

Latvijas Universitāte
Ekonomikas un vadības fakultāte



Helene Eller

KORPORATĪVĀ PĀRVALDĪBA EIROPAS (ALPU) KALNU TŪRISMA KLUBOS

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Dr. rer.pol., profesors

Gereon Schmitz

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University of Latvia
Faculty of Economics and Management



Helene Eller

CORPORATE GOVERNANCE IN ALPINE CLUBS IN EUROPE

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ANNOTATION

Management experience with non-profit organization has drawn attention to the governance of these organizations: The author of the dissertation is faced with the impact of the voluntary governance and the cooperation between the head office with its paid staff and the Voluntary Board. Especially the challenges on this type of governance drew the interest on a deep investigation on volunteers, their ability to govern an organization. Corporate governance as keyword has been a helpful frame.

The corporate governance discussion started in the for-profit-area because of many worldwide crashes of corporations. The idea of good governance has been questioned. The belief in an appropriate behaviour of managers was damaged. Agency theory is used to explain the divergent behaviour of the shareholder as owner and the manager as agent. Both parties are utility maximizers. The assumption is that the agent will not act in the best interest of the principal. Stewardship theory as opposed theory assumes a goal alignment between both parties consequently the agent acts as steward of the organization's mission. Latter theory is chosen as one adequate theoretical basis for non-profit organizations. Motivation of volunteers for example is better mirrored in this theory. Non-profit organizations are a complex field. These organizations have no owners but founders. It is the stakeholders that represent the missing owner. It is an important distinctive feature of non-profit organizations which has to be considered from the beginning in designing corporate governance of these organizations.

The research field of this dissertation is narrowed to Alpine Club as case study to assure a deep and comprehensive investigation in corporate governance of this type of organizations in particular associations. Associations are the most important legal framework to build non-profit organizations in Europe. This legal framework is distinct as working with volunteers on all organizational levels and considering members as important stakeholder endowed with certain rights.

The normative function of the governing bodies, of important stakeholders and their sustainability will be compared with the real function by doing an empirical research. The voluntary governance is extracted as an important governance challenge and its sustainability is tested empirically and as a result a new governance structure is suggested.

Conclusions and suggestions as outcome complete this dissertation.

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INTRODUCTION

Actuality of the topic

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. Sir Adrian Cadbury put a landmark in the year 1992 with his definition of corporate governance as a system by which companies are directed and controlled known as Cadbury Report. Visible outcome of research in the for-profit-area are various corporate governance codes as rule sets. And these researches consider the shareholder as most important stakeholder on the background of agency theory stressing accountability and control. When looking on research in the non-profit-area the attention is first drawn on Anglo-American countries as well. Research on non-profit organizations in USA is huge and comparatively young in Europe. Visible outcome within this area is also few corporate governance codes. One important finding is that research within this area has been mainly done on the same theoretical basis as those of for-profit organizations but these organizations and their complexity call for a different theoretical grounding. Corporate governance is used as keyword to describe structural elements and their function in a governance system. The interconnection of these elements is essential for so-called good governance.

The corporate governance discussion in the non-profit-area is still not exhausting. There are research fields which are still not in the field of greater attention, for example research on corporate governance for member-serving organizations is lacking. This dissertation will discuss the adequate elements of a corporate governance model for non-profit organizations respectively associations. A central topic is governance of non-profit organizations which is mainly done by a Voluntary Board. The empirical research will find answers to its reliability for the future. It is still of high actuality even the hype of the corporate governance discussion has gone. The challenges remain as this dissertation will show.

Alpine Clubs as chosen research field are organizations of long tradition as being by more than 150 years old. The legal framework of Alpine Clubs is the association. Even without the keyword of corporate governance these organizations face the challenge of this legal framework, of the voluntary governance throughout the total organization and above all of working with volunteers through all hierarchical levels. Results of the empirical research on these organizations may provide ideas for similar organizations as the number of associations

is huge. Associations sometimes fail professionalism in governance. Because of their mostly modest size they may not be aware of professional instruments to govern their organization. The new developed corporate governance for associations may support these organizations to be aware of elements of good governance as means to effective decision making.

The **research object** is corporate governance. It is used as keyword to describe structural elements and their function in a governance system of non-profit organizations.

The **research subject** is Alpine Clubs. Alpine Clubs are huge organizations in the legal frame of associations, face the challenge of voluntary governance and are taken as case study to develop a corporate governance model for non-profit organizations respectively member-serving organizations.

The **aim of research** is to develop a corporate governance model for Alpine Clubs which means a new governance structure by considering the reliability of the voluntary board, the integration of stakeholders and ensuring adequate supervision and control.

Following **tasks** are executed to gain the necessary knowledge theoretically and empirically to bring about the novelty of this research:

- Analyse the theoretical basis of corporate governance in for-profit-organizations and consider its applicability to non-profit organizations
- Identify distinctive features of non-profit organizations including the special type of personnel which is volunteers
- Define elements of corporate governance in non-profit organizations
- Work out an alternative governance structure for non-profit organizations
- Discuss the governance challenges in organizations of the chosen research field
- Collect empirical data via expert interviews on the basis of a purposive sample with aims according to the research questions and theses for defence
- Formulate recommendations to researchers, consultants and all responsible persons around the governance of these organizations to make the results of this research valuable to a broader circle of interested people

Following **theses for defence** are the basis for the theoretical and empirical research:

- On implementing corporate governance in non-profit organizations the distinctive features of these organizations have to be considered as copying of corporate

governance models of for-profit organizations will lead to wrong solutions. This belongs also to theoretical background of corporate governance.

- As non-profit organizations respectively associations have no owner governance structure for these organizations has to solve the problem of the missing owner, integrate stakeholders and ensure adequate supervision and control
- The changing environment of voluntary associations as representative of non-profit organizations affects the reliability of the voluntary governance depending on the size of the organization
- The voluntary board as special type of the one-tier model is questioned as reliable governance structure for large non-profit organizations respectively associations

A central step even in a qualitative research is the **research questions** as they have an impact on the success of all research steps. Following research questions will be the basis for this study:

- What are the specialties of the governance system of Alpine Clubs? Are there any existing governance problems within these organizations?
- Which challenges does the governance system in the umbrella association and the small, middle-sized and large sections face?
- Is it possible to maintain these governance systems in the future?
- How can stakeholders be integrated in the governance system in the umbrella association as well as the sections?

Following **novelties** may add value to science and probable organizations to improve their governance:

1. The novelty of this dissertation is a new corporate governance model for non-profit organizations respectively for member-serving organizations as existing corporate governance codes for non-profit organizations focus on those of for-profit organizations as role model instead of developing an adequate model considering the distinctive features of these organizations and the adequate theoretical background.
2. The author solved for the first time the question of the non existing owner of non-profit organizations by providing a new governance model for Alpine Clubs as case study where the non-profit organization with its legal frame represents the principal and the board acts as autonomous fiduciary.
3. Stakeholder integration is one vital element of a corporate governance of non-profit organizations because of the missing owner. The new corporate governance model

allows a systematic integration of stakeholders according to their importance for the organization.

4. Research on corporate governance for member-serving organizations is lacking. By using Alpine Clubs as large member-serving organizations the author discusses challenges and future implications in the governance of such organizations.
5. As outcome of the research the author identified further that the Voluntary Board as special type of the one-tier model as not adequate and reliable governance system for large non-profit organizations as umbrella associations of Alpine Clubs are.
6. The author identified governance challenges for sections of Alpine Clubs which are legally independent associations to maintain the voluntary governance in the future.

The **used methods in literature research** consist of two parts, i.e. a deep investigation into the theoretical basis of the research topic and an intensive literature review. The theoretical basis concentrates on main theories considered to be important around the topic of corporate governance. Discussion of the main underlying theories is based on the well-known scholars and founders of the theories. This basis is enhanced by researches being valuable for the presented viewpoint of each theory. The outcome of this part of the theoretical research is the suggestion of a comprehensive theoretical basis of corporate governance for non-profit organizations because of the complexity of these organizations. In discussing the state of the art within the field of corporate governance of non-profit organizations the literature review is narrowed to Europe with its different historical and legal background to build non-profit organization according to the chosen research field. For this reason, literature based on the American non-profit sector may be treated carefully.

Method used in research: The research is designed as qualitative empirical study, as case study by focusing on one type of organizations which is Alpine Clubs. Expert interviews as personal interviews are chosen to gain relevant information and produce new knowledge in this area. Alpine Clubs are huge organizations with several hierarchical levels. The empirical data collection is designed to be done on all important levels to gain a full picture of corporate governance according to the research questions. Triangulation as combination of different methods is used in the data collection. The combination consists of personal interviews as expert interviews at all levels of the organizations, data analysis and secondary data analysis of Alpine Clubs. Interviews are based on different interview-guidelines. All interviews are tape-recorded and transcribed afterwards. Telephone interviews are done with sections outside

Austria to save costly and time-intensive travelling. As the focus is on exploring new knowledge an e-mail-questionnaire with standardized questions is seen as inadequate method to collect data. The analysis of the personal interviews is done by an open coding first along all questions of the interview-guideline and all groups of experts. In a second step the answers of all groups are analyzed and interpreted according to the research questions.

Approbation of results of research

The author has participated in following **international and local conferences** to approbate the research results of the dissertation. Conferences took place in Latvia - Riga, Estonia – Pärnu, Germany – Münster and Fulda, Great Britain - London and Austria – Linz and Kufstein.

Current Issues in Economic and Management Sciences 2011

November 10 – 12, 2011, Riga, University of Latvia, Session: European Union Issues

Presentation (best paper presentation): Volunteers within an Organizational Context – One Term is not Enough

Global Business Management Research Conference 2011

December, 2 – 4, 2011, Fulda (Germany), University of Applied Sciences, Session: Finance & Corporate Governance

Presentation: Corporate Governance in Alpine Clubs – A Must Have

70th UL Scientific Conference

January 25, 2012, Riga, University of Latvia

Presentation: Corporate Governance in Alpine Clubs – A Must Have

New Challenges of Economic and Business Development – 2012

May 10 – 12, 2012, Riga, University of Latvia, Session: Management and Innovations

Presentation: The Impact of Stakeholders as Members of a Voluntary Board

International Conference for Business and Economics – Innovative Approaches of Management Research for Regional and Global Business Development

August 3 – 5, 2012, Kufstein (Austria), University of Applied Sciences, Session: Leadership and Strategy

Presentation (best paper presentation): Corporate Governance in Alpine Clubs – Research Design

71th UL Scientific Conference

January 30, 2013, Riga, University of Latvia, Session: Economic and business impact of globalization

Presentation: Corporate Governance in Alpine Clubs in Europe – Analysis of expert interviews

New Challenges of Economic and Business Development – 2013

May 9 – 11, 2013, Riga, University of Latvia, Session: Sustainable Development and Tourism

Presentation (best paper presentation): Corporate Governance in Alpine Clubs: Research on Umbrella Associations

International Business and Economics Conference – Current Approaches of Modern Management and Strategy Research

November 29 – 30, 2013, Kufstein (Austria), University of Applied Sciences; Session: Managerial Concepts, Corporate Governance and Finance

Presentation: Corporate Governance in Nonprofit-Organizations – New Theoretical Model

11. Internationales NPO-Colloquium 2014 – Ressourcenmobilisierung durch Nonprofit-Organisationen: Theoretische Grundlagen – empirische Forschungsergebnisse – praktische Handlungsperspektiven

April 3-4, 2014, Linz (Austria), Johannes Kepler Universität Linz

Presentation: „Ehrenamtliche Führung in Alpinen Vereinen am Beispiel des Oesterreichischen Alpenvereins“ (Voluntary Governance in the Austrian Alpine Club as an example of Alpine Clubs)

The 5th International Research Symposium in Service Management: Service Imperatives in New Economy – Future Directions in Service Research

June 8 – 12, 2014, Pärnu (Estonia), University of Tartu and Pärnu College;

Presentation: Reliability of Voluntary Governance in Member-Serving Nonprofit-Organizations, Empirical Research on Alpine Clubs in Europe

The Economics, Finance, MIS & International Business Research Conference, London

July 10-13, 2014, London (England), Library of Congress, Washington, DC

Presentation: Toward a Theory of Corporate Governance in Non-profit Organizations

Eleventh International Conference of the International Society for Third Sector Research (ISTR)

July 22 – 25, 2014, Muenster (Germany), University of Muenster Germany; Session: management and governance of third sector organizations

Presentation: Corporate Governance in non-profit organizations in Europe by focusing the Governance Model

Publications during Conference Proceedings, Journals and Discussion Papers

The author has further published parts of the dissertation, i.e. theoretical findings and empirical results of the research by following papers. Publication has been done during conference proceedings, journals and discussion papers.

Eller H. “Volunteers within an Organizational Context – One Term is not Enough”

In: Current Issues in Economic and Management Sciences 2011, November 10 – 12, 2011, Riga, University of Latvia; pp. 186-196; ISBN 978-9984-45-417-7; online at http://www.evf.lu.lv/fileadmin/user_upload/lu_portal/projekti/evf/konferences/Doctor_2011/Conference_Proceedings_November2011.pdf

Eller H. “The Impact of Stakeholders as Members of a Voluntary Board”

In: New Challenges of Economic and Business Development – 2012, May 10 – 12, 2012, Riga, University of Latvia; pp. 148-158; ISBN 978-9984-45-519-8; online at http://www.evf.lu.lv/fileadmin/user_upload/lu_portal/projekti/evf/konferences/maijs_2012/session8/Eller.pdf

Eller H. “Corporate Governance in Alpine Clubs: Research on Umbrella Associations”

In: New Challenges of Economic and Business Development – 2013, May 9 – 11, 2013, Riga, University of Latvia; pp. 217-228; ISBN 978-9984-45-715-4; online at http://www.evf.lu.lv/fileadmin/user_upload/lu_portal/projekti/evf/konferences/konference_2013/report/7Session/Eller.pdf

Eller H. “Volunteers within an Organizational Context – One Term is not Enough”

In: Journal of Business and Economics, Vol. 4, No. 9, September 2013, pp. 895-904; ISSN 2155-7950

Eller H. "Corporate Governance in Alpine Clubs – A Must Have"

In: Journal of Business and Economics, Vol. 5, No. 5, May 2014, pp. 747-757; ISSN 2155-7950; doi 10.15341/jbe(2155-7950)/05.05.2014/013

Eller H. "Reliability of Voluntary Governance in Member-Serving Nonprofit-Organizations, Empirical Research on Alpine Clubs in Europe"

In: The 5th International Research Symposium in Service Management, June 8-12, 2014, Pärnu, Estonia; ISSN 1694-0938 (*Young Service Researcher Award*)

Eller H. "Toward a Theory of Corporate Governance in Non-profit Organizations"

In: The Journal of American Academy of Business, Cambridge, Vol. 20, No.1, September 2014, pp. 141-148; ISSN 1540-1200

Eller H. "Ehrenamtliche Führung in Alpinen Vereinen am Beispiel des Oesterreichischen Alpenvereins" (Voluntary Governance in the Austrian Alpine Club as an example of Alpine Clubs)

In: Andeßner R., Greiling, D., Gmür M. & Theuvsen L. *Ressourcenmobilisierung in Nonprofit-Organisationen*, 2014, pp. 369-379; ISBN 978-3-99033-448-5; Linz: Trauner

Eller H. „Challenges on the Implementation of Corporate Governance in NPOs: Empirical Research on Alpine Clubs“

In: Neuert J. *Contemporary Approaches of International Business Management, Economics and Social Research*, Vol. 1, 2014, pp. 20-28, Institute for Management Research and Organizational Development, Diploma University, Berlin: epubli; ISBN 978-3-7375-1329-6
http://books.google.at/books?id=9a_cBAAAQBAJ&printsec=frontcover&hl=de&source=gbs_ge_summary_r&cad=0#v=onepage&q&f=false

The dissertation has following **structure**: The dissertation consists of an introduction summarizing for example aim of research, research questions, novelties, methods used, limitations, four main chapters and conclusions and suggestions. In **chapter one** the main underlying theories in the discussion of corporate governance are presented. Corporate Governance in for-profit-organization is directly linked with agency theory. Even in non-profit organization this theoretical concept is widely discussed with its impact on these

organizations. Within this dissertation stewardship theory as alternative theoretical basis is discussed as being more compatible with the purpose of these organizations. Corporate governance in non-profit organizations requires a more widespread theoretical basis consequently stakeholder theory as well as the impact of business ethics are chosen to be important theoretical aspects of a comprehensive theory for these organizations. *Chapter two* analyzes the state of the art in the discussion of corporate governance within non-profit organizations. It looks on distinctive features of these organizations, the specific personnel, i.e. volunteers which may have an impact on the implementation of corporate governance. Structural elements of corporate governance for these organizations are worked out. The dissertation is built on a qualitative empirical study. *Chapter three* first describes the research field which will be Alpine Clubs. It presents further the research questions, the research design for this empirical study and the chosen method of data analysis. A first extend analysis of the expert interviews of all research units is presented being the basis for the research results of chapter four. Finally, in *chapter four*, the research results and implications on corporate governance for Alpine Clubs as case study are discussed. Alpine Clubs today grew a lot and consequently the governance structure is suggested to be changed according to today's requirements. The voluntary governance is examined on its reliability for the future. Further results of the research are discussed along the basic elements of corporate governance analysed in chapter two. This chapter closes by discussing the applicability of the research outcome to organizations with a similar governance structure. Conclusions and suggestions present in brief statements the outcome of the dissertation.

This dissertation faces several **limitations**: The empirical research is designed as case study being one type of qualitative research as being adequate for exploring new knowledge. The major disadvantage of qualitative research in general is that it is difficult to generalize the results to a larger public and by increasing the sample size generalization will not be gained as the sample size will be still too small. Qualitative studies are not designed to allow a systematic generalization. Its aim is to represent a real story of an organization, i.e. a case under research. A generalization of the research results may be possible within the studied group which is Alpine Clubs as so-called internal generalizability. There exist several more Alpine Clubs in Europe additionally to the selected four Alpine Clubs facing similar problems and challenges. The external generalizability to a greater community may be limited because of the type of the chosen research method as mentioned above. The suggested corporate governance for non-profit organizations namely associations can be seen at least as ideas for similar organizations to improve their governance. A limitation of the research results is

further implicit by concentrating on Europe, on the tradition of Western European countries with its most popular legal framework to built non-profit organizations which is the voluntary association. Within Anglo-American countries there exists a different legal framework to build non-profit organizations which is the nonprofit corporation and therefore the questions and answers to corporate governance to such organizations may be different. The presented solution to corporate governance for non-profit organizations is limited to organizations having members being an important stakeholder endowed with a right to make decisions and being guided by a Voluntary Board. Research in the field of non-profit organizations is preferably focused than generalized because of the high complexity and diversity of this sector. It is very important to choose the right angle for the discussion of corporate governance in non-profit organizations as questions and answers may be different.

Following the **main results** of the dissertation: Doing research in the field of corporate governance it is obvious to start investigations in the for-profit-area where the debate about this topic started because of many worldwide crashes. It is not to deny that agency theory with its implications and behavioural assumptions plays a dominate role as adequate theoretical concept. The focus is on supervision and control. The corporate governance discussion is narrowed to big corporations with the shareholder as most important stakeholder and the managers and theirs remuneration being the centre of attention. It further focuses on the Anglo-American or Anglo-Saxon capital market with its tradition of raising capital from the capital market by a several number of stakeholders. The prevailing governance model of these corporations is the one-tier model consisting of executive and non-executive directors. The corporate governance definition of Sir Adrian Cadbury mirrors these attributes: Corporate governance is the system by which companies are directed and controlled. Having analyzed the background of the corporate governance discussion in for-profit organizations it becomes clear that applying this concept to non-profit organizations cannot be just done by copying the even apparent exhausted research. There exist already attempts to transfer the idea of corporate governance to non-profit organizations. Starting the investigations again with the theoretical background it becomes clear that these organizations call for a more widespread basis to explain corporate governance because of their complexity though the so far existing researches concentrate on the same narrow theoretical background. One of this dissertation's main results is to provide an approval for the usage of stewardship theory as basis for the corporate governance debate. According to the fact that non-profit organizations have no owner stakeholders represent the missing owner. Consequently stakeholder theory is an additional important theoretical concept. Corporate governance in non-profit organizations

has to consider inevitably the distinctive features of these organizations. The most important difference to for-profit organization is that non-profit organizations have no owner. The obligatory nomination of an owner representing the principal in applying agency theory is failing. Further, non-profit organizations are mainly guided by Voluntary Boards. Consequently remuneration of board members is obsolete. The construction of a Voluntary Board is similar to the one-tier model but no mere one-tier model. Board members are in one and the same person executive and supervisory director. Supervision and control in non-profit organizations is different because of its special personnel to govern and provide services. The purpose of working as volunteer either as honorary manager or as unpaid staff or as volunteer in its narrow sense is not to maximize the personal utility. Volunteers see themselves as steward of the organization's mission. And therefore stewardship theory is more valuable theoretical concept to design corporate governance in these organizations. Corporate governance within this dissertation is narrowed to Europe and the legal framework of the association. In the light of this context a corporate governance system with distinctive structural elements is theoretically supposed and empirically tested with selected Alpine Clubs in Europe. The director primacy model as valuable governance model for non-profit organizations is applied to Alpine Clubs. It solves the problem of the obligated search for a principal as non-profit organizations have no owners. This model opens a path to overcome the strict nomination of a principal and an agent by defining the corporation itself as principal. A consequence is the redefining of the role and the status of the board. This model supports further the integration of stakeholders as they represent the missing owner. The integration of stakeholders in the governance system is a vital element which is again tested with Alpine Clubs. One important outcome of the qualitative empirical research is the question regarding the reliability of the voluntary governance. On the one side the voluntary governance in the umbrella association is replaced by a Managing Committee as paid governing body and a Steering Committee consisting of volunteer leaders. The temporal involvement, the big scope of tasks and the inherent complexity are reasons for changing the governance structure. On the other side the sections use some intelligent means to ensure the voluntary governance of their organizations for example by founding branch offices, local branches, working with enlarged Executive Committees. It is not to forget the assistance of the umbrella association to enable the voluntary governance in the sections. And by implementing corporate governance in Alpine Clubs there are some vital challenges to consider. Finally, there is a discussion about the applicability of the research results to a wider group of organizations. The research is designed as qualitative study which basically does not allow a systematic generalization to

a wider public. Despite this fact recommendations regarding the applicability of the research results to non-profit organizations with a similar governance structure are given.

The **used sources** for the dissertation can be divided by different criteria, either scientific papers or books or the language of the sources. As working with Alpine Clubs also special sources of these clubs have been used, and last but not least internet sources:

Scientific papers and books: The main part of the literature is captured by scientific papers. Especially the discussion of relevant theories is mainly based on papers as even scholars published their ideas via this means. Books and very rarely handbooks are used besides scientific papers to capture the state of the art of the corporate governance discussion for non-profit organizations. Results of relevant conferences which have been used to underpin the state of the art are also published via books. It seems to be that European scholars prefer to publish their ideas via books.

Sources in English language, sources in German language: The main part of the used sources is of English language. Researchers regarding the underlying theories are located in Anglo-American countries and the discussion about corporate governance has also been started in English-speaking countries. As the discussion about the corporate governance is concentrated on Europe and on German speaking countries German speaking scholars and researches of these countries are used to capture the state of the corporate governance discussion within these countries.

Additional sources of the Alpine Clubs under research: Alpine Clubs have a great history as being more than 150 years old. Historical material in terms of minutes of Annual general meetings, publications on their historical development are valuable sources for this research. The constitution of each club is the most important basis to understand the actual governance structure. Several additional data as number of individual members of each club, number of huts, size of the boards, number of paid staff are chosen as important information in understanding the actual governance structure.

Internet sources: Internet sources are rarely used because of low trustworthiness. In case of usage they are only used to refer to homepages.

Word of gratitude

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The empirical research was only possible with the assistance of all four Alpine Clubs under research, and in particular the president of each club, further members of the Voluntary Boards, the executive directors and several Chairmen of sections in all four Alpine Clubs. All interview partners were motivated to support my dissertation by talking very open regarding their daily challenges in governing either the umbrella association or one of the several sections. With the expert knowledge of all these people I was able to create valuable new knowledge making a difference to the organizations as well as the science.

1 THEORIES OF CORPORATE GOVERNANCE

1.1 Principal-Agent Theory or Agency Theory

Basic assumptions of agency theory

Agency theory came into being because of growing companies, as a single owner was no longer able to meet the requirements of a bigger business. Corporate ownership and limited liability brought new possibilities. Consequently the owner needed a person acting on his or her behalf. Owners become principals when they enter into a relationship with a person, called agent, who works for them. Taking into account the fact that both parties in this relationship want to maximize their utility, the assumption is that the agent will not always behave in the best interests of the principal (Solomon, 2007, p. 17). In discussing agency theory one must consider the two major scholars, Jensen and Meckling. In the following, the central ideas of the agency theory are presented by using the basic papers from these scientists. Further studies are added to arrive at a comprehensive picture of this powerful theory, in order to explain the ideas of corporate governance. According to Jensen & Meckling, an agency relationship can be described as “*a contract under which one or more persons (the principal(s)) engage another person (agent) to perform some service on their behalf which involves delegating some decision making authority to the agent*” (Jensen & Meckling, 1976, p. 308). The agency relationship is one of the oldest and most common codified models of social interaction (Ross, 1973, p. 134). In its most general form, an agency relationship occurs whenever one individual depends on or engages another (Pratt, Zeckhauser, & Arrow, [1991], c1985 p. 2) to perform some service, i.e. one person or entity does something on behalf of another. Within this dissertation the analysis of agency theory is concentrated on the top level of organizations where important decision making takes place. The theory states that both parties are utility maximizers, consequently the assumption is that the agent will not always act in the best interest of the principal (Bonazzi & Islam, 2007, p.8). The concern is to consider the welfare of the principal, which might not be maximized because of the aforementioned different attitudes. The components of classical agency theory are goal orientation, risk, self-interest (Wright, Mukherji, & Kroll, 2001, p. 414) and information asymmetry, and their conflicting application between principal and agent. The attributes can be summarized as *agency problems*.

Goal conflict/self-interest: In this relationship both want to maximize their utility (Shankman, 1999, p. 321) – the agent his income, the principal his residual claim. This residual claim

occurs when all other contractual obligations are met, e.g. those from creditors or employees. As mentioned in the figure above, agency theory assumes that rational individuals are self-interested. Heath (Heath, 2009, p. 500) shows that it does not matter whether the partners are selfish or not, what matters is that each acts in pursuit of his or her own goals and the goals of the other show up only insofar as they affect that agent's goals, or ability to satisfy these goals.

