

## **CORPORATE GOVERNANCE APPLICABILITY AND THEORIES WITHIN NOT-FOR-PROFIT SPORT MANAGEMENT**

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### **Abstract**

This paper examines the role of corporate governance in non-profit sport organisations. Governance within the traditional business environment is a crucial issue for the ultimate success or failures of an entity. This study analyses if the structures and systems of governance within traditional business can be transferred to a sport organisation. The various governance theories are examined to assess their applicability within a sport organisation and the role of the board is also analyzed within the study. Finally, this paper examines areas of conflict which may arise relating to governance and concludes by offering a best practice approach to this integral issue within any modern sport organisation.

**Keywords:** Corporate Governance, Sport Management, Non-profit Sport Organisations, Board of Directors

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### **1. Corporate Governance in Sport Organisations**

The role of the sport organisation in relation to governance is manifold. The organisation is first and foremost responsible for the management of their sport and its activities within its governing area but also to act as an entity that is responsible for passing judgement on disputes and enforcing those judgements. The various facets that exists in the sport organisation in relation to governance makes it a unique and often complex issue for many sport governing bodies, and cannot be directly compared with organisations outside of the sporting sector. Despite a clearly established link between structures of governance and overall organisational performance in sport, an acknowledgement exists that research and the body of literature relating to this area must be increased (Forster, 2006; Hindley, 2003).

A single definition of sport governance is yet to be established, suggesting that the issue of governance within any organisation is a multi-faceted concern. It has previously been defined as 'the exercise of power and authority in sport organisations, including policy making, to determine organisational mission, membership, eligibility, and regulatory power, within the organisation's appropriate local, national, or international scope' (Hums and Maclean, 2004, p. 5). In contrast sport governance has also been described as 'the structure and process used by an organisation to develop its strategic goals and direction, monitor its performance against these goals and ensure that its board acts in the best interests of the members' (Hoye and Cuskelly, 2007, p. 9). Within these definitions some core themes present themselves: direction, power, regulation and control.

Governance in a sport organisation must provide a clear direction for the organisation that aligns with the mission and vision for the organisation. The delegation of power within the organisation is critical in order for each area of the organisation to operate and achieve results at the desired level. The issue of regulation in terms of sport governance is required to establish clear rules, guidelines and procedures for members and governed entities to adhere to and the concept of control, like direction, is to ensure that any decisions and activities undertaken by the board are strictly aligned with the overall objectives and best interests of the organisation. In relation to regulation and control, a good system of governance should incorporate the power to impose penalties on individuals or governed bodies who are not meeting compliance responsibilities (Ferkins et al., 2005; Hoye & Cuskelly, 2007; Hums & Maclean, 2004; Slack & Parent, 2006).

Sport organisations in modern society are faced with multiple performance challenges and pressures from various stakeholders such as the general public, players and athletes, coaches, media not to mention the organisation's own members. Combined with these new and existing performance pressures, there is a call for sport organisations to be more transparent and accountable as ever growing levels of finances, garnered through evermore divergent streams, becomes a major issue within the sector. The contemporary sport organisation must meet these challenges along with striving to produce elite athletes and coaches while recruiting and retaining a strong membership base. All successful non-profit sport organisations who have a robust performance management system in place have clear policies and a strategic direction for the daily operations and vision

of the entity and both of these core competencies are affected by the governance structures in place (Ferkins, Shilbury, & McDonald, 2005; Hoye, 2006; Hoye & Auld, 2001)

Governance in sport appeals to a broad audience in the modern sporting landscape (Hindley, 2003). Since the early 1990's, this issue has been greatly contested within international relations, public policy and political science. The rise in popularity of the term governance can be attributed to its potential for incorporating almost all types of sport organisations and relationships under one heading. At the most basic point of explanation, governance can be considered as the governing of organisations, including those that may not necessarily be in a direct relationship with the institution responsible for their governance. As a result of this, the term governance is no longer viewed as an individual entity exerting power over many other organisations, rather it now involves a combination of local authorities, government departments, and quasi-public organisations, along with authorities from both the public and private sectors.

