One board for mission, another board for margin: Exploring two-tiered boards and links to not-for-profit organizational performance

Martin Laverty,

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ABSTRACT

Not-for-profit organizations are trusted by donors to provide essential services, with not-for-profit board directors ultimately accountable for organizational performance. Yet links between corporate governance and organizational performance are tenuous, and there is no consensus on how not-for-profit performance should be measured. This thesis reports on exploratory research of an elite group of Australian not-for-profit hospital board directors practicing corporate governance through two-tiered boards, which are common in Germanic influenced corporate governance systems but rare in Anglo-US environments. The thesis quantifies the previously unrecognised use of two-tiered board governance by Australian not-for-profit hospitals and identifies different governance factors perceived by board directors for their potential to contribute to not-for-profit organizational performance.

CERTIFICATION OF DISSERTATION

I certify that the substance of this thesis has not already been submitted for any degree and is not currently being submitted for any other degree or qualification.

I certify that any help received in preparing this thesis and all sources used have been acknowledged in this thesis.

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Martin Laverty

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Chapter 1: Introduction

1.1 Background

‘What governance practices are perceived by two-tiered board directors of Australian not-for-profit hospitals as contributing to organizational performance?’ is the question driving this research. The question was initially sparked by my attendance, as an invited guest speaker, at a meeting of a not-for-profit hospital board in 2011. During the meeting, I observed capable and talented board directors grappling with the challenge of bettering the performance of their healthcare organization. Their desire to contribute to improved health outcomes was clear. Their individual capacities to contribute were apparent. Yet collectively as a board they struggled with how to improve declining patient throughput and satisfaction metrics. They perceived that their efforts as board directors to drive performance were less than successful.

Leaving that meeting I wondered what it was that was causing this governance performance blockage. Was it the composition of the board? Was performance hindered by the unique governance environment whereby the board I had met with answered to a separate supervisory board? In any organization governed by boards of directors, how could governance practice be optimised to better contribute to either shareholder profit or social benefit?

Varhegyi and Jepsen (2017) state that boards of directors in not-for-profit organizations are ultimately responsible for their organization's success or otherwise (p. 106). Yet academic knowledge of governance arrangements in not-for-profits is also not well known (Dyl, Frant, & Stephenson, 2000; Jegers, 2009). Whereas for profit and not-for-profit companies both have governance problems, they tend to be more extreme in not-for-profit environments (Glaeser, 2003). Aware of these dynamics, I became motivated to explore board director practice in governance systems comprising two separate boards, in part to ascertain if I could identify good or best board practice for dual board environments. Whereas a range of voluntary best practice guides assist in the execution of corporate governance, evidence concerning the benefit of codes of good governance is conflicting (Auguilera & Cuervi-Cazurra, 2009), and no best practice guides in the English language to inform specific two-tiered board practice appear to exist.

This motivation prompted me to commence my doctoral candidacy, with my goal being to explore and better understand how the practices of the unique two-tiered governance arrangement in a segment of Australian not-for-profit hospitals contributed to or hindered organizational performance. The need for more corporate governance studies conducted in the field to gather knowledge of practice, interactions, and intra-relationships of governance practitioners has been identified (Ahrens, Filatotchev, & Thomsen, 2011). Knowledge of governance of not-for-profit organizations and, specifically, governance's role in organizational outcomes is still quite scarce (Aldashev, Marini, & Verdier, 2015). Seeking out the perceptions of the elite group of executive and non-executive directors practicing the unique form of two-tiered governance within Australian not-for-profit hospitals represented the most likely source of data to fulfil this goal. Indeed, not-for-profit organizational performance is often only able to be assessed through the perceptions of board members and their executive (Brown, 2005).

Corporate governance, variously described as the mechanism for owners of capital to satisfy their need for return on investments (Shleifer & Vishny, 1997), or systems by which companies are directed (Cadbury, 1992), or processes to inform, direct, manage and monitor an organization to obtain performance (Pintea & Fulop, 2015), is given significant prominence in the literature. Its prominence reflects the importance of effective corporate governance to societal order and economic activity. This corporate governance literature arises mostly from studies of for-profit firms, with corporate governance of not-for-profit organizations not as widely studied (Jegers, 2009). There is, in fact, a dearth of academic research in the not-for-profit sector on issues of governance (Chelliah, Boersma, & Klettner 2016). When it comes to not-for-profit organizations governed by two-tiered boards, such a practice in Anglo-US environments is almost unheard of, and prior to this study has not yet been subject to research in the Australian context.

In the absence of a prior Australian study, the concept of two boards governing a single organization needs introduction. Two-tiered boards operate by separating two groups of directors with specific roles and legal responsibilities (Bezemer, Paeij, Maassen, & van Halder, 2012). Organizations with two tiered governance have a board of directors and a separate board of supervisors (Filatotchev, Toms, & Wright, 2006), most commonly termed as a management board and a supervisory board (Lajoux, 2016). In the Germanic context, two-tiered board governance has been described as where an owner or shareholder board's role is to set long-term vision expectations, and the corporate or managerial board's job is to achieve short-term value through appointment and monitoring of the firm's executives (Van der Hayden, 2014). The management board is the real decision-making body with responsibility for running the company, whereas the upper supervisory board approves appointment of management board members and their business strategies (Bohdanowicz, 2014).

Little is known about board governance conducted through a two-tier model (Bohdanowicz, 2015), and any organizational performance benefit or detriment arising from switching from a single board to two has not yet been fully analysed (Bellavite Pellegrini, Sergi, & Sironi, 2016). Prior to the commencement of this study, there was not a literature on not-for-profit corporate governance of organizations with two-tiered boards in Australia. This study adds to knowledge of two-tiered governance by affirming its existence in Australia, describing its operating methods, and outlining the distinguishing features of a set of two-tiered boards operating in a group of Australian not-for-profit Catholic church owned hospitals that make them unique within the broader group of two-tiered boards operating in Germanic and Asian corporate governance environments.

Despite the low profile of two-tiered boards in Australia, two main board structures exist internationally, with a single-tier unitary board dominant in Anglo-US environments and a two-tier board or dual model in Germanic governance environments (Choudhuri, 2017). Continental Europe's use of two-tiered boards reflects a socialist and capitalist philosophy mix that promotes stakeholder interest and social welfare by splitting governance responsibility into separate management and control tiers (Rajablu, 2016). The differing Anglo-US and Germanic choices about board structures have roots in the different social, legal, philosophical, cultural, and environmental beliefs of the two sides of the Atlantic (Letza, Kirkbride, Sun, & Smallman, 2008; Reddy, 2009). Consistent with the rationale for the Germanic two-tiered model, the two-tiered boards of the Catholic hospitals identified in this study have separate responsibilities: one board acting as a trustee owner with control; and the other accountable for operations and management.

This exploratory study's formal research question of: 'What governance practices are perceived by directors of two-tiered boards of Australian not-for-profit hospitals as contributing to organizational performance?' emerged after an initial review of the scant English language two-tiered board literature and the larger, though inconclusive literature on the role of corporate governance in organizational outcomes. The research question is significant on a number of fronts, specifically because it was not widely recognised before this study that many Australian not-for-profit hospitals are in fact governed by two-tiered boards. By exploring specific corporate governance practices of two-tiered boards, not previously studied for their perceived potential to optimise a board's contribution to organizational outcomes, there is an opportunity to inform more effective governance directed at better organizational performance. This is particularly the case for the class of not-for-profit organizations subject to this study; that is, large not-for-profit hospitals utilising the unique two-tiered board arrangement.

The chapters that follow discuss the study design, conduct, and findings. In total, the study identifies 20 governance practices perceived by two-tiered board directors of Australian not-for-profit hospitals as contributing to organizational performance. The revelation of these 20 practices, detailed in Figure 8.1 presented in Chapter 8, answers the research question.

1.2 Statement of problem

The exploratory study is premised on addressing a set of both broad problems relevant to the entire not-for-profit community, and more focused problems relevant to specific not-for-profit organizations. These problems are found in the need for effective governance of not-for-profit organizations within communities they serve. The specific problems relate to the unclear method of governance practice of Australian not-for-profit hospitals with two-tiered boards.

The problem at a broad community level is that despite the central roles of not-for-profit organizations in society, evidence on how they can most effectively fulfil their purposes is scant. People living in socioeconomic disadvantage often depend on not-for-profit organizations for benevolent service provision. With community expectations that not-for-profit organizations positively contribute to their designated social purpose, governance efficacy and organizational performance is a concern to service recipients, financial donors, management teams, board directors, and governments alike (Hyndman & McConville, 2016). Three specific problems arise from this concern. The first is that there is no consensus on how best to measure not-for-profit organizational performance (Boateng, Akamavi, & Ndoro, 2016). The second is that evidence of links between governance and performance is difficult to isolate and quantify (Caspar, 2016). The third is that governance structures and practices designed for for-profit organizations may not best suit the different governance needs of not-for-profit organizations (Fontes-Filho & Bronstein, 2016).

On the problem of performance, the literature and current regulatory frameworks in Anglo-US countries do little to resolve how best to measure or improve not-for-profit organizational performance. Not-for-profit performance is often only able to be assessed by the perceptions of board members and their management teams (Brown, 2005), or examining service program effectiveness (Sowa, Coleman-Seldon, & Sandfort 2004). The lack of a standard effectiveness measure creates a problem for those concerned for not-for-profit organizational performance, and denies those concerned of the opportunity for intervention or remedy when performance is measured as below requirements.

On the problem of links between organizational performance and governance, there has long been debate as to whether such a link even exists (Nicholson & Kiel, 2007). There is no strong evidence of effectiveness of specific individual corporate governance mechanisms in contributing to organizational performance (Misangyi & Acharya, 2014), just as there is no definitive position on whether governance can ever directly control organizational performance, in part because performance is dependent on external opportunities (Hutchinson & Gul, 2004). All board directors, and not-for-profit board directors in particular, face a significant problem in that they practice governance in environments where it is unclear how they can best enable performance. It is surprising that the link between governance and performance is as little studied as it is, given the emphasis markets and regulators place on governance as a proxy for organizational health.

On the problem of whether a governance structure is fit for purpose, for-profit organizations exist for maximization of shareholder profits (Lee, 2005). By contrast, not-for-profit organizations exist for fulfilment of a purpose and do not seek profit or the personal financial benefit of particular people (Knight & Gilchrist, 2014), with a non-distribution constraint prohibiting profits being paid (Hansmann, 1987). Not-for-profit organizations, in the absence of a financial profit motive, have no consensus driver to determine desirable outcomes, and lack principals or owners diluting accountability among numerous stakeholders (Nikolova, 2014). Not-for-profit organizations have adopted for-profit governance approaches without apparently questioning whether alternate governance methods might better achieve organizational outcomes.

Focusing more narrowly on Australian not-for-profit hospitals and their two-tiered governance contribution to performance, three problems arise. The first is that the practice of board governance in not-for-profit hospitals with two-tiered boards has not been previously studied and is, accordingly, not well understood; the second is uncertainty as to whether the two-tiered board structure is suited to the not-for-profit hospital environment at all; and the third is uncertainty about whether the two-tiered board governance can be conducted to help, not hinder, not-for-profit hospital performance. The importance of addressing these problems was made apparent during the study when it was found that Australian not-for-profit hospitals with two-tiered boards operate 6,419 overnight stay hospital beds, which is 22.6 per cent of all private hospital beds in Australia.

Good board governance is usually informed by such inputs as best practice guides, previous director experience and precedent. Ninety-one countries have issued governance best practice guides (Cuomo, Mallin, & Zattoni, 2016), generally focused on publicly listed companies. Fulfilling a governance function in the absence of prior knowledge and experience constrains the potential for boards and organizations to succeed. This is the environment within which board directors of a unique group of Australian not-for-profit hospitals govern. They do not have the benefit of prior knowledge built up by practitioners over many years. They are, to some extent, governing in the dark and, consequently, hospital patients, health care staff, and government funders and regulators have no means of determining the utility of the novel governance structure to ascertain if it is appropriate or effective. Similarly, board directors and their management teams are not able to easily benchmark against alternate governance arrangements to inform a decision as to whether two-tiered boards are fit for the purpose of not-for-profit hospital administration. Unlike organizations with a single unitary board where previous experience and best practice guides can inform practice, there is no Anglo-US information of what best practice two-tiered governance of not-for-profit hospitals entails. This puts board directors of two-tiered boards at a disadvantage by not being able to determine how best they should fulfil their roles.

1.3 Study objectives

There is debate and mixed evidence about the link between corporate governance and organizational performance (Nicholson & Kiel, 2007). Effective boards have been found to improve organizational performance, although the mechanisms of that change are not yet well understood (Herman & Renz, 2000). My study sought to explore and advance knowledge of the governance and organizational performance link by investigating the question: ‘What governance practices are perceived by directors of two-tiered boards of Australian not-for-profit hospitals as contributing to organizational performance?’

To fulfil the study's objective, the first issues to be addressed were: the nature of corporate governance and, specifically, as it relates to two-tiered boards; how widely are two-tiered boards utilised; and how is two-tiered governance practiced? To give context to these issues, the study considers what organizational performance is and how it can be measured. Specifically the study explores the links between corporate governance and organizational performance, and in what circumstances board directors practicing two-tiered governance in Australian not-for-profit hospital organizations perceive governance as contributing to organizational performance. Ultimately, the study addresses the research question by determining whether specific governance approaches or actions are *perceived* to optimise governance's contribution to organizational outcomes within not-for-profit organizations governed by two-tiered boards.

The answer to the research question is provided with the presentation of twenty practices, some of which were first identified from the initial literature review and later validated as part of a larger group of conclusions of primary data analysis, presented in Chapters 5, 6, and 7. Whereas there is not strong evidence about the effectiveness of individual corporate governance mechanisms in their contribution to organizational performance, when bundled together they have been found to lead to better effectiveness (Misangyi & Acharya, 2014). Accordingly, these twenty practices could be of potential interest to all governance practitioners, both within and outside of two-tiered board environments, for their perceived contribution to organizational performance.

1.4 Study methodology

The literature review first suggested governance could contribute to organizational performance in 12 ways. Having identified these 12 factors from the literature, the exploratory study utilised a qualitative research method, because of its ability to apply any number of techniques at the place of a phenomena to capture the interpretations of participants, their relationships and the dynamics of events as they occur in the phenomena's setting (Denzin & Lincoln, 2005).

The initial data collection phase of the study involved analysing secondary data to establish the extent to which two-tiered boards are utilized within hospital organizations in Australia. The second phase involved primary data collection utilizing semi-structured individual interviews with executive and non-executive directors of Australian not-for-profit hospitals with two-tiered boards. Further qualitative primary data gathering was conducted using the same governance practitioners' group by way of a questionnaire to explore whether the 12 factors derived from the earlier literature review resonated with their experience. Qualitative, as opposed to quantitative, methods were used for the second phase of the study because of that method's greater likelihood of revealing and assessing the range of board director perceptions (Gali, Hajjar, & Jamali, 2016).

The semi-structured interviews and questionnaire were conducted with an elite group within an already elite group of Australian board directors. Access to this group relied on researcher insider status, enabling access to otherwise inaccessible data. The data and its presentation in Chapters 5, 6, and 7 additionally revealed perceptions of the inner workings of previously un-researched two-tiered board governance practice in Australia, providing a unique contribution to the literature.

1.5 Chapter outline

This study is presented across eight chapters. Chapter 1 outlines the study problem concerning corporate governance, two-tiered boards, and the link between governance and organizational outcomes. The problems faced by board directors seeking to contribute to organizational outcomes, the research objectives and the methodology employed are discussed. It also addresses the significance of the study, and concludes by recognising the study limitations.

Chapter 2 details the literature on for-profit and not-for profit corporate governance. The Chapter considers the foundational corporate governance theories of agency, dependency, stewardship, stakeholder, hegemony, lifecycle, behavioural, signalling, contingency, pluralism and values. The role of boards of directors within corporate governance is considered; this literature is mostly focused on unitary boards, but goes on to consider the prevalence of two-tiered boards, which are common in some established markets subject to Germanic influence, and emerging markets, such as China. Chapter 2 then considers how organizational performance can be assessed before an initial consideration of links between board governance and its ability to impact organizational performance.

Chapter 3 details literature that specifically links 12 separate corporate governance factors with organizational performance. This literature on for-profit corporate governance reveals boards contribute to value creation when their director members individually and collectively are able to effectively fulfil their board roles (Huse, Gabrielsson, & Minichilli, 2005). A board's exercise of strategic influence (Huse & Rindova, 2001), its participative nature (Heracleous, 2001), its level of transparency (Chiang, H-tsai, 2005), and its ownership of stock (Bhagat & Bolton, 2008) are further factors that correlate with a corporation's performance in varying circumstances and to differing extents. Active participation of major donors on boards (Brown, 2005), the engagement of board directors in resource gathering (Brown, 2005), board and chief executive officer turnover (Eldenburg, Hermalin, Weisbach, & Wosinska, 2004), and monitoring achievement of organizational performance (Brown 2005; Eldenburg et al., 2004) are also factors found to correlate, under various definitions, with a not-for-profit organization's overall performance. Sufficiently sized and active (Firth, Fung, & Rui, 2007), firmly independent (Velte, 2010) supervisory boards within two-tier board structures that comprise members with appropriate professional knowledge and work experience (Shan & Xu, 2012) have also been found to improve organizational performance. Figure 3.1 situates and summarises these 12-factors in a framework and suggests two potential uses of the framework: as a guide for board directors interested in linking their governance roles to organizational outcomes; and for validation purposes with the participants of the study.

Chapter 4 details the methodology used to address the research question. It outlines the approach taken to quantify the reach of two-tiered governance in Australian not-for profit hospitals, the rationale for the use of qualitative data collection capturing directors' perceptions, and the importance of the findings from the literature of the factors that link corporate governance and organizational performance. It also outlines the manner in which primary data were gathered and analysed prior to presentation in the subsequent three chapters.

Chapter 5 presents the analysis of the interviews about the directors' perceptions of two-tiered governance. It details how an elite group of board chairs and chief executives of Australian not-for-profit church-owned hospitals utilizing two-tiered boards were recruited to the study, and outlines how semi-structured interviews were conducted with these participants. The main focus of the Chapter is its presentation of thematic data analysis arising from these interviews. The themes discussed are: the reasons for adoption of two-tiered boards; the nature of the interaction between the two boards and participant views of these interactions; the size and gender balance of the two boards; the role of board chairs; the role of strategy; and the perceived benefits and perceived disadvantages of the two-tiered board arrangement. The Chapter provides three components of the answer to the study's research question: first, board directors perceived that utilizing two-tiered boards expanded the governing group's collective wisdom; second, the supervisory board's focus on mission 'checks and balances' the operational board's focus on business management; and third, a two-tiered governance structure is more likely to contribute to organizational outcomes as the two-tiered governance practice matures over time.[1]

Chapter 6 presents a further analysis of the interview data through the lens of theories of corporate governance identified in the literature review in Chapter 2: agency, dependence, stewardship, stakeholder, hegemony, lifecycle, behavioural, contingency, pluralism and values. This analysis of the theories of corporate governance and the primary data finds two-tiered board governance has solid grounding within existing corporate governance theories. The Chapter also provides the second set of conclusions contributing to answering the research question; that is, the nine practices perceived as contributing to organizational outcomes: clarity of setting direction by the supervisory boards; degree to which the supervisory board acted as the representative group of shareholders; capacity of the supervisory board to legitimize the decisions of the organization; capacity of the supervisory board to act appropriately during a crisis; degree to which the establishment of a two-tiered governance structure enabled organizational existence; degree to which the practice of two-tiered governance improved over time; the personal behaviour of governance participants; the role of director selection in determining personal behaviours by the supervisory boards; and capacity of two-tiered boards to respond to risks that might otherwise adversely impact the organization.

Chapter 7 presents the findings from the questionnaire distributed to two-tiered board directors. The questionnaire was built on the framework of the 12 factors identified in the literature, and summarised in Chapter 3, as linking corporate governance to organizational outcomes. The Chapter provides the third set of conclusions that contribute to the answer to the research question by validating nine of the 12 factors as perceived by directors to contribute to organizational outcomes. These nine are: board functionality, monitoring of defined performance, strategic input, participative boards, transparency, governance stability, and active and well sized, independent and professionally matched supervisory boards.

[1] This third finding, that two-tiered governance improves its organizational performance contribution over time, was also identified as a conclusion of Chapter 6; this practice is noted in Chapter 8 as having been identified twice in the study, but is presented only once in the study's final conclusions in Chapter 8.

Chapter 8 concludes the study by drawing together the findings in Chapters 5, 6 and 7. Figure 8.1 summarizes the 20 practices perceived as contributing to organizational outcomes by directors of two-tiered boards of Australian not-for-profit hospitals. The Chapter also details the study's limitations and points to opportunities for future research.

1.6 Significance of the research

The significance of the research is three-fold. First, it reveals the use of a novel two-tiered governance practice in Anglo-US environments. Second, for the first time, this study reveals elite governance practitioners' perceptions of the operation of two-tiered governance within a specific not-for-profit hospital environment. Third, it is significant for its potential to inform governance practice that contributes to organizational outcomes.

That two-tiered boards operate within some corporate governance structures has been neither well identified in Anglo-US firms nor much studied by Anglo-US researchers. While the literature discussed in Chapter 2 reveals the significant presence of two-tiered boards in Germanic and some Asian-influenced corporate governance structures, it is also clear there is no widespread use of this two-tiered board approach in Anglo-US corporate governance systems. Indeed, the unique contribution of the study is the provision of new knowledge about both the use of two-tiered boards within not-for-profit hospitals within Australia's Anglo-US corporate governance environment, and the manner in which two-tiered board participants perceive this novel structure as contributing to organizational performance.

Not-for-profit hospitals provide public good to the communities within which they operate. They are essential services in both developed and developing countries. Understanding how the performance of services delivering an essential public good can be optimised through enhanced governance practice is of interest to service owners, funders, and consumers alike. Australian board directors themselves involved in two-tiered governance of not-for-profit hospitals have previously had no precedent or guide as to how they should conduct their board roles. The study provides perceptions of directors about governance practices that contribute to organizational outcomes, offering governance practitioners practical knowledge about how to fulfil their important roles.

The study of corporate governance approaches is of wide interest to researchers, governance practitioners, financial market participants, governments, and consumers of goods and services. Corporate governance offers owners of capital a structure through which the supply of goods and services to customers occurs whilst making possible a capital return. To the extent that the study findings offer opportunity for governance's contribution to not-for-profit organizational outcomes to be optimized, the research has potential to inform and guide those with an interest in not-for-profit governance in how to effectively govern with organizational performance as the goal.

1.7 Scope and limits of study

Despite the potential of the findings of this exploratory study to inform governance practice directed at improved organizational outcomes, the study has a number of limitations.

The first limitation is the study's significant reliance on prior literature concerning the links between governance and organizational performance. The literature is drawn from three different fields of corporate governance research: for-profit, not-for-profit, and two-tiered board literatures, with the last of these research streams containing very limited two-tiered board literature to draw on. The study also relied only on literature published in English. Given two-tiered board practice in Germany, China, and other non-English speaking countries, there is likely to be other non-English literature not addressed in this study. Of the literature drawn on to construct the framework presented in Figure 3.1, the original literature authors did not intend their study findings to be merged into such a framework as is presented in this study. It is unclear if the 12 components can legitimately be linked to work seamlessly together, and it may be that each of the 12 components should be weighted for different prominence in the deducted framework.

The sample size relied on for the gathering of primary data is a small and homogenous group. Having professional familiarity with the sample group, insider researcher advantages also needed to be balanced by consideration of potential biases. The differing capabilities of participants to assess governance and links to performance also needs consideration when it comes to assessing the study's findings.

The framework presented at Figure 3.1 emerged from deductive analysis of previous research, which informed the design of a questionnaire asking participants about perceived links between governance with organizational outcomes. The use of the framework limited the range of considerations available to participants, which in turn limited the potential for other dynamics to emerge. The inherent bias of asking directors to comment on their own practices further limits the study.

1.8 Conclusion

This Chapter has introduced the problem and research question giving rise to the exploratory study. The study objectives and the exploratory methodology were briefly outlined, accompanied by the chapter outline and discussion of the significance and limitations to the study. The scene has now been set for a critical analysis of the existing relevant extant literature and how this helped frame the research question.

Chapter 2: Literature review

2.1 Introduction

The literature on corporate governance paints a mixed picture of the contributions boards can make to organizational performance. It seems there is no agreement on what specific board contributions to organizational performance are most effective. Before any links between corporate governance and organizational performance can be explored, and any attempt be made to answer the research question of ‘What governance practices are perceived by two-tiered board directors of Australian not-for-profit hospitals as contributing to organizational performance,’ the broader corporate governance literature must first be considered. Specifically, the main theories of corporate governance need to be assessed for their potential to contribute towards answering the research question.

This Chapter first considers the nature of for-profit and not-for profit organizations. This is followed by a discussion of the foundational corporate governance theories that underpin the governance practices of both for-profit and not-for-profit organizations, including agency, dependency and stewardship theories, together with more recent concepts of stakeholder, hegemony, lifecycle, behavioural, signalling and contingency theories. The importance of pluralism and values in understanding the workings of each of these theories are also detailed.

The discussion of corporate governance theories is followed by assessment of the literature that details the place of the board of directors within structures of corporate governance. This discussion initially focuses on unitary boards, the most common form of governance structure in both Australia and in Anglo-US markets, then goes on to consider the prevalence of two-tiered boards, which are common in some established markets subject to Germanic influence and emerging markets, most notably China.

The English language literature on two-tiered boards is limited, because of the small to almost non-existent use of two-tiered boards in Anglo-US corporate governance structures. The literature does, however, indicate widespread two-tiered board use in non-Anglo-US environments. This limited existence of two-tiered board literature in Anglo-US environments makes this study’s exploration of director perceptions’ of two-tiered governance’s contribution to organizational outcomes in Australian not-for-profit hospitals a unique contribution to the literature by first identifying the extent of two-tiered boards in

Australia and then presenting perspectives of elite governance practitioners in circumstances that might aid organizational outcomes.

The literature review then considers how organizational performance can be assessed before considering the debate about whether there exists a link between the board and its ability to impact organizational performance at all. Board size, independence, composition and, in particular, diversity are then considered, given the significant research that has occurred into the role of these dynamics in influencing governance performance.

2.2 The different natures of for-profit and not-for profit organizations

Management structures of for-profit and not-for-profit organizations have changed radically since their first conception. Where management structures once oversaw a now considered quaint industrial production process involving labour and capital at the time of the industrial revolution, today management structures are required to manage knowledge, intelligence, competition, market volatility, regulatory compliance, rapid technological change, and a multitude of other inputs that are more difficult to monitor and contract than those of machines and their operators in years past (Bradley, Schipani, Sundaram, & Walsh, 2000). Whether these changes in demands on organizational management structures have been matched by evolving governance practice is not entirely clear.

Lee (2005) details the findings of many theorists who argue the single aim of a for-profit corporate organization is the maximization of shareholder profits. In contrast, the non-distribution constraint that prohibits profits being paid to founders is at the core of the character of a not-for-profit organization (Hansmann, 1987). These different purposes of for-profit and not-for-profit organizations are not necessarily allowed for in the way governance practice is conducted in these two very differently motivated types of organizations.

Both for-profit and not-for-profit companies have governance problems, but they tend to be more extreme in not-for-profit environments (Glaeser, 2003), despite a view that academic knowledge of governance arrangements in not-for-profits is not well known (Dyl et al., 2000; Jegers, 2009). Every stakeholder takes on characteristics of the principal or shareholder within a not-for-profit organization, such that there is a ‘multiple principals’ framework; this type of not-for-profit theory has yet to be developed fully (Jegers, 2009), and little research has focused on the role of donors, volunteers, beneficiaries and staff members in non-profit governance (Jegers, 2009). Further research into whether governance regulation, good governance guides, and actual governance practices utilized by for-profit corporations sufficiently serve the purposes of not-for-profit corporations is needed to properly inform what corporate governance approaches can contribute to their organizational performance.

2.3 Corporate Governance

Corporate governance is a term commonly used but about which there is not a universally agreed definition. It is the mechanism by which those providing capital to corporations satisfy themselves that a return on their investment will be provided (Shleifer & Vishny, 1997). It is the system by which companies are directed (Cadbury, 1992). It is a combination of processes adopted by owners to inform, direct, manage and monitor an organization to obtain performance (Pintea & Fulop, 2015).

The interests of owners have been said to require a board of directors to counter the threat of self-interested management behaviour (Grant & McGhee, 2014). Corporate law development in the 18th and 19th Centuries was driven by responses to theft by management (Hunt, 1936). In more recent times, the design of a set of institutions to force or induce the welfare of shareholders to be considered by management is what has come to be known as corporate governance (Tirole, 2001). Managerial self-interest is one of the main problems that corporate governance seeks to solve (Letza et al., 2008).

Corporate governance structures enable company objectives to be set and monitored (Anheier, 2005). The delegation and incentive structures inherent in these arrangements comprise the essence of the system of governance (Jegers, 2009). Corporate governance has broad use as a term in today's business environment. It entails policies created to direct an organization's individual performance, such that the 'legal outfits of corporate governance can be customised to fit the meticulous choice of each wearer' (Kulkani & Maniam, 2014, p. 364).

The four common mechanisms of corporate governance are legal obligations, internal controls, external controls, and market competition (Jensen, 1993). The key determinants of the development of a corporation's governance system are said to be the legal protections a state gives to investors and the presence of large investors in the corporation (Denis, 2001). These legal protections or regulatory requirements often limit the actions of boards (Young & Thyil, 2008). The need for these regulatory requirements is because firms are important components of any society, and they require organizing to function properly; principles, social norms, and rules exist to enable society and business life to function, and this is the role of corporate governance (Alseddig, 2014).

Corporate governance is not static, and it responds to the environment within which it operates. For example, globalization has weakened the effect of regulatory power and many production processes are located in states with weak regulatory frameworks. Firms have the capacity to address legitimacy challenges regarding operations through corporate governance where regulatory reliance may be insufficient to protect shareholders' risk not covered by contracts and legal regulations (Schneider & Scherer, 2015). Similarly, product market competition is a major force driving corporations to reduce management and operating costs and alter governance mechanisms to attract capital at the lowest possible cost, but this force alone is not likely to solve corporate governance deficiencies (Shleifer & Vishny, 1997).

The role of corporate governance in balancing economic and social goals with individual and communal goals requires boards to encourage efficient use of resources and face accountability for their stewardship (Masudul & Mohammad, 2013). Corporate governance practices guide a firm's management by providing controls aimed at increasing both shareholder value and stakeholder satisfaction (Marsden, 2000). A range of best practice guides that are voluntary in nature have also evolved to assist in the execution of corporate governance, but evidence on the benefit of codes of good governance is conflicting (Auguilera & Cuervi-Cazurra, 2009).

In recent literature, the key objective of corporate governance has been described as maximizing shareholders' value by ensuring good environmental and social performances (Borlea & Achim, 2013). Not-for-profit organizations, however, have an interest in social performance, and the utility of for-profit corporate governance practices within not-for-profit organizations is not yet well understood. The question of whether the for-profit corporate governance framework suits not-for-profit organizations or contributes to their organizational outcomes remains unanswered.

2.3.1 Theories underpinning the practice of corporate governance

The literature offers several key theories which help to explain the various roles that boards do or can actively elect to take on. The most commonly used theory is agency theory. Dependence and stewardship theories are also prominent. More recent concepts of stakeholder, hegemony, lifecycle, behavioural, signalling and contingency theories, together with the importance of pluralism and values in understanding the workings of each of these theories, are also detailed in the literature, all providing a rationale for the working of corporate governance.

Understanding these different theories is important because of the insights they may provide on the contribution of governance dynamics to organizational outcomes. Appreciation of the theories could better inform governance practitioners to modify and mould their practice of governance in response to evidence about which theory at which point in an organization's lifecycle would best suit the circumstances.

2.3.1.1 Agency theory

Agency is the dominant theory in the corporate governance literature. The theory is centuries old, but continues to play a central contemporary influence within corporate organizational understanding. Economic theorists define agency as the separation of management and finance, or ownership and control, and the agency problem relates to the difficulties financiers have in ensuring a return on their investment while avoiding the wasting or expropriation of their funds (Shleifer & Vishny, 1997). The theory focuses on a mechanism for aligning the conflicting interests of the owners of capital and the managers of the organization (Young and Thyil, 2008). Management is the agent for the shareholders (Farrell, 2005), and boards are a deterrent to managerial self-interest (van Ees, Gabrielsson, & Huse, 2009). Agency theory addresses the inherent conflict arising from individuals with differing preferences undertaking cooperative effort (Eisenhardt, 1989).

Central to agency theory is the exercise of choice by the agent under conditions of uncertainty of the owner of capital's preference (Ross, 1973). These capital owners of corporations have different motivations to those who control them; owners seek high share values and managers may have additional objectives; agency theory maintains that management can be encouraged to act in the interests of its shareholders by being contracted, monitored, and by being offered incentives to do so (Denis, 2001).

Seminal literature on agency theory holds that an agent will not act in the interests of the principal all the time, despite the existence of contractual incentives or penalties (Jensen & Meckling, 1976). Courts are also limited in their ability to mediate agency disputes; the business judgment rule, which is a standard utilized by the courts to review the soundness of decisions made by directors (Bainbridge, 2004), tends to keep courts out of agency contracts between management and financiers, giving managers significant controlling rights or discretion in the allocation of investor funds (Shleifer & Vishny, 1997).

Agency theory's focus on monitoring, independence and incentives often fails to predict corporate performance, and this failure is not sufficiently allowed for when the prescriptive guidance on best practice is articulated (Donaldson, 2012). When governance fulfils agency theory by aligning the firm's management with the interests of the owners of capital, governance will add value, but in those firms where management is loyal to the interests of the owners of capital, governance has been said to be an unnecessary added cost to business (Tan, 2009). Additionally, there is mixed evidence supporting arguments that governance mechanisms that encourage management acting in accordance with shareholder interests actually positively impacts a corporation's value (Denis, 2001).

Agency theory may not be as well suited to governance of not-for-profit enterprises where there are no ongoing owners of capital that seek to have their interests protected in the same way that owners of capital in for-profit firms do (Bennington, 2010). In not-for-profit organizations, stakeholder motivations differ to those with ownership stakes in for-profit corporations. Different motivations and conditions in not-for-profit organizations weakens agency theory's ability to explain the working of a not-for-profit organization (Kluvers & Tippet, 2011). Because of this, it may be that regulation and good practice governance guides informed by agency theory are not well suited to the nature of not-for-profit governance.

2.3.1.2 Dependency theory

Dependency theory, or resource dependency theory, maintains that the board is the link between the organization and external resources needed for the organization to achieve best performance (Pfeffer, 1972). The theory defines the board's key role as enabling the organization to access the resources that it needs (Cowen & Marcel, 2011). The theory focuses on the board being the link between the organization and its environment (Young & Thyil, 2008), with provision of advice an attribute the board can offer to management (Farrell, 2005). Indeed, the board being available to provide advice to management is a central tenant of dependency theory (Hillman & Dalziel, 2003), and the presence of sufficient board capital is necessary for advice provision to be beneficial (Sundaramurthy & Lewis, 2003).

The theory's role in attracting resources to the organization through the actions of the board could, in the right circumstances, prove a key contribution of governance to organizational performance; the theory infers the link between the board and the external environment should serve to improve organizational performance (Pfeffer & Salancik, 1978). This is based in part on the theory maintaining that boards act as resource providers in response to resources that are lacking within the organization (Pugliese, Minichilli, & Zattoni, 2014). It follows, then, that larger boards should provide more advice and resources than smaller boards and, by inference, do more to enhance organizational performance (Zahra & Pearce, 1989). Yet board size linked to organizational performance has been found to produce mixed results; an inverse association between organizational performance and the number of board directors has been found (Yermack, 1995).

Critics who warn against over reliance on resource theory argue concentration on external resource attraction ignores the role of the board in monitoring the organization and developing strategy (Nicholson & Kiel, 2003).

Dependency theory has particular application as it relates to not-for-profit organizations. The theory maintains that not-for-profit organizations depend on the external environment to secure capital and to fund the delivery of their services in a different way to for-profit organizations who obtain funds through the sale of goods and services in the market (Pfeffer, 1981). The external environment for not-for-profit organizations offers limited and hard to access resources, creating a culture of uncertainty for not-for-profit managers (Goll & Rasheed, 2005). Providing services to disadvantaged populations and being limited in the ability to charge fees for services, not-for-profit organizations are challenged in the external environment (Alexander, 1999), thus inviting a dependency on resource access through board members.

2.3.1.3 Stewardship theory

Seminal literature on stewardship theory maintains management will be motivated to act in the interests of the organization (Davis, Schoorman, & Donaldson, 1997). Stewards are understood to be intrinsically motivated or personally satisfied by their association with an organization such that they act in its interests (Block, 1993). In focusing on behaviours and relationships that foster collective organizational goals over the individual, stewardship theory addresses aspects ignored by the economic theory of agency (Van Slyka, 2006). The theory focuses on management interest being linked to the attainment of the goals of the owners of the capital (Young & Thyil, 2008). The theory identifies both board and management as collaborators in running the organization (Farrell, 2005).

Stewardship theory maintains that managers are mostly competent and should be trusted with the resources they manage, and the presence of inside directors on a board will maximize performance because inside directors better understand the specific organization and broader operating environment, and can make better informed decisions than independent directors (Donaldson, 1990). Yet the theory has been described as situational rather than institutionalized, because actors elect to adopt a stewardship role when certain organizational conditions, such as managerial competence, are found to exist and the stewardship role is contingent on these conditions continuing (Davis et al., 1997). Indeed, stewardship has been described as unsustainable for its reliance on altruism, which conflicts with the human desire for opportunism (Williamson, 1975).

Organizations premised in stewardship theory are rare (Segal & Lehrer, 2012). This rarity is in part because employers who appeal overtly to employees' extrinsic motivations risk the perverse consequence of lowering employees' intrinsic motivations (Caldwell, Chatman, & O'Reilly, 1990). Similarly, employees subject to over-monitoring have low trust in their employers and, subsequently, demonstrate lower levels of altruistic behaviours to their employer organizations (Nooteboom, 2007).

