and practices each case organisation has in place. This table uses the list of best practice guiding features identified from the literature review and verified by the stakeholder interviews. It shows (√) the areas where practices are in place and indicates (x) where they are not and accordingly where improvement is required. It was evident that Case Organisations C and E require the most improvements. It also showed that Case Organisation B requires the least number of improvements.



**Table 4.18. List of corporate governance features & practices that case organisations have in place**

<i>Features and practices</i>	<i>Case Organisations</i>					
	<i>A</i>	<i>B</i>	<i>C</i>	<i>D</i>	<i>E</i>	<i>F</i>
<b>HR &amp; succession planning.</b>						
Ensure that there are adequate HR policies & procedures in place.	√	√	x	√	√	√
Create a plan to appoint the successor of the CEO & to fill board vacancies.	x	√	x	√	x	x
<b>Strategy setting &amp; planning.</b>						
Set the overall strategic goals for the organisation.	√	√	√	√	√	√
Establish plans to achieve those goals & evaluation measures.	√	√	x	√	x	√
<b>Risk management.</b>						
Ensure that there is a framework in place to identify, assess & treat risks	x	√	x	x	x	x
on a continuing basis.	x	√	x	x	x	x
<b>Financial strategy &amp; reporting.</b>						
Implement a schedule of financial reporting.	√	√	√	√	√	√
Ensure there is a regime of external & internal audit.	√	√	√	√	√	√
Approve budgets.	√	√	√	√	√	√
<b>Consultation.</b>						
Facilitate consultation with its stakeholders: members, clients/ consumers, the community & funding providers.	√	√	x	√	√	√
	√	√	x	√	x	x
	√	√	x	√	x	x
	√	√	x	√	x	√
<b>Roles &amp; responsibilities.</b>						
Exercise specific roles & responsibilities as outlined in the legislation under which the organisation is incorporated or constituted	√	√	x	√	x	x
as well as the demands required in other legislation.	√	√	x	√	x	x
<b>Performance.</b>						
Put in place a means of assessing three areas of performance: the board,	x	x	x	√	x	x
the CEO	x	√	√	√	x	√
and the organisation as a whole.	√	√	x	√	x	x
<b>Skills, independence &amp; resources.</b>						
Ensure that its membership has the right mix of skills to facilitate the organisation in reaching its goals.	√	√	x	x	x	x
<b>Conduct &amp; ethics.</b>						
Develop a code of conduct that will guide its members in their interactions with one another	√	√	x	√	x	x
& the organisation's employees.	√	√	x	√	√	√

*Source: developed for this research.*

Each of the governance features was discussed in light of what the cross-case analysis revealed. In some instances there was little discussion, but as will be seen there were some features that required significant comment.

#### 4.4.1.1 HR and succession planning

As Table 4.18 shows apart from Case Organisation C all organisations had HR policies and procedures in place. The succession planning practice required some interpretation as it contained the question of succession for both the CEO and board members and accordingly separation of the elements in the practice would be more helpful. The case data showed that only Case Organisation B had a succession plan in place for its CEO. It also showed that both Case Organisations B and D had a plan to fill vacancies in board membership.

#### 4.4.1.2 Strategy setting and planning

Table 4.18 shows that all case organisations had set strategic goals for the organisations however Case Organisations C and E had not established plans to achieve these goals. The case data revealed that there were significant differences between the plans that organisations had in place. The first difference was that Case Organisation A had set evaluation measures for its plan, but Case Organisations B, D and F had not done so. Another difference was that Case Organisation A had a two page strategic plan for the coming year whereas Case Organisation B had a detailed and comprehensive plan that goes over 15 pages, covers the next 3-4 years and includes evaluation measures. As mentioned above there would be advantages in separating the plan and evaluation practices. The case data indicated that none of the case organisations undertook broader strategic planning activities using environmental scanning and horizon planning.

#### 4.4.1.3 Risk management

Table 4.18 shows only Case Organisation B had any formalised risk management practices in place. Case Organisation B made use of a risk register to record how it was managing risk however it did not connect its risk management with its quality management system. Neither it, nor any other case organisation, used a comprehensive framework, like the Australian risk management standard (AS4360), for risk analysis. Risk management was emphasised in the literature and information was widely available about the importance of managing risks (Kiel & Nicholson 2002). However, in comparative terms this emphasis was a more recent development especially when it came to

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the formal management processes that were recommended. The implementation of risk management practices has been slow in other areas, not just the Third Sector (Laugher 2002).

Despite the majority of case organisations not identifying any processes that provide for the identification, assessment and treatment of risks, the case data revealed that they do have in place practices through which risks were being managed. For example they all had a range of insurance policies in place. Case organisations also had practices which could be considered a risk treatment strategy, for example the financial reporting regime spoken of below was used to manage the risk of insolvency.

#### 4.4.1.4 Financial strategy and reporting

Table 4.18 shows all the case organisations had practices in place that address the financial reporting feature. There were three reasons suggested from the case data for this. The first was that the fundamental governance responsibility for boards in the finance area, especially solvency, was well known even to the newest board member (Ott 2001). Board members knew that they needed to ensure that the books were balanced and the bills were paid. The second reason was that the service agreement from the DHHS (2003), which was the major funding provider for all the case organisations, placed emphasis upon financial reporting and made limited reference to other governance features. Board members were aware that they placed at risk their capacity to provide services if they failed to meet the DHHS reporting requirements. The other reason organisations had financial reporting under control was the requirement imposed on boards by the Business Affairs Office for an annual return which had to include audited financial reports. It was a requirement that the home addresses of board members were recorded which may make them aware of the reporting required.

The financial reports provided to board members by all the case organisations were very similar with a basic balance sheet. There were some differences when it came to the income and expenditure statement with three organisations providing a year to date comparison against budget and a variance report whilst

another tracked the variance to the previous financial year. None of the reports used dashboard indicators, balance sheet ratios or other analysis tools. Nor had any of the organisations moved to adopt general purpose reporting using the Australian Accounting Standards. They all continued to prepare special purpose reports. The emphasis in each organisation was ensuring that there was a compliant reporting regime. Apart from Case Organisation B, where there was 3-5 year financial projections connected to their strategic plan, case organisations did not have a financial strategy in place.

The practice relating to auditing could usefully be separated to distinguish between external audits, which all case organisations undertook, and internal audit, which Case Organisations C and E did not undertake.

#### 4.4.1.5 Consultation

Case Organisation C undertook no consultation with the four identified stakeholder groups whereas Case Organisations B and D consulted with all four. Case Organisation E limited its consultation to its members and Case Organisation F consulted members and the funding provider. The data suggested that case organisations placed consultation with its members ahead of any other stakeholder group. It was followed in priority by consultation with the funding provider.

#### 4.4.1.6 Roles and responsibilities

The case data revealed that Case Organisations A, B and D were the only three organisations to have implemented practices associated with this governance feature. The board member job description in Case Organisation D, the board member manual in Case Organisation A and the quality manual in Case Organisation B outlined the specific roles and responsibilities of board members. This information included reference to the Associations Incorporation Act and other relevant legislation. Unlike the other organisations Case Organisation A followed up the provision of a manual with training of board members and an orientation for new board members.

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#### 4.4.1.7 Performance

This governance feature had three practices associated with it and each were considered in turn.

The first performance practice was that of the board. The case data revealed that assessment of board performance only took place in Case Organisation D. The board of Case Organisation D set KPIs for the CEO, the organisation as a whole and itself. The annual review of these KPIs provided the board with an opportunity to examine what governance practices were in place and what were working well. No case organisation referred to their governance approach in their annual report.

The second performance practice was that of the CEO. The title Chief Executive Officer (CEO) was used in this research to describe the most senior management position in the case organisation. Each organisation had a full-time employee in this position and the board delegated significant responsibility to that employee. This was reflective of both the policy governance and traditional governance models (see Table 4.21). The board chair and/or board member interviewed in each case organisation made it clear that the CEO was a vital person within the organisation ensuring that it was able to provide the services required under the DHHS Service Agreement. In addition, it was identified in Case Organisations A, B and D that the CEO had a role in monitoring the governance approach the organisation had adopted. When it came to CEO performance it was noted that all six CEOs were permanent employees and no use was made of performance based contracts or even an annual review process based on KPIs. However, all case organisations, except A and E, had a process to review CEO performance.

The final performance practice was that of the organisation as a whole. Case Organisations A, B and D were the only three case organisations to have a mechanism in place to assess organisational performance. In Case Organisation A the CEO provided the board with a monthly report on service delivery. A similar report was generated by Case Organisation D and was based on the statistical requirements of the DHHS Service Agreement. Case Organisation B

used its quality management system to assess its overall performance against the evaluation measure set down in the organisation's strategic plan.

#### 4.4.1.8 Skills, independence and resources

Table 4.18 shows that only Case Organisations A and B had implemented a practice that responded to this feature. Case Organisation A had a skills matrix that it uses when seeking new board members. Case Organisation B had a list of criteria for board membership in its quality manual. This list went beyond the skills required to address interpersonal attributes and personal commitments that the organisation sought from a prospective board member.

No practices were listed that responded to the independence and resources components of the governance feature. However, it can be noted from the case data, that the CEO played a pivotal role in assisting the boards of Case Organisations A, B, D, E and F to fulfil their governance responsibilities (Tasmanian Chamber of Commerce and Industry 2002). In Case Organisation F a dependency upon the CEO was named and this raises questions about the board's independence. The case data also revealed that no case organisation included a line item in its budget to provide funds to its board to meet the costs associated with maintaining its governance approach.

#### 4.4.1.9 Conduct and ethics

The feature and practices associated with conduct and ethics has at its foundation the values that an organisation has adopted. The case data revealed that only Case Organisations B and D had a list of values. As can be seen from Table 4.19 there is some limited overlap between the lists.

Table 4.19. Case Organisations B &amp; D – list of values

Case Organisation B	Case Organisation D
Development of flexible service options. Equity of access to services. Optimal consumer choice. Openness, honesty and fairness in all of our dealings. Value for money. Confidentiality.	Value the rights and individuality of people. Recognise and value the worth of individuals. Support the right of people with disabilities to participate in activities of their choice. Treat clients and staff fairly, with compassion, understanding and respect. Behave with integrity and in an ethical manner.

*Source: developed for this research.*

There was no indication as to where the organisations drew the values from that reflect a humanistic focus. None of the three religious-based organisations had a list of values, but instead assumed that the religious tradition itself provided a set of values. Those organisations with a list of values (B and D) and the religious-based organisations (A, E and F) all placed importance on values and in each case organisations claimed that their activities were informed by them. In each case organisation, except C, a governance feature that was informed by values was the code of conduct for employees and Case Organisations A, B and D also had a code for board members. The principles of the codes were derived from the values statements. However the case data revealed that organisations were not explicit as to how the values of the organisations impacted upon the way the organisation was governed (Hester 2000, Letts et al. 1999). This does not lead to the conclusion that the organisation's values were not important, rather that there was no formal values-based decision-making framework in place. Such a framework would enable a board to be explicit in taking into account the organisation's values when exercising their governance responsibilities.

#### 4.4.2 Self-assessment

In addition to the above information about best practice features there was a component of the data collection from case organisations that included a set of self-rating questions that were asked of interviewees. Table 4.20 is a compilation of responses from interviewees and includes the researcher's assessment. It is evident from Table 4.20 that interviewees have varying perceptions about the

adequacy of the governance practices their organisations have in place. The responses indicated that interviewees generally perceive that organisations have average or above average practices. There were few responses indicating excellent practices which leaves room for further improvement in the governance practice in all of the case organisations. The need for improvement was also evident from the range of below average/average ratings. Interviewees from Case Organisations E and F rated some of the governance practices of their organisations as inadequate. Remedial action to improve performance in these areas is more urgent.