As the general public and society at large increase their demands and expectations around the functions of sport organisations, the result is an increased focus on the governance of these entities, as a means of establishing transparency and a reputable public image. How a sports organisation goes about its daily operations can often be an effective indicator of its commitment to establishing an ethical approach to its business, and also will inevitably create a particular image of the organisation within the minds of the integral stakeholders. If an event or situation arises that causes stakeholders to acquire a negative or even neutral opinion of an organisation's ethics, this in turn will contribute to the detriment of good governance within that organisation. These situations convey the view that there is an integral relationship between ethics and governance, and that they can be combated through the establishment of governance structures, such as the formation of a code of ethics, ethical management initiatives and organisational ethical programs that give rise to the protection, development, control and integrity of the sports organisation.

A further complex relationship exists between the governance structure that operates within a sports organisation which is sufficient to satisfy its management, and the external, legal pressures that are placed upon an organisation from external forces. Dalton (1996) argues that 'while there is a need for laws to protect society from those who are not ethically responsible, the reality is that ethical corporate practice is best controlled by the members of the board, in other words, by a responsible corporate culture' (p. 179). It is almost impossible for any legal system to dictate the ethical standards and corporate governance model that should operate within any sporting organisation, as legislation is

restricted to providing basic forms of procedure and accountability, corporate governance within the sports organisation requires additional accountability and far more depth.

A number of recent high profile governance failures in sport contribute to the growing suggestion that the field of sport governance is one that should be of concern to all, including those without a direct interest in sport per se. This attention has arisen following questions around the strategic direction of particular organisations and various difficulties involved in the decision making process of those that are in receipt of public funding (Hindley, 2003). In the UK and Ireland in particular, there have been multiple instances where there have been questions raised around the execution of proper pecuniary responsibilities. The confusion around proposals for the renovation of Wembley Stadium (and the subsequent delay and overspend on the same), the unsuccessful attempt by the English FA to host the FIFA World Cup 2018 Finals and the cost of the redevelopment of the Aviva Stadium in Dublin are all examples of how failing areas of governance have led to on-going problems and consequential negative public opinion concerning certain sports organisations.

The issue of governance has also been brought to the fore in recent times due to the change in the dynamics of the modern sports organisation, from a mostly volunteer led industry to now becoming more professional and bureaucratic in its approach to management and daily operations. Additionally it has been stimulated by demands for the organisations to become more effective and for less potential for abuse by powerful executives holding their own agendas, and concerns about stakeholder involvement and accountability of senior management within these unique organisations.

Stakeholder involvement and active participation in the operations of international sport federations and National Governing Bodies have posed a number of important questions relating to the concerns and interests of players, fans and volunteers. A spin off of this issue is the emerging concept of specific interest groups that are creating an impact on the evolution of modern governance in the sport organisation (Hindley, 2003). For example, when a wealthy American family became a majority shareholder in Manchester United Football Club, a significant number of supporters came together to gain a substantial share of their own within the football club. The establishment of interest groups such as these supporters is becoming more common place and illustrates how specific groups can determine the ways in which sport is governed, posing legitimate questions relating to regulation and control of the organisation and the balance of power that exists within sport. There currently exist over one hundred such interest groups across the UK and Ireland that have been formulated on the grounds of transparency,

and operate at a democratic level in order to establish a place within the boardroom of sports organisations through combined possession of shares.

As outlined previously the contemporary sport organisation is faced with difficult performance pressures and challenges with the emergence of new facets within the sporting landscape such as commercial interests like media rights and multimillion-euro sponsorship deals. The case can often arise where the sport organisation can be a victim of their own success, if they fail to make themselves fully aware of the issues relating to politics, legalities and the operating environment within which they function. In the EU, such situations have arisen where a number of these entities and their autonomous nature and policies on governance from both a stakeholder and legislative point of view have been questioned. Rulings and procedural issues have been contested in front of high courts and international sport arbitrary bodies and has had a profound impact on the sporting communities that exist within Europe. Examples of this can be seen in the 'Bosman Ruling' of 1995 and numerous cases relating to drug abuse within athletics and other sports, where rulings and judgements that have been passed and have had a major impact on future cases involving similar issues.