Not-for-profit staff and volunteers have a motivational link to the purpose and mission of their organization (Brown & Yoshioka, 2003), explained by stewardship theory. In certain circumstances, not-for-profit organization staff working in caring services have been found to value interactions with their clients as more satisfying than their remuneration (Berry, Broadbent, & Otley, 1995). Importantly for this study, an earlier study on the motivation of not-for-profit hospital managers found individual opportunism was willing to give way to acceptance of organizational strategy and co-operative stewardship behaviour (Bouillon, Ferrier, Stuebs, & West, 2006). Stewardship theory explains these two findings because intrinsic rewards have been recognized as more of a motivation in not-for-profit organizations than in for-profit or public sector organizations (Deckop & Cirka, 2000). Maintaining and improving not-for-profit staff and volunteer productivity requires management focusing on articulation of the goals and mission of the not-for-profit organization (Kluvers & Tippet, 2011). With not-for-profit staff motivated as stewards, stewardship theory has significant relevance to understanding the possible governance contribution to organizational outcomes.

2.3.1.4 Stakeholder theory

Stakeholder theory holds organizations responsible for the beneficial or adverse consequences of their actions (Fassin, 2012). Stakeholder theory requires attention to be paid to those who can affect or are impacted by an organization's purpose, on the grounds that these actors can enable or prevent the organization from achieving its purpose (Freeman, 1984). Attributes of legitimate stakeholders have been described as those holding power, legitimacy, and urgency in relation to the organization in question (Mitchell, Agle & Wood, 1997). These actors have or claim a right of some sort, real or perceived, in the success or failure of the organization (Hopkins, 1999). Primary stakeholders interact with the economic life of the organization, whereas secondary stakeholders operate a moral or implied contract (Carroll, 2000). The theory has been described as involving application of the three elements of descriptive accuracy, instrumental power, and normative validity (Donaldson & Preston, 1995).

Stakeholder theory maintains the role of the board is to represent the interests of these primary and secondary actors, most notably the shareholders (Farrell, 2005). Responding to stakeholder theory, it is a board role to assess and manage the competing interests of various stakeholder groups (Evan & Freeman, 1993). Stakeholder theory links the consideration of interests of stakeholders to the firm's performance, yet inclusion of stakeholder directors has not been established as improving firm performance (Hillman, Keim, & Luce, 2001).

For an organization to be effective, it will satisfy the interests of those it requires support of for its successful operation, and its method of addressing these interests should be systemised through integration of stakeholder interests (Pfeffer & Salancik, 1978). In developing stakeholder systems of management, normative stakeholders are those to whom the organization has an obligation in contract or moral imperative to engage with, and derivative stakeholders are those who can harm or benefit the organization but to whom no contractual or moral duty is owed (Philips, Freeman & Wicks, 2003).

The four distinct stakeholder categories are: *stakeowners*, who have an actual stake in the organization; *stakewatchers*, who are advocates seeking to influence the organization; *stakekeepers*, who have authority to impose regulation or rules on the organization; and *stakeseekers*, who seek a voice in organizational decision making (Fassin, 2012). Stakeholder theory works at its best when points of difference in otherwise homogenous groups can be identified and addressed (Freeman, 1984) for the advancement of the organization.

Stakeholder theory applied to not-for-profit organizations requires trust and legitimacy to be established for donor or volunteer resources to be available for the achievement of the organization's purpose (Connolly, Hyndman, & McConville, 2013). There being no shareholders, organizational decisions are influenced by other stakeholders (Bouckaert & Vandenhove, 1998). Not-for-profit organizations can themselves also be stakeholders by shaping the ethical investment decisions of for-profit firms (Guay, Doh, & Sinclair, 2004).

The benefit of stakeholder theory to understanding the role of governance in contributing to organisational outcomes is its potential for boards to pay attention to key groups for organizational advantage (Freeman, 1984). A possibly more profound role of stakeholder theory in understanding the potential contribution of governance to organizational outcomes is its broadening of the definition of outcomes: a shareholder seeks a return on capital, whereas *stakewatchers, stakekeepers,* and *stakeseekers* (Fassin, 2012) have broader non-monetary expectations about the type of organizational outcomes they seek (Harrison & Wicks, 2013).

2.3.1.5 Hegemony theory

Hegemony theory maintains the board's role is to legitimise management until such time as a crisis arises when the board is required to act (Farrell, 2005). The board plays a mostly symbolic role in hegemony theory (Cornforth, 2003). Hegemony theory sees boards playing minimal roles in organizational decisions and supporting management in their tasks (Farrell, 2005); strategic or significant decisions are made by management without involvement of the whole board (Chen, Dyball, & Wright, 2009).

Despite authority over management, hegemony theory sees boards as little more than mere legal fictions (Kosnik, 1987), existing only to comply with corporate law requirements (Stiles & Taylor, 1996). Maintaining that management mostly dominate boards, hegemony theory suggests independent directors are required to balance the power of management (Bennington, 2010), and that board members are often selected in order for management to maintain control of decisions (Westphal & Zajac, 1997). Board directors appointed during a chief executive's term are assumed to act with a sense of loyalty to the chief executive that overpowers their role as protectors of shareholder interests (Wade, O'Reilly, & Chandratat, 1990).

Contra-managerial hegemony theory maintains management should not dominate the board (Dallas, 1996). To avoid management domination, the theory suggests board nominations should be determined by outside groups, such as committees of shareholders or institutional investor groups (Gilson & Kraakman, 1991).

Hegemony theory proposes limiting the role of the board by giving management a freer rein to make decisions and undertake projects with little board involvement (Reid & Turbide, 2012). This allows management the ability to act without impediment, with management having the board's symbolic support (Lorsch & McIvor, 1989); it also allows management to act without accountability (Reid & Turbide, 2012).

Hegemony theory's relevance to governance's contribution to organizational performance is in highlighting the capacity for the board to authorise management to act, or for the board to respond to management problems. Not-for-profit organizations are expected to legitimize their governance practices (Lichtsteiner, Lutz, & Renz, 2012), and hegemony theory enables legitimatization.

2.3.1.6 Lifecycle theory

Lifecycle theory refers to changes in governance function at different points of time in an organization's existence (Toms, 2013). The theory maintains that a series of predictable sequential stages of development can be expected of an organization and its governance demands (Cameron & Whetten, 1983). An organization's strategic direction, its response to competition, and its priorities vary at differing points of the firm's life (Filatotchev et al., 2006), and governance is required to adapt.

The theory's application in corporate governance arises from lifecycle's application to understanding the developmental phases of products: introduction, growth, maturity and decline (Abernathy & Utterback, 1978). Just as products change and evolve, governance also changes and evolves over the lifecycle of an organization (Filatotchev et al., 2006).

O'Connor and Byrne (2015) say of the governance lifecycle:

> Mature firms tend to practice better overall corporate governance. Discipline and independence improve as firms mature. Firms tend to be most transparent and accountable when they are young. (p. 23)

A narrow illustration of discipline and independence improving over time is that of organizations operating independent risk committees that provide more market risk disclosures, an effect more pronounced for mature-stage organizations (Al-Hadi, Hasan, &

Habib, 2016). Similarly, greater chief executive power aids an organization's initial phase of existence but harms the organization during mature stages when strong board oversight is more beneficial (Harjoto & Jo, 2009).

Bess's (1998) study of the first phase of the life cycle of select not-for-profit organizations established: a) not-for-profit organizations do not emerge to achieve financial reward; b) they originate from a group of organizers, and depend on planning and coordination; c) they seek to attract resources from private sector firms; d) a board of directors is an organizing necessity giving legitimacy; e) emerging not-for-profits have clarity of purpose; f) service delivery has often preceded formal corporate organizing; and g) board and stakeholder interactions are informal. In later stages of a not-for-profit organization's lifecycle, effective boards develop awareness of changing contexts as a trigger for adoption of different and responsive governance leadership styles (Schmid, 2006).

Corporate governance's contribution to innovative firm activity, a proxy for organizational performance, is its highest at the stagnant stage of the organizational lifecycle, and is least during firm growth (Chiang, Lee, & Anandarajan, 2013). The theory recognises that an organization's threats and opportunities will differ at varying points in its lifecycle (Lynnal, Golden, & Hillman, 2003), and governance accordingly contributes differently at different points. Board member ability to recognise changed organizational circumstances warranting changed governance approaches may be a prerequisite to governance being able to contribute to organizational outcomes.

2.3.1.7 Signalling theory

Signalling theory arises out of information asymmetry where one party has complete information and the other incomplete information, requiring the incomplete information holder to rely on information able to be inferred by observable actions (Nelson, 1970). The theory assumes three main elements: a signaller, a signal, and a receiver of the signal (Connelly, Certo, Ireland, & Reutzel, 2011). Investors in an organization have been found to rely on information, often incomplete, provided to them by the organization (Leland & Pyle, 1977). The theory explains how corporate decisions are made by interpretation of incomplete information (Spence, 1973). The theory acts to enable predictions of corporate behaviour when a signal's expectations are confirmed through actual experience (Bergh, Connelly, Ketchen, & Shannon, 2014). Signals have come to be considered part of credible information sharing between buyers and sellers (Spence, 2002).

Different signals have been found to result in different organizational outcomes. Signalling theory posits dividend announcements are one of the mechanisms by which a for-profit firm can communicate information regarding business strategy and confidence to the market (Vazakidis & Athianos, 2010). Signalling theory similarly results in company profits paid as shareholder dividends impacting firm values more than profits being retained within the firm (Dawar, 2013). An example of signalling theory can be seen in the study of 118 organizations that had appointed management consulting firms which, in turn, saw their share price increase significantly in response to the public announcement of the appointment (Bergh & Gibbons, 2013).

Signalling theory is relevant to not-for-profit organizations where information asymmetry exists just as much as it does in markets where for-profit firms operate. This information asymmetry exists when not-for-profit organizations are aware of their financial or service sustainability but external stakeholders are not; not-for-profit organizations can elect to signal behaviour to external stakeholders in response to accountability expectations or to distinguish themselves from other not-for-profit organizations (Simaens & Koster, 2013).

In considering the theory's utility to governance's contribution to organizational outcomes, signalling theory maintains that transparent organizations signal better governance, and better governed organizations signal better performance (Chiang, 2005). Accordingly, installing a culture of transparency is associated with better governance which, in turn, is associated with improved performance.

2.3.1.8 Commitment, behaviours, pluralism, contingency and values

The corporate governance literature reveals other less prominent theoretical themes relevant to understanding governance's potential to contribute to organizational outcomes.

The term 'socially situated' is utilised in the literature to highlight that in any given situation, individual board director behaviour occurs in the context of broader sets of social relationships (Westphal & Zajac, 2013), thus impacting the ability for rationality in all decisions. Commitment theory in this context suggests board directors need to be engaged for the right moral reasons in order for the board to operate optimally (Mueller, Warrick, & Rennie, 2009).

Behavioural frameworks are discussed in the literature to consider how boards gather and process information to enable cooperation through; bounded rationality, which suggests a rational decision is limited by availability of information; satisficing, which is an adequate decision if not optimal one; problem solving; routine decision making; and the work of a dominant coalition (van Ees et al., 2009). Behavioural theory maintains that to the extent that board members perform the functions for which they were recruited, recruitment strategies will explain behaviour of board directors (Miller-Millesen, 2003).

The consensus of recent corporate governance theorists is that theoretical pluralism is required to understand the contributions that boards make to organizational performance, because no single theory provides sufficient explanation of governance effectiveness (van Ees, et al., 2009). The absence of evidence supporting known theories of boards and links to organizational performance casts doubt on the utility of the agency, resource and stewardship approaches (Lynnal et al., 2003).

Straddling nearly all of these theoretical frameworks, contingency theory suggests different situations require different governance approaches (Bennington, 2010), making the standardised approaches favoured by regulators and promoters of codes of best practice possibly inappropriate for application by all corporate boards. Contingency theory maintains boards can change their governance configurations as a strategic choice in response to changing organizational or external circumstances (Bradshaw, 2009). Importantly, any theory, such as those derived from organizational economics, guiding corporate governance that fails to consider values, such as working to maintain the integrity of the economic system within which the entity exists, is likely to be inadequate (Donaldson, 2012).

2.3.1.9 Summary of theories

Corporate governance theories, with their origins in agency theory and subsequent evolution into the other theories discussed here, influence active and passive decisions about the formation of boards and their committees, and the relationship between boards and management. A combination of various theories best informs good governance practice rather than assessing corporate governance through the lens of a single theory (Wan Yusoff & Alhaji, 2012).

2.4 Corporate governance through a board of directors

A board usually oversees the governance of an organization. It is a group gathered for their ability to add value to the firm or organization through their collective actions (Ingley & van der Walt, 2003). A board of directors has been said to have three main roles of control through monitoring, service as advisers to management and developers of strategy, and resource provision through obtaining the resources the organization needs to succeed (Johnson et al., 1996). A board's purpose is, ultimately, to enable cooperation (van Ees et al., 2009). Dependency theory helps explain why boards can often slip into the habit of acting as management consultants rather than carrying out their key role of monitoring management (agency theory) (Huse et al., 2005).

Boards have social capital, which is their business relationships, and they have human capital, which is their professional competencies (Cowen & Marcel, 2011). These two dimensions contribute to board effectiveness, which is one function of a broader contribution to organizational performance (Ingley & van der Walt, 2003). A board has been further described as a basket of intellectual capital of human, social, structural and cultural capital that enables a board to undertake its task, and the success of a board in enabling corporate objectives is determined by the alignment of these resources and knowledge, experience, relationships and procedures with the board's required role set (Nicholson & Kiel, 2004a).

2.4.1 Board composition and functional characteristics

There is no requirement as to whom the directors of a board must be. In its best practice guide, the Australian Stock Exchange makes recommendations on desirable, but not mandatory, board member characteristics by outlining three principles for the selection of members of boards. These principles are that there should be a balance of skills, experience and independence among members of the board, that there should be integrity among board members such that they can influence an organization's strategy and performance, and that there should be an ethical decision-making capacity to fulfil legal obligations and pursuit of the interests of stakeholders (Australian Stock Exchange, 2014).

Three factors have been found to contribute to how a board functions: first, historical factors influence how a board is comprised; secondly, boards have a certain capability to apply; finally, interventions occur that alter this capability from time to time (Nicholson & Kiel, 2004a).

Use of knowledge, skills, cognitive conflict, and effort norms enable board functionality (Forbes & Milliken, 1999), and it has been found that the position of chair is crucial in enabling effective board processes to function (Edwards and University of Canberra, 2006).

2.5 Two-tiered boards

The literature review discussed above assumes the existence of a single or unitary board within a corporate governance structure. Anglo-US boards are mostly unitary, whereas Germanic boards are two-tiered by law (Renaud, 2007). Several established and emerging markets have adopted use of two-tiered boards. For example, French companies can choose to adopt two-tiered boards (Adams & Ferreira, 2007); large Chinese companies with limited liability and Chinese state owned companies have, in recent years, been required to utilize supervisory boards (Tian, 2009); and Islamic law requires at least financial institutions to utilise two-tiered boards (Jabbar, 2010).

2.5.1 Responsibilities of the two-tiers

Two-tiered boards mostly consist of a supervisory board and a separate managerial board, each of which exercise different responsibilities of firm oversight. Two-tiered boards operate by separating directors with specific roles and legal responsibilities (Bezemer et al., 2012).

The allocation of responsibilities between the supervisory and managerial board varies with differing contexts. Employees in Germany, for example, must be represented on the supervisory board (Becht, Bolton, & Roell 2003; Denis & McConnell, 2003). In Macedonia, a supervisory board has a role to supervise company operations and the management board (Aziri, 2010). Japanese supervisory boards have limited power, their main function being to audit the management board, a power that supervisory board members are able to exercise individually or collectively (Goo & Hong, 2011).

Two-tiered boards are not readily visible in Australia. They exist within some church and long established community-owned organizations, where trustees act as owners of an enterprise on a superior board and appoint members to a subservient board. It is the subservient board where corporations law responsibilities are likely to be exercised (Catholic Health Australia, 2011).

2.5.2 Influence of agency theory on the development of the two-tiered board

Agency theory, whereby those who provide capital to an organization seek to ensure a return on their investment (Shleifer & Vishny, 1997), is a basis for the emergence of two-tiered boards.

The two-tier principal agency theory extends the single tier agency theory by the addition of the supervisor, where the supervisory (or higher tiered) board simultaneously acts on behalf of the shareholder as agent, and directs the management (or lower tiered) board as principal (Triole, 1986). Two-tiered boards give rise to two principal-agent relationships: that of the management board (agent) and supervisory board (principal), and the supervisory board (agent) and the owners (principal) (Schondube-Pirchegger & Schondube, 2010). The principal agent theory sees supervisory boards manage agency problems by monitoring the management board on behalf of shareholders, which in turn has management commit itself to the shareholders' objectives, suggesting that a link between boards' reporting and the firm's success should exist (Velte, 2010).

Germany was the first nation to act on this application of agency theory by enshrining supervisory boards into corporate law in the 19th Century, and the German template has since been utilized in central-Europe, some Latin American countries, and east-Asia (Goo & Hong, 2011). The manner in which other countries have adopted the Germanic template varies greatly. Central eastern-European countries mostly utilize similar statute law first enacted in the Czech Republic in 2001, and then replicated in Hungary, Russia and Poland in 2002, which separated board governance into two-tiers, comprising a management board and a supervisory board (Przybylowski, Aluchna, & Zamojska, 2011). Owners of corporations in Macedonia are themselves permitted by law to determine if they will utilize a single or two-tier board structure (Aziri, 2010). Taiwan gives to supervisory boards the role of overseer (Tian, 2009). The *Sharia* law requires Islamic financial institutions to operate supervisory boards that take on roles as religious auditor, legal counsel, product innovator and scrutiniser of the company, but they are often not well skilled for their corporate task and are not regulated (Jabbar, 2010).

Applying agency theory, the *Commercial Code, Law No 48 of 1899* (Japan) requires Japanese corporations to also adopt two-tiered board governance. A business board oversees the management of the corporation, and a second board of audit, which must be comprised of at least three auditors, monitors and reports to shareholders, but does not control the corporation (Dallas, 1997).

China is the main emerging market to have adopted the Germanic styled two tiered governance system (Jia, Ding, Li, & Wu, 2009). Since the establishment of Chinese markets, but more recently as a result of a 1993 corporate law amendment, Chinese corporations have been required to operate two-tiered boards whereby a board of directors is responsible for the corporation's daily operations and a supervisory board monitors the operational board and management together with the financial affairs of the corporation (Ding, Wu, Yuanshun, & Jia, 2009). Some consider these Chinese supervisory boards to be mere decorations (Xi, 2006), and others believe they have only minor roles within the life of corporations (Dahya, Karbhari, Xiao, & Yang, 2003). Chinese supervisory boards have been said to act in one of four possible ways: honoured guest, friendly advisor, censored watchdog, or independent watchdog (Shan & Xu, 2012). A philosophy of employee participation underpins the supervisory board, indicating why it has been adopted in China and, perhaps, not adopted in more free market economies (Goo & Hong, 2011).

2.5.3 Influence of stakeholder theory on the development of two-tiered boards

Anglo-US corporate governance systems exist primarily to respond to shareholder interests, whereas the German corporate governance system exists to respond to stakeholder interests (Muswaka, 2014). Applying stakeholder theory, s 76-171 of the *German Stock Corporation Act* requires that German public corporations or German private corporations with five hundred or more employees adopt two-tiered board governance. The upper tier board exercises supervisory functions and accommodates employee participation, and the second tier board exercises management functions (Charkham, 1994). This inclusion of labour representation on the German supervisory board has been described as an actor-centered institutional approach that enables board governance practices to be socially constructed (Aguilera & Jackson, 2003). However, cost competition is pressuring German governance, and its participatory role of employees for protection of wage rates and entitlements, in markets where Anglo-US governance does not provide that same employee wage protection (Casey, Fiedler & Erakovic, 2012). European Union regulatory liberalisation has in recent times prompted some two-tiered board governed firms to reduce employee supervisory board participation, and other firms to abandon their supervisory board altogether by adopting Anglo-US styled unitary boards (Casey, Fiedler, & Fath, 2016).

Dutch company law has institutionalised stakeholder theory by requiring corporations to account for a set of legal rights of all stakeholders affected, rights that are secured by the presence of two-tiered boards (Przybylowski et al., 2011). Dutch health care gives supervisory boards the role of determining CEO compensation (Cardinaels, 2009). It is the effective promotion of stakeholder interests over shareholder interests that is inherent in the Germanic two-tier board structure, with this aspect being why the Germanic governance model has been taken up more in newly emerging markets than in established markets (Muswaka, 2014). This promotion of stakeholder interests offers not-for-profit organizations a solution to address their inherent difference with for-profit corporations; for-profit corporation governance's single aim is profit maximization (Lee, 2005), whereas profit distribution is prohibited by not-for-profit organizations (Hansmann, 1987). The stakeholder theory premise of a supervisory board may provide more optimal not-for-profit governance than the more commonly used single tiered board.

2.5.4 Two-tiered boards similarity to the subsidiary board

The literature treats subsidiary boards, which are arrangements where a controlling board creates or mandates a subservient board with an assigned role, differently to two-tiered boards. Four governance frameworks of subsidiary corporations have been identified whereby a subsidiary has either: a) direct control; b) dual reporting obligations; c) is an advisory board; or d) is a local board (Kiel, Hendry, & Nicholson, 2006). There are similarities between how subsidiary and two-tiered boards operate, but two-tiered boards operate very differently to subsidiaries; they formally separate directors into two different and independent groups with specific roles and separately defined authorities and legal responsibilities (Bezemer et al., 2012). In contrast, subsidiaries are subservient to a directing or controlling board.

2.5.5 Two tiered reform option for conflict management

Dallas (1997) proposes a theoretical model of two-tiered boards as offering legislators a method to enable governance to better attend to relational demands while also addressing conflict monitoring. Dallas' model, that is not known to have been practiced, proposes a two-tiered board structure where one board is comprised solely of independent directors charged with monitoring conflicts and the other business review board oversees the management's running of the corporation. A full-time ombudsman, selected by the conflicts board, would assist in resolution of conflicts that might arise (Dallas, 1997). It is unknown how effective or costly this model might be in practice, but the model nonetheless offers a theoretical approach for two-tiered board practice.

Others have also argued for corporate governance reform by way of two-tiered boards. It has been proposed that there are circumstances where a single board may not be able to perform a vast number of tasks in an efficient and legitimate manner, thus warranting the adoption of two-tiered boards, with one to deal with macro items and the other to deal with micro items (Thimann, Just, & Ritter, 2009). Separately, corporate governance reform has been proposed to adopt two-tiered boards in South Africa in order to shift that country's shareholder orientated corporate governance system to one more focused on employee and stakeholder interests as South Africa develops its post-apartheid market (Muswaka, 2014). The relevance of these potential reforms is the possibility of organizational performance being enhanced through adoption of the two-tiered board structure.

2.6 Assessing for-profit and not-for-profit organizational performance

Many factors impact performance and the literature indicates measurement errors might suggest a particular factor improves performance when in fact it does not (Denis, 2001). The gap between performance and that which the principal would have desired as optimal performance is known as the *residual loss.* It is the costs of ensuring management is acting in the interests of shareholders, known as the monitoring cost, those costs the manager takes on to reduce agency conflict, known as the bonding cost, and the cost of the *residual loss* that together make up the agency cost (Jegers, 2009).

Accounting and market measures are the key methods for determining for-profit organizational performance (Wang & Clift, 2009). For-profit organizations use accounting measures such as return on assets or return on equity to show performance (Nicholson & Kiel, 2004b), or Tobin's Q which measures outputs or performance relative to input or book value. Another measure is that of relative performance earnings (RPE), which compensates management for factors other than share price, such as benchmarking against other corporations, but there is little research published on RPE (Core, Guay, & Larcker, 2003) within academic literature.

There is little consensus within the literature on how to accurately measure not-for-profit performance. Not-for-profit organizational performance is often only able to be assessed by the perceptions of board members and executives (Brown, 2005). Not-for-profit performance has alternatively been described as assessable by consideration of organizational management and program effectiveness, with program effectiveness best assessed through capacity provision and service outcomes (Sowa et al., 2004). Lacking consensus on how to measure not-for-profit performance may constrain efforts to understand the role of governance practice in contributing to organizational performance.

2.7 Board impact on organizational performance

The link between boards and organizational performance is not well understood, and the complex relationship between the two has not yet enabled anything but mixed results and ongoing debate as to whether such a link exists (Nicholson & Kiel, 2007). It has been argued there is not a basic relationship between corporate governance and firm outcomes because of endogeneity (or sample errors), and because performance is dependent on the firm's external investment opportunities (Hutchinson & Gul, 2004).

Assessments of different governance mechanisms do not currently point to any convincing links between specific mechanisms and organizational performance. This could be because governance mechanisms are insignificant and do not impact performance, or because they interact in complicated ways that cannot be sufficiently identified in meaningful studies (Denis, 2001). Indeed, whether or not boards of directors offer an efficient solution to agency tensions between shareholder owners or management controllers has not been assessed by way of the development of alternate models in the literature (Hermalin & Weisbach, 2003).

Yet support for the claim that directors impact firm performance is shown by surveys that demonstrate the willingness of investors to pay premiums for good governance (McKinsey, 2000; Nicholson & Kiel, 2007). It is also supported when an accounting fraud devalues an organization because directors have failed to perform one of their principal roles of monitoring sufficiently (Cowen & Marcel, 2011). Empirical testing also correlates market valuation and operating performance with better corporate governance (Klapper & Love, 2002).

Corporate governance can impact operating performance, but there is a conflicting argument about whether the link extends to impact share market value (Bhagat & Bolton, 2008). Two factors have been found as linking corporate governance to increases in firm value: good governance increases investor trust, and well governed firms have more efficient operations which create high cash flow streams (Bauer, Guenster, & Otten, 2003). Yet a criticism of firm performance and board composition literature is that a board's direct influence on financial performance is remote (Hillman et al., 2001).

Corporate governance has been said to matter more in countries with weak shareholder protections (Klapper & Love 2002; Shleifer & Vishny, 1997), raising the question of the role of corporate governance in not-for-profit organizations where shareholder protection, in the absence of shareholders *per se*, is not a straightforward proposition.

2.8 Board size and independence link to organizational performance

Among an array of other variables, research on links between boards and organizational performance has sometimes focused on board size and the presence of independent directors, often to control for other variables (Hermalin & Weisbach, 2003; Jegers 2009; Lawrence & Stapledon, 1999). The focus on these areas appears to have arisen because these two attributes are easily identifiable, yet research findings in these two areas have not always been consistent such that a conclusion cannot confidently be reached that smaller boards with independent directors improve organizational performance.

Boards of small size with greater presence of independent directors have been found to govern management to act closer to the interests of shareholders than boards of large size with non-independent directors, and only boards of smaller sizes have been shown to have a positive impact on organizational performance (Hermalin & Weisbach, 2003). A smaller sized board, the presence of independent directors, and infrequent meetings positively impact allocative efficiency (Jegers, 2009). Investors react favourably to reductions in board size, and the largest loss of value has been found to occur as boards grow from being small to medium (Yermack, 1995).

Anglo-US studies do not tend to produce evidence supporting the proposition that independent directors add value (Daily & Dalton, 1998; Lawrence & Stapledon, 1999), and a Vietnamese study found board independence has opposite impacts on firm performance (Vo & Nguyen, 2014). Independent directors have been found to strengthen the working of boards themselves, and independent directors have been found to play an important role in overseeing management, but they have not been found, on their own, to improve overall organizational performance (Petra, 2005).

By contrast, the appointment of independent directors to Japanese boards has been found, on average, to have had a modest impact on the share price of the studied organizations, together with improvements in sales and operating performance (Kaplan & Minton, 1994) for the organizations, although the cultural context within which such boards operate must be taken into account. In a contrasting UK study, a dominance of outside directors was found to actually impede management (Franks, Mayer, & Renneboog, 2001), one of several measures in assessing the contribution of boards to organizational performance. Professional ties among board members have, in fact, been found to better predict decision-making patterns than does a board member's independence (Stevenson & Radin, 2009).

A study assessing Spanish not-for-profit organizations found that board size and independence did not impact organizational efficiency, but knowledge diversity and the active character of directors (or their ability to participate and contribute) do have a positive impact on organizational resources (Andres-Alonso, Azorfra-Palenzuela, & Romero-Merino, 2010).

The literature does point to some challenges arising from an overreliance on independent directors. In times of poor performance, pluralistic ignorance has been found to result in independent directors underestimating the extent to which other directors share concerns about the viability of a board strategy (Westphal & Bednar, 2005). Independent directors appear less likely to raise their doubts about a particular corporate decision in the absence of bonds to the other directors, as pluralistic ignorance has been found to reduce where friendship ties of directors exist and the demographic homogeneity is high (Westphal & Bednar, 2005).

Firms free of fraud tend to have boards with more independent directors than those firms that are subject to fraud (Beasley, 1996). Firms subject to fraud have poor governance demonstrated by fewer independent directors, fewer audit committee meetings, few financial experts on the audit committee, and a higher likelihood of the chief executive also being the chair (Farber, 2005).

There has been significant study of the nexus between independent directors and firm performance, but the role of stakeholder directors has not been fully examined, nor have outcome measures beyond financial performance (Hillman et al., 2001).

This literature on board size and independence of board members does not point to a clear answer to the question do smaller boards with directors who are independent from management or the organization positively benefit organizational outcomes. The literature does suggest that smaller boards and independent directors with sufficient knowledge of an organization's purpose do not adversely impact organizational performance, but the benefits of the characteristics of board size and director independence are yet to be fully established.

2.9 The board composition and structure link to organizational performance

Board composition has been found to have minimal impact on organizational performance (Dalton, Daily, Ellstrand, & Johnson, 1998), and there is not a causal relationship between the structure of a board and the organization's performance. Many of the corporations whose failures resulted in the adoption of the US S*arbanes–Oxley Act of 2002* had exemplary board structures (Leblanc, 2007).

A study of more than 6,000 firms between 1991 and 2003 found no causal link between board structure and current firm performance (Wintoki, Babajide, Linck, & Netter, 2012). Observed relations linking a firm's outcomes to its governance practices have been labelled spurious, in that a firm's governance structure has been found to result from firm characteristics, such as past performance and management ability (Tan, 2009).

A board's human capital, comprising skills, knowledge and abilities, has, however, been found to influence the effectiveness of the board (Nicholson & Kiel, 2004a). Directors' perceptions, interpretations, and actions reflect their cognitive schemes, which, when combined with those of other directors, are determinants of board decisions (Wiersema & Bantel, 1992). Research does not clearly support any specific board attribute as being a clear determinant of organizational performance, but personality and ability to be vigilant can be more important to the work of the board than some other variables (Heracleous, 2001).

Composition is a product of the life cycle of the board and the power of the chief executive and financers at different points in the life cycle (Lynnal et al., 2003). Interestingly, in relation to board composition, boards that comprise academics are perceived by the market to be more valuable, which in turn positively impacts share price (Atinc, Kroll, & Walters, 2013).

2.10 Board diversity and organizational performance

Demographic diversity of board members has been found to positively impact organizational performance (Erhardt, Werbel, & Shrader, 2003). This may be because diversity allows for various perspectives being contributed to a board's decision, which provides a creative solution to challenges (Milliken & Martins, 1996). The board role of oversight has also been found to be more effective within diverse boards that contain a broader range of opinions to inform a decision (Erhardt et al., 2003). Perhaps for these reasons, boards composed of external financers perform better than those dominated by chief executives (Lynnal et al., 2003). Yet, in more recent research, evidence that presence of female board directors enhances organizational performance or that director diversity enhances performance has been found to be mixed, with meta-analyses showing null or small correlational findings (Eagly, 2016).

The impact of race and gender diversity is not a significant influence on performance, but it certainly does not lead to poor performance (Wang & Clift, 2009). However, diverse groups turnover more often and their members are less satisfied than more homogenous groups (Ingley & van der Walt, 2003), which may impact the ability of a group to make cohesive decisions.

2.11 Conclusion

From the review of the literature covered in this Chapter, the theories of agency, dependence, stewardship, stakeholder, hegemony, lifecycle, behavioural, signalling and contingency, together with the importance of pluralism and values, help to provide a rationale for different aspects of governance's functionality. These theories are applied later in Chapter 6 to analyse directors' perceptions of how two-tiered governance contributes to organizational performance.

From the literature assessed in this Chapter, how boards can best impact corporate performance is not clear (Nicholson & Kiel, 2004a). Indeed, Denis (2001) argues governance mechanisms are insignificant with no impact on organizational outcomes, or the practice of governance in different organizations is not sufficiently homogenous to enable comparisons to be made to prove a governance link to organizational performance. Misangyi and Acharya (2014) argue somewhat similarly in concluding there is not strong evidence about the effectiveness of individual corporate governance mechanisms, but that when individual governance mechanisms are bundled they lead to better effectiveness.

The next Chapter continues to explore the literature, but does so by focusing on where links between governance and organizational performance have been found.

Chapter 3: Literature linking governance and organizational performance

3.1 Introduction

Review of the for-profit, not-for-profit, and two-tiered board corporate governance literatures identifies some evidence supporting a governance and organizational performance link; this Chapter presents the literature that addresses these links.

The Chapter commences by detailing the findings from the literature of 12 corporate governance approaches found to be linked to organizational performance. The Chapter discusses the theoretical origins of these 12 corporate governance approaches and how they may be linked to organizational performance.

The identification in the for-profit, not-for-profit, and two-tiered board corporate governance literatures of 12 factors linking corporate governance and organizational outcomes enabled a novel framework to be shaped that offered a working hypothesis in the early stage of my study as a proxy answer to the research question. While each of the 12 factors were identified through previous studies across the three contexts, they had not been drawn together. An openness to the literature allowed the potential for their collation as a unique contribution towards developing a deeper understanding of board contributions to organizational outcomes. While recognising the differences between governance effectiveness and contribution to organizational performance, I found Misangyi and Acharya's (2014) notion of bundled governance mechanisms leading to better effectiveness useful in exploring the potential of the novel framework.

After explaining the nature of the 12 factors, the Chapter considers the value of frameworks or models for good governance practice, and their utility for governance practitioners seeking to enhance the contribution of governance to organizational outcomes. The novel framework of the 12 governance factors deduced from the literature for their potential benefit to organizational outcomes is presented in Figure 3.1 as a guide for board directors seeking to enhance their own and collective contribution to organizational outcomes. It is because of the potential importance of this novel framework to both board directors and the design of this study that the literature on governance and organizational performance links has been presented in this Chapter separately from the broader discussion of the corporate governance literature in Chapter 2.

3.2 Twelve governance approaches

This section presents literature that details governance and organizational performance links. From my review of the literature I was able to find 12 clearly identified links. Each of these 12 governance approaches, factors, or dynamics are presented in this section by reference to quotes from the specific literature from which each was identified; supplementary literature is also referred to where it has been identified. The theoretical origin of each dynamic is considered prior to each being presented in Table 3.1, which also provides their main literature source, their secondary literature source, their literature sector of origin, and, finally, their theoretical origin.

3.2.1 Functionality

The first of the factors is that of effective board functionality. Effective boards have been found to contribute to organizational performance, but the mechanism as to how is not yet sufficiently clear, and it is even less clear for not-for-profit organizations where organizational performance itself is hard to define (Brown, 2005). Nonetheless, a precursor to corporate governance making any meaningful contribution to organizational outcomes is the ability of the board to function.

Drawing from the for-profit literature and citing agency, stakeholder and dependency theories as the rationale for board functionality linking corporate governance to organizational outcomes, Huse et al. (2005) find:

> The key to a board's contribution to value creation lies in the degree to which board members, individually and collectively, are able to effectively fulfil the various board roles. (p. 8)

Agency theory's role in this dynamic can be seen in the motivation of owners of capital acting to assure a return on their investment (Shleifer & Vishny, 1997) by appointing board members able to, individually and collectively, fulfil their various board roles in a manner conducive to the board's optimal organizational outcomes. Stakeholder theory can be seen by shareholders selecting and maintaining support for board members able to represent the interests of shareholders (Farrell, 2005) in a functional manner that enhances organizational outcomes. Dependency theory can be seen when the board functions sufficiently to be able to provide links to external resources (Pfeffer, 1972) to enhance organizational performance.

The contribution of the literature and discussion of theories of board functionality is the guidance it offers about corporate governance's ability to contribute to organizational outcomes. Those seeking a board to contribute to organizational outcomes can assess and remedy board members' individual and collective abilities to fulfil various board roles as individuals and groups of directors unable to fulfil board roles will, in theory, not contribute positively to organizational outcomes.

3.2.2 Monitoring defined performance

The second of the 12 factors is the extent to which the board sets expectations about, and then monitors, achievement of organizational performance. Whereas profit and value creation is generally understood as the expectation for performance in for-profit firms, the focus for performance in not-for-profit organizations is harder to define. Drawing from the not-for-profit literature and inferring that agency theory offers a rationale for governance's contribution to organizational outcomes, Eldenburg et al (2004) find:

> Non-profits maximize some function other than the present value of profits. The identity of this function is not obvious, nor is it obvious how this objective function is chosen inside an organization … choosing this objective function is an important responsibility of the governance structure of non-profit organizations, at least as important as managing the process of maximizing this objective function once it is chosen. (p. 528)

Drawing from the not-for-profit literature and citing agency theory, dependency theory, and group decision process theory, Brown (2005) finds:

> For non-profits, it is also the board's role to ensure adherence to mission, values, and the organization's social rationale for being. This was reflected in the contextual dimension, which was positively correlated with perceptions of organizational performance. The implication is that boards that recognized and understood the organization's historical purposes and operating context were more likely to exist in organizations that were perceived by both executives and board members as operating effectively. (p. 333)

Agency theory's role in this dynamic can be seen in the desire of owners of capital to have management's actions align with shareholder interests (Young & Thyil, 2008) in the setting, monitoring and performance of agreed organizational objectives. Dependency theory can be seen in the board's role of giving advice to management (Farrell, 2005) on defining and achieving organizational objectives. Group decision process theory can be seen when the board nurtures the development of their members as a cohesive working group (Chait, Holland, & Taylor, 1996) such that targets can be set and effectively monitored by the board.

The contribution of the literature and theory of the board practice of monitoring defined performance is the guidance offered about corporate governance's ability to contribute to organizational outcomes. Those seeking a board to contribute to organizational outcomes should ensure the board has explicitly set objects for organizational achievement and has in place processes to manage the achievement of these objects.