**Table 4.20 Case organisations – governance ratings by interviewees**

Questions		Excellent	Above average	Average	Below average	Inadequate
Do you believe that the corporate governance principles and practices of your organisation are		Chair <b>D, F</b> Member <b>F</b> CEO <b>E, F</b>	Chair <b>B, C, E</b> CEO <b>A, B, D</b> Staff <b>B</b> Researcher <b>B, D</b>	Chair <b>A</b> Member <b>A</b> CEO <b>C</b> Staff <b>E</b> Researcher <b>A</b>	Member <b>C</b> Researcher <b>E, F</b>	Researcher <b>C</b>
With regard to the following specific features do you believe your organisation's practices are						
	HR & succession planning	CEO <b>B</b>	Chair <b>D, F</b> Member <b>F</b> CEO <b>E, F</b> Staff <b>B</b> Researcher <b>B</b>	Chair <b>A, C, E</b> Member <b>A</b> CEO <b>A, C, D</b> Staff <b>E</b> Researcher <b>D</b>	Chair <b>B</b> Member <b>C</b> Researcher <b>A, E</b>	Chair <b>F</b> Member <b>F</b> CEO <b>F</b> Researcher <b>C, F</b>
	Strategy setting & planning	Chair <b>D</b> CEO <b>B</b> Researcher <b>B</b>	Chair <b>A, B, C,</b> Member <b>A</b> CEO <b>A, C, D</b> Staff <b>B, E</b> Researcher <b>A, D, F</b>	CEO <b>E</b>	Chair <b>E</b> Member <b>C</b>	Researcher <b>C, E</b>
	Risk management	Chair <b>D</b> CEO <b>E</b>	Chair <b>B, E, F</b> Member <b>F</b> CEO <b>B, F</b> Staff <b>B</b> Researcher <b>B</b>	Chair <b>A, C</b> Member <b>A</b> CEO <b>A, C</b> Staff <b>E</b>	Member <b>C</b> Researcher <b>A</b>	Researcher <b>C, D, E, F</b>
	Financial strategy & reporting	Chair <b>D</b> CEO <b>D, E</b>	Chair <b>A, C, E, F</b> Member <b>F</b> CEO <b>B, C, F</b> Staff <b>E</b> Researcher <b>B</b>	Chair <b>B</b> Member <b>A, C</b> Staff <b>B</b> CEO <b>A</b> Researcher <b>A, D, E, F</b>	Researcher <b>C</b>	
	Consultation	Chair <b>D</b> CEO <b>D</b> Researcher <b>D</b>	Chair <b>A, B, C, E, F</b> Member <b>F</b> CEO <b>A, B, E, F</b> Staff <b>B</b> Researcher <b>A</b>	Member <b>A</b> CEO <b>C</b> Researcher <b>B</b>	Member <b>C</b> Staff <b>E</b> Researcher <b>E, F</b>	Researcher <b>C</b>
	Roles & responsibilities	Chair <b>D</b> CEO <b>B, E</b>	Chair <b>C</b> Member <b>A</b> CEO <b>A, C, D</b> Researcher <b>B</b>	Chair <b>A, B, E, F</b> Member <b>F</b> CEO <b>F</b> Staff <b>B</b> Researcher <b>A, D</b>	Member <b>C</b> Researcher <b>E, F</b>	Staff <b>E</b> Researcher <b>C</b>

Table 4.20. continued **Case organisations – governance ratings by interviewees**

Questions		Excellent	Above average	Average	Below average	Inadequate
	Performance	Chair <b>C, D</b>	Chair <b>B, E</b> Member <b>A</b> CEO <b>B, D, E</b> Staff <b>B</b> Researcher <b>B, D</b>	Chair <b>F</b> Member <b>F</b> CEO <b>C, F</b> Staff <b>E</b>	Chair <b>A</b> Member <b>C</b> CEO <b>A</b> Researcher <b>A, E, F</b>	Researcher <b>C</b>
	Skills, independence & resources	Chair <b>A, D, E</b>	Chair <b>B, C, F</b> Member <b>F</b> CEO <b>B, C, D, E, F</b> Staff <b>B</b> Researcher <b>B</b>	Member <b>A</b> CEO <b>A</b> Researcher <b>A, F</b>	Member <b>C</b> Staff <b>E</b> Researcher <b>D, E</b>	Researcher <b>C</b>
	Conduct & ethics	Chair <b>A, D, E, F</b> Member <b>A, F</b> CEO <b>A, B, F</b> Staff <b>E</b> Researcher <b>A</b>	Chair <b>B, C</b> CEO <b>C, D, E</b> Staff <b>B</b> Researcher <b>D</b>	Researcher <b>B, E, F</b>	Member <b>C</b>	Researcher <b>C</b>

Source: developed for this research.

### 4.4.3 Themes

There were then a number of themes that emerged from the cross-case analysis of best practice features and self-assessments and these are considered in turn:

- Role of the regulator
- Role of the funding provider
- Mission and purpose
- Religious-based organisations
- Organisation size
- Models
- Governance maintenance strategies
- Competitive advantage

#### 4.4.3.1 Role of the regulator

The Business Affairs Office (BAO) has the responsibility for administering the Associations Incorporation Act and each of the case organisations are incorporated under this legislation. As mentioned in section 4.2.2 the BAO has a narrow focus and sees its role as limited to receiving annual returns. There is not a proactive approach associated with the BAO and how it exercises its functions. The only regular contact case organisations had with the BAO was in relation to the filing of their annual return. There were two other reasons for contact by case organisations. The first was when two organisations notified a change in their Public Officer. The second reason was when two organisations lodged changes to their Rules of Association. In both instances it was simply a matter of the appropriate form being completed and filed.

The cross case analysis revealed that the role of the regulator is limited to providing the legislative framework for associations to incorporate. By doing so the BAO imposes limited governance requirements upon them. In response to that legislation the BAO monitors compliance with a reporting regime. No suggestions were made in the case data for an enhanced role for the regulator. Nor was there any suggestion that organisations should seek alternate status, for example incorporation as a company limited by guarantee under the Corporations Act. The implication was that case organisations see no difficulty with the existing arrangements.

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#### 4.4.3.2 Role of the funding provider

The Tasmanian Government's Department of Health and Human Services (DHHS) is the major funding provider for all of the case organisations. The funding that is provided is subject to organisations entering into a service agreement with the DHHS (2003). These agreements are for one year, but three year terms are progressively being implemented. To date three of the case organisations have three year agreements. As mentioned above (see section 4.2.1) these agreements impose limited governance responsibilities upon organisations.

Case organisations report regularly to the DHHS on service delivery outcomes and outputs. The extent of this reporting was dependent on the particular needs of the various divisions within the Department. There were other service-related contact by case organisations with the DHHS and this usually took the form of joint meetings, workshops and training/information sessions. The only other contact between the DHHS and case organisations occurred when case organisations sent in a copy of their audited annual financial statements and grant acquittals. The role of the Grants, Contracts and Purchasing Branch within the DHHS was to monitor compliance with a reporting regime. The cross case analysis revealed that the role of the funding provider was limited, requiring organisations to ensure 'that good governance procedures are applied' (DHHS 2003 clause 2.13.1). There was no evidence of any proactive engagements with case organisations. There is the capacity for the Department to take action if necessary to intervene in an organisation, but again there was no evidence of them doing so. No suggestions were made in the case data for an enhanced role for the funding provider. The implication was that case organisations supported the existing way the relationship was structured.

#### 4.4.3.3 Mission and purpose

The case data revealed that each of the case organisations had maintained its mission to provide community services. The organisations' relationships with external bodies and their internal administrative arrangements were viewed as necessary to enable clients to receive services. However, the resources applied to those relationships and arrangements were secondary to the primary purpose

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of the organisation, serving those in need. The cross-case analysis showed that resourcing governance within organisations was sometimes seen as a burden and on occasions a distraction from the organisation's mission.

#### 4.4.3.4 Religious-based organisations

In the case selection process religious-based organisations were identified as outlined in section 3.4.2.2. Three of the case organisations were religious-based. Religious-based organisations are defined in section 1.6. The practices within case organisations that were informed by their religious-base are outlined in Table 4.22. The cross-case analysis revealed that the religious-based case organisations had documentation that described what they believe, which in this thesis is referred to as a Christian Foundations Statement. This Statement then informed what the organisation did and was reflected in the aims and purposes section of the Rules of Association, the organisation's Mission Statement and in the approach taken to planning for the organisation.

The case data also revealed that three specific practices were informed by the religious base. The first was the Code of Conduct which reflected Christian orientation to behaviour. The second was the approach to internal grievances which in all three cases were informed by reference to the same Bible text. Finally, the recruitment practice of case organisations positively discriminated in favour of Christians. The impact on the governance of organisations of its religious base was focused upon the Board setting the overall direction of the organisation. Boards wanted to ensure that the religious base informed what organisations did.

**Table 4.21. Religious-based case organisations – practices informed by religion**

<i>Practices informed by religion</i>	<i>Religious-based case organisations</i>		
	<i>A</i>	<i>E</i>	<i>F</i>
Mission Statement	√	√	√
Rules of Association	√	√	√
Christian Foundation Statement	√	√	√
Planning, approach to	√	√	√
Conduct & Ethics	√	√	√
Grievance Policy	√	√	√
Recruitment Practice	√	√	√

*Source: developed for this research.*

The case data also revealed that religious-based organisations had a sense that there was a loss of autonomy for organisations when they became dependent upon government funding. The requirement to manage the funding provider stakeholder group was important and boards needed to consider how they were going to do this prior to accepting funding (Balser & McClusky 2005).

The board members from Case Organisation F referred to a reduced capacity for the organisation to act independently of the DHHS as the majority of funding for service provision came from government. The example provided of the reduced independence came when the organisation was successful in expanding its services. The increased service funding resulted in a need for greater numbers of staff. To meet staffing requirements the organisation's board amended its recruitment policy to allow management to recruit non-Christians. The dilemmas associated with increased government funding limiting an organisation was mentioned in the interview with the chair of the Case Organisation E's board. Case Organisation A also referred to government funding being restrictive. The CEO spoke about the need to ensure that the organisation did what it believed was right not just what was in the funding agreement in the following terms:

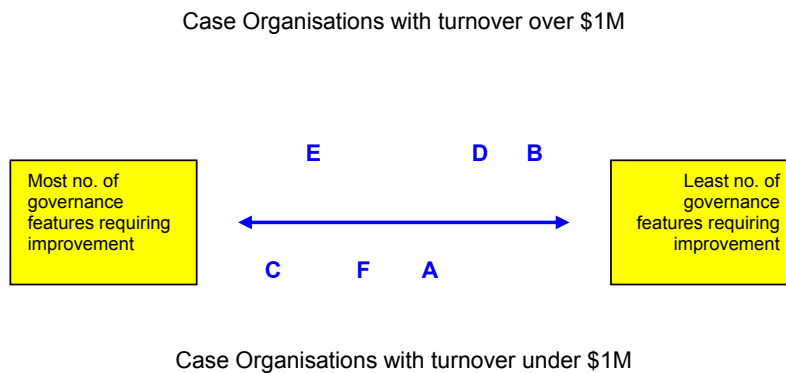
*we've had to actually say this is what we believe that we are here for and that will override, not that it's an unlawful thing, but we've done it a few times.*

*(COA CEO 2004, pers. comm., 10 March)*

#### 4.4.3.5 Organisation size

In the case selection process organisational size, measured by level of financial turnover, was taken into account (see section 3.4.2.2 and Table 3.6). Three of the case organisations had a turnover exceeding \$1M and three had a turnover of less than \$1M. Further detail about the turnover amount is not provided as that information may lead to the identification of case organisations. Figure 4.3 shows the relationship between the number of governance features requiring improvement and organisation turnover.

**Figure 4.3. Governance features requiring improvement and organisation turnover**



*Source: developed for this research.*

Case Organisation C had the most features where improvement was required and it was the organisation with the lowest turnover. Case Organisation B had the fewest features where improvement was required and it was the organisation with the highest turnover. Case Organisation E had the second highest turnover, but it required the second most improvements. The case data revealed that organisation size was not a determining factor for whether the case organisations require improvements in their governance practices. This gave support to the

view of Brown (2005) that the size of the organisation's turnover is not the only factor in how the organisation is governed.

#### 4.4.3.6 Models

The literature review identified a range of different governance models – see section 2.4.2. Table 4.22 shows the particular governance model each case organisation has adopted.

Table 4.22. **Case organisations – governance models**

<i>Case organisations</i>	<i>Models of governance</i>
A	Traditional
B	Traditional
C	Policy governance
D	Policy governance
E	Traditional
F	Traditional

*Source: developed for this research.*

Four of the case organisations, A, B, E and F, used the traditional model of governance. In this model the board governed and had oversight of operations through committees, but delegated the management functions to the CEO. The other two organisations, C and D, used the policy governance model. In this model the board governs through policies that establish organisational aims, management limitations and the relationship between the board and the CEO. Case Organisation C claimed to use the model, but it had not actually applied it to its context or implemented the recommended practices. Comparative analysis showed that despite its claim the actual practices adopted by Case Organisation C reflect the traditional governance model. The cross-case analysis revealed that the traditional governance model dominates. This is to be expected as most organisations will utilise an approach that is more widely known and accepted (Fishel 2003).

Case Organisations B and D required the least and second least improvements to their governance practices and they used different governance models. This



suggested that different models may be used to deliver good governance practices. The case data further led to the conclusion that it was the implementation of quality practices associated with governance features, not the particular models that was important (Gill et al. 2005).

#### 4.4.3.7 Governance maintenance strategies

Strategies are required to maintain an organisation's approach to governance (Brown 2005). As the case data in Table 4.23 shows, organisations had a range of strategies in place to enable them to maintain their governance approach. The most significant strategy was in Case Organisation B where a quality management system was used to support the board. The application of the quality management system tool has had a demonstrably positive impact upon the board's ongoing governance role. It was noted that Case Organisation D will be implementing a quality management system in the coming year and that Case Organisation E has such a system in place, but does not apply it to any of the board's functions.