## 2. Corporate Governance in Sport on the International Stage

For sport organisations who govern on an international stage, governance is clearly an issue of high priority. Forster (2006) defines these organisations as 'the supreme organs of governance in sport whose authority is global' (p.72). Organisations that operate on this type of scale often have issues with self-governance. A relevant example of this conflict of interest is when the Court of Arbitration for Sport (CAS) formally severed ties with the International Olympic Committee but the president of the Court of Arbitration held onto his position as vice-president of the International Olympic Committee. This ultimately results in a conflict of interest and raises issues of autonomy in relation to these organisations (Forster, 2006). Organisations such as *Fédération Internationale de Football Association (FIFA)* and the International Olympic Committee (IOC) have also been rocked by a number of scandals

in the past due to the actions of some members of its board (Davies, 1999).

Organisations such as FIFA and IOC should be setting the standard of how sport organisations operate and be the pinnacles of transparency, professionalism and accountability. Instead allegations of corruption, unethical behaviour and irresponsible decision making have become synonymous with these entities over previous years. The International Olympic Committee has been forced to address these matters and re-evaluate a number of governance issues within its organisation. The retirement age of board members, the term length of the board and addressing the issues of corruption and unethical behaviour have caused the organisation to focus more on these issues rather than their mission of promoting the Olympic Movement and the enhancement of Olympic sports and its athletes throughout the sporting world. Some commentators have suggested that the IOC have not done enough to establish true reform. Mason et al. (2006) claims the various stakeholders who benefit from the IOC should increase, such as organisations involved with promotion through media outlets and sponsorship. In order to increase transparency and effective decision making the authors also suggest the implementation of a board of directors with a clear separation between management and the suggested board. The board, as in the majority of sport organisations would establish direction and leadership while the management of the organisation would implement that direction through traditional managerial functions.

In 2001, the *Fédération Internationale de l'Automobile (FIA)* and the European Olympic Committee organised an inaugural conference on sports governance in response to the growing number of concerns from sports organisations surrounding this issue. The result of this conference was the production of a statement of good governance in sport in an attempt to satisfy stakeholder and public demands over issues such as transparency, accountability and democracy within these organisations. A rather naive argument was put forward stating that; as all sport is based on principles of ethics and fairness, that too should transfer over to the running, planning and overall governance of these organisations. This statement incorporated a guide to nine governance principles that all sports entities could avail of to ensure good governance exists within their organisation:

**Table 1**

1. The role of the governing body	4. Democracy, elections and appointments	7. Conflicts of interest
2. Structure, responsibilities and accountability	5. Transparency and communication	8. Solidarity
3. Membership and size of the governing body	6. Decisions and appeals	9. Recognition of other interests

(Governance in Sport Working group, 2001:2)

These principles set out by the Governance in Sport Working Group (2001) concentrate on the systems and process of governance that sports organisations should adopt including the role of the governing body, transparency and accountability measures and the distribution of revenue incomes throughout the organisations that they have the responsibility to govern. It appears that although these principles were not designed as a 'code of behaviour' for the governing body board members, they do point to the issue that all elections and appointment of

board members should be carried out with democracy at the forefront, that all dealings with stakeholders must involve the highest degree of transparency and appropriate and adequate measures should be in place to deal with conflicts of interest should they arise. The working group behind this statement argued that if governing bodies were to adopt these principles and uphold them to the degree in which is laid out in the statement then a number of rewards would be forthcoming:

**Table 2**

It will provide a useful "check list" for sporting bodies to ensure that they are behaving responsibly with respect to their members and to third parties with a legitimate interest in their activities;	It should go a long way to providing a solid defense to any litigation, serving to demonstrate that all actions and decisions are properly motivated and subject to appropriate checks and balances;	By demonstrating the virtues of self-regulation, it should assist in persuading legislators that there is no need to interfere further in the running of sports.
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(Governance in Sport Working group, 2001:3)