3.2.3 Strategic input

The third of the 12 factors is that of strategy. Strategic input is the key method by which a board can influence a for-profit corporation's performance (Huse & Rindova, 2001; Wang & Dewhirst, 1992). Citing agency, stakeholder, dependency and hegemony theories as a rationale for a link between board director strategy roles and organizational performance, Huse and Rindova (2001) find:

> Boards can contribute to a company's success in various ways. By involving outsiders in making key strategic decisions about a company's future, corporate boards can serve as a powerful mechanism for representing the interests of various stakeholders in a company's environment. A company's board of directors representing a company's various stakeholders will enhance the company's ability to balance conflicting interests and improve its social performance. (p 174)

Not-for-profit literature places a similar emphasis on strategy's role in board capacity to influence organizational outcomes. Citing agency, dependency, and group decision process theories as rationales for a link between board director strategy roles and organizational performance, Brown (2005) finds:

> Higher financial performance was positively correlated with the tendency of a board to engage in strategic activities. (p 330)

Organizational performance has been found to be ultimately linked to strategy, such that board attributes might be of little consequence except to the extent they influence strategic thinking and its implementation (Heracleous, 2001). Educational attainment and diverse functional backgrounds of board members have been found to enable better contribution to strategic decisions (Erhardt et al., 2003).

Boards have been found, in practice, not to be deeply involved in strategy setting, with many involved only in strategy ratification rather than its formation, with chief executives playing the leading role in strategy development (Finkelstein & Hambrick, 1996). Chief executive narcissism has been found as limiting board directors' influence over determination of corporate strategy (Zhu & Chen, 2015).

Agency theory can be seen when owners of capital seek a return on their investment (Shleifer & Vishny, 1997) by selecting and supporting a board comprised of members who actively engage in the strategy setting of the organization. Stakeholder theory can be seen where the board represents interests of stakeholders (Farrell, 2005) in the setting of strategy. Dependency theory can be seen where the board performs its key role of enabling access to the resources it needs (Cowen & Marcel, 2011) such as strategic information. Hegemony theory can be seen where the board legitimizes (Farrell, 2005) or moderates (Bennington, 2010) management's strategy decisions to benefit organizational performance.

The contribution of the literature and theory of the board's role in strategic input is the guidance offered about corporate governance's ability to contribute to organizational outcomes. Those seeking a board to contribute to organizational outcomes should ensure the board comprises members who are individually and collectively able to engage in strategic input, and that processes for the board's strategic input to influence management are established.

3.2.4 Participative boards

Board member participation is the fourth of the 12 factors. The for-profit literature reveals that participative boards correlate with higher financial performance (Heracleous, 2001; Pearce & Zahra, 1991); the more participative a board, the more able it is to positively impact organizational performance.

Citing contingency, dependency, agency and stewardship theories as a rationale for a link between participation of board directors and organizational performance, Heracleous (2001) finds:

> Participative boards (characterised by higher chief executive power and high board power) are associated with the highest level of company financial performance. This possibility implies that scholars need to explicitly incorporate a contingency perspective in their studies. This would draw attention to addressing not simply the board's monitoring role (as advocated by agency theory); but its expertise and counsel roles (consistent with

> stewardship theory) and its linkages with external resources (consistent with the dependence perspective), as well as a more explicit focus on the organizational task and context. (p. 171)

Participation requires conducive group dynamics which, in turn, have been said to drive team effectiveness (Nicholson & Kiel, 2004b), such that improved dynamics may better enable boards to contribute to corporation performance.

Contingency theory's role in this dynamic can be seen where different situations require different governance approaches (Bennington, 2010); a board that is able to modify its focus on organizational tasks as different contexts require is better able to contribute to organizational outcomes. Dependency can be seen where the board enables access to resources the organization needs (Cowen & Marcel, 2011) to achieve its target outcomes. Agency theory can be seen where the board monitors performance to assure owners of capital of a return on their investment (Shleifer & Vishny, 1997). Stewardship theory can be seen where, through active participation of board members, management and the board collaborate in running the organization (Farrell, 2005) and maximize performance.

The contribution of the literature and theory of participative boards is the guidance offered about corporate governance's ability to contribute to organizational outcomes. Those seeking a board to contribute to organizational outcomes should ensure board member selection and support engenders a board is best able to ensure participation of all of its members in an equal manner. Boards where participation of all members is not robust are less likely to contribute to organizational outcomes.

3.2.5 Transparency

The fifth of the 12 factors to emerge from the literature is corporate governance transparency. The for-profit literature reveals firms that have higher levels of corporate transparency demonstrate better performance (Chiang, 2005). Citing signalling theory as a rationale for a link between board director transparency and performance, Chiang (2005) finds:

> Results indicate that board size, board ownership, institution ownership, financial transparency, information disclosure, and board and management structure and process have significant relationships with operating performance. The results of this study also support that information transparency is one of the most important indicators for evaluating corporate performance. Recent accounting scandals have renewed attention to corporate

> transparency. According to signalling theory, under information asymmetry, corporations with superior information transparency signal better corporate governance. (p. 95)

Governance disclosure has been found to enable better functioning markets and protection of minority shareholder interests (Berglof & Pajuste, 2005). Governance transparency has also been found to correlate with analyst forecast accuracy, but it is not clear if disclosure of governance or the governance structure itself drives this association (Bhat, Hope, & Kang, 2006).

Signalling theory's explanation in this dynamic can be seen where the board's information transparency closes the gap between what stakeholders know and what they want to know (Miller & Triana, 2009) about the organization.

The contribution of the literature and theory relating to governance transparency is its potential to contribute to organizational outcomes. Those seeking a board to contribute to organizational outcomes should promote financial, information and board process disclosures.

3.2.6 Ownership

The sixth of the 12 factors identified in the for-profit literature is that of ownership. Ownership stakes in an enterprise provide an incentive for director shareholders to contribute to a for-profit organization's performance. Stock ownership by board members, in particular, has been found to correlate with improved operating performance (Bhagat & Bolton, 2008), just as a correlation between managerial ownership and firm performance (Vo & Nguyen, 2014) has been found. Citing agency theory as a rationale for a link between board director stock ownership and performance, Bhagat and Bolton (2008) find:

> Stock ownership of board members is significantly positively correlated with better contemporaneous and subsequent operating performance … Board members with appropriate stock ownership will have the incentive to provide effective monitoring and oversight of important corporate decisions. (p. 257-258)

Evidence indicates directors, on average, may not be sufficiently rewarded to fulfil their functions adequately (Denis, 2001), noting there is recent evidence that director remuneration has been increasing in response to limited numbers of qualified directors (Aggarwal & Ghosh, 2015). Put another way, it may be that directors who are not remunerated sufficiently lack the incentive to contribute fully to their board role.

Agency theory's explanation of this dynamic is that the owners of capital seek a return on their investment (Shleifer & Vishny, 1997) by the owners themselves participating on the board of governance to seek desired organizational performance.

The contribution of the literature and theory to the concept of board director ownership is the guidance offered about corporate governance contributing to organizational outcomes. Those seeking a board to contribute to organizational outcomes should promote ownership of stock by board members in for-profit organizations, and foster a sense of 'shareholder like' ownership of board members of not-for-profit organizations.

3.2.7 Donor monitoring

The seventh of the 12 factors is the presence of major charitable donors on not-for-profit boards. Drawing from the not-for-profit literature and citing agency and dependency theories as a rationale for a link between donor monitoring and organizational performance, Callen, Klein, and Tinkelman (2010) find:

> Donor representation on the board is expected to be positively associated with performance from both the agency and the resource dependence perspectives. Hansmann (1980) and Fama and Jensen (1983), taking the agency perspective, propose that major donors serve as effective monitors of non-profits. Callen et al. (2003) provide evidence in favour of the link between having major donors on a non-profit board and effective board monitoring. (p. 109)

Also drawing from the not-for-profit literature and citing group decision process theory in addition to both agency and resource theories as a rationale for a link between donor monitoring and organizational performance, Brown (2005) finds:

> Major donors perform a monitoring function that is motivated by their 'investment' in the organization. They potentially become advocates to ensure organizational efficiency because they are financially committed to the organization. (p. 321)

Agency theory's role in this dynamic can be seen where contributors of capital seek to maximize their return (Shleifer & Vishny, 1997). Dependence theory can be seen where donor board members provide links to external resources needed (Pfeffer, 1972) for the organization to achieve its performance targets.

The contribution of the literature and theory regarding donor monitoring on boards is the guidance offered about corporate governance contributing to organizational outcomes. Those seeking a board to contribute to organizational outcomes should consider the role of financers or funders on their board where donor directors act to seek a return for their capital contribution.

3.2.8 Resource attraction

The eighth of the 12 factors is that of resource attraction. Not-for-profit board directors engaged with resource gathering activities for the benefit of the organization, including fundraising and the making of personal contributions, participate on boards more associated with improved organizational performance (Brown, 2005).

Drawing from the not-for-profit literature, and citing agency, dependency, and group decision process theories as a rationale for a link between not-for-profit board director engagement in resource gathering and organizational performance, Brown (2005) finds:

> Dependency theory suggests that boards should bring resources to an organization, and consequently those resources will strengthen the organization’s performance. Several types of resources are recognized in the literature (legitimacy and money, for example), and this study investigated the extent to which boards provided strategic guidance and fostered external connections. (p. 333–334)

Agency theory’s role in this dynamic can be seen where the owners or contributors of capital seek a return on their investment (Shleifer & Vishny, 1997) by appointing and supporting boards who tend to operate at a net financial surplus. Dependency theory is seen where boards link organizations to necessary external resources (Pfeffer, 1972) to achieve performance. Group decision process theory can be seen where the board nurtures the development of their members as a cohesive working group (Chait et al., 1996) such that the board comprises capacity or can collectively attract resources needed to aid organization performance.

The contribution of the literature and theory of resource attraction is the guidance offered about corporate governance contributing to organizational outcomes. Those seeking a board to contribute to organizational outcomes should expect boards to be appointed and comprised of directors who possess or can attract abilities or networks and resources sufficient for the organization to perform.

3.2.9 Governance stability

The ninth of the 12 factors is that of stability among board members and management. Poor financial performance of a series of US not-for-profit organizations was found to be linked to high board and chief executive turnover (Eldenburg et al., 2004).

Drawing from the not-for-profit literature, and inferring agency theory as a rationale for a link between not-for-profit board director turnover and organizational performance, Eldenburg et al (2004) finds that ‘poor financial performance is related to board and CEO turnover’ (p. 527).

Agency theory’s role in this dynamic is stark. Owners or contributors of capital seeking a return on their investment (Shleifer & Vishny, 1997) act to contribute to personnel turnover when a return is either not being achieved or is at risk of not being achieved.

The contribution from the literature and theory of governance stability warrants further consideration. It is not clear if turnover leads to poor financial performance or is a result of it. It does, however, suggest that governance stability is less related to poor performance than personnel turnover.

3.2.10 Active and well sized supervisory board

English language literature on for-profit two-tiered boards is limited, and literature on not-for-profit two-tiered boards barely exists. Consequently, the benefit or otherwise of the supervisory board has not been sufficiently researched; future studies are required to address the mechanism by which the supervisory board aids governance (Jia, Ding, Li, & Wu, 2009). However, specific links of two-tiered boards and their contribution to organizational performance do emerge from the few studies that have been completed.

The first of these two-tiered board links to organizational performance identified in the literature, and the tenth of the 12 factors, is that of an active and well-sized supervisory board. Active and large supervisory boards in China have been found to be associated with more robust financial reporting and increased earnings, but too many supervisory board directors compromises effectiveness (Jia et al., 2009). Similarly, in another Chinese study the supervisory board and its size have been found to affect earnings and also the frequency of modified audit opinions; larger and more active supervisory boards were found to improve earnings returns and have higher quality reporting (Firth et al., 2007). This is moderated by another study that found supervisory board size in China had no impact on organizational performance (Shan & Xu, 2012).

Noting the two-tiered literature is almost exclusively for-profit related, Firth et al., (2007) infer agency theory as a rationale for a link between large sized and active supervisory boards and organizational performance and find:

> Larger and more active supervisory boards improve the earnings–returns association, reduce absolute discretionary accruals, and have higher quality financial statements based on the auditor's opinion. Thus, Supervisory Boards do play an important role in improving the informativeness of earnings. We attribute the ability of the Supervisory Board to improve the quality of a firm's accounting information to its independence from the Board of Directors and to its financial expertise. (p. 493)

Agency theory is the foundation of the two-tiered board structure, in that in seeking a return on owners' capital (Shleifer & Vishny, 1997), the supervisory board is established as an additional agent to monitor the usually sole unitary board agent. Agency theory's role in the active and well sized supervisory board dynamic is seen where its independence and financial expertise operate to improve the governance quality of the managerial board.

The contribution of the literature and theory of active and well sized supervisory boards is the guidance offered to organizations with two-tiered boards about how the composition and conduct of supervisory boards can contribute to organizational outcomes. Those seeking a supervisory board to contribute to organizational outcomes need to appoint appropriate numbers of members to meet contextual need, and the appointments need to foster active engagement in the supervisory board tasks.

3.2.11 Independent supervisory board

The second of the two-tiered board links to organizational performance identified in the literature, and the 11th of the 12 factors, is that of the independent supervisory board. Genuinely independent supervisory boards in Germany and Austria have been found to correlate with improved firm performance (Velte, 2010).

Drawing from the two-tiered for-profit literature, citing agency and signalling theories as a rationale for a link between supervisory and managerial boards that are genuinely independent of each other and organizational performance, Velte (2010) finds:

> The analysis of correlation (of supervisory boards in Germany and Austria) in particular shows statistically significant positive correlations between the reporting on the independence of the supervisory board and the firm performance index. (p. 295)

Agency theory's role in the dynamic can be seen where supervisory boards assert their independence to enhance the governance practice of the managerial board to ensure a return on investment for the owners of capital (Shleifer & Vishny, 1997). Signalling theory's role can be seen where the recognized independence of the supervisory board acts to give confidence by closing the gap between what stakeholders know and what they want to know (Miller & Triana, 2009) about the organization.

The contribution of the literature and theory of independent supervisory boards is the guidance offered to organizations with two-tiered boards about how the composition and conduct of a supervisory board can be established to ensure its genuine independence from the managerial board so as to allow a contribution to organizational outcomes.

3.2.12 Professionally matched two-tiered boards

The third of the two-tiered board links to organizational performance identified in the literature, and the 12th and final of the factors, is that of the professional match between the supervisory and managerial boards. Where supervisory boards comprise members with appropriate professional knowledge, work experience and independence from management, they have been found to be more likely to be able to improve organizational performance (Shan & Xu, 2012).

Drawing from two-tiered for-profit literature, citing agency theory as a rationale for a link between professionally matched supervisory and managerial boards and organizational performance, Shan & Xu (2012) find:

> The role of independent watchdog, however, requires that members on the supervisory board have the necessary competencies in terms of knowledge and experience to act with expertise and sufficient independence. Logically, those supervisory boards that have a higher number of members with appropriate professional knowledge or work experience should be in better positions to improve corporate performance. Those with true independence from the board of directors should be better placed to demonstrate their competencies. (p. 124)

Agency theory's role in the dynamic can be seen where supervisory boards act to seek a return for owners of capital (Shleifer & Vishny, 1997) by the skill-set of the supervisory board being developed to match the professional skills needed by the organization.

The contribution of the literature and theory of professionally matched two-tiered boards is the guidance offered to organizations with two-tiered boards about how the composition of supervisory boards should be managed to best contribute to organizational outcomes.

3.2.13 Summary

Table 3.1 presents, in summary, each of the 12 factors discussed in this section, together with citations to key sources from within the literature which prompted the factor identified for inclusion in this study. The source of the studies' origins from either the for-profit, not-for-profit, or two-tiered governance sectors is detailed, and the theory of origin for each factor is recorded. Table 3.1 underpins the composition of the novel framework to be presented later in the Chapter as Figure 3.1, following discussion of best practice approaches and guides for governance effectiveness.

Table 3:1: Summary of twelve governance factors contributing to organizational outcomes

No	Dynamic	Author and year	Sector of origin	Theory of origin
1	Functionality	Huse, Gabrielsson, & Minichilli (2005)	For-profit firms	Authors identify agency, stakeholder, and dependency theories
2	Monitoring defined performance	Eldenburg et al. (2004), Brown (2005)	Not-for-profit Not-for-profit	Discussion of maximization of profits infers foundation in agency theory Authors identify agency theory, dependency theory, and group decision process theory
3	Strategy engagement	Brown, 2005. Huse & Rindova, (2001)	Not-for-profit For-profit subsidiary boards	Authors identify agency theory, dependency theory, and group decision process theory Authors identify stakeholder, agency, dependence, hegemony theories
4	Participation	Heracleous (2001)	For-profit firms	Author discusses contingency, dependence, agency, and stewardship theories
5	Transparency	Chiang (2005)	For-profit firms	Author identifies signalling theory
6	Reward ownership	Bhagat & Bolton (2008)	For-profit firms	Authors identify agency theory
7	Donor monitoring	Callen, Klein, & Tinkelman (2003) Brown (2005)	Not-for-profit Not-for-profit	Authors identify agency and dependence theory. Authors identify agency theory, dependency theory, and group decision process theory
8	Resource attraction	Brown (2005)	Not-for-profit	Authors identify agency theory, dependency theory, and group decision process theory
9	Stability	Eldenburg et al. (2004)	Not-for-profit	Discussion of maximization of profits infers foundation in agency theory
10	Active and well sized supervisory board	Firth et al. (2007),	Two-tiered for-profit	Discussion of concentrated state ownership of Chinese firms and main theoretical reference to Shleifer and Vishny (1997) infers agency as main theory.
11	Independent	Velte (2010)	German and Austrian two-tiered for-profit boards	Author discusses agency theory and signalling theory.
12	Professionally matched supervisory board	Shan & Xu (2012)	Chinese two-tiered for-profit boards	Authors discuss agency theory.

3.3 Best practice governance guides and links to organizational performance

The UK's *Cadbury Report* of December 1992 issued a corporate governance Code of Best Practice that marked the development of governance codes and expectation of board room compliance across many developed economies (Doble, 1997). By the end of 2014, 91 countries had issued a code of good governance and 345 codes (91 first codes and 254 revisions) had been developed (Cuomo et al., 2016).

Codes are

> [F]ormally nonbinding and voluntary in nature, issued by multi-actor committees, flexible in their application, built on the market mechanism for evaluation of deviations and evolutionary in nature. (Haxhi & Aguilera, 2014, p. 2)

Codes have been found to recommend six common components as best practice: balance of directors, division of responsibilities of chair and chief executive, details of information to be provided to the board, procedures for board appointments, financial disclosure, and a system of internal control (O'Shea, 2005). Yet empirical research does not support the main matters addressed in codes of best practice, with examples being the prominence of independent directors and the separation of chair persons and chief executives, both of which appear to add little to firm performance (Becht et al., 2003).

There is conflicting evidence on the benefit of codes of good governance, and few analytical studies of codes across countries (Auguilera & Cuervi-Cazurra, 2009). Research has failed to support links between so called best practice guides and organizational performance, where best practice includes separating the role of chief executive and chair, having balanced skill sets on boards, the presence of independent directors, having board committees, and evaluating performance (Heracleous, 2001). In fact, best practice guides and codes have been found as mostly irrelevant to organizational performance, and studies seeking to relate board attributes to organizational performance often ignore the influence of broader systemic factors (Heracleous, 2001).

Regulatory or best practice guides that change a firm's governance may not necessarily improve a firm's performance, as requiring a firm to alter its practice derived from past performance disrupts an organization's governance practice (Tan, 2009). A study by Chen and Nowland (2011, p. 229) found the effectiveness of corporate governance codes over a ten-year period across four East Asian markets saw significant improvements in code compliance, but not all improvements were found as attributable to the existence of the code, and there were unintended consequences, including a reduction in board or committee independence to less demanding code recommendations.

Yet firms can certainly use self-managed provisions in their charters relating to governance practice which may improve firm performance and valuation, at least in countries with poor investor protection (Klapper & Love, 2002). With the potential for boards to voluntarily foster organizational performance by use of a self-managed governance practice guide, the benefit of such a guide being informed by the evidence revealed in literature becomes apparent. It is within this context that the 12 factors offer potential for use by boards and stakeholders seeking to improve the contribution of governance practices to organizational performance.

3.4 The framework

The literature review revealed at least the 12 factors discussed earlier in this Chapter that aid or negate a contribution of governance to organizational outcomes. The literature review was extensive. It covered the for-profit literature and the not-for-profit literature, as well as the limited literature regarding two-tiered governance.

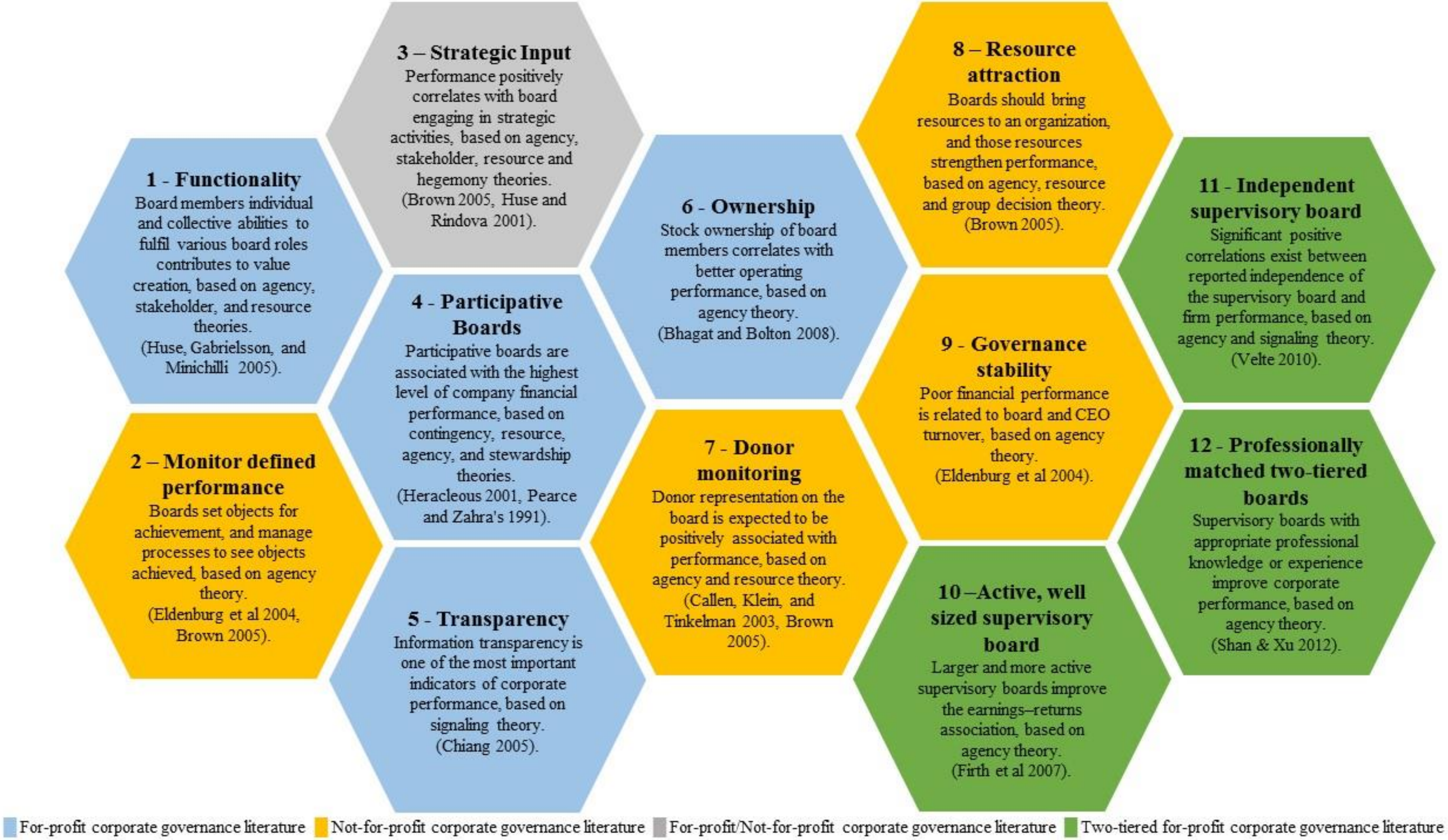
The individual identification of the 12 separate factors already published in the literature, in itself, did nothing to answer the research question. Nor did the individual identification of each of the factors, as locating evidence already published in the literature did not contribute to new knowledge. Yet the potential for the novel compilation of each of the factors into a bundled governance mechanism (Misangyi & Acharya, 2014) to enable assessment of their collective contribution to organizational performance did represent a proxy answer to the research question, and a new and unique contribution to the understanding of, not just board director contributions to organizational performance, but also the two-tiered board's contribution to organizational performance. An opportunity to develop a framework to house each of the 12 factors was identified.

The individual factors were, accordingly, placed within a working framework, which was reviewed and refined during the conduct of the study. The framework was first presented at the 'Better Boards Australasia' conference in Melbourne, Australia, on 7 July 2013. Feedback received from conference participants who were board governance practitioners was that the novel framework could contribute to board director knowledge of how to institute or refine board practices aimed at contributing to organizational outcomes. This framework, further refined since its first presentation and showing the individual factors linked to their original source in the literature, is detailed at Figure 3.1. The colour coding signifies the source of the factor.

The context of the framework's emergence is relevant to how the framework should be both interpreted and applied. The 12 factors that comprise the framework have been drawn from three separate literatures relating to for-profit organizations, not-for-profit organizations, and both for-profit and not-for-profit organizations specifically governed by two-tiered boards. Uncritical application of theories developed in different literatures gives rise to complexities of different stakeholders, different structures, and different processes that organizations and their boards face in the differing contexts of for-profit, not-for-profit and two-tiered board environments. The framework should accordingly be understood in the context from which it evolved. It should further be understood for the purpose for which this study applied the framework in Chapter 7, which was to aid in the gathering of data from directors of two-tiered boards to specifically address the research question.

The novel framework presented in Figure 3.1 is a step towards addressing the research question. To determine the extent to which it actually aids two-tiered board directors to contribute to organizational outcomes in Australian not-for-profit hospitals, the framework was used to underpin the questions posed to directors to gather the primary data presented in Chapter 7. Before coming to the presentation of the findings of the primary data, the next Chapter outlines the methodology used in this study.

Figure 3:1: Framework of 12 governance factors contributing to organizational outcomes



Chapter 4: Methodology

4.1 Introduction

This Chapter outlines the method employed to address the research question: 'What governance practices are perceived by two-tiered board directors of Australian not-for-profit hospitals as contributing to organizational performance?'

The significance of the research question has multiple bases. First, hospitals provide a public good to the community in which they operate. Indeed, they are essential services in both developed and developing countries. Understanding how the performance of services delivering an essential public good can be optimized is of interest to the service owners, funders, and consumers. Secondly, the study of corporate governance approaches is of wide interest to researchers, governance practitioners, financial market participants, governments, and consumers of goods and services. Thirdly, that two-tiered boards operate within some corporate governance structures has been neither well identified in Anglo-US firms nor much studied by Anglo-US researchers. The literature discussed in Chapter 2 reveals the significant presence of two-tiered boards in Germanic and some Asian-influenced corporate governance structures, but limited application in Anglo-US corporate governance. Indeed, a unique contribution of the research is its contribution of new knowledge about both the wide use of two-tiered boards within not-for-profit hospitals within Australia's Anglo-US corporate governance environment, and the manner in which two-tiered board participants perceive circumstances where this novel approach to governance is able to contribute to organizational performance.

This Chapter first considers why qualitative research was assessed and determined to best suit the conduct of the study, as opposed to quantitative research which is more commonly applied in corporate governance studies. The disadvantage of the methodological approach adopted is also addressed. The research concept of interpretivism, and its importance to the study is then considered. The Chapter then describes the qualitative research method applied to the study, and how grounded theory worked to address the research question.

The role in this study of the framework comprising 12 governance links to organizational performance, previously described in Chapter 3 and presented at Figure 3.1, is then considered.

The framework's emergence from the literature review allowed the study to be refined to seek two-tiered board participants' insights into how two-tiered board governance is practiced, and to assess if specific actions can or do enhance its perceived contribution to organizational performance.

The research strategy that was adopted is then described. The Chapter details how the sample of hospitals using two-tiered boards was identified and assessed for its significance. The Chapter then describes how access to two-tiered board practitioners in Australia, an elite group within an already elite group of Australian board directors, was established. Access to this group relied on insider status, a common method of researcher access to otherwise inaccessible data.

The design of and manner in which the semi-structured interviews were conducted with the directors of two tiered-boards is then described. The role of perceptions in research is discussed, as is the decision made to seek director perceptions of two-tiered board governance's contribution to organizational outcomes.

The limitations of the study, particularly the narrow not-for-profit hospital segment from which directors of two-tiered boards were drawn to participate in the study, are considered. The manner in which the data analysis was conducted is described, and the Chapter then concludes with a discussion about the benefits and disadvantages of the study's method.

4.2 Qualitative research

In conducting social inquiry two methodological approaches have dominated: quantitative and qualitative. The philosophies underpinning them differ, with quantitative research seeking to give numerical results, tabulated, modelled or graphed, for the purposes of establishing the number or proportions of an issue or what the trends are. Qualitative research has a different purpose; it aims to answer 'what is going on here?' (Bouma, 2000). Research in corporate governance has historically utilized quantitative methods to test elements of the application of agency theory (Daily, Dalton, & Cannella, 2003). Corporate governance research has since begun to adopt other theoretical frameworks and methodologies (Durisin & Puzone, 2009).

Qualitative research applies any number of techniques at the place of a phenomena to capture the interpretations of participants, their relationships and the dynamics of events as they occur in the phenomena's setting (Denzin & Lincoln, 2005). Most relevant to this research is the opportunity qualitative research methods allow for the exploration of the why and how of a phenomenon. Unfiltered, first-hand engagement with those involved in a phenomena distinguishes qualitative from quantitative research (Birkinshaw, Brannan, & Tung, 2011). Seven components of qualitative research have been identified: field work data collection; researcher led data collection; multiple data sources; inductive analysis drawing out the meanings of participants; research design by emergence rather than predetermination; interpretive analysis; and use of theory to build up findings (Cresswell, 2007).

Qualitative studies inquiring into corporate governance have increased since the 1990s, but still represent a small proportion of the literature (McNulty, Zattoni, & Douglas, 2013). Qualitative studies in corporate governance have been found to originate mostly in the United Kingdom, are published mostly in European journals, and utilize a variety of methods, the most regular being the interview in combination with other methods (McNulty et al, 2013). Indeed, more corporate governance studies conducted in the field to gather knowledge of practice, interactions and intra-relationships of governance practitioners is warranted (Ahrens et al., 2011).

The nature of the research question was to understand and engage with director perceptions of two-tiered governance, and the why and how it may (or may not) impact organisational performance. Qualitative research was determined as offering the best method of conducting this investigation. It allowed for the study to be conducted with direct and unfiltered access to two-tiered board practitioners, and for interpretative analysis to be conducted. The study adds to an otherwise modest-sized literature of qualitative research into corporate governance. It responds to the need for new knowledge of practice, interactions and intra-relationships of governance practitioners.

4.3 Research strategy

Qualitative studies often use more than one method of data collection, because the triangulation of different sources aids better understanding of matters being examined (McNulty et al., 2013). An exploratory mixed method research approach was adopted to address the research question.

The first phase of the study involved sampling, through gathering and quantitative analysis of secondary data to establish the extent to which two-tiered boards are utilized within hospitals in

Australia. In identifying the extent of two-tiered governance in hospitals in Australia, the importance of the research question was reinforced. The second phase revealed a framework informed by the literature to attempt to answer the research question through a working hypothesis. The third phase, through structured interviews, and the fourth phase, through a questionnaire, gathered primary data that allowed elements of the research question to be explored through different and distinct stages of data gathering and analysis. Put another way, the third phase of data gathering saw grounded theory applied to enable identification of patterns from collected data (Walsh et al., 2015), while the fourth phase was designed to see if the themes to emerge from the literature resonated with the participants. In this sense the third phase was inductive, while the fourth was deductive. Figure 4.1 outlines each of the phases of the study, and the importance of each phase in building towards the research question answer.

Figure 4:1: Phases of the study

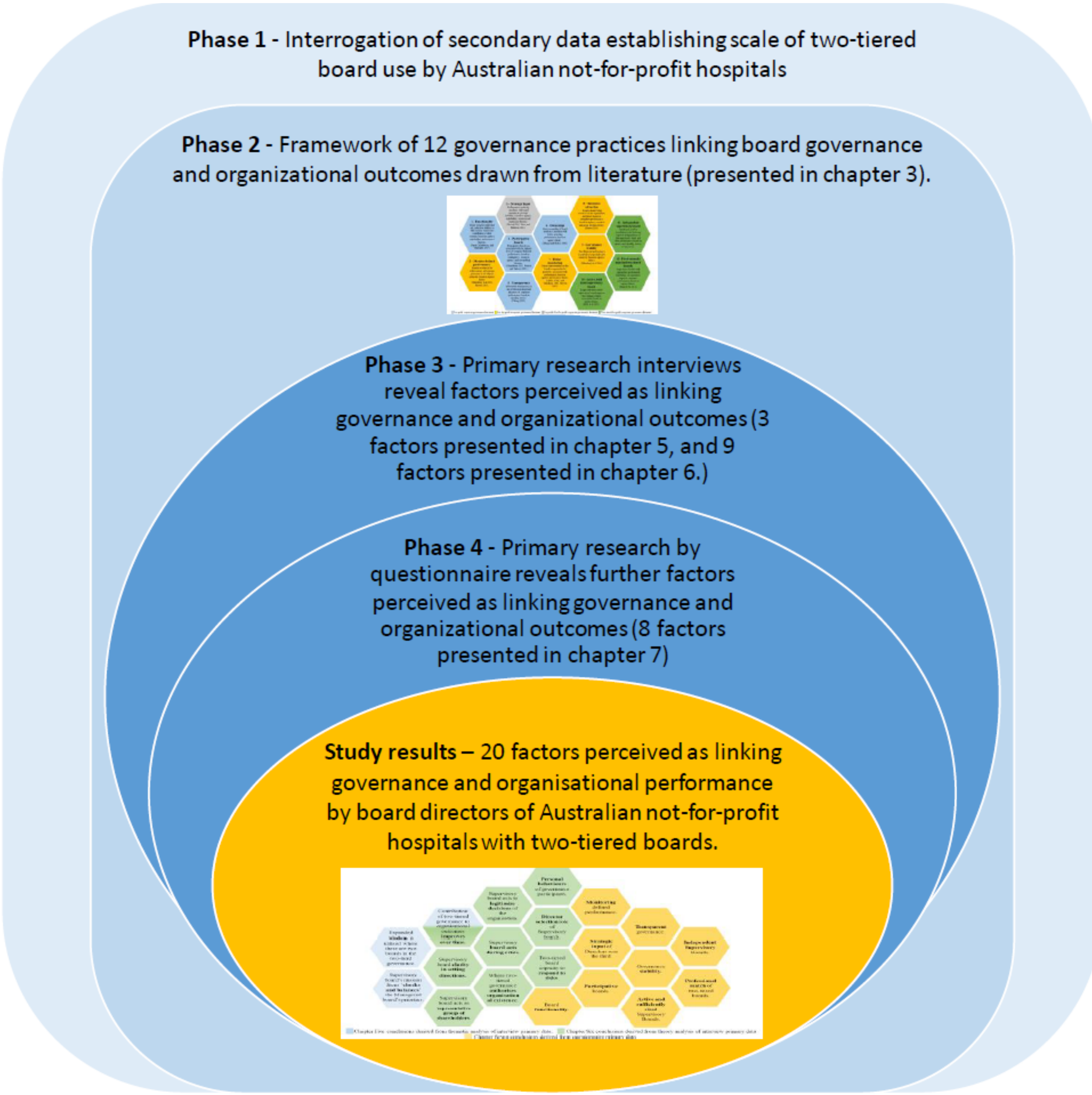


Table 4.1 details these same phases of the study, and addresses the significance of each phase to answering the research question 'What governance practices are perceived by two-tiered board directors of Australian not-for-profit hospitals as contributing to organizational performance?'

Table 4:1: Mixed method phases and significance to research question

No.	Description of phase	Relevance to research question
1	Interrogation of secondary data to establish the scale of two-tiered board use	Not relevant to answering the research question, but was relevant in establishing the existence of the practice of two-tiered board governance in Australian not-for-profit hospitals with considerable service reach.
2	Governance framework revealed through the literature	Helpful in leading to a possible answer to the research question by providing a framework of 12 governance practices linking board governance and organizational outcomes (that were put to participants for validation in the questionnaire detailed at Phase Four).
3	Primary research by interviews and subsequent analysis	Relevant to answering the research question, as this primary data revealed factors perceived by participants as linking governance and organizational outcomes, with three presented in Chapter 5 and nine presented in Chapter 6.
4	Primary research by questionnaire	Relevant to answering the research question, as this primary data revealed further factors perceived by participants as linking governance and organizational outcomes, each of which are presented in Chapter 7.

The research strategy adopted had several disadvantages. The first phase of the research that determined the scale of two-tiered board use within not-for-profit Australian hospitals was not ultimately relevant to addressing the research question. The second phase that revealed the framework of 12 governance practices linking board governance and organizational outcomes drew together findings of three separate literatures. The 12 practices were subsequently treated equally, with no attempt made to assess different weighting of importance that might need to be ascribed to each separate practice within the governance framework. The third and fourth phases drew data from small cohorts, and the qualitative approach to data analysis denied the potential for quantitative assessment of the data to be made. These several disadvantages were identified prior to the commencement of the study. They were assessed against the potential benefits of the methodological approach adopted, which included quantification of the extent of two-tiered board use within Australian not-for-profit hospitals, identification of a novel framework of practices linking board governance and organizational outcomes, revelation of the perceptions of an elite group of board directors of their practice of two-tiered governance, and ultimately an answer to the research question

4.4 Interpretivism

Interpretivism is a common lens informing the choice of qualitative methods of research (Trauth, 2001). Interpretivists, through their sense making, provide deeper meaning in allowing for differential interpretations (Bevir & Rhodes, 2001). They explore the views, experiences, perceptions and meanings of participants in relation to a particular phenomena. Interpretivism enables explanation of the difference between theory and reality (Voyer & Trondman, 2017) by recognizing that events are described through subjective language prone to variances arising from the context within which events occur and the perceptiveness of an interpreter (Turnbull, 2011). An individual's location in a structure, and the group interactional contexts associated with that location, affect their perceptions. Interpretive perspectives from participants in organizations are obtainable from observation, solicitation and analysis of narratives (Czarniawska, 2004).