Table 4.23. Case organisations – governance maintenance strategies

<i>Governance maintenance strategies</i>	<i>Case organisations</i>					
	<i>A</i>	<i>B</i>	<i>C</i>	<i>D</i>	<i>E</i>	<i>F</i>
Quality management system	-	√	-	-	-	-
Board member manual	√	√	-	√	√	-
Board member training	√	-	-	-	-	√
Board member induction	√	√	-	√	-	-
Board performance review	-	-	-	√	-	-
Governance review	-	-	-	-	-	-

*Source: developed for this research.*

There were four other strategies used by organisations to assist them maintain their governance approach. The first was provision of a manual for board members that contained information including the organisation's Rules of Association, Mission Statement, Values, policies and reference to relevant

legislation. Two of the case organisations, A and F, undertook training of board members which provided opportunity for external input into the board's governance approach via professional development. Three of the case organisations, A, B and D, had in place an induction program for new board members that orientated them to the organisation and how the board exercised its governance responsibilities. The final governance maintenance strategy revealed from the case data was the board performance review which was only implemented by Case Organisation D. It established KPIs that were measured annually and enabled the board to monitor its activities.

Another governance maintenance strategy that could be used is for the organisation to review its governance approach. The cross-case analysis revealed that no organisation referred to undertaking a review of its governance approach to ensure it was at best practice or to update its current governance practices (Fishel 2003). There was a distinct lack of pro-activity in this area. Case Organisations A and B changed their approach to governance in the previous three years following incidents of governance failure. The causes of the failure were different, but the response to those circumstances was similar with both organisations developing new Rules of Association. The revised Rules addressed the cause of the governance failure and introduced practices that supported the board to more adequately exercise its roles and responsibilities. Since those revisions neither organisation has undertaken further review of its governance approach.

#### 4.4.3.8 Competitive advantage

The State and Commonwealth Governments make use of competitive tendering processes when it comes to the allocation of significant segments of their community service delivery requirements (Neville 1999, Sheppard et al. 2001). It was with this context in mind that we come to the final theme. The competitive advantage theme was identified from the cross-case analysis and related to the importance of corporate governance as CSOs competed against one another in tenders for the delivery of government funded services (Ryan 1999). Chait et al. (2005, p.9) described this as an organisation seeking to 'outgovern the competition.' This was a factor in why Case Organisation D sought to ensure its

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approach to corporate governance was best practice. It was also present in Case Organisation B which used the quality management tool, including the board's governance approach, to provide a competitive edge. In the light of this it can be noted that Case Organisations B and D have experienced the highest increase in turnover of the case organisations in the previous three years.

#### **4.5 Conclusion**

This chapter has presented data from five stakeholder organisations in response to the normative list of best practice guiding features derived from the literature review. Then the governance practices of six case organisations were described. The cross-case analysis followed with a comparison of what features and practices were in place and the self-assessments of interviewees. Various themes were explored as part of the analysis. The implications and conclusions derived from this analysis of the data are contained in the final chapter.

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## **Chapter 5**

### **Conclusions and implications**

#### **5.1 Introduction**

The purpose of this research is to investigate the research problem as presented in sections 1.2 and 2.5:

To discover what is defined as best practice in the area of corporate governance for community service organisations, funded by the Tasmanian Department of Health and Human Services, and if organisations have adopted best practice.

Chapter one presented the background to the research (1.1), the research problem (1.2), the justification of the research (1.3), the methodology (1.4), the outline of the report (1.5), the definitions (1.6), the delimitations of scope (1.7) and conclusion (1.8).

Chapter two reviewed the literature in the two parent disciplines of corporate governance (2.2) and Third Sector organisations (2.3). This was followed by consideration of the immediate discipline of corporate governance within the Third Sector (2.4), a discussion about the research framework, issues and questions (2.5) and a conclusion (2.6). The identified gap in the research and the literature enabled the researcher to formulate the research problem and the three sub-problems. This constituted the starting point of this research.

Chapter three presented the methodology of the research that included a discussion about the paradigm (3.2), justification of the methodology (3.3) with specifics related to the case study methodology (3.4). This was followed by information on the analysis procedures (3.5), the limitations (3.6), the ethical considerations (3.7) and a conclusion (3.8).

Chapter four presented the analysis of data collected as part of this research and started with that received from stakeholder organisations (4.2), followed by the data collected from the case organisations (4.3), the cross-case analysis (4.4) and finally a conclusion (4.5).

The purpose of this final chapter is to draw conclusions about the three sub-problems, to resolve the research problem and to present the implications for theory, policy and practice. The chapter is presented in eight main sections as graphically outlined in Figure 5.1. After the introductory section (5.1) conclusions about the research questions and problem are given (5.2 and 5.3). This is followed by sections (5.4 and 5.5) that address the implications of the research for theory, policy and practice. The limitations of the research are then noted (5.6) and some direction given for further research (5.7) with some summary comments concluding the chapter (5.8).

Figure 5.1. **Outline of chapter 5**

5.1	Introduction
5.2	Conclusions about the sub-problems
5.2.1	Sub-problem one - analysis of best practice
5.2.2	Sub-problem two - adoption of corporate governance practices
5.2.3	Sub-problem three - comparison
5.3	Conclusions about the research problem
5.4	Implications for theory
5.5	Implications for policy and practice
5.5.1	Community service organisations
5.5.2	Department of Health and Human Services
5.5.3	Business Affairs Office
5.6	Limitations
5.7	Further research
5.8	Summary

*Source: developed for this research.*

## 5.2 Conclusions about the sub-problems

This section examines the conclusions reached about the three research sub-problems and compares them with the literature discussed in chapter two. Each

sub-problem is discussed separately in the following sub-sections (5.2.1-5.2.3). Each begins with a brief discussion of the findings from the literature review and the analysis of data. It is followed by a discussion of areas of similarities and differences between the findings and the literature.

The review of literature on corporate governance in CSOs regulated by the Tasmanian Associations Incorporation Act revealed the gap in the research in this area. There was no other research available to indicate any work in this specific area prior to this study.

The literature review also discussed what corporate governance meant for CSOs and how good corporate governance is connected to the performance of CSOs (Gill et al. 2005; Letts et al. 1999; Wiseman & Warburton 2002). It can be argued from the literature that CSOs need to take up the principles of corporate governance to ensure their survival (Alexander & Weiner 1998). It is noted that there is a distinction between governance requirements of CSOs and those of the business sector (Lyons 2001; McFarlan 1999) and that those CSO board members who come from that sector are cautioned that if they are not aware of the 'unique characteristics of non-profits' they will fail in their responsibilities (Steane 2001, p.15).

As a consequence of the identified need for good corporate governance practices in Third Sector organisations a range of governance models have been developed (Fishel 2003). Despite this development the literature indicates that no one model contains all the answers. Furthermore, there is no one way for boards to exercise their governance responsibilities (Brudney & Murray 1997; Harris 1993; Holland & Jackson 1998; Robinson 2001). The alternative to the implementation of a particular model is the adoption of a framework of underlying principles (FaCS 2001; Gill et al. 2005; Hilmer 1998; Holland & Jackson 1998; Totten & Orlikoff 2002). The positive outcome of adopting such a framework is that each CSO has to customise an approach to governance that fits its context (Brown 2005).

The outcome of the literature review is that there is a gap in our knowledge when it comes to corporate governance for CSOs that are incorporated associations in Tasmania. The literature does indicate the importance of best practice in corporate governance for CSOs and suggests that it is possible to implement such practices in CSOs. With this in mind the following three sub-sections (5.2.1 – 5.2.3) will present each sub-problem and discuss the findings in terms of the literature review and the data analysis.

### 5.2.1 Sub-problem one - analysis of best practice

What constitutes best practice in the area of corporate governance for selected CSOs funded by the Tasmanian DHHS?

The first step in considering what constitutes best practice was the literature review. The review began with the parent discipline of corporate governance and moved within that discipline from a global view to what is currently happening within the business sector in Australia. The other parent discipline was the Third Sector focusing particularly on CSOs. The immediate discipline that was born out of the two parent disciplines was corporate governance in CSOs. Most of the CSO literature (Alexander & Weiner 1998; Brudney & Murray 1997; Fishel 2003; Georgiou 2004a; Hough 2002; Kiel 2002b; Lyons 2001; Smith & Bowman 2002) referred to governance models. There was also an alternative to application of a particular model and this was the concept of 'principle based governance' (Totten & Orlikoff 2002, p.68 see also Gill et al. 2005). The concept is analogous to the guiding principle approach to corporate governance promoted by Hilmer (1998) to the business sector.

The problem which presented itself at this stage of the research was which list of features to adopt? There were many to choose from and examples can be found in Gill et al. (2005); Holland and Jackson (1998) and Robinson (2001). A comprehensive example in the Australian context is that developed by Walter Turnbull, a firm of Australian accountants, for the Commonwealth Department of Family and Community Services (2001), an outline of which was shown in Table

2.4. The Department's list was discussed in section 2.4.4 in light of the literature review. With some enhancements it was used as the basis of the list of best practice features and practices guiding CSO governance and is reproduced as Table 5.1 (which is the same as Table 2.5 in section 2.4.5.)

**Table 5.1. Literature review summary: best practice features and practices guiding CSO governance**

<i>Feature</i>	<i>Practices</i>
HR & succession planning.	Ensure that there are adequate HR policies & procedures in place. Create a plan to appoint the successor of the CEO & to fill board vacancies.
Strategy setting & planning.	Set the overall strategic goals for the organisation. Establish plans to achieve those goals & evaluation measures.
Risk management.	Ensure that there is a framework in place to identify, assess & treat risks on a continuing basis.
Financial strategy & reporting.	Implement a schedule of financial reporting. Ensure there is a regime of external & internal audit. Approve budgets.
Consultation.	Facilitate consultation with its stakeholders: members, clients/ consumers, the community & funding providers.
Roles & responsibilities.	Exercise specific roles & responsibilities as outlined in the legislation under which the organisation is incorporated or constituted as well as the demands required in other legislation.
Performance.	Put in place a means of assessing three areas of performance: the board, the CEO and the organisation as a whole.
Skills, independence & resources.	Ensure that its membership has the right mix of skills to facilitate the organisation in reaching its goals.
Conduct & ethics.	Develop a code of conduct that will guide its members in their interactions with one another & the organisation's employees.

*Source: developed for this research based on FaCS (2001, pp.5-10).*

There is no evidence that this list of best practice features and principles guiding CSO governance in Table 5.1, or any of the others for that matter, could be said to constitute best practice for CSOs in Tasmania as there is a gap in knowledge in relation to what constitutes best practice for CSOs in Tasmania (Griggs 2000). To respond to this gap a series of interviews was undertaken with stakeholders. The intention was to verify that the list, Table 5.1, could be considered best practice for CSOs funded by the Tasmanian DHHS which, as section 1.7 points out, is the delimitation for this research. The legitimate role that stakeholders have in relation to governance is supported by the literature (Balser & McClusky 2005; Donaldson & Preston 1995; Wiseman & Warburton 2002).



The selection of stakeholders was discussed in section 3.4.2.3. Stakeholder organisations are divided into three types related to funding, regulation and consumers. The funding stakeholder organisation is the DHHS which is the major provider of funds to CSOs in Tasmania. The second stakeholder organisation is the BAO within the State Government's Department of Justice and Industrial Relations that has regulatory oversight of the Associations Incorporation Act including various statutory functions provided for by the Act. All the CSOs in this research are incorporated associations. The final stakeholder group is consumers and these are represented by three organisations, TasCOSS, YNOT and Advocacy Tas., as there is no generic consumer organisation in Tasmania.

Analysis of the stakeholder data reveals that the list of features and practices guiding CSO governance was verified as best practice, as shown in Table 5.2. None of the stakeholders suggested removal of any features. The regulator, the BAO, did not respond to the specific questions about the features as they felt this was not appropriate given their public servant status. However, they indicated that there was nothing on the list that contradicted the Associations Incorporation Act. TasCOSS and Advocacy Tas. queried whether there was a prioritisation of features and expressed surprise that there was not but no amendments were requested. Reference was made in the data from the interviews to the list of best practice features and practices being understood as a minimum standard to be complied with and there was acknowledgement that organisations would implement the features/practices in different ways.