### 3. The Board Role

In the absence of a clearly laid out and articulated role, members of boards or committees can occasionally feel it is necessary to become involved in the daily operations of the organisation in order to exercise their control and supervision function. This practice inevitably leads to conflict with management and other employees whose role within the organisation is to carry out those very tasks (Kilmister, 2006). Adding to this, it is outside of the board's remit to become involved within operational plans being executed within the organisation. The board's role in planning is at the strategic level and it is important for a sport organisation to differentiate between strategic and operational plans. The operational plans within an organisation are the responsibility of the CEO and staff. When a board or committee wrongfully become involved in operational planning within an organisation they are often stepping outside of their area of competence and become involved in problematic issues that are not their responsibility. This practice draws them away from their strategic planning responsibilities creating a double negative situation within the organisation (Garratt, 1996, p.85). It is also likely within this situation that the board will anger and demotivate specialist staff employed for their

operational expertise. When the board within a sport organisation empowers itself to establish operational plans instead of allowing management to do so, it denies itself the opportunity to hold employees to account for the role that they are employed to carry out (Kilmister, 2006). It is a relatively recent practice for boards within sport organisations to establish clearly defined boundaries between their governance role and the role of management. While it is common practice and a relative necessity for CEOs to have a detailed job description outlining the reporting line to the board, the board itself can often fail to clarify the nature of its delegation to the CEO (Kilmister, 2006). Examples of this occur when there is confusion over the executive officer's role in the organisation in relation to finance, in relation to setting salary levels for staff or in relation to the power of the board in making operational decisions within the organisation. Unless, boundaries and specific role descriptions are set in place, conflicts will inevitably arise relating to such issues. When boundaries have been drawn up, it is important for board members to remove themselves from operational functions and allow the executive officer to carry out their responsibilities. Intrusion and interference across agreed boundaries can result in a loss of trust and the potential for diminished performance.

Research (Miller-Millesen, 2003) suggests that although a variety of theories exist in relation to governance, it is obtuse to argue that a single governance theory is applicable to any given board as each theory focuses on one or a limited number of board roles. His study claims that in order to analyse the role of the board within an organisation, three theories should be applied to the assessment of the board: agency theory, resource dependence theory and Institutional theory.

#### ***Agency Theory***

As initially described by Fama & Jensen (1983) and Jensen & Meckling (1976), agency theory can be used to frame the partnership of an executive officer (agent) and the board (principals). The theory can be used within an organisation to ensure that management decisions and activities are directly aligned with the established direction of the board (Fama & Jensen, 1983; Rhoades, Rechner, & Sundaramurthy, 2000). Agency theory suggests that what is now common-place in most sport organisations - that the CEO should be directly accountable to the board, and all major management decisions and activities should receive the approval or at a minimum the consultation of the board (Clarke, 2004; Fama & Jensen, 1983; Miller-Millsen, 2003; Rhoades et al., 2000). The role of the board therefore is to recruit and retain high level management positions, measuring CEO performance and bonus agreements, creating an organisational vision and developing suitable policy, attracting investment and dealing with capital finance issues, and approving or rejecting major decisions put forward by the CEO or high level management (Fama & Jensen, 1983; Fligstein & Freeland, 1995; Forbes & Milliken, 1999; Miller-Millsen, 2003). As almost all non-profit sport organisations are not owned by an individual or consortium the 'principals' within this unique sector when applying agency theory are the individuals or groups who derive substantial benefit from the organisation's existence (Mason et al., 2006). This situation gives rise to the 'agents' being the employees of the sport organisation including the CEO. The role of the board in this instance is to ensure that employee's performance within the sport organisation is facilitating progress towards an agreed vision for the organisation.

Although this theory adequately analyses the role of the board in relation to controlling management and employee function, there are also a number of limiting factors associated with this particular theory. As a precursor, agency theory is an idealistic model. The theory makes a bold assumption that only two entities exist within the organisation - the 'principal(s)' and the 'agent(s)' (Daily, Dalton, & Cannella, 2003). This is rarely the case within sport organisations and both the CEO and the board interact with a number of different stakeholders and external entities associated with the organisation. In addition, when management satisfy the agenda of the board, their own agendas are usually satisfied as well (Lane,

Cannella, & Lubatkin, 1998). As a result of this, boards within sport organisations often encourage the agenda of the CEO in the achievement of organisational objectives as opposed to simply assuming a monitoring role of the CEO's performance. Following on from this, with a desire to uphold their reputation within executive management circles, the CEO is likely to be agreeable to whatever the board's agenda may be. This can result in less monitoring of the CEO's performance (Yeh and Taylor, 2008). Finally, a further limitation of agency theory is that it assumes organisations do not affect or are not affected by their wider operating environment (Chelladurai, 2005), and perceives that to internally 'monitor' is the prime role of the board within an organisation. Clearly sport organisations are influenced by their external environment and as such other governance theories must be examined in order to fully examine this issue.