Different risk preferences: Principal and agent have different attitudes towards risk bearing. The agent is risk averse (Eisenhardt, 1989, p. 60) and the principle risk neutral. The income of the agent compared to the principal's is low. As the income of the agent is low compared to the principal's, a reduction in his income would endanger his existence (Saam, 2007, p. 827). The principal can diversify (Fama, 1980, p. 291.).

Information asymmetry: From a positive perspective it is an advantage for both parties to participate in a contract, either the principal does not have the knowledge to execute a task or does not have the time to do it because of the growing complexity of organizations. Normally agents know more about their tasks than their principals do. Agency theory assumes that the asymmetric information is in the agent's favour and the principal cannot monitor the competences, intentions, knowledge and actions of the agent, except at a high cost (Saam, 2007, p. 827). Asymmetrical information can be two-fold: *hidden action (moral hazard)* and *hidden information (adverse selection)*. *Hidden action* is when the action cannot be observed by the principal, i.e. the agent can shirk or pursue individual interests (Poth & Selck, 2009, p. 139), (Perrow, 1993, p. 229). With *hidden information* the agent has made some observation that the principal has not made and the agent uses this observation in making decisions. The principal cannot check whether this information is used in the best way to serve the principal's interest. (Arrow, [1991], c1985, p. 39). Steinberg (Steinberg, 2010, p. 76) also shows that a reversed information asymmetry might exist when the principal has information that the agent would need (informed principal problem).

Agency problems occur whenever the interests of the principal and the agent are not aligned for several reasons. Control of these agency problems becomes vital, because the decision making managers are not those who bear the residual risks (Fama, 1980, p.291). The inherent assumption of agency theory is that, without control, these managers will not take decisions which are in line with those of the principal, the bearer of the residual loss.

Mechanism of control and agency cost

Agency theory introduced a number of control mechanisms to solve the agency problem. With regard to top management the following control mechanisms are effective: the incentive compensation system and the monitoring system. *The incentive system* helps to align the interests of the agent with those of the principal, as the rewards for both depend on the same action. Consequently both are interested in a high return (Baeten, Balkin, & van Berghe, 2011, p. 11). *Monitoring systems*, i.e. budgeting, reporting procedures, board of directors, serve to control the agent (Jensen & Meckling, 1976, p. 323). The board of directors is the common apex of a decision control system in organizations. Boards have the power to hire, fire managers and to ratify and monitor important decisions (Fama & Jensen, 1983, p. 311). From the viewpoint of the shareholder, control mechanisms are important to make the management accountable for decisions (Blair, 2004, p. 182). The contribution of agency theory regarding the use of information is that it views information as a purchasable commodity, which means the installation of information systems, e.g. budgeting, controlling, etc.. Installation of these systems is helpful to control possible self-interested behaviour by the agent (Eisenhardt, 1989, p. 64). All these systems result in agency costs, some arise on the side of the principal, i.e. *monitoring costs*, and some on the side of the agent. These costs are called *bonding costs* (Solomon, 2007, p. 18). It means that in some situations it is for the agent to prove that he will not take actions which would harm the principal. In the end the idea is to reduce the *residual loss*, which is defined as the monetary equivalent of the reduction in welfare experienced by the principal as a result of the divergence (Jensen & Meckling, 1976, p. 308).

Separation of ownership and control

Separation of ownership and control, i.e. the separation of residual risk bearing from decision management is common in large corporations. The organization of decision management and decision control as components of the organization's decision process, or decision system (Fama & Jensen, 1983, p. 304), is one important element in the discussion of corporate governance which will be shown in chapter 2. Fama and Jensen argue that in complex organizations. the separation of decision management and control and residual risk bearing is advantageous, and offers benefits for all concerned parties (hierarchies) within the organization. Diffusion of decision management to all levels of an organization, by using specific knowledge, may reduce costs. Because of lack of knowledge, residual claimants will not execute the decision control, but delegate it to specialists (Fama & Jensen, 1983, pp. 308). The next subchapter discusses in detail the implication of the owner in the principal-agent

relationship and its implications for the so-called economic model of the firm. Some criticisms on the assumptions of this model lead to the development of a new brother model, which takes account of additional constituencies beside the shareholders.

Agency theory and the owner of the corporation

Economic model of the firm / shareholder primacy model

In the last decade, companies grew beyond their own capability to raise capital. By offering capital shares to investors, the financial basis of companies grew significantly. The so-called shareholders, with their capital, are entitled risk-bearers, i.e. residual claimants (Fama, 1980, p. 291). The question arises regarding the owner of the firm, which can be seen differently. In the economic model, the firm is a nexus of contracts (Jensen & Meckling, 1976, p. 310), where several relationships exist: between owners and managers, managers and employees, etc. The firm is an organizational form for saving marketing costs (Coase, 1937, p. 392). The capital providers, i.e. shareholders as residual claimants, are the owners of the firm. They have the ultimate right of control. The managers'/employees' task is to perform their work in a manner that safeguards the interests of the owners. The managers (agents) may have different goals than the principal, which will become clear in decision-making. Figure 1 shows the underlying hierarchical structure of the economic model: the shareholder as principal on the very top, the board of directors as first-order agent on the second level and the managers as second-order agents on the third level. All other stakeholders, i.e. creditors, suppliers, employees are below these three levels. Within this *shareholder primacy model* (Lan, 2010, p. 299) the role of the board is strictly defined as the monitoring of the management on behalf of the shareholder. Within this model, the question arises why only shareholders have the exclusive right to control and dismiss managers. Some arguments have already been presented: the first one being that the shareholders are the only people whose remuneration depends on the firm's results, they are the residual claimants. The second argument is that control would become impossible if there were more than one principal (Segrestin & Hatchuel, 2011, p. 487). The economic model of the firm is connected with the classic agency theory and its assumptions, which were presented above, but this model has some **shortcomings**:

The economic model of the firm is still very common. Segrestin (Segrestin & Hatchuel, 2011, p. 487) shows that management scholars have criticized this model and the underlying

assumptions of agency theory with regard to three areas:

- The lack of realism concerning managers' motivation and behaviour
- The economic inefficiency of the proposals deduced from agency theory
- The questionable legal interpretation of governance made by agency theory

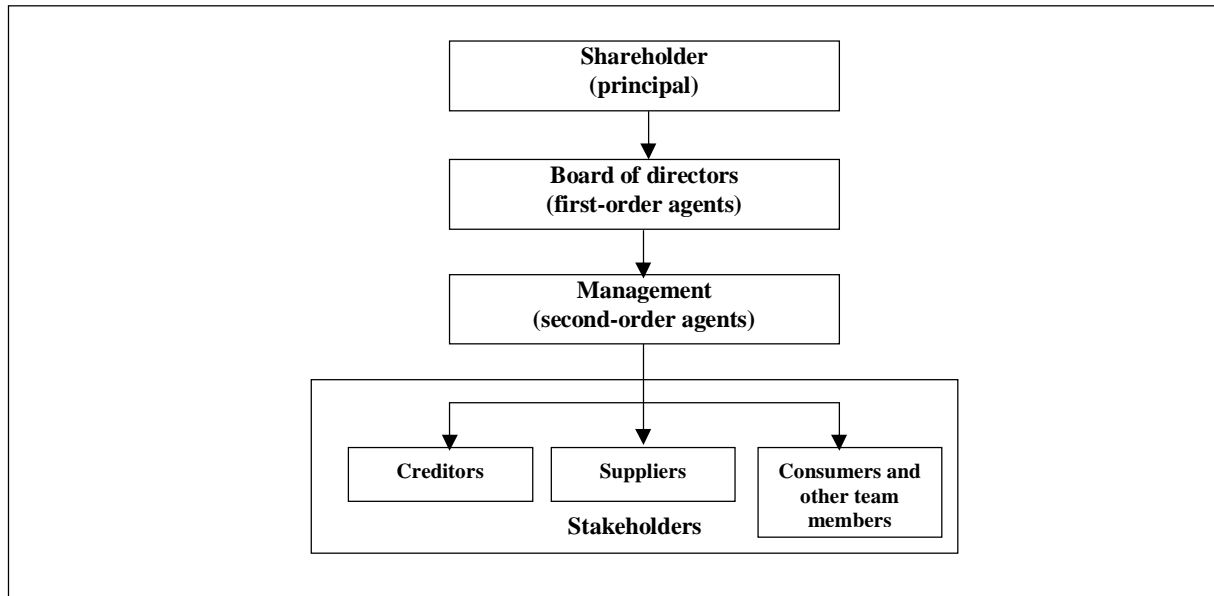


Fig. 1: Shareholder primacy model

Source: Lan, 2010, p. 302

The lack of realism concerning managers' motivation and behaviour

Agency theory's underlying assumption is that both parties, the principal and the agent, are utility maximizers and, therefore, the welfare of the principal might be vulnerable. As opportunistic behaviour is not the only possibility, stewardship theory (see chapter 1.2) was developed as an alternative model to explain alternative behaviour. Shankman argues that even within agency theory a moral minimum is embedded (Shankman, 1999, p. 327).

The economic inefficiency of the proposals

Agency theory gives ultimate control rights to shareholders as residual claimants. There is an extended scientific discussion about shareholders and stakeholders. Stakeholder theorists explain impressively that a firm cannot be managed by only having a view to its shareholders. All stakeholders of an organization, i.e. employees, creditors, suppliers bring company-specific contributions; without them success would not occur.

The questionable legal interpretation – economic model of the firm

The legal interpretation, which will be discussed in detail in the next chapter, is the striking

argument for an advanced model of the firm, which opens further possibilities for application.

The legal model of the firm/corporation

In contrast to the economic model, the legal model recognises the corporation itself as a separate legal entity, independent of its managers, employees and creditors. As a “juridical” person it has rights, assets and liabilities just like a natural person. Shareholders are only owners of their shares, they are capital providers and their liability is even limited to their shares. Legally they cannot be the owners of the juridical person. The purpose of shareholders is the provision of capital and earning interest out of this contract. Apart from the ultimate right to control and monitor the management, control of the corporation is the task of directors/managers (Abbasi, 2009, p. 407). Abassi (Abbasi, 2009, p. 410) further shows that even in the economic view it is inevitable to consider that shareholders have limited liability, their risk-bearing is limited to their invested capital. This has the effect of transferring some risk to the creditors in case of bankruptcy. Consequently, the residual rights holders’ argument for regarding the shareholders as the owners fails even in the economic paradigm. Even Fama (Fama, 1980, p. 290) said: “*Ownership of capital should not be confused with ownership of the firm*”. The legally based perspective takes the focus away from the shareholder, enabling the application of agency theory in the not-for-profit sector, which is the framework of this dissertation. In non-profit organizations there are no owners expecting to earn profit or getting paid (Olson, 2000, pp. 281). Further, the non-distribution constraint (Hansmann, 2010, p. 60) forbids the distribution of earnings. By only using the economic model, the major difficulty would be to correctly define the owner of a non-profit organization in order to apply agency theory with all its assumptions.

Redefining agency theory – Board as mediating hierarch

The director primacy model

The legal model of the firm explained above provides a first approach for redefining agency theory and its model of a firm. It encourages general use of agency theory for all corporations, i.e. for-profit corporations and also not-for-profit corporations. In order to provide a valuable alternative to the shareholder-primacy model of the firm, a further theory is adopted to justify and explain the new ideas of an enlarged and enriched agency theory through application of team production theory (Alchian & Demsetz, 1972, p. 779). Team production theory understands a firm as a “*nexus of firm-specific investments, in which*

several different groups contribute unique and essential resources to the corporate enterprise and who each find it difficult to protect their contribution through explicit contracts” (Blair & Stout, 1999, p. 275).

Within this theory, hierarchy plays an important role in ensuring decision making, but recognizes that some productive activities depend at least as much upon horizontal relationships as vertical ones (p. 264). The basic work in explaining the function of hierarchy as a mediating role, to bring team production to success, is based on Rajan/Zingales (Rajan & Zingales, 1998). Hierarchy in this model is to the benefit of the team members, as only an independent or third party is able to mediate between the firm-specific investments provided by all team members. Applying team production theory to a corporation will result in a different hierarchy, as shown in figure 2. The corporation itself, as a legal entity and as the highest unity, appears as principal; the shareholder as principal falls apart. The status and the role of the board are very different to those in the shareholder primacy model: its function is that of an autonomous fiduciary and not that of an agent to the shareholders. Its role is not to represent the hierarchy in itself, but to be the mediating hierarch to the benefit of all team members. The firm is viewed as a team and the shareholder is only one of the various parties that make a “specific contribution” to the firm. The model’s idea comes close to the idea that a corporation will not have only one stakeholder, i.e. shareholder, making a specific contribution, but several, i.e. management, creditors, suppliers, etc. contributing to the overall success.

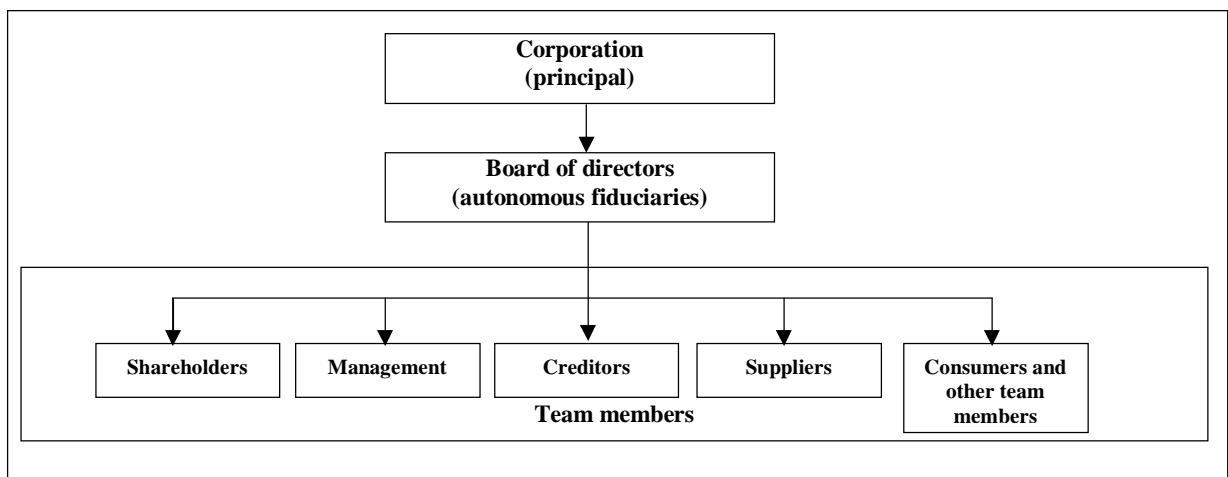


Fig. 2: Director primacy model

Source: Lan 2010, p. 302

To overcome the shareholder-primacy model, it is important to redefine the principal of the corporation, the status and the role of the board:

Redefine the principal of the corporation – from shareholder to the corporation

The basis for this redefining is the legal model of the corporation. Within this model the corporation itself is a legal entity, having rights, assets and liabilities. Shareholders are owners of their shares and could never be owners of the legal entity, the corporation. It is also argued that the limitation of the liability of shareholders weakens the claim of shareholders to be the owner of a corporation. Lan (Lan, 2010, p. 301) argues further that directors/managers may, moreover, have potentially unlimited personal liability if they act beyond the fiduciary duty.

Redefine the status of the board – directors as autonomous fiduciary of the corporation

This idea blows away the classical hierarchy and sequence within agency theory. The board as autonomous fiduciary will mean that, contrary to the shareholder primacy model, the board is no agent, it is the ultimate decision-making body; members of the board are fiduciaries, with respect to the corporation and its shareholders (Clark, [1991], c1985, p. 56). A fiduciary is defined as someone who is entrusted with the power to act on behalf of and for the benefit of another. A fiduciary is expected to act in good faith and honesty in the beneficiary's interest (Lan, 2010, p. 302).

Redefine the role of the board – mediating hierarch

The board's role as mediating hierarch, is understood to balance the competing interests of team members. The idea is to reduce uncertainty and dependency among team members (Lan, 2010, p. 303). If one of the team members might have control over the division of profit, the other team member(s) will be reluctant to invest, to make firm-specific investments. Only when they give up control to a third party (the board), which makes no firm-specific investments, can all parties improve their welfare (Rajan & Zingales, 1998, p. 422). The model does not imply, that a possible surplus will be distributed equally; the board's role is to mediate between the different interests of the team members. The basic ideas of the director primacy model open the path to further theories: this model implies the idea that more than one stakeholder is responsible for the total success of an organization. Stakeholder theory will be discussed in chapter 1.3. The attitude towards the board as fiduciary is related to the ideas of stewardship theory, see chapter 1.2.

What remains from classic agency theory

All that remains from classic agency theory is the implications of shareholder voting rights. Shareholders play an important role in the shareholder primacy model. As entitled owners they are the residual claimants executing the ultimate right of control. With regard to the

director primacy model, the shareholder is only one of several contributors of firm-specific investments. The question of what to do with the voting rights of the shareholders remains. Legally they still exist, even under the team production theory. Firstly, shareholders have the right to elect and remove the directors. Blair and Stout (Blair & Stout, 1999, p. 310) show that in corporations where the shares are in hands of a small number of stockholders, shareholders can execute power via their voting rights in selecting members of the board. In contrast to public corporations, shareholders do not, in any realistic sense, elect boards; rather boards elect themselves. Secondly, the shareholders' right to vote on "fundamental" corporate affairs seems to be a fig leaf. The rights of shareholders are exactly defined in the so-called statutes. The quality of shareholder voting rights is veto rights: shareholders cannot initiate fundamental changes, but can only vote *yes* or *no* (Blair & Stout, 1999, p. 311). Considering these two arguments, the question arises why voting rights still exist in national laws. Are voting rights only a ceremony to be observed at the annual general meeting or is there still an associated function? Shareholder voting rights, even with weak power, act as a safety net to protect against extreme misconduct. Blair & Stout further explain that although shareholders are no longer the principal in the director primacy model, their voting rights can be reconciled with this model: someone has to choose the members of the board and the directors and shareholders are in the best position to do so. In spite of their large numbers, all of them follow the same interest. The conflict, which would arise if various stakeholders were to choose the best candidate for them, is unthinkable. Moreover, shareholder voting rights are seen as partial compensation for their unique vulnerabilities. Other stakeholders have contracts and regular interaction are therefore able to influence the distribution of firm rents in other ways. Shareholders rarely have the opportunity to negotiate directly with the firm for advantages (Blair & Stout, 1999, pp. 310).

1.2 Stewardship Theory

Basic assumptions of stewardship theory

The quantity of research and literature on agency theory is tremendous compared to that on stewardship theory. Criticism and the limitations of agency theory lead to the development of an additional theory to explain another type of people operating in companies. Within this context, stewardship theory will be understood as an additional theory, to arrive at a complete picture of theories relating to corporate governance in non-profit organizations. The basic issue in stewardship theory is also to focus on the relationship between principal and "agent",

although for this theory the term agent is not suitable because of the different underlying assumption. It is better to replace it with the term “manager”. Further, both theories focus on maximizing the shareholders’ wealth. If the interests of the principal and the agent or manager are aligned within both theories, no problems exist and no agency costs occur. By recognizing differences, the basic assumptions regarding motivation and control to reach the prescribed goal are quite opposite (Tosi, Brownlee, Silva, & Katz, 2003, p. 2054). Psychology and sociology are the roots for stewardship theory (J. H. Davis, D. F. Schoorman, & L. Donaldson, 1997a, p. 24). Its aim was to identify situations in which managers as stewards are motivated to act in the best interests of their principals (Donaldson & Davis, 1991, p. 51). The underlying model of a person is completely different to that in the agency theory. Where agency theory’s basis is a trade-off between personal goals and the goals of the company, stewardship theory’s basis is the idea, that there is no difference between these two kinds of goals. A steward’s interest is to maximize shareholder wealth and by doing so he or she also maximizes his or her personal utilities (J. H. Davis et al., 1997a, p. 25). The behaviour of the actors in agency theory and stewardship theory are quite contrasting. On the one hand is self-serving behaviour, which is the basic assumption for actors in agency theory, and on the other, a pro-organizational behaviour, as the basis in stewardship theory. “A steward’s behaviour will not depart from the interests of his or her organization” (J. H. Davis et al., 1997a, p.24). Even in the case of competing interests, a steward places higher value on cooperation than disagreement. The behaviour of a steward is collective, but this neither means being the slave of the organization, nor having no personal needs. The difference is how these needs are met: by following the goals of the organization, the personal needs are also met. Further important assumptions within agency theory, i.e. different risk preferences and information asymmetry between principal and agent are not part of the discussion on stewardship theory due to the underlying collective behaviour.

Managerial control and reward system

Agency theory expends a lot of energy on developing, installing and executing control over the agent, through incentive systems and a corresponding governance structure, in order to align the principal’s and the agent’s interests, which maximizes the principal’s welfare. Financial incentives, e.g. salary bonus and stock options, are a perfect indicator of the level of alignment in interests. In stewardship theory, the approach regarding control and reward is very different: it establishes a working infrastructure, which allows managers a high level of autonomy and to take responsibility for following the goals of a company. Trust is an important feature in stewardship theory. By creating relationship-centred working conditions,

non-hierarchical collaboration is fostered. Control is executed by exerting and receiving social pressure to work collectively toward a common outcome (Hernandez, 2012, p. 178). Control in the sense of agency theory undermines the positive attitude and appears counterproductive (Tosi et al., 2003, p. 2056). Reward systems under stewardship theory consider the basic assumption of the intrinsic motivation of managers and therefore intangible rewards. They support the steward's belief, in his or her ability to perform and the desire to accomplish a task. Reward systems are designed to create long-term effectiveness by cultivating self-efficiency and self-determination with a focus on employee-development (Hernandez, 2012, p. 179).

Agency and/or stewardship theory

The two theories presented, with their underlying assumptions, are quite opposite and it appears that it would be impossible to reconcile them. The table below from Van Puyvelde (van Puyvelde, Caers, Du Bois, & Jegers, 2012, p. 437) provides an overview, focusing on the distinctiveness of each theory.

Table 1: Agency theory and stewardship theory

Dimension	Agency theory	Stewardship theory
Theoretical basis	Economics	Psychology and sociology
Approach	Control (distrust)	Collaboration (trust)
Principal-agent relationship	Goal conflict	Compatible or aligned goals
Agent's motivation	Mainly extrinsic	Intrinsic
Organizational identification	Low identification	High identification
Human behaviour	Individualist	Collectivist
Governance mechanism	Monitoring and incentives	Empowering structures

Source: Van Puyvelde 2012, p. 437

This table shows the different assumptions between the two theories. Agency theory has its roots in economics, looking for the exceptional result for the principal. The roots for stewardship have already been mentioned above. The underlying assumption in both theories goes hand in hand with trust or distrust. "Stewardship is not created through a formula or rules, but ... through organizational structures that help ... to generate interpersonal and institutional trust" (Hernandez, 2008, p. 122). Goal-conflict or goal alignment describes a further basic assumption between these two theories. Agency theory cannot exist without installed control mechanisms. Installed control mechanisms foster extrinsic motivation. Intrinsic motivation is the underlying assumption in stewardship theory. By making decisions in the firm's interest, stewards meet their needs in respect of achievement and growth (Tosi et al., 2003, p. 2055). The different type of motivation brings to light the organizational

identification and human behaviour, which will be low for an agent in agency theory and high for a steward in stewardship theory. To become effective according to the theory, a steward works in an empowering governance structure, where trust is high and control is counterproductive. By contrast, the agent will find himself in a network of monitoring and incentives to help him to act on the principal's behalf. In the scientific discussion opinions differ as to whether agency theory precludes stewardship theory, or whether stewardship theory is a complement and not a competing theory to agency theory. (van Puyvelde et al., 2012, p. 437) Albanese et al (Albanese, Dacin, & Harris, 1997, p. 610) advocate agency theory with its assumptions of rational actors, and at the same time emphasize the wide variety of utility functions between principal and agent which could possibly occur in such a relationship. He also argues that within one organization, relationships between principal-agent and principal-steward may occur and change over time. Today's agent may be tomorrow's steward and vice versa. Davis et al's (J. H. Davis et al., 1997a, p. 611) response to this comment is that both theories are different in their conjectures and therefore a principal-steward relationship could never occur from the agency theory perspective. This table is based on the assumption that both the principal and the agent or manager are directed by the same behavioural preconditions, either agency theory or stewardship theory. Problems in the relationship occur if one of the two parties prefers a different behaviour, e.g. the principal's attitude is derived from agency theory and the manager's one from stewardship theory. The result is a frustrated manager, because he will be controlled by the principal according to agency theory and feel further betrayed because the principal acts opportunistically. The constellation could also be the other way round, i.e. with a principal acting on the assumptions of stewardship theory and the agent on those of agency theory. The angry and betrayed party will be the principal, because the agent acts in an opportunistic way (J. H. Davis, D. F. Schoorman, & L. Donaldson, 1997b, pp. 38). The organizational reality will not be based exclusively on agency theory or on stewardship theory. The question is how to find a way to reconcile the ideas of both theories. So far the literature has not presented any suggestions on this.

Both theories are vital in the discussion of corporate governance and their corresponding governance structure, as already presented in chapter 1.1. The assumptions of agency theory cause or constrain a hierarchical organization, presented as a shareholder primacy model. The vertical organization is the installed monitoring system, represented by the board, as the key element in this organization. The assumption of stewardship, with the prescribed high autonomy and the desire to take over responsibility, require an alternative governance structure, where managers put these assumptions into practice. The director primacy model

(chapter 1.1) demands stewards, otherwise the function of the board as fiduciary of the organization could not be fulfilled.