An interpretative approach underscored the decision to first solicit narratives for analysis from two-tiered board governance practitioners. More so, in analysing the narratives of the participants, I was aware of the subjective language and context (Turnbull, 2011) of what was observed in the narratives (Czarniawska, 2004), and through sense making considered different interpretations (Bevir & Rhodes, 2001) to reveal the presence of perceived links between governance and organizational outcomes.

4.5 Grounded theory

Grounded theory is the discovery of theory from generation of conceptual categories of data (Glaser & Strauss, 1967). Grounded theory enables a researcher to 'uncover and understand what lies behind any phenomenon about which little is yet known' (Strauss & Corbin, 1990, p. 19). As what has most commonly been framed as a qualitative research process, grounded theory allows a researcher to identify main themes that emerge from collected field data to develop new theory (Walsh et al., 2015). It is an empirical approach to social life study most commonly, but not necessarily, utilising qualitative research and analysis (Clarke, 2003). Glaser and Strauss (1967) maintain grounded theory enables a researcher to commence a study without a preconceived notion of what might be found while enabling refinement of study parameters as findings become apparent. It is a theory enabling research design for discoveries to emerge and mature, often simultaneously with relevant existing literature (Walsh et al, 2015).

A qualitative approach generates verbal information rather than numerical values (Polgar & Thomas, 1995). Fryer (1991) noted that qualitative researchers aim to decode, describe, analyse and interpret accurately the meaning of a certain phenomena happening in their customary social contexts. Grounded theory requires the researcher to code data to ascertain if a theme from one source arises in another, allowing the researcher to immediately begin theorizing as to the cause and consequence (Glaser, 1978). It allows identification of patterns from collected data (Walsh et al., 2015). Strauss and Corbin (1994) describe how qualitative research allows for the use of grounded theory whereby data are obtained from observations arising from interviews or document review. As Walsh et al (2015) note, it can be powerfully used 'to help discover theories in rupture with existing literature' (p. 584).

Barney Glaser, one of the most noted proponents of grounded theory, reflected in a recent article that: 'Grounded theory is just a set of steps that take you from walking in the data knowing nothing, to emerging with a conceptual theory of knowing how the core variable is constantly resolved' (Walsh et al, 2015, p. 594), which is an apt description for how this study unfolded. Whereas the identification in the literature of the framework of 12 governance practices linking board governance and organizational outcomes gave direction to the study, it was unclear at the commencement of the collection and review of data as to whether directors would be able to accurately articulate their perceptions of how and the extent to which two-tiered governance contributed to organizational outcomes. The links between corporate governance and organizational outcomes from the literature provided a framework for directors of two-tiered Australian hospital boards to respond to with their perceptions about the utility of the 12 factors in the framework. The framework presented in Figure 3.1 offered a means by which to interrogate their experiences to address the research question. Grounded theory influenced the study to allow'a back and forth between the empirical and conceptual planes' (Walsh et al., 2015, p. 588).

4.6 Identifying the sample

This section details how the secondary data to establish the reach of two-tiered boards in hospitals within Australia were identified and obtained, how they were analysed, and the relevance of this sampling in answering the research question.

No literature concerning two-tiered board use in Australia was found during the review of the literature. This was consistent with the Anglo-US literature where boards were revealed as being mostly unitary; and Germanic boards, by contrast, were revealed as mostly two-tiered (Renaud, 2007).

Despite the literature being silent on the use of two-tiered boards in Australia, I had first-hand knowledge of their use by some Australian Catholic Church-owned not-for-profit private hospital providers. At the commencement of the study, it was not known how widespread the practice of two-tiered board use by Australian not-for-profit private hospitals. To inform how widespread the practice might be, secondary data on private hospitals in Australia were identified. The ownership and governance structures of private hospitals that used two-tiered boards were analysed to determine the proportion of private hospital services this represented in Australia.

4.7 The value of perceptions in qualitative research

The study was designed to solicit the perceptions of supervisory board chairs, managerial board chairs, and chief executives of two-tiered boards as to their governance's contribution to organizational performance. It has been argued that researchers should assess board director perceptions to better understand what influences board behaviours and governance effectiveness (Veltrop, Hermes, Postma, & Haan, 2015). Indeed, governance researchers have often considered the practice of board governance as concealed in a 'black box,' such that a majority of board studies are based on desk research rather than insider access (Neill & Dulewicz, 2010). Studies designed to reveal participants' perceptions of actual governance practice enable researchers to unpack the contents of the otherwise closed 'black box.'

Corporate elites hold differing perceptions of how boards add value according to the role the elite plays within the board governance function (Nicholson & Newton, 2010). The study gathered data from three groups of elite governance practitioners: supervisory board chairs, managerial board chairs, and chief executives. The variation in perspectives drawn from the three categories enriches the study, as the different roles individuals' play, and the interactional contexts of those roles, affect their perceptions. The presentation of views through the different lens through which the governance participants assess the two-tiers as able to contribute to organizational outcomes adds to the findings.

4.8 Insider status access to elites

Insider researchers are those who choose to study a group to which they belong (Breen, 2007). Insider research is an established method of inquiry (Adler & Adler, 1987; Merton, 1972,). Social situatedness (Vygotsky, 1962) is recognised as granting a researcher multiple perspectives for understanding evidence arising from the researcher's own familiar context (Costley, Elliot, & Gibbs, 2010).

The potential for the study was conceived as a result of my status as an insider with familiarity of the use of two-tiered boards in not-for-profit organizations owned by the Catholic Church. At the time of the conduct of the study, I was chief executive of Catholic Health Australia, the trade association (peak member body) of Catholic owned and run hospitals and aged care services. I had professional relationships with board directors and management staff of hospitals utilizing two-tiered boards. I had, prior to the study, attended several meetings of boards that operated within two-tiers. This prior experience and these professional relationships with two-tiered board practitioners ultimately prompted the research question, just as it aided the identification of potential participants, and the soliciting of participants to provide the primary data utilized in the study.

Three advantages of insider research are; understanding of the environment being studied; maintenance of normal dynamics within the environment being studied; and established credibility to enable telling and judging of truth (Bonner & Tolhurst, 2002). Insider researchers have deep understanding of their environment, which an outsider researcher would take time to acquire (Smyth & Holian, 2008).

However, where a researcher's prior knowledge leads to the making of incorrect assumptions about research process, bias should be guarded against (DeLyser, 2001). Such a bias might relate to a desire to maintain relationships with participants of the study, or conflicts of interest arising from personal gain that might arise from the study conduct. Management of the potential for an insider researcher to face the dilemma of role duality (Gerrish, 1997), being that of both researcher and either friend, colleague, employee or employer, warrants awareness to prevent bias effecting research results. Moderation of these risks was managed during the course of the study by notification to participants of the nature of duality. The risks were further ameliorated by the cessation of my employment during the conduct of the study; data analysis and study completion occurred after my employment with Catholic Health Australia had ceased in order for me to commence employment in a different not-for-profit health care organization.

The participants were identified as elites. Pettigrew (1992) defines elites in corporate governance research as:

> Those who occupy formally defined positions of authority, those at the head of, or who could be said to be in strategic positions in private and public organizations of various sizes. Institutionally the interest, in the first instance, is in position holders who carry labels such as Chairman, President, Chief Executive Officer, Managing Director, or inside or outside Director. (p. 163)

Elites, by reason of their position, are not easily accessible by researchers, because as Kahl (1957) notes: ‘those who sit amongst the mighty do not invite sociologists to watch them make the decisions about how to control the behaviour of others’ (p. 10). My insider status aided access to the elites occupying director roles in the two-tiered boards that were the subject of the study.

The significance of insider status towards answering the research question was the ready access to participants to gather primary data through interviews and surveys. The answer to the research question ultimately relies on and is found arising from analysis of this primary data drawn from the two tiered board directors. Had I not been an insider, the primary data may not have been able to be gathered in the manner that proved possible through this study.

4.9 Secondary data collection

The Australian Bureau of Statistics (ABS) collects and reports on annual activity within Australian private hospitals. In 2010–11, the ABS reported there were 28,351 private hospital beds and chairs in operation (ABS, 2012) within Australia. This ABS annual activity report does not provide hospital ownership or governance details. A request to the ABS was made for hospital ownership data to determine the total number of private hospital beds in Australia and the total number of beds operated by organizations utilizing two-tiered boards. The data access request for ownership data that was utilized in the 2010–11 ABS survey results was declined.

As a result of the data request refusal, alternate methods of sampling were explored. The Australian Government Department of Health collects licensing and operating activity data on all public and private hospitals in Australia. A request was made to the Department of Health to release private hospital data for the 2010–11 period to determine how many private hospitals were governed by two-tiered boards. The Department, in response, provided a data-base containing details of the ownership status of all licensed hospitals in Australia, inclusive of public hospitals, commercial private hospitals, and not-for-profit private hospitals. The data did not detail the number of individual beds each licensed hospital operated.

The Department of Health data set was reviewed and it was discovered that it contained inaccuracies where hospitals had been included more than once. The data were adjusted to remove the double counted hospitals. The adjusted data revealed that a total of 251 not-for-profit private overnight stay hospitals were operating in 2010-11.

The 251 not-for-profit private overnight stay hospitals identified by the Department of Health were analysed by examination of the 2010–11 financial year annual reports of each hospital's owner, accessed through the websites of all 251 hospitals (noting most hospitals were owned by groups, making discovery simple). Each annual report was assessed by the research assistant to identify the presence of two-tiered governance. This analysis of annual reports of these 251 hospitals established that 41 hospitals operated both a management board and supervisory board that were consistent with the basic elements of Germanic two-tiered governance (Schondube-Pirchegger & Schondube, 2010). The analysis revealed that a small number of hospitals groups (n = 8) were owned by a trustee with governance power exercised by a board. These few hospitals demonstrated elements of two-tiered governance, but both a management board and supervisory board were not clearly established. These few hospitals were, accordingly, excluded from being classified as governed by the basic elements of Germanic two-tiered governance.

Analysis of the annual reports confirmed that, in 2010-11, the 41 hospitals utilizing two-tiered boards together operated 6,419 overnight stay hospital beds, representing 22.6 per cent of the 28,351 private hospital beds operating in Australia in 2010-11 (ABS, 2012).

The finding that 22.6 per cent of all private hospital beds in Australia were governed through two-tiered boards identified the previously unrecognised prevalence of the use of two-tiered boards by not-for-profit hospitals in Australia. The finding also confirmed the existence of a sizable sample group for the conduct of the primary research.

The sampling steps taken to gather and analyse the secondary data are summarised in Table 4.2.

The sampling method of secondary data collection and the data itself were not ultimately relevant to answering the research question; that is, the method and data did not seek to identify perceptions about corporate governance of two-tiered boards and contributions to organizational performance. The significance of the sampling method and secondary data collection was in identifying new evidence of the extent to which two-tiered board governance is practiced in Australia within private hospitals.

Table 4:2: Study phase one process for collection and analysis of secondary data

Source	Secondary data obtained	Type of analysis	Results
ABS	2010-11 activity within Australian private hospitals	Calculation of total private hospital beds in Australia	28,351 private hospital beds in Australia in 2010-11
Department of Health	2010-11 data of all licensed Australian hospitals	Identification of total not-for-profit private hospitals in Australia	251 not-for-profit private hospitals in Australia
Department of Health	Website links to all 251 licensed not-for-profit hospitals in Australia	Review of not-for-profit private hospital annual reports to ascertain existence of two-tiered boards	41 not-for-profit hospitals in Australia identified as having two-tiered boards
2010-11 annual reports of 41 not-for-profit hospitals in Australia identified as having two-tiered boards	Number of hospital beds within each of the 41 hospitals	Calculation of total hospital beds	6,419 beds operated in 41 not-for-profit hospitals in Australia identified as having two-tiered boards
ABS and 2010-11 annual reports of 41 not-for-profit hospitals in Australia identified as having two-tiered boards	2010-11 activity within Australian private hospitals and Number of hospital beds within each of the 41 hospitals	Calculation of percentage of total private hospital beds in Australia operated by not-for-profit organizations with two-tiered boards	22.6% of all private hospital beds in Australia operated by not-for-profit organizations with two-tiered boards

4.10 Semi-structured interviews

The secondary data collected in the first phase of the study revealed 6,419 beds were operated by 41 not-for-profit hospitals in Australia identified as having two-tiered boards. These 41 individual hospitals were known to the researcher as owned in groups by seven different not-for-profit Catholic Church organizations. A review of publicly available annual reports of the seven groups affirmed this ownership status. Table 4.3 details how many hospitals were owned by each of the seven separate organizations. These seven were identified as the ideal study sample.

Table 4:3: Number of hospitals owned by each organization

	Hospital service identifier						
Profiles	**1**	**2**	**3**	**4**	**5**	**6**	**7**
Number of hospitals	12	4	8	4	11	1	1

Access to participants' perceptions of the operation of formal and informal norms provides insight beyond what can be achieved through econometric analysis (Buchannan, Chai, & Deakin, 2014). Yet access to board members is difficult, as they carry legal and shareholder responsibility for sensitive decisions (Daily et al., 2003; Zatonni, Douglas, & Judge, 2013). Relying on insider status, it was determined that primary data would be solicited by invitations to two-tiered board governance practitioners drawn from the seven organizations to participate in hour-long semi-structured interviews for Phase 3 of the study.

Human research ethics committee approval was obtained through the University of New England Ethics Committee (HE 13-161) and invitations to participate in the semi-structured interviews were extended to the chairpersons of the supervisory boards, the chairpersons of the managerial boards, and the chief executives of the hospital organizations. Whilst the study cohort involved supervisory board chairpersons, managerial board chairpersons, and hospital chief executives drawn from seven different organizations, one supervisory board oversaw two of the managerial boards from which participants were drawn, and the position of chief executive was vacant within one of the seven organizations at the time of the conduct of the participant interviews. All six supervisory board chairpersons invited to join the study did so. All seven managerial board chairpersons invited to join the study did so. All six available chief executives invited to join the study did so.

Consequently, 19 participants were invited and agreed to be interviewed for the purpose of primary data collection.

Hour-long interviews were conducted in late 2013 with each of the 19 participants. The interviews were conducted either in person or by phone; there was no discernible difference in interview outcomes that could be attributed to the two different formats. Participants were provided with 14 questions prior to their interviews. Consistent with the choice of qualitative methods to explore the why and how of two-tiered governance, the questions included: the governance credentials of the participants; why their organization utilized two-tiered boards system; the responsibilities of each board; whether two-tiered governance led to favourable or adverse outcomes; if different director practice was required for two-tiered governance compared to single tier boards; and how, if at all, two-tiered governance contributed to organizational outcomes. The questions asked of each study participant are provided at Annexure 1. Each interview was recorded, and subsequently transcribed.

4.11 Interview analysis

The interview primary data were analysed in a manner mirroring the seven steps proposed by Easterby-Smith, Thorpe and Jackson (2008) as being suited to working with transcripts of detailed interviews: familiarization, reflection, conceptualization, coding, re-coding, linking, and re-evaluation.

Applying these seven steps, the first task was to become *familiar* with the primary data through the process of conducting the interviews. Notes were taken during the interviews whilst they were being recorded, which prompted initial themes as they emerged during the interview.

The second step was to *reflect* on the experience of the interviews by reading each of the interview transcripts and identifying further themes to emerge from the review of the primary data. The themes that emerged from the reading of the transcripts were listed and added to the themes that arose during the conduct of the interviews.

The third step was to then list definitive *concepts* identifiable in the primary data, and catalogue these concepts accordingly. Two categories of cataloguing occurred; the first category catalogued commonly addressed themes that will be discussed in Chapter 5, and the second category inferred references to the nine key corporate governance theories identified in Chapter 2 and discussed in detail in Chapter 6.

The catalogued primary data were then able to be *coded* manually. The separation of thematic and inferred theories was maintained in the coding, with themes and inferred theories being sub-grouped within these two larger categories. The separation of these two categories was undertaken in order to present the primary data in separate Chapters (5 & 6) to provide differing approaches to answering the research question. Table 4.4 details the subgroupings of the themes and theories that were coded manually in this cataloguing phase.

The primary data were then *re-coded*, as a result of further reading of interview transcripts and growing familiarity with the transcripts. Re-coding saw further distillation and refinement within the sub-categories of the primary data.

Linking was commenced with the first drafting of Chapters 5 and 6. As coded primary data were presented, and selective verbatim quotes included in drafts of Chapters 5 and 6, it became possible to explain, make sense, theorize, and link or exclude individual components of the primary data from contributing to answering the research question. Specifically, through sense making, I sought to provide deeper meaning in allowing for differential interpretations (Bevir & Rhodes, 2001) of the data by identifying where perceptions of factors linking governance and organizational outcomes could be substantiated. The identification of these perceptions revealed, over the course of the study, aspects of the answers to the research question.

Table 4:4: Interview primary data theme and theory coding

Themes	Inferred theories
Reason for uptake of the use of two-tiered board governance	Agency
Nature of interaction of the two-tiered boards	Dependency
Practice of interactions of two-tiered boards	Stewardship
Size and gender balance of the two-tiered boards	Stakeholder
Role of the chairs	Hegemony
Approach to strategy	Lifecycle
Collective wisdom	Behaviour and commitment
Balance of mission and business priorities	Pluralism and values
Ill-defined roles	Contingency
Hindrance of duplication	
Influence of participant's role held	
Influence on the length of two-tiered board governance utilisation	

Re-evaluation was undertaken at the conclusion of the first drafts of both Chapters 5 and 6. By this stage, governance factors perceived by participants as contributing to organizational outcomes had, through the lens of grounded theory, clearly started to emerge.

4.12 Questionnaire stage

The framework comprising the 12 factors identified in the literature as linking board governance to organizational outcomes was utilized to design a questionnaire for participants for the fourth phase of the study. The questionnaire had not been planned or envisaged at the commencement of the study, but the potential to interrogate the relevance of the individual components of the 12 factors identified through the literature and potentially refine the framework in response to study participant insights emerged through the research process. This section identifies how questionnaire participants were identified, how the primary data were collected through a short online questionnaire, how the primary data were subsequently analysed, and its significance in answering the research question.

It was determined to again approach the six supervisory board chairpersons, the seven managerial board chairpersons, and the six available chief executives who had each participated in the semi-structured interviews. The ability to return to the same group who had participated in the first phase of data collection was beneficial to the study; participants were already familiar with the study's purpose, they were receptive to the invitation, and demonstrated a willingness to be reflective of their own governance practices. The participants were invited, in August 2014, to complete a short online survey.

A questionnaire was designed to explore participants' perceptions of each of the 12 factors detailed in the framework, the extent to which each dynamic was present or practiced within their board and what potential they saw for the dynamic to aid organizational performance. The questionnaire asked about: board functionality, organizational performance; board composition; strategy; director participation; director reward; board accountability; donor engagement and resource attraction; director and executive turnover; independence between the supervisory and managerial board; and skills mix. The questionnaire is provided at Annexure 2. Provision was made in the questionnaire for short text answers to be provided to all questions.

Human research ethics committee approval was first sought and obtained again from the University of New England Ethics Committee (HE 13-161 as varied) for the approach to be made to the six supervisory board chairpersons, the seven managerial board chairpersons, and the six available chief executives to complete the online questionnaire. Four of a possible six supervisory board chairpersons completed the questionnaire. Nine of a possible 13 managerial board chairpersons and chief executives completed the questionnaire.

Questionnaire participation was offered on an anonymous basis; the only identification that was recorded was if the questionnaire respondent was a supervisory board chairperson, a managerial board chairperson, or a chief executive. It is, accordingly, not known who completed the questionnaire, nor their gender or organization of origin. Supervisory and managerial board data were however collected separately, allowing comparative analysis of primary data received from the two separate groups.

4.13 Questionnaire analysis

The seven steps of familiarization, reflection, conceptualization, coding, re-coding, linking, and then re-evaluation of primary data proposed by Easterby-Smith et al. (2008) were also used to conduct analysis of the questionnaire data.

Again, the first task was to become *familiar* with the questionnaire responses, followed by the second task of *reflecting* on the questionnaire data by reading each response to the 24 questions and identifying initial themes to emerge from the review of the questionnaire findings. The data existed in two distinct categories: data relating to existing two-tiered board practice; and data relating to how two-tiered board practice could be improved in the future. The distinction between the two categories was maintained in the handling, analysing and eventual presentation of the data.

The next task was to list definitive *concepts* identifiable in the primary data, and catalogue these concepts accordingly. The catalogued primary data were then *coded* manually, prior to then being further *re-coded* as a result of further reading of survey responses. Table 4.5 details the subgroupings of the themes that were coded in this first coding phase in relation to perceptions of existing two-tiered board governance practices, and Table 4.6 details the subgroupings of the themes that were coded in the first coding phase in relation to perceptions of two-tiered board practice that could possibly be improved. The contents of Tables 4.5 and Table 4.6 reveal the rich data yielded from the conduct of the questionnaire, and the perceptions provided by participants about two-tiered board governance and its possible optimisation.

Table 4:5: Coding of perceptions of two-tiered board existing practices

Framework factor	Themes identified from primary data and initial coding
Functionality	Board evaluation, focused agenda, clear governing documents, consensus seeking, articulated goals, director selection, skill mix, clarity of director role, new member orientation, communication, director training, board KPIs, individual meeting evaluations, chairperson's leadership, supervisory board monitoring, informal meetings outside of board meeting, annual meeting plan, use of committees, strategic planning, reflection, accreditation survey, risk management, delegation authority, compliance reporting.
Strategy	Managerial board determines and supervisory board receives strategy, joint task of supervisory/managerial boards, set high level vision, board actively participates in strategy planning.
Performance	Not our responsibility, expectations are defined by KPIs, policy (not outcomes), benchmarking and client feedback, attainment of strategic objectives, financial targets set, risk appetite determined, service targets set, values/behaviours set, CEO KPIs linked to remuneration, supervisory board articulation of outcomes, mission health checks.
Participation	According to available skills, only when asked, through committees, not all contribute, chair contributes most.
Transparency	Annual and AGM/member report, performance reviews, board term limits, review against KPIs, board meeting evaluation, report to supervisory board, board evaluation, meeting minutes, auditors, charities regulator, and community obligation.
Reward	Sufficient reward provided, Insufficient financial reward provided, Thank you events for Directors, Intangible benefit of 'giving back' is sufficient reward.
Donors	Funders have no role in governance, would create conflict, managerial board engages with payers and financiers, premise of question flawed, funder relations is executive responsibility, informal interaction at social events.
Resource	No role, through managerial board appointments, liaison role with external supporters, support to executive, resource strategy in place, through staff attraction and retention.
Stability	Low turnover achieved, high turnover, average, insufficient turnover requiring tenure limit.
Active, well sized	Size set by governing document, no size set, no gender ratio required, but in practice equal balance sought, skills mix influences selection, supervisory board process to appoint managerial board members, incentive for younger board member participation.
Independence	Separate roles of each sufficiently defined, ideal 'loose/tight' arrangement, some 'grey areas' or 'work in progress', chair to chair communication in place, relief that supervisory board checks managerial board, tension that supervisory board checks managerial board, critically question the relationship of boards.
Match	Supervisory board skill set does not replicate managerial board, supervisory board takes high level view and managerial board takes operational view, mismatched skills mix has arisen, shortage of suitable directors constrains match, good relational match, supervisory board lacks professional skill, supervisory board has good mission skill.

Table 4:6: Coding of perceptions of two-tiered board practices that could be improved

Framework factor	Concepts identified
Functionality	Board review as composition changes, externally conducted board effectiveness review, mission effectiveness audit, informal director only meetings, relationship building, exposure to senior management, fewer and longer meetings, less committee decisions, more inclusive board decisions, board role in succession, better communication, stakeholder feedback.
Strategy	More critical questioning, more meeting time committed to strategy, appointment of health industry expert, better articulate board's strategic expectations.
Performance	Mission outcome measures, client feedback, growth targets, board question of CEO assumptions, KPI cascade through management, future scenario planning, more explicit board expectations of management.
Participation	Mentoring, role of chair, director assessment, creating environment for expression of views, director education, task allocation to director strengths, committee participation.
Transparency	Current transparency sufficient, board reviews, collegial, informal relationships, more managerial board information to supervisory board, executive staff presentations to supervisory board, mission metrics, board communications within organization about decisions and plans.
Reward	Less meeting time, market benchmarked remuneration.
Donors	No method, informal interaction at social events, service consumer role in governance, communication to funders on governance structure and director and executive capabilities and achievements, funder negotiations through trade association or purchasing collective, participation in advisory boards.
Resource	No methods, liaison role with external supporters, selection of board members skilled in resource attraction, director introductions to their personal networks, incentivise director participation in resource attraction, annual agenda item for board, resource attraction through trade association or collective.
Stability	No method, planned succession, new member induction before board appointment, annual chairperson review, tenure limits.
Active, well sized	Geographical representation, develop younger board member pool, collaborate with similar organizations, board delegate succession to committee, use of advertising, insist on gender balance, seek independent members, recruit industry expert director, remove supervisory board role in managerial board appointments.
Independence	Better resource the supervisory board, supervisory board high level view and managerial board operational view, more defined role clarity, managerial board provide all paperwork to supervisory board, prohibit former managerial board or executive staff serving on supervisory board, no method.
Match	Foster a larger pool of potential directors, articulate necessary supervisory director attributes, single skills matrix for the two combined boards, better clarity of role and duties, no method, avoid duplication of role via director selection.

Linking was commenced with the first drafting of Chapter 7. As coded primary data were presented, and selective verbatim quotes from the primary data included in the discussion of Chapter 7, it became possible to explain, make sense, theorize, and link or exclude individual components of the primary data from contributing to answering the research question.

Re-evaluation was undertaken at the conclusion of the first draft of Chapter 7. By this stage, governance factors perceived by participants as contributing to organizational outcomes had, through the lens of grounded theory, clearly started to emerge.

4.14 The exercise of coding primary data

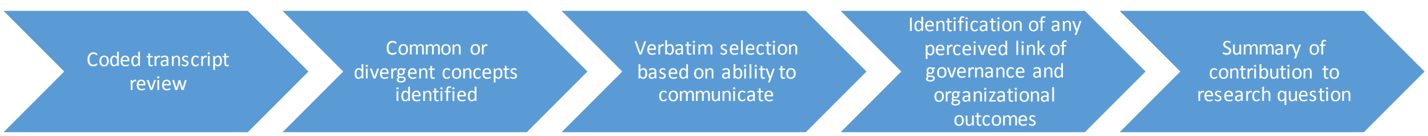
Easterby-Smith et al.'s (2008) seven steps are based on grounded theory. Utilizing these seven steps in analysing the primary data gathered from both the interviews and the survey, it was possible to conduct grounded analysis of the primary data. However, discourse and narrative analysis also played roles in the conduct of the study.

Discourse analysis considers the social context of conversational data, and is less concerned with detailed reliance on transcript analysis (Easterby et al., 2008). Space, time, practice, change, and frame are each considered as part of discourse analysis (Leitch & Palmer, 2010). Narrative analysis assesses descriptions or stories told by interview subjects, with stories providing understanding of the primary data's context (Tsoukas & Hatch, 1997). Discourse and narrative analysis influenced the method of primary data assessment within the broader context of grounded theory informing the conduct of the primary data consideration.

A number of verbatim quotes are used to present the findings of the primary research. Verbatim quotes have been used because of the clarity they provide in detailing a participant's opinion. Verbatim quotes from different participants are presented to demonstrate either consistency or mixed views in participant responses. In Chapters 5 and 6, the letters 'SC', 'MC' or 'CE' have been placed next to the participant's respondent number to help the reader identify if the participant was a supervisory board chairperson (SC), a managerial board chairperson (MC), or a chief executive (CE).

The method of verbatim quote selection, verbatim quote analysis, and then assessment of the data's specific role in answering the research question occurred in the following stages. Coded transcripts were first reviewed. Where data had been coded into a certain grouping, data that offered common or divergent perspectives of participants about the topic relating to the coded group was assessed. Verbatim passages were then selected for inclusion on the basis of their ability to communicate to the reader a particular concept about two-tiered board governance. Where a perceived link between corporate governance and organizational outcomes could be reasonably concluded, it was identified for inclusion in a list of factors that would ultimately provide an answer to the research question. Summary analysis of the data was then conducted. Figure 4.2 illustrates each of these stages.

Figure 4:2: Stages of primary data selection



4.15 Example illustrating coding of data

The process of analysing the primary data for presentation in Chapters 5, 6 and 7 required the exercise of judgment as to where evidence of a theme or inferred corporate governance theory was present to justify its coding by corporate governance theory categories. Participants themselves did not name a theme or operation of a corporate governance theory; rather it was observed where, from descriptions of board practice perceived by participants, it could reasonably be concluded that either a theme or one of nine key corporate governance theories was being described sufficiently for it to be coded for inclusion in the presentation of the data.

Given that this method of theme or corporate governance theory identification relied on the exercise of judgment through a ‘reasonable conclusion’ test, an illustration as to how this method was applied is provided to describe the process in practice. For the purpose of the illustration, the discussion of stewardship theory in section 6.6 of Chapter 6 is included to demonstrate how the primary data were analysed in order for findings relating to stewardship theory to be detailed, and an assessment made of how the data could contribute to addressing the research question.

Easterby-Smith et al.'s (2008) first three steps of familiarization, reflection and conceptualization were undertaken in analysing the primary data. At the end of the conceptualization stage, cataloguing of commonly addressed themes and inferred references to the nine key corporate governance theories to have emerged from the primary data had occurred.

Putting aside the catalogue of commonly addressed themes, the definitions of the nine corporate governance theories discussed in Chapter 2 were reviewed before commencing coding of the primary data into corporate governance theory categories. For the purpose of coding the primary data specifically in relation to stewardship theory, management's interests being aligned with the attainment of the goals of the owners of the capital (Young & Thyil, 2008) was utilized as the key definition. With this key definition, the catalogued data were reviewed. Judgment was exercised to identify where, within each transcript, verbatim quotes could be 'reasonably concluded' to describe the presence or operation of stewardship theory. These verbatim quotes were coded on each transcript, and the volume of coded quotes calculated. The total number of verbatim quotes where it could be 'reasonably concluded' that an interview subject was describing the presence or operation of stewardship theory (n = 64) was also recorded for presentation in Table 6.2, included in Chapter 6.

Easterby-Smith et al.'s (2008) fifth step of re-coding then occurred. This exercise in refinement of coded data allowed for further testing of the judgment exercised to determine if it could be 'reasonably concluded' that all identified descriptions of the presence or operation of stewardship theory could be sustained. Re-coding also allowed for common and divergent concepts in the primary data's contribution to discussion of stewardship theory to be identified; verbatim quotes were then selected for inclusion in Chapter 6 for both their potential to communicate the interview participant's view and to evidence the presence of operation of the propositions made by stewardship theory.

Easterby-Smith et al.'s (2008) sixth step of linking then saw the coded primary data relating to stewardship theory further grouped. Sub-groupings emerged from the identified verbatim quotes. The sub-groupings are described in Table 4.7. From each sub-group, verbatim quotes were then selected for inclusion in Chapter 6.

The sub-groups, expressed through the verbatim quotes, were then further analysed to assess the contribution of the data to answering the research question. I looked for where the data could reasonably substantiate a finding of a perceived link between governance and organizational outcomes. Two perceived factors were able to be interpreted in the narratives (Czarniawska, 2004): when the supervisory board is clear in setting directions; and where both the managerial board and management are able to work collaboratively in clarifying with the supervisory board its desired direction before implementation of management decisions.

Table 4:7: Illustration of coding of stewardship theory sub-groupings

Group	Description
Alignment methods	Methods by which supervisory and managerial boards achieve alignment in their objectives.
Misalignment risk	Risk arising from the two boards being out of alignment
No alignment	Failure of the supervisory board to clarify their expectations

Easterby-Smith et al.'s (2008) seventh and final step of re-evaluation was then undertaken. This re-evaluation reaffirmed participants in two-tier boards perceived the potential for governance's contribution to organizational outcomes when the supervisory board is clear in setting directions, and where both the managerial board and management are able to work collaboratively in clarifying with the supervisory board its desired direction before implementation of management decisions. These two findings directly contribute to the overall research question answer, as two of 20 factors ultimately presented in Figure 8.1 in Chapter 8.

4.16 Conclusion

An exploratory mixed method approach founded in grounded theory, facilitated by my insider status, underpinned this study. The mixed methods, in the order they were carried out, were quantitative secondary data analysis, deduction of the 12-factor framework from the literature linking corporate governance and organizational outcomes, interviews of directors and managers involved in two-tiered governance in private hospitals to gather their views, and then finally questionnaires with this same group to establish whether the factors identified in the literature resonated with these elite directors. Grounded theory was employed throughout the study allowing an answer to the research question to emerge.

The primary data were significant in answering the research question, because the 20 governance factors perceived by participants as contributing to organizational outcomes to emerge from gathering and analysis of the primary data ultimately provided answers to the research question. The illustration of how primary data were analysed in relation to stewardship theory to provide an answer to the research question demonstrates the direct role participants played in voicing answers to the research questions that emerged through the process of analysis of the primary data presented in Chapters 5, 6 and 7.

Chapter 5: Extent and nature of two-tiered boards

5.1 Introduction

As described in Chapter 4, a qualitative approach was taken to address the research question: 'What governance practices are perceived by two-tiered board directors of Australian not-for-profit hospitals as contributing to organizational performance?' Primary data were collected through interviews conducted with six chairpersons of supervisory boards, the seven chairpersons of their managerial boards, and the six chief executives of not-for-profit hospitals. This Chapter presents results of the first qualitative analysis of this primary data.

This Chapter commences with a description of the size and gender balance of the two-tiered boards. The following section details the uptake of the use of two-tiered board governance by organizations from which the participants were drawn. I draw on participants' responses to describe the nature of the interactions of the two-tiered boards, before summarising participants' views on the governance practice and interactions of their two-tiered boards.

The Chapter then considers the role of the chairs of each of the two boards within an organization, the importance participants ascribe to the position of chair and the different approaches of boards to their role in strategy setting. The participants' perceptions of the benefits of two-tiered board governance to organizational outcomes are then considered, followed by consideration of their perceptions of the disadvantages. The influence of the roles held by participants in forming attitudes to two-tiered governance is considered, followed by consideration of the length of time two-tiered board governance has been in place in the organization.

The Chapter concludes with an assessment of how the data gathered contributes to addressing the research question, and reveals the first tranche of governance factors participants perceive to contribute to organizational outcomes. The analysis reveals that two-tiered boards were perceived to have expanded the governing group's collective wisdom, the supervisory board's focus on mission 'checked and balanced' the operational board's priorities on business management, and a contribution of two-tiered governance to organizational outcomes may also become more likely as two-tiered governance practice matures over time.

This first tranche of analysis revealed, for the first time, the practical workings of two-tiered board governance within Australian not-for-profit hospitals. This revelation explains the context, existence and practical operation of two-tiered boards within not-for-profit hospitals in Australia and offers lessons for those wanting to better the contribution of governance to organizational outcomes via two-tiered organizations.

5.2 The size and gender balance of the two-tiered boards within the study

Table 5.1 details the size of the supervisory and managerial boards from which participants were drawn, the gender balance of each of the supervisory and managerial boards, and the gender of the chair of each supervisory and managerial board. Table 5.1 also notes whether the chief executive officer is a member of the managerial board. In considering the data shown in the table, as noted earlier, one supervisory board is responsible for supervising two managerial boards.

Table 5:1: Size and gender balance of the two-tiered boards

	Hospital service identifier						
Profiles	**1**	**2**	**3**	**4**	**5**	**6**	**7**
Supervisory board males	5*	2*	3	3*	1*	3*	
Supervisory board females	3	4	2*	4	3	4	
Total supervisory board	*8*	*6*	*5*	*7*	*4*	*7*	
Managerial board males	6*	6*	7	7*	4*	8*	6
Managerial board females	4	5	4*	1	5	1	3*
Total managerial board	*10*	*11*	*11*	*8*	*9*	*9*	*9*
CEO on managerial board	Yes	No	No	Yes	No	No	No
Total supervisory and managerial board	*18*	*17*	*16*	*15*	*13*	*16*	*16*

(*indicates gender of board chair)

Data presented in Table 5.1 indicates the smallest supervisory board comprised four members, and the largest comprised eight. The smallest managerial board comprised eight members, and the largest comprised eleven.

The data also details different gender composition of supervisory boards when compared to managerial boards. A total of 20 females were members of the six supervisory boards from which participants were drawn compared to 17 males; females occupied 54 per cent of supervisory board positions. By contrast, 23 females were members of seven managerial boards from which participants were drawn compared to 44 males; females occupied 34 per cent of managerial board positions. All chief executives were male. The relatively high number of females on the boards arises from a unique context of organizations established and led by female religious orders providing 'caring' services. The significant representation of females in these board governance roles is not typical of broader corporate governance (Sheridan, Ross-Smith, & Lord, 2014). Contrastingly, of the 13 supervisory and managerial boards, ten were chaired by males and three were chaired by females. Despite large representation of females, females were not proportionally represented in leadership of the boards.

5.3 Uptake of the use of two-tiered board governance

The study cohort comprised the chairpersons of supervisory boards, the chairpersons of managerial boards, and the chief executives of seven different hospital groups. Each of the seven hospital groups had similar characteristics. Participants confirmed that all were originally founded by Catholic religious orders; all were registered charities; all but one had been in existence for more than 50 years, the one exception was established in the late 1980s; all operated human services in addition to hospital care, such as aged care, disability care, medical research, or social services; and all were governed by two-tiered boards established progressively over the last two decades. Participants were specific in identifying their governance as that of two-tiered boards as distinct from a subsidiary or federated governance arrangement.

Participants made the observation that two-tiered board governance has arisen as a result of history (n = 13). Participants commonly stated that the Catholic religious orders – all but one of which were women's religious orders – had founded, managed, and governed not-for-profit hospitals through the 19th and 20th Centuries, but, by the 1980s, the number of Catholic religious order personnel suited to managing not-for-profit hospitals had started to decline. In response to this decline, the appointment of non-religious professional people to management roles occurred. The number of non-religious individuals in management roles continued to increase and the decline of religious professionals in governance roles became more acute. A practice of appointing non-religious professionals to governance roles once solely held by religious individuals emerged to a point where governance was increasingly becoming the practice of non-religious professional people. With non-religious management and non-religious governance increasingly common, a role for a supervisory board to act as the enterprise owner and to ensure fulfilment of an organizational mission emerged, with managerial boards left to oversee hospital governance, and staff executives to operate the hospital services. Agency theory is easily identifiable in this governance approach.