#### ***Resource Dependency Theory***

This theory argues that if an organisation is to be effective and is ultimately able to survive and operate for a prolonged period, it must be capable of obtaining and retaining essential resources (Pfeffer & Salancik, 1978). Adapting this theory to the needs of a sport organisation, the board can be used as the essential mechanism in order to attract the necessary resources required within the organisation (Hillman, Cannella, & Paetzold, 2000; Miller-Millsen, 2003). Therefore it can be perceived that the role of the board in relation to resource dependency theory is to minimise external concerns, collate knowledge that is key to the organisation's activities, attract resources and present a positive public image of the organisation (Daily, Dalton, & Rajagopalan, 2003; Hillman et al., 2000; Lynall et al., 2003; McNulty & Pettigrew, 1999; Miller-Millsen, 2003). This theory is particularly applicable to board roles within the non-profit sector and therefore the average sport organisation (Miller-Millesen, 2003). When there are no major issues facing a sport organisation, the board will not usually concentrate its activities on attracting external resources in order to provide assistance to the organisation. When this is the case within a sport organisation, the board often adopts an administrative role within the organisation (Miller-Millsen, 2003; Yeh and Taylor, 2008).

#### ***Institutional Theory***

This theory suggests that the establishment of clear rules, guidelines and structures results in the effective and efficient operation of an organisation. In institutional theory, a particular method of doing things is normalised over a period of time and essentially becomes organisational policy (Lynall et al., 2003; Miller-Millsen, 2003). Applying this theory, a sport organisation may change systems, practices and operations in order to fit in with what is normally done within the organisation and satisfies moral concerns (Luoma & Goodstein, 1999; Pfeffer, 1982). Therefore, overtime if different boards within a

sport organisation have appeared to have identical roles, this is most likely the result of coercion or a generally accepted manner of board roles and activities (Miller-Millsen, 2003). The role of the board when applying institutional theory consists of attendance at meetings, compliance with relevant legislation, administration of documentation, over viewing capital financial management and avoiding potential conflict of interest situations (Ingram, 2003; Miller-Millsen, 2003). By either force, imitative or normative practices, organisations that operate within a common environment will invariably begin to simulate (DiMaggio & Powell, 1983). Through an analysis of previous industrial issues within similar organisations, processes and systems adopted by the board can often be predicted within organisational behaviour (Eisenhardt, 1988).

Although this theory suggests that boards are resistant to change, it does not provide adequate reasoning as to why this is the case. Resistance within organisations most commonly comes from a fear of the unknown, possible hidden financial and non-financial costs and a hesitance from stakeholders with particular interests within the organisation (Yeh and Taylor, 2008; Slack & Parent, 2006). In order to facilitate a smooth transition of change within a sport organisation, the board may be required to consult widely with various interest groups to eliminate any existing fears about impending changes within the organisation. For sport organisations in particular, like those in Ireland and New Zealand who rely heavily on state funding, a resistance to adopt new regulation, legislation or other forms of change may result in a reduction of investment in the sport and a loss of valuable state subsidies (Yeh and Taylor, 2008). Sport organisations are ultimately forced to adopt impending changes within their organisation even if substantial resistance exists. In order to satisfy external force's interests of applying change to sport organisations, they may be able to comply with the new changes in a symbolic manner rather than actually fully engaging and adopting the required changes (Luoma & Goodstein, 1999). If possible the board may decide to complete required paperwork and give the impression of compliance while choosing not to strategically implement any changes (Stone, Bigelow, & Crittenden, 1999).