**Table 5.2. Verification by stakeholders of best practice features and practices guiding CSO governance**

<i>Features</i>	<i>Best practice Yes/No/?</i>			
	<i>DHHS</i>	<i>TasCOSS</i>	<i>YNOT</i>	<i>Advocacy Tas.</i>
HR & succession planning	Yes	Yes	Yes	Yes
Strategy setting & planning	Yes	Yes	Yes	Yes
Risk management	Yes	Yes	Yes	Yes
Financial strategy & reporting	Yes	Yes	Yes	Yes

Consultation	Yes	Yes	Yes	Yes
Roles & responsibilities	Yes	Yes	Yes	Yes
Performance.	Yes	Yes	Yes	Yes
Skills, independence & resources	Yes	Yes	Yes	Yes
Conduct & ethics	Yes	Yes	Yes	Yes

*Source: developed for this research.*

In summary the findings in relation to the first sub-problem illustrate that, within the delimitation of the study, it is possible to identify a consensus as to what constitutes best practice in the area of corporate governance for those CSOs that are incorporated associations and funded by the DHHS.

### 5.2.2 Sub-problem two – adoption of corporate governance practices

What corporate governance principles and practices have been adopted by selected CSOs funded by the Tasmanian DHHS?

The case study methodology was used to discover what corporate governance features and practices had been adopted by selected CSOs. Data was collected and responses sought from case organisations in terms of the list of features and practices guiding CSO governance.

The outcomes from analysis of the data is shown in Table 5.3 (which is a copy of Table 4.18) and discussed in section 4.4.1. Each of the features/practices had been adopted by at least one case organisation. Three of the case organisations had adopted over half the features/practices and in Case Organisation B all except one of the practices were in place. The data is very different in relation to the three other organisations where less than half the features/practices were adopted and in Case Organisation C only five practices were in place.

Although the focus of the analysis was on the list of features and practices guiding CSO governance there was scope for other governance features and

practices to be identified. All of those practices that were identified from the data fell within the best practice features. The clarification and expansion of the practices in some features are discussed in the following section.

The research findings indicate that there are four factors that impact upon the corporate governance practices of case organisations. First is the role of the CEO, which was pivotal in all case organisations and is evidently crucial in assisting the board meet its responsibilities (see section 4.4.1.7 and 4.4.1.8). Secondly, the competitive nature of the government tender process for the allocation of new business has meant that organisations seeking to give themselves a competitive advantage are focusing upon their governance practices (see section 4.4.3.7). Thirdly, the governance maintenance strategies that organisations put in place encourage the development of governance practices within organisations. Finally, for religious-based organisations, some of their practices are informed by its religion and ethos (see section 4.4.3.5).

Table 5.3. **List of corporate governance features & practices that case organisations have in place**

<b>Features and practices</b>	<b>Case Organisations</b>					
	<b>A</b>	<b>B</b>	<b>C</b>	<b>D</b>	<b>E</b>	<b>F</b>
<b>HR &amp; succession planning.</b>						
Ensure that there are adequate HR policies & procedures in place.	√	√	x	√	√	√
Create a plan to appoint the successor of the CEO & to fill board vacancies.	x	√	x	√	x	x
<b>Strategy setting &amp; planning.</b>						
Set the overall strategic goals for the organisation.	√	√	√	√	√	√
Establish plans to achieve those goals & evaluation measures.	√	√	x	√	x	√
<b>Risk management.</b>						
Ensure that there is a framework in place to identify, assess & treat risks	x	√	x	x	x	x
on a continuing basis.	x	√	x	x	x	x
<b>Financial strategy &amp; reporting.</b>						
Implement a schedule of financial reporting.	√	√	√	√	√	√
Ensure there is a regime of external & internal audit.	√	√	√	√	√	√
Approve budgets.	√	√	√	√	√	√
<b>Consultation.</b>						
Facilitate consultation with its stakeholders: members, clients/ consumers, the community & funding providers.	√	√	x	√	√	√
	√	√	x	√	x	x
	√	√	x	√	x	x
	√	√	x	√	x	√
<b>Roles &amp; responsibilities.</b>						
Exercise specific roles & responsibilities as outlined in the legislation under which the organisation is incorporated or constituted	√	√	x	√	x	x
as well as the demands required in other legislation.	√	√	x	√	x	x
<b>Performance.</b>						
Put in place a means of assessing three areas of performance: the board, the CEO and the organisation as a whole.	x	x	x	√	x	x
	x	√	√	√	x	√
	√	√	x	√	x	x
<b>Skills, independence &amp; resources.</b>						
Ensure that its membership has the right mix of skills to facilitate the organisation in reaching its goals.	√	√	x	x	x	x
<b>Conduct &amp; ethics.</b>						
Develop a code of conduct that will guide its members in their interactions with one another & the organisation's employees.	√	√	x	√	x	x
	√	√	x	√	√	√

Source: developed for this research.

There are then three factors, the impact of which is not determinative upon case organisations. Firstly, the research findings indicate that organisational size is not a determining factor as to the number of features and practices that have been adopted (see section 4.4.3.3). Secondly, the use of a particular governance model is not sufficient to ensure best practice (see section 4.4.3.3). Finally, the regulator and funding provider stakeholders are not significantly influential in requiring particular governance practice (see section 4.4.3.1 and 4.4.3.2).

In summary the findings in relation to the second sub-problem illustrate that case organisations have adopted a range of governance practices. However, there are some significant gaps in some organisations and there is room for improvement in all of the organisations.

### 5.2.3 Sub-problem three - comparison

What is revealed from the analysis of best practice and adoption of corporate governance practice in selected community service organisations funded by the Tasmanian Department of Health and Human Services?

There are four revelations arising from the comparison of best practice corporate governance to the actual practice of case organisations:

- Quality
- Descriptor limitations
- Additional practices
- Prioritisation of features

Following discussion about these revelations, revisions are suggested to the list of features and practices guiding CSO governance.

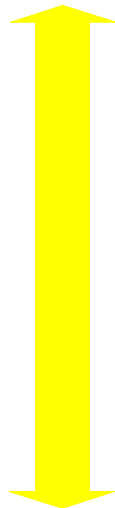
#### 5.2.3.1 Quality

The first revelation from the comparison is that the governance practices of some organisations are clearly better than others. A cursory reading of Table 4.18 and the self-assessment ratings does not show the difference in quality between organisations in relation to how they have implemented corporate governance practices. A more detailed examination is required. For example Case Organisation A has a two page strategic plan for the coming year that meets the governance feature of setting the overall direction for the organisation. In comparison, Case Organisation B has a detailed and comprehensive strategic plan that goes over 15 pages, covers the next 3-4 years and includes evaluation measures. Similar differences can be found in the board approval of

organisations' budgets. In all case organisations, except Case Organisation B, the board simply approves the budget for the coming financial year in isolation from any strategic plan or specific longer term financial strategy. In Case Organisation B the board approves the budget for the next financial year in the context of projections for the next 3-5 years and the strategic plan for that period.

The case data indicates that there is a quality differential between organisations with some case organisations operating at a minimum standard and other organisations at a higher standard or best practice. It is clear from cross-case analysis that the boards of some case organisations are managing compliance to a minimum standard whilst others are offering strategic leadership with a commitment to quality and best practice. These differences should be seen as part of a continuum of responses to governance as shown in Figure 5.2.

Figure 5.2 **Continuum of governance**



*Source: developed for this research based on Kumar and Nunan 2002, p.35.*

### 5.2.3.2 Descriptor limitations

The second revelation is that there are limitations in how the governance practices are described. The cross-case analysis reveals that some of the descriptions of practices in Table 2.5 were not clear enough. For example Case Organisation A had in place a succession plan to fill a board vacancy, but not to replace the CEO, yet the practice descriptor grouped both together. Another example that can be given relates to the financial strategy and reporting governance feature. Case Organisation F has an external audit regime in place, but fails to implement internal audit procedures, yet again the descriptor groups both together. Providing increased detail will make the practice descriptors clearer as will the separation of some of the currently combined elements.

### 5.2.3.3 Additional practices

The third revelation regarding the comparison is that there are instances where insufficient practices have been identified for some of the governance features. One example is the performance feature which would be enhanced with a specific reference to the board monitoring its governance practices (Smith & Bowman 2002). There should also be an additional component of the CEO's performance that relates to the CEO supporting the board especially to enable it to govern well. These additions would ensure that the feature is focused upon practices that will enable the board to meet its governance responsibilities.

Another place where practices could be expanded is in the conduct and ethics feature by the addition of a reference to values-based decision making or, as Georgiou (2004a, p.26) described it, a 'framework for ethical decision making.' This is crucial for organisations if they are to remain true to the vision and purpose held when the organisation was founded. Chait et al. (2005, p.160) urged organisations to 'confront value-based questions and challenges.'

### 5.2.3.4 Prioritisation of features

The final revelation is that there are certain features that have greater impact than others upon how an organisation is governed. This possibility was raised in the interview with the funding provider – see section 4.2.1. Accordingly, the literature review summary list of best practice features and practices in Table 5.1

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needs to be prioritised. The current list was developed from the literature and was not placed in any specific order.

Two possible approaches to prioritisation have been considered. The first, is that of selecting features that seem to broadly have been supported by the case organisations. The support could be measured by the number of organisations that require improvements for the practices associated with each governance feature. This would result in the financial strategy and reporting feature being listed number one and the risk management feature number nine.

An alternative is to prioritise those features that are purposive above those that are instrumental. This would ensure that the features that lead to the achievement of the aims or ends of an organisation are listed before those features that are the methods or means to those aims and ends. Under this approach the strategy setting and planning feature could be listed first, followed by conduct and ethics, skills, independence and resources, roles and responsibilities and then the instrumental features of financial strategy and reporting, performance, risk management, consultation, and HR and succession planning.

#### 5.2.3.4 Revision of features/practice

In light of the above revelations arising from the comparison between best practice in the literature review and the case data the list of features and practices guiding CSO governance has been revised. The prioritised revised list is shown in Table 5.4 with the above mentioned additions and clarifications shown in bold.



Table 5.4. **Changes arising from the data analysis to the literature review summary: best practice features and practices guiding CSO governance**

<i>Features</i>	<i>Practices</i>
1. Conduct & ethics.	Develop a code of conduct that will guide its members in their interactions with one another. Develop a code of conduct that will guide the organisation's employees. <b>Implement values based decision making processes.</b>
2. Strategy setting & planning.	Set the overall strategic goals for the organisation. Establish plans to achieve those goals. Establish evaluation measures for those goals. <b>Develop a 3-5 year strategic plan.</b> <b>Undertake horizon planning activities.</b>
3. Skills, independence & resources.	Ensure that its membership has the right mix of skills to facilitate the organisation in reaching its goals. <b>Establish a positive &amp; mutually dependent relationship with the CEO.</b> <b>Allocate resources to enable the board to meet the costs of governance.</b>
4. Roles & responsibilities.	Exercise specific roles & responsibilities as outlined in the legislation under which the organisation is incorporated or constituted. Comply with the demands required in other legislation. <b>Undertake governance maintenance strategies.</b>
5. Financial strategy & reporting.	Implement a schedule of financial reporting. Ensure there is a regime of external audit Ensure there is a regime of internal audit. Approve the organisation's annual budget. <b>Develop a 3-5 year financial plan.</b>
6. Performance.	Put in place a means for assessing board performance. Put in place a means for assessing the performance of the CEO <b>including the CEO's role in supporting the board to govern well.</b> Put in place a means for assessing the organisation as a whole.
7. Risk management.	Ensure that there is a framework in place to identify, assess & treat risks. Ensure the framework is used continually.
8. Consultation.	Facilitate consultation with its members. Facilitate consultation with clients/ consumers. Facilitate consultation with the community. Facilitate consultation with funding providers.
9. HR & succession planning.	Ensure that there are adequate HR policies & procedures in place. Create a plan to appoint the successor of the CEO. Create a plan to fill board vacancies.

*Source: developed for this research.*

### 5.3 Conclusions about the research problem

Having discussed the three sub-problems in section 5.2 this section will now consider the research problem posed in section 1.2 which underpinned the entire processes of data collection and data analysis of this research. The research problem has been addressed throughout the thesis and answering this research problem has been a cumulative process.

To discover what is defined as best practice in the area of corporate governance for community service organisations, funded by the Tasmanian Department of Health and Human Services, and if organisations have adopted best practice.

In order to answer this problem the thesis first reviewed the literature to determine what the existing practices were. This reveals that there is extensive literature about corporate governance in the business sector and that there is some emerging research into corporate governance in the Third Sector. However, there is very little literature in the community service component of the Third Sector in Australia and none in relation to Tasmanian associations that are CSOs. The literature was examined to see if it was possible to define CSO corporate governance best practice and apply it to the Tasmanian context.

As a result the researcher defined a research problem and three sub-problems. This led to the development of a list of practices from the literature that was subsequently verified by stakeholder organisations as a normative list of best practice features and practices guiding CSO governance and is shown in Table 5.1. This list was then used in the analysis of case organisations.