Participants described this gradual adoption of formal two-tiered board governance as part of the evolution of their organizations in response to the decline in the numbers of the founders of their organizations able to carry on governing into the future. Illustrative participant comments include:

> The answer is really steeped in history. (SC4)

> The short answer is it's historical and it's in place. (CE1)

Two-tiered board governance was described by participants as mimicking or mirroring an existing or previous governance structure. For instance,

> It mirrored their existing structure. (SC5)

The participants who observed that two-tiered board governance merely formalised what had previously existed (n = 6), informally offered a rationale as to why the two-tiered governance came to be; leadership groups of Catholic religious orders had established, appointed and held accountable managerial boards to oversee hospital operations. When religious orders no longer felt able to continue their oversight of managerial boards, they created formal supervisory boards to exercise their role as an ongoing enterprise owner and guide of mission. Participants said of this formalizing of previous informal practice:

> The nature of a church organization is actually set up to ensure in perpetuity in the ministry of the church. So, there are responsibilities under the *Corporations Act*, but there's also responsibilities under canon law [church law], and I think those multiple responsibilities would be better ensured by having a two tiered system. (SC2)

> It’s evolutionary. It just evolved in one sense, out of a former structure. (SC1)

The use of supervisory boards in similar not-for-profit hospitals in the US was also cited by four participants as influencing the Australian development of this two-tiered board governance practice. One participant (SC4) noted the influence of a US consultant who, in 1989, spent two years in Australia working with a hospital group to implement a two-tiered board governance framework:

> She came here for two years as a consultant, and [she was] experienced in putting together hospitals into what they call 'systems' at the time, they established themselves as the [supervisory board] trustees of this new entity, and they did have some reserved powers. So in some respects, this new [managerial] board was executive, and in some respects it was advisory (it had to make recommendations to the [supervisory board] trustees and they made the decisions). (SC4)

Three of the hospital groups from which participants were drawn had been governed by two-tiered boards for almost two decades. The remaining four hospital groups had been governed by two-tiered boards for less than four years. The length of establishment of two-tiered board governance within the seven different hospital groups is considered later in this Chapter at 5.10.

5.4 Nature of interaction of the two-tiered boards

Participants were asked to describe the dynamics of the formal and informal interaction between the two-tiered boards of which they were participants. Responses revealed the practice of supervisory and managerial boards relating to each other differed across organizations, with some having very formal interactions and others having much less structured interactions. The interactions described suggest not all two-tiered boards had well-functioning communication channels.

Illustrative of formal interactions was the description of one participant who said of the relationship between the managerial board and the supervisory board:

> We have an agenda for every time we formally meet. We have a large amount of correspondence going back and forth, which is a bit dysfunctional being on paper all the time rather than (I don't think they trust) emails and things.
>
> *[Research Interviewer: You formally write to each other?]*

> We do. On everything. On every little bit of thing. I'm happy to do that in the interest of relational management at the moment, but down the track it's on our agenda to get that changed to maybe emails, or maybe even verbal understandings of what we do, but at the moment, every single little, little item requires a letter on their letterhead and acknowledgement on ours, and *vice versa.* (MB1)

MB1's emphasis on the perceived difficulty associated with changing from communication by formal letter to the less formal email invites a significant question; if the two boards cannot agree on how best the two boards should communicate, it is open to question how well the two boards might solve a more substantial question of organizational importance?

Illustrative of the less formal and perhaps more successful interactions that occur between supervisory and managerial boards, another participant said:

> It's a little less formal than that though, mate, if we want to do anything, either the company secretary or I would ring the chair of the other group and just talk to them, they then might confirm that conversation in writing. (CE2)

Supervisory and managerial boards were described by participants as having different levels of personal engagement with each other. For example, one participant said of the interaction between the two:

> It is at a personal level very cordial, which may not sound that important ... but it is important ... communication lines are very clear, and I think it helps very much that the chairs get on well, the executive officers get on well ... there's an easy line of communication whenever issues come up. (SC3)

Similarly, another participant said:

> If you don't actually have means of dialogue between the parties, people can go off in different directions, so our experience is you have to find a way for people to be meeting, and communicating, and getting to know each other. (CE5)

Other participants said achieving effective dialogue was challenging, occasionally because the members of the supervisory and managerial boards did not know each other:

> The two groups of people don’t really know each other at a personal level. Absolutely, I would say that is the absolute case. (CE1)

Participants identified the roles of the supervisory board chair and managerial board chair as central to effective interaction of the two boards as they were described as being responsible for communication between the two boards. The role and importance of the Chair’s position is considered below in section 5.6.

5.5 Roles and responsibilities of two-tiered boards

Participants were each asked to describe how two-tiered board governance is practiced and, in particular, how the two supervisory and managerial boards shared roles and responsibilities to collectively govern their hospital operations.

All participants confirmed that written documents or protocols were in place to guide the conduct of two-tiered governance. All organizations had constitutions in place, mostly by way of separate constitutions for each of the supervisory boards and managerial boards. Some organizations also had additional board charters or authority and delegation matrices in place to define roles and responsibilities of the supervisory and managerial boards.

The constitutions were variously described as stating the objects and purposes of the organization, and defining the roles and responsibilities of the supervisory and managerial boards, with one participant saying that, while not having yet adopted a board charter or authority and delegation matrices, the supervisory board constitution nonetheless sufficiently defined governance authorities:

> The [managerial] boards are responsible for um, the management and operation of the hospital … [the supervisory board] doesn't interfere in any way in what would be a board responsibility. However, to exercise our responsibilities (particularly, we do hold some reserve powers), and they relate to things like changing the constitution (or setting up in the first place) and then any changes to the constitution that might be made in subsequent years. They also would have to get … [supervisory board] approval to change the objects of the company, to take on a significant major ministry that was not covered perhaps by their present objects. Alienation of property would come under the umbrella of … [the supervisory board]. (SC1)

Another participant described a set of more detailed documents that defined governance authorities within a different organization:

> We have clear delineation as to who's got what role. That delineation is embodied into various things, it principally (before my time) was embodied in a thing called the governance authority matrix, which explicitly sets out who in the hierarchy has what responsibility to make what decision, or be notified about what decision. Separately in the last several years, the trustees [supervisory board] have developed various policies, and some of them I will forward to you; there's a separate board charter, a separate trustee charter, there's a whole set of different things that have enabled a very good role delineation, and I think that's essential, because then you don't have people struggling over whose job it is. (CE5)

Participants noted that while the supervisory boards were housed in separate legal entities to those of the managerial boards and hospital operations, the constitutions of the separate legal entities clearly bound the entities and their boards together in an interdependent two-tiered governance structure.

There appears to be three reasons for this housing of the supervisory board, the managerial board and associated hospital operations in separate entities. First, some supervisory boards (n = 2) governed educational enterprises housed in separate legal entities in addition to hospital enterprises and, in one case, a supervisory board governed three hospital enterprises and educational enterprises, each housed in four separate and distinct separate legal entities. Secondly, supervisory boards have been established with the intent of acting independently in their governance of the managerial boards and hospital operations, and a separate legal entity gives effect to this intent of independence (n = 6). Third, supervisory board directors have sought to limit their liability in relation to decisions of the managerial board or actions arising from the operation of hospital services, and the use of separate legal entities goes some way to limiting supervisory board director liability and preventing supervisory board directors from being found to act as shadow directors (n = 3). This final question about the potential for supervisory board members to be found to be acting as shadow directors gives rise to ambiguity about how the *Corporations Law* might apply to the practice of two-tiered governance. This ambiguity is considered in this Chapter at 5.8.3.

The presence of constitutions, board charters or other documents describing roles and responsibilities of the supervisory and managerial boards was not always described as providing absolute role clarity for governance practitioners and the interaction of the supervisory and managerial boards. One participant said:

> There is a matrix we use within the organization which goes from management board to the trustees. Now is it perfect? No, it's not perfect, but there is no right answer to some of this stuff. It's a feel for where the organization is at a point of time, so that has to be a living document. We're right in the middle of doing another review of that, given the growth of the organization, the trustees [supervisory board] are focusing back on 'what do they add from a commercial sense? (MB7)

Another said:

> There's what's written in the constitution, and then what's actually happening, and they're quite different, specifically with…, due to their lack of experience…there's more reporting expected (informally), even though it's not a requirement of the constitution. They [the supervisory board] just want to know what's going on, because they don't know the place, basically. (CE3)

Common to most responses on how two-tiered governance operates, and how the supervisory and managerial boards interact, was the view that supervisory board governance is novel and its practice is still evolving. Organizational management and managerial board governance was described as being generic, supported by commonly understood standards and expectations, and subject to the focus of regular research and education by vocational, academic, and professional bodies. By contrast, supervisory board governance practice was described as being evolved by the practitioners themselves and a uniform practice method is not yet established nor are there research and educational programs to aid practitioner understanding of the elements of best practice supervisory board governance. Of this distinction between established managerial board practice and the still-evolving supervisory board practice, one participant said:

> My appreciation for the role of the trustees [supervisory board] has changed, but I also think the role has changed a lot. Even to the extent that now, whereas our board has got a pretty clear view of how it operates, and it hasn't really evolved that much, our trustees [supervisory board] are still evolving, are currently reviewing what their core is as they go forward. (CE5)

Of the specific roles of the supervisory and managerial boards, participants described dynamics that mirror the practice of Germanic influenced two-tiered boards. Some participants said the supervisory board has the role of approving mission strategy and decisions that are to be applied by the managerial board (n = 13). Others said the supervisory board oversees the organization and the managerial board in turn oversees management to run the organization (n = 12). Other participants said the role of supervisory board was to check and balance (n = 9) or monitor (n = 8) the managerial board. Others said the supervisory board had a role to represent the organization externally to its key stakeholders (n = 6). These perceptions of two-tiered board practice as being practiced consistent with Germanic two-tiered governance suggests the governance arrangement is functioning as agency theory would intend.

5.6 The role of the chairs, and the differing approaches to strategy

Participants' responses point to differences in how two-tiered board governance operates across the organizations. Participants mostly described the workings of their governance arrangements similarly, but two key differences arise. The first is that participants confirmed that all supervisory boards select a chair, but that one of the supervisory boards does not give to this chair the usual authorities that a chair might be expected to exercise. The second was the differences in practice about the role of the supervisory board in setting strategic direction.

A participant drew attention to the absence of chair authority in one particular supervisory board. This participant said of the particular supervisory board:

> We are a collegial, collaborative group, and trying to maintain that balance might be thrown out if a chair (for whatever reason) has a casting vote, for example, which is not the case with us. It's had its challenges in managing, and awareness of that role, but I think that it outweighs another model which might see a chair with a casting vote, let's say. Not necessarily the easiest at times. (SC5)

On the chair's role in communication between the two boards one participant said:

> It's the [managerial board] chair who has the relationship with the chair of the trustees [supervisory board], so, if they [the supervisory board] didn't exist, that wouldn't be part of my role. I think there are moments in time when I know I'm the messenger, one way or another. So those times I'm particularly aware of 'what are the dangers here?', 'What's going on with

> this process' that I feel like I'm the messenger, and we're not on the same page. So I think there's some reflection that goes with the processes around those relationships. (MB3)

Another said:

> And I think that in a not-for-profit organization, and I'm not just trying to sound like a smartie because I'm the chair, I still think the most important appointment you make is the chair of the [managerial] board and the chair of the trustees [supervisory board members]. By far. If you don't get the right people there, you've got enormous problems. (MB5)

Yet another said:

> The relationship between the two chairs is very important. And the fact is, that I meet with …[the managerial board chair] on a fortnightly basis, if not, a meeting over a cup of coffee or a telephone call. So we are having a discussion at least on a fortnightly basis about matters. To be quite frank, sometimes there are issues that are extremely sensitive that I may not even raise with the trustees [supervisory board members], but as a prelude to something that might be on a rising matter, so it is an important relationship. (SC5)

It is important to note the emphasis placed on the importance of the relationship between chairs of the supervisory and management boards was made by board chairs themselves. While their perceptions are reasonable and likely accurate, in that poor relationships between chairs would likely be disadvantageous, it is relevant to consider the likely bias of board chairs in promoting the importance of the roles they play.

Of the difference in approach to the supervisory board's role in setting strategic direction, one managerial board chair said:

> In conjunction with the trustees [supervisory board] every five years, the [managerial] board together determines the strategic plan. (MB7)

By contrast, another supervisory board chair participant said the role of the supervisory board was to approve rather than participate in setting the strategic direction:

> One of the ways we do that is through approval of the strategic plan. We would be fairly vigilant to ensure that there's an obvious mission component in there, as well as the normal sort of things you'd expect in the strategic plan of what I'll call a secular organization. In those

> discussions, we would be looking at well 'what's your strategic plan, how are you carrying it out, what are the problems you're experiencing'. (SC1)

This differing approach to strategy is significant, albeit that the differences were revealed from such a small sample of respondents. Organizational performance has been found to be ultimately linked to strategy, such that board attributes might be of little consequence except to the extent they influence strategic thinking and its implementation (Heracleous, 2001). The roles that the boards within two-tiered structures play in relation to strategic decisions would appear to be a significant way in which governance might be able to contribute to organizational performance.

5.7 Perceived benefits of two-tiered board governance to organizational outcomes

The participants perceived very clear benefits of two-tiered boards for the practice of governance within their organizations; mainly that the existence of two boards expanded the governing group's collective wisdom and the supervisory board's focus on mission balanced the operational board's priorities on business management.

5.7.1 Collective wisdom

Participants reported that having the skills and time commitment of two groups of board directors occupying positions on both the managerial and supervisory boards contributed to broad input into organizational decisions (n = 7). A chief executive said of these two groups of board directors:

> If it won't pass through the collective knowledge of eighteen people with different thought patterns, it's not a very good idea … I do think we're just clearer and better in our decision making. (CE5)

A primary benefit of two-tiered boards was said to be the role that the supervisory board played as shareholder. It was commonly stated that the supervisory board was able to determine, as enterprise owner, a direction for the managerial board to follow that would otherwise not be possible in a single-tiered governance structure within a comparable not-for-profit organization. Three participants said of this supervisory board role as shareholder:

> I get great clarity out of dealing with the trustees [supervisory board members] … I have more interaction with them as shareholder than I do as the chairperson of a public company. (MB7)

> The top-tier board is a necessary evil, I think. (chuckles) I mean, someone's got to own the joint, after all, and I think it's an appropriate way of making sure that the board doesn't get too self-absorbed, and has a sense that it too is accountable. (CE3)

> We don't have a massive range of shareholders. Where basically the shareholders (if you want to call them that) are the trustees [supervisory board], and they work as a team, they all work towards the same objectives, they have no financial interest in it at all. It's very objective, I think it's a great system, and I think it works really well. (MB5)

One chief executive officer said of the supervisory board as shareholder:

> When I'm writing the board paper, I have to think not only of my [managerial] board and how they'll respond, I have to think about the trustees [supervisory board] and the different way in which they will be thinking about it, and more or less, if I can come up with a paper that meets both their needs, I've nailed a perfect paper, because they're looking at the discussion, or the idea from a different point of view. (CE5)

In this role as shareholder, the supervisory board was seen as having value in monitoring the managerial board, consistent with agency theory. Participants said the role of supervisory board was to check and balance (n = 9) or monitor (n = 8) the managerial board. A supervisory board chair said of this monitoring role:

> So the board was heading along this track, there was also ... a concern that the management may not have been as fulsome as they might to the [managerial] board in their description of that restructure, and the implications of that restructure. So the board may not have been in full knowledge of the implications of this particular matter, whereas the trustees [supervisory board], well having concerns, when again we're seeing this through board papers, we're seeing this through discussions with the chair, so we had concerns that gave rise to action. (SC5).

5.7.2 Balance of mission and business priorities

A need for a monitoring role of mission was cited as necessary for the type of organizations being governed. The organizations from which participants were drawn were each significant hospital groups fulfilling a mission purpose on behalf of the Catholic Church. Distinction was made between business management and mission fulfilment, with the managerial board being described as responsible for business management and the supervisory board best able to set direction for mission fulfilment. A chief executive officer said:

> Our owners have a very strong expectation about the way that we behave, our observance of various matters, who we employ, how we do things in a way that a normal board wouldn't be thinking about that. There are two distinct roles to fulfil in our type of organization (as a Catholic Church ministry), and without the bicameral structure, certainly without an effective alignment bicameral structure, I don't think a single board could do well, what our two tiers are required to do. (CE5)

The question of mission fulfilment, and the supervisory board's role in setting overall mission direction, was discussed by many participants, with a majority (n = 13) saying the supervisory board in their organization played a beneficial role determining mission direction in relation to organizational decisions taken by the managerial board. A managerial board chair said:

> As [managerial board] chair, I find it extremely helpful to have another point of reference (being the chairman of… [the supervisory board], and another councillor who is our go-to person) to talk that through for myself (in my role as chair), to ensure that my, if I could describe it as 'ethical mission compass', was pointing correctly. (MB6)

Another said:

> We've got a mission based approach, and we provide our services based on that approach, in a 'Catholic way', I suppose. So if that's what's going to make us different, we've got to remain true to that, and so the trustees [supervisory board] have a real role as far as mission is concerned, ensuring that the [managerial] board (or that the organization through the board) delivers their services in that way, and we've got a very active interchange going on at the moment between the board and the trustees about the delivery of services in a particular style of mission. [MB5]

A chief executive officer said:

> In some ways, it could also be seen as a bit of a mission versus margin split, so the trustee level [supervisory board] is focused on the mission and the commercial [managerial] board

> level is focused on the margin, and that's their way of, or the governance way of achieving both and not missing either. (CE1)

It is this role of the supervisory board in determining and monitoring the mission fulfilment of the organization that may in fact be the most significant contribution of the supervisory board to the organization's performance. However, the ability of the supervisory board to readily articulate the mission strategy was questioned by some participants, as is discussed in this Chapter at 5.8.2.

In raising with participants the question of what was key to the benefits of two-tiered governance being achieved, good communication between the supervisory and managerial boards was cited (n = 16) as were effective relationships of the supervisory and managerial board chairs (n = 13), and best possible selection of people (n = 8). On the best possible selection of people, a managerial board chair said:

> I have no reservations about this system at all, so long as the right people are there. It's about people, at the end of the day. (MB5)

5.8 Perceived disadvantages of two-tiered board governance

Most participants perceived very clear disadvantages of two-tiered boards for the practice of governance within their organizations. These included that the roles and the responsibilities of the governance practitioners were not sufficiently defined, and the presence of two instead of one board resulted in process and cost duplication. The relevance of these findings to answering the research question is their perceived negation of two-tiered board governance's contribution to organizational outcomes.

5.8.1 Ill-defined roles

A number of participants (n = 7) stated governance roles were not sufficiently defined within the two-tiered board structure operating within their organization. Three different participants addressed this uncertainty saying:

> There are illustrations of members of the [managerial] board, members of the trustees [supervisory board] not having a clarity of their purpose, and then also illustrations of the [managerial] board overstepping its mandate. (SC2)

> What does each board do, well fundamentally it comes down to that - who decides what. And, um, at times it can get murky. (CE4)

> We have tripped up on the fact that 'oh no, that's not our responsibility or our duty, that's someone else's'. And while we're mindful of that, we haven't got it quite right. (MB3)

A consequence of the uncertainty that exists in the operation of the two-tiered boards from which participants were drawn was said to be the regular occurrence of the supervisory board second guessing or duplicating the processes of the managerial board. Participants, with different levels of alarm, said:

> The danger in having two tiers is that if the non-operational board [supervisory board] looked to actually re decide and review all the decisions of the [managerial] operating board, I think that becomes a real issue. (SC3)

> It's just a hindrance ... and another level that we don't need. And even though they [the supervisory board] aren't demanding, they're just painful having that body there. They're a bit out of touch, in lots of ways, even down to the education that they're providing to executives, it's just so skewed, and so away from what really happens, it's almost embarrassing. (CE2)

> It is a very sensitive issue, especially when you've got persons that are directors of ASX listed companies, we're kind of wondering 'are we being second guessed? What's all this about?' (SC5)

> We don't answer to two boards. Management can't answer to two, and unfortunately in a lot of those cases, management has to go to put the case [to the supervisory board], it's difficult for the [managerial] board to know (nor should they know) every intimate detail. If they start digging into that, then we've gotta be there to answer it, so then we go 'well, hang on... Who am I answering to here?' (CE4)

The uncertainty of role responsibility, particularly within those organizations in which two-tiered governance was long established, and particularly for those governance practitioners with practical experience gained from holding other governance roles, raises doubt about the way in which two-tiered governance was being practiced within the organizations. This uncertainty at the very least had created tensions within governance structures; tensions that appeared to have resulted in business disruptions.

5.8.2 Hindrance of duplication

The risk of the supervisory board duplicating governance, to the extent of hindering governance practice, was put strongly by participants (n = 7). The cost of serving two boards rather than one, and the added time and procedural burden of a two-tiered decision making process were emphasised as being a hindrance in some circumstances. Participants said:

> There's certainly a whole lot of bureaucracy associated with the dual nature of it, and the administrative efforts. (CE1)

> It just adds another layer, and uh, you know, in some ways it's expensive. And it's time consuming. (CE4)

> Sometimes boards might see us [supervisory board] as a bit of a hindrance. You know there are some people on boards who might say ‘Well why do we need to have another structure on top of us?’ (SC1)

In emphasising the potential hindrance of supervisory boards to governance decisions, a number of participants provided illustrations of supervisory boards involving themselves in matters participants asserted were the domains of either management or the managerial boards. A specific example is:

> There was no protocol. They thought it was alright for the trustee [supervisory board member] to in fact sit in an office on one of our campuses of our hospitals, and hear complaints from disaffected staff, and then present that to the [managerial] board. (MB1)

On the one hand, these perceptions of the duplicative nature of two-tiered boards is a critique of agency theory’s prediction that a board acts to protect owner interests from zealous management. In this case it is two boards acting to protect owner interests. Yet the criticism also has some basis given the pressure for businesses to seek cost savings through lean overhead costs. Making rapid decisions and acting with agility could be hindered by the possible duplication of the two decision making groups.

Managerial board chairs and chief executive officers raised doubts about the capacity of some supervisory boards to perform a key stated role to articulate mission direction and apply it practically to the circumstances being addressed by management and managerial boards. A managerial board chair and two chief executive officers expressed similar views:

> I believe that the trustees [supervisory board] own mission. And my challenge to them recently was ‘if you don't own it, and tell us what you want, we're going to have somebody sitting in an office that's employed by us who is responsible for mission, and they're going to deliver their version’. That's risky, because that person may not always be there, it's a single person's idea as to how it should be delivered; it's not necessarily as a Catholic idea of how it should be delivered. So if you own it, make sure that you expect us to deliver it, and tell us what you want. (MB5)

> We all accept the mission statement, but we interpret it differently, I think, and that could be that we (and by we I mean management) have been helping the [managerial] board develop what that means, and how we translate it. (CE4)

> They [the supervisory board] seem to be very engaged in one aspect, and that is ‘how do we prove we're Catholic?’ And, we've asked them…., ‘what is it that you expect to see or experience for us to be a Catholic institution?’ They can't answer that. Partly, I think because it's a nebulous question I guess, partly because they don't actually know what it is to operate and deliver in a health care industry. (CE3)

The perceived lack of capacity of the supervisory board to achieve its role is a key to the answer to the research question. If the supervisory board is not able to fulfil its tasks, governance becomes ineffective and, accordingly, not able to contribute to organizational outcomes.

The presence of the supervisory board was also cited by one participant as perversely and unintentionally allowing management and the managerial board to avoid some of their responsibilities. The participant said:

> You're not the last governance point, and you can be a bit slacker, a bit easier, you don't have to worry so much. That's my impression, that's my guess that it might feel a bit like that. I could imagine as an independent director that because there's this mob of trustees [supervisory board] I don't have to try so hard. (CE1)

5.8.3 Risks of two-tiers

The law of Shadow Directors, as affirmed by section 9 of the *Corporations Act 2001*, maintains that a person or group can be found to be directors when not otherwise validly appointed where legitimate directors of a board are accustomed to acting in response to the interests of such people or a group. Parent companies should be aware they may be subject to legislative director duties regarding operation of subsidiary companies where directors of subsidiary companies are acting in the interests of the parent company (McGregor, 2004). Participants indicated awareness of the law of shadow directors, but were not clearly able to discuss the implications of the law. Three participants each expressed opinions, the first flagging that uncertainty about the law's application to two-tiered boards resulted in a restriction of the free flow of information:

> Trustees [supervisory board members] cannot be shadow directors, alright, so the information given was quite restricted, because of this fear of trustees being shadow directors. (SC2)

Another echoed this constraint on sharing of information:

> The worst situation is, or would be, you know there's a firewall between the two. But, on the other hand, …[the supervisory board] can't be seen to be shadow directors either, so it is a bit of a balancing act. (SC1)

Another pointed to constant vigilance as being necessary to avoid a charge of acting as shadow directors:

> We've run ourselves through that saying 'are you acting like shadow director, you need to be careful', and we ask the question, 'no we don't think we are, because of this, and this, and this and this', and I think the Charities Commission and a few of those things made us rethink some of those arrangements. (CE4)

The relevance of this discussion of the unsettled application of shadow directors law to two-tiered boards in Australia is that the Germanic two-tiered board approach when applied in the Anglo-US legal environment that favours unitary boards is in effect operating with untested degrees of legal uncertainty. Addressing this uncertainty is not the focus of this study, and the legally harmonious operation of two-tiered boards in Australia establishes that the legal uncertainty is not a barrier to the novel governance structure's establishment. However, in considering a response to the research question, this legal uncertainty is to be borne in mind to the extent that uncertainty represents a risk for governance practitioners to manage in their efforts to contribute to organizational outcomes.

5.9 Influence of participant's role

The role a participant holds within their organization appeared to have little relevance in relation to the views they expressed about the workings, benefits and costs of two-tiered board governance.

A majority of participants holding differing governance roles agreed that two-tiered board governance within their organizations was a result of historical factors (n = 13). A majority, regardless of the governance or management role they held, also agreed the supervisory board has the role of approving mission strategy and decisions that are to be applied by the managerial board (n = 13). Similarly, participants, regardless of the role they held, said effective communication between the supervisory and managerial board was integral to the sound workings of two-tiered governance (n = 16).

Differences of opinion were observable on a significant matter, seemingly determined by the role a participant held. A majority of chief executive officers (n = 4) said governance roles were not clearly defined within their organization, compared to a minority of supervisory board chairs (n = 2) and managerial board chairs (n = 1). A chief executive officer said of this role ambiguity:

> We don't answer to two boards. Management can't answer to two, and unfortunately in a lot of those cases, management has to go to put the case [to the supervisory board], it's difficult for the [managerial] board to know (nor should they know) every intimate detail. If they start digging into that, then we've gotta be there to answer it, so then we go well, hang on. Who am I answering to here? (CE4)

That a chief executive might question the need to address views of two boards is not a surprise. What is relevant is the extent to which management's concern of being answerable to two boards creates the potential for confused alignment of the strategy and monitoring roles the boards share in overseeing the actions of management. Should management not be able to discern the wishes of their boards, the potential for an underperforming organization may arise. Such a risk is relevant to the research question because confused governance direction would be inconsistent with governance contributing to organizational performance.

5.10 Influence of tenure of two-tiered board governance

Participants were drawn from organizations that had either utilized two-tiered board governance for four or less years, or organizations that had utilized two-tiered board governance for around two decades or more. Participants from organizations that had utilized two-tiered boards for around two decades offered different insights to those utilizing two-tiered boards for around four years. Those from the organizations with longer use of two- tiered boards made observations able to be grouped in three areas: 1) early established understandings and processes to support practice of two-tiered governance benefited governance practice; 2) development of two-tiered governance practices took time and practices were continuously evolving; and 3) it is the role of the supervisory board that remains more uncertain than the more settled understanding of the role of management or the managerial board within two-tiered board structures.

The first theme was that processes, practices and understandings of how two-tiered governance works had to be developed, implemented and monitored early in the life of a new two-tiered board structure for governance to operate. This need was expressed differently; those drawn from organizations where two-tiered board governance had operated for around two decades made reference to the benefit of this approach, and those drawn from organizations where two-tiered board governance had operated for four or less years identified challenges arising from the absence of such understandings.

One participant drawn from an organization with around two decades experience of two-tiered board governance observed that role clarity and process to support clarity of roles were important to be in place from the time of establishment of two-tiered board governance. Recalling their initial use of two-tiered board governance in place of their organization’s previous single-board tier, the participant said:

> We haven't done the transition as well as we should have, and we only know that in hindsight. I think it's very difficult to move from a position where you have absolute authority and you don't have to check with anyone, and so you don't think about checking with anyone, and then all of a sudden you've got a system where actually you need to consider a different group, but you've always had those powers, so you can fall back very easily into just doing things, because that's the way it's always been done. And secondly, I think the biggest trap or pitfall is that in doing that, you can become very disrespectful to the other players. (MB3)

A participant drawn from an organization with four years or less experience of two-tiered board governance made the point that it takes time for practice of two-tiered governance to be understood within an organization and, even then, its practice was subject to the potential of external influences:

> We've not really identified our responsibilities to a point where we have key performance indicators on which we judge ourselves. That's perhaps an area for a little more work from our perspective. It's early days in a number of ways, and it may well be that there'll be nuances that come out of experience over the next five to ten years where there could be other models that might work slightly better. (SC3)

Another said:

> We are still in the process of setting up board charters. It's taken us a while, but we've only been in operation for three years. (SC1)

With practice of governance within single-tiered boards being readily understood by participants because of its lengthy and wide use elsewhere within the broader economy, it was the supervisory board about which most comments regarding clarity of purpose were directed. Supervisory board members themselves were self-critical about the need for clear expression of purpose; a purpose which many said became clearer over time. A supervisory board member drawn from an organization with around two decades' experience of two-tiered board governance said:

> But I think in the early days, and of course they didn't know, the original members and the original trustees [supervisory board members] had really no great understanding of what the different roles of the company [managerial] board and the trustee board was, to that degree, and we were feeling our way. There's no doubt about that. (SC6)

Another participant drawn from an organization with around two decades experience of two-tiered board governance said the lack of clarity in understanding of the supervisory board's role had resulted in organizational strain:

> Look, I think to be fair, it's evolving. The (pause) the bicameral [two-tiered] system was put in place without a lot of thought into what that would mean in terms of governance arrangements, what that would mean about the – what we now call – role of the trustees

> [supervisory board], what the role of the trustees would be via the [managerial] board members. (MB5)

The views expressed by participants were that two-tiered governance practice became more effective over time, and often faced challenges in its early establishment. This insight has direct relevance to the research question, in that the ability of two-tiered governance to function well was described as improving over time, such that a contribution of two-tiered governance to organizational outcomes may also become more likely as two-tiered governance practice matures within the not-for-profit hospital organizations.

5.11 Conclusions

The data arising from the interviews contributes to answering the research question: 'What governance practices are perceived by two-tiered board directors of Australian not-for-profit hospitals as contributing to organizational performance?' The responses from participants considered the circumstances in which two-tiered board governance were established in not-for-profit hospitals within Australia, the dynamics of the composition of two-tiered boards, the elements of successful workings of two-tiered boards, the necessity of clear purpose of the supervisory board, and the benefits and costs of the use of two tiers, in part informed by the views of those holding different roles within the two-tiered boards utilized by the organizations from which participants were drawn.

The manner by which two-tiered board governance is established is important. Participants made the observation that two-tiered board governance had arisen within their organizations as a result of history ($n = 13$); two-tiered board governance was described by participants as mimicking or mirroring an existing or previous governance structure, rather than a more positive affirmation that it was the preferable governance arrangement to best serve their contemporary organizational needs. The use of supervisory boards in similar not-for-profit hospitals in the US was cited by participants as influencing the Australian development of this two-tiered board governance practice (n = 4), giving rise to the question that what might suit hospital governance in the US may not best suit hospital governance in Australia.

The study did not consider the detailed skills makeup of the supervisory board, the managerial board, or the capability of the management team; this is a question for future research to address.

Table 5.1 shows that the supervisory boards considered in the study ranged in size from four to eight members with an average size of six, compared to managerial boards that ranged in size from either eight to 11 with an average size of nine-and-a-half. While management members were not commonly members of the managerial boards, an average of 16 people were found to govern the hospital groups within the study. Females occupied 54 per cent of supervisory board positions. By contrast, females occupied 34 per cent of managerial board positions. No explanation was offered as to why an average of 16 people governed the hospital groups studied, and nor was an explanation offered as to why a little more than half of supervisory board members were female compared to only a little more than one-third of the managerial board members being female.

The working processes of the supervisory and managerial boards and the clarity of their roles differed across the organizations that were subject to the study. Constitutions and board charters were noted as mostly guiding the work of the supervisory and managerial boards, yet the constitutions and other board documents did not universally provide for certainty of role responsibilities.

The study data also revealed supervisory board governance is novel, and its practice is still evolving. There are education programs, guide books and written best practice standards to guide managerial board practices, but the interviews with participants revealed that the workings of supervisory boards are not commonly understood. One participant said:

> Our trustees [supervisory board] are still evolving, are currently reviewing what their core is as they go forward. (CE5)

As part of this complexity, whereas the supervisory board was said to have the role of approving mission strategy and decisions that are to be applied by the managerial board (n = 13), it is not clear to participants that there is a common expression or understanding of what mission priorities for the hospital groups subject to the study actually are. With the finding that the supervisory board is still evolving and considering its purpose, it seems it is difficult for the supervisory board to achieve its purpose if there is not common agreement on what one of its key tasks, determining mission strategy, actually entails.

The working relationships of the supervisory and managerial boards appear to be partly personality dependent. Where a relationship of trust exists between the two chairs, there are higher levels of functionality than where a relationship of trust is not in place. Demonstrating the importance of strong relations, a participant said:

> If we want to do anything, either the company secretary or I would ring the chair of the other group and just talk to them, they then might confirm that conversation in writing. (CE2)

The benefits of two-tiered board governance are that the skills and time commitment of two groups of board directors occupying positions on both the managerial and supervisory boards contribute to broad input into organizational decisions. In a role as shareholder, participants perceive the supervisory board has value in monitoring the managerial board. The key problems of two-tiered board governance indicated by the participants are that governance roles were not sufficiently defined within the two-tiered board, with the consequence that the supervisory board could second guess or duplicate the processes of the managerial board, and that the presence of the supervisory board possibly allows the management and the managerial board to avoid some of their responsibilities.

The disadvantages of two-tiered board governance were of greater concern to management; a majority of chief executive officers (n = 4) said governance roles were not clearly defined within their organization, compared to a minority of supervisory board chairs (n = 2) and managerial board chairs (n = 1).

Despite seemingly being the superior board, the participants directed uncertainty and criticism towards the role of the supervisory board more than the role of management or the managerial board, where roles, practice and competencies were considered as more developed.

In summary, the analysis in this Chapter revealed that two-tiered boards were perceived as expanding the governing group’s collective wisdom, that the supervisory board’s focus on mission ‘checked and balanced’ the operational board’s priorities on business management, and that a contribution of two-tiered governance to organizational outcomes was perceived as more likely as two-tiered governance practice matures over time. These findings contribute to the research question answer. The data also pointed to the pitfalls of uninformed use of two-tiered governance, which, in turn, can detract from its optimal use. Chapter 6 discusses and presents the second tranche of perceived links between governance and organizational outcomes, based on the analysis of the interview data through the lens of theories of corporate governance. Chapter 7 discusses and presents the third tranche of perceived links between governance and organizational outcomes, arising from participant critique of the framework presented in Chapter 3 at Figure 3.1.

Chapter 6: Analysing two-tiered board practices using theories of corporate governance

6.1 Introduction

In Chapter 5, I described the two-tiered boards from which participants were drawn and considered participants' perceptions of the governance practice and interactions of their two-tiered boards. Three clear themes emerged from their responses to my questions about governance links to organizational outcomes; two-tiered boards were perceived as expanding the governing group's collective wisdom; supervisory boards 'checked and balanced' mission against the operational board's priorities on business management; and a contribution to organizational outcomes was perceived as more likely as two-tiered governance practice matures over time. In this Chapter, further analysis of the primary data collected from these interviews is presented through the lens of the key corporate governance theories first discussed in Chapter 2. The analysis outlined in this Chapter reveals a further nine factors as perceived by my elite sample to contribute to organizational outcomes.

The benefit of analysing the primary data through the lens of the key corporate governance theories is to test and validate two-tiered board efficacy as a governance mechanism able to contribute to organizational outcomes. If, for example, two-tiered board governance was somehow found to have no relationship to established corporate governance theories, any answer to the research question would be thrown into doubt by the absence of a link to existing theory of corporate governance practice. In exploring links between established corporate governance theory and the primary data, the analysis reveals that agency theory was the most relevant, followed by behaviour and commitment theories, and then stewardship theory. The least relevant theory appears to be contingency theory. The significant presence of links between established corporate governance theory and the views expressed by participants suggests two-tiered governance has solid theoretical origins. The explanations that describe the links and workings of different corporate governance theories contributes to answering the research question by affirming two-tiered governance's legitimacy within theoretical knowledge.

This Chapter commences by briefly revisiting the nine key theories of corporate governance that were first considered in detail in Chapter 2. The Chapter then briefly revisits the manner in which the primary data were collected. It presents analysis of the extent to which each of the nine key corporate governance theories was identifiable within the board practices that were described by the participants.

The Chapter reveals nine[2] specific governance dynamics perceived as contributing to organizational performance: the supervisory board clearly sets directions; the supervisory board acts as the representative of shareholders; the supervisory board legitimizes decisions of the organization; the supervisory board acts during crises; two-tiered governance legitimizes organizational existence; the practice of two-tiered governance improves over time; personal behaviours of governance participants enable decisions; supervisory boards selection of directors; and two-tiered boards provide capacity to respond to risks that might otherwise adversely impact the organization. The Chapter explains the theoretical origins of each of these perceived links of governance and performance, and this presentation of these nine dynamics perceived by participants through the lens of corporate governance theories contributes further to answering the research question.