#### ***Stakeholder Theory***

As previously examined within this study, stakeholder theory relates to morals and ethics involved in the management of an organisation and is particularly applicable when examining the role of the board within a sport organisation. The theory suggests that the board within an organisation should constantly assess its relationship with the various stakeholders and ensure that that relationship is positive (Clarke, 2004). Also as previously addressed within this study, a non-profit sport organisation can have a wide range of stakeholders. These may include but are not limited to employees, members, sponsors,

government agencies, the board themselves and the general public. Much research has been conducted confirming the wide range of stakeholders that an organisation may have and the range of social purposes they can serve (Blair, 1995; Clarke, 1998; Clarkson, 1995). As a result of the varied range of stakeholders an organisation can have, stakeholder theory suggests the role of the board in this instance is to attempt to satisfy each of these stakeholders' interests without damaging the overall mission of the organisation (Carver, 1997). The major limitation of this theory is that as the board continually attempts to satisfy the various interests of stakeholders it will result in them neglecting traditional governing duties of the board such as leading, strategic planning, policy making and consultation with the CEO.

The theories outlined above are based on the corporate governance model as used by the majority of organisations within the traditional business environment. Research analysing the governance issue within not-for-profit organisations is limited with the exception of some notable empirical work carried out by Hoyer and Cuskelly (2007). In particular the role of the board within sport organisations is an area which little research has been conducted (Inglis, 1997; Shilbury, 2001). Within the studies which have been conducted, a theoretical framework has not been applied, such as the ones examined above. From an analysis of the above theories, it is apparent that there is no one grand system or structure of governance that can adequately explain the role of the board and its varied responsibilities within a sport organisation. Best practice would suggest that a multi-theoretical approach may satisfy the needs of the contemporary sport organisation in relation to the governance issue and the explanation of board roles and responsibilities within these organisations.

#### **4. Conclusions**

Good governance is not something that can be easily achieved, much like the development and maintenance of the management-governance relationship which exists within sport organisations. By definition, managers within sport organisations are usually goal-driven, focused and often practical. They are expected to be highly motivated to achieve and an example to everyday staff within the organisation. In contrast, good governors are thinkers. They are required to focus on the long term aspects of the organisation in relation to outcomes, values, vision and 'high level strategic direction rather than operational strategies and goals' (Kilmister, 2006, p. 173). Good governors establish a clear relationship with executive officer and make them accountable for their performance in that role. Boards that operate effectively within sport organisations have the potential to add value to the organisation that is greater than simply the executive officer or general staff can contribute to the organisation. Good boards

must 'make a difference' through valued contributions to the life of the organisation that is shown in the delivery of superior outcomes to those people on whose behalf the board exists. For boards involved in sport organisations, this most commonly pertains to the members and athletes.

The statutory requirements, corporate and non-profit governance codes and guides to principles and standards, including those specific to sports governance stipulate how sports organisations should determine their governance structures, systems and processes and what sort of behavioural standards are expected of those in charge of fulfilling the governance role (Hoye and Cuskelly, 2007, p. 178). In addition to these codes and guides, sport organisations are also subject to a number of other performance pressures from agencies and organisations to develop and adapt their own codes of behaviour with a goal of improving governance standards. With such a diverse range of pressures and accountability being placed on sports organisations, the need for adequate performance management systems and process to be in place is now a necessity in order for core competencies such as the governance issue to be implemented most effectively.

The board plays a vital role in ensuring a sport organisation is effective in the monitoring of organisational activities, delivering benefits and contributing to the overall sustainability and success of the organisation. As one of the core competencies of the board lies in effective decision making, it is clear that the impact the board can have on a sport organisation is substantial. From the literature that is available involving various theoretical approaches relating to governance in sport and the roles, composition and independence of the board it is possible to gain a greater understanding and perhaps develop a best practice structure of governance to be implemented within this unique sector. As one of a number of conclusions in this study the researcher will attempt to construct a suitable framework or theory for sport governance by combing the aforementioned literature available relating to governance in sport with the research findings of this study relating to governance within sport organisations. The structure of governance, role, composition and independence of the board will all have a direct impact on the systems and processes of performance management which operate within the organisation.

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