1.3 Stakeholders and Stakeholder Theory

Basic assumptions of stakeholder theory

The idea that corporations do not only have stockholders, but lots of stakeholders to consider, has become commonplace in management literature (Donaldson & Preston, 1995, p. 65). An organization is embedded in a network of explicit and implicit relationships throughout its internal and external environments (Mainardes, Alves, & Raposo, 2012, p. 1863). Being aware of a greater variety of interests, stakeholders have increasingly become the focus of attention within the literature. Organizations have become more and more clear about identifying and communicating with several interest groups, deciding the nature of responsibilities to each and being judged on a wider range of performance indicators which relate to stakeholder concerns (Clarke, 1998, p. 188). Stakeholder theory considers more constituencies to be important for an organization than only the shareholder (Mallin, 2007, p. 12). It represents a pluralistic approach to organizations. Freeman (2010, 1984) established a landmark with his work *Strategic Management: A Stakeholder Approach* in the academic discussion of stakeholders. The question of who is a stakeholder has brought several narrow or broad definitions. In the narrow view, stakeholders are defined in terms of their direct relevance to the firm's core economic interests, whereas the broad view is based on the fact that an organization can be widely affected. Mitchell et al made a classification of twenty-eight definitions from the literature on these two elements. (Mitchell, Agle, & Wood, 1997, p. 857). “[T]here is a deep divide in definitions of what it is to be a stakeholder in a business” (Kaler, 2002, p. 91). In order to deduce how stakeholders may be affected in an ethical way, the definitions have to be split up in another way: one group sees stakeholders as people, for whom business have to take responsibility and another group sees stakeholders as people, who have to be taken into account, but not necessarily because of any responsibility for them (Kaler, 2002, p. 91). The first group is called claimant stakeholders and the latter influencer stakeholders (Mitchell et al., 1997, p. 859). Claimant stakeholders are those where the business has to serve more than just the interests of owners. This definition covers the purpose of business ethics. In contrast, the influencer definition does not characterize stakeholders in terms of interests to be served; the striking feature is the power to influence. Such people relate to the firm's objectives only through their power to influence. There is no moral claim

(Kaler, 2002, pp 94). Greenwood also discussed the above classification by Kaler and stated that, according to this classification, the landmark definition of a stakeholder given by Freeman is an influencer definition (Greenwood, 2007, p. 321). According to Freeman, a stakeholder is “any group or individual who can affect or is affected by the achievement of the organization's objectives” (Freeman, 2010, 1984, p. 46). Stakeholders of an organization can be, according to figure 3, investors, political groups, customers, communities, employees, trade associations, suppliers, government. The number of stakeholders in an organization depends on their mission, their size, their legal form. Stakeholder theory is applicable in various organizational forms, e.g. partnerships, nonprofits, corporations. A myth says that it is only applicable in corporations (Phillips, Freeman, & Wicks, 2003, p. 495). This so-called stakeholder model (Donaldson & Preston, 1995, p. 69) of the firm explains what stakeholder theory intends to do: there are a lot of constituents with legitimate interests participating in a firm to obtain a benefit. The model shows a lot of groups which may assist or hinder the achievement of organization’s objectives (Phillips et al., 2003, p. 481), and there is definitely no reason to prioritize one group above all others, as in agency theory (chapter 1.1). It is about identifying systematic priorities between all relevant groups or interests. The arrows of all constituents run in both directions, underlining the reciprocal communication process. This model does not show the amount of influence the various groups will have on an organization, some may get more attention, some less.

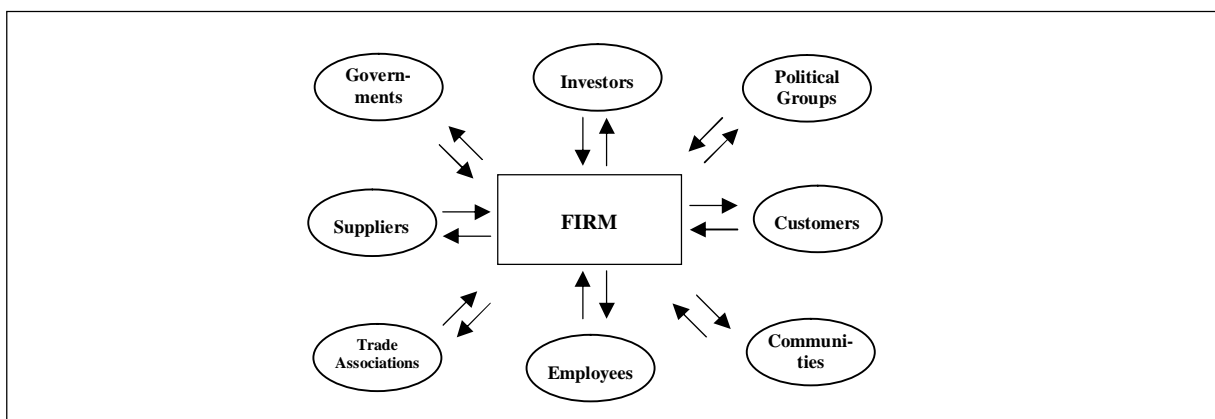


Fig. 3: The stakeholder model of the firm

Source: Donaldson et al, 1997, p. 69

Stakeholder theory seeks its justification in different areas. Donaldson proposes three justifications – descriptive, instrumental and normative justification - the normative justification is the most profound, compared with descriptive and instrumental justification. The descriptive stakeholder theory is used to describe facts within corporations, e.g. the behaviour of the board or managers towards constituencies. Instrumental stakeholder theory is

used to identify the array of connections between stakeholder management and the achievement of traditional objectives. The normative stakeholder theory concerns moral or philosophical guidelines for the management of a corporation (Donaldson & Preston, 1995, pp. 70). These provide valuable aspects in the sense of different uses of stakeholder theory (Kaler, 2003, p. 72). Stakeholder theory provides further explanations for stakeholder classification and the means of organizational interaction (Mainardes et al., 2012, p. 1862) which will be explored in greater detail below.

Stakeholder classification

The first step is getting an answer to the question of “who” the stakeholders of an organization are. Brainstorming will provide a lot of stakeholders. Who will be or is affected by the achievement of the organization’s objectives is a question relating to prioritization based on various criteria. The existing literature identifies several methods for reducing or concentrating the number of stakeholders. A choice of such classifications will be presented below.

Power, legitimacy and urgency as attributes to reduce the number of stakeholders

Mitchell et al suggest three criteria to select relevant stakeholders: power, legitimacy and urgency (Mitchell et al., 1997, pp. 865). There are several definitions to be found in the literature regarding power. The main idea is always to influence the outcome to the way one would like it to be. Power is not a steady state, it is transitory: i.e. it can be acquired but also lost. Stakeholders exert *power* in different ways: expert knowledge, money, relationships, etc. *Legitimacy* is often interconnected with power. Some narrow definitions of stakeholders include the implicit assumption that legitimate stakeholders are necessarily powerful, and powerful stakeholders are legitimate. *Urgency* shows the degree of strength, the intensity with which the management copes with expectations of stakeholders. Urgency can be expressed by two attributes: the degree to which their claims are time sensitive and critical. Neither attribute on its own is effective in narrowing down the term stakeholder. They achieve relevance from their degree of interconnection: power by itself is no guarantee of high attention from management. Power gains authority through legitimacy and exercise through urgency. Mitchell et al’s overall aim is to show that stakeholder salience occurs in a different combination of the three attributes: the higher the number of attributes, the higher the attention by the management. It is possible, that some groups have only one criterion of the three – power (1), legitimacy (2) and urgency (3). He calls these latent stakeholders. Several

groups have two of the three criteria, and are named as expectant stakeholders. Within this group dominant stakeholders (4) possess power and legitimacy; dependent stakeholders (6) have urgent and legitimate claims, but they lack power; and dangerous stakeholders (5) are equipped with urgency and power, but not with legitimacy. Definitive stakeholders (7) possess all three criteria, and therefore receive the highest managerial attention (Mitchell et al., 1997, pp. 872).

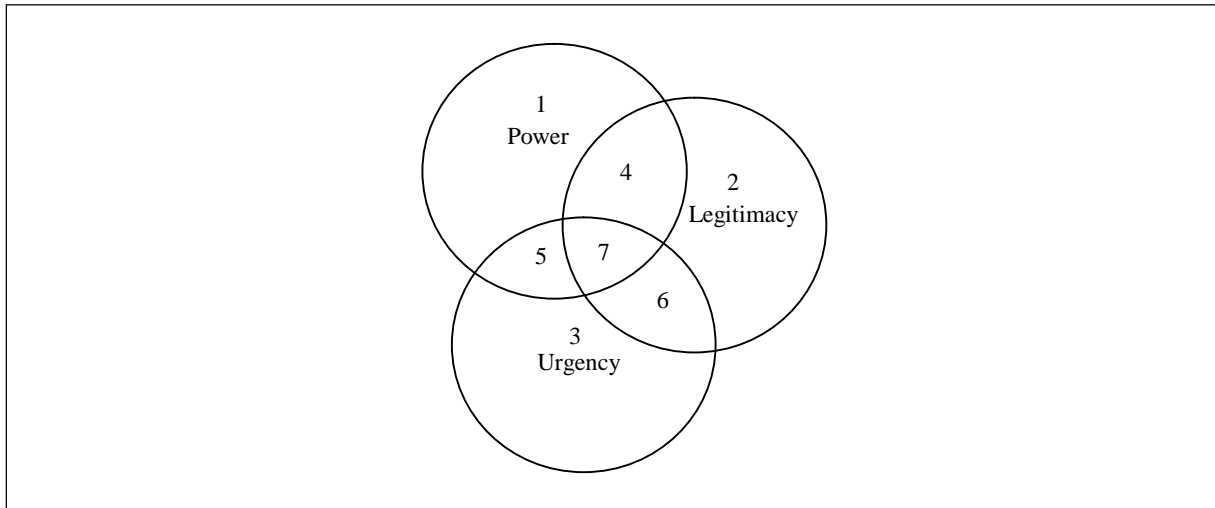


Fig. 4: Stakeholder salience model

Source: Mitchell et al, 1997, p. 872

Legitimacy as a means of reducing the number of stakeholders

Mitchell et al state legitimacy as an attribute which can be used to classify stakeholders. Legitimacy has been considered in various ways in the various definitions of stakeholders, but it has been used as synonymous with moral legitimacy (Phillips, 2003a, p. 29) and consequently some groups of potential stakeholders are missed out. Suchman provides the following comprehensive definition for legitimacy: “*Legitimacy is a generalized perception or assumption that the actions of an entity are desirable, proper, or appropriate within some socially constructed system of norms, values, beliefs, and definitions*” (Suchman, 1995, p. 574). With the concept of normative and derivative legitimacy Phillips (Phillips, 2003a) broadens the range of stakeholder: it even includes stakeholders that may affect or harm the organizational objectives and therefore are to be considered in managerial decision making. He even defines non-stakeholders in his concept. *Normative stakeholders* are defined as those to whom the organization has a moral obligation. Phillips also includes herein groups to whom the firm has a moral relationship (Phillips, 1997, p. 53) in addition to a stakeholder-based obligation. By contrast, *derivative stakeholders* derive their legitimacy from the potential effect they may have on the organization and its normative stakeholders. Derivative

stakeholders may be beneficial or harmful to the organization. Phillips (2003b) compares this group of stakeholders with dangerous or dormant stakeholders according to the classification by Mitchell et al (Mitchell et al., 1997, Phillips, 2003a, p. 31). By considering news media or competitors as derivative stakeholders, the idea becomes clear. Both groups can definitely affect an organization. Finally, non-stakeholders are those where the organization has no moral obligation and their likelihood of having an impact is minimal. Stakeholder status and, therefore, stakeholder obligation is created when an organization voluntarily accepts the contribution of some groups or individuals (Phillips, 2003a, p. 26). These obligations are based on fairness and therefore additionally provide a normative basis for stakeholder claims (Phillips, 1997, p. 53).

Economic approach to reduce the number of stakeholders

Speckbacher has developed a further method for reducing the number of stakeholders by using the theory of incomplete contracts (Rajan & Zingales, 1998, pp. 387), which means that after the contracts are written, there is room for the parties who have claims at stake to bargain over these quasi-rents. In this a firm is defined as a nexus of specific investments which cannot be replicated by the market. Specific investments cannot be withdrawn from a firm without loss. They are at stake, which means that the value of such investments outside the firm is much lower than inside. The difference between these two values is called quasi-rent. If one party's implicit claims are not fulfilled and another party appropriates the expected quasi-rent, a so-called hold-up occurs (Speckbacher, 2003, p. 275). The definition of a stakeholder within this framework is very different to that by Freeman: a stakeholder of an organization is a party, a group that contributes specific resources that create value for the organization and where the party's claims on the return from the investment are incompletely specified by contracts and, therefore, unprotected. There are at least two groups of stakeholders: primary stakeholders and ordinary stakeholders. Primary stakeholders are those whose contractual claim on their return from the investment is incompletely specified and hence unprotected. To protect them from hold up, Speckbacher suggests endowing them with residual rights of control (Speckbacher, 2008, pp. 302).

Choose the best model

The focus of the models presented for reducing the number of stakeholders is very different in each case. It is not possible to classify one model as being preferable to another. Within the literature the stakeholder salience model by Mitchell et al is the most popular model, creating a landmark in stakeholder qualification. The economic approach of Speckbacher to reducing

the number of stakeholders is developed in the nonprofit-area and will be further discussed as appropriate argumentation for the application of stakeholder theory within non-profit organizations in chapter 1.5. The list of such models derived from the existing literature could be expanded still further. The core assumption in all models is to assist an organization in finding the relevant stakeholders, i.e. identify those who will receive most managerial attention and which are not at the center of attention, and to build further relationships with relevant stakeholders. In the best case, stakeholders are to be considered in managerial decision making. The scope of their influence is dependent on several factors. The art of an organization is to balance the sometimes contradictory claims stakeholders might have. From the viewpoint of stakeholders themselves, stakeholder theory gives them an institutional framework for entering into a dialogue with the organization. The attributes themselves and the stakeholder groups identified on the basis of the aforementioned criteria do not of themselves constitute grounds for a particular relationship with the organization. It is the **management** who makes one group of stakeholders more salient than others.

Sternberg (1997) has criticized this heavily, regarding the stakeholder theory as being incompatible with business and with corporate governance. In her opinion stakeholder theory holds an organization equally accountable to all stakeholders. *“Balancing stakeholder interests is an ill-defined notion”* (Sternberg, 1997, p. 5). This meaning may result from a misinterpretation of what is meant by balancing interests. The aforementioned stakeholder models prove that this is not the case. The number of stakeholders will be reduced. Jensen (2002) criticized the use of stakeholder theory for considering the interests of various groups as being a handicap for the maximization of shareholder wealth (Jensen, 2002, p. 237). This critique was also offered by Sternberg: Stakeholder Theory would deny that corporations should be accountable to their owners (Sternberg, 1997, p. 5). Bosse et al prove that a firm can create value by sharing it with stakeholders according to the perception of fairness (Bosse, Phillips, & Harrison, 2009, p. 453). The critique offered may have been mitigated by several studies on the models presented for reducing the number of stakeholders and on the importance of stakeholder relationships, which will be examined in more detail in the next chapter.

Stakeholder relationship and integration (stakeholder management)

It is not enough today that an organization knows their stakeholders, their stakes and their role sets, (Freeman, 2010, 1984, pp. 57) although stakeholders represent a source of uncertainty. The solution is a consistent approach to stakeholders as the dynamic of their interactions may

be better anticipated (Balser & McClusky, 2005, p. 298). From the perspective of the relationship between organizations and stakeholders, stakeholder identification is a fundamental issue (Greenwood, 2007, p. 320) as it determines the type of relationship. The ethical foundation of stakeholder management will be discussed in the next chapter. In considering stakeholder relationships a large scientific field opens up, that of corporate social responsibility (CSR). Garriga shows that within corporate social responsibility, stakeholder management can be classified as part of integrative theory, where the focus is on the satisfaction of social demands (Garriga & Melé, 2004, p. 59). This limitation will enable us to focus on stakeholder relationship without ignoring its connections to corporate social responsibility. Furthermore, within the literature there is debate as to whether the purpose and utility of stakeholder management might be able to improve even financial performance or whether it is undertaken purely for reasons of etiquette. Hillmann provides an answer with his research based on the stakeholder classification model of Clarkson (Clarkson, 1995, p. 105) of primary (primary stakeholders represent a so-called narrow definition) and secondary stakeholders. He found out that effective stakeholder management leads to improved financial performance (Hillman & Keim, 2001, p. 126).

The essential part of stakeholder relationships is communication. It can be a simple linear model of communication, where stakeholders are only the receivers of messages from an organization. The focus there is on the information itself, without the possibility of feedback. By communicating with stakeholders in this way the organization holds control over the information provided. (Foster & Jonker, 2005, p. 52). Complex communication models ensure that the stakeholders, with their interests, will be considered as dialog partners in a communication process. It is important to consider that stakeholder relationships not only ensure being in communication with relevant parties of an organization. The purpose is definitely to achieve organizational goals within a situation of increasing complexity and divergent values and interests (Foster & Jonker, 2005, p. 53). Relationships with stakeholders may exist in many areas of organization's activities. Examples are shown in the following list by Greenwood: public relations, customer service, supplier relations, human resource management, strategic affairs etc. These engagements could be seen as a mechanism for consent, as a mechanism for control, as a mechanism for co-operation, as a mechanism for accountability, as a form of employee involvement and participation, as a method for enhancing trust, as a substitute for true trust, as a mechanism of corporate governance (Greenwood, 2007, p. 318). By answering the question of who the stakeholders are, the firm's focus is on the stakeholder and the extension of managerial attention to the stakeholder. This focus has been discussed in depth by several scholars. Frooman's for example strives to

broaden the stakeholder theory to focus attention on the relationship between the stakeholder and the firm. Describing different types of relationships, he uses power in a different way from, for example, how Mitchell et al do. They use power as an attribute of the individual. Frooman uses it as an attribute of the relationship. The major question to classify the stakeholder influence strategy in his model is whether the firm is dependent on the stakeholder, or the stakeholder dependent on the firm. Stakeholder power or firm power expresses an asymmetry in the exchange relationship and results in power, whereas high interdependence and also low interdependence show symmetry in the exchange relationship between the two actors (Frooman, 1999, pp. 192). Savage et al developed a similar model of stakeholder classification and relationship. They used the potential of the stakeholder to threaten and the potential of the stakeholder to cooperate as variables and designated four types of stakeholders which are supportive stakeholders, marginal stakeholders, nonsupportive stakeholders and mixed blessing stakeholders (Savage, Nix, Whitehead, & Blair, 1991, pp. 65).

When talking about relationships with and the integration of stakeholders, it is obvious that the size of the organization must be considered: it is an important determinant in answering the question of how stakeholders are structurally integrated in an organization. (Luoma & Goodstein, 1999, 556). *“Not all stakeholders want a voice in organizational decision making, but those who do desire a voice should have it”* (Phillips, 2004, p. 2). The highest level of integration of stakeholders will be if they are considered in decision making, i.e. institutionalizing stakeholder influence through a formal governance mechanism. By including stakeholders on corporate boards, for example, firms visibly signal their commitment to stakeholders (Hillman, Keim, & Luce, 2001, p. 300). The bulk of stakeholder integration is through dialogue with stakeholders including advisory issues in a stakeholder advisory board (Spitzeck & Hansen, 2010, p. 384).

1.4 (Business) Ethics and Managerial Discretion and Power

Business ethics

The purpose of business is to create value for all those groups and individuals who have a stake in the business. It sounds like a moral obligation. Recommendations such as “a corporation ought to be governed...” or “managers ought to act to ...” both aim at a normative or ethical view of the governance of a corporation (Freeman, 1993, p. 45). There is

an assumption that ethics do not go together with attaining business goals such as maximizing profit. Examples such as Enron, Barings Bank, Parmalat are proof of this assumption, implying a high level of self-interest on the part of acting managers (Mallin, 2007, p. 2). Elms et al show that business ethics in the form of applied ethics have the same origin in the literature as strategic management, but they grew apart as strategic management focused on profit-based goals and measures of firm success and business ethics has placed too much focus on ethics itself (Elms, Brammer, Harris, & Phillips, 2010, pp. 402). By focusing the value creation process in both research fields, i.e. strategic management and ethics, it becomes clear that effective strategic management includes a consideration of ethics.

Business ethics is different from every-day ethics. Phillips provides arguments for a distinct organizational or business ethics which cannot just be derived from political theory or individual moral theory. Organizations differ from individuals and from states in three major parts, i.e. the freedom to quit, the value of contribution and the aims and objectives being important to understand organizations as they are (Phillips, 2003b, pp. 40). Stakeholder theory is an important theory when talking about business ethics and management theory. With their division of stakeholder theory in descriptive, instrumental and normative theory, Donaldson and Preston (1995) provide an important idea for applying normative stakeholder theory to this field: normative stakeholder theory is used as *moral* or philosophical guidelines for the operation and management of corporations (Donaldson & Preston, 1995, p. 71). The description in Hendry uses the word “ethical”: Normative stakeholder theory draws on *ethical* precepts to propose stakeholder-oriented answers (Hendry, 2001, p. 163). In his attempt to create a normative stakeholder theory Hendry finally comes to the decision to use the definition of normative stakeholder theory provided by Donaldson and Peterson as being moderate and thereby ensuring generality: managers have only to recognize and respect the interests of stakeholders, not to offer them participation or act as their agents (Hendry, 2001, p. 170).

Orts (2002), however, argues that stakeholder theory has its ethical limits, being focused on the interests of human participants in the business enterprise. It does not provide credible ethical principles for business managers in dealing with topics that do not directly involve human beings. Ideas such as integrating the natural environment fail, which, according to Phillips (Phillips & Reichart, 2000), is no more possible than finding an adequate answer to the obligation to obey the law. Orts argues that these two ethical questions cannot be reduced to an exercise in balancing the competing interests of participants (Orts & Strudler, 2002, p. 227). Hendry argues that the obligation to obey the law and institutions is an implied assumption in stakeholder theory (Hendry, 2001, p. 170). Various scholars underline the

importance of stakeholder theory in ethics: stakeholder theory is a theory of organizational management and ethics (Phillips et al., 2003, p. 480). According to Orts, stakeholder theory has become a mainstay in business ethics and management theory (Orts & Strudler, 2002, p. 215). Business ethics is primarily concerned with the *normative* uses of the concepts of stake and stakeholder (Reed, 1999, p. 466).

Managerial discretion

Business ethics, as presented above, can be seen as a frame which should not be violated by managerial discretion within a corporation. Managerial discretion will describe the degree to which managers are free to choose courses of actions and whether these choices bring about intended outcomes. (Phillips, Berman, Elms, & Johnson-Cramer, 2010, p. 177). Managerial discretion in agency theory is well defined by the underlying assumption of being a utility maximizer as an agent focusing on self-interest. Only monitoring will help to control this behavior. In stewardship theory managerial discretion is an important attribute and comes together with trust. In stakeholder theory stakeholders seem to be a constraint to managerial discretion. Phillips argues that stakeholders are not only constraints, but, further, catalysts for managerial discretion. It can be seen as a competitive advantage (Phillips et al., 2010, p. 178). Hill and Jones stress the unique role of management in their stakeholder-agency theory: managers are the only group of stakeholders who are in relationship with all other stakeholders and they are aware of or in control over decision-making, which gives this group of stakeholders a lot of power and, if desired, a lot of managerial discretion. Consequently, Hill classifies managers as agents of other stakeholders, but in his view all other stakeholders are not seen as principals. The agency conflict in this relationship occurs between the management and all other stakeholders. And the loss of utility is described as the difference between the utility that stakeholders could achieve if the management acts in the best interest of stakeholders, and the utility if management acts in its own best interest ((Hill & Jones, 1992, pp. 134). Applying stakeholder-agency theory to managerial discretion allows very useful insights into possible problems in relationships between stakeholders and management. Stakeholders may demand a proof of the management which should demonstrate the commitment to stakeholder by a certain monitoring. Information asymmetry, which has already been mentioned as a problem within a single principle-agency theory, may exist in a cumulated way, as management sees the confrontation with various interest groups. The result is a serious power difference between the management and stakeholders. It favours the management because of its unique position. Powerful stakeholder groups, as already described, might be able to mitigate this situation; less powerful stakeholders will not have

any possibility to bring in respectable influence to get managerial attention. If they also lack voting rights as an institutionalized power, they can only rely on the trustworthiness of an organization (Greenwood & Buren III, 2010, p. 425). Hill and Jones also discuss the implication of this power difference from the management perspective. For example, a great diffusion of stakeholders will be an advantage for the management in exploiting this power difference, and a disadvantage for stakeholders as monitoring is very difficult and very costly (Hill & Jones, 1992, p. 149). In such situations business ethics again become a useful instrument as an underlying premise for managerial discretion.

Power and the theories of corporate governance

Three theories of corporate governance, i.e. agency theory, stewardship theory and stakeholder theory use power in different ways. Mitchell et al (Mitchell et al., 1997, p.865) argue that a lot of definitions for power are derived from the classical Weberian definition of power as “*the probability that one actor within a social relationship would be in a position to carry out his own will despite resistance*” (Weber, 1947, p. 152). Power is primarily prescribed by the structure of an organization being the control mechanism by which the organization is governed. It creates formal power by specifying certain rights, responsibilities for certain staff positions. Gibson et al also discuss other structural power, relating to resources, decision making and information: power over resources occurs, when someone has access to money, workers, technology or materials characterized as resources. The level of power in decision making is measured by the degree to which one is able to influence how the decision-making process occurs, the alternatives considered and when decisions are made. In the case of information, power is prescribed by having access to relevant and important information (Gibson, Ivancevich, & Donnelly, 1991, pp. 336). Personal power as another category of power is developed outside of formal roles (Hernandez, 2012, p. 175) and needs time to grow. It may occur as a result of a person having special expertise which is highly valued, regardless of the organizational rank (Gibson et al., 1991, p. 332).

Power in agency theory

Power in agency theory occurs if the principal wants to change the behavior of the agent because the latter intends to behave in a different or opportunistic way which would harm the welfare of the principal. Power in agency theory occurs in the relationship between the principal and the agent. According to Saam there is an asymmetry in power for the principal as he has more potential for influence than the agent does (Saam, 2007, p. 829). The aforementioned mechanism of control, i.e. incentive monitoring systems (see chapter 1.1)

represents the mechanism of power executed by the principal. According to the above typology of power, institutional power is the basis of influence in the relationship between principal and agent (J. H. Davis et al., 1997a, p. 31).

Power in stewardship theory

Power in stewardship theory stresses the fiduciary role and implies a different view point with regard to control or monitoring than that of agency theory. Power is manifested through the different control and reward system: because of the absence of a goal, conflict between the principal and the steward, the purpose of the power executed by the principal, is not used to constrain the “agents”, i.e. steward’s behaviour. The absence of hierarchy fosters relationship-centered collaboration. Stewards enjoy a significant level of autonomy and responsibility. Power as control is executed by exerting and receiving social pressure to work collectively toward a common outcome (Hernandez, 2012, p. 178). In a principal-steward relationship, personal power is the basis of influence (J. H. Davis et al., 1997a, p. 31).

Power in stakeholder theory

Power in stakeholder theory has already been elaborated in detail. In stakeholder theory power is the distinctive feature by which to classify stakeholders, for example powerful stakeholders according to the classification from Mitchell et al are dormant stakeholders (Mitchell et al., 1997. pp. 874). Power is further a feature used to describe the relationship between stakeholders and the organization, as shown with the stakeholder relationship models of Frooman or Savage (see chapter 1.3), and it can also be used to decide the organizational integration of stakeholders. In contrast to agency theory and stewardship theory, where power is executed in a dual relationship, in stakeholder theory power is exerted by interest groups commonly containing more people. Power is the cause and the effect in a corresponding governance structure. This impact of power will be analyzed in detail in chapter 2. Managerial discretion provides a further input to consider in the discussion of governance structures and power.