The Chapter concludes by discussing the implications of the identifiable presence of the nine key corporate governance theories for the practice of corporate governance in the two-tiered boards of the not-for-profit hospitals participating in the study.

6.2 Theories of corporate governance

Chapter 2 critically engaged with corporate governance theories developed to explain the workings of boards of directors. Agency, dependency and stewardship theories are well established in the literature. More recent concepts of stakeholder, hegemony, lifecycle, behavioural, contingency, pluralism and values theories also arise from the literature to provide a rationale for the working of corporate governance.

Prior to presenting the analysis of these nine key corporate governance theories in the primary data, the theories first described in detail in Chapter 2 are very briefly explained again here.

[2] Chapter 5 revealed the perception that two-tiered governance improves its organizational performance contribution over time, and this revelation also occurred in analysis of the data presented in Chapter 6; this practice is noted in Chapter 8 as having been identified twice in the study, but is presented only once in the study's final conclusions detailed in Chapter 8.

- Agency theory is concerned with the separation of management and finance, or ownership and control; it seeks to explain how to solve the problem financiers have in ensuring a return on their investment while avoiding the wasting or expropriation of their funds (Shleifer & Vishny, 1997).
- Dependency theory maintains that the board is the link between the organization and external resources needed for the organization to achieve best performance (Pfeffer, 1972).
- Stewardship theory focuses on management interest being linked to the attainment of the goals of the owners of the capital (Young & Thyil, 2008).
- Stakeholder theory maintains that the role of the Board is to represent the interests of the primary and secondary actors, inclusive of shareholders (Farrell, 2005).
- Hegemony theory maintains the board is mostly symbolic, and that its role is to legitimize management, until a crisis occurs and the board is required to act (Farrell, 2005).
- Life cycle theory acknowledges that an organization's threats and opportunities will differ at varying points in its lifecycle (Lynnal et al., 2003).
- Behavioural theory helps explain how boards gather and process information to enable decisions. Rational decision making is limited by availability of information, such that satisficing, which is an adequate decision if not optimal one, problem solving and routine decision making is the work of a governing board (van Ees et al., 2009).
- Commitment theory suggests board directors need to be engaged for the right moral reasons in order for the board to operate optimally (Mueller et al., 2009).

Theoretical pluralism is required to understand the contributions that boards make to organizational performance, because no single theory provides sufficient explanation of governance effectiveness (van Ees et al., 2009). Straddling nearly all of these theoretical frameworks, contingency theory suggests different situations require different governance approaches (Bennington, 2010). These theories and their use as a categorization tool of the primary data are presented in Table 6.1.

6.3 Gathering, analysis and presentation of the primary data

As has been detailed, chairpersons of supervisory boards, chairpersons of managerial boards, and chief executives of Australian not-for-profit hospitals with two-tiered boards contributed to the primary data by participating in hour-long interviews in late 2013, where their perceptions of two-tiered boards within their organizations were explored.

The primary data were analysed and categorized, first into the themes as presented in Chapter 5 and then considered in terms of the nine corporate governance theory groupings for presentation in this Chapter. This process of categorizing the data into both themes and corporate governance theory groupings required the researcher to make judgments about how best data gathered from interviews with participants could be grouped. It further required judgement as to when a perception of a link between governance and organizational performance emerged sufficiently for it to be identified as pertinent to the research question. That judgement was applied to reveal three findings pertinent to the research question answer in Chapter 5, and a further nine in this Chapter.

Analysis of the primary data to identify the presence of one of nine key corporate governance theories comprised three stages. The researcher first reviewed all data and identified evidence of nine corporate governance theories in operation within the descriptions of board practice as perceived by participants. As an aid to identifying the presence of a corporate governance theory, the discussion of theories arising from the literature and presented in both Chapter 2 and in section 6.2 was refined and distilled into a short working definitions table. The definitions table was used when reading the interview transcripts to ensure consistent identification of a theory from analysis of the primary data. The contents of the short working table is presented as Table 6.1 to help explain the process by which the theories were identified from the primary data.

Participants themselves did not identify the operation of corporate governance theories, rather the researcher identified where, from perceptions of board practice provided by participants, it could reasonably be concluded that any of the corporate governance theories was being described in practice. The data, once categorized into nine corporate governance theory groupings, was then further analysed to inform the discussion of the identifiable presence of corporate governance theories within the two-tiered boards that were the subject of this study.

The data was not subject to a relativity analysis, that is, the data was not subject to an assessment of the relative weighting that was or could be ascribed to the influence of a governance practice to an organizational outcome. Future relativity analysis would aid in understanding the level of perceived importance placed on a particular theory, which would in turn inform a more detailed understanding of links between a particular theory and organizational outcomes.

Table 6:1: Corporate governance theory definition table

Theory	Definition	Source
Agency	Separation of management and finance, or ownership and control, to assure return on investment and avoiding waist or expropriation funds.	Shleifer & Vishny (1997)
Dependency	Board is link to external resources.	Pfeffer (1972)
Stewardship	Management interest linked to goals of owners.	Young &Thyil (2008)
Stakeholder	Board role to represent interests of the shareholders.	Farrell (2005)
Hegemony	Board mostly symbolic to legitimise management until crisis where board is required to act.	Farrell (2005)
Life cycle	An organization's threats and opportunities differ at varying points.	Lynnal, Golden, & Hillman(2003)
Behavioural & Commitment	Processing of information to enable board decisions. Directors engaged for moral reasons for board to operate optimally.	van Ees, Gabrielsson, & Huse (2009) Mueller, Warrick, &Rennie (2009)
Pluralism & Values	No single theory provides sufficient explanation of governance effectiveness. Failure to consider values, such as maintaining system integrity is inadequate.	van Ees, Gabrielsson, & Huse (2009). Donaldson (2012).
Contingency	Different situations require different governance approaches.	Bennington (2010)

The data is presented first in a summary table (Table 6.2), and then through a number of verbatim quotes to illustrate a participant's perception. The presentation of the verbatim quotes also helps explain the judgements made by the researcher about how a study participant's perception has been categorized into one of the nine corporate governance theories. As in Chapter 5, the letters 'SC', 'MC', or 'CE' have been placed next to the participants' responses to help the reader identify the role held by the participant.

Agency theory is the dominant and sustained theory in the corporate governance literature. Given its significant role, it is perhaps not surprising that more identifiable instances of the application of agency theory were found in the primary data than any other theory (n = 110). The next most commonly identified theories were behaviour and commitment theories (n = 84), followed by stewardship (n = 64). The least identified theory was contingency (n = 6).

Table 6:2: Frequency of corporate governance theories in practice

	Nine key corporate governance theories								
Study participant	Agency	Dependency	Stewardship	Stakeholder	Hegemony	Lifecycle	Behaviour, commitment	Pluralism, values	Contingency
SC1	3	-	2	1	3	1	2	1	2
SC2	1	-	3	-	-	2	10	3	2
SC3	4	-	2	2	-	3	4	1	-
SC4	6	-	3	-	1	4	3	1	-
SC5	6	-	2	3	4	4	6	2	-
SC6	7	-	3	-	3	1	6	1	-
MC1	5	1	6	-	-	-	6	3	-
MC2	5	-	2	3	3	-	3	-	-
MC3	6	-	5	-	1	3	5	-	-
MC4	6	-	3	1	1	-	3	1	1
MC5	8	1	2	1	1	2	9	-	-
MC6	2	-	4	1	1	2	6	1	-
MC7	5	1	3	2	1	4	5	1	1
CE1	10	-	5	1	2	2	-	1	-
CE2	9	1	1	-	2	1	3	-	-
CE3	9	1	3	-	3	-	4	-	-
CE4	9	-	3	2	2	5	2		-
CE5	6	1	8	3	3	1	5	1	-
CE6	3	2	4	1	-	1	2	-	-

The high frequency with which agency theory was identifiable in the primary data is reflective of the role that the participants play in their governance structures to separate ownership and control (Shleifer & Vishny, 1997). It may also be a result of its prominence in for-profit governance, which likely influences practice and perceptions of directors in not-for-profit governance.

The high frequency of behaviour and commitment theories being identifiable in the study data (n = 84), may be reflective of the not-for-profit and mission oriented organizations included in the study. It is reasonable to expect that mission-oriented organizations would place importance on behaviours and the commitment of their governance participants to the practice of governance and their contribution to their mission purpose. Such organizations are likely to be particularly focused on commitment theory's purpose of governance participants being engaged for the right moral reasons (Mueller, et al., 2009).

The third most identified theory was stewardship theory (n = 64). Stewardship theory's purpose of the board and management collaborating in running the organization (Farrell, 2005) contrasts with that of agency theory that separates ownership and control (Shleifer & Vishny, 1997). Stewardship theory (n = 64) was identified at only a little more than half the rate of agency theory (n = 110), reaffirming that agency theory is the dominant theory informing board governance. It seems that separation of ownership and control (Shleifer & Vishny, 1997) occurs simultaneously with management interest aligning with that of the owners of the capital (Young & Thyil, 2008) such that boards and management collaborate in running the organization (Farrell, 2005). This simultaneous operation of theories may be better explained by contingency theory where different situations at different times require different governance approaches (Bennington, 2010).

Lifecycle theory was the fourth highest identified theory (n = 36); hegemony was fifth (n = 31), and stakeholder sixth (n = 21). Each of these theories could be said to be situational. For instance, an organization's position in its lifecycle might influence the thinking of its governance participants such that activation of an otherwise symbolic board only in crisis (Farrell, 2005) would influence a governance participant's likelihood to relate to hegemony theory. Similarly, the necessity to respond to stakeholder demands will be informed by the specific relationship of stakeholders at a given point in time within the context of an organization's dynamics. It could be assumed that the perceived importance or otherwise of these theories for governance participants would likely change as their organization's situation or circumstance also changed.

Three theories were identified at low rates of incidence. Pluralism and values theories were the seventh least identified (n = 17), dependency theory was eighth (n = 8), and contingency theory was ninth and last (n = 6). That values and dependence theories, in particular, were identified so infrequently is unexpected. Given the participants were drawn from not-for-profit and mission organizations, it was anticipated that greater emphasis may have been placed on values theory than the study findings reveal. Similarly, given the need for not-for-profit organizations to attract donor and government funding, it was anticipated that greater emphasis may have been placed on dependence theory than the study findings reveal.

The data reveals some theories, such as agency, behaviour and commitment, and stewardship theories, are actively being applied in governance practice by participants, whereas other theories, such as pluralism and values, dependency and contingency theories are much less applicable in the reported governance practice of the participants. Given the unique nature of the study, there is no known comparable study against which to easily compare these findings to ascertain if the prevalence of the theories identified in this study are typical, or if there would be a benefit to governance participants and their organizational outcomes should they increase their emphasis on one or some theories and decrease their emphasis on one or some others. The benefit of this analysis to the research question is its situating of two-tiered board governance in the key corporate governance theories, as perceived by directors of Australian not-for-profit hospitals.

6.4 Agency theory in practice

Agency theory was defined as the separation of management and finance, or ownership and control, with the concept of agency seeking to solve the problem financiers have in ensuring a return on their investment (Shleifer & Vishny, 1997).

The separation of ownership and control (Shleifer & Vishny, 1997) that is achieved through use of the two-tiered board structure was articulated by several participants. It was said:

> [The supervisory board] as the owners of the assets need this broad role to make sure that those assets are properly managed, and I guess at the end of the day, financially viable. I think their role is very much an overseeing role. (MC2)

> It could be seen as a bit of a mission versus margin split, so the trustee level [supervisory board] is focused on the mission and the commercial board level is focused on the margin. (CE1)

> I think to leave it to one board alone to make the decision has some risk associated with it. I think it's useful to have a 'house of review' for those matters that are considered vitally important to an organization. I think it's a good discipline on the operating [managerial] board for them to have to justify their decisions. (SC3).

This notion of the two-tiered board allowing separation of ownership and control (Shleifer & Vishny, 1997) was challenged by one study participant. The study participant explained that the two boards operated separately, had formal mechanisms for them to relate to each other, and had a responsibility matrix which delineated each other's roles. The participant said, however, that at law the supervisory board were in some circumstances liable to be found directors of the managerial board. The participant was making reference to the law of shadow directors. As detailed in Chapter 5, the law of shadow directors holds that a person or group can be found to be directors when not otherwise validly appointed in circumstances where legitimate directors of a board are accustomed to acting in response to the interests of such people or a group. The participant said of the operation of shadow director law:

> The trustees [supervisory board] are also directors of the enterprise [managerial board], because of their involvement. In placing much greater responsibility on the board itself, the trustees need to have in place a reporting mechanism which satisfies their legal responsibilities of care as directors. But I think we have done that. (SC4).

Another said:

> We've run ourselves through that saying 'are you acting like shadow directors?' You need to be careful. We ask the question. 'No, we don't think we are because of this, and this'. (CE4)

Responses to questions about the role of the supervisory board in monitoring the performance of both the managerial board and the entire organization suggest the very existence of the supervisory board is agency theory in practice in that supervisory board monitoring is aimed almost entirely at ensuring an investment return, albeit a social investment return given the profit distribution constraint that arises from their not-for-profit status. It was said:

> We [the supervisory board] have regular managerial board evaluations … we are going to have an external evaluation of how things are going … we have some obligation to ensure that what the managerial board says it's doing, by way of mission, is actually being done. (SC1)

> I don't think good performance is actually so much of the concern at the moment, because we would have the assumption that business is actually attended to extremely well, and that the [managerial] board has its own KPIs. (SC2)

> There is a metric matrix which we use in the organization which goes from management board to the trustees. No it's not perfect, but there is no right answer to some of this stuff. It's a feel for where the organization is at a point of time. (MC7)

Agency theory's role in ensuring a return on investment (Shleifer & Vishny, 1997) was also clearly articulated. One study participant described the safeguards the supervisory board had directed the managerial board to follow in an effort to protect capital, saying:

> To safeguard the organization we have put in place a set of financial parameters that we feel should surround the activities, like debt to equity ratios, return on asset ratios, and margins, which are really designed to be a safeguard, so that performance is monitored to be reasonable, and the board is not making decisions that are not financially sound, they're not borrowing amounts of money we can't afford.

However, given the not-for-profit status of the hospitals, the participants did not offer a clear description of what return the owners of capital were actually seeking from their investment. It was said:

> If you work for BHP or somewhere, at the end of the day it's about money. And we're not about money. If there's no money though, there's no mission, that's true. But at the end of the day, we're not having to ensure that the shareholders get a good dividend or they get a great return on their investment. We're here to deliver our services in a particular way that we want to deliver them, and then hopefully, make sure our cost structures and revenue availability allows us to provide those services. This is a different emphasis altogether to a public company. (MC5)

> Mission can often be a very difficult thing to define, and you can ask a lot of people that work in the organization, you know, 'talk to me about what your mission is?' Some of them find that very difficult. We're being challenged now to find a way to do it. (MC5)

> It's very easy in a not-for-profit to rationalize poor performance as some mission based activity. We are very clear that we are part of the mission of the Church, so if the mission of the Church is to grow, then we grow through the work we do, which is health, running hospitals. So that's why we grow mission. Growing is an investment in our mission. (MC7)

The focus of the supervisory board on mission as agency theory's proxy for financiers ensuring a return on investment (Shleifer & Vishny, 1997) is at odds with the Germanic use of two-tiered boards to reflect a socialist and capitalist philosophy mix to promote stakeholder interest and social welfare by splitting governance responsibility into separate management and control tiers (Rajablu, 2016). The study participants did not identify elements of the Germanic approach to inclusion of staff representatives in the supervisory board to promote a social outcome. Given the mission focus of the organisations, this absence is unexpected. It also suggests the supervisory board function in the organisations is operating differently from the way its Germanic initiators may have intended, giving rise to different governance practice and outcomes as a result of the agency theory influence that participants have revealed within their two-tiered boards.

The description one participant gave of their role as a supervisory board member in monitoring a return on investment gives rise to the suggestion of multiple agency theory within two-tiered governance. The participant referred to several layers of oversight aimed at ensuring organizational performance:

> My role is very different than sitting on the public company board that I'm on, where I'm holding management accountable. My oversight of the management board, for example, is overseeing them hold management to account. I'm holding the management board accountable, but I've got to let them do it, and put their talents into the organization, because that's why we've nominated them as directors, and want them to govern. (SC5)

The benefit of these several layers of oversight was perhaps not surprisingly, and in a somewhat self-serving manner, seen differently by chief executives. One who was critical of duplicated reporting said:

> I won't and can't report to two governing bodies. From a CEO's perspective, unless all those structures are very clear, it can be a bloody nightmare. In terms of how the trustees [supervisory board] are resourced, how they relate to the [managerial] board and CEO, they're all the issues that I think need to be sorted, and there needs to be clarity around that. But I just won't, and can't report to two bodies. What I mean by that, is I'm not going to be accountable to two bodies. (CE6)

> We don't answer to two boards. Management can't answer to two, and unfortunately in a lot of those cases, management has to go and put the case, it's difficult for the board to know

> every intimate detail. If they [the supervisory board] start digging into that, then we've gotta be there to answer it, so then we go well, hang on. Who am I answering to here? (CE4)

The question as to whether, through its separation of ownership and control (Shleifer & Vishny, 1997), the two-tiered board structure is effective in contributing to organizational performance was addressed by one study participant who said:

> The jury is a bit out on two-tiered boards and how they fit. And I have no view whatsoever – I can see all sides. (MC6)

Two were certain the two-tiered structure's separation of ownership and control (Shleifer & Vishny, 1997) made no contribution to performance. They said:

> I think to answer your question if the trustees contribute to the hospital group's performance, at this stage I would say no. I'm not sure it's very measurable at this stage. (MC2)

> They're very supportive in all the things we do, but they really haven't added value in any way. I can't really identify any real positive to be really honest. (CE2)

The agency cost of the two-tiered structure was criticized. It was suggested the servicing cost of the supervisory board outweighed its benefit:

> If starting from scratch, would you design it as a two-tiered board structure? No, I wouldn't. I think an operational board would suffice, and I think you could deal with it quite efficiently. One of the factors that needs to be thought of is cost. The cost of our operational board, our supervisory board, our involvement in trade associations, that would cost around $2 million per annum all up, which is a considerable amount. (MC4)

> It [the supervisory board] just adds another layer, and uh, you know, in some ways it's expensive. And its time consuming. Having said that, I understand why it's there, but from a commercial view, and as a manager, I see these things knowing I can still run the place exactly the same way without it [the supervisory board]. And that's my personal view. (CE4)

In seeking to make sense of the data, five key findings were identified as arising from the analysis of the participants' responses. The five key findings establish the governance mechanism of two-tiered boards as firmly rooted in agency theory.

The first is that the presence of the supervisory board in the two-tiered board structure reinforces and can strengthen governance's role of separation of ownership and control (Shleifer & Vishny, 1997). Where a supervisory board operates to set direction for and monitor the managerial board, agency theory's ownership and control separation is firmly established by the two boards having what the participants described as mostly separate and distinct ownership (supervisory board) and control oversight (managerial board) responsibilities. The responses suggest this dynamic is more likely to occur when the two boards are genuinely independent in the conduct of their roles.

The second is the potential of the role that a supervisory board can play in ensuring a return on capital. While the experience of some participants is that the 'owners of capital' in the not-for-profit mission orientated organizations do not always clearly articulate expectations as to what return on capital is desired, there is, nonetheless, a role for the supervisory board in focusing the managerial board and, in turn, management on assuring and delivering such a return.

The third is the emergence of a multiple agency theory. To the extent the responses reveal management being oversighted by both the managerial and supervisory boards, in practice this suggests two separate groups with whom management has formal, if differing, relationships with as representative owners of capital expecting a return. There seems to be a tension between management and these two groups that for some participants is described as a positive influence on organizational performance, and, in others, as neutral to negative.

The fourth is the doubt that is cast on the contribution of the supervisory board to organizational performance. The responses, despite prominence with in them of self-serving chief executive bias, are more critically than favourably inclined in their assessment of the contribution of the supervisory board to organizational performance.

The final is the agency administrative cost and duplicative nature of operating a supervisory board. Where participants described the administrative workings of the two boards, descriptions were likely to focus on the resource requirements and bureaucracy of serving two boards. No participant spoke favourably of any administrative benefit of the two-tiered board structure, so it seems reasonable to conclude there is no administrative benefit to the two-tiered board arrangement.

These mixed findings suggest that when considered through the lens of agency theory, directors of two-tiered boards of not-for-profit hospitals have no clear view of the specific dynamics that can contribute to organizational outcomes.

6.5 Dependency theory in practice

The premise of dependency theory is of the positive contribution a board can make to resources, strategies, and access to stakeholder support to benefit either board or organizational performance. It assumes the board has a role in providing access to external resources to aid the organization in its performance. Dependency theory was identified by participants as largely absent. The common perceptions of participants, particularly managerial board chairs when considering the role of the supervisory board, was that boards did not provide these resources to contribute to organizational performance. Noting the likely motivational bias of managerial board chairs, two said:

> We [managerial board] don't really see the trustees [supervisory board] as people able to supply us with absolute energy and wisdom, it's more a school reporting type relationship rather than a collaborative approach. (MC1)

> There was at a time distrust [between the managerial and supervisory boards]. To the stage where the chair of the managerial board believed he should have been running the trustees in the end. It just didn't work. We [the managerial board] weren't getting value, we didn't think there was any value coming from the trustees. (MC5)

Another gave a more favourable, if conditional, response saying:

> I think it adds value when it's working well, it absolutely adds value, in terms of our joint custodianship of mission. (MC3)

Table 6.2 reveals that dependency theory was not prominently identified through the analysis of the participants' responses, receiving the second lowest rating of identifiable references. Its low identifiable presence may arise because there is not a practice of board directors linking management to external resources, either because it is not expected of board directors within these organizations, or because the particular participants did themselves not offer links to external resources (in the case of board directors), or did not seek such links (in the case of chief executives). The remarks of one chief executive that, when working well, the resource links of board directors did add value suggests the potential for dependency theory in improving board contributions to organizational performance deserves greater attention when boards seek to enhance the contribution they can make to organizational outcomes. However, for the purposes of this study, a perception identified by a single respondent does not warrant a conclusive finding.

6.6 Stewardship theory in practice

Participants described the desire of the supervisory and managerial boards to achieve alignment in their objectives. Formal methods, such as the managerial board having their strategic plan approved by the supervisory board, or regular reporting from the managerial board to the supervisory board, to less formal methods, such as regular verbal communication, were identified as ways in which alignment of the two boards were sought. For example:

> One of the ways we [the supervisory board] do that is through approval of the strategic plan … And then we would have regular meetings with either the whole board, perhaps once a year, or with the CEO and chair … In those discussions we would be looking at well 'what's your strategic plan, how are you carrying it out, what are the problems you are experiencing'. (SC1)

> We have a board agenda item which makes us reflect in terms of 'OK, what from the board meeting is an important message that we need to be giving the trustees [supervisory board]'. We structurally embed that. It came to be when the trustees were invented. We forgot to tell them anything, so we put it on the agenda that we need to pass on from this meeting to this new body of people that they need to consider. (MC3)

> We have been very precise in our communication, we have probably shared, we just share everything, until such time as we're told they don't want to know anymore. I have to say communication has been the foundation, as well as the role of the company secretary in keeping the two boards informed. (MC6)

Similarly, risk arising from the two boards being out of alignment was also clearly identified:

> I think if there was a breakdown of confidence between them [supervisory and managerial board], if the trustees [supervisory board] took too great an involvement in the management decisions or the operational decisions, then I think there would be a breakdown in confidence

> between the two of them. The operational board would be wondering what it was doing if every decision it made was then subject to review. And I think it would cause the relationship to become dysfunctional. (SC3)

> There were difficulties with the early stages of the relationship [of the managerial and supervisory board] because we [managerial board] were questioning what their role was. Sometimes there was a sense that we were double reporting. (MC4)

An illustration was offered of where a managerial board found itself out of alignment with its supervisory board for not instantly communicating the nature of an unsolicited business proposal. The managerial board acted to regain that alignment by asking the supervisory board for direction. The chairperson of the managerial board said of this illustration of stewardship theory in practice:

> They [the supervisory board] were appalled that the [managerial] board had not advised them that this proposal was on the table, even though the board didn't know what was on the table because the approach had just come from outside. So right from the outset, there was this sense that you should have kept us informed. Then moving along, in terms of the decision making, we actually asked the trustees [supervisory board] to frame up the principles under which they would feel comfortable.

There was criticism that managerial boards and their chief executives were not able to align with the interests of their supervisory board because of the failure of the supervisory board to clarify their expectations or set a clear direction for managerial boards to follow:

> Some of the owners are clueless. Literally clueless when it comes to health care and what we're trying to do. (CE5)

The main finding to emerge from analysis of the responses in relation to stewardship theory is the regular occurrence of management and their two-tiered boards not being in alignment. Some participants attribute this to the supervisory board not clearly articulating their preferences, with management inferring it is the role of the supervisory board to set clear direction rather than for management to identify and propose for affirmation what that direction should be.

In assessing the utility of stewardship theory, there appears to be sufficient evidence to conclude participants in two-tier boards perceive the potential for governance's contribution to organizational outcomes. This can be realised when the supervisory board is clear in setting directions, and where both the managerial board and management are able to work collaboratively in clarifying with the supervisory board its desired direction before implementation of management decisions.

6.7 Stakeholder theory in practice

Stakeholder theory, ranked sixth (n = 21) of the nine theories assessed, explains why the supervisory board was described by participants as akin to a shareholder group:

> I see them [the supervisory board] more as a shareholder in the sense of corporations. We all need someone to report to, someone whether you have it as a board, or a committee, or whatever it might be, that you're reporting to. (MC2)

> We don't have a massive range of shareholders. Basically the shareholders are the trustees [supervisory board], and they work as a team, they all work towards the same objectives, they have no financial interest in it at all. It's very objective. I think it's a great system, and I think it works mostly well. (MC5)

Some matters were noted as requiring approval of the supervisory board, similar to the manner in which listed companies require some matters to gain approval of a meeting of shareholders. Participants expressed this dynamic saying:

> I think they [the managerial board] have to be aware of when they need to get approval, when they need to consult. (SC1)

The responses indicate that participants perceive the supervisory board as the representative group of shareholders. Not-for-profit mission orientated organizations often have voting right members, and certainly have stakeholders that influence organizational decisions (in the absence of being able to direct decisions). However, the potential for a supervisory board to monitor and respond to managerial board and management decisions, as a proxy shareholder, could derive similar benefits for not-for-profit organizations that shareholder monitoring derives in for-profit corporations.

6.8 Hegemony theory in practice

Hegemony was ranked fifth (n = 31) by frequency of theories identified from participant responses, with participants making reference to the symbolic role the supervisory board plays. With each not-for-profit hospital within the study being part of the Roman Catholic Church, participants spoke of the role of the supervisory board in legitimising the actions of their organization in the eyes of other actors within the church. These actors within the broader church often had no direct authority or relationship with the hospitals in question, but it was felt necessary to utilize the supervisory board for the purpose of giving legitimacy to governance decisions. Examples of statements by participants pointing out this legitimizing role included:

> We are responsible to Rome and I guess ultimately to Pope Francis. (SC1)

> We're a church entity, and we have to be obedient to the church law. Part of satisfying the church is having this structure for the managerial board to satisfy the civil requirements. (MC5)

> We see the trustees [managerial board] as a bit of a shield, you know, part of their job is to protect the organization from any of the owners in an ill informed and unfortunate way doing something that would work against the organization. That might seem a bit odd, but that's actually the truth. (CE5)

However, the symbolic role of the supervisory board was also found to confuse some external actors who wrongly assumed the supervisory board exercised business functions that were in fact the domain of the managerial board. One illustration was offered when an unsolicited approach to a supervisory board from an external actor resulted in a stalling of sound relations between the supervisory and managerial board:

> An external body and how it related to the trustees [supervisory board] triggered trouble. The external body choosing to relate to the trustees in a way that the trustees were not expecting surprised us. What that triggered for me is that you have two-tiers of governance. You have an understanding of how it works for us internally. But in the outside world, they don't necessarily have an understanding of the internal governance dynamics, and about the consequence that had this matter come from our board up to the trustees, it might have had a very different initial period of consideration than in the way it actually occurred. (MC3)

The board only acting when a crisis occurred, was cited as one of the key roles of the supervisory board. Indeed, one participant (SC6) said it was the threat of a financial crisis facing the organization that led it to establish the two-tiered board in the first place. However, another participant described the way in which the supervisory board might act in a crisis in a somewhat unexpected way:

> You wouldn't see the supervisory board's job to step in in the event of a crisis and take over, but rather the job is, in the event of a crisis, to make sure the right people at the board level are there to solve the crisis and the supervisory board is to support that other group of people address the crisis if it were to arise. (SC5)

One chief executive suggested that in having a symbolic second tier of governance through the existence of the supervisory board within his organization, there was, in fact, no second board in practice. His argument was that the supervisory board in the organization made no tangible contribution and as such was, in effect, non-existent. He said:

> It's arguable the [supervisory board] doesn't exist, even if it does. There's what's written in the constitution, and then what's actually happening, and they're quite different… due to their lack of experience … they just don't know the place, basically. (CE3)

The responses confirm the supervisory board was perceived by participants as acting to legitimize the decisions of the organization within the broader church structure in which they operated. This role was seen as beneficial, in that it provided a license for the organizations to make decisions and operate in accordance with church mission preferences. This license to operate provided by the supervisory boards is a method by which the supervisory board contributes to organizational performance; if an organization's metaphoric license was withheld, it would not be able to perform.

Similarly, the potential role of the supervisory board to act in a crisis was affirmed as beneficial and, by inference, a positive contribution that the supervisory board can make to organizational performance. One participant suggested the role of the supervisory board was not to step in *per se*, but instead to ensure resources were in place for a sufficient crisis response. It is noteworthy that similar references to the role of the managerial board were made about how it should act in response to a crisis.

However, two criticisms were made of the symbolic nature of the supervisory board's role within the two-tiered board structure. The first was that the presence of the supervisory board in addition to the managerial board created confusion to some stakeholders unaware of the different roles of each of the two boards. The second was that the supervisory board was, in fact, not at law separate from the managerial board and, by inference, entirely symbolic so as to be of little effective benefit. Whereas these two factors appear to detract from the potential benefits of the supervisory board in providing legitimacy and crisis responsiveness, it is not clear that stakeholder confusion or legal uncertainty as to the separation of liabilities between the supervisory and managerial boards significantly detracts from the supervisory board's potential to contribute to organizational performance.

6.9 Lifecycle theory in practice

Lifecycle theory was the fourth most frequently identified theory (n = 36) from participants' responses. The establishment of the two-tiered board structure was identified by some participants as a factor in the lifecycle of the organization in evolving its governance practice. Descriptions of this evolutionary uptake of two-tiered boards were:

> It's evolutionary. It [two-tiered board] just evolved in one sense, out of a former structure. (SC1)

> I think largely it comes out of just the way the organization developed through the way in which the Sisters handed over governance to the operational entity, and they kept the ultimate governance through its trustee [supervisory board] structure. (MB7)

Similarly, it was noted that the practice of two-tiered board governance had evolved itself since its establishment within organizations. As confidence in the working of the two-tiered structure grew, more autonomy was devolved from supervisory boards to managerial boards. For instance:

> The principle of the structure is the same today as it was when the new arrangement started, but what has happened is the detail has changed. Greater authority over the years has been given to the [managerial] board. The limits on decision making have been lifted, so they [managerial board] have the right to make more decision. (SC4)

> We're [the supervisory board] more passive now than we were at the beginning, as we were still trying to work out what the hell we're here for … who does what. (SC5)

The responses suggest the supervisory board was perceived by participants as having been instituted in response to changing organizational dynamics and the practice of two-tiered governance itself evolved and improved over time.

The utility of this finding to assessing two-tiered board contributions to organizational performance is the benefit of a supervisory board when shareholder expectations change or are uncertain. Further, the responses reveal effectiveness of two-tiered governance – and its inherent contribution to organizational performance – is perceived to increase over time as governance experience builds up.

6.10 Behaviour and commitment theories in practice

The second most commonly identified theories from particpants' responses were behaviour and commitment theories (n = 84). Participants revealed the role of the supervisory board in determining the composition of the managerial board. This role in determining the managerial board's composition allows the supervisory board to contribute to the behaviours and likely commitment of the managerial board to its task. An example of how participants confirmed the role of the supervisory board in influencing the behaviour and commitment of managerial boards can be seen in the following quote:

> We [the supervisory board] have the right of appointment of board members and chairs, so that even though you might have a board nomination committee and all those sorts of processes in place, it's up to us to ensure that the right sorts of people go onto the board. And ultimately, that the right people are also on the supervisory board as well. (SC1)

The personal behaviours of governance participants were identified as contributing to governance success:

> I have been on a number of boards over the years, so I have some experience in matters concerning boards, and the commitment amongst the group of people that report, the commitment to the organization, and I think almost without exception, the absence of personal agendas driving behaviour, I think has been a fabulous part of being involved. (SC4)

The specific role of trust between governance practitioners, arising from selection of directors well-suited to their roles, was highlighted as supporting effective governance:

> We talk to each other face-to-face about all the things happening on and off the record, and have established a very good relationship of trust. There's a spirit of how this should work that involves an element of trust. (MC1)

Varying opinions were expressed about the role of remuneration in driving behaviours and commitment of governance practitioners within the two-tiered boards. Three of the six supervisory boards provided remuneration to their members. All seven managerial boards studied were remunerated. Data were not collected on remuneration levels. Of the role of remuneration for managerial boards, it was said:

> The idea was given the amount of time you'd expect of people then remuneration could be desirable and helpful, and certainly when you have people giving immense amount of time, it's totally necessary that they be remunerated. (SC2)

> You get better attendance at board meetings, we have a lot of papers that go out beforehand and you can see at a board meeting that they've all been read, they understand them, they've worked through them, we've had discussions beforehand. (MC5)

> If there was no remuneration, some of the people you would like to attract to the role may not accept it, if there wasn't the remuneration. Because they may not be in a position to make such a significant contribution without receiving some remuneration. (SC4)

> Various directors treat it differently, depending on their own financial circumstances. Some of them just donate it back. (SC5)

In contrast, doubts were expressed about the role remuneration played in director motivation:

> I think we've got to get away from remuneration, because I think it is about service, not remuneration. (SC6)

> Does it [remuneration] hold them more accountable? I don't think so. (MC3)

Participants perceived personal behaviours of board members as contributing to, at least, board effectiveness, which, as discussed in Chapter 3, is a prerequisite of contributing to organizational performance (Huse, Gabrielsson, & Minichilli, 2005). The participants outlined the role of both the supervisory and managerial boards in selecting and appointing board members, pointing to the two boards' capacities to mould board behaviours through their board member selection processes as a specific contribution towards organizational performance. The role of remuneration in influencing board behaviours was mixed, such that it could not be concluded that the primary data supported or negated the influence of remuneration in affecting board behaviours of the governance practitioners in the study.

6.11 Pluralism and values theories in practice

The description by a participant of a unitary board's decision to establish a two-tiered board as its successor to govern in its place provides a unique illustration of pluralism at work. In the illustration outlined by the study participant, the unitary board, after several years of deliberation, established, from within its membership, a two-tiered board. The participant said:

> It operated as it always had. The supervisory board left with a great sense of alienation at the end of the year saying 'Why would you waste your time in an organization where you cannot add any value?' You have features of a unicameral system that have been transferred into a bicameral system. (SC2)

In this illustration, the participant attributed a sustained period of tension between the boards and subsequent decision-making inertia to the failure to properly define the new roles of the two boards and end some of the practices utilized by the previous unitary board. It seems the failure of the new two-tiered boards to apply agency theory to sufficiently separate ownership and control (Shleifer & Vishny, 1997) between the two boards contributed to this decision-making inertia. Further, the failure of the new two-tiered boards to apply lifecycle theory resulted in governance change not being recognized as presenting a threat or opportunity at the particular point in the organization's development (Lynnal et al., 2003). Finally, the failure of the new two-tiered boards to apply behaviour and commitment theories also saw supervisory board directors' ability to make rational decisions (van Ees et al., 2009) decline as a result of a sense of alienation, and supervisory board director engagement in good decision making (Mueller et al., 2009) recede for the same reasons. The illustration demonstrates pluralism at work and the benefit of board director engagement with the theories of corporate governance as a means of preventing poor governance practice from occurring.

The responses confirm the adverse impact of pluralism when governance practitioners fail to harness the otherwise positive benefits of individual governance theories operating in normal practice. The illustration offered of a unitary board separating itself into a two-tiered board points to the business risk, and subsequent risk to organizational performance, that can arise when governance practitioners are unable to operate within the accepted norms of corporate governance theories or fail to sufficiently define and act in accordance with separate responsibilities.

6.12 Contingency theory in practice

One participant credited the decision of the members of their once unitary board to constitute themselves as a new two-tiered board as arising out of contingency, that is, to strengthen the organization's governance in readiness for potential future governance challenges:

> We had a lawyer on the board who was concerned that if you have an organization appointing itself and accountable to itself, he found that quite fraught … And I think it was Professor [name withheld] who said a single tiered structure can work well when things are going well, but it is not a sufficiently robust form of governance for the long haul, when things may not go well. And I think that was a point that certainly changed my view point. We then set up the two-tiered board. (SC2)

The instances where participants revealed the application of contingency theory referred to the role of supervisory boards in responding to various organizational threats. Accordingly, the utility of a supervisory board towards organizational performance was revealed as a literal contingency in response to possible threats that governance participants saw as possibly risking the future of the Australian not-for-profit hospitals.

6.13 Conclusions

Analysing participants' responses through the lens of corporate governance theories first corroborated the two-tier format of governance as firmly situated within known theories of corporate governance. Further, the analysis of primary data through corporate governance theories revealed nine links where board directors of Australian not-for-profit hospitals perceived their two-tiered governance as able to contribute to organizational outcomes.

The first of these perceived links was the supervisory board clearly setting directions, through stewardship theory. The second was the supervisory board acting as a shareholder representative, through stakeholder theory. Hegemony theory operated to see the supervisory board legitimize organizational decisions or act in a crisis. Lifecycle theory saw two-tiered governance initiated to enable basic organizational performance, which improved its capacity to contribute to organizational outcomes over time. Behaviour and commitment theory enabled personal behaviours of governance participants to contribute to organizational outcomes, aided by the director selection role of supervisory boards in supporting board effectiveness. Finally, contingency theory saw the two-tiers able to respond to risks that might otherwise adversely impact the organization.

