Corporate Governance In Non-Profit-Organizations In Europe By Focusing The Governance Model

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Corporate Governance came into the field of high interest because of many worldwide crashes of corporations due to a lack of guidance and supervision. It seemed to be that the existence of balance sheets and their rules to establish them should be enough to show investors a true and fair view of business. It did not. For that reason research of corporate governance started in the for profit-area. Sir Adrian Cadbury put a landmark in the year of 1992 with his definition of corporate governance as the system by which companies are directed and controlled. Research on corporate governance on for-profit-organizations is exhausted resulting in many individual corporate governance codes, i.e. rule sets. When looking on research in the non-profit-area the attention is first drawn on Anglo-American countries. Research on non-profit-organizations in USA is tremendous and comparatively young in Europe. Concentrating on Europe it is first to consider the legal framework to build non-profit-organizations which is different to Anglo American countries. The association is the most important legal framework to build non-profit-organizations in Europe. Considering the distinctive features of this framework corporate governance in consequence will be different. According to the literature the common theoretical basis to explain corporate governance is agency theory. This theoretical background is above all used to explain corporate governance in for-profit-organizations. It is shown by this research that stewardship theory is the more adequate theoretical background to explain corporate governance in non-profit-organizations, respectively associations. Further by explaining corporate governance in non-profit-organizations it is important to consider a set of theories. Stewardship theory as mentioned above is the main theoretical background by considering different behavioural assumptions. But for some answers it is helpful to consider further agency theory, stakeholder theory and finally corporate governance is embedded in business ethics. Corporate Governance in for-profit-organizations based on agency theory is consequently forced to name a principal. The derived shareholder primacy model names the shareholder as principal and the board as so-called first order agent and the management as second order agent. And the agent is to monitor as he may not always act in the best interest from the point of view of the principal. Nonprofit-organizations have no owners. Despite there exists an academic discussion in applying agency to non-profit-organizations and consequently try to name for example the members as quasi-owner and principal although this construction does not produce satisfactory answers in endowing corporate governance. The new director primacy model solves the problem of the desperate search of a principal by nominating the corporation itself as principal. The shareholder’s position in agency theory is being owner but the shareholder is only the owner of its share and even the liability is limited to this share. Shareholders are not the owner of a corporation. It is the corporation itself which has assets, rights and liabilities. Applying this idea to non-profit-organizations it is the non-profit-organization with its constitution which is to be named as principal. It is again the non-profit-organization which has rights, assets and liabilities. Members could never legally be an owner as they are not entitled to a part of the organization’s profit and besides will never enter in debts. Compared to shareholders members hold no equity on their organization which they would get back in case of a withdrawal of their membership. In this model the board is interpreted not as agent of the principal but as autonomous fiduciary meaning that it acts as the ultimate decision-making body, the primary defender of the mission statement and as representative of all or many stakeholders. Itself it represents a steward according to the organization and its constitution. This model blows away the classical hierarchy and sequence within agency theory, it supports stewardship theory and allows structurally and organizationally to integrate stakeholders.

Corporate governance in for-profit organizations has its main theoretical focus on agency theory. The behavioural assumptions of this theory produce misleading interpretations for the implementation of corporate governance in non-profit-organizations. Even so far developed governance codes and scholarly researches concentrate on agency theory for these organizations. Nonprofit-organizations are complex organizations consequently corporate
governance cannot be reduced to solely one theoretical concept as impact on this system of rules and explications out of it could not be explained comprehensively enough. Corporate governance in non-profit-organizations is understood as a combination of theories, like agency theory, stewardship theory, stakeholder theory and an ethical concern. The director primacy model is identified as valuable governance structure. It represents best the governance structure of non-profit-organizations and still considers the members as important stakeholder.