1.5 Toward a Theory of Corporate Governance in Non-profit organizations

General implications

Corporate governance started to attract high levels of interest because of the many worldwide

crashes of corporations. It seemed that the existence of balance sheets and the rules to establish them should be enough to provide investors with a “true and fair view” of a business. It was not. Potential self-interest might be the reason for these crashes. Balance sheets show figures, but not the underlying behavioural assumption. Agency theory appears to be the dominant paradigm underlying most governance research (J. H. Davis et al., 1997b, p. 20), (Miller, 2002, p. 434) as it clearly provides the best explanation of an agency conflict based on the divergence of interests between the principal and an agent.

When carrying out research on corporate governance for non-profit organizations, it is, from the start, not clear which underlying theory would best represent the corporate governance of these organizations. Research on corporate governance in non-profit organizations concerning specific problems, but a general argumentation for a certain underlying theory, is still not available. When only applying *agency theory*, with the aforementioned relationship between the principal and an agent, the question will arise as to who will be the principal in non-profit organizations. The answer to this question might remain open (Miller, 2002, p. 439), as non-profit organizations do not have an explicit owner such as shareholders. As non-profit organizations are multiple-stakeholder organizations (see chapter 2.2) the next question of integration of stakeholders will also arise. Hill and Jones are the only scholars who made an attempt to integrate stakeholders in agency-theory (1992, p. 134), but the underlying assumptions of agency-theory still apply. Non-profit organizations are different with regard to their personnel: they work with volunteers. Agency theory underlines self-interested behaviour, but this behaviour does not fit with the view point of volunteers at all. Volunteers can be better characterized by the attributes of stewards. The result will be that for corporate governance in non-profit organizations it is not possible to rely on only one of the theories presented. Because of the distinctive features of non-profit organizations it might be useful to put effort into integrating agency theory, stewardship theory and stakeholder theory, including business ethics, to establish a theory of corporate governance in non-profit organizations.

Agency Theory and stewardship theory for nonprofit-organizations

Like corporations, non-profit organizations are basically characterized by a separation of ownership and control, that means the initiation and implementation of decisions (decision management) belongs to the management and the board is only expected to ratify and monitor decisions (Fama & Jensen, 1983, p. 319). The important difference between these two types of organizations is that a corporation has shareholders, a non-profit organization, especially an association, has members. As capital providers, shareholders are owners of shares and will get compensation relative to their shares and risk. Non-profit organizations, mainly associations

(see chapter 2.2), have members. These members are also capital providers, but in contrast to shareholders they are not entitled to a share in the organization's profit (Olson, 2000, p. 283). Members will take part in tangible and intangible services provided by the organization. In classical agency theory shareholders are classified as owners and consequently represent the principal. In applying classical agency theory to non-profit organizations some scholars tried to interpret members as quasi-principal (Koss, 2005, p. 206) but this will be shown to be a misleading interpretation by the author for several reasons. The consequence of interpreting members as principal would mean that the organization might have to be governed so as to maximize the welfare of this principal, i.e. members. Non-profit organizations can be interpreted as multiple-stakeholder organizations, and the classical shareholder-primacy model might exclude the existence of other interest groups on which a non-profit organization is also dependent.

Van Puyvelde's attempt to integrate agency theory with stakeholder and stewardship theory leads to the identification of several principal-agent relationships. He divides these relationships into external, nonprofit, principal-agent relationships with donors, consumers, clients, members, and internal nonprofit principal-agent relationships, such as that between the board and managers and managers and employees. Even with volunteers he implies a principal-agent relationship (van Puyvelde et al., 2012, pp.433). Being principal implies a vertical organization, as shown in the shareholder primacy model (see chapter 1.1), but having more than one principal makes it nearly impossible to balance different interests. Stakeholder theory provides a rich variety of methods to find the important stakeholders for the organization. These procedures might then be lost. With her research Miller shows that the application of agency theory in non-profit organizations is deficient. The agency problems already described (see chapter 1.1) are non-existent: the assumption of a goal-conflict between the principal and the agent is non-existent, further, non-profit organizations have problems in identifying their owner, which leads only to a rhetoric accountability. What is more, the monitoring activities of the board are limited because of the unidentified owner, and, further, no commonly used performance criteria are available in non-profit organizations (Miller, 2002, pp. 436).

As already mentioned, non-profit organizations have no owner, consequently the application of the classic shareholder-primacy model, with its vertical organization due to the principal-agent relation presented in chapter 1.1 fails. The author argues that the so-called *director primacy model* also presented in chapter 1.1 is the adequate basis for the justification of corporate governance in non-profit organizations. However, when one takes a look at the statutes of non-profit organizations, agency theory seems to be an underlying premise.

Director primacy model for non-profit organizations

The director primacy model identifies no shareholder as owner. The problem in finding the owner in non-profit organizations has already been discussed. In taking the focus away from the shareholder at first, the application of agency theory in non-profit organizations becomes possible. And in the end, the implications of this model are even better aligned with attributes of stewardship theory (Lan, 2010, p. 303). Remembering the director primacy model, the figure below shows this model applied to non-profit organizations. Like a corporation, the non-profit organization itself also appears as principal. It will enter into contracts, will have assets, contract debts and be responsible as a juridical person. Members, similarly to shareholders, may never incur debts or be responsible in the event that their organization becomes bankrupt. In contrast to shareholders, members hold no equity in their organizations which they would get back in case of a withdrawal of their membership. The only logical consequence is that the non-profit organization itself represents the principal.

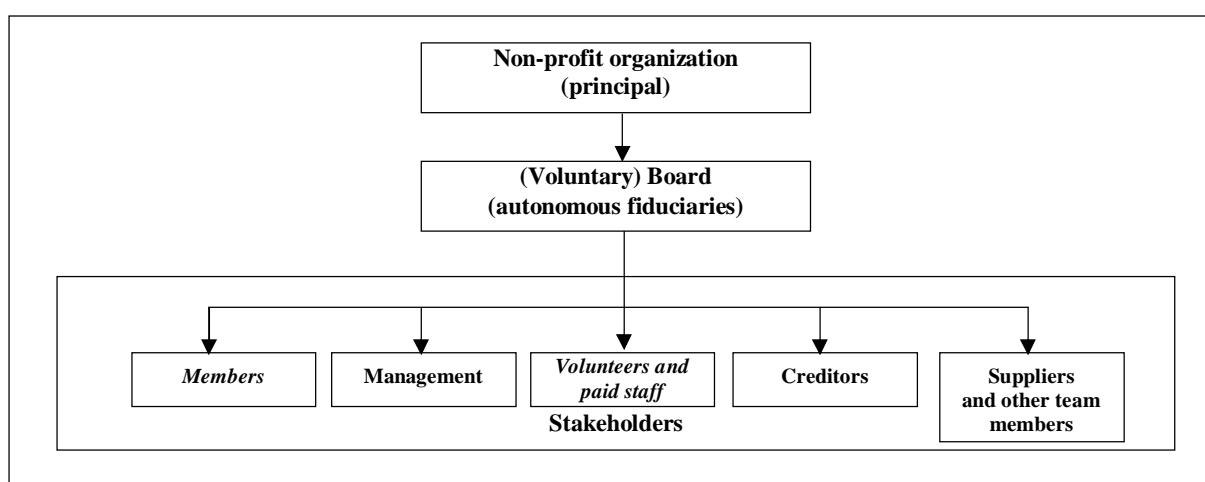


Fig. 5: Director primacy model for non-profit organizations

Source: adapted from Lan 2010, p.302 adapted to non-profit organizations

The board of non-profit organizations with its various embodiments (see chapter 2.3) is also classified as an autonomous fiduciary. The board acts as primary defender of the mission statement (Caers et al., 2006, p. 32) and as the representative of all stakeholders. It represents a steward according to the organization and its constitution. Managers as stewards are motivated to achieve a high performance, but in the absence of a goal conflict (Muth & Donaldson, 1998, p. 6). Board members being represented by volunteers possess high trust and confidence in their management and make decisions based primarily on information provided by paid managers and its paid staff (Caers et al., 2006, p. 33). Collaboration with the management, and also work between volunteers, is only possible on the basis of high levels of

trust, which is also proven by the qualitative empirical study within this dissertation (see chapter 3 and 4). The board and its role as mediating hierarch will be discussed with the application of stakeholder theory to non-profit organizations within this chapter.

The explanations given above and the implication of the director-primacy model show that *stewardship theory* fits better to explain corporate governance in non-profit organizations. It further offers a different set of motivations (collective behavior), which could include the interests of all relevant stakeholders (Preston, 1998, p. 9). Davis et al (J. H. Davis et al., 1997b, p. 25) give a connection between stewardship theory and stakeholder theory in the way in which a steward who improves the performance of the organization implicitly satisfies the wishes of most stakeholders, even if their interests are conflicting.

Volunteers as additional justification for stewardship theory

Volunteers are an important stakeholder within this dissertation. They will act on all hierarchical levels of a non-profit organization (see chapter 2.2). Volunteers as managers or volunteers as unpaid staff differ in their behaviour and motivation to their paid counterparts, i.e. managers and employees. The motivation of volunteers can be better mirrored in stewardship theory (Siebart, 2006b, p. 205.) For that reason, applying agency theory as the basis for corporate governance in non-profit organizations will be contradictory. Control in the sense of agency theory will not motivate volunteers; it will rather be counterproductive.

The previously mentioned research results from Miller (Miller, 2002, p. 447) can also be interpreted as confirmation of the use of stewardship theory as the basis to explain corporate governance in non-profit organizations. The non-distribution constraint of non-profit organizations (LeRoux, 2009, p. 163) might function additionally as a confidence-building boundary: non-profit organizations are allowed to generate profits, but they are not allowed to distribute these profits to managers or board members.

What remains from classical agency theory

From classical agency theory will retained the voting rights by members at the annual general meeting. The reasons are similar to those already presented in chapter 1.1: associations are a conjunction of members. Becoming a member of an association presupposes signing up for membership. Because of this special relationship, members are endowed with several rights: for example the right to elect and remove the members of the board, and in this function they execute their control right. The setting of this control right appears weak in its effect, but it can be seen as the ultimate boundary for the board. Even an autonomous fiduciary might have

a border line for its actions. In mature non-profit organizations members join the organizations for their purpose and their mission, and so they trust the board as autonomous fiduciary to act in support of the mission.

Stakeholder theory and non-profit organizations

Non-profit organizations have no owners (LeRoux, 2009, p. 161), for example shareholders, to whom they might be accountable, so stakeholders play an important role within non-profit organizations: stakeholders with their various, sometimes competing, interests represent the missing owner (Siebart, 2005, p. 859). Stakeholder theory is therefore a *conditio sine qua non* within non-profit organizations. The classification, communication with and integration of stakeholders are vital to these organizations. Looking at the director primacy model applied to non-profit organizations, it is the board with its members which should represent all or most of the relevant stakeholders. One must consider that, with the growing number of various stakeholders, decision-making becomes more difficult and effectiveness suffers (Speckbacher, 2004, p. 198). Consequently, the balancing of stakeholder interests is inevitable in non-profit organizations. With his method for reducing the number of stakeholders, which was presented in chapter 1.3, Speckbacher, considers the peculiarities of these organizations. As examples, volunteers and donors are confronted with the topic of incomplete contracts, and these stakeholder groups have to be protected by endowing them with residual rights of control, otherwise they would not provide their investment as time or money to the organization. Such stakeholder groups are classified as primary stakeholders.

An important role of the board will be balancing the sometimes competing interests of stakeholders (Hung, 1998, p. 106) as already mentioned. This coordinating role is in line with the function of the board as mediating hierarch according to the director primacy model, but with a distinct aspect: non-profit organizations have, in contrast to the equity shares of corporations, no pie to be divided between the stakeholders, the generated pie is intangible and a return on specific investment is the support of the organization's mission and vision. In the best case, all stakeholders have the same return on specific investment, meaning the same expectations in respect of the organization's mission (Speckbacher, 2008, p. 313).

Ethics and non-profit organizations

Non-profit organizations are, by their origin and mission, greatly concerned with business ethics. Scarcity in resources and the growth of these organizations force them to become more hierarchical and bureaucratic, and to adopt practices from the for-profit sector to remain "competitive" (Rothschild & Milofsky, 2006, p. 138). The pressure of organizational

isomorphism (Toepler & Anheier, 2004, p. 265) makes them similar to for-profit organizations and disconnects them from the real mission for which they were founded. This might primarily be an issue in large non-profit organizations. A further viewpoint in nonprofit-ethics concerns volunteers: non-profit organizations' most important personnel are volunteers. As volunteers gain no financial return on their activities they have a different motivation set for working with an organization. Volunteers within the governance system, like members of a board of directors, play an important role regarding a value system: such volunteer managers may work as senior executives in for-profit organizations with a value system tied to the private sector. Others may come from universities, be teachers in schools etc. Any member will bring in a different set of values. Bell et al suggest that because of differences in background, non-profit organizations must develop a clear set of expectations of ethical behavior for those representing the organization (Bell, Bell, & Elkins, 2005, p. 31).

When talking about Corporate Governance, theories like agency theory, stewardship theory and stakeholder theory are those to provide answers on issues such as the power and scope of the board, behavior in decision-making, managerial discretion and the consideration of more interests and groups than only an owner or shareholder. Corporate Governance also leans towards ethics, so business ethics is also part of this theoretical part.

Part I of this dissertation provides an approval for the use of stewardship theory as the basis for the corporate governance debate within non-profit organizations. Together with this theory, a more adequate view of the principal of an organization has been presented. Non-profit organizations have no owner in the sense of a shareholder. Attempts to apply agency theory to non-profit organizations lead to a desperate search for a principal. The director primacy model opens up a means to overcome the strict combination of a principal and an agent by nominating the corporation itself as principal. This model further redefines the role and status of the board as autonomous fiduciary instead of being a first-order agent and directs the focus onto the various team members or stakeholders who all contribute to the organization's welfare.

2 CORPORATE GOVERNANCE IN NON-PROFIT ORGANIZATIONS – LITERATURE REVIEW

2.1 Corporate Governance in For-profit and Non-profit organizations

Definition and scope

Corporate Governance has become an important topic within science. Corporate governance started to attract high levels of interest because of the many worldwide crashes of corporations resulting from a lack of guidance and supervision. It seemed that the existence of balance sheets and the rules to establish them should be enough to show investors a “true and fair view” of a business. It obviously was not (Mallin, 2007, p. 1). The idea of corporate governance is not new. According to an overview of Turnbull (Turnbull, 1997, p. 185), it dates back to 1962 (Nippa, 2002, p. 11). Corporate Governance as a term, however, is relatively young. It has only been used in English-language literature since the 1990s (Witt, 2002, p. 41). The purpose of corporate governance in for-profit organizations is to define the roles, responsibilities, and balance of power among executives, directors, and shareholders (Ryan, Buchholtz, & Kolb, 2010, p. 673), in order to help a firm to be sustainable in the longer term (Mallin, 2006, 2006, p. 3). The principles of corporate governance are relevant to all forms of company, but attention has been centered on public corporations because of their economic significance (Cadbury, 2000, p. 8). The well-known definition of Sir Adrian Cadbury - “*Corporate Governance is the system by which companies are directed and controlled*” (Cadbury, 1992) –is not convenient for use as a general definition but a as starting point, as it represents a certain meaning of corporate governance. It can only be understood with special implications, but it has influenced the development of many codes globally (Mallin, 2007, p. 22).

The most visible sign of the corporate governance discussion is the development of various corporate governance codes. The starting point for these rules was the Cadbury Report in 1992 (Roth, 2006, p. 5) as an answer to corporate collapses and financial scandals. The recommendation covered the structure and function of the board, reporting and control. Several codes followed and stressed further additional topics, e.g. the Greenbury Report (1995) made recommendations on the remuneration of board members, the Hampel Report (1998) reviewed the recommendations of the earlier codes and itself emphasized the role of institutional investors. The list of improved codes can be continued till 2006, when the revised Combined Code was published (Mallin, 2007, pp. 22). Principles of corporate governance

were also established by the OECD, first published in 1999 and revised in 2004. The definition of corporate governance in these principles covers a much wider approach to the topic: Corporate governance is defined as a set of relationships between a company's management, its board, its shareholders and other stakeholders (OECD, 2004, p. 11).

Corporate governance models were historically developed on the basis of different academic theories: it started with agency-theory (Jensen & Meckling, 1976) which addressed the separation of ownership and control between the principal as the shareholder and the agent as manager. The second area referred to the shareholders' view of the corporation, which focused on the shareholder as a supplier of finance (Shleifer & Vishny, 1997). The focus on profitability was considered too narrow and resulted in demands that many other interest groups be included, i.e. stakeholders (Freeman, 2010, 1984). Most of the corporate governance literature focuses on a governance system being shareholder-centric, as shareholders are seen as the most important stakeholder (Mostovicz, Kakabadse, & Kakabadse, 2011, pp. 614). The underpinning theoretical basis of agency theory stresses accountability and control. It further focuses on the Anglo-American capital market and overlooks the fact that the capital market is different in Europe. One example is Germany (Witt, 2003, pp. 81).

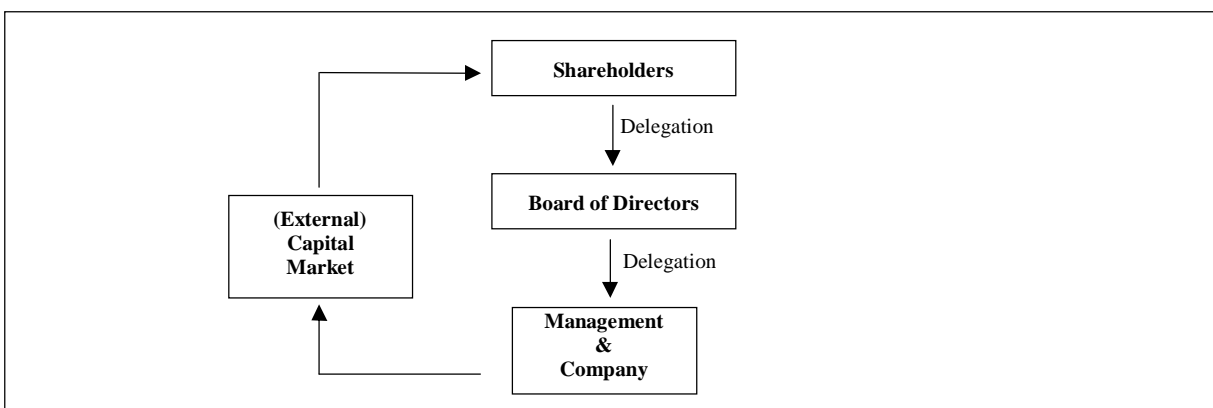


Fig. 6: One-tier model of corporate governance

Source: Choi, 2011, p. 168

The figure above shows the shareholder-centric model of corporate governance. The model illustrates its notion exactly. It is driven by the shareholders as principal and the capital market (CHOI, 2011, p. 167). According to agency theory too, the shareholders are the principal, or the owner, and the board of directors, the first-order agent and the management as the second-order agent of the board (see 1.1). The underpinning governance model is the one-tier model, consisting of inside directors and outside directors. The inside-directors'

obligation is the governance of the corporation. The decision-making power is concentrated in the chief executive officer (CEO). He is superior to the members within the board. The outside directors' obligation is the supervision of the corporation (Witt, 2002, p. 62). As argued below, this model is further embedded in countries with a long tradition in raising capital from the capital market from a number of shareholders, i.e. USA and United Kingdom (Mallin, 2007, p. 124). Germany and also Austria are the only countries in Europe besides the Netherlands, Italy, France and some Eastern European countries (Roth & Wörle, 2006), p.35) using the two-tier model for the board of directors. It consists of a management board and a supervisory board. Several laws were established as the result of a substantial failure of this supervisory board, and, as a result, for example the German Corporate Governance Code. The emphasis within this system of rules lies on the work of the supervisory board (Nietsch, 2005, p. 370). In contrast to Anglo-Saxon companies, which have a long tradition of raising capital from a huge number of shareholders (Shleifer & Vishny, 1997, p. 769), German's stock corporations are predominately financed by banks. The bank, as an important stakeholder, may also be a member of the supervisory board (Werder & Talaulicar Till, 2006, p. 32). In Austria there is even less tradition of the capital market, and finance by banks has even greater importance (Rasinger, 2003, p. 134). The following figure shows the two-tier model of corporate governance. Stakeholders, i.e. shareholders and employees, banks and others are at the center of the governance system. In contrast to the Anglo-American system, shareholders are not the unique centre of the governance system.

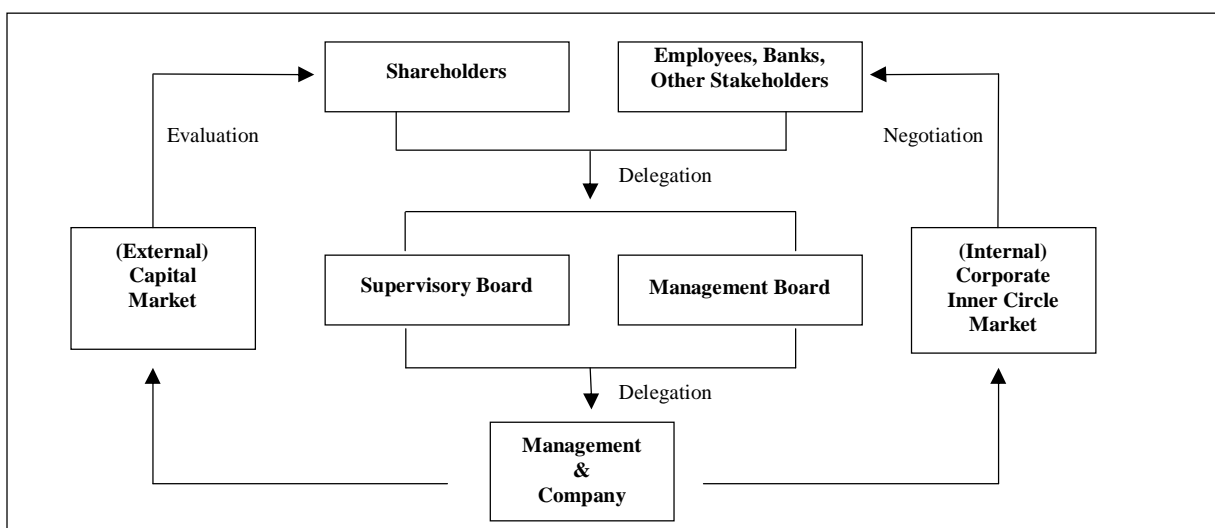


Fig. 7: Two-tier model of corporate governance

Source: Choi, 2011, p. 169

The management board's obligation is the governance of the company. All members of the management board have to participate in the management of the company on equal terms. A

nominated chairperson is not allowed to instruct his colleagues, he is only the *primus inter pares*. The supervisory board appoints, supervises and advises the members of the management board (Werder & Talaulicar Till, 2006, p. 31). The supervisory board's task is not only supervision as this form of control, oriented towards the past, does not serve the company in the future. The supervisory board also advises the management board and is involved in decisions of fundamental importance to the enterprise. The management board and the supervisory board are in steady contact (Schmidt & Brauer, 2005, p. 307), but the latter is not a better management board. It is not allowed to take part in day-to-day business as that is the task of the management board (Roth & Wörle, 2006, p. 37). The members of the supervisory board are elected by the shareholders at the General Meeting (Cromme, 2007, p. 176).

The purpose of a generally valid concept for any type of organization failed on the grounds of the underlying theory and the various compelling laws in various countries. The corporate governance debate therefore faces several dilemmas: *first*, no generally accepted definition for this term exists. The historical development brings out two extreme viewpoints: the narrow one concentrating on accountability and control of managers, and a wider one focusing on the integration of several interest groups as stakeholders. The definition of corporate governance by Sir Adrian Cadbury mentioned above represents the narrow definition, focusing on accountability and control. Under these circumstances an unmanageable number of different definitions have been developed. The *second* dilemma is the unequal embodiment of the capital market, for example in Anglo-Saxon countries and continental Europe (Li & Harrison, 2008, p. 608). The ideas are embedded in the economic and legal system of the former and cannot be transferred to Europe without considering its economic and legal systems (Nippa, 2002, p. 19). Even Europe cannot be seen as homogenous unit. Within Europe almost every country has developed its own corporate governance code. There are about fifty country-specific regulations, based on the legal differences (Roth, 2006, p. 5). The *third* dilemma is that corporate governance focuses on the governance structure of the Anglo-Saxon countries, the board model as one-tier model. Corporations in Germany and Austria in particular are forced to use the two-tier model.

Corporate governance in non-profit organizations

For corporate governance in non-profit organizations there is no exact definition, but the predominant focus is on the organizational level of governance and on boards and their behavior (Cornforth, 2012, p. 1121). Corporate governance in non-profit organizations also refers to arrangements for guidance and supervision (Siebart & Reichard, 2004, p. 271)

considering all the ideas stated above. *“The word corporate in corporate governance is no longer restricted to for-profit organizations”*(Jegers, 2009, p. 144). Within this dissertation, the term corporate governance is also used for non-profit organizations. Scholars sometimes use the term non-profit governance (see Hilb, 2004, p. 11).

Research on non-profit organizations in the USA is huge, and comparatively young in Europe (Zimmer & Basic, 2008), p. 139), (Hopt, 2010, p. 533). Discussion on corporate governance in non-profit organizations also has to consider the country-specific specialties. According to the chosen research field the theoretical research will also mainly be concentrated on Europe, because of the different historical background of the countries and further legal requirements. Important research and a visible outcome of this corporate governance discussion in German speaking Europe is the Corporate Governance Code of the Social Welfare Service of the Protestant Churches in Württemberg (Bachert, 2006, pp. 447) and the Swiss NPO-Code for non-profit organizations in Switzerland (Swiss NPO-Code, 2006), both representing public-serving organizations according to a classification of Toepler and Anheier (Toepler & Anheier, 2004, p. 260). Public-serving organizations provide collective goods, their decision-making process is hierarchical. Public serving organizations resemble firms more than associations. Member-serving associations are providing club goods, the decision-making procedure is directly democratic. Participation in these organizations is mainly voluntary. Representative research in German speaking countries is the “Freiburger Management Modell” (Lichtsteiner, Gmür, Giroud, Schauer, & Schwarz, 2013, pp. 172). Scanning the literature and scientific discussion regarding underlying theories regarding corporate governance in the non-profit area, agency theory is the prevailing theoretical concept, even with all these mentioned nameable studies.