The Chapter's findings, first of two-tiered governance reflecting known corporate governance theories, and secondly of the identification of nine circumstances perceived as linking governance to organizational outcomes, contributes a second tranche of evidence to that presented in Chapter 5 to address the research question. The third and final tranche emerges in Chapter 7, through analysis of the questionnaire responses to the framework derived from the literature first presented in Chapter 3.

Chapter 7: Framework validation

7.1 Introduction

Building on findings in Chapters 5 and 6, this Chapter further contributes to answering the research question by determining which of the 12 governance factors comprising the framework drawn from literature and presented in Chapter 3 are perceived by two-tiered board directors of Australian not-for-profit hospitals as linking governance to organizational performance.

This Chapter presents analysis of the responses collected through the questionnaire. The questionnaire utilized the framework derived from the literature and presented in Chapter 3 at Figure 3.1, comprising 12 governance factors identified in previous studies as linking governance and organizational outcomes.

The Chapter commences by outlining the characteristics of the study cohort and the manner in which the questionnaire data were collected. It then presents the responses to the questionnaire categorized against the 12 factors shown in the literature as linking corporate governance to organizational performance. The themes to emerge from the analysis of the responses to the questionnaires are then discussed. Table 7.2 summarises the participants' perceptions of how the 12 factors of the framework contribute to organizational outcomes. The Chapter applies this analysis to interrogate the practical utility of the literature derived framework presented in Chapter 3. The subsequent refined framework, presented in Figure 7.1, provides a consolidation of findings from the corporate governance literature and the responses to the questionnaire to respond to the research question.

7.2 Responses from participants

The six supervisory board chairpersons, the seven managerial board chairpersons, and the six available chief executives who had each participated in the semi-structured interviews were invited again to participate in the study by responding to the questionnaire, which is reproduced at Annexure 2. The rationale for this sample selection was the previous willingness of this elite group to contribute insights into their governance practice, the unique nature of this sample as a rare group of directors in Australia practicing two-tiered governance, and the potential to refine findings of the data contributed by the same sample during the initial interview phase of data collection.

An online questionnaire was designed to ask participants about their perceptions of the 12 factors detailed in the framework derived from the extant literature shown to link board governance to organizational performance. The questionnaire covered each of the factors of the framework: board functionality, organizational performance, board composition, strategy, director participation, director reward, board accountability, donor engagement and resource attraction, director and executive turnover, independence between the supervisory and managerial board, and skills mix. The questionnaire was designed to identify which of the factors were perceived by directors as operative within the corporate governance practices of their organizations to benefit organizational performance.

In August 2014, participants were invited to complete the questionnaire. Four of a possible six supervisory board chairpersons completed the study. Nine of a possible 13 managerial board chairpersons and chief executives completed the study. No distinction was made between managerial board chairpersons and chief executives in the way in which data were collected. In hindsight, provision to collect responses in separate categories would have enriched the study findings. Nevertheless, the respondents to the questionnaire represent an elite group of board directors and chief executives in Australia; they are, in fact, the only known chairs and chief executives governing and managing two-tiered not-for-profit hospitals in Australia. Their perceptions of the utility of two-tiered governance add to our understanding of a rarely practised, in Anglo-US environments, form of corporate governance. Their perceptions of how each of the 12 framework factors are practised or could be enhanced also provides new insights to suggest how governance can contribute to organizational outcomes.

The framework comprises 12 factors where the literature links corporate governance to organizational outcomes. Primary data were gathered by asking participants open ended free text questions about how they perceived each of these 12 dynamics worked within their corporate governance practice, and how each factor's influence on corporate governance could be enhanced or mitigated accordingly to enhance organizational outcomes.

The data were first reviewed for presence of emergent themes, and each of these themes was coded. These coded data were categorized in tabular form as part of my exploration for common responses. As the number of respondents to the questionnaire was small, the utility of a quantitative data assessment to answering the research question is limited. However, the tabulation was a useful step in analysing the data to ascertain what director perceptions were about two-tiered governance and its contribution to organizational outcomes. Data tables were assembled to record the findings of the quantitative assessment to inform the drafting of this Chapter. Results recorded in those tables are presented in this section, but the data tables themselves have not been presented here for their limited contribution in explaining the data's role in answering the research question; qualitative, instead of quantitative, assessment of the open ended questionnaire responses of perceptions about two-tiered board governance practices and their contribution to organizational outcomes proved a richer source from which to answer the research question.

This section lists each individual factor of the framework derived from the literature, and briefly details the coded thematic findings from the questionnaire before revealing the qualitative findings of the data by presenting director perceptions expressed verbatim. The Chapter also presents directors' perceptions of how each factor could be optimised in an effort to explore how governance practice could better contribute to organizational outcomes. These perceptions are presented in summary at Table 7.1. Further analysis of the participants' perceptions was conducted to determine which of the 12 factors of the framework are perceived as linking governance to organizational outcomes. This summary analysis is presented in Table 7.2 prior to being applied and presented in a revised framework at Figure 7.1.

7.2.1 Functionality

Boards contribute to value creation when their director members individually and collectively are able to effectively fulfil their board roles (Huse et al., 2005). To understand how this factor operated within the current governance practice of the study cohort, participants were asked: 'What methods are used to ensure your board functions well as a board?'

Twenty-four concepts were coded from the responses to the question. These 24 concepts are either practices or interventions by which respondents perceive they are enabling board functionality, or by inference, the perceptions of how governance ultimately contributes to organizational outcomes through two-tiered boards. Board evaluation was described as the most common method used to enable board functionality (n = 7). Director selection was the second most common method (n = 4), and clarity of governing documents, director skills mix, director training, chairperson's leadership, supervisory board monitoring of the managerial board, and informal meetings outside the board room were each ranked the third most common method (n = 3).

Director perceptions that board functionality is enabled by board evaluation are captured in the responses of three chairpersons of supervisory boards:

> Board reviews by directors themselves and stake holders.

> Regular internal and external performance reviews.

> Board effectiveness review is a standard agenda item and more formal assessments are conducted on a periodic basis.

Managerial board chairpersons and chief executives expressed similar perceptions saying:

> Each meeting is reviewed with set criteria in terms of process, effectiveness, strategic nature of discussion, contribution, chairing, mission consideration for all decisions.

A feature of these perceptions is the inference that board functionality requires a retrospective exercise of historical review. It could be inferred, although it was not stated in respondent answers, that recommendations or findings from reviews are implemented to improve prospective board functionality.

Of director selection, it was said by two chairpersons of supervisory boards that:

> Care is taken to recruit appropriate skill sets,

and

> Careful selection of directors specifying selection criteria and skill mix, clear role statements, sound orientation of new members,

contributes to board functionality. Managerial board chairpersons and chief executives expressed similar perceptions saying:

> Formal process during the new director consideration phase for both the organization and the perspective board member with clear expectations of the board member articulated,

and

> Selection of experienced directors (not every director, but a majority),

supports board functionality.

After being asked to reflect on their current corporate governance practice, participants were asked: ‘What additional methods could be used to enhance the functionality of your board?’ With boards able to contribute to value creation when their director members individually and collectively are able to effectively fulfil their board roles (Huse et al., 2005), this question was seeking to draw out potential interventions that might be seen to optimize corporate governance’s contribution to organizational performance.

Twelve concepts were able to be coded from responses to the survey question. No particular concept was revealed as most common across respondents, although board composition reviews as personnel changes occurred, external board effectiveness reviews, informal meetings of directors, and a greater managerial board role in their own succession planning were mentioned more than once (n = 2).

Qualitative assessment reveals supervisory board chair persons perceive board functionality as able to be improved through retrospective reviews. Some responses indicated functionality could be enhanced by:

> Continual review of the roles of both boards as the capacity of either changes.

> Periodic effectiveness review could be externally facilitated.

Managerial board chair persons and chief executives differed in their perceptions, placing emphasis on relationships and informal interactions. It was said board functionality could be improved by:

> Time away from the board meetings for discussion, relationship building and in depth consideration of issues impacting on the organization.

> Occasional gathering of board directors in an informal environment and without the presence of the CEO would be helpful.

Summary analysis of the questionnaire responses reveals participants perceive active steps to review and evaluate their boards, appropriate new director selection, and relationship building are just some of the practices or interventions perceived as able to positively enhance their two-tiered board's functionality.

No study participant responded to the questionnaire saying board functionality was not important to achieving organizational outcomes. The emphasis on the qualitative analysis revealed the perceived benefits of board reviews, director selection, and relationship building by participants to achieving board functionality supports their inclusion in Summary Table 7.2 as elements of a larger group of methods by which two-tiered governance is perceived by participant directors as practiced and in turn able to contribute to organizational outcomes.

7.2.2 Monitoring defined performance

Choosing what it is the not-for-profit manager is to maximize is key to the board being able to assist the organization's performance (Eldenburg et al., 2004). To understand if this factor operated within the current governance practice of the study cohort, participants were asked: 'How has your board defined expectations about organizational performance (if at all)?'

Thirteen concepts were coded from responses to the survey question. Determination of a chief executive's personal key performance indicators was revealed as the most common method of monitoring the chief executive's contribution to the organization's performance against predetermined goals (n = 5). Setting and monitoring attainment of strategic objectives was the second most common (n = 4), and setting and monitoring overall organization key performance indicators and financial targets were each the third most common (n = 3). Notably, no supervisory board member made mention of chief executive key performance indicators as relevant to organizational performance. One reason for this is likely to be the absence of the supervisory board in having any role in the setting of chief executive performance expectations.

Coding director perceptions about how monitoring defined performance is achieved exposed the first potential conflict between a component of the literature derived framework and study participant perceptions. One supervisory board chairperson said setting and monitoring organizational performance expectations was not a role for the supervisory board:

> As our board is a trustees board, organizational performance is not in our direct line of responsibility. More the operating board that should be focused on this.

This participant revealed the way in which supervisory board governance is practiced within the two-tiered board on which they served did not involve monitoring of organizational performance as an assigned task. The participant did not discount the role of monitoring, instead saying it was an assigned task of the managerial board. This participant's perception differs from that of three other supervisory board chair people who said they had in place methods to set expectations for performance and processes to monitor performance. Two of these three respondents identified supervisory board monitoring occurring by:

> Policy guidelines on a series of issues have been put in place, sector benchmarking, client feedback, progress against strategic objectives.

Managerial board chair persons and chief executives gave greater perceived prominence to the role of monitoring of defined performance. Respondents from this group said it currently occurred through:

> Criteria set for risk appetite and financial performance, three-year strategic planning cycle with regular quarterly reviews of performance. Annual performance review of CEO. Targets set for service performance. Values for behaviours are articulated and reflected upon.

> CEO's remuneration is linked to meeting targets set by the board.

> Detailed budgets for all aspects, key performance indicators for senior employees and every division. Short term incentives for meeting targets.

> Board targets, CEO targets, continuous reporting and revisiting the strategic plan ensure organizational expectations are upheld.

> Key performance metrics linked to individual performance where relevant.

Common to each of these responses is the role of monitoring organizational performance by the managerial board linking executive remuneration, particularly the chief executive's remuneration, to achievement of managerial board expectations.

After being asked to reflect on their current corporate governance practice, participants were asked: 'What more could your board do to define its expectations about organizational performance?' With boards needing to determine what it is the not-for-profit manager is to maximize in order to contribute to organizational performance (Eldenburg et al, 2004), this question was seeking to draw out potential interventions that might optimize the contribution of corporate governance to organizational performance.

Seven concepts were able to be coded from the responses. No single concept was revealed as most favoured. Four of the respondent group suggested nothing more could be done to enhance the contribution of monitoring to organizational performance.

Other options proposed to enhance monitoring's contribution were perceived by managerial board chair persons and chief executives to be:

> Growth targets could be set.
>
> More questioning of organizational matters rather than ongoing acceptance of everything the CEO states.
>
> Have performance targets cascade down to the senior executive team.
>
> More explicit board expectations – an area currently being examined.

No study participant responded to the questionnaire saying monitoring performance was not important to achieving organizational outcomes. The emphasis the coding revealed about management remuneration being tied to achieving targets, and explicit articulation of those targets supports their inclusion in Table 7.2 as elements of a larger group of methods by which two-tiered governance is perceived by participant directors as being practiced and able to contribute to organizational outcomes.

7.2.3 Strategic Input

A corporate board's exercise of strategic influence (Huse & Rindova, 2001) has been linked to organizational performance. To understand if this factor resonated with this cohort, participants were asked to describe: 'How your board contributes to the strategy of the organization?'

Four concepts were able to be coded from the responses. The most common response was that the managerial board sets the strategy, and the supervisory board either received or adopted the managerial board's strategy (n = 5). By contrast, the second most common response was that strategy development was a joint role for both the supervisory and managerial boards (n = 4). The third most common response was that the managerial board actively participates in determining the strategy (n = 3).

Qualitative assessment of director perceptions about how board governance contributes to the organization's strategy affirmed the managerial board primacy in strategic processes over that of both the supervisory board and management, and an almost passive role for the supervisory board in particular. It was said by supervisory board chair people that:

> It is the operational board that is responsible for development and implementation of strategy.
>
> Main operating company's strategy is developed by that company's board. Our board receives it and satisfies itself that the strategy exists in satisfactory form. We ask questions to aid our understanding and to help inform us as to the performance of the operating entity and its board.
>
> The trustees set a high level vision. From this strategic priorities and annual operational plans are derived. An annual strategic review of our direction is conducted by both boards jointly.

Analysis of the responses from managerial board and chief executive respondents offer similar perceptions:

> Board discussions are kept at the strategic level. There is active input into strategic planning sessions and quarterly reviews.
>
> Our board approves the company's strategy and is given regular reports as to progress against that strategy.

After being asked to reflect on their current corporate governance practice, participants were asked: 'How could your board enhance its contributions to the strategy of the organization?'

With a board's exercise of strategic influence (Huse & Rindova, 2001) linked to organizational performance, this question was seeking to draw out potential interventions that might enhance corporate governance's contribution to organizational performance.

Four concepts were coded from the responses to this question. The most common response was for better articulation of the board's desired strategic outcome (n = 2).

Qualitative assessment of director perceptions about how governance's contribution to strategy could be enhanced yielded few insights, but demonstrated the perception that managerial board chair people and chief executives were satisfied with current practices. Respondents from this group said:

> The Board is well engaged in strategy.
>
> We are very closely involved in the development of strategic vision and purpose.
>
> It is done very well at present.

Given the roles held by respondents and their responsibility for involvement in strategy, it is not a surprise that a portion of respondents would defend their current practice as sufficient. However, others from this same group said governance's role in strategy could be enhanced with:

> Less agenda items and more time for discussion. More discussion as a board separate to the executive regarding issues requiring consideration.
>
> Be more explicit regarding board expectations

Two supervisory board chairpersons observed their board's contribution to strategy would be enhanced with:

> More critical questioning.
>
> Appointment of a member with health industry experience.

The analysis reveals the perception that only the managerial board contributes to strategy such that this dynamic could be included in Table 7.2 as an element of a larger group of methods by which two-tiered governance is perceived by as able to contribute to organizational outcomes.

7.2.4 Participative boards

A board's ability to be participative (Heeracleous, 2001) has been linked to organizational performance. To understand if this factor operated within the current governance practice of the cohort, participants were asked: 'Do all members of the board contribute equally to the board's work and deliberations?'

Five concepts were able to be coded in the primary data received in response to the survey question. The most common response was that all directors do contribute to the work of the board according to their skills and time availability (n = 9). In contrast, the second most common response was that not all directors do contribute equally to the work of the board (n = 3), revealing conflicting opinions on the contribution of different directors to the governance of the organizations at the time of the questionnaire.

Qualitative assessment of director perceptions about how they contribute to board work was consistent between the two groups of supervisory board chair persons and managerial board chair persons and chief executives, and revealed a perception that director participation was linked to the specific skills of a director. Common responses that placed emphasis on an individual director's skills were:

> All members contribute but the contributions vary according to experience and skills base.
>
> Board contributions are deliberations broadly spread at present, although the chair obviously has greater involvement.
>
> Each bring their individual skills.

After being asked to reflect on their current corporate governance practice, participants were asked: 'How could your board enhance the contributions of any member that may not contribute to the board's work and deliberations as much as other directors'. Given that a board's ability to foster its participative nature (Heracleous, 2001) has been linked to organizational performance, this question was seeking to draw out potential interventions that might optimize corporate governance's contribution to organizational performance.

Seven concepts were coded from the responses. The most common response was to emphasize the role of the board chairperson in ensuring equal contributions of all directors to the work of the board (n = 7). The second most common response was to utilize assessments or reviews of director performance (n = 4).

Analysis of director perceptions about how director participation could be enhanced revealed both groups of participants say it is the role of the chair to bring out the contributions of individual members:

> This is the role of the chair and assisted by individual performance reviews.
>
> Chair to discuss with all board members on an annual basis whether contribution is adding value or just 'chair warming.'

The responses revealed no emphasis on the importance of selection of directors, no emphasis on individual director responsibility, and no emphasis on professional development of director capability as might be expected. Instead, emphasis was placed on the board chair and the role of feedback through annual review. This emphasis that the analysis reveals about the perceived role of the board chair in drawing out director contributions warrants this dynamic's inclusion in Table 7.2 as an element of a larger group of methods by which two-tiered governance is perceived by participant directors as being able to contribute to organizational outcomes.

7.2.5 Transparency

A board's level of transparency (Chiang, H-tsai, 2005) has been linked to organizational performance. To understand if this factor operated within the current governance practice of the study cohort, participants were asked: 'What methods does your board use to hold itself accountable for its actions?'

Twelve concepts were able to be coded from the responses to this question. The most common response was that the managerial board is oversighted by the supervisory board (n = 6). The next most common responses were that transparency is achieved through annual reports, through review of attainment of board key performance indicators, and through evaluation of board performance (n = 4).

Qualitative assessment of director perceptions about how directors hold themselves accountable revealed the primacy of the supervisory board's role in overseeing the work of the managerial board in achieving organizational performance. Both respondent groups noted this key function of the supervisory board saying:

> Regular reporting to the trustees.

> Trustees also make sure we are on track. This has caused some angst among board members and the CEO. However, the second layer of governance is now in the constitution.

> We seek feedback from trustees as to the direction of our actions.

It is these perceptions of directors that, perhaps more than any other, offered detail of the role and purpose of the supervisory board within the two-tiered governance structures utilized by the organizations within the study cohort. This role for the supervisory board to receive reports, give feedback, and otherwise guide the managerial boards arises from the responses as a key rationale for the supervisory board's existence and its perceived method of being able to contribute to organizational outcomes.

After being asked to reflect on their current corporate governance practice, participants were asked: 'What methods could the board adopt to be more transparent?' With a board's level of transparency (Chiang, H-tsai, 2005) linked to organizational performance, this question was seeking to draw out potential interventions that might optimize the contribution of corporate governance to organizational performance.

Seven concepts were able to be coded from the responses to this question. The most common response was that current transparency measures are sufficient (n = 4).

Qualitative assessment of director perceptions about methods that could improve board transparency were expressed by supervisory board chair persons as:

> Board reviews.

> More collegial and inclusive relationship with trustees and less emphasis on protocol.

Managerial board chair people and chief executives responded saying:

> Provision of meeting minutes to the Trustees.

> Regular chairman letters to the trustees explaining specific decisions and plans.

> Board members need to accept the fact we are now governed under a two-tier system. This change has been difficult for some. However, time is a great healer.

This final response reveals the tension inherent in a board being held accountable to another board. While not a focus of the questionnaire, this response invites scrutiny of the disadvantages of this second tier of governance and the burden on the organization of this additional layer of accountability.

The emphasis on the perceived role of the supervisory board for holding the managerial board accountable warrants this dynamic's inclusion in Table 7.2 as an element of a larger group of methods by which two-tiered governance is perceived by participant directors as being able to contribute to organizational outcomes.

7.2.6 Ownership

Board member ownership of stock (Bhagat & Bolton, 2008) has been linked to organizational performance. The participants were either supervisory board members, managerial board members, or chief executives of not-for-profit organizations. Stock or shareholdings are prohibited in not-for-profit organizations, as is the distribution of profits. Utilizing the concept of reward, through remuneration or non-monetary recognition, as a proxy for stock ownership, participants were asked: 'Do you consider yourself sufficiently rewarded for your role as a director?' to determine if the reward was operating within the current governance practices of the study cohort.

Four concepts were able to be coded from responses to this survey question. All respondents (n = 13) affirmed they were sufficiently rewarded. Given the sample size, this is a significant response. Other respondents (n = 2) referred to the altruistic benefit of themselves contributing to a charitable purpose through their governance role. Only a single respondent made mention of insufficient financial reward.

The qualitative responses about satisfaction with current reward included:

> Absolutely. Each December we have a thank you celebration of the year just gone. Each February another social function with partners is held once again to thank us for our commitment and welcome us to another hard year of work.

> As a board member of a not-for-profit organization there are both intangible and tangible rewards.

> Financially, no. All other aspects, absolutely (and more than sufficiently to offset the financial aspect).

After being asked to reflect on their current corporate governance practice, participants were asked: ‘In what ways, be they monetary or otherwise, do you think you could be better rewarded as a director?’ With board member ownership of stock (Bhagat & Bolton, 2008) having been linked to organizational performance, and using reward as a proxy for stock ownership given the not-for-profit purpose of the organizations within the study cohort, this question was seeking to draw out potential interventions that might optimise corporate governance’s contribution to organizational performance.

Only two concepts were able to be coded from responses to the survey question. Market benchmarked remuneration was proposed (n = 2). The qualitative responses reaffirmed the view that within these not-for-profit organizations, all board director respondents did not perceive monetary or other rewards as required to improve director performance:

> There is no further way we need to be rewarded.

> While money has its place, we are a not-for-profit company and directors need to be motivated by the cause or ministry of the organization.

Even when taking into account the likely altruistic motivation of those who serve as directors on not-for-profit boards, the significant response of participants that current rewards were sufficient and no further rewards were warranted suggests the dynamic of stock ownership and its proxy of director remuneration in not-for-profit organizations may not be as powerful as suggested in the literature. The significant responses of participants down-playing the place of remuneration as a motivating factor for board director performance does not warrant its inclusion in Table 7.2 as an element of a larger group of methods by which two-tiered governance is perceived by participant directors as being able to contribute to organizational outcomes. However, the perception of these not-for-profit hospital directors that remuneration is not relevant to the motivation of their board colleagues is significant in the broader context debate about director remuneration and not-for-profit director remuneration in particular.

7.2.7 Donor monitoring

Active participation of major donors on boards (Brown, 2005) has been linked to organizational performance. To understand if this factor operated within the current governance practice of the study cohort, participants were asked: 'What methods does the board use to engage the major funders of the organization in its governance, if any? How effective are these?'

Six concepts were able to be coded from the responses to this question. The most common response was that funders have no role in governance and that funder relations is a responsibility of the staff executive answerable to the managerial board (n = 5). The next most common response was that the survey question was flawed (n = 3); one supervisory board respondent inferred the question contained an error, saying:

> Not sure about funders. If you are referring to founders then we have a liaison with our founding order and they are involved in appointment of trustee directors.

The qualitative responses revealed a strong view that the two-tiered board practices of the study cohort did not involve or need board director engagement with major funders. It was said by supervisory board chair people that:

> Our major funder is government. We are answerable at every level and on the spot examinations abound. As far as I am aware, we do not engage government in governance at all.

> The board's role in my view is to support management in this task. Whilst key relationships exist at a board member level the effort is always focused around the executive interaction with funders.

Similarly, a managerial board and chief executive responder said:

> We would see involving funders as members of the board somewhat conflictual.

> Funders (philanthropists) have no role.

> Not sure funders have any significant role to play in governance.

After being asked to reflect on their current corporate governance practice, participants were asked: 'What methods could the board adopt to engage major funders of the organization in its governance?' With active participation of major donors on boards (Brown, 2005) linked to organizational performance, this question was seeking to draw out potential interventions that might optimize the contribution of corporate governance to organizational performance.

Six concepts were able to be coded from the responses to the question. The most common response was that no additional method to engage funders in governance was recommended (n = 6). Social interaction and general communication with funders was, instead, proposed as the second most common responses (n = 2). The qualitative responses reaffirmed earlier expressed perceptions that funders had no role in governance, with no supervisory board chairperson identifying a method of engaging funders in governance, and managerial board chair persons and chief executives offering similarly consistent responses saying:

> Historically, and for the foreseeable future, this is not an issue.

> The organization has a small reliance on government funding, very little philanthropy, and then profit making endeavours.

Yet some managerial board chair persons and chief executives were open to informal interaction between board directors and funders as opposed to formal participation of funders in governance:

> The board does from time to time host dinners and drinks with board members present and other key partners such as health funds.

> We should invite their [funder] participation in advisory boards.

> We should supply them [funders] with details of our governance structure and board director and senior management profiles. Face-to-face meetings would help.

Whereas these few comments indicate some study respondents perceived a benefit arising from informal contact with funders, it was clear that not one study respondent perceived a role for funders in formal governance. The significance of these responses of participants in seeing no role for funder participation in governance does not warrant its inclusion in Table 7.2 as an element of a larger group of methods by which two-tiered governance is perceived by participant directors as being able to contribute to organizational outcomes.

7.2.8 Resource Attraction

The engagement of board directors in resource gathering (Brown, 2005) has been linked to organizational performance. To understand if this factor operated within the current governance practice of the study cohort, participants were asked: 'How do members of the board engage in resource attraction to benefit the organization?'

Six concepts were able to be coded in the primary data received in response to the survey question. The most common response was that supervisory and managerial board members play varying roles in liaison with external funders (n = 5). The second most common response was that supervisory and managerial board members play no role on resource attraction (n = 4). The third most common response was that managerial board members support the staff executive in their task of resource attraction. The qualitative responses revealed both supervisory and managerial board directors see resource attraction as a role for management, and that the role of the board is to support management in this task but not directly involve the board in actual resource attraction. A response of a supervisory board chair person was:

> Ability of the board to assist management in high level communication with major external parties

was the method by which the board practically supported management in its resource gathering task. Responses of managerial and chief executive survey respondents were:

> Opportunities [for resource attraction] as understood by the board members are shared with the executive. The organization has strategies regarding resource attraction.

> There is not much of a current role for our board. On major fundraising matters board members participate to varying degrees. Probably could play a broader role but perhaps it's not a board role. If I was expected to actively fund raise I would not have joined the board.

> Probably this is mainly the role of management I would say.

> Not a specific board role at present.

After being asked to reflect on their current corporate governance practice, participants were asked: 'What methods could the board use to better engage board directors in resource attraction to benefit the organization?' With the engagement of board directors in resource gathering

(Brown, 2005) linked to organizational performance, this question was seeking to draw out potential interventions that might optimize corporate governance's contribution to organizational performance.

Seven concepts were able to be coded in the primary data received in response to the survey question. Only one response received more than one mention, with the most common response being that no additional methods could be established to better engage directors in resource attraction (n = 7). The qualitative responses further revealed board directors perceive resource attraction as a role for management. Supervisory board chair persons provided no clear methods, and managerial board and chief executive respondents said variously:

> At least annually include this as a board agenda item for discussion and review.
>
> Greater personal support for the executive involved in fund raising should occur, but board members are already time poor so need to be careful.
>
> Regular presentations to the board to ensure that the board is kept up to date in all matters.

The significance of these responses of participants in seeing a limited or no role for board director participation in resource attraction does not warrant its inclusion in Table 7.2 as an element of a larger group of methods by which two-tiered governance is perceived by participant directors as being able to contribute to organizational outcomes.

7.2.9 Governance stability

Board and chief executive officer turnover (Eldenburg et al., 2004) has been linked to organizational performance. To understand if this factor operated within the current governance practice of the study cohort, participants were asked: 'Has there been low board member and CEO turn over in the last five years?'

Four concepts were able to be coded in the primary data received in response to the survey question. The most common response was that there had been low turnover of directors and chief executives within the study cohort (n = 11), establishing that governance and management within the cohort is steady.

The qualitative responses offered context of these perceptions of low turnover. All supervisory board chair persons affirmed the low turnover, and managerial board and chief executive respondents said:

> We try to stage the bringing on of new members and often will replace only one at a time. There has been stability.

> Only board members who have reached their expiry term (nine years or ten years for the chair) have turned over.

> Average one or two a year.

These comments reflect that the majority of the boards in this study have established practices of board director renewal in a planned and scheduled manner. One managerial board respondent identified the disadvantage of stability and their board's absence of a succession process saying:

> Very low turnover. In fact, board refreshment has been an issue. One board member has been on the board for over fifteen years. I believe a board should have a formal policy in place that limits board tenure and is well understood by all.

After being asked to reflect on their current corporate governance practice, participants were asked: 'What methods could be applied to reduce board member and CEO turn over?' With board and chief executive officer turnover (Eldenburg et al., 2004) linked to organizational performance, this question was seeking to draw out potential interventions that might optimize corporate governance's contribution to organizational performance.

Five concepts were able to be coded in the primary data received in response to the survey question. The most common response was that no additional method would enhance stability ($n = 8$). Greater emphasis on planned succession was the next most common response ($n = 3$). The qualitative responses offered affirmation from managerial board and chief executive respondents that succession processes were either in place or should be in place, reflecting respondent's perceptions that governance stability was desired as a means of contributing to organizational performance:

> Nothing more could be done. All very stable.

> We are blessed with stability at the moment.
>
> We do not have an issue in this area.
>
> A formal policy should be in place that states tenure limits and is well understood by all.

The significance with which participants are revealed in the qualitative analysis as valuing governance stability, and the need placed on succession management as a method of achieving this stability, warrants governance stability's inclusion in Table 7.2 as an element of a larger group of methods by which two-tiered governance is perceived by participant directors as being able to contribute to organizational outcomes.

7.2.10 Active, well sized supervisory board

Sufficiently sized and active (Firth et al., 2007) boards have been linked to organizational performance. To understand if this factor operated within the current governance practice of the cohort, participants were asked: 'Has your board set rules about its make up to determine its ideal size, its gender balance, or how it brings independent members to it? If so, what are these?'

Six concepts were able to be coded in the primary data received in response to the survey question. The most common response was that the size of the board was determined by a governing document (n = 9). The second was that there was no gender target or ratio in place, but that in practice equal representation of genders was either sought or achieved on the boards (n = 8). The third most common responses were that the supervisory board had responsibility for appointment of members to the managerial board, and that no size had been set to guide the makeup of the board (n = 5).

Qualitative analysis of the supervisory board chair persons' responses revealed the extent to which rules had been determined to guide the composition of the supervisory boards. For example:

> At the trustees level, the ideal size is five. No specific gender ratio required. There are presently three males and two females.
>
> All members are independent. Gender mix is sought but without a quota.

> The company's constitution specifies 7-11 directors. We have a detailed skills and attribute requirement for the makeup of the board which considers gender balance. There is a specific process involving members for the appointment of directors.

> Size is governed by constitution and skills set and gender balance and succession planning is regularly assessed by the nominations committee.

Whereas the supervisory board respondents were firm that rules were in place, managerial board and chief executive respondents perceived the method of managing board composition as less rule driven and more managed in response to circumstances. Respondents said:

> No, not really an ideal size set. Gender has not been discussed. Independent members not discussed either.

> No set rules, but these issues are regularly visited by chair of the board of Trustees. Set rules not all that sensible as these issues should respond to present need and current activities.

> Not really rules as such but we do monitor all of the above. We work from a skill balance perspective.

> There are no rules, but there is an expectation that as a female-based organization there will be at least fifty per cent female board membership. Size is an issue regarding quorum, with no set ideal number prescribed.

These responses reveal the greatest difference in opinion between supervisory and managerial board responses to the questionnaire, reflecting the role of the supervisory board as rule creators and the managerial board as a seemingly forgetful or ignorant rule receiver.

After being asked to reflect on their current corporate governance practice, participants were asked: 'How could your board enhance its makeup?' With sufficiently sized and active (Firth et al., 2007) boards linked to organizational performance, this question was seeking to draw out potential interventions that might optimize corporate governance's contribution to organizational performance.

Nine concepts were able to be coded in the primary data received in response to the survey question. The respondents emphasised different types of diversity to that of gender diversity raised in the initial question, broadening diversity to encompass age, ethnicity and industry experience. The most common response was that younger people should be identified and developed for their ability to participate as board directors. The second most common responses were that directors with health industry expertise should be recruited and the board should delegate more of its succession planning roles to be managed by committee.

Qualitative analysis reveals the perceived methods by which better board composition could be achieved. Supervisory board chair people perceived a need for:

> Geographical balance.
>
> More work could be done on identifying and developing younger members, possibly on a collaborative basis with like organizations.

Similar themes were expressed by managerial board and chief executive respondents who said:

> The board should be more representative of its organizational demographic, for example the health workforce is mainly female. Also the board should have more young people and of Asian representation.

Other managerial board and chief executive respondents made the case better for merit and skills selection, saying:

> Appoint people with industry experience at a strategic level.
>
> Perhaps a member with high experience in operating another industry, but need to be careful how this impacts on CEO. I think it depends a bit on the operational background and industry experience of the current CEO. Do not want too many directors with operational experience.

The emphasis the respondents placed on current practices for board director selection, even if such practices are not seen as rules, reveals that board directors perceive sufficiently active, well sized boards as a contributor to achieving organizational performance, warranting active, well sized boards for inclusion in Table 7.2 as an element of a larger group of methods by which two-tiered governance is perceived by participant directors as being able to contribute to organizational outcomes.

7.2.11 Independent supervisory board

Firmly independent (Velte, 2010) supervisory boards within two-tier board structures have been linked to organizational performance. To understand if this factor operated within the current governance practice of the study cohort, participants were asked: 'To what extent do you consider the two boards, being the supervisory and management boards, to be independent of each other?'

Eleven concepts were able to be coded in the primary data received in response to the survey question. The most common response was that the separate roles of the two boards are sufficiently defined to allow independence (n = 11).

Qualitative analysis of the responses of the two groups revealed that both perceive the two boards as sufficiently independent. Supervisory board respondents said:

> I believe an appropriate level of independence is present.
>
> Both have very clearly defined roles and respect each other's territory completely. Both operate independently within their authority and responsibility.
>
> There is the ideal 'loose/tight' arrangement in accordance with the respective charters.

Managerial board and chief executive respondents expressed similar perceptions saying:

> The trustees are independent of the board in that they are not operationally focused and do not take part in day-to-day decision making. The board makes decisions and only refers to the Trustees for decisions outlined as requiring this in the constitution.
>
> Completely independent and critical it be so.
>
> I think we have a good understanding of our respective roles and are not afraid to review and critically question the relationship.

One managerial board or chief executive respondent provided a unique perspective saying:

> This is a new format for us as the supervisory board of governance has only just been introduced. My sense as a board member is one of relief that the burden of responsibility is being checked. Other board members do not have the same attitude. However, time will sort this out.

After being asked to reflect on their current corporate governance practice, participants were asked: ‘How could the independence of the supervisory board from the management board be enhanced?’ With firmly independent (Velte, 2010) supervisory boards within two-tier board structures linked to organizational performance, this question was seeking to draw out potential interventions that might optimize corporate governance’s contribution to organizational performance.

Six concepts were able to be coded in the primary data received in response to the survey question. The most common response was that no method could optimize the independence of the boards (n = 6). The second most common response was to more clearly define the role separation of the two boards (n = 3).

The qualitative analysis of responses of the managerial board and chief executive group seek greater clarity on roles and responsibilities of the two boards. Participants from this group said:

> Clarity of role, clarity of engagement would improve.
>
> It is important that there is a clear understanding of roles and this is well documented. It then must be reinforced through an open and transparent relationship.
>
> Clear and agreed responsibilities and accountabilities.

The affirmation that the governance participants of the two-tiered boards perceive their boards as independent of each other demonstrates the value they place on the two boards operating separately. This emphasis of the practices the two boards having separate roles and responsibilities to enable their independence warrants inclusion in Table 7.2 as an element of a larger group of methods by which two-tiered governance is perceived by participant directors as being able to contribute to organizational outcomes.

7.2.12 Professionally matched two-tiered boards

Two-tiered boards that comprise members with appropriate professional knowledge and work experience (Shan & Xu, 2012) have been linked to organizational performance. To understand if this factor operated within the current governance practice of the study cohort, participants were asked: ‘To what extent do the professional knowledge and work experience of the members of the supervisory board match the performance requirements of the organization?’

Seven concepts were able to be coded from the responses to the survey question. The most common response was that the supervisory board lacked sufficient professional skills (n = 4). The second most common response was that a good relational match between the two boards was present (n = 3).

The qualitative analysis of the responses reveals disagreements between all respondents about the perceived current match of professional skills between the boards. One group of respondents said:

> We have a good match with most members having a good understanding of their role and of the activities of the organization.
>
> I believe the supervisory board is well placed, with its current membership to be able to match the performance requirements of the managerial board.
>
> Good match. Broad range of experience.

Yet the other group of respondents said:

> At present there is not a strong match. The numbers of the supervisory board are not as great as the board. Professional knowledge has not been a criterion.
>
> Severely mismatched. The management board has many experienced directors from the private, public, government and listed space. The supervisory board has little listed experience.
>
> The role of the Trustees is continually evolving and therefore changing. This results in an inevitable mismatch at any point in time, however sound succession planning taking into consideration the required skill mix addresses this issue over time.

After being asked to reflect on their current corporate governance practice, participants were asked: 'How could the skills mix of the supervisory board be enhanced to better match the performance requirements of the organization?' With two-tiered boards comprising members with appropriate professional knowledge and work experience (Shan & Xu, 2012) linked to organizational performance, this question was seeking to draw out potential interventions that might optimize the contribution of corporate governance to organizational performance.

Six concepts were able to be coded in the primary data received in response to the survey question. Two responses received equal recognition (n = 3); the first was to articulate the necessary attributes of supervisory directors; the second was to provide better clarity of the supervisory director's role.

The qualitative analysis of the responses reveals clarity as to the roles of the two boards and articulation of the desired attributes of ideal directors for each board would benefit the skills match of the two boards. Of the potential for greater clarity it was said:

> It is important that there is some connection and understanding by the leadership of the supervisory board of the business of the management board.

> Clarity regarding role and then review skills required.

> Engage members who better understand director responsibility and boundaries.

Of the potential for better articulation of director attributes, it was said there would be benefit from:

> Developing a clear view of the attributes of a well formed director and formation programmes directed at achieving these attributes.