The research findings expressed in Table 5.3 illustrate that case organisations have adopted a range of best practice features. However, there are significant gaps in some organisations and there is room for improvement in all of the case organisations.

The list of features and practices has been updated in light of the research findings and so it is possible to define best practice in the area of corporate governance for community service organisations, funded by the Tasmanian Department of Health and Human Services. The final version of the list is in Table 5.5.

**Table 5.5. Thesis conclusion: best practice features and practices guiding CSO governance**

<i>Features</i>	<i>Practices</i>
1. Conduct & ethics.	Develop a code of conduct that will guide its members in their interactions with one another. Develop a code of conduct that will guide the organisation's employees. Implement values based decision making processes.
2. Strategy setting & planning.	Set the overall strategic goals for the organisation. Establish plans to achieve those goals. Establish evaluation measures for those goals. Develop a 3-5 year strategic plan. Undertake horizon planning activities.
3. Skills, independence & resources.	Ensure that its membership has the right mix of skills to facilitate the organisation in reaching its goals. Establish a positive & mutually dependent relationship with the CEO. Allocate resources to enable the board to meet the costs of governance.
4. Roles & responsibilities.	Exercise specific roles & responsibilities as outlined in the legislation under which the organisation is incorporated or constituted. Comply with the demands required in other legislation. Undertake governance maintenance strategies.
5. Financial strategy & reporting.	Implement a schedule of financial reporting. Ensure there is a regime of external audit Ensure there is a regime of internal audit. Approve the organisation's annual budget. Develop a 3-5 year financial plan.
6. Performance.	Put in place a means for assessing board performance. Put in place a means for assessing the performance of the CEO including the CEO's role in supporting the board to govern well. Put in place a means for assessing the organisation as a whole.
7. Risk management.	Ensure that there is a framework in place to identify, assess & treat risks. Ensure the framework is used continually.
8. Consultation.	Facilitate consultation with its members. Facilitate consultation with clients/ consumers. Facilitate consultation with the community. Facilitate consultation with funding providers.
9. HR & succession planning.	Ensure that there are adequate HR policies & procedures in place. Create a plan to appoint the successor of the CEO. Create a plan to fill board vacancies.

*Source: developed for this research.*

## 5.4 Implications for theory

The findings from this research are presented in the context of the research problem and the three sub-problems. The implications of the research for theory are portrayed in this section.

Chapter two outlined the theory upon which a principle-based approach to corporate governance is based. This theory indicated that it was an approach that could be used in both the business world (Australian Standard 2003; Hilmer

1998; Kiel 2002a; Kiel & Nicholson 2002; Lipton 2002) and the Third Sector (FaCS 2001; Gill et al. 2005; Holland & Jackson 1998; Totten & Orlikoff 2002; Robinson 2001). It was also evident from the literature review that there was no specific material applicable to CSOs incorporated under the Tasmanian Associations Incorporation Act.

In response to this gap a list of governance features was identified from the literature and was verified as normative by stakeholder organisations. The list was refined on the basis of the research findings following the cross-case analysis. The final version of the list of “Best practice features and practices guiding CSO governance” is shown in Table 5.5.

The literature review also reveals that no research has been undertaken into what governance practices CSOs in Tasmania have implemented let alone if they are at best practice. The research findings addressed this gap and show that the picture varies greatly between case organisations. Some organisations have few practices in place and what they have is barely adequate. Yet others have a more comprehensive regime with only limited improvements being required. This suggests that development work is needed in the governance area for case organisations. This may also be the situation for other CSOs, but that would need to be confirmed by further research as discussed in section 5.7.

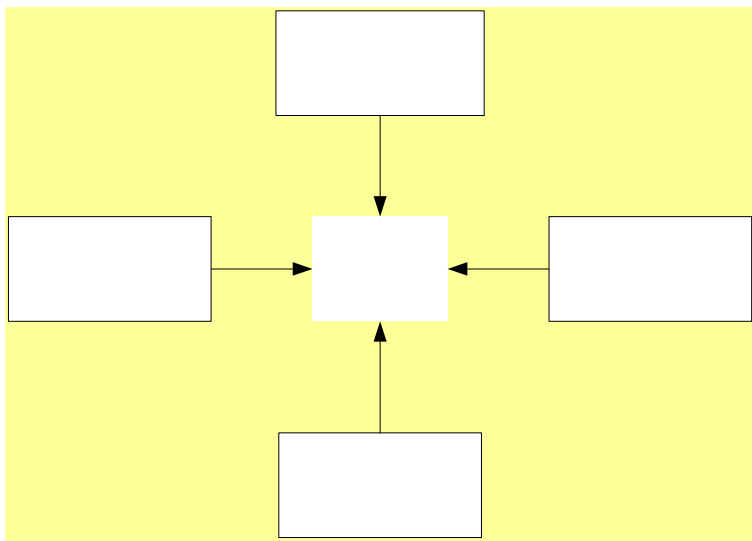
In summary, the implication from the research findings is that the principle-based approach to corporate governance can be extended to CSOs in Tasmania. The other implication is that there is a need to undertake governance development work if organisations are to be at best practice.

## **5.5 Implications for policy and practice**

Section 5.4 discussed the implications of this research for related theories. This section examines the general implications of the research for policy and practice. The following sub-sections discuss specific implications related to community service organisations (section 5.5.1), the Department of Health and Human Services (section 5.5.2) and Business Affairs Office (section 5.5.3).

An implication of the research is that to ensure that CSOs adopt best practice in the area of corporate governance, and to maintain that practice, a combined approach is required from various stakeholders. The research findings indicate that there is a role for the CSO itself to implement a best practice governance regime. However, not all organisations are willing to do this or allocate the necessary resources. As the funding provider the DHHS can ensure certain practices are followed using its service agreement and the BAO can ensure similar compliance with its legislative capacity. Consumer organisations can also be influential to ensure that the particular needs of service consumers are not overlooked. There are advantages in these different groups working together to ensure governance with CSOs is the best it can be and this approach is shown in Figure 5.3 (Kumar & Nunan 2002; Wiseman & Warburton 2002). To put this approach into place would require a commitment of resources to ensure that the necessary conversations took place leading up to changes in those areas, like legislation, for which particular groups have responsibility. Both policy and practice would be impacted upon.

Figure 5.3. **Best practice governance formation**



Source: developed for this research based on Kumar and Nunan 2002, p.5.

A further implication is that there are insufficient indicators that can be used in relation to performance in CSOs. There are financial reporting tools that give a

picture of the organisation's financial performance but it stops there (Kumar & Nunan 2002). Tools need to be made available to organisations that can assist and measure board performance, service delivery outcomes and consumer feedback to name a few. The development of such tools can again be undertaken as a collaborative exercise between the stakeholders.

### **5.5.1 Community service organisations**

The key implication for the case organisations is that they adopt the “Best practice features and practices guiding CSO governance”. This adoption will necessitate improvements in the governance practices of the organisations and in part they have been canvassed in the case data (see section 4.3). In addition the research findings suggest that adoption of the features and practices would be beneficial for all CSOs.

The findings of the research also indicate that there is a need for greater support to be provided to board members, including training opportunities that make specific reference to governance maintenance strategies (Auditor-General 2003b; Woodward & Marshall 2004). This governance training should also include the Chief Executive Officer as CEOs play such a crucial role in organisations and specifically in supporting the board to govern well. It is acknowledged that there is limited funding available for this training as the priority for organisations is service delivery. Specific funding will be required from the funding provider if the training is to take place (Tasmanian Council of Social Services 2002).

The risk of loss of autonomy raises additional implications for religious-based organisations. The research findings indicate that this risk can become a reality when an organisation is dependent upon funding from government. An implication is that those organisations may need to diversify their funding base to lessen this dependence. Another implication is that such organisations may need to engage with government about the restrictions imposed upon them and seek some alleviation.

### 5.5.2 Department of Health and Human Services

The research findings indicate that the case organisations have limited contact with the Grants, Contracts and Purchasing Branch within the DHHS. Such interaction is focused upon the submission of an annual return including the audited financial reports and signing the annual (in some cases three-yearly) service agreement. The focus of the DHHS is not on broader governance concerns, but upon financial management as is seen from the service agreement (DHHS 2003). The DHHS manager interviewee acknowledged

*that structure that's getting in the way at the moment that's really allowing one relatively small and not particularly clear lens through which the funding body looks at governance issues*

*(SO3 2003, pers. comm., 1 December)*

However, the case data does not reveal any concerns about the relationship with DHHS and no suggestions are made as to what improvements could take place.

The influence that the DHHS could have on governance in CSOs is very significant due to it being the major funding provider. The service agreement that it requires all CSOs to sign before funds are released therefore is a powerful potential tool to require governance improvements. At present Clause 2.13.1 of the service agreement (DHHS 2003) says organisations are to ensure 'that good governance procedures are applied' and there are some other small specific requirements (see section 4.2.1). It would be possible for organisations to be required to complete a return about their governance practices comparing them to "Best practice features and practices guiding CSO governance".

One of the stakeholders who was interviewed expressed concern about how well received such an approach would be and that

*I have a feeling that support around governance that comes directly from the funding body is not going to be that well received in the sector anyway.*

*(SO4 2003, pers. comm., 12 December)*

However as mentioned above it would work best if it is part of a larger collaboration to ensure best practice governance in CSOs.

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In summary, the implication is that the DHHS could have a much more proactive role in CSO corporate governance by using its service agreement with CSOs to ensure adoption of “Best practice features and practices guiding CSO governance”.

### **5.5.3 Business Affairs Office**

The research findings indicate that the case organisations have little contact with the BAO other than the filing of an annual return and lodging of forms when office bearers or rules of association change. Accordingly when considered, in terms of influencing the governance practice of CSOs, the BAO has only a marginal input. The finding is supported by the Auditor-General (2003a, p.9) who concluded that ‘where there was once a strong compliance component associated with [the BAO] the focus has now switched to ensuring lodgements, renewals and returns are correctly processed.’ Despite the limited role, or perhaps because of it, no dissatisfaction was expressed in the case data in relation to the BAO. Neither were there any suggestions from organisations that they wanted the situation changed. It appears that the light touch approach adopted by the BAO enables organisations to go about their mission and does not stifle and limit what they can do (Kumar & Nunan 2002).

The contact case organisations did have with the BAO was due to the requirement to lodge returns and forms, which all the case organisations had done. Those requirements are imposed under the Associations Incorporation Act which the BAO administers and under which the organisations are incorporated. It is through legislation that the BAO has capacity to influence governance practices within organisations. The case data indicates that organisations will comply with BAO mandated requirements. If those requirements included specific injunctions around governance practices the organisations would be required to comply.

For the BAO to impose additional governance requirements, changes to the Act would be required. Such changes could take place following a review of the Act as recommended by the Auditor-General (2003a) and as has taken place in 2003 in NSW and 2004 in Victoria (Woodward & Marshall 2004). The research

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findings, specifically the “Best practice features and practices guiding CSO governance” could provide content for the additional requirements.<sup>4</sup>

In summary, the implication is that the BAO could have a more proactive role in requiring additional corporate governance practices of incorporated associations.

## **5.6 Limitations**

Section 1.7 outlined the explicit limitations of this research. Section 3.6 described the limitations of the case study research methodology. This section identifies an additional limitation arising from the research.

This research analyses the adoption of best practice features and practices guiding corporate governance in CSOs. The case study sample is limited to six organisations. The findings arising out of the research are confined to those sampled organisations and may not apply to all CSOs that are incorporated associations funded by the DHHS. Therefore they may not be generalised across the sector or to other sectors. Further research will need to be conducted in other sectors and jurisdictions to confirm these findings.

Despite this limitation, and the others referred to above, the research provides valuable information about what constitutes best practice in CSO corporate governance and a rich source of data about what governance practices sampled organisations have adopted.

## **5.7 Further research**

The thesis researches a definition of best practice in the area of corporate governance for CSOs that are incorporated associations in Tasmania and examines the governance practices of selected organisations. The conclusion and implications provide a foundation for further study. In order to obtain a greater understanding of the issues involved it will be necessary to conduct further research into the following three areas.

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<sup>4</sup> The findings could also provide input in other jurisdictions (Sievers 2001) when they review their associations incorporation legislation.

Firstly, the findings of this research rely upon a qualitative methodology by utilising case study research involving interviews and document reviews. These findings could be given further credibility by conducting a quantitative study involving a survey questionnaire.

Secondly, there is an opportunity to extend the research by examining CSOs that are incorporated in ways other than as associations, for example as companies limited by guarantee. Such research would need to be conducted using both qualitative and quantitative methodologies to collect a range of data.

Finally, this research only covers CSOs in Tasmania. There are CSOs in other jurisdictions and each State/Territory has association incorporation legislation. There is a potential for research in those jurisdictions to see if there are mechanisms in place for assisting CSOs achieve best practice corporate governance.