Agency conflicts in non-profit organizations get some attention in literature, see for example Koss (Koss, 2005, pp.197). Some scholars even recommend a multiple principals concept (Jegers, 2009, p. 146) or (van Puyvelde, Caers, Du Bois, & Jegers, 2012, p. 433) instead of rethinking the suitability of this concept. As the implication and consequence of agency theory, the topic of control also got a certain amount of attention in the adoption of the corporate governance model within non-profit organizations, for example Schuhen (Schuhen, 2005, pp. 221) or Krönes (Krönes, 2008, pp. 157). Considering the distinctive features of non-profit organizations, stewardship theory gets only craven attention although Siebart, for example, provides striking arguments for following this concept (Siebart, 2005, p. 858). Promoting stewardship theory as a relevant theoretical concept will also be part of this dissertation. Stakeholder theory is implicitly accepted from the organizational design of non-profit organizations as multiple stakeholder organizations (see distinctive features chapter

2.2), although Hoppel (Hoppel, 2007, p. 55) criticizes its appliance because of the huge number of stakeholders and its methods for reducing the number of stakeholders. Non-profit organizations are complex organizations. When discussing a theoretical concept to apply corporate governance to these organizations their distinctive features have to be considered, as answers and solutions to a governance system will be completely different to their counterparts in the for-profit area.

Apart from focusing on an exact definition, it is very important to define explicitly the basic requirements of corporate governance in non-profit organizations: corporate governance is about ensuring that the organization has a clear mission and strategy, but not necessarily about developing it; it is about ensuring that the organization is well managed, but not about managing it (Anheier, 2005, p. 231). The most important area of corporate governance in non-profit organizations, as a result of the above discussion, is to look at the impact of the various stakeholders as they replace the owner. They assess the effectiveness of an organization based on their personal point of view. A multiple system of goals represents the various interests of the stakeholders (Matul, 2003, p. 504). Furthermore, corporate governance in non-profit organizations also has to look at its special governing body – the voluntary board. As the members of this body are not employed, governance of an organization is different. The challenge is the communication between the members of the board and paid or voluntary staff because of the built-in information asymmetry (Siebart, 2003, p. 230). The scope of control is of high importance, as there is no owner to fulfill this task, and the absence of an owner gives it a high priority. There are established bodies for this function, but what needs to be considered is its scope and effectiveness. A further distinctive feature of associations as a special legal framework for forming non-profit organizations in Europe is that there are members. Members can hold different functions: members of an association have certain rights and obligations, e.g. they are allowed to elect the governing body of their association. Additionally, members are customers, or they are elected as the body of their organization. The most important difference between the corporate governance of for-profit-organizations and non-profit organizations is the absence of the specific discussion about the remuneration of the governing body, as it is manned by volunteers. The executive director, as the highest representative of paid staff, is not legally responsible for the survival of the non-profit organizations, consequently his remuneration is not part of the corporate governance discussion. The collaboration between the executive director and the voluntary board is a vital element of corporate governance in non-profit organizations due to several distinctive features which will be discussed in the further chapters.

2.2 Non-profit organization and its Distinctive Features

Non-profit organizations – definition and scope

Non-profit organizations are an important social, political and cultural part of a civil society. The non-profit-sector has become an important part of the society as the third sector in addition to the profit sector and the government sector (Zimmer & Hallmann, 2005, p. 105). It covers requirements which are disregarded by public or for profit organizations. These organizations close this gap and, therefore, justify their field of work (Priller, 2004, p. 129). Looking for an all-embracing definition for the term non-profit organization is not possible, because of the wide range of the whole sector and the different points of view from which definitions are made. According to Hay *"a non-profit organization (NPO) is one that is formed to provide services and goods for its clientele, with profit being a minor objective. Its primary mission is one of providing services, usually for charitable, religious, educational, scientific, literary, humanitarian, or other non-business purposes"* (Hay, 1990, p. 3). Drucker describes very briefly the purpose of non-profit organizations: "The non-profit organization exists to bring about a change in individuals and in society" (Drucker, 1990, p. 3). Because of the lack of an exact definition, Hay (Hay, 1990, p. 5 ff) characterizes non-profit organizations according to following features:

- The organization must be formed to provide services not for profit
- No part or any net earnings can be distributed to its members, trustees, or officers or to other private persons. Profits can be made, but not distributed.
- Its assets must be permanently dedicated to its major mission and must not, upon dissolution, be paid to any private person or organization
- Non-profit organizations are private compared with public organizations
- Non-profit organizations may have volunteers who perform work without payment

Non-profit organizations are different, regarding scope, scales, mission, social and political importance and professionalism. Anheier and Salamon developed an international classification of non-profit organizations (ICNPO) consisting of twelve chapters (Anheier, 2005, p. 55 and pp. 383). Furthermore, there exist fundamental historical and, consequently, legal differences in the development of the non-profit-sector: in America, historically the non-profit-sector was developed in the 1970s (Zimmer & Hallmann, 2005, p. 106) and legally there exists a non-profit-corporation as opposed to business corporations. The demarcation criterion is the non-distribution constraint (Hippel, 2007, p. 6). In Europe, the historical

development of the non-profit-sector was influenced by the Second World War, above all in the countries under research, i.e. Germany, Austria, South Tyrol and Switzerland. Legally the term non-profit does not exist. The term non-profit only exists in the scientific literature, but faces a critical discussion (Hippel, 2010, p. 200). The term “non-profit” itself means “not for profit” but is often misunderstood as “no profit”. Non-profit organizations are allowed to make profits within a certain scope, but not to distribute them. The term “non-profit” is therefore used to distinguish non-profit organizations from the profit sector (Zimmer, 2007, p. 38). Because of the great difference between America and Europe, the research is concentrated on Europe. In many European countries, the most important legal framework for forming non-profit organizations is the association, above all in Western European countries (see next subchapter). The implications and outcome for this special legal type are different. Literature based on the American non-profit sector may be treated carefully for the aforementioned reasons. The great variety and diversity within this sector makes it difficult to generalize statements, even within Europe. It is inevitable to narrow the research field as any field within the non-profit-sector has its distinctive features and claims for special treatment.

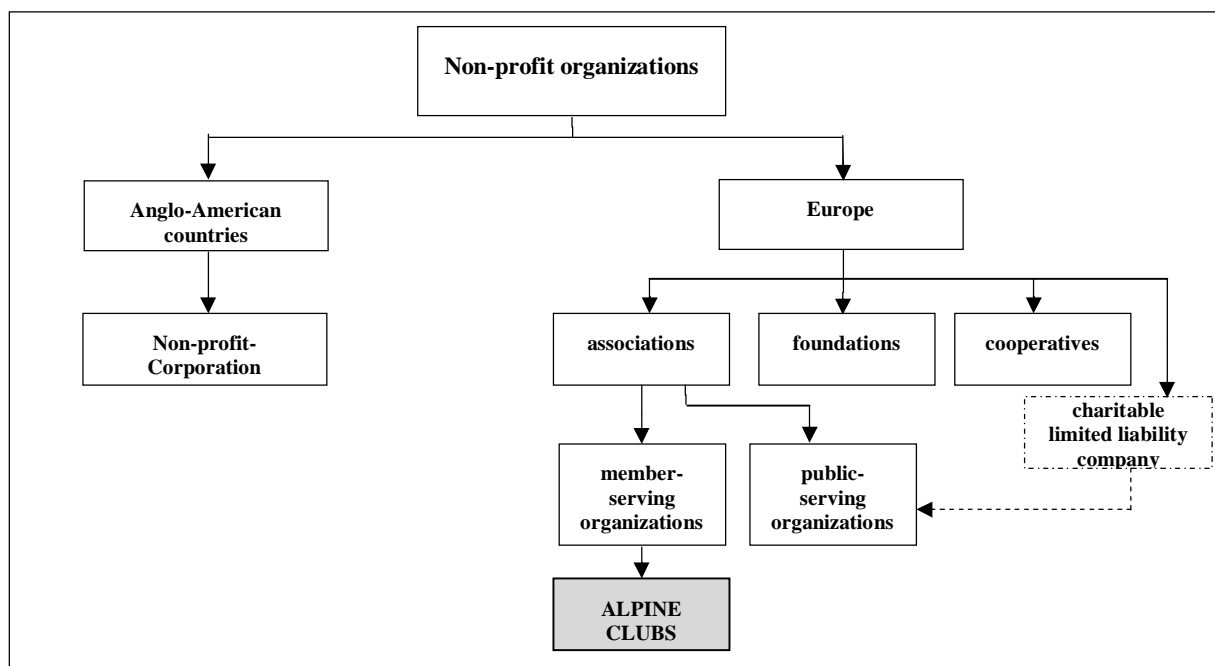


Fig. 8 Research field of non-profit organizations

Source: own figure

According to the above figure, the research field is first narrowed to Europe, further to associations and so-called member-serving organizations according to the definition in the previous chapter. Public-serving organizations may be organized in the legal form of associations or charitable limited liability companies (Hippel, 2010, p. 204). Finally, Alpine

Clubs as a research subject are used as a case study to arrive at the innovative conclusion of this dissertation.

Distinctive features of non-profit organizations

Non-profit organizations are different. The following table looks at various features for distinguishing non-profit organizations from for-profit organizations according to the concept of corporate governance:

Table 2: Distinctive features of non-profit organizations

	Corporate Governance in for-profit organizations	Corporate Governance in non-profit organizations
Legal framework	Corporations listed on the stock exchange	Associations, Foundations, Cooperatives
Property rights	Private owner, corporate owners, shareholder	Founder but no legal personal owner
In whose interest will the organization be governed?	Private owner, corporate owners, shareholder	Multiple stakeholder
Distribution of earnings	Annual distribution of earnings to shareholders	Non-distribution constraint
Performance	Financial bottom line	Several bottom lines
Structure of governing bodies	Two-tier model Separation of executive board and supervisory board Separation of decision-making and control	Voluntary board-“One-tier model” No separation of executive board and supervisory board
Personnel	Paid staff in all hierarchical levels	Especially in associations volunteers in all hierarchical levels and paid staff in larger organizations

Source: own table

Legal framework

The issue of corporate governance in for-profit organizations concentrates on stock corporations. Stock corporations are the only legal form which allows the company to go public and to gain capital from the stock market. These organizations are at the center of interest because of a certain amount of capital invested by a significant number of shareholders. (Werder & Till, 2006, p. 30). For-profit organizations as small or family owned businesses, partnerships, limited liability companies are not forced to abide by the rules of corporate governance. The legal framework of non-profit organizations can be of a different nature: in Europe the most popular framework for forming a non-profit organization is the voluntary association (Freise & Pajas, 2004, p. 134), (Heitzmann & Simsa, 2004, p. 716), (Zimmer et al., 2004, p. 690). Further frameworks are foundations and cooperatives. These frameworks differ in detail, so the issue of corporate governance may concentrate on different aspects: whereas associations have members; foundations have no members but beneficiaries.

Cooperatives are very similar to associations, they also support their members, but they differ from associations in their activities. Cooperatives may also be compelled by the non-distribution-constraint (Freise & Pajas, 2004, pp. 137).

Property rights

A further important feature which differentiates non-profit organizations from for-profit organizations, with consequences for the application of corporate governance, is property rights: the owners of for-profit organizations may be private owners, corporate owners or shareholders. Non-profit organizations have founders but no owners. In young non-profit organizations, the founders may play an important role within the organization, in mature organizations founders are only part of their history. Legally, non-profit organizations have a juridical personality (Nowotny & Fida, 2007, p. 215), too. As a consequence, and in contrast to for-profit-organizations, in non-profit organizations, because of the missing owner, there is nobody who can be entitled to a part of the organization's profit (Jegers, 2009, p. 144).

On whose interest the organization will be governed

In the for-profit area, organizations are governed by those owners who also have the property rights. Non-profit organizations face the challenge of being **multiple-stakeholder** organizations (Simsa & Patak, 2008, p. 30), (Schröer, 2009, p. 148). Stakeholders can be: members, customers, volunteers, employees, interest groups, government, etc. (Haddad et al., 2003, p. 24). The question is which stakeholders are considered as important for the non-profit organization. For theoretical models to select salient stakeholders see chapter 1.3.

Distribution of earnings

A distinctive feature of non-profit organizations is their *non-distribution constraint* (Hansmann, 2010, p. 61). There is no pie to divide (Speckbacher, 2008, p. 313) among several stakeholders. But the annual distribution of earnings to shareholders, including private or corporate owners, is one important feature of the corporate governance discussion in the field of for-profit organizations, as well as the remuneration of the board members (Mallin, 2007, p. 129)

Performance

The financial bottom line, as profit or loss depicted in the balance sheet, describes the performance of a for-profit organization in two ways: firstly it shows whether the business mission is accepted on the market as doing the right thing; and secondly it shows how

efficiently the goals are reached, as doing things right (Malik, 2007, p. 169). The performance will be monitored by the owner (private owner, corporate owner, shareholders). In contrast to profit-organizations, in non-profit organizations it is not enough to look at profit or loss as the only bottom line. According to their characteristics as multiple-stakeholder organizations, non-profit organizations have *several bottom-lines* too (Schröer, 2009, p. 148), (Anheier, 2005, p. 227). They concentrate on task goals and the economic performance is only the basis (Schuhen, 2005, p. 230). This distinctive feature of non-profit organizations results in a lack of generally accepted criteria for measuring performance (Miller, 2002, p. 443). “*Non-profit organizations lack the simple elegance of a financial measure...*” (Kaplan, 2001, p. 354). The performance of a non-profit organization will be evaluated by the multiple stakeholders (see chapter 2.3). These interest groups interpret the fulfillment of the mission, i.e. performance of the organization, against their specific expectations.

The structure of the governing bodies

The structure of the governing bodies is also a distinctive feature of non-profit organizations and has a great impact on the appliance of the corporate governance philosophy. Potential for-profit organizations apply either the one-tier model with a unitary board or the two-tier model with a dual board (Mallin, 2007, p. 122). In Germany and Austria the appliance of corporate governance presumes the two-tier model with the dual board (Roth, 2006, p. 3), see previous chapter. Non-profit organizations normally only have one governing body, the so-called voluntary board. The board consists mainly of volunteers, who are not employed in the organization. The voluntary board is not a mere one-tier model, it is similar to the one-tier model: the voluntary board guidance and supervision are united in one body and is exerted by the same members of this body (Siebart, 2006a, p. 197).

Personnel

The personnel working in for-profit organizations are paid staff at all hierarchical levels. The difference is the endowment of power, competence and responsibility. People working in for-profit organizations gain their income from these jobs. The major part of the personnel working in non-profit organizations, especially associations, is volunteers. Volunteers work at all hierarchical levels of an organization. Volunteers gain their income from other paid jobs. Paid staff in associations is rare. The challenge is the collaboration between paid staff and volunteers. The next subchapter deals with this special type of personnel in detail.

Definition and typology of volunteer

The term volunteering, volunteer covers a wide range of meaning: “*Volunteering is any activity in which time is given freely to benefit another person, group, or organization*” (Wilson, 2000, p. 215). The English language uses only one term, although the meaning behind it is very broad and not restricted. The German language on the contrary provides at least two different groups of terms, implicating different meanings when talking about volunteers, namely “Freiwillige”, and “Ehrenamtliche” (Heimgartner, 2004, p. 43). In associations, as the most important legal framework within non-profit organizations in Europe, volunteers donate their time in the different hierarchical levels of such organizations. They can only work on specific projects or offer long-term assistance, e.g. daily, weekly, or a longer period. Volunteers can assist paid staff, or provide services like those usually provided by paid staff where there is an absence of paid staff, or even fill leadership positions in the function of a board member. To specify the meaning of volunteers and to discuss the implications and consequences for different groups of volunteers more precisely new terms are presented in table 3: the distinctive features are the time and frequency of engagement, the qualifications needed, the position within the organization, the function, the responsibility associated with a voluntary position, the procedure for appointment. The higher the position and the commitment, the less it is possible to talk about a volunteer in the original sense. The meaning of these terms will be demonstrated the following by the Austrian Alpine Club (“Oesterreichischer Alpenverein”) as one of the four associations being researched within this dissertation: this organization is dependent on a lot of volunteers to provide their services to their members. The Austrian Alpine Club works with 25,000 volunteers. The majority of them – 15,000 - are *volunteers*, 7,225 operate as *unpaid staff*, 2,657 as *honorary managers* (Oesterreichischer Alpenverein, 2011, p. 29).

Table 3: Typology of volunteers

	Volunteers as <i>Volunteers</i>	Volunteers as <i>Unpaid staff</i>	Volunteers as <i>Volunteer leaders</i>
time frame/ frequency	project-related assignment/short-term	regular assignment	term of office, normally for four years
qualifications needed	no special qualifications; personal qualifications sufficient	special qualifications needed to do the job	leadership qualifications
position within the organization	temporary jobs, less commitment	integrated within the organization	member of an executive committee
function, responsibility	responsibility limited to the project	responsibility like an employee	leading body
procedure of appointment	no procedure of appointment; no obligation	no formal procedure of appointment; limited obligation	appointment at the annual general meeting of an association

Source: own table

Volunteers as volunteers

This category of volunteers represents the most ideal type of volunteers and can be compared to the German term “Freiwillige”. These volunteers put effort into projects only. They make use of their qualifications from their paid job or their personal qualifications. It is not necessary to look for further education to execute the required job. Such tasks are considered as temporary jobs. There is no further engagement needed if a project is finished. Responsibility is limited to the correct execution of the assigned task. Hiring is not dependent on a special procedure.

Volunteers as unpaid staff

Volunteers as unpaid staff (Drucker, 1989, p. 92) implicate a different mindset. These volunteers operate like paid staff in for-profit organizations. To consider volunteers as unpaid staff it is useful to find criteria to describe distinctions and similarities between paid staff and volunteers as unpaid staff. Mayerhofer derives her concepts for identifying volunteers as unpaid staff from characteristics such as mission/goal setting, cooperation, organizational context, products, services for the market: both paid and unpaid staff act as followers not as leaders, i.e. they do not have the right to make ultimate decisions. Products or services offered are a result of cooperation and teamwork. Volunteers as unpaid staff are integrated in an organization like employees. Product and services are offered on the market (Eurich & Brink, 2009, pp. 108). On the basis of these arguments volunteers can be classified as (unpaid) staff of a non-profit organization. The most important difference to paid staff is the remuneration. Paid staff will have an equivalent in money for the time invested, unpaid staff does not. They contribute time and energy to the organization’s mission. Their motivation is not to earn money, although they will be reimbursed for out-of pocket expenses and receive non-financial forms of remuneration, but not equivalent to their investment of time (Wollenschläger, 2002, p. 64). A comparison of commitment between paid staff and unpaid staff shows that volunteers as unpaid staff may be more committed to their organization, although what makes them stay with it is not a paid contract (van Vuuren, Jong, & Seydel, 2008, p. 316).

Within associations many volunteers are required to offer services to the members of their club. These volunteers often work as regularly as their counterparts in for-profit organizations. To do most of these jobs specific qualifications are acquired, often through special education offered by the organization. This is one aspect of non-financial remuneration. Volunteers working as unpaid staff are integrated in the organization like employees. It is inevitable that they are aware of processes within the organization. Responsibilities can be compared to those of paid staff (Liao-troth, 2001, p. 436). It should be

considered that these volunteers do not earn their livelihood from these jobs, therefore their time donated for services is restricted. In some non-profit organizations volunteers and paid staff work alongside one another, and as a result the maintenance of services may be either guaranteed or restricted because of the limited availability of volunteers. In Alpine Clubs, the provision of services is dependent on active participation by these volunteers, otherwise services cannot be offered. To replace volunteers by paid staff is often not possible for financial reasons. The volunteer management has to put great emphasis on this group of volunteers.

Volunteers as volunteer leaders or honorary manager

This group of volunteers does not represent the common meaning of volunteers although the characteristics of the definition are met (Wilson, 2000, p. 215): being a volunteer leader is not the principal source of income, time is given freely without any equal remuneration and the work done is to the benefit of an organization. In the German language we talk about Honorary Functionaries (“Ehrenamtliche” or “ehrenamtliche Funktionäre”). The biggest difference from other groups of volunteers as depicted is their very high level of commitment, first and foremost in respect of time. Volunteer leaders usually work for a non-profit organization, e.g. association, for at least a term of office with a normal duration of four years (Siebart & Reichard, 2004, p. 281). Their investment in time is a resistant one as they act in a leadership position as member of an executive committee. The volunteer leaders’ ultimate task is to consider fulfillment of the organization’s mission. They are responsible and accountable for the performance of an association as well as legally representing their organization (see chapter 2.3). Volunteer leaders play a critical role in the success of non-profit organizations. It is the affective commitment, i.e. emotional attachment, identification with, involvement in the organization, which makes a non-profit- organization successful (Preston & Brown, 2004, p. 225). When talking about volunteers in its original sense, it must be pointed out, that this group of volunteers invests a lot of risk – liability for an organization – when volunteering. This paradox could be explained by looking at their motivation, their affective commitment as mentioned above. The appointment as volunteer leader is a formal procedure: it is dependent on the votes of the members of an association at the annual general meeting (Siebart & Reichard, 2004, p. 280). These “honorary managers” operate like managers in for-profit organizations although volunteer leaders face various obstacles in doing their job: as they are not employed they are not available for regular working hours. If they are not retired, the time they have available for working for an association is restricted. These volunteers are not in a steady process of thinking about goals, problems and business-

fields. They may have a lack of continuous information for decision making. To face these obstacles, emphasis has to be put on excellent communication. The most important difference is the remuneration, compared to managers of for-profit organizations. The range of tasks and duties, strategic knowledge and accountability is the same. Considered objectively these facts might be seen as obstacles. It is again motivation and commitment which makes these volunteers donate time for a good purpose. The representative function, e.g. being president of an organization, is one non-financial reward for these “honorary managers”.

2.3 Corporate Governance in Non-profit organizations - Structure and Elements

The structure of a non-profit organization must correspond to its environment, its area of engagement, its size and its goals. The country’s law on associations must be considered as a legal framework, but the governance concept of an association is determined by the constitution. It is the most important building block of an organization’s governance structure (Siebart & Reichard, 2004, p. 278). The figure below shows the important elements when discussing corporate governance for non-profit organizations and especially associations. As shown, there are substantial differences in the structure, and consequently the embodiment of corporate governance in non-profit organizations cannot be just a copy of the established models within the for-profit area.

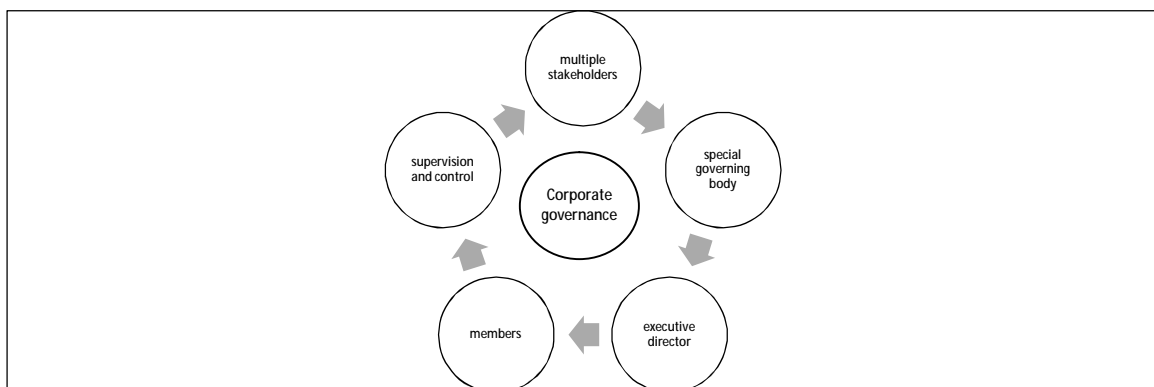


Fig. 9: Corporate governance in non-profit organizations – elements

Source: own figure

The (voluntary) board in non-profit organizations

Within corporate governance, the board is seen as an important mechanism that can influence (Neville, 2011, p. 528) or form the governance of an organization. Generally, there exist two different models to structure a board, i.e. the one-tier model or the two-tier model, which has

already been discussed in chapter 2.1. Within non-profit organizations, especially within member-serving organizations, in the legal form of associations there exists a special form of board: the voluntary board. Most of the non-profit organizations in Europe, i.e. associations are governed by a voluntary board. Only in larger organizations is the board assisted by an executive director. This structure is in some ways similar to the one-tier model, but associations do not apply the mere one-tier model consisting of executive and non-executive directors or inside and outside directors (Siebart & Reichard, 2004, p. 275). ***Voluntary board members are in one and the same person executive and supervisory director*** (Siebart, 2006a, p. 230). This personal union is counter to the aforementioned one-tier model, as well as the two-tier model. Especially within the two-tier model, the independence of the members of the supervisory board is given great attention. A member of the management board is not allowed to also be a member of the supervisory board (Roth, 2006, pp. 41). With the structure of the voluntary board this dictum is totally neglected. According to the Austrian law on associations, it is possible to install a supervisory board (Brändle & Rein, 2011, p. 120), but the composition and size of the board matter more than a separate supervisory board (Hopt, 2010, p. 545).

The voluntary board is the governing body of a non-profit organization. Volunteer leaders are responsible, accountable for the performance of an association and they legally represent their organization (Preston & Brown, 2004, p. 221). This responsibility is also laid down in the law on associations, see for example Brändle (Brändle & Rein, 2011, pp. 118). The role of the voluntary board is crucial to the success of a non-profit organization and therefore a lot of considerations have to be taken into account: terms of board members, frequency and organization of board meetings, size and composition of the voluntary board (Siebart & Reichard, 2004, p. 281).

The structure and scope of the voluntary board in associations

The research field of this dissertation comprises non-profit organizations (associations) in different sizes. Even within these different sizes the structure and scope of the voluntary board can be different. Fama and Jensen discuss the separation of management and control also in non-profit organizations. In small, noncomplex organizations a combined system of management and control might be more efficient. If one also considers the members as part of the corporate governance system, separation of management and control also occurs in small, noncomplex organizations. In large, complex organizations the separation of management and

control is present inside the organizations as well as in considering the members. (Fama & Jensen, 1983, p. 319).