> There does need to be skill expertise from the health and aged care industry on the supervisory board in order to gain credibility with stakeholders in my view.

The disagreement of participants revealed in the qualitative analysis of perceptions that they either currently had or currently lacked a well matched supervisory board, together with the view that greater role clarity and better articulation of director attributes would enable a better match of the supervisory board, are consistent with the findings of the literature that a better matched supervisory board would aid organizational performance. The emphasis, in particular, of the current mismatch of the composition of some supervisory boards to the performance needs of organizations suggests respondents perceive performance would be enhanced by a better matched board. It is as though identifiable tension in the relationship of the two boards arises where the professional match of the supervisory board does not meet the organization's performance needs, and that the attainment of a professional match would ameliorate organizational tension that distracts the governance function from the focus on organizational performance. On the grounds that a good professional match of the supervisory board to organizational performance requirements could be seen to ameliorate tensions with the managerial board, its inclusion in Table 7.2 is warranted as an element of a larger group of methods by which two-tiered governance is perceived by participant directors as being able to contribute to organizational outcomes.

7.2.13 Summary of qualitative primary data analysis findings

The cohort who responded to the questionnaire is a small and elite group. They represent the only directors of two-tiered not-for-profit hospitals in Australia. The group is the first and only known cohort of two-tiered board directors in Australia to be subjected to research. The perceptions they have offered are, accordingly, valuable because of the unique insight they offer into the workings of two-tiered governance of not-for-profit organizations.

Each individual perception offered by the participants is valuable to other researchers interested in the phenomenon of two-tiered not-for-profit governance. The insights will be particularly of interest to the elite group practising two-tiered governance. Because of this value, and the insight provided into the answer of the research question, Table 7.1 provides a summary of the responses that were able to be coded from the responses to the questions of how the 12 factors derived from literature and presented as a framework in Chapter 3 are practiced and able to be enhanced.

In presenting the insights in Table 7.1 and grouping these insights against the 12 factors derived from literature, the reader is reminded that relationships between the insights and the 12 factors have not been tested or further scrutinised. The qualitative method of the study did not lend itself to further validation of the relationships between the insights and 12 factors. They are presented in Table 7.1 for the benefit they offer as proposed relationships, and should be interpreted for the potential they offer coupled with their need for further research and validation.

Similarly, the data presented in Table 7.1 and in this chapter should be interpreted with the disadvantages of the sample from which it was collected in mind. The sample was particularly small. The sample draws from a homogenous group. The sample knew me as a researcher through my professional role. Had a larger sample been utilised, data may have been richer and yielded deeper insights from which conclusions could have been drawn. However, given the novel nature of two-tiered governance practice in Australia the findings that arise from the data are on balance highly valuable in providing new knowledge of perceptions about two-tiered governance's contribution to organizational outcomes.

Table 7:1: Director perceptions of framework components in practice

Dynamic	Director perceptions of methods currently applied to achieve the specific dynamic	Director perceptions of methods that would enhance achievement of the specific dynamic
Functionality	Board evaluation Focused agenda Clear governing documents Consensus seeking Articulated goals Director selection Skill mix Clarity of director role New member orientation Communication Director training Board KPIs Individual meeting evaluations Chairperson's leadership Supervisory board monitoring Informal meetings outside of board meeting Annual meeting plan Use of committees Strategic planning Reflection Accreditation survey Risk management Delegation authority Compliance reporting	Board review as composition changes Externally conducted board effectiveness review Mission effectiveness audit Informal director only meetings Relationship building Exposure to senior management Fewer, longer meetings Less committee decisions More inclusive board decisions Board role in succession Better communication Stakeholder feedback
Monitor defined performance	Not supervisory board responsibility Expectations are defined by KPIs Policy (not outcomes) Benchmarking and client feedback Attainment of strategic objectives Financial targets set Risk appetite determined Service targets set Values/behaviours set CEO KPIs linked to remuneration Supervisory board articulation of outcomes Mission health checks	Mission outcome measures Client feedback Growth targets Board question of CEO assumptions KPI cascade through management Future scenario planning More explicit board expectations of management

Dynamic	Director perceptions of methods currently applied to achieve the specific dynamic	Director perceptions of methods that would enhance achievement of the specific dynamic
Strategic input	Managerial board determines, supervisory board receives strategy Joint task of supervisory/managerial boards Set high level vision Board actively participates in strategy planning	More critical questioning More meeting time committed to strategy Appointment of health industry expert Better articulate board's strategic expectations
Participative boards	According to available skills Only when asked Through committees Not all contribute Chair contributes most	Mentoring Role of chair Director assessment Creating environment for expression of views Director education Task allocation to director strengths Committee participation
Transparency	Annual report AGM or member report Performance reviews Board term limits Review against KPIs Board meeting evaluation Report to supervisory board Board evaluation Minutes of meetings Auditors Charities regulator Community obligation	Current transparency sufficient Board reviews Collegial, informal relationships More managerial board information to supervisory board Executive staff presentations to Supervisory board Mission metrics Board communications within organization about decisions and plans
Ownership	Sufficient reward provided Insufficient financial reward provided Thank you events for directors Intangible benefit of 'giving back' is sufficient reward	Less meeting time Market benchmarked remuneration
Donor monitoring	Funders have no role in governance Would create conflict Managerial board engages with payers and financiers Premise of question flawed Funder relations is executive responsibility	No method Informal interaction at social events Service consumer role in governance Communication to funders on governance structure, director and executive capabilities, and achievements Funder negotiations through trade association or purchasing collective

Dynamic	Director perceptions of methods currently applied to achieve the specific dynamic	Director perceptions of methods that would enhance achievement of the specific dynamic
	Informal interaction at social events	Participation in advisory boards
Resource attraction	No role Through managerial board appointments Liaison role with external supporters Support to executive Resource strategy in place Through staff attraction and retention	No methods Liaison role with external supporters Selection of board members skilled in resource attraction Director introductions to their personal networks Incentivise director participation in resource attraction Annual agenda item for board Resource attraction through trade association or collective
Governance stability	Low turnover achieved High turnover Average Insufficient turnover requiring tenure limit	No method Planned succession New member induction before board appointment Annual chairperson review Tenure limits
Active, well sized supervisory board	Size set by governing document No size set No gender ratio required, but in practice equal balance sought Skills mix influences selection Supervisory board process to appoint managerial board members Incentive for younger board member participation	Geographical representation Develop younger board member pool Collaborate with similar organizations Board delegate succession to committee Use of advertising Insist on gender balance Seek independent members Recruit industry expert director Remove supervisory board role in managerial board appointments
Independent supervisory board	Separate roles of each sufficiently defined Ideal 'loose/tight' arrangement Some 'grey areas' or 'work in progress' Chair to chair communication in place Relief that supervisory board checks managerial board Tension that supervisory board checks managerial board Critically question the relationship of boards	Better resource the supervisory board Supervisory board high level view, managerial board operational view More defined role clarity Managerial board provide all paperwork to supervisory board Prohibit former managerial board or executive staff serving on supervisory board No method

Dynamic	Director perceptions of methods currently applied to achieve the specific dynamic	Director perceptions of methods that would enhance achievement of the specific dynamic
Professionally matched two-tiered boards	Supervisory board skill set does not replicate managerial board Supervisory board takes high level view, managerial board takes operational view Mismatched skills mix has arisen Shortage of suitable directors constrains match Good relational match Supervisory board lacks professional skill Supervisory board has good mission skill	Foster a larger pool of potential directors Articulate necessary supervisory director attributes Single skills matrix for the two combined boards Better clarity of role and duties No method Avoid duplication of role via director selection

7.3 Addressing the research question

The research question asked: 'What governance practices are perceived by two-tiered board directors of Australian not-for-profit hospitals as contributing to organizational performance?' The analysis of the questionnaire data allowed the research to deduce that nine of the 12 factors of the literature-derived framework were perceived to be contributing to organizational performance by two-tiered board directors of Australian not-for-profit hospitals. Three were not. Table 7.2 provides a summary of director perceptions of how two-tiered governance is practiced in a method relevant to each of the 12 factors derived from the literature as linking governance and organizational outcomes.

Table 7:2: Director perceptions of how framework components contribute to outcomes

Dynamic	Governance practice method relevant to the Factors contributing to organizational performance	Does data validate contribution to organizational outcome?
Functionality	Board reviews Director selection Relationship building	Yes
Monitor defined performance	Management's remuneration being tied to achieving targets Explicit articulation of targets	Yes
Strategic input	Managerial board responsible for strategy articulation	Yes
Participative boards	Best fostered by board chairperson	Yes
Transparency	Supervisory board holding managerial board accountable	Yes
Ownership	None able to be validated	No
Donor monitoring	None able to be validated	No
Resource attraction	None able to be validated	No
Governance stability	Succession management	Yes
Active, well sized supervisory board	Practices for board director selection	Yes
Independent supervisory board	Practices of separate roles and responsibilities for two boards	Yes
Professionally matched two-tiered boards	Confidence of managerial board in supervisory board with skills matched to organizational performance need	Yes

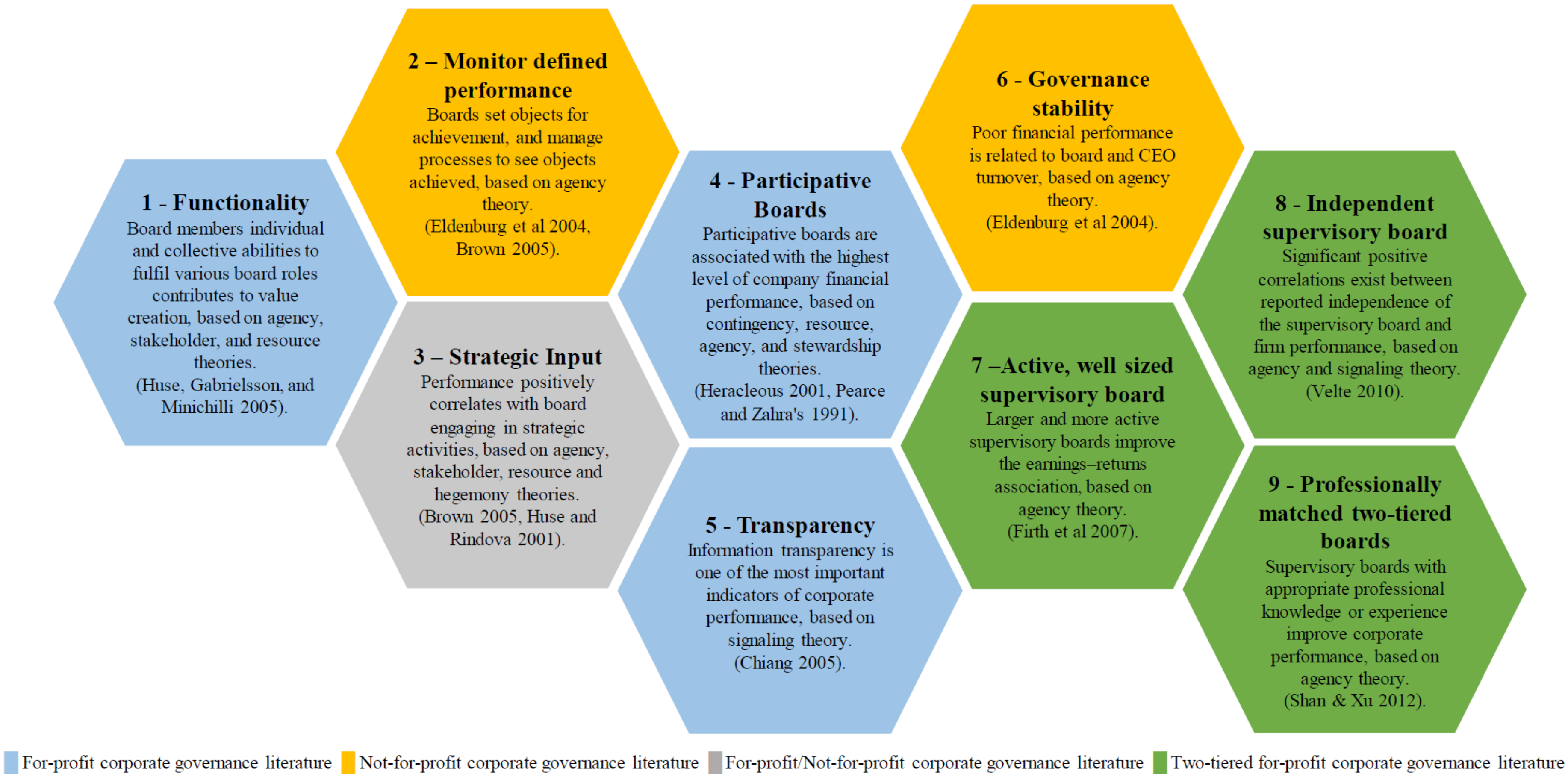
Table 7.2 presents refinement of what was learnt from the literature to provide nine dynamics that both the literature and the data analysis support as answering the research question.

7.4 Conclusion: Refining the framework

The qualitative analysis presented in section 7.3 and then summarised in Table 7.2 concludes that nine of the 12 factors of the literature-derived framework first presented in Chapter 3 are perceived by two-tiered board directors of Australian not-for-profit hospitals as contributing to organizational performance. The nine are functionality, monitoring defined performance, strategic input, participative boards, transparency, governance stability, active and well sized supervisory boards, independent supervisory boards, and professionally matched two-tiered boards. Of the original 12, the three dynamics of ownership, donor monitoring and resource attraction were not perceived as contributing to organizational outcomes by participants.

The 12 factors of the literature derived framework were first presented at Figure 3.1. Figure 7.1 applies the findings of the primary data analysis to produce a framework validated by the study.

Figure 7:1: Revised framework



Chapter 8: Conclusion

8.1 Introduction

The aim of this exploratory research was to reveal: 'What governance practices are perceived by two-tiered board directors of Australian not-for-profit hospitals as contributing to organizational performance?'

Through my research, I first identified 12 practices in the corporate governance literature that linked governance and organizational outcomes, outlined in Chapter 3 and presented in Figure 3.1.

After gathering structured interview primary data from an elite group of directors of Australian not-for-profit hospitals with two-tiered boards, I first identified three practices perceived as contributing to organizational outcomes, followed by a further nine presented in Chapter 6 from analysis of the interviews through the lens of corporate governance theories. One practice – the improved contribution of two-tiered board capability over time – was common to both the thematic and corporate governance theory analysis, resulting in 11 practices being revealed across Chapters 5 and 6 that addressed the research question.

After gathering questionnaire primary data, presented in Chapter 7, to explore the resonance of the 12 factors identified in the literature, nine of these practices were presented in Figure 7.1 as factors perceived by directors of Australian not-for-profit hospitals utilizing two-tiered boards as enabling governance to contribute to organizational performance.

The 11 practices revealed from analysis of the qualitative interviews, when combined with the nine supported through analysis of the questionnaire responses, leads to my conclusion that 20 governance practices are perceived by two-tiered board directors of Australian not-for-profit hospitals as contributing to organizational performance. The presentation of these 20 practices suggests an answer to the research question.

In this final Chapter I revisit the origins of the research question, the method used to conduct the study, and briefly describe the 12 key findings from the extant corporate governance literature that link governance and organizational outcomes. I then restate the main perceptions of directors of Australian not-for-profit hospitals with two-tiered boards of governance about practices linked to organizational performance, before presenting, in Figure 8.1, the 20 governance practices my research reveals as contributing to organizational performance.

Finally, I discuss the limitations of this research, the opportunities for future research, and the implications for governance practice and organizational performance that arise from my exploratory research.

8.2 The research question, and why it was asked

The research question is: 'What governance practices are perceived by two-tiered board directors of Australian not-for-profit hospitals as contributing to organizational performance?' The question was prompted from my own experience of two-tiered boards and the limited recognition of two-tiered boards as a method of not-for-profit hospital governance in Australia. I was curious to understand whether governance participants perceived two-tiered boards as helping or hindering organizational performance, and if so, by what means?

8.3 The research method, and why it was adopted

In the first instance, I had to establish how prevalent the two-tiered board mode of governance was to inform the likely significance of the intended study. This involved quantitative analysis of secondary Australian Government Department of Health held data combined with analysis of annual reports of all licensed Australian private hospitals which revealed two-tiered boards were used by 16.3 per cent of Australian not-for-profit hospitals, which, together, operate 22.6 per cent of all private hospital beds in Australia. This finding affirmed the nature of the research question as sufficiently relevant for the study to be of value.

In addressing the research question, I employed a variety of methods. As I was seeking to understand how directors perceived the effectiveness, or not, of the two-tiered governance practices of Australian not-for-profit hospitals in contributing to organizational outcomes, qualitative primary research was an appropriate method to employ. In the first instance, I conducted semi-structured interviews with an elite group of directors of Australian not-for-profit hospitals with two-tiered boards to gather their views, and then followed this with a questionnaire of the same group to gather further primary data. This multi-strand approach is common to qualitative studies, which often employ more than one method to answer the research question to better explain findings of data (McNulty et al., 2013).

8.4 Summary of the framework

My review of for-profit, not-for-profit, and two-tiered corporate governance literatures identified 12 practices linking corporate governance to organizational performance. These 12 factors informed the approach to data collection and created a context for part of the answer to the research question to emerge.

For-profit corporate governance literature established a corporate board's exercise of strategic influence (Huse & Rindova, 2001), its participative nature (Heracleous, 2001), its level of transparency (Mitton, 2001), and its ownership of stock (Bhagat & Bolton, 2008) as contributing to organizational performance.

The not-for-profit corporate governance literature established active participation of major donors on boards (Brown, 2005), the engagement of board directors in resource gathering (Brown, 2005), and board and chief executive officer turnover (Eldenburg et al., 2004) as contributing to organizational performance.

The two-tiered corporate governance literature established sufficiently sized and active supervisory boards (Firth et al., 2007), firmly independent (Velte, 2010) supervisory boards, and supervisory boards comprising members with appropriate professional knowledge and work experience (Shan & Xu, 2012) contribute to organizational performance.

8.4.1 Practical potential of the framework

The 12 practices linking corporate governance and organizational performance identified in the corporate governance literature offer practitioners and beneficiaries of corporate governance in both the for-profit and not-for-profit sectors with guidance on how board directors can focus their actions to aid organizational performance.

The 12 practices offer guidance to individual board directors seeking to see their governance efforts contribute to organizational performance, just as they offer guidance to entire boards or institutions wanting board directors to enhance governance's contribution to organizational outcomes.

The 12 practices may also be of use at each spectrum of different for-profit and not-for-profit markets within which organizations operate. In open markets, stakeholders may seek to determine the extent to which governance practices of organizations reflect some or all of the 12 dynamics in analysing those organizations best positioned for optimal performance. In less open markets, regulators may seek to require organizations to adopt some or all of the 12 practices to best position organizations to achieve optimal performance as a means of enhancing the productive capacities of state economies.

8.4.2 Limitations of the literature-derived framework

The 12 practices linking corporate governance and organizational performance derived from the corporate governance literature do not specifically arise from studies assessing perceptions of board directors in Australian not-for-profit hospitals with two-tiered boards. Accordingly, they do not answer the research question.

Similarly, the novel approach of combining the 12 practices into a framework of itself does not confirm the model's efficacy in practice. Arising from separate studies conducted with differing methods and in differing contexts, the framework has not been tested, the individual practices have not been analysed to determine if each should be given differing weightings within the model, and the three separate literatures from which they have been drawn risks that the framework may be either impractical to implement or incompatible with the operations of some organizations.

8.5 Director perceptions about how two-tiered governance is practiced

Nineteen elite practitioners of two-tiered governance in Australian not-for-profit hospitals shared their perceptions of two-tiered governance during hour-long interviews. These interviews and the subsequent analysis of interview transcripts provided the initial primary data to inform the study's conclusion.

The primary data presented in this study is unique. No previous study in the English language has analysed two-tiered board directors' perceptions of their practice of two-tiered governance.

Two-tiered governance in Australian not-for-profit hospitals was perceived by governance participants as operating in a historical context, where the formal two-tiered boards had been established to mimic or mirror a previous less formal approach to governance. Participants perceived their governance practice as novel and still evolving, and they noted that there is a dearth of education or guidance to inform how the supervisory board role, in particular, should be conducted. Organizational constitutions and board policy documents did not sufficiently provide for clarity of responsibilities between the two board tiers, and the working relationship between the two boards was perceived as being partly personality dependent.

In considering advantages of two-tiered governance, with an average number of 16 people acting as either supervisory or managerial board directors of each organization within the study, the availability of skills and capacity to contribute working hours to organizational needs was perceived as being greater than in organizations with a single board where the total number of board directors would, on average, be less than 16.

The interviewees identified the key weakness of two-tiered governance as uncertainty of board roles or, specifically, the separation of powers between the supervisory and managerial boards. The perception that either board within a two-tiered board structure can second-guess the other or inefficiently duplicate the work of the other was identified by two-tiered board directors as a challenge to the efficacy of the novel governance arrangement. The very presence of the supervisory board was also perceived as giving rise to the possibility of the managerial board avoiding some of their responsibilities.

8.6 Governance practices perceived as contributing to organizational performance

The research question was answered by the conclusions reached and presented in Chapters 5, 6, and 7.

Chapter 5, drawing on analysis of interview data, concluded the existence of two-tiered boards expanded the governing group's collective wisdom, the supervisory board's focus on mission checked and balanced the operational board's priorities on business management, and a contribution of two-tiered governance to organizational outcomes may also become more likely as two-tiered governance practice matures over time.

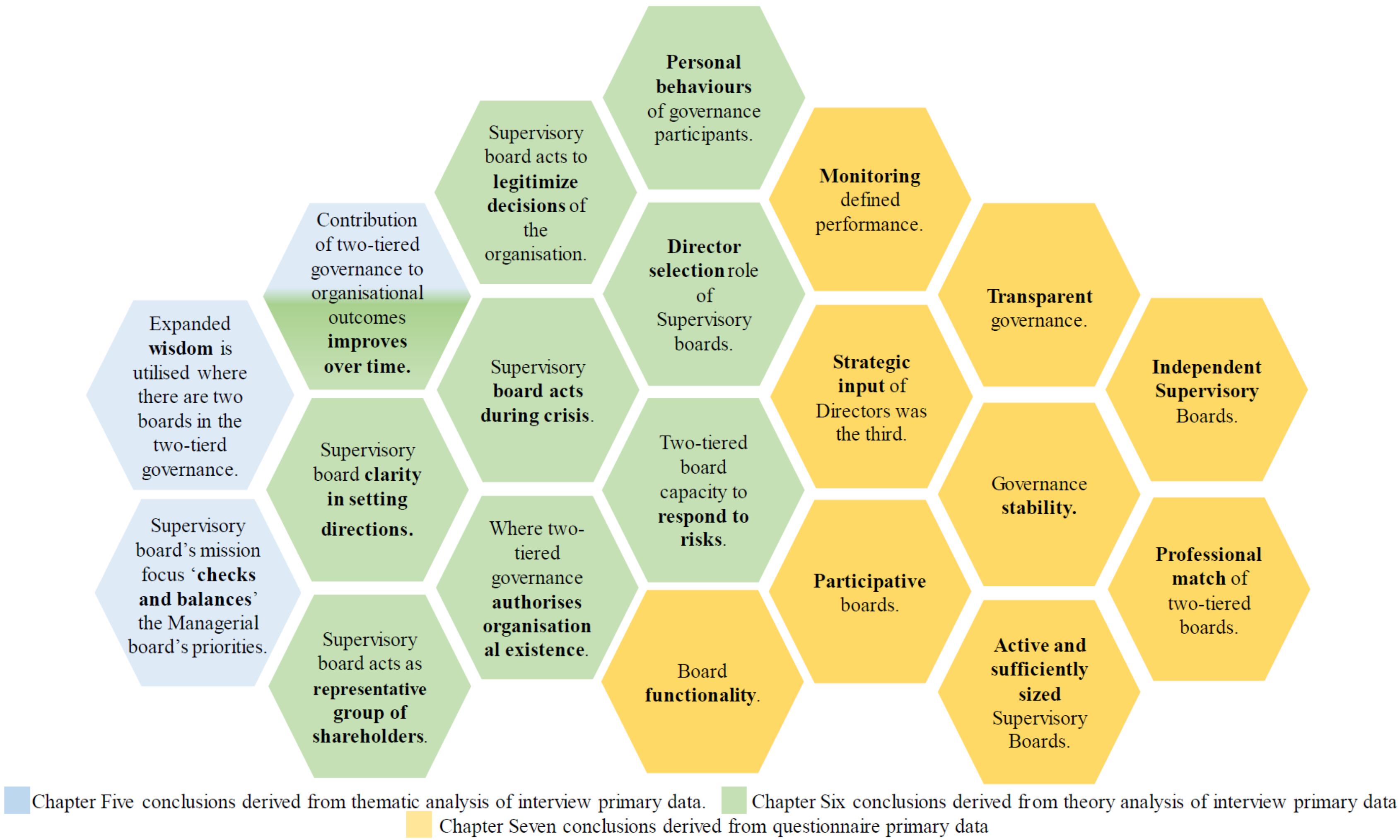
Chapter 6, also drawing on analysis of interview data, but considered through the lens of the corporate governance theories, revealed nine governance practices perceived as contributing to organizational performance. The first was when the supervisory board was clear in setting directions, consistent with stewardship theory. The second was when the supervisory board acted as the representative group of shareholders, consistent with stakeholder theory. The third and fourth were when the supervisory board acted to legitimize the decisions of the organization and acted during crisis, both consistent with hegemony theory. The fifth and sixth were where the establishment of two-tiered governance enabled organizational existence, and when the practice of two-tiered governance improved over time, both consistent with lifecycle theory. The seventh and eighth were the personal behaviours of governance participants, aided by the director selection role of supervisory boards, both consistent with behaviour and commitment theory. The ninth was when two-tiered boards provided capacity to respond to risks that might otherwise adversely impact the organization, consistent with contingency theory.

The improved contribution of two-tiered board capability over time was identified in Chapters 5 and 6. Noting this common conclusion, the two chapters identify 11 practices that contribute to answering the research question.

Chapter 7, drawing on questionnaire primary data to test the resonance of the 12 factors derived from literature as linking governance and organizational outcomes concluded that nine of the factors were perceived by the elite participants as able to contribute to organizational performance. Board functionality was the first, achieved through board reviews, director selection processes, and relationship building between the two boards. Monitoring defined performance was second, achieved through explicit articulation of performance targets and management's remuneration being tied to achieving those targets. Strategic input of directors was the third, achieved by the managerial board leading the responsibility for strategy articulation. Participative boards was the fourth, achieved by the leadership of the board chair persons. Transparency of governance was the fifth, achieved by the supervisory board acting to hold the managerial board to account. Governance stability was the sixth, achieved by planned succession management. Active and sufficiently sized supervisory boards was the seventh, achieved by clear policy and practice for board director selection. Independent supervisory boards was the eighth, achieved by clear practices to assure separate and defined roles and responsibilities for the two boards within the two-tiered governance structure. Professionally matched two-tiered boards was the ninth, achieved when the managerial board had confidence in the supervisory board, and that supervisory board had skills matched to the performance needs of the organization.

Of the conclusions drawn in Chapters 5, 6, and 7, and noting a common conclusion reached in each of Chapters 5 and 6, a total of 20 practices were perceived as able to contribute to organizational performance by board directors of Australian not-for-profit hospitals with two-tiered boards. While the findings arise from data collected from a small sample of directors drawn from a narrow field in not-for-profit hospital governance, and noting the untested applicability of these findings to governance practice in other industry or sectors, the identification of these practices nonetheless provides an answer to the research question. Figure 8.1 presents the twenty practices.

Figure 8:1: The 20 practices that answer the research question



8.7 The limitations of this research

This exploratory study is unique in that it reveals perceptions of governance participants of the workings of two-tiered boards. The study also has its limitations that include reliance on different literatures, use of a small homogenous sample, and potential weakness in data analysis methods. A significant weakness is that the perceptions relied on to inform the study's findings are merely the views at a point in time of the participants. Each of these limitations are discussed below.

8.7.1 Reliance on different literatures

The study relied significantly on literatures drawn from three different fields of corporate governance: the for-profit literature, the not-for-profit literature, and literature on two-tiered boards. Information from these different literature areas was mixed to present a framework of 12 factors linking governance and organizational outcome, without regard for inherent differences of the three schools of governance thought. The reader should allow for limitations arising from the combining of evidence from three literature sources. It is for this reason that the presentation of the framework in Figure 3.1 seeks to advise the reader of the different literatures from which each of the 12 dynamics were drawn.

The study was further limited by the very small volume of two tiered literature available to draw upon. While one of the unique contributions this study makes is it expansion of knowledge on the existence of two-tiered boards in Australia and its previously unreported practice within Australian not-for-profit hospitals, the study was not informed by a detailed understanding of two-tiered boards that might otherwise have been possible had more studies on the topic in Anglo-US environments been previously undertaken.

The literature review and the subsequent identification of the framework was further constrained by reliance on literature published only in English. Given two-tiered board practices are more common in Germany, China, and other non-English speaking countries, there is likely to be literature in the relevant languages that was not accessed. The potential for additional literature gives rise to the possibility that previous studies have revealed more than 12 practices that link corporate governance to organizational performance. The lack of certainty about further possible practices denies the study the claim that only 12 link corporate governance and organizational performance. The potential discovery of additional practices would have altered the approach taken to the engagement with data gathering and analysis.

8.7.2 Weakness related to the literature derived framework

The linking of 12 practices where corporate governance has been found to contribute to organizational performance draws on findings of studies conducted in different contexts using different methods. The original authors of these studies did not likely intend their findings to be combined.

It is unclear if the 12 practices can be linked with each other so as to have a positive impact on governance's contribution to organizational performance. The answer to this question was not sought in this exploratory study. It may be that some of the 12 practices should be weighted for different prominence when applied, or that different outcomes might result in different governance and organizational settings. Readers should approach the framework aware it comprises a compilation of extrapolated findings from three different corporate governance literatures, and that, in the absence of further testing, it is not possible to conclude what the impact of all 12 being emphasised within governance practice might result in.

8.7.3 Weakness of the sample group

The sample size for the study was unavoidably small. There being only a small number of two-tiered boards in Australia, the research is limited by the modest group of participants.

The sample group is also a homogenous one. Two-tiered board use in Australia appears unique to religious bodies, particularly the Catholic Church and, as such, the perceptions of two-tiered governance and its practice revealed in the study were provided by participants of similar personal values, experiences and loyalties to the Catholic Church. The reader should consider these biases of the participants, and the context within which governance of church enterprises occurs. As an insider researcher, the researcher's personal perspective and bias should also be noted as similar to that of the participants.

While participants held similar values and loyalties, they did not all possess similar governance experience or ability to analyse their place in their governance structure. Some participants had long established directorship histories, others had little. The differing levels of governance experience had a bearing on the contribution of some to provide useful data on governance practice and its contribution to organizational outcomes. This differential in data supply impacted the quality of data reported and its subsequent analysis.

8.7.4 Weakness of data analysis

The study relies on researcher analysis of participants' perceptions. There exists a risk of researcher bias in the data interpretation. This risk was sought to be mitigated by conducting the questionnaire to validate the 12 factors of the literature derived framework with director perceptions of their practical link to organizational outcomes.

The initial 12 dynamics linking corporate governance to organizational outcomes resulted in a limited range of considerations being put to participants in this exploratory study to validate as operating to contribute to organizational outcomes within their organization. This use of 12, while providing a focus for the questionnaire, limited the potential for other governance dynamics to emerge. The approach of asking governance practitioners to identify if a briefly described practice was perceived as contributing to organizational outcomes gave rise to interpretative variance in how participants expressed their perceptions. This interpretive variance weakens the approach to coding of different participant perceptions. While analysis of perceptions of board directors is recognised as a valuable research method (Veltrop et al., 2015), the findings of the study rely on what are merely the views of a group of board directors of differing governance experience at a particular point in time.

Finally, the presentation of the 20 governance practices perceived as contributing to organizational outcomes addresses the research question from the perspective of two-tiered board directors in Australian not-for-profit hospitals at a specific point in time. Different answers might arise from different director groupings across different sectors at a different point in time.

8.8 Opportunities for further research

The 20 governance practices perceived as contributing to organizational outcomes lend themselves to future testing in other settings. This exploratory study was able to identify perceptions about the practices and their perceived role in organizational outcomes, but the study did not seek to further validate their efficacy. Future research would ideally explore the interaction of the various practices, the weighting that might be given to separate practices to optimise organizational performance, and the potential of their applicability in varying organization types and methods of best translation into practice.

The theory, practice and the potential or costs of two-tiered governance warrants a wider evidence base. This thesis has presented a summary of identifiable English language literature on two-tiered boards and added to the field by detailing perceptions of two-tiered governance and its contribution to organizational outcomes within Australian not-for-profit hospitals. Further studies of two-tiered boards could focus on its particular potential to stakeholders in Anglo-US environments.

The study drew on governance dynamics described in the corporate governance literatures of the for-profit and not-for-profit sectors. This literature does not readily overlap or consider the key commonalities and main differences between for-profit and not-for-profit sector governance. Knowledge and experience transfer between the for-profit and not-for-profit sectors would be aided by future research considering governance issues common to the separate sectors, and providing evidence to inform better practice of governance for both for-profit and not-for-profit organizations.

Finally, and perhaps most significantly, there is need for research on what corporate governance approaches might best suit the not-for-profit sector. The not-for-profit sector has, in the main, adopted governance practices that were designed for and have proven suited to use by for-profit corporations. The purpose of corporate governance is to ensure a return on investment to those providing capital to corporations (Schleifer & Vishny, 1997). Yet those providing not-for-profit organizations with resources to achieve social purposes do so not expecting a direct return on their capital but rather a larger common good outcome. The unchallenged manner of not-for-profit governance mirroring for-profit governance despite, very different organizational purposes of mission rather than profit margin, invites further research to inform the potential for governance reform that might lead to new not-for-profit governance models. In particular, the common requirement of for-profit corporate governance practice and corporate law codes that requires board directors to 'act in best interests of shareholders' should be researched for its current success and future relevance to not-for-profit governance to determine, in the absence of shareholders, who or what it is not-for-profit board directors should act on behalf of.

8.9 Implications for governance practice

The presentation of 20 governance practices perceived as contributing to organizational outcomes offer governance practitioners, shareholders, stakeholders and regulators alike potential for improvement of evidenced based governance practice. The governance practices identified could inform best practice guides for governance focused on how board directors can contribute to organizational outcomes.

Two-tiered governance is a method of corporate organization that may be beneficial to both for-profit and not-for-profit bodies currently using single tiered boards. The identification of the two-tiered format in Anglo-US governance environments, confirmation of its wide use internationally, and the perceptions of its use detailed in the thesis can inform its potential for adoption by other bodies. Of course, the perceptions of two-tiered governance discussed in the study findings suggest adoption of two-tiered governance should not be entered into lightly. Its rare use in Anglo-US environments means there is little practical experience and evidence available to inform best practice, noting this thesis has added new understanding to an otherwise sparse field. An immature method of governance in Anglo-US environments, best practice two-tiered governance is yet to emerge to inform how organizations interested in its adoption might establish it effectively.

8.10 Conclusion

The research sought to determine from two-tiered board directors of Australian not-for-profit hospitals what governance practices they perceived as able to contribute to their organizational outcomes. The exploratory study findings answered that question, with 20 different governance practices being identified as perceived as linking two-tiered board governance to organizational performance. The thesis offers researchers and governance stakeholders alike new knowledge on previously unrevealed board director perceptions of two-tiered governance. In doing so, it offers new knowledge of a novel framework focused on lifting governance’s contribution to organizational outcomes.

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Annexure 1: Interview questions asked of participants

1. By way of background, can you list your current or most recent professional role and can you list your current or most recent governance roles?

2. Why does your organization utilise a two-tiered board structure?

3. Describe the nature of the relationship between the two boards.

4. What does each board do, and how do their roles differ?

5. Do both boards have board charters or documents describing their working arrangements? What do these documents detail? Are they available for this research?

6. Can you cite an example of when the two boards have worked well to address a business matter?

7. Can you cite an example of when the two boards have not worked well to address a business matter?

8. How does the two-tiered board structure help or hinder governance? Can you cite an example to support your answer?

9. How does the two-tiered board structure help or hinder organizational performance? Can you cite an example to support your answer?

10. Does having two-tiers of governance require different director practice from that of unitary boards?

11. What factors enable the success of two-tiered board governance?

12. What factors weaken two-tiered board governance?

13. If starting your organization from scratch, would you design it with a two-tiered board structure?

14. Has your board defined desired performance for the organization? What, if any, metrics does the board use to define desired performance? How does the board monitor if this performance is achieved? Does the board monitor its own contribution to this performance, and if so, how?

Annexure 2: Questionnaire of participants

1) What methods are used to ensure your board functions well as a board?

2) What additional methods could be used to enhance the functionality of your board?

3) How has your board defined expectations about organizational performance (if at all)?

4) What more could your board do to define its expectations about organizational performance?

5) Has your board set rules about its make up to determine its ideal size, its gender balance, or how it brings independent members to it? If so, what are these?

6) How could your board enhance its makeup?

7) Describe how your board contributes to the strategy of the organizational?

8) How could your board enhance its contribution to the strategy of the organization?

9) Do all members of the board contribute equally to the board's work and deliberations?

10) How could your board enhance the contributions of any member that may not contribute to the board's work and deliberations as much as other directors?

11) Do you consider yourself sufficiently rewarded for your role as a director?

12) In what ways, be they monetary or otherwise, do you think you could be better rewarded as a director?

13) What methods does your board use to hold itself as a board accountable for its actions?

14) What methods could the board adopt to be more transparent?

15) What methods does the board use to engage the major funders of the organization in its governance, if any? How effective are these?

16) What methods could the board adopt to engage major funders of the organization in its governance?

17) How do members of the board engage in resource attraction to benefit the organization?

18) What methods could the board use to better engage board directors in resource attraction to benefit the organization?

19) Has there been low board member and CEO turn over in the last five years?

20) What methods could be applied to reduce board member and CEO turn over?

21) To what extent do you consider the two boards, being the supervisory and management boards, to be independent of each other?

22) How could the independence of the supervisory board from the management board be enhanced?

23) To what extent do the professional knowledge and work experience of the members of the supervisory board match the performance requirements of the organization?

24) How could the skills mix of the supervisory board be enhanced to better match the performance requirements of the organization?