Overall there are several avenues through which further research may be pursued. The most constructive way would be a survey of all the CSOs that are funded by the DHHS regardless of their incorporated status. The survey would be based on the list of “Best practice features and practices for guiding CSO governance” shown in Table 5.5.

In summary this research explores best practice in the area of corporate governance for selected incorporated CSOs in Tasmania. This has resulted in a number of findings that could provide the foundation for further research.

## **5.8 Summary**

The review of the literature and the results gained from this research suggest an important link between the effectiveness of a board, including its corporate governance practices and organisational effectiveness. This link attests to the importance of a greater focus upon the governance approach used by organisations. There is extensive literature about corporate governance in the business sector and there is emerging research into corporate governance in the

Third Sector. However there is very little literature about the community service component on the Third Sector in Australia and none in relation to CSOs that are incorporated under the Tasmanian Associations Incorporation Act.

This thesis aims to discover what is defined as best practice in the area of corporate governance for Tasmanian CSOs and if selected organisations have adopted that best practice. For this purpose a research problem and three research sub-problems were identified. The research adopted a case study approach as the main research methodology using interviews, document reviews and a short self assessment questionnaire as data collection tools. The researcher approached six incorporated CSOs that are funded by the DHHS and they agreed to participate in the research.

Following data collection and data analysis the following major findings emerged. Firstly, that case organisations have adopted a range of governance practices and although there are significant gaps in some organisations there is room for improvement in all of the case organisations. Secondly, that some case organisation boards are approaching corporate governance by managing compliance to a minimum standard although others are offering strategic leadership with a commitment to quality and best practice. Thirdly, the research identifies a number of factors that impact upon corporate governance in case organisations. Those factors include the role of the CEO; the quest for competitive advantage; implementation of governance maintenance strategies and the impact of religion for religious-based organisations. Finally, the research also identifies three factors that were not determinative upon case organisations. They are the size of the organisation, the governance model being used and the influence of the regulator, the BAO, and the funding provider the DHHS.

Consequently it is concluded that the principle based approach to corporate governance can be extended to Tasmania. Furthermore the implication of this research for CSOs is that they need to implement governance maintenance practices including board training, board performance review and governance review. There is also a call to both the BAO and the DHHS to be more proactive in requiring CSOs to adopt additional corporate governance practices.

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Hence, based on the literature review and the analysis of the research data a list of “Best practice features and practices guiding community service organisation governance” has been developed. This list can be used by organisations to provide direction for their approach to corporate governance.

Finally, the conclusions provide a solid foundation for further study. This will be useful in order to obtain a broader understanding of the issues involved.

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Report of the Committee on the Financial Aspects of Corporate Governance  
(Cadbury Code)(1992)

**THE CODE OF BEST PRACTICE**

**1. The Board of Directors**

- 1.1 The board should meet regularly, retain full and effective control over the company and monitor the executive management.
- 1.2 There should be a clearly accepted division of responsibilities at the head of a company, which will ensure a balance of power and authority, such that no one individual has unfettered powers of decision. Where the chairman is also the chief executive, it is essential that there should be a strong and independent element on the board, with a recognized senior member.
- 1.3 The board should include non-executive directors of sufficient calibre and number for their views to carry significant weight in the board's decisions.
- 1.4 The board should have a formal schedule of matters specifically reserved to it for decision to ensure that the direction and control of the company is firmly in its hands.
- 1.5 There should be an agreed procedure for directors in the furtherance of their duties to take independent professional advice if necessary, at the company's expense.
- 1.6 All directors should have access to the advice and services of the company secretary, who is responsible to the board for ensuring that board procedures are followed and that applicable rules and regulations are complied with. Any question of the removal of the company secretary should be a matter for the board as a whole.

**2. Non-Executive Directors**

- 2.1 Non-executive directors should bring an independent judgement to bear on issues of strategy, performance, resources, including key appointments, and standards of conduct.
- 2.2 The majority should be independent and free from any business or other relationship which could materially interfere with the exercise of their independent judgement, apart from their fees and shareholding. Their fees should reflect the time which they commit to the company.
- 2.3 Non-executive directors should be appointed for specified terms and reappointment should not be automatic.
- 2.4 Non-executive directors should be selected through a formal process and both this process and their appointment should be a matter for the board as a whole.

**3. Executive Directors**

- 3.1 Directors' service contracts should not exceed three years without shareholders' approval.
- 3.2 There should be full and clear disclosure of directors' total emoluments and those of the chairman and highest-paid UK director, including pension contributions and stock options. Separate figures should be given for salary and performance-related elements and the basis on which performance is measured should be explained.

- 3.3 Executive directors' pay should be subject to the recommendations of a remuneration committee made up wholly or mainly of non-executive directors.

**4. Reporting and Controls**

- 4.1 It is the board's duty to present a balanced and understandable assessment of the company's position.
- 4.2 The board should ensure that an objective and professional relationship is maintained with the auditors.
- 4.3 The board should establish an audit committee of at least three non-executive directors with written terms of reference which deal clearly with its authority and duties.
- 4.4 The directors should explain their responsibility for preparing the accounts next to a statement by the auditors about their reporting responsibilities.
- 4.5 The directors should report on the effectiveness of the company's system of internal control.
- 4.6 The directors should report that the business is a going concern, with supporting assumptions or qualifications as necessary.

## Principles of corporate governance (OECD 1999, pp.17-23)

### I. THE RIGHTS OF SHAREHOLDERS

*The corporate governance framework should protect shareholders' rights.*

A. Basic shareholder rights include the right to: 1) secure methods of ownership registration; 2) convey or transfer shares; 3) obtain relevant information on the corporation on a timely and regular basis; 4) participate and vote in general shareholder meetings; 5) elect members of the board; and 6) share in the profits of the corporation.

B. Shareholders have the right to participate in, and to be sufficiently informed on, decisions concerning fundamental corporate changes such as:

1) amendments to the statutes, or articles of incorporation or similar governing documents of the company; 2) the authorization of additional shares; and 3) extraordinary transactions that in effect result in the sale of the company.

C. Shareholders should have the opportunity to participate effectively and vote in general shareholder meetings and should be informed of the rules, including voting procedures, that govern general shareholder meetings:

1. Shareholders should be furnished with sufficient and timely information concerning the date, location and agenda of general meetings, as well as full and timely information regarding the issues to be decided at the meeting.
2. Opportunity should be provided for shareholders to ask questions of the board and to place items on the agenda at general meetings, subject to reasonable limitations.
3. Shareholders should be able to vote in person or in absentia, and equal effect should be given to votes whether cast in person or in absentia.

D. Capital structures and arrangements that enable certain shareholders to obtain a degree of control disproportionate to their equity ownership should be disclosed.

E. Markets for corporate control should be allowed to function in an efficient and transparent manner.

1. The rules and procedures governing the acquisition of corporate control in the capital markets, and extraordinary transactions such as mergers, and sales of substantial portions of corporate assets, should be clearly articulated and disclosed so that investors understand their rights and recourse. Transactions should occur at transparent prices and under fair conditions that protect the rights of all shareholders according to their class.
2. Anti-take-over devices should not be used to shield management from accountability.

F. Shareholders, including institutional investors, should consider the costs and benefits of exercising their voting rights.



## **II. THE EQUITABLE TREATMENT OF SHAREHOLDERS**

*The corporate governance framework should ensure the equitable treatment of all shareholders, including minority and foreign shareholders. All shareholders should have the opportunity to obtain effective redress for violation of their rights.*

- 1 All shareholders of the same class should be treated equally.
  1. Within any class, all shareholders should have the same voting rights. All investors should be able to obtain information about the voting rights attached to all classes of shares before they purchase. Any changes in voting rights should be subject to shareholder vote.
  2. Votes should be cast by custodians or nominees in a manner agreed upon with the beneficial owner of the shares.
  3. Processes and procedures for general shareholder meetings should allow for equitable treatment of all shareholders. Company procedures should not make it unduly difficult or expensive to cast votes.
- 
- 2 Insider trading and abusive self-dealing should be prohibited.
  - 3 Members of the board and managers should be required to disclose any material interested in transactions or matters affecting the corporation.

## **III. THE ROLE OF STAKEHOLDERS IN CORPORATE GOVERNANCE**

*The corporate governance framework should recognize the rights of stakeholders as established by law and encourage active co-operation between corporations and stakeholders in creating wealth, jobs and the sustainability of financially sound enterprises.*

- A. The corporate governance framework should assure that the rights of stakeholders that are protected by law are respected.
- B. Where stakeholder interests are protected by law, stakeholders should have the opportunity to obtain effective redress for violation of their rights.
- C. The corporate governance framework should permit performance-enhancing mechanisms for stakeholder participation.
- D. Where stakeholders participate in the corporate governance process, they should have access to relevant information.

## **IV. DISCLOSURE AND TRANSPARENCY**

*The corporate governance framework should ensure that timely and accurate disclosure is made on all material matters regarding the corporation, including the financial situation, performance, ownership, and governance of the company.*

- A. Disclosure should include, but not be limited to, material information on:
  1. The financial and operating results of the company.

2. Company objectives.
  3. Major share ownership and voting rights.
  4. Members of the board and key executives, and their remuneration.
  5. Material foreseeable risk factors.
  6. Material issues regarding employees and other stakeholders.
  7. Governance structures and policies.
- B. Information should be prepared, audited, and disclosed in accordance with high quality standards of accounting, financial and non-financial disclosure, and audit.
- C. An annual audit should be conducted by an independent auditor in order to provide an external and objective assurance on the way in which financial statements have been prepared and presented.
- D. Channels for disseminating information should provide for fair, timely and cost-efficient access to relevant information by users.

## **V. THE RESPONSIBILITIES OF THE BOARD**

***The corporate governance framework should ensure the strategic guidance of the company, the effective monitoring of management by the board, and the board's accountability to the company and the shareholders.***

- A. Board members should act on a fully informed basis, in good faith, with due diligence and care, and in the best interest of the company and the shareholders.
- B. Where board decisions may affect different shareholder groups differently, the board should treat all shareholders fairly.
- C. The board should ensure compliance with applicable law and take into account the interests of stakeholders.
- D. The board should fulfill certain key functions, including:
1. Reviewing and auditing corporate strategy, major plans of action, risk policy, annual budgets and business plans; setting performance objectives; monitoring implementation and corporate performance; and overseeing major capital expenditures, acquisitions and divestitures.
  2. Selecting, compensating, monitoring and, when necessary, replacing key executives and overseeing succession planning.
  3. Reviewing key executive and board remuneration, and ensuring a formal and transparent board nomination process.
  4. Monitoring and managing potential conflicts of interest of management, board members and shareholders, including misuse of corporate assets and abuse in related party transactions.
  5. Ensuring the integrity of the corporation's accounting and financial reporting systems, including the independent audit, and that appropriate systems of control are in place, in particular, systems for monitoring risk, financial control, and compliance with the law.

6. Monitoring the effectiveness of the governance practices under which it operates and making changes as needed.
7. Overseeing the process of disclosure and communications.

E. The board should be able to exercise objective judgement on corporate affairs independent, in particular, from management.

1. Boards should consider assigning a sufficient number of non-executive board members capable of exercising independent judgement to tasks where there is a potential for conflict of interest. Examples of such key responsibilities are financial reporting, nomination and executive and board remuneration.
2. Board members should devote sufficient time to their responsibilities.

F. In order to fulfill their responsibilities, board members should have access to accurate, relevant and timely information.

**Principles of Good Corporate Governance & Best Practice  
Recommendations (ASX Corporate Governance Council 2003)**

The essential corporate governance principles

**A company should:**

- 1. Lay solid foundations for management oversight**  
Recognise and publish the respective roles and responsibilities of board and management
- 2. Structure the board to add value**  
Have a board of an effective composition, size and commitment to adequately discharge its responsibilities and duties.
- 3. Promote ethical and responsible decision-making**  
Actively promote ethical and responsible decision-making.
- 4. Safeguard integrity in financial reporting**  
Have a structure to independently verify and safeguard the integrity of the company's financial reporting.
- 5. Make timely and balanced disclosure**  
Promote timely and balanced disclosure of all material matters concerning the company.
- 6. Respect the rights of shareholders**  
Respect the rights of shareholders and facilitate the effective exercise of those rights.
- 7. Recognise and manage the risk**  
Establish a sound system of risk oversight and management and internal control.
- 8. Encourage enhanced performance**  
Fairly review and actively encourage enhanced board and management effectiveness.
- 9. Remunerate fairly and responsibly**  
Ensure that the level and composition of remuneration is sufficient and reasonable and that its relationship to corporate and individual performance is defined.
- 10. Recognise the legitimate interests of stakeholders**  
Recognise legal and other obligations to all legitimate stakeholders.