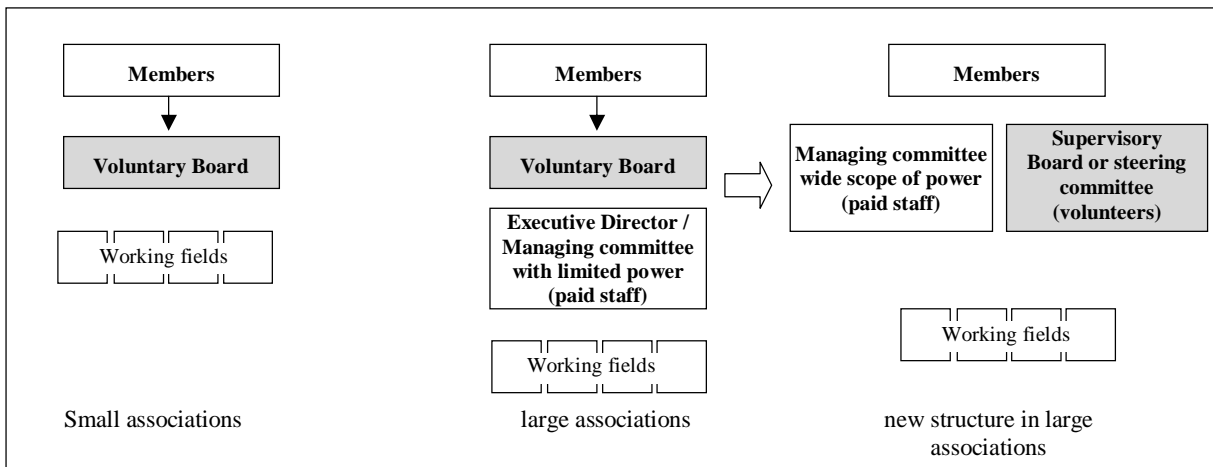


Fig. 10: Structure of governing bodies in non-profit organizations (associations)

Source: own graph

The figure above shows these various embodiments of the structure of the governing bodies in non-profit organizations as associations. It is different in small and large associations. In small associations the total governance is in the hands of the voluntary board. Within large associations the board is assisted by an executive director or a managing committee, but both acting with a limited scope of power. The presented new structure is not very common in practice and even within the literature it is more often than not still only a recommendation (Proeller, Siebart, & Polzer, 2008, p. 253). The boxes shaded in grey show the remaining final responsibility of the voluntary board. Even within the new structure of the governing bodies illustrated, the volunteers of the supervisory board may hold the final responsibility and liability for their organizations.

The normative and legal responsibility of the board is the governance of the organization, i.e. association. The board has to determine the mission, to select and support the executive director, plan for the future, manage and secure financial resources and enhance the organization's public image (Miller-Millesen, 2003, p. 526).

According to the above models, the reality of the board's activities may occur through various endowments: the members of the voluntary board in small non-profit organizations have to consider these normative responsibilities but are not only consigned to do strategic work, but are also involved in the day-to-day business (Madrian, 1998, p. 126). In large associations the normative obligation may differ from the reality, considering that the members of the voluntary boards are volunteers. According to the principal-agent-relationship shown in figure

10 governance and strategic work is, in practice, not executed along this principle (Schuhen, 2009, p. 105): honorary managers (volunteer leaders) make decisions, prepared by paid staff. Bylaws to the constitution of an association describe the restriction of power of the executive director or managing committee. In practice, in large associations strategic work will also be done by the executive director because of greater information and a greater stake in and identification with the organization. The voluntary board is at risk of becoming a rubber-stamp-board (Renz, 2007, p. 57). The final decision-making power and responsibility remains with the voluntary board. As the voluntary board's obligation is the governance of the associations, the scope of decisions may cover operational as well as strategic issues.

In chapter 2.2 the special type of honorary managers or volunteer leaders are characterized. Associations working with voluntary board members face a lot of challenges: they are not employed and therefore not available on regular working hours; their time is even restricted if they are not retired. Consequently honorary managers are not in a steady process of thinking about goals, problems, or business fields. They may have a lack of continuous information for decision making. In order to overcome these obstacles the emphasis has to be on excellent communication. According to the problems described above, voluntary board members face a big challenge in aligning the normative function of the voluntary board with existing practice: either board members are educated, so that they gain skills necessary for carrying out their management tasks, or, better still, they transfer the time-consuming operational tasks to a managing committee (Schuhen, 2005, p. 236) with high decision-making power, and concentrate instead on supervising (Proeller et al., 2008, p. 253). The aforementioned new structure, simulating the two-tier model, cannot be understood as a copy of the two-tier model of for-profit organizations (see figure 7). The question is whether the ultimate responsibility remains with the volunteers and the managing committee is endowed with a high scope of decision making power. In this model the supervisory board's function is supervising and advising the managing committee, accompanied with the same problems which for-profit organizations have in applying the two-tier model. The remaining big difference is the distribution of the ultimate responsibility. The bigger an association becomes, the more it is necessary to consider an additional supervisory board to solve existing governance problems in practice and provide a structure to integrate stakeholders.

The role of the voluntary board

The basic role of a board in a non-profit organization is management and control (Hopt, 2010, p. 540). Hung shows the relationship between several roles of governing boards and the

underlying organization theories. He talks about six roles: linking, coordinating, control, strategic, maintenance and support role (Hung, 1998, p. 105).

Table 4: Roles of governing boards

Governing Board Board involvement in decision-making process					
Extrinsic Influence Perspective Contingency Perspective The role to be shaped by contingent factors				Intrinsic Influence Perspective Institutional perspective The role conforming to institutional expectations	
External environment		Internal environment		Institutionalized through external pressure	Institutionalized through internal pressure
Networking/interlocking role	Pluralistic organization	Conformance function	Performance function	Identifying with the societal expectation of organization	Instrumental view of directors
<i>Linking role</i>	<i>Coordinating role</i>	<i>Control role</i>	<i>Strategic role</i>	<i>Maintenance role</i>	<i>Support role</i>
Resource Dependency Theory	Stakeholder Theory	Agency Theory	Stewardship Theory	Institutional Theory	Managerial Hegemony

Source: Hung, 1998, p. 105

The conclusion to the table above is that each theory stresses only one part of the role of a board, no one is able to perceive the whole picture: Resource dependency theory is used to explain the inter-relationship, in the form of resources provision, among organizations and, in some cases, individuals. Stakeholder theory and institutional theory are sociological paradigms which are used to describe the interaction between organizations and their environment. Agency theory presumes a conflict of interest when there is a separation of ownership and management in an organization. Managerial hegemony, like agency theory, focuses on the modern trend of management-based organizations. Stewardship theory is a metaphor from the human relations school of organization studies, which portrays a harmonious picture in respect of the management of organizations (Hung, 1998, p. 108). Board members may play different roles at the same time with various priorities. A possible concentration of the role of the voluntary board on only one theory may limit the picture.

Further researches regarding the role of the board are presented by Neville (Neville, 2011, p. 528). Research on the role of the board is also undertaken within the non-profit-sector, see for example (Miller-Millesen, 2003, pp. 525). The most all-embracing overview of the roles of the governing board and its underlying theories is the research by Hung as presented above.

The executive director

Big non-profit organizations support their board with an employed executive director. It is the highest rank of paid staff. The executive director has limited rights compared to a CEO (Chief Executive Officer) of a for-profit-organization. The limitation of rights will be written down in the so-called bylaws to the constitution of an association (Siebart & Reichard, 2004, p. 278). Consequently the executive director is legally only an assistant, a subordinate to the board (Siebart, 2005, p. 857) according to agency theory. Paid staff, including the executive director, will execute operational work and therefore relieve board members of these tasks. The board's task moves normatively to strategic work. Siebart points out, that the relationship between the board and the executive director is crucial to the success of a non-profit organization and is better described as partnership or team-work, as shown in figure 11. The board retains its legal and hierarchical superiority, while the executive director normally has greater information and a greater stake in and identification with the organization (Siebart, 2005, p. 859). Axelrod describes this situation as the central paradox of non-profit organizations: the board holds the ultimate power but does not ordinarily wield it operationally (Axelrod, 2005, p. 134).

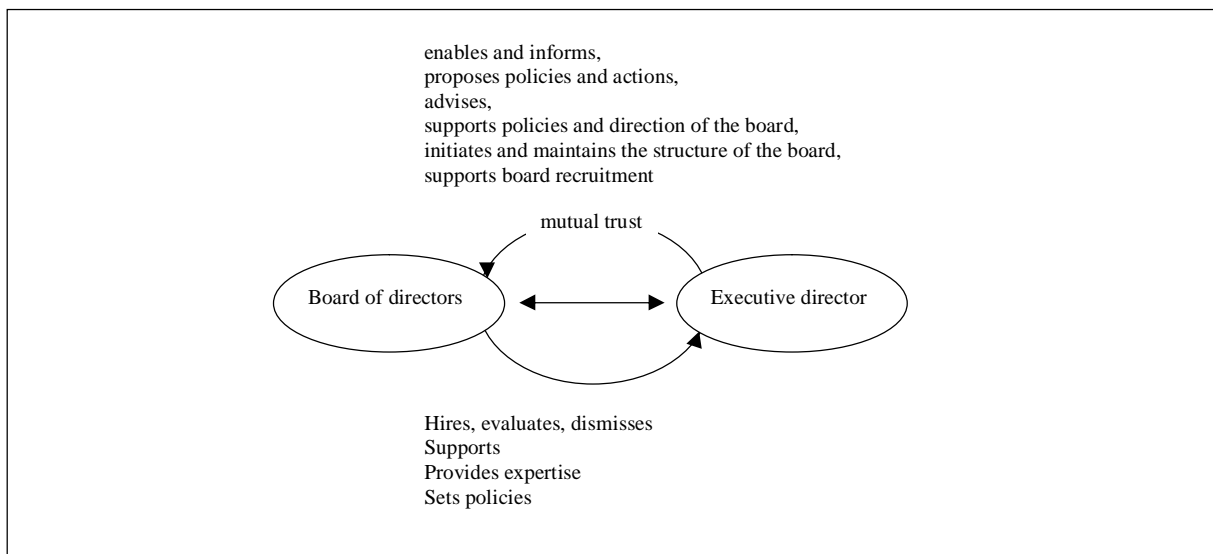


Fig. 11: Interdependencies between board and executive director

Source: Siebart, 2004, p. 288

The above figure shows the collaboration between the board of directors and the executive director, which is based on mutual trust. In reality both partners work on the same hierarchical level and the board retains its hierarchical superiority only in case of the final decision-making for which it is authorized. Normatively, the board's responsibilities are defining the organization's mission, establishing policies and further decisions of high importance. Board

members are elected for their leadership qualities and or professional skills in different areas. The executive director is hired for his or her management skills. His task is also to improve the decision-making quality of the board (Siebart, 2003, p. 239). The choice of a trustworthy executive director is a fundamental task of the non-profit board. The challenge in the collaboration between board and executive directors is the existing information asymmetry, favoring the executive director as a full-time employee of the respective organization, but also different knowledge on the part of the board members. As the board members may represent different stakeholders of the organization they may have better knowledge of certain interest groups. According to Siebart, the provision of different knowledge should be seen as providing different resources for the organization. (Siebart, 2006, pp. 858). In practice the executive director may have a lot of informal power, according to the aforementioned information asymmetry. Within the literature this danger is also discussed, as the executive director may expropriate this situation and rather influence the board on decision-making than support or give advice to the board members. The challenge of the executive director is to find a balance in his leadership function to the board to avoid the board becoming a rubber stamp board. This situation is characterized as managerial hegemony (Hung, 1998, p. 107).

The members and further stakeholders

A characteristic feature of associations is their members, in contrast to foundations which are also a legal framework for a non-profit organization (Freise & Pajas, 2004, p. 134). Codetermination of members is a constitutive element of associations (Proeller et al., 2008, p. 254). Members of an association play a significant role, they can be classified as one important group of stakeholders: with their money they support the organization financially, they contribute to the success of an association. In return they get special services from their organizations at a reasonable price. Members are not classified as owners from the juridical or legal point of view although they have certain rights, e.g. they elect the members of a board at the annual general meeting and after each period they approve the members of the board. The voting rights of members are not subject to bargaining on an effects market. If a member leaves an association he cannot claim for a part of the association's assets (Siebart, 2006b, p. 204). The motives for becoming a member of an association are dependent on the purpose of or services offered by an association. A growing number of members seem to believe that their participation as stakeholders in the services offered is over once they have paid the annual membership fee. A smaller group also takes part in the association's life by working as volunteers. The fact that only few members of an association are interested in the annual general meeting and make use of the voting right has already been discussed within the

literature and is further confirmed by the empirical study of this dissertation. Zimmer compares this lack of interest in being an *active* member with the existing political disinterest (Zimmer & Basic, 2008, p. 147). If only a few members execute their voting right at an annual general meeting, these few members decide for a lot of other members. On the other hand, a huge number of members, overlooking the fact that they do not participate in the associative life or the above mentioned political disinterest, consider an association as an alternative source of legitimacy, but only if it is in a position to maintain members loyalty and to be attractive for potential new members (Zimmer & Basic, 2008, p. 147). Associations, e.g. Alpine Clubs as the chosen research field within this dissertation, also face the challenge of such an alternative source of legitimacy as they stand for protection of the alpine environment or freedom of access to footpaths.

Further stakeholders

“Stakeholder theory recognizes the importance of paying systematic attention to stakeholder interests” (Brown, 2002, p. 371). In chapter 1.3 of this dissertation, stakeholder theory is discussed in detail. Considering several stakeholders and their impact on the organization is a distinctive feature of corporate governance in non-profit organizations. Stakeholders replace the missing owners, and it is the board members who should be representatives of different stakeholders of the organization (Siebart, 2005, p. 859). In contrast to for-profit organizations, stakeholders of non-profit organizations do not struggle for financial returns but rather for intangible returns. The generated pie is intangible and cannot be divided among stakeholders. The so-called return on investment for stakeholders is the promotion of the organization’s mission and vision and, in an ideal case, stakeholders share the same expectations in this respect (Speckbacher, 2008, p. 313). Stakeholders can be the voluntary board, members, volunteers, employees, customers, interest groups, government, etc. Stakeholders are different to those in a for-profit organization and even vary within non-profit organizations (Theuvsen, 2001, p. 3). The question of which stakeholders are to be considered as important for the non-profit organization is the same as in for-profit organizations. Within chapter one of the dissertation, theoretical models for reducing the number of stakeholders are presented and these may also be applied to non-profit organizations. It is vital for non-profit organizations to be aware of and sensitive to their various interest groups, otherwise the interpretation of the environment may be incorrect and may, further, lead to the wrong policies. The board of directors is the key link in understanding the multiple constituents. The result may be opposing goals and expectations on the organization. Conflicts may occur (Brown, 2002, pp. 371). Stakeholder management is a proper tool for providing a consistent approach to

stakeholders, as the dynamic of their interactions may be better anticipated (Balsler & McClusky, 2005, p. 298) and reduce uncertainty in this respect. The highest level of integration of stakeholders is to integrate them in decision making and control, which is done first through the constitution. The influence of possible stakeholders is stipulated there: different decision-making bodies are empowered with different decision-making rights, considering the board as a stakeholder. The next step is to take account of the interests of stakeholders in a stakeholder-oriented organizational structure going beyond the legal necessities (Theuvsen, 2001, pp. 18).

Scope of supervision and control

The scope of supervision and control is an essential part of corporate governance. In this chapter, the normative role of the voluntary board has been discussed in detail, it is management *and* control. Further roles of the board have also been presented according to the comprehensive overview given by Hung (Hung, 1998). Supervision and control is discussed in the literature at length, as many corporate crashes were caused by a lack of it (Mallin, 2007, pp. 2). The underlying theories on which a corporate governance structure is built on become relevant at the latest in discussing the scope of supervision and control. Again, the prevailing theory in the discussion on supervision and control is agency theory. Several scholars discuss the applicability of this theory to non-profit organizations because of the lack of the clear identification of the owner (Mwenja & Lewis, 2009, p. 360) and (Miller, 2002, p. 434). The alternative and more adequate concept for understanding supervision and control is stewardship theory, with its quite opposite assumption.

Agency theory assumes a conflict between the interests of the principal and those of the agent. Consequently, supervision and control is a very important task for a board. By contrast, stewardship theory assumes that board members want to do a good job and will act as effective stewards of an organization's resources (Cornforth, 2003, p. 8).

The diagram below shows the institutions necessary to execute supervision and control in non-profit organizations such as associations. The most important question refers to the effectiveness of common supervision and control. Non-profit organizations are distinctive organizations even within this part of corporate governance. In the following we present three arguments in this respect: The first striking argument is the personnel working throughout all hierarchical levels of associations which are volunteers.

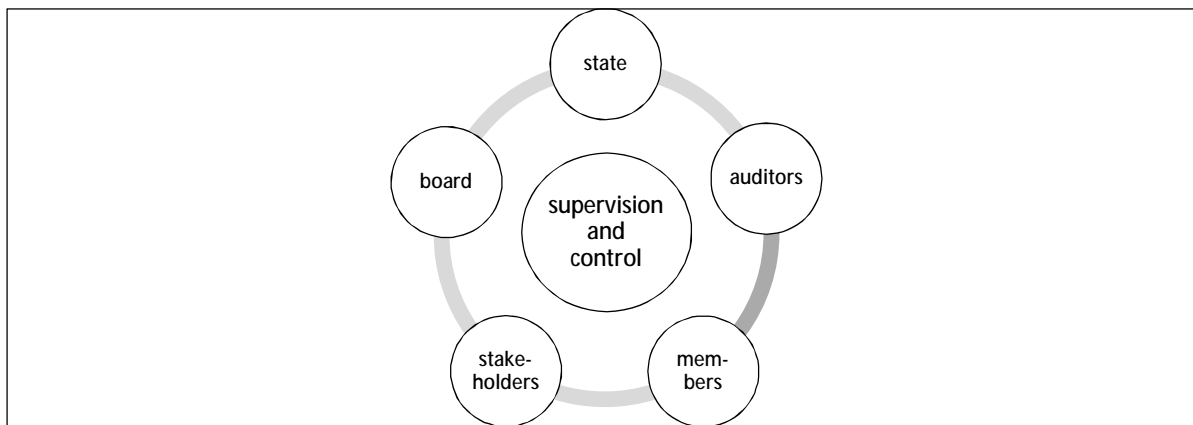


Fig. 12: Supervision and control in non-profit organizations (associations)

Source: own figure

According to Krönes, in non-profit organizations supervision and control is very sensible as volunteers in general are intrinsically motivated and this motivation may be destroyed by stressing the control or supervision according to agency theory (Rochester, 2003, p. 169). Extensive control would potentially result in an effect which is the opposite of what is desired, a so-called crowding out effect (Frey & Jengen, 2000, pp. 9) of intrinsic motivation. The second argument refers to the missing principal or owner according to agency theory. Chapter 1.5 shows that members cannot be classified juridical or legally as owners. Members have certain rights, even control rights, which, according to the laws on associations, are extremely weak. Thirdly, as already mentioned, the board's role is management and control but within non-profit organizations the effectiveness of this control is a complex theme. Because of the absence of an owner, board members are not sure to whom they are accountable (Miller, 2002, p.439). Furthermore, control mechanisms from profit corporations fail as there is no inside control by shareholders, no external control by capital markets and no threat of takeover (Hopt, 2010, p. 551).

Control by the state

According to the historically based freedom of assembly, the government has not installed a lot of control mechanisms (Heitzmann & Simsa, 2004, p. 722), (Cornforth, 2003, p. 691). In general, an association's contact with a legal authority is mainly limited to the foundation stage. After the incorporation in the Association Register there is no further contact such as annual control by filing a balance sheet, in contrast to registered companies in the commercial register. Contact with the legal authority will only be necessary in the event of changes to the constitution of an association or a change of legal representatives.

Supervision and control by auditors

The Austrian law on associations executes control only by defining accounting standards for small, middle and large associations and the nomination of two auditors or an auditing company in case of a large association. The auditors are responsible for checking the financial conduct in respect of its compliance with accounting principles and its proper use of resources in ways compatible with the constitution. This type of control is a very formal one, e.g. checking if documents are available for any business transaction, if the balance within the accounting system corresponds with the bank statement, the checking of cash etc. The auditors also examine whether decisions made by the board have been implemented in accordance with the minutes. It is not the duty of the auditor to check the activities of an association concerning profitability, utility, economy or purpose. The function of an auditor must not be confused with managerial accounting (Höhne, 2013, p. 160). The German law on associations does not subject associations to different types of control depending on the size of the organization (Hippel, 2007, p. 368).

Supervision and control by members

Scholars trying to apply agency theory to non-profit organizations classify members as principals (Koss, 2005, p. 206) and consequently give them the right to execute control. Apart from an underlying theory, members of an association can execute their control rights almost exclusively at the annual general meeting. Member's control rights, according to the law on associations, are less developed. Members get information only around the annual general meeting and control rights are further limited outside this meeting (Kalss, 2010, p. 808) or (Hippel, 2007, p. 329). Additionally, the low level of participation of members at the annual general meeting must be considered, as a result of which this control right is further weakened. At the annual general meeting the members' voting right is to elect the members of the board and accept and approve the financial reports and accounts of the previous year, see for example Hippel (Hippel, 2010, p. 201) and Kalss (Kalss, 2010, p. 808). The effectiveness of this common type of control, together with the already mentioned weak information rights, is extremely questionable.

Supervision and control by the voluntary board

The board's function concerning supervision and control refers to an appointed executive director or managing committee. This scope of control is discussed at length in the literature as it is also relevant in non-profit organizations. Supervision and control in the absence of an executive director is lacking, but of certain importance within this dissertation. The board is

authorized to give instructions to the executive director but the information asymmetry (Schuhen, 2005, p. 232) is a disadvantage for the board being responsible for the supervision of the executive director (Siebart, 2006b, p. 198). Schwarz and Schnurbein show that the execution of control is first of all dependent on the amount of power of the board and the executive director (Schwarz & Schnurbein, 2005, p. 359). The distinctive feature in non-profit organizations, i.e. associations, is that the members of the board are volunteers, i.e. honorary managers. They are not available during normal office hours and therefore dependent on information from the executive director and, further, the executive director even prepares the information, being the basis for the supervision and control of themselves.

According to this lack the board's control is reduced to checking the compliance with the formal rules within established structures. The important control which may induce a structural change or the appropriateness of complex decisions is not possible (Proeller et al., 2008, p. 258). With her research on the board as monitor of organizational activity Miller shows some core problems and point of views (Miller, 2002, pp. 436). The relationship between the board and the executive director is based on trust and mutual respect. Board members rely on the executive director in providing them with information. "We are volunteers, we may have the ideas and the enthusiasm, but without them [paid staff] the work would not get done". Consequently board members are not even willing to execute control as they do not recognize any goal conflicts. Their behavior can be better compared with the assumptions of stewardship theory. Schwarz and Schnurbein suggest that in the case of an installed executive director or managing committee, the voluntary board should better concentrate on a role as a steering committee focusing on strategic work (Schwarz & Schnurbein, 2005, p. 372). The role of the board according to the aforementioned stewardship-theory is primarily strategic, i.e. driving forward organizational performance (Cromme, 2007, p. 13).

The introduction of this subchapter already showed a few arguments regarding how execution of control according to agency theory fails for several reasons. Supervision and control by the voluntary board is further problematic and demands an alternative concept: Ouchi discusses the idea of social control for organizations where neither the behavior nor the output can be measured. There are no defined rules of behavior which, if followed, will lead to a result. Instead of a rational form of control, such organizations, like hospitals, schools, government agencies and even non-profit organizations use ritualized, ceremonial forms of control (Ouchi, 1979, p. 844). Trust and collaboration are fundamentals in working within non-profit organizations. In this respect the mode of control has to be adapted to the behavior of the organizational members. Regarding the underlying theories which are applicable for a

corporate governance system, stewardship fits better to the behavior of these members and, further, to the topic of control, otherwise the aforementioned crowding-out effect of intrinsic motivation may occur.

Accountability

The board is not only executing control over the executive director as discussed above; a further function is its accountability. The board is accountable to its stakeholders. In the case of an association with members it is obvious that the board primarily feels accountable to its members. Miller found out in her research that, in the absence of an owner, it is difficult for the board to name the constituencies to whom they may be accountable (Miller, 2002, p. 439). Even though a non-profit organization is able to name its constituencies or stakeholders, a further complex topic comes up which cannot be discussed in detail within this framework: it is about measurement of performance, i.e. effectiveness. The non-profit-sector as a whole lacks commonly accepted measures of performance (Miller, 2002, p. 446). This topic challenges scholars and practitioners equally. The effectiveness of non-profit organizations is multidimensional and cannot be measured with a single indicator (Herman & Renz, 2008, p. 401). Performance in the case of a non-profit organization is the extent to which the organization's mission is achieved (Herman & Renz, 1998, p. 24). For such mission-driven organizations measuring success is extremely difficult (Sawhill & Williamson, 2001, p. 371) because, being multiple stakeholder organizations, non-profit organizations have multiple bottom lines (Anheier, 2005, p. 227) and probably conflicting goal sets which their stakeholders require them to achieve. Even though measuring the performance of a non-profit organization is difficult, we are a long way from being able to reduce performance measurement to the financial bottom line.

Supervision and control by stakeholders

Supervision and control by important stakeholders like the members have already been discussed in depth. How stakeholders judge the effectiveness of an organization also applies for members. Stakeholders play an important role for non-profit organizations as they judge the organization's effectiveness, i.e. performance (Herman & Renz, 1998, p. 25). Stakeholders can be inside and outside the organization. As already-mentioned, non-profit organizations face the lack of generally accepted performance measurements. Such performance measurements are developed and executed inside the organization. The question remains of how stakeholders outside the organization judge the effectiveness of an organization. Performance indicators suffer even greater diversity. Herman and Renz present

an insight into how stakeholders may create their judgements and to a certain extent diversity will remain; social constructionism considers reality or some parts of reality to be created by the beliefs, knowledge, and actions of people. This reality is not a preexisting thing, independent of people, and is an ongoing process. Different people look for different things and what they see is a product of a social process. (Herman & Renz, 1998, p. 26). Hence, a stakeholder's criteria for judging the effectiveness of an organization are not of an objective nature and even differ between stakeholders. Stakeholders are further dependent on the information they receive to make their judgements. Balser offers a means to deal with multiple stakeholder groups and their varying and sometimes conflicting expectations: strategic stakeholder management, by establishing a consistent approach, will be an advantage for stakeholders themselves as they are better able to anticipate the dynamics of their interactions with the non-profit organization as well as the organization itself. With a consistent thematic approach, the organization may influence, but not manipulate, the expectations and, at the same time, can still pursue its mission and provision of services (Balser & McClusky, 2005, pp. 297). In recognizing that the effectiveness of a non-profit organization is a socially constructed and not a stable construct, it makes it clear that different stakeholders will judge differently. Effectiveness seems to be arbitrary, but it can be grounded in certain hard facts such as those on a balance sheet, like revenue, cost etc. And even these apparent objective measurements may be interpreted differently by different stakeholders (Herman & Renz, 2008, pp. 410). Executive directors play an important role in dealing with these various expectations. Additionally the board can act in a linking role between the organization and important stakeholders.

2.4 Summary of the Literature Review

Corporate Governance in non-profit organizations and, within this framework, focused on member-serving associations is distinct. The discussion shows that corporate governance in non-profit organizations is mainly based on agency theory with its behavioural assumptions and consequences. Arguments have been presented that show that this theoretical concept is not practicable for several reasons, as it lacks answers regarding vital details in the construction of corporate governance for non-profit organizations. Corporate governance in non-profit organizations in general and especially in associations is about

- respecting differences in the governance system of small or large associations and in country-specific differences in culture and law

- respecting the distinctive features of non-profit organizations, especially associations and their special personnel, namely volunteers with a different motivational set
- involving relevant stakeholders
- the voluntary board and its decision making function
- collaboration between the voluntary board and an appointed executive director and about the challenge of managerialism
- supervision, active strategic steering and control

A special definition for corporate governance in non-profit organizations is missed out. The definitions by the OECD are seen to be the most relevant (see chapter 2.1). The purpose of corporate governance in non-profit organizations, i.e. associations is to focus on the peculiarities of working with volunteers. Volunteers work in non-profit organizations not for pay; they donate time, skills and other vital resources for their organizations. The starting point when working with these people is completely different to working with paid staff. Their commitment (Preston & Brown, 2004, p. 225) to the organization they work with is the most important factor and establishes the connection to stewardship-theory as the basic principal.

By working with this principal, an organization can dispense with extensive control-mechanisms as this would cause the aforementioned crowding-out effect. It can concentrate on strategic work and, as a side effect, save high transactions costs (Zimmer & Basic, 2008, p. 150). The question remains as to why associations would need corporate governance. The existing codes have been established because of mismanagement in large corporations and even large non-profit organizations. Non-profit organizations in general are lucky to get subsidies from the state for their work or compensations for the services they offer, especially charity organizations, and all of them enjoy fiscal advantages.

A further challenge in the design of corporate governance in non-profit organizations is the changing face of volunteering as a cause or effect of the changing. Above all, associations are still dependent on the traditional face of volunteering (long-term volunteering) as governing an organization requires people being ready to commit themselves for a certain period society (Rochester, Ellis Paine, & Howlett, 2010, p. 30). Corporate governance may provide a framework to support the systematic approach to this topic. A similar challenge refers to the ongoing professionalization of organizations to optimize efficiency and effectiveness. Non-profit organizations have, according to Leitner et al, three important functions: within the *service-function* non-profit organizations provide services for their members and further stakeholders. The function as *representation of interests* calls for lobbying for protection of

public goods, e.g. alpine environment in the context of the dissertation. Finally, the most important asset of associations is *community building* as a social function (Leitner, Maier, Meyer, & Millner, 2008, p. 96).

Leitner et al further discuss the problem of managerialism and professionalization as these developments change the composition of these three functions. The danger of reducing associations to providing services and products is relevant because management instruments developed within the for-profit area can be applied, and efficient and effective use of financial means is guaranteed (Leitner et al., 2008, p. 98). The further two functions of non-profit organizations mentioned, especially associations, will suffer a loss of importance. Zimmer further stresses the function of non-profit organizations as alternative source of legitimacy. This function might be the real asset in a corporate governance of non-profit organizations as these organizations work in the area of tension between the market and the politics. By also professionalizing the work of non-profit organizations to make them similar to for-profit-organizations, active citizenship will be lost (Zimmer & Basic, 2008, p. 150).

3 CORPORATE GOVERNANCE IN ALPINE CLUBS - RESEARCH DESIGN

3.1 Scientific Relevance of the Research Field of Alpine Clubs in Europe

Alpine Clubs – Purpose, mission and history

Alpine Clubs in Europe create a community of members who are interested in mountaineering, alpine training courses, protection of the alpine environment etc. In Europe there are two big types of organizations, the Alpine Clubs – “Alpenvereine” and the Naturefriends – “Naturfreunde”. Both organizations have a similar purpose but are different in their political background. Alpine Clubs are, according to their constitution, politically neutral and independent, see for example (OeAV, 2012). Naturefriends have a political background (NFI, 2011). Within this dissertation the research is narrowed to Alpine Clubs, “Alpenvereine”. In their working field Alpine Clubs contribute to society just as other nonprofits do. Alpine Clubs as the chosen research field are legally organized as associations. The organization Club Arc Alpin (Club Arc Alpin, 2013) which is located in Germany unifies eight Alpine Clubs with a similar purpose from different European countries. This organizational frame is helpful to narrow Alpine Clubs in Europe.

Table 5: Alpine Clubs in Europe

Club	Language	Number of members in 2011	Year of foundation
Austrian Alpine Club “Oesterreichischer Alpenverein (OeAV)”	German	414,833	1862 Vienna
German Alpine Club “Deutscher Alpenverein (DAV)”	German	939,063	1869 Munich
Swiss Alpine Club “Schweizer Alpen-Club (SAC)”	German/French/ Italy/Romance	135,448	1863 Olten
Alpine Club of South Tyrol “Alpenverein Südtirol (AVS)”	German	57,421	1869 as section of DAV, 1946 refoundation
Italian Alpine Club “Club Alpino Italiano (CAI)”	Italy	319,467	1863 Turin
French Alpine Club “fédération française des clubs alpins et de montagne (FFCAM)”	French	77,618	1874 Paris
Alpine Club of Liechtenstein “Liechtensteiner Alpenverein (LAV)”	German	2,562	1909 as section of DuOeAV Schaan; 1946 refoundation
Alpine Association of Slovenia “Planinska zveza Slovenje (PZS)”	Slovenia	58,369	1893 Lubljana
Total Members		2,004,781	

Source: own table based on figures from Alpine Clubs

This table shows eight Alpine Clubs in Europe with their Club name translated to English, the term in the national language and their abbreviation (short version) originated in their native language. One column presents the club language, the further columns show the number of counted members as per December 2011 as well as their year of foundation. These clubs represent more than two million individual members.

The table further shows that Alpine Clubs have a great history, they were founded as small associations at the end of the 19th century and the very beginning of the 20th century. At this time the idea of exploring the mountains was very popular, therefore many small clubs were founded to spread the idea (Gidl, 2007, p. 38).

The focus within the dissertation will be on four German speaking Alpine Clubs

Austrian Alpine Club (OeAV), German Alpine Club (DAV), Alpine Club of South Tyrol (AVS) and Swiss Alpine Club (SAC). These Alpine Clubs work in close cooperation with each other. They invite each other to their annual general meetings; three of them, i.e. OeAV, DAV, AVS, share guidelines for huts, foot paths; they cooperate in big projects, etc. Their constitutions are very similar so they create a big community for members interested in their purpose and their mission. The collaboration between these clubs has above all historical reasons:

The Austrian Alpine Club was founded in 1862 by three students, Edmund von Mojsisovics, Paul Grohmann und Guido Sommaruga. This Club is the oldest mountaineering club in continental Europe (Gidl, 2007, p. 21). The idea of such clubs came from the British Alpine Club founded in 1857 (British Alpine Club, 2013). As some members were not satisfied with the ideas of the Austria Alpine Club, being academic, scientific, literary and not facilitating access to the Alps (Gidl, 2007, p. 29), the German Alpine Club was founded in the year 1869. This club had a different purpose, e.g. the building of huts and foot paths in the Alps (Gidl, 2007, pp. 67). In 1873 the Austrian Alpine Club decided to unify with the German Alpine Club, and in 1874 the “Deutscher- und Oesterreichischer Alpenverein” (DuOeAV) was born (Gidl, 2007, pp. 199) ceasing to exist with the annexation of Austria to the German Reich and thereafter renamed the German Alpine Club. After the Second World War this German Alpine Club was refounded as today’s Austrian Alpine Club and today’s German Alpine Club was newly founded with existing German sections (Gidl, 2007, pp. 313). The Alpine Club of South Tyrol was a section of the original DAV and refounded as “Alpenverein Südtirol” in 1946 (Deutscher Alpenverein, Oesterreichischer Alpenverein, & Alpenverein Südtirol, 2011, p. 201). For the aforementioned reason, the constitution, mission, and purpose of these three Alpine Clubs are very similar. The Alpine Club of Switzerland was founded in 1863 (Anker,

2013, p. 67) with a friendly connection to the Austrian Alpine Club (Gidl, 2007, p. 47) persisting till today. In order to inspire people all over the country for the ideas of the Alpine Clubs, branches and, in the special language of the Alpine Clubs, *sections* were founded according to the prototype of the Swiss Alpine Club (Gidl, 2007, p. 40, 47). Alpine Clubs are non-profit organizations, in the legal frame of associations. They face the challenge of all distinctive features of this legal and organizational framework. Alpine Clubs are governed by Voluntary Boards. As a result of changes to society, it is a challenge to recruit volunteer leaders without whom these organizations are not in the position to offer services and fulfill their mission. Alpine Clubs are mostly dependent on subsidies from their countries as they offer services, e.g. huts or foot paths which are also available for the public, not only for members. They provide club goods as well as public goods.

Table 6: Alpine Clubs under research and their organization

Club	Umbrella association	Number of sections	Number of members in 2011
Austrian Alpine Club (OeAV)	1	194	414,833
German Alpine Club (DAV)	1	353	939,063
Swiss Alpine Club (SAC)	1	112	135,448
Alpenverein Südtirol (AVS)	1	32	57,421
		691	1.546,765

Source: own table based on figures of Alpine Clubs

This table shows the Alpine Clubs under research with their organization. Each Alpine Club consists of an umbrella association and a number of branches, so-called sections. The formation of sections has its reason in history and was not carried out systematically. These sections differ in size, the benchmark to distinguish sections in size is the number of individual members.

The Structure of the Alpine Clubs and its governing bodies

Alpine Clubs are constructed as a federal system (Heilmair, 2009, p. 10) with an umbrella association, legally independent sections and regional committees. Alpine Clubs were founded as small associations. The very long tradition and their success enabled them to grow considerably. Several legally independent branches, i.e. sections were founded and further committees were appointed. The sections are members of the umbrella association, the individual members are members of the sections. Only in the Swiss Alpine Club are members both members of their section and the umbrella association as well. The figure below shows the structure of the two big associations under research, i.e. the German Alpine Club and the Austrian Alpine Club. Their structure is very similar, but the terms for the bodies are

different. Both also have committees established at country level represented in the Federal Committee. The structure of the smaller clubs, i.e. the Swiss Alpine Club and the Alpine Club of South Tyrol are slightly different, i.e. the Alpine Club of South Tyrol has no established Federal Committee, the responsibility of the Federal Committee of the Swiss Alpine Club is slightly different. Voting in any body is always a right reserved for volunteers, i.e. honorary managers.

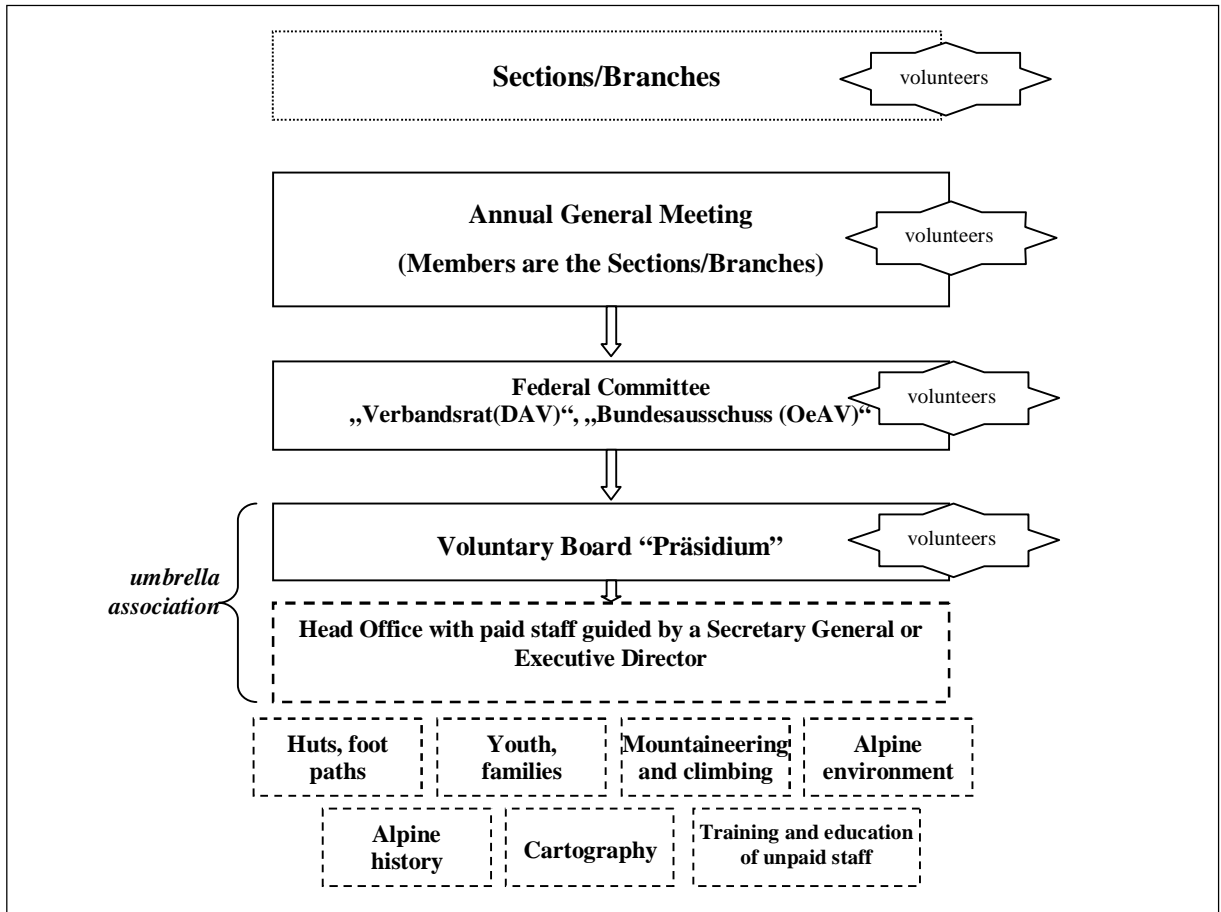


Fig. 13: Governance structure of Alpine Clubs

Source: own figure based on organizational charts of Alpine Clubs

An implicit feature of corporate governance-systems in for-profit organizations, as well as those few established in non-profit organizations, is that the headquarters is superior to the organization with the right to make decisions and pass decisions top down to its subsidiaries. Alpine Clubs are different: their headquarters are at the bottom of the organizational structure. An important distinctive feature of the structure of Alpine Clubs is the function of subsidiarity as the basis of the umbrella association. A current definition of subsidiarity is taken from the website of the European Parliament. Its essence can be transferred to Alpine Clubs. *“The general aim of the principle of subsidiarity is to guarantee a degree of independence for a lower authority in relation to a higher body or for a local authority in respect of a central*

authority. It therefore involves the sharing of powers between several levels of authority, a principle which forms the institutional basis for federal States” (European Communities, 2009). Within Alpine Clubs *subsidiarity* will mean that the umbrella association provides services to its members, i.e. the sections, in a cost-effective way, as well as directly to individual members in the event that the sections are not in a position to provide services. The umbrella association further offers services which are provided exclusively, for example the education of volunteers. Big corporations may commonly be held together by the construction of a **holding** (Bea & Haas, 2005, p. 389). Within Alpine Clubs, there exists no body having access to the umbrella association and the sections. The umbrella association is not the owner or shareholder of the section; the latter are legally independent. Sections are the members of the umbrella association. Their rights and duties are laid down in the respective constitution and they face all the challenges of being a member. The sharing of power between the umbrella association and the legally independent sections is the biggest challenge of a system of corporate governance such as that of Alpine Clubs.

The Annual General Meeting

The Annual General Meeting is the highest decision making body of the umbrella association. It is organized as an assembly of delegates, i.e. the members are represented by the chairmen of the sections or authorized members of their boards. This body has, above all, the following duties: to accept and approve the financial reports and accounts for the previous year, the acceptance of the budget for the following year, ratification of the membership subscription for individual members. The responsibility concerning financial reports and the budget is limited to the umbrella association (OeAV, 2012, p. 8) and (DAV, 2009, p. 10).

Federal Committee

Three of the Alpine Clubs under research have already appointed a Federal Committee. The terms of these committees are different in their national language, their tasks are very similar. The members of the Federal Committee are nominated by the regional committees and elected by the Annual General Meeting. They discuss and make decisions on the corporate affairs of their respective Club. The Federal Committee is responsible in particular, for example, for convening the Annual General Meeting and deciding the agenda, presenting the balance sheet (end of year accounts) and the budget to the Annual General Meeting (OeAV, 2012, p. 7) or (DAV, 2009, p. 8). As already mentioned, the responsibilities of the Federal Committee of the Swiss Alpine Clubs are slightly different. The most important difference is that this Committee finally accepts the budget for the following year (SAC, 2005, p. 6). These

committees are led by the president of the umbrella association. The board of the umbrella association is responsible for the agenda of such a committee, members of these committees are also able to raise issues of concern. Though the members are located in regional sections, they must represent a general point of view and not favour the particular interests of a section when making decisions. The embodiment of this committee is as decision making body. It cannot be compared to a supervisory body from a two-tier model. It is a necessary committee in the three-step-decision-making chain.

The umbrella association and its function

According to figure 13 of this chapter, the umbrella association consists of the Voluntary Board, called “Präsidium” and the head office guided by a Secretary General or Executive Director. The umbrella association embraces different functions. First of all it has to support its direct members, which are the sections. The services provided in the sections for the individual members are done on an honorary basis. Only a few large sections with more than 10,000 members have important paid staff including a branch manager for their branch offices. A paid staff is definitely rare in Alpine Clubs because it is contradictory to the philosophy behind these clubs and, besides that, not affordable. On the principal of subsidiarity the head office provides some services which can be carried out more cost-effectively on a larger scale, e.g. Alpine Club world-wide insurance, or if some sections are not in a position to provide services directly to individual members, e.g. youth programmes or alpine programmes. The overall strategic lines of the clubs must also be prepared by the head office of the umbrella association. It provides the only full-time workforce throughout the total club which is aware of big strategies, problems, current developments in all special fields of activities of the Alpine Club. A section, regardless of its size, is not in a position to care about overall strategic topics; it is only focused on what it offers for members. A further function of the umbrella association is public representation of the Alpine Clubs and gaining the necessary attention for, for example, problems regarding the protection of nature in the Alps. The Austrian Law on Associations defines the umbrella association legally as the “Hauptverein”, i.e. main club and the sections as the “Zweigverein”. The distinctive feature within this definition is that the sections are legally independent, but must share the same constitution. If the main club disappears, the sections disappear as well. By contrast, an umbrella association is independent of its members, which are independent associations and the disappearance of the umbrella association is of no consequence for the independent associations (Brändle & Rein, 2011, p. 97). This distinctive definition is only found in the Austrian Law on Associations, therefore the general term of umbrella association is used to

describe this part of the structure. According to Heilmair these umbrella associations are designed as umbrella associations in the narrow sense guided by the two principles of federalism and subsidiarity (Heilmair, 2009, p. 11).

The Voluntary Board of the umbrella association

The Voluntary Board is the highest body of each umbrella association. It consists of a certain number of members according to the respective constitution and operates on a voluntary basis only. The members are elected by the Annual General Meeting, see for example (OeAV-Consitution 2012, p. 5). The Voluntary Board is the governing body of the umbrella association and its responsibility for financial conduct is limited to the same. According to the federal structure of the Alpine Clubs this board has no access or control over the legally independent sections.

Table 7: Voluntary Boards in Alpine Clubs

Alpine Club	OeAV	DAV	SAC	AVS
Total members of the board	6 members plus president	4 members plus president	11 members plus president	14 members plus chairman
Name of the board in German	“Präsidium”	“Präsidium”	“Zentralvorstand”	“Landesleitung”
Name of the Board leader in German	“Präsident”	“Präsident”	“Zentralpräsident”	“1.Vorsitzender”
Duration of one period	Four years, several reelections possible	5 years, only one reelection possible	4 years, only one reelection possible	3 years, several reelections possible

Source: own table based on information material from Alpine Clubs

The above table shows a curious situation: the Voluntary Board of the biggest club – the German Alpine Club – consists of only five members, the board of the smallest club under research has the biggest board with 15 members. The Voluntary Board is constructed as a collegial body. The president as chairperson is not allowed to instruct its colleagues or members of the board. He or she is only the *primus inter pares*. The bylaws of the constitution arrange, for example, the distribution of agendas, decision making, legal representation of the association, etc. Each member of the Voluntary Board is responsible for at least one major core task of the association. The smaller the committee, the higher the probability that one member has to represent more than one specific topic/division. The following core tasks at least are represented by the board members: huts, youth, mountaineering, alpine history, Alpine environment. The length of one period of office ranges from three years to five years according to the above table. Two clubs, DAV and SAC allow only one reelection. The advantage of this system is that the board is steadily renewed and new ideas brought in. The disadvantage may be the difficulty of finding members willing to do this job on a voluntary basis.

Head office of the umbrella association

All four Alpine Clubs under research have established head offices. The operational work within the umbrella associations is done by paid staff. Paid staff is rare in Alpine clubs. The head offices represent the only important paid work force within the clubs. Some umbrella associations have still further appointed commissions working on voluntary basis. These committees help to keep the number of paid staff at a lower level and provide expertise on important topics. The number of paid staff is dependent on the total size of the club and, consequently, the number of services offered to the sections. The function of the head office is to execute decisions made by the Voluntary Board of the umbrella association.

The structure of the legally independent sections

The Alpine Club's activities take place in the sections. Sections are also legally constructed as associations. Individual members can only become a member of a section. The sections' main task is to provide services to the individual members. Members have rights and duties according to the respective constitution of each section. They have, for example, the right to participate in the Club's activities or use the Club's facilities. Members are further entitled to vote at the membership assembly, but also have a duty to pay the annual membership subscription. The figure below shows the structure of the sections of Alpine Clubs. It complies with the local Law on Association. As a legally independent association it is obliged to draw up a constitution in which all necessary bodies, rights and duties are written down. The aims of the Club and the methods for achieving the aims of the Club must correspond to the constitution of the umbrella association. Their fields of activity can vary as, for example, not all sections are owners of huts.

Membership assembly within sections

The membership assembly is the highest body, also within the sections. The duties are similar to those of the Annual General Meeting of the umbrella association.

Executive committees (voluntary board) within sections

The executive committee within a section is the governing body of a section. It is made up exclusively of volunteers. It is responsible for financial conduct of the section.

Branch offices within sections

Due to the growing scope of services provided to members, even sections are forced to establish branch offices and to employ paid staff to assist volunteers in their work. A paid

staff within sections is definitely rare. Within sections the operational work is mainly carried out by volunteers, e.g. acting as a guide for mountain tours, climbing tours, working with children, etc. The challenge within the sections is definitely to keep the voluntary work force, primarily to maintain the spirit of the club, but also for financial reasons.

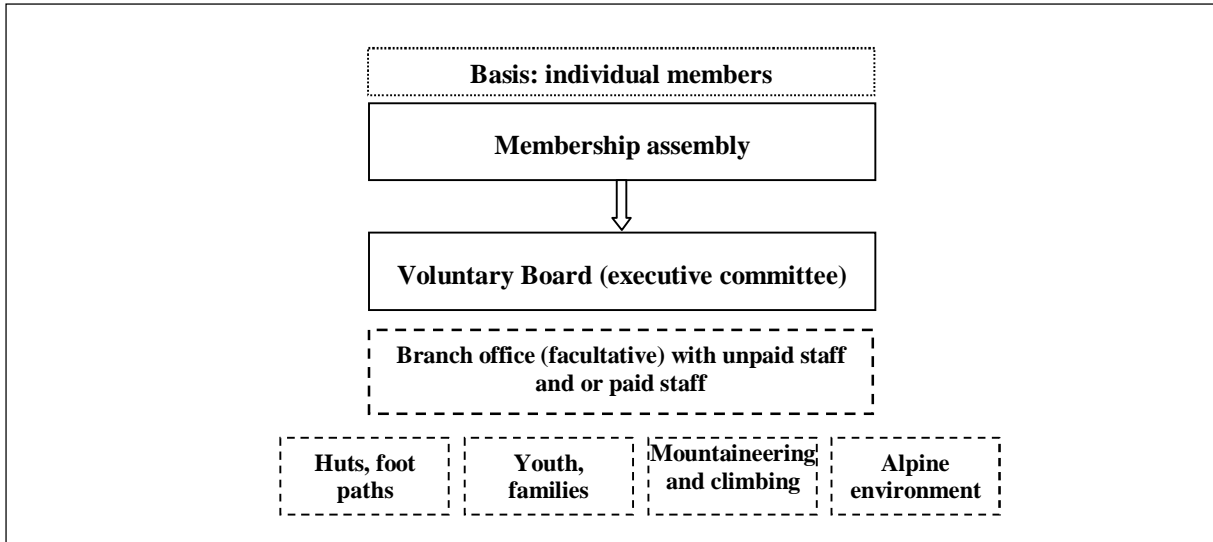


Fig. 14: Governance structure of sections within Alpine Clubs

Source: own figure based on information material of Alpine Clubs

Scientific relevance of the research field

Alpine Clubs were founded as small associations at the end of the 19th century and the very beginning of the 20th century. The short historical outline shows their social and cultural importance in the Western European countries till today because of their huge number of members (table 5). *Alpine Clubs as associations* face the challenges of all distinctive features of this legal framework. And the changing face of volunteering forces Alpine Clubs to think about their governance structure in the future. Alpine Clubs provide a specialty in their governance structure, too. They are constructed as *federal system* which is a challenge in establishing governance structures by using common theories to understand relations between principles and agents. The organizational structure is upside down compared to those of for-profit organizations. The headquarters are at the bottom of the organizational structure. Further, there does not exist any superior body having access to all sections like in a construction of a holding. With such distinctive features the research field of Alpine Clubs is of great value for scientific discussion, as Western European countries have a great tradition in establishing associations and therefore Alpine Clubs can be seen in the function of a role model. A corporate governance model with such implications calls for deeper investigation which will be provided by this dissertation.

3.2 Research Design

Research questions

“Research is a creative activity leading to the production of new knowledge” (Myers, 2009, p. 6). As already mentioned in chapter 2.1, there is a lack of research and visible results in respect of corporate governance for member-serving organizations and associations, and further investigations would, therefore, be valuable. The research is designed as a case study, being one type of qualitative research (Flick, 2009, p. 134). It is chosen as an adequate method to produce new knowledge in this area (Eriksson & Kovalainen, 2008, p. 5). Myers offers an appropriate definition proving this classification: *“Case study research ... uses empirical evidence from one or more organizations where an attempt is made to study the subject matter in context. Multiple sources of evidence are used, although most of the evidence comes from interviews and documents”* (Myers, 2009, p. 76). In this research the case is broadly understood. As outlined in the previous chapter, Alpine Clubs is selected as research unit (case) in the huge field of non-profit organizations.