**Your corporate governance checklist (Kiel & Nicholson 2002, p.11)**

**DEFINING GOVERNANCE ROLES**

Has your board had recent discussion on its role and the role of management?

Has your board reviewed its composition, skills requirements and skill gaps in the past year?

Are you and your fellow directors thoroughly familiar with the legal requirements required of directors under the Corporations Act?

Do you have a code of conduct for directors?

Has the board recently discussed the role and expectations for the chairman?

Is there a current position description for the company secretary?

Have you recently reviewed the detailed position description and delegated authorities of the CEO?

Does the CEO understand his/her role and that of the board?

**IMPROVING BOARD PROCESSES**

Have you recently reviewed what you expect from board meetings?

Is your agenda under constant review?

Is the number, level of detail, format, information, content and lead-time of board papers satisfactory?

Do the minutes provide the right amount of detail, especially in light of the new 'safe harbour' provisions of the Corporations Act?

Does your board have a calendar, which not only lists forthcoming board and committee meeting dates, but also the key events and specific tasks required of the board?

Do you have the right number and type of committees?

Is there a charter for each committee setting out its roles, composition and any decision-making powers?

**KEY BOARD FUNCTIONS**

Is the board's involvement in strategy appropriate?

Do directors provide appropriate advice and mentoring to management?

Do directors make appropriate use of their contacts and networks to further the goals of the company?

Are the financial and non-financial key performance indicators (KPIs) provided to the board appropriate?

Are the systems that provide the KPI data accurate and efficient?

Is an appropriate risk management system in place?

Is there a formal CEO evaluation process in place, which at appropriate points involves the whole board?

Is there a formal delegation manual from the board to management, and at the different levels of management?

### **CONTINUING IMPROVEMENT**

Do you have an appropriate level of directors and officers' insurance?

Can directors obtain the information required for effective monitoring and decision-making?

Is there a regular board evaluation process in place?

Are the remuneration guidelines appropriate?

Is there a formal director development program in place?

Is there a sufficiently frequent rotation of directors, which ensures new blood regularly joins the board, while ensuring that board memory is retained?

Do you appoint the best new directors, given the skill gaps on the board?

## Better practice corporate governance checklist

(FaCS 2001, pp.17-21)

The following suggested checklist for better practice corporate governance has been prepared so your organisation can review its current features and aim to identify any weaknesses that may require action.

Better practice feature	Assessment
<b>Board roles, responsibilities and skills</b>	
1. Is there a clear identification of the powers, roles, responsibilities and accountabilities between the Board, the Chief Executive Officer and management?	
2. Are these responsibilities clearly communicated and to whom, for example, each other, key stakeholders?	
3. Is there a good understanding of management's responsibilities in relation to internal control?	
4. Is there a sound system of procedural and financial delegations approved by the Board? Does it promote efficiency as well as control?	
5. Are appropriate decision making processes adopted by the Board? Is there a clear distinction between what decisions should be made by the Board and those decisions that should be made by the organisation's management?	
6. Are decisions that should be made by the Board, clearly documented and understood?	
7. Are there processes governing policy development, implementation and review, which ensure that the Board approves new policy?	
8. Is there a clear separation of roles and responsibilities between the Board, the Chief Executive Officer and management?	
9. Are appointments made to the Board with regard to the skill requirements of the Board?	
10. Are there adequate induction processes for new Board members?	
11. Does the Board have, collectively, a mix of appropriate skills, knowledge and experience covering: <b>Business acumen/expertise</b> <ul style="list-style-type: none"> <li>• the industry within which the agency operates;</li> <li>• the services/products being provided by the organisation;</li> <li>• policy development;</li> <li>• executive leadership skills;</li> <li>• finance;</li> <li>• marketing; and</li> <li>• regulatory environment.</li> </ul> <b>Other</b> <ul style="list-style-type: none"> <li>• legal;</li> <li>• vocational training; and</li> <li>• disabilities.</li> </ul>	
<b>Independence</b>	

12. Is the majority of the Board independent of the Chief Executive Officer, management team and commercial dealings with the organisation?	
13. Are there sufficient numbers on the Board to achieve independence, but not too many to become inefficient?	
14. Are there appropriate policies and procedures to identify any potential conflicts of interest?	
15. Are there adequate policies and procedures to deal with potential conflicts of interest, once identified?	
<b>Board meetings</b>	
16. Are regular Board meetings held and are financial reports tabled?	
<b>Board resources</b>	
17. Do Board members have access to independent professional advice to enable them to discharge their duties?	
18. For companies, is there a company secretary with the primary role of supporting the Board and chairperson?	
<b>Code of conduct</b>	
19. Is there a written code of conduct to be followed by the Board, Chief Executive Officer and staff?	
20. Is this code of conduct communicated and understood by the Board, Chief Executive Officer and staff?	
21. Are there clear guidelines in the code of conduct in relation to conflict of interest?	
<b>Strategy setting and planning</b>	
22. Is there an overall organisational plan, and is it supported by a business plan, budgets and marketing plan (if necessary)?	
23. Are there clearly defined performance measures (operational and financial) incorporated into the plans?	
24. Does the Board approve the budget set by management and revisions thereto?	
<b>Risk management</b>	
25. Is there a risk management plan that is supported by risk management strategies?	
26. Does the Board regularly review the risk management strategies?	
27. Are there any procedures for the Board to review the strategies and assess whether they are working effectively?	
28. Is the risk management plan reviewed regularly to ensure new risks are identified and risk management strategies are put into place?	



Financial and operational reporting	
29. Are there appropriate performance measures, financial and non financial, which enable the efficiency and effectiveness of the organisation to be assessed?	
30. Are reports tailored to particular levels of responsibility?	
31. Do reports efficiently and effectively communicate key financial data?	
32. Are the financial reports prepared on a full accruals basis as required under the Australian Accounting Standards (a requirement of the FaCS Service Agreement)?	
33. Do financial reports show a comparison between year-to-date, budget, last year-to-date and full-year data?	
34. Are financial reports supported by explanations of significant variations?	
35. Are financial reports provided to the Board at least quarterly?	
36. Are financial reports provided to the Chief Executive Officer at least monthly?	
37. Are financial reports derived directly from the underlying accounting systems and is there a quality assurance process over the compilation of the reports?	
38. Do adequate accounting systems and records support financial reports?	
39. Are financial reports provided to the Board in sufficient time to enable review before meetings?	
40. Do members of the management team brief the Board when financial reports are tabled?	
41. Does the management team include a person with appropriate financial management expertise and experience?	
42. Does that person have a direct reporting line to the Board?	
Board performance	
43. Are there mechanisms to monitor performance of the Board and individual Board members?	
Audit committee—for larger organisations	
44. Is there an audit committee established?	
45. Is there a charter for the audit committee covering such responsibilities as: <ul style="list-style-type: none"> <li>• management and financial reporting;</li> <li>• compliance with laws and regulations;</li> <li>• maintenance of an effective audit function;</li> <li>• suitable risk management and internal control frameworks;</li> <li>• membership;</li> <li>• frequency of meetings;</li> <li>• committee authority; and</li> </ul>	

• board reporting obligations?	
46. Does the audit committee include a majority of independent (non-Executive) Board members?	
47. Do members of the audit committee have adequate financial and accounting expertise?	
48. Does the audit committee have unlimited access to internal and external auditors and to senior management?	
49. Does the audit committee have direct access to the Chief Executive Officer, Chief Financial Officer and external auditor and internal audit?	
50. Does the audit committee meet at least quarterly?	
51. Does the audit committee review the status of all internal audit and external audit recommendations and their implementation?	
52. Do status reports summarise recommendations, officers responsible and implementation dates?	
53. Does the audit committee approve and monitor policies for risk management, reporting and internal control?	
<b>Statutory accountability</b>	
54. Is there a process that identifies all legislation relevant to the organisation, and monitors changes to the legislation and new legislation impacting on the organisation?	
55. Does financial and management reporting encompass reporting on critical legislative compliance obligations?	
56. Does the Board fully understand and continually assess its contractual requirements under the terms and conditions of service agreements with key stakeholders (including with the Department of Family and Community Services)?	

## Governance in the Third Sector

### Case Study Protocol

#### 1. Purpose

This protocol is to provide direction for those conducting the research for this project. The research is being undertaken as part of my Doctor of Business Administration studies through Southern Cross University. I have an interest in corporate governance as it applies to organisations in the Third Sector. This interest becomes a concern when poor governance practice leads to diminished service provision to those people who are in need.

There have had to be some limits placed around the research project given the size of the Third Sector. The particular context in which I work and have influence is another limiting factor. (The case study research method that I have adopted also reflects these limits.) Accordingly the research problem has been defined as:

*To discover what is defined as best practice in the area of corporate governance for community service organisations, funded by the Tasmanian Department of Health and Human Services and if organisations have adopted best practice.*

A literature review has been undertaken of the two parent disciplines which are corporate governance for business corporations (see Hilmer 1998) and corporate governance for the Third Sector (see Lyons 2001). From the literature a list of “Best practice features and practices guiding CSO governance” was identified and I have presumed the list is normative. However analysis is required to verify this, as stated in sub-problem 1:

*To analyse what constitutes best practice in the area of corporate governance for selected CSOs funded by the Tasmanian DHHS.*

The intention is to verify that these features/practices are best practice in light of the delimitations of the scope of the research. The focus of this research is on CSOs who are funded through the Tasmanian Government’s DHHS. The list of features will be discussed with the Grants, Contracts and Purchasing Branch within the DHHS to ensure that their requirements and expectations are encapsulated. A further delimitation on this research is the focus on CSOs incorporated under the *Tasmanian Associations Incorporation Act 1964*. The features and associated practices will be discussed with Business Affairs Office within the Tasmanian Department of Justice and Industrial Relations which has the responsibility to administer the Act.

In addition the features will be circulated to and discussed with representatives of consumers via organisational peak bodies (TasCOSS and YNOT) and an advocacy organisation (Advocacy Tas.) It is necessary to approach these bodies as there is no consumer advocacy group in Tasmania. This will ensure that the perspective of clients, that is, those who receive the services of CSOs, are considered in what constitutes corporate governance best practice.

It is envisaged that these discussions will allow the list of features and practices that generally apply to CSOs to be endorsed specifically as best practice guiding corporate governance within CSOs funded by the Tasmanian DHHS. The approach being suggested here was used successfully by Herman and Renz (2004). They developed a list of practices from the normative literature and consulted with CEOs of nonprofit organizations prior to undertaking their survey.

It will then be possible to move to the second question. That is, to what extent these identified features have been adopted and associated practices implemented by CSOs as described in sub-problem 2:

*To discover how corporate governance principles and practices have been adopted by selected CSOs funded by the Tasmanian DHHS.*

The case study research component of the project will provide the necessary data. According to the literature the data is likely to show that some CSOs have given little attention to governance (Herman & Renz 2004); some will have adopted a particular governance model in full (Carver 2002); others will have a hybrid approach (Alexander & Weiner 1998) and some will have rejected a model altogether (Robinson 2001). It is likely that the adoption by case organisations of the best practice features will follow this pattern.

## **2. Key features of the case study method**

Detailed information about the case study method can be found in Yin (1994).

The selection of case organisations has been done using a purposeful sampling technique called maximum variation sampling. The technique emphasizes the differences between organisations. Such difference leads to the identification of sufficient 'richness' in information to make the research worthwhile (Perry 1998, p.787). A sense of the variation between the organisations can be seen in the following table.

Table Case organisations

Organisation	Funded by DHHS	Incorporated association	Income exceeding \$1M	Religious-based organisation	Sphere of activity
A	X	X	--	X	Accommodation Support
B	X	X	X	--	Personal support
C	X	X	--	--	Advocacy
D	X	X	X	--	Disability
E	X	X	X	X	Large range of services
F	X	X	--	X	Family support

Source: developed for this research.

The number of case organisations required for a research project is debated in the literature and there is a dominant view that there is a range of between four and ten cases (Perry 1998, p.787). The six cases chosen for this study reflects the sampling technique that has been adopted as well as the funding and time limitations on the research. The number and sample technique will provide for literal replication with similar results predicted for predicted reasons.

### 3. Procedures

There are two sets of interviews to be undertaken. The first is in connection with sub-problem one and it is the stakeholders who can provide the required input as outlined above. See the attached “*Interview questions for stakeholders.*” The persons identified are those who hold the key positions within the stakeholder organisation and will be approached individually by letter, with a follow up call to arrange an interview time. When the letter is sent attached to it will be the interview questions. These will form the base of the interview.

The second set of interviews is with individuals within case organisations. See the attached “*Interview questions for organisations.*” It is the person who is responsible for chairing an organisation’s board of management that is likely to be most aware of the governance practices that are in place. The other person who will be knowledgeable will be the CEO. It is for this reason that these are the two people who are to be interviewed in each organisation. In addition it will be these interviewees who will be able to give the necessary permission to access the documentation that is to be reviewed. Initial contact will be made by phone with each of the CEOs as they are all known to the researcher. A letter will then be sent to each CEO and Board Chair. This letter will outline the purpose of the research and include an outline of the areas to be covered in the interview. It will also mention the desire for a documentation review. This review will be followed

up in the interview. See the attached “*List of corporate governance features and practices that organisations have in place.*”

#### A. Review of preliminary information

This protocol and the reference mentioned below are essential prior information. They provide the necessary context in which the research takes place. In addition, basic information about each of the stakeholder and case organisations is to be read. Principally this can be obtained from their web sites as listed below. Given that each of the case organisations will be incorporated under the Associations Incorporation Act this Act will need to be reviewed and can be located at:

<http://www.thelaw.tas.gov.au/scanact/ACTTITLE/F/AS/>.

The case organisations may have amended the model rules that are contained in the legislation so a copy of the registered version of the Rules will need to be obtained from the Business Affairs Office and reviewed.

#### B. Persons to be interviewed

Table **Stakeholder organisations**

Organisations	Web sites	Positions
Grants, Contracts and Purchasing Branch within DHHS	<a href="http://www.dhhs.tas.gov.au/partnerships/doingbusinesswithdhhs/">www.dhhs.tas.gov.au /partnerships/doingbusinesswithdhhs/</a>	Manager
Business Affairs within the Office of Consumer Affairs and Fair Trading	<a href="http://www.justice.tas.gov.au/breg/index.htm">www.justice.tas.gov.au /breg/index.htm</a>	Manager
Tasmanian Council of Social Service Inc. (TasCOSS)	<a href="http://www.tascoss.org.au">www.tascoss.org.au</a>	Policy Officer
Youth Network of Tasmania Inc. (YNOT)	<a href="http://www.ynot.org.au">www.ynot.org.au</a>	Executive Director
Advocacy Tasmania Inc.	<a href="http://www.advocacytasmania.com.au">www.advocacytasmania.com.au</a>	Manager

Source: developed for this research.

Table **Case organisations**

Organisation	Web site	Chair	CEO
A			
B			
C			
D			
E			
F			

Source: developed for this research.

### C. Training for research assistant

The research assistant will be provided with a copy of the draft literature review chapter and access to the various references listed below. In addition there will be specific training in the interview instrument. The research assistant is a person who has had experience in interviewing for research purposes.

### D. Case study database

A data base will be maintained showing all documents that are examined. Documents will be listed by case organisation. In addition the database will list interviews that are conducted and a reference to the appropriate record of interview notes, tapes and transcripts.

## 4. Data collection

### A. Interview questions

The questions for stakeholders and case organisations are listed in the Appendixes. The interviews will be taped and then transcribed for later reference with details being recorded in the case study data-base.

### B. Documentation review

#### i. Stakeholders

The DHHS has a standard service agreement that contains some information regarding corporate governance. There may also be policy documents that address the area that will be revealed during the interview and these will then need to be reviewed. The researcher is not aware of any documents that the consumer organisations hold. There may be client service charters or similar that mentions corporate governance and if so they will need to be reviewed. The essential document for the Business Affairs Office is the Associations Incorporation Act referred to above.

#### ii. Case organisations

The essential document in each case organisation to be reviewed is the Rules of Association. (A check will need to be made to ensure that the copy provided matches that filed with Business Affairs Office.) The other document to be reviewed will be the policies and procedures manual or similar (for example board member induction package). In addition the organisation's annual report will be reviewed as it may provide insight into governance practices. It would be desirable to review board of management meeting minutes but this may not be possible. The intention of the document review is to provide the evidence for the '*List of corporate governance features and practices that organisations have in place*' that is to be completed for each case organisation.

## 5. Data analysis

### A. Stakeholders

The responses received from stakeholders will be used to verify as normative the list of "Best practice features and practices guiding CSO governance." There may need to be some amendment of the features/practices to reflect the responses received. Such changes, if significant, will require a second interview of the stakeholder representatives.

## B. Individual case studies

### i. Description

The most significant description from the case studies is not likely to be about models, but the gap between principle and practice. The rhetoric within organisations will probably endorse the importance of governance, and perhaps even a particular approach to guiding features. Yet the organisation may not have practices in place that ensure it has the capacity to meet the requirements of the features. Therefore data analysis will be presented that reveals what the organisations are actually doing.

When it comes to religious-based CSOs the data analysis will also focus upon whether there is a gap between the beliefs, traditions and values of the case organisation and its governance features and practices.

### ii. Report

The data analysis report will be significant to the case organisations as it will provide them with information about how they can improve their governance performance. This is vital given the link between good governance and organisational effectiveness. Similarly the DHHS will be interested in the report as they will want to ensure that the organisations they fund are governed well. Good governance reduces the demands on DHHS for additional financial assistance and ensures the services for which they provide the funding are delivered. It is due to this link between governance and service delivery that clients and their advocates will also be potential recipients of the report. Use will be made of quotes from the interviews to provide evidence for the description provided.

## C. Cross-case

The cross-case description and report material will build along the lines outlined above for the individual case descriptions. That is, what features have been adopted and whether practices have then been implemented. The Likert-scaled questions will provide a mechanism for cross-case description.

All interviewees will see a copy of the report written on the basis of their interview.

## 6. References

Alexander, JA & Weiner BJ 1998, 'The adoption of the corporate governance model by nonprofit organisations', *Nonprofit Management and Leadership*, vol.8, no.3, pp.223-242.

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<b>Interview questions for stakeholders</b>	
Organisation:  Interviewee:  Position in organisation:	Open-ended question:  What is your story in relation to the corporate governance of CSOs?
<b>Questions</b>	<b>Responses</b>
1. What are your expectations regarding the corporate governance of community service organisations (CSOs) funded by DHHS?	
2. How does your organisation respond to the problems it has encountered in the corporate governance of CSOs?	
3. How does your organisation describe its role in ensuring CSOs have an appropriate corporate governance structure?	

Interview questions for stakeholders (cont'd)			
Organisation: Interviewee: Position in organisation:			
What is best practice corporate governance in community service organisations?			
<i>Features</i>	<i>Practices</i>	<i>Best practice Yes/No/?</i>	<i>Any comment</i>
HR & Succession planning.	Ensure that there are adequate HR policies and procedures in place. Create a plan to appoint the successor of the CEO & to fill board vacancies.		
Strategy setting & planning.	Set the overall strategic goals for the organisation. Establish plans to achieve those goals and evaluation measures.		
Risk management.	Ensure that there is a framework in place to identify, assess & treat risks on a continuing basis.		
Financial strategy & reporting.	Implement a schedule of financial reporting. Ensure there is a regime of external & internal audit. Approve budgets.		
Consultation.	Facilitate consultation with its stakeholders: members, clients/ consumers, the community & funding providers.		
Roles & responsibilities.	Exercise specific roles & responsibilities as outlined in the legislation under which the organisation is incorporated or constituted as well as the demands required in other legislation.		
Performance.	Put in place a means of assessing three areas of performance: the board, the CEO and the organisation as a whole.		
Skills, independence & resources.	Ensure that its membership has the right mix of skills to facilitate the organisation in reaching its goals.		
Conduct & ethics.	Develop a code of conduct that will guide its members in their interactions with one another and the organisation's employees.		

Interview questions for organisations	
Organisation: Interviewee: Position in organisation:	
Questions	Responses
1. What corporate governance principles and practices has your organisation adopted?	
2. How do they impact upon the way the organisation functions?	
3. How is the organisation motivated in having corporate governance principles and practices?	
4. How does your organisation maintain its corporate governance structure?	
5. How do the values, beliefs (or similar) of the organisation inform its approach to corporate governance?	

Interview questions for organisations (cont'd)						
Organisation: Interviewee: Position in organisation:						
Questions	Excellent	Above average	Average	Below average	Inadequate	Not applicable
Do you believe that the corporate governance principles and practices of your organisation are						
With regard to the following specific features do you believe your organisation's practices are						
HR & Succession planning						
Strategy setting & planning						
Risk management						
Financial strategy & reporting						
Consultation						
Roles & responsibilities						
Performance						
Skills, independence & resources						
Conduct & ethics						

List of corporate governance features & practices that organisations have in place	
Organisation:	
<i>Features and practices</i>	<i>Evidence</i>
<b>1. HR &amp; succession planning.</b>	
Ensure that there are adequate HR policies and procedures in place.	
Create a plan to appoint the successor of the CEO & to fill board vacancies.	
<b>2. Strategy setting &amp; planning.</b>	
Set the overall strategic goals for the organisation.	
Establish plans to achieve those goals and evaluation measures.	
<b>3. Risk management.</b>	
Ensure that there is a framework in place to identify, assess & treat risks.	
on a continuing basis	
<b>4. Financial strategy &amp; reporting.</b>	
Implement a schedule of financial reporting.	
Ensure there is a regime of external & internal audit.	
Approve budgets.	
<b>5. Consultation.</b>	
Facilitate consultation with its stakeholders: members,	

clients/ consumers,	
the community	
& funding providers.	
<b>6. Roles &amp; responsibilities.</b>	
Exercise specific roles & responsibilities as outlined in the legislation under which the organisation is incorporated or constituted.	
as well as the demands required in other legislation	
<b>7. Performance.</b>	
Put in place a means of assessing three areas of performance: the board,	
the CEO	
and the organisation as a whole.	
<b>8. Skills, independence &amp; resources.</b>	
Ensure that its membership has the right mix of skills to facilitate the organisation in reaching its goals.	
<b>9. Conduct &amp; ethics.</b>	
Develop a code of conduct that will guide its members in their interactions with one another	
and the organisation's employees.	
<b>ADDITIONAL features and practices:</b>	

??/??/??

M/S Jo Blow  
ABC Org  
GPO Box  
HOBART TAS 7001

Dear Jo

**GOVERNANCE PRINCIPLES AND PRACTICE IN NON-PROFIT (THIRD SECTOR)  
ORGANISATIONS RESEARCH PROJECT - INFORMED CONSENT FORM**

You are invited to participate in a study of corporate governance principles and practices in non-profit (Third Sector) organisations. We hope to discover what is defined as best practice in the area of corporate governance for community service organisations, funded by the Tasmanian Department of Health and Human Services, and if organisations have adopted best practice. Your name was given to me by .....

Procedures to be followed:

A semi-structured interview is planned that will take no more than one hour. It is intended that the interview take place at a location convenient to you. To assist in the writing up of the research the interview will be taped and later transcribed. Any comments you make will be de-identified and coded for reference in the research report eg. Organisation A CEO. A draft of any comments you make that are included in the research report will be sent to you for comment prior to their inclusion.

Possible Discomforts and Risks

No risks are envisaged given the nature of the project.

Responsibilities of the Researcher

Any information that is obtained in connection with this study and that can be identified with you will remain confidential. All references in the aggregated report will not contain any references that will enable you to be identified. All interview material will be kept in a locked cabinet at home and destroyed 5 years after the research has been completed.

Responsibilities of the Subject

Fully disclose information which could be of value to the research.

Freedom of Consent

If you decide to participate, you are free to withdraw your consent and to discontinue participation at any time. However, we would appreciate you letting us know your decision.

Inquiries

If you have any questions, we expect you to ask us. If you have any additional questions at any time please ask:

The project's Supervisor: Professor E W (Bill) Russell  
Adjunct Professor, Southern Cross University  
156 Bouverie St. Carlton Vic. 3053  
Ph: 03 9362 2862  
Email: [ewrussell@hotmail.com](mailto:ewrussell@hotmail.com)



The Researcher: Chris Jones  
10 Douton Crt Glenorchy Tas. 7010  
Ph: 03 6231 9602  
Email: [c.jones@anglicare-tas.org.au](mailto:c.jones@anglicare-tas.org.au)

Any complaints or queries regarding this this project that cannot be answered by the person responsible for this research project should be forwarded to:

John Russell  
Ethics Complaints Officer  
Graduate Research College, Southern Cross University  
PO Box 157 Lismore NSW 2480  
Ph: 02 6620 3705  
Fax: 02 6626 9145  
Email: [jrussell@scu.edu.au](mailto:jrussell@scu.edu.au)

You will be given a copy of this form to keep.

Yours sincerely

Chris Jones

*I have read the information above and agree to participate in this study. I am over the age of 18 years.*

Name of Subject: .....

Signature of Subject: ..... Date: .....

Name of Witness: .....  
*(who shall be independent of the project)*

Signature of the Witness: ..... Date: .....

*I certify that the terms of the form have been verbally explained to the subject, that the subject appears to understand the terms prior to signing the form, and that proper arrangements have been made for an interpreter where English is not the subject's first language. I asked the subject if she/he needed to discuss the project with an independent person before signing and she/he declined (or has done so).*

Signature of the researcher: ..... Date: .....

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