A classical research model may arrange research steps relative/ sequentially to one another, meaning that the next step can only be started if the previous one is finished. Berg and Lune provide a more adequate model for a qualitative research. Its approach is iterative (Berg & Lune, 2012, p. 25):

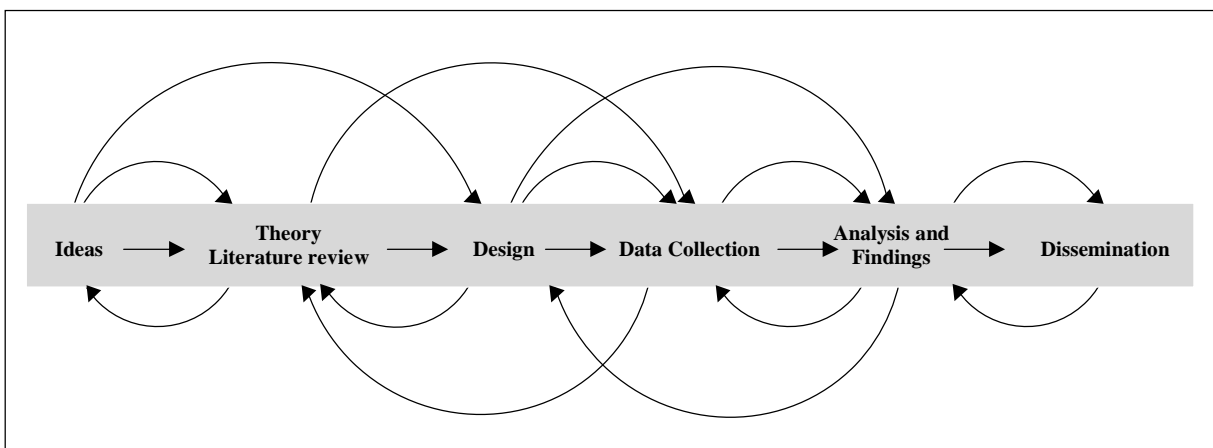


Fig. 15 Research design

Source: Bruce and Lune, 2012, p. 25 adapted

The above model shows that in any step of the research it is necessary to check the chosen method or idea with any previous step as it causes the next and the following step. Looking backwards it is also inevitable that the results of one step be considered with the previous

steps. A rough idea was also the starting point of this research, followed by investigation in related and relevant literature. The review of literature as the theoretical background and the current state of the chosen topic are presented in chapters one and two. Research questions as presented below have been the basis for the decision to undertake a qualitative study and selecting the method of data collection. Chapter three captures the research design, the description of the data collection and the first analysis of the data. Chapter four presents the findings of this qualitative research.

Summarizing the theories of corporate governance presented and the current state of corporate governance to implement a corporate governance in Alpine Clubs, the following research questions arise:

The research questions are:

- What are the specialties of the governance system of Alpine Clubs? Are there any existing governance problems within these organizations?
- Which challenges does the governance system in the umbrella association and the small, middle-sized and large sections face?
- Is it possible to maintain these governance systems in the future?
- How can stakeholders be integrated in the governance system in the umbrella association as well as the sections?

For the empirical research, first the total number of sections will be divided into small, middle and large sections. The bench-mark for this classification is the number of individual members of each section.

The following table shows the aforementioned classification of sections. It illustrates a first approach to the research question. Within the group of small sections there are 639 sections representing 48.6% of the members, the group of middle-sized sections consists of only 32 sections representing 20.8 % and the group of large sections consists of 20 sections representing 30.6 % of members. The classification into the aforementioned three groups has been undertaken by the author.

Table 8: Classification of sections I

Total number of four Alpine Clubs	Number of sections	Number of members of each sections	Number of members	Percentage of members in each group	Average number of members per section
Small clubs, section	639	0 – 4,999	752,457	48.6 %	1,178
Middle-size clubs, sections	32	5,000 – 9,999	321,422	20.8 %	6,181
Large clubs, sections	20	≥ 10,000	472,886	30.6 %	23,644
Totals	691		1,546,765	100.0 %	

Source: own table based on figures from Alpine Clubs

The table shows that the majority of the sections belong to the group of small sections. The bigger the size of the section in terms of individual members, the smaller the number of sections. A first idea could be that governing larger sections with the focus on voluntarism throughout the total organization might be much more difficult.

When examining the reliability of this structure while working with volunteers throughout the total organizations, there may be several challenges which may cause a change in the governance structure of these organizations. The elements of corporate governance in non-profit organizations explored and presented in chapter 2.3, i.e. stakeholders, voluntary board, executive director, members and supervision and control will also form the basis for the empirical study.

The umbrella associations themselves also play an important role within this study in several ways. Umbrella associations are governed by Voluntary Boards, too. The staff within these organizations consists only of paid staff and also paid managers. The challenge for these organizations is the collaboration between honorary managers and paid managers as well as the endowment of the work of the Voluntary Board. There is a difference between working as a voluntary board member in a section or within the umbrella association. The research questions assume that even umbrella associations and their professional organizations may come across with several challenges for a reliable governance system for the future.

Empirical research – data collection

Triangulation

The collection of empirical data is based on a triangulation of a combination of different methods (Flick, 2008, p. 12). The aim of this combination is to take different points of view regarding the research questions to overcome the limitations of each method applied. It helps

to gain a fuller picture of the research object (Myers, 2009, p. 9). The combination consists of personal interviews at all levels of the organizations, data analysis and secondary data analysis of the Alpine Clubs.

An example: The constitution presents the normative function of the governing bodies. By using personal interviews as expert interviews, data will be collected to compare the normative function with the embodied governance function.

Expert interviews as personal interviews for data collection in the umbrella associations

Experts are persons who are particularly competent as authorities on a certain matter or facts (Flick, 2009, p. 165), (Meuser & Nagel, 2009, pp. 37). Honorary managers and executive directors are classified as these experts within this organizational unit. They have to work within the rules of their constitutions and are therefore active in executing governance. Personal interviews with such experts are chosen as an adequate method to explore knowledge relating to the research questions.

An interview guideline should help to focus on certain questions and also to create other valuable information. The interviews cover the main topics of the research questions, i.e. governance system, qualifications of honorary managers, decision making and also some questions to create further knowledge. The language for the interviews is German, as the organizations under research are located in German speaking countries. All interviews took at least one hour. All interviews have been recorded and afterwards transcribed to facilitate analysis of the data acquired.

The table below shows the map of interviews throughout all four organizations. The interview partners are classified by their importance in the governance structure. Interview partners are chosen purposefully (Maxwell, 1992, p. 293) according to qualitative research. The country of the club does not represent a classification feature. The first group is the president of each club. Their function is being president of the whole club as well as president of the umbrella association. The interviews with vice-presidents of each club are conducted based on a slightly different interview-guideline. The size of the Voluntary Board of each club is different and, therefore, the number of interview partners varies. Each umbrella organization has an executive director. The interview guideline for this group is different to that used for the members of the Voluntary Board. A blank draft of each interview guideline is included in the appendix of this dissertation.

Table 9: Interview map – umbrella associations

Organization/ interview partner	AVS	DAV	OeAV	SAC	Interview guideline
Umbrella association					
President = president of the umbrella association and of each Alpine Club	1	1	1	1	Interview-guideline 1a
Vice-presidents = members of the Voluntary Board	2	3	3	2	Interview-guideline 1b
Executive Director = paid managers	1	1	1	1	Interview-guideline 2

Source: own table

In order to fully understand the governance system of Alpine Clubs it is essential to take a deeper look into the governance system of the sections as well.

Personal interviews and telephone interviews for data collection in sections

The total number of sections used in this research to collect data is 691 sections. Chairmen of the sections, i.e. honorary managers, are classified as experts. They have to abide by and execute the governance rules of the constitution and guide their organization together with the members of their executive committee.

The questionnaire or interview-guideline used to collect data within sections contains some more questions and topics and is organized into nine groups, e.g. questions relating to the section and its structure, governance structure, event programmes, questions relating to cooperation with the umbrella association. An example of a questionnaire is included in the appendix. In spite of the extensive questionnaire, personal interviews with the chairman of sections in Austria are also undertaken. Although these interviews were conducted after the interviews with the board members and executive directors of the umbrella associations, the knowledge about governance was not sufficiently consistent to allow the use of a standardized written questionnaire. The partners invited for interview felt very proud of being chosen as an expert for this research and were, therefore, very open to answer comprehensively the questions regarding their daily challenges in governing a section. All interviews have again been recorded and transcribed afterwards.

Interviews with Chairmen of sections outside Austria were carried out by telephone to save time-consuming and costly travelling. For that reason, a variation of the interview guideline (semi-structured questionnaire) was drawn up to be used for telephone interviews. Interviews with chairmen of sections of the Swiss Alpine Club were hard to get. It is assumed that these Chairmen did not want to talk about their experiences outside their community. For these telephone interviews no written record is available, which is not, however, a problem, due to

the precise nature of the answers. Working with e-mail-based questionnaires has no tradition in Alpine Clubs. Besides, the focus of this research is on exploring new knowledge and therefore a lot of questions require open questioning to let the experts talk about their experiences.

The following table shows the interview map for sections. Within the sections it was important to conduct interviews within the three assumed groups of sections, as governance in sections of different size might be different. The higher number of interviews within the group of 5,000 – 9,999 members was chosen because of assumed challenges in the governance system.

Table 10: Interview map - sections

	number of interviews within each group of sections		
	0 – 4,999 members	5,000 – 9,999 members	≥ 10,000 members
OeAV	12	1	2
DAV	1	3	1
AVS	1	3	---
SAC	0	1	---
Total	14	8	3

Source: own table

Secondary data analysis

Secondary data analysis should support the empirical study and provide additional information about Alpine Clubs, i.e. the Constitutions and bylaws, old minutes, the number of individual members, level of infrastructure – huts, climbing halls - size of boards, personnel within sections, number of paid staff in umbrella associations, etc.

Empirical research – data analysis

As mentioned above, data collection within this qualitative research is done by interviews with mainly open questions. Data in qualitative research is not standardized, it requires an effort to interpret the material (Schreier, 2012, p. 20). The analysis of this data requires a different method to gain the important knowledge and new information provided by this research. The methods used to analyse the qualitative interviews will be a type of content analysis. The way of coding (Myers, 2009, p. 167) the material will be described below. It helps to systematically describe the meaning of the material acquired and to reduce the size of the data. Because of the limited number of interviews the analysis is carried out manually and not by special computer software. The analysis is carried out with reference to the research questions as well as the basic elements of corporate governance in non-profit organizations.

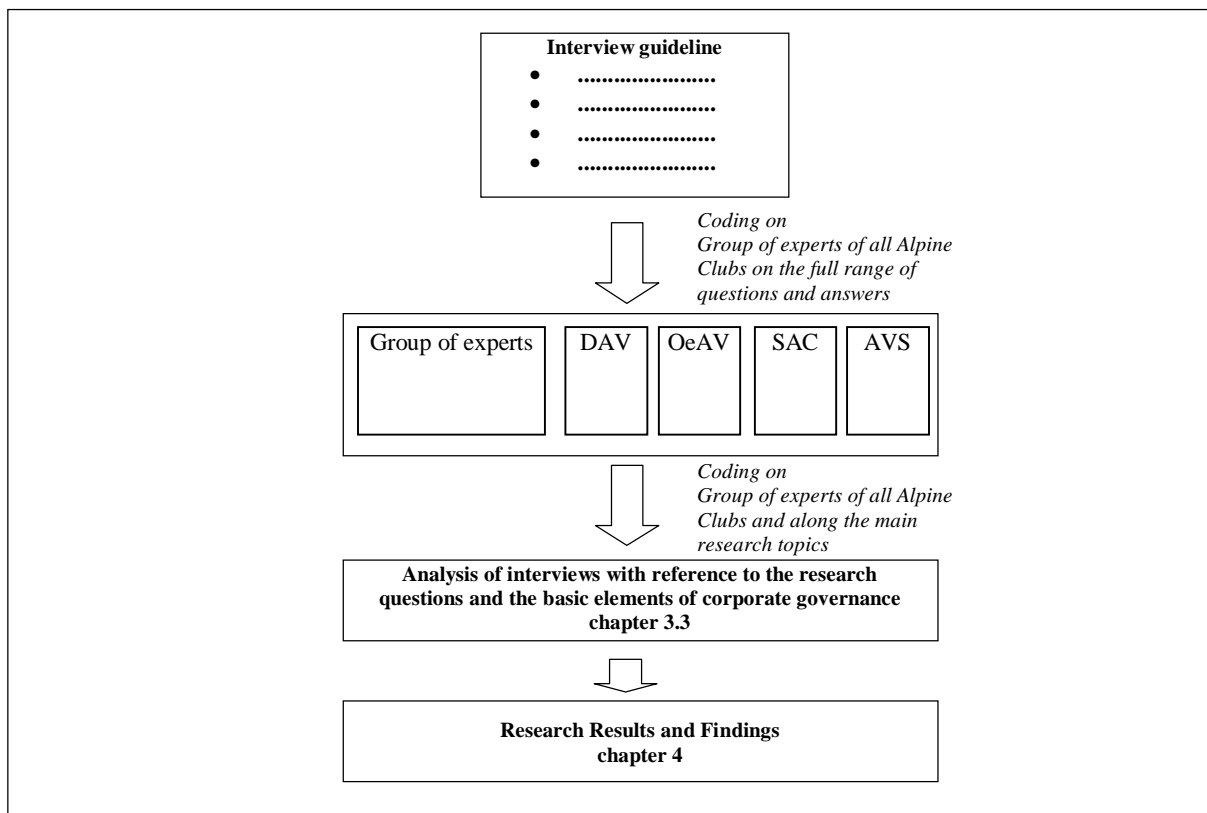


Fig. 16 Method of data analysis

Source: own figure

Analysis of interviews of umbrella associations

According to above table, the analysis will first be conducted for each group of interview-guideline. Within the umbrella associations there are three groups of expert, the presidents and the vice-presidents, both of whom are members of the Voluntary Board, and the executive directors. The analysis will first be carried out for all questions and answers from each group of expert from all Alpine Clubs, e.g. all presidents. Similarities or contradictory points of view can be filtered out. Secondly, the answers from all groups are analyzed and interpreted with reference to the research questions. Conclusions will be prepared. In umbrella associations there is a structural collaboration necessary between the Voluntary Board and the executive director. This collaboration will be analyzed as well.

Analysis of interviews of chairmen of sections

As already mentioned, the chairmen of sections will be interviewed based on a different interview guideline or semi-structured questionnaire. The analysis of the interviews will be prepared in the same way as those of the umbrella association:

First, the answers to all questions will be clustered, enabling us to uncover similarities and contradictory point of views. Secondly, the answers will be analyzed and interpreted again

with reference to the research questions and basic elements of corporate governance in non-profit organizations.

Reliability, validity and generalizability of the research

According to Flick, how to assess qualitative research has not yet been solved. The question is whether qualitative research should be assessed using the same criteria as for quantitative research or if there are alternative criteria (Flick, 2009, p. 384). By applying the general criteria of reliability and validity the following considerations are taken: expert interviews may limit the *reliability*, as only the chosen experts are able to produce the requested knowledge. The reliability among the chosen interview partners can be enhanced by tape-recording of all face-to-face interviews, by carefully transcribing the tapes, and by presenting long extracts of data in the concrete research (Silverman, 2001, p. 230). All these recommended steps have been followed within this research. *Validity* raises the question of whether researchers see what they think they see (Flick, 2009, pp. 387): Concerning the validity of an interview situation, one must consider whether the interviewee is authentic during the interview or whether there was any reason to consciously or unconsciously construct a specific version of their experiences. Maxwell discusses several forms of validity: descriptive validity and interpretive validity as being useful to distinguish within this context. By descriptive validity he means the factual accuracy of the things a researcher saw and heard, knowing that no situation can include everything, and, therefore, accuracy is a criterion relative to the purposes for which it is sought. Interpretive validity is grounded in the language of the people studied. It is concerned with what something means to the people engaged; it concerns these participants' perspective (Maxwell, 1992, pp. 285). Myers describes the validity of case studies as face validity meaning that the empirical research represents a real story of an organization (Myers, 2009, pp. 80). A major disadvantage of qualitative research is that it is difficult to generalize for a larger public. Further, *generalization* cannot be done by sample logic, meaning to take more than one sample to enhance validity. Maxwell puts an advanced meaning in this assumed limitation: qualitative studies are usually not designed to allow systematic generalization to wider populations. He further describes two aspects of generalizability: a so-called internal generalizability within the community or group studied to persons, settings that were not directly observed and an external generalizability generalizing to other communities or groups or institutions. The internal generalizability is more important for qualitative researchers than the external one (Maxwell, 1992, pp. 293).

3.3 Analysis of Interview Data

The Voluntary Board of the umbrella association

The Voluntary Board of the umbrella associations consists of the president and a number of members. Analysis is carried out based on the questions of the interview guideline. The answers are clustered and the main statements are described below:

How to become president or a member of the Voluntary Board

Within Alpine Clubs it is not usual to apply for a job or function as volunteer and the same applies for members of the Voluntary Board. Potential members are only invited and promoted by other honorary managers to take up a certain office. “It is an honour to lead a big organization with such a variety”. Almost all members started their career as member of the Voluntary Board with experiences from another position or function in their club. Few came directly from outside. Above all, for presidents it is not possible to come directly from outside. It is very important to learn the culture and habits of the club. Hiring of such volunteers frequently relies on persuading them to do this job. “There are only a few meetings, there is nothing else to do”. When these members of the Voluntary Board started their function, nobody provided them with detailed information about their function, there were no job descriptions. Today the situation has changed; some job descriptions have already been created.

The Voluntary Board as governing body of the organization according to the constitution

The Voluntary Board with its normative function has been discussed in detail in chapter 2.3. Within Alpine Clubs it is neither a pure executive body nor a pure supervisory body. On the one hand it has to execute decisions made by the annual general meeting and on the other hand it has to be aware of actual developments which are important for the clubs and therefore prepare information for the various committees to make decisions. Above all, the presidents complain that the body is overloaded by operational work. The president of the German Alpine Club describes the function with its inherent dilemma perfectly: “*The Voluntary Board undertakes a range of tasks which could be done also by paid staff, but this is not the will of the sections...one must submit to the system*”. The German Alpine Club established a managing committee in 2003. The Austrian Alpine Club will establish such a committee by the beginning of the year 2014. The Swiss Alpine Club and the Alpine Club of South Tyrol as yet have no plans to establish such a committee. All members of the Voluntary Board are aware that they never could involve themselves in the day-to-day business. The

operational work has to be done by the paid staff of the head office. However, the Voluntary Board retains its decision making role for important affairs. Such decisions will never be transferred to a managing committee, but a possible overload in operational decisions can be reduced so the Voluntary Board can better concentrate on strategic decision making.

The role of the president and the role of the further members of the Voluntary Board

“The president officially represents the Alpine Club; we are members of this body and make decisions together”. According to the statutes the role of the president is to represent the organization. The president leads all meetings of the various committees according to fig. 13. He is not able to make decisions on his own or give instructions to other members of the committees. In the decision making process his or her vote counts only for one person. The special function is that he or she is “*primus inter pares*”, meaning that on tied votes his or her vote counts as double. The president can informally exercise a lot of power because the preparation of the meetings is done between him and the executive director of the head office. The Voluntary Board is legally constructed as a collegial body, meaning that the Voluntary Board as a unit is legally responsible for the Club. Internally there exists a schedule of responsibilities to share the workload of the Voluntary Board. Representing the club is an important function of the president and the members of the Voluntary Board. “Everybody wants to invite the president, inside and outside the club”, but even these tasks have to be split up between all members of the Voluntary Board.

Volume of time to execute the function of a Voluntary Board member and mutual compatibility of the voluntary work with a profession

All presidents are aware that being president is a tough job. Nearly all count it as a part time job, meaning approximately 20 hours per week. It is only because of their main job that they are able to undertake both jobs. All consider that if they had a different job they could not work voluntarily as president. The current presidents work as professors at the university, as a judge or CEO. One president is retired. The work fills the time they can allocate to it. This is true for all presidents, even for the retired one. For the members of the Voluntary Board the situation regarding time shows a different picture. Vice-presidents in the function of treasurer mostly have to work less than their colleagues as they feel the benefits of the professional support provided by the finance-department, i.e. by the paid staff of their associations. The voluntary work is easily compatible with their profession. Generally, the work-load for members of the Voluntary Board increases if the total number of members of the Voluntary Board declines (table 7). This is definitely true for one vice-president as member of the

Voluntary Board of the German Alpine Club, having to coordinate three major departments. A reorganization is in progress.

Decision making within the Voluntary Board

In all clubs, decisions are prepared exclusively by the head office as paid staff is in the important steady process of thinking. The executive director prepares the agenda for the meeting and discusses it with the president. According to the constitution the meeting documents must be sent out to the Voluntary Board members a certain time before a meeting to enable the Voluntary Board members to study the papers. “There is sufficient information, but it is often the time to study the papers very carefully that is missing.” The meetings are attended by the full-time staff, i.e. the heads of the departments but with no decision-making right. The special knowledge of the experts is essential. Voluntary Board members, even those having certain responsibilities, are not able to be fully informed in detail. The overall line is to make decisions by a consensus of *all* affected parties, which is not always practicable. On asking the members of the Voluntary Board if they are courageous in making decisions, nearly all affirmed not being boisterous but “courage in decision making is not contradictory to voluntarism”.

Information Asymmetry

There is a lot of information available. Voluntary Board members do not consider information asymmetry as a disadvantage for them: they see it as their responsibility to filter the information. Further, they see it as very important to communicate constantly with the head office. For themselves they consider it not important to read all papers, they just want to be informed. “We have an information system. Not every e-mail has to be sent to the president. ***It needs a lot of trust in the system because you can make policy based on limited information.***”

Accountability of the Voluntary Board

Answers to this question show no uniform picture. Members of the Voluntary Board see themselves as responsible for the members. The sections are seen only as structural element. One president sees the section as the very important stakeholder: the success of an Alpine Club, i.e. membership growth is not based on the successful work of the Voluntary Board or the head office of the umbrella association; it is the services offered in the sections that count. Finally, one member of the Voluntary Board sees himself as responsible for the values, the tradition and image of the Club. The members are not seen as an important stakeholder.

Working as honorary president or as paid president

Working as honorary president allows a wide scope because the function of the president is not connected with the personal livelihood. A paid president might have a different agenda when it comes to making decisions because he wants to be re-elected, to protect his livelihood. The advantage of working as honorary president is that it is easier to discuss unpleasant topics with other bodies or committees.

The executive director of the head office of the umbrella association

The executive director is the highest rank of paid staff, even in the case of an established managing committee. Their formal power is low compared to their informal power. The purpose of the interviews with the executive directors is to have a look at the voluntarily governed bodies and their sustainability.

Function of the Voluntary Board on the executive director's view - strengths and weaknesses

The Voluntary Board is the governing body of the umbrella association as stated in the constitution. The question is to what extent this body can fulfil its task as governing body considering the complexity of the tasks and the time allocated for reacting to problems or answering questions. According to the results of the personal interviews of the Voluntary Board members, they work at most half-time, above all the presidents. But it goes without saying that the members of this body are never in a position to work out any projects or papers. Consequently it is inevitable that the head office has to deal with the day-to-day business for the Voluntary Board. The function of the Voluntary Board is not comparable to a similar function in the for-profit area, as their members are available full time to earn their livelihood. The function of the governing body in the umbrella association is governing and steering at the same time. It is, further, not particularly important whether this body consists of four, six or eight members, but the decision making process might be faster with a smaller number of members. The difficult question is which meaningful task the members of the Voluntary Board can really do so they feel they are doing an enjoyable and valuable job. There are two possible ways to structure this body: either you see them as governing body, but bear in mind that they are dependent on the work of the head office. The decision making must appear to be undertaken by this body, or to change the structure and recreate this voluntary body as a supervisory board. This would have the consequence that the executive director would be given greater power and responsibility.

It is very important to see that the Voluntary Board is vital to the acceptance of voluntary governance within the sections. This body legitimates the work of the head office of the umbrella association and the voluntary body itself.

The German Alpine Club recently carried out a survey within its sections asking the question of whether they could imagine a governing body consisting of paid managers. 30% of the sections could imagine this situation. But the new mission statement of the German Alpine Club of the year 2012 (DAV, 2012) states that all governing bodies within the Club are guided by honorary managers. Consequently a change to a governing body by paid managers is not realistic for the time being.

Managing committee or executive director only

The scope of responsibility is never comparable to that of an executive director or CEO in a two-tier model. The installation of a managing committee or executive director is, according to the interviews, dependent on the size of the whole club. The biggest Club, the German Alpine Club has had a managing committee since 2003. The Austrian Alpine Club will appoint a managing committee by beginning of the year 2014 in order to improve transparency and resilience. The head-offices of AVS and SAC are still guided by an executive director only. In all constellations the responsibilities are limited according to a certain amount defined in the bylaws, but the scope of a managing committee regarding decision making is higher than within a one-person system. The smallest scope of decision making is the one being restricted to the approved budget. If there is any new project the approval has to come from the Voluntary Board. If there is only a lone executive director, this increases the number of operational decisions the Voluntary Board has to make. The executive directors of AVS and SAC stated that it is not possible for all day-to-day decision to pass the desk of the executive director creating a so-called “bottle neck”. They do not even have professional knowledge of every area, e.g. huts. They feel themselves responsible only for the organizational management of the staff. Decisions are made directly between the Voluntary Board members and the paid staff.

The power of the executive director

The executive director is allowed to make decisions in accordance with the approved budget, or make decisions within certain limits imposed by the bylaws. Within the meetings of the Voluntary Board the executive director alone or the members of the managing committee are never allowed to make decisions, i.e. execute a voting right. This situation might not be a disadvantage as the executive directors can attempt to win over members of the Voluntary

Board to their ideas before they vote. The real power of the executive director is huge. He influences all bodies of the umbrella association. He suggests a lot of topics for the agenda of the different bodies. He makes decisions on an informal basis, i.e. he participates in the meetings of the Voluntary Board, the Federal Committee and the Annual General Meeting and brings in his opinion, which the members may accept and decide on this basis. “It is the art of the executive director to let the members of the Voluntary Board and the president know that they are the important body”. How this job is executed can be different: either you are only the follower of the voluntary bodies and execute their decisions, or you see yourself as a “designer”. Only the latter method of working will help the Alpine Club to move forward. The Voluntary Board cannot do this actively because of their limited presence in their Clubs.

The Chairmen of the sections

The Alpine Clubs in Europe under research have 691 sections (branches) in total. The interviews are conducted with the chairmen of sections based on the first assumed classification (see 3.2, table 8). The number of members is taken as an important bench mark to extract governance challenges.

Table 11: Classification of sections II

	<i>Number of members of each sections</i>	<i>Number of sections</i>	<i>Number of members</i>
Group 1a	0 – 999 members	327 sections	185,286 members
Group 1b	1,000 – 1,999 members	182 sections	264,591 members
Group 1c	2,000 – 2,999 members	76 sections	184,867 members
Group 1d	3,000 – 3,999 members	34 sections	117,713 members
Group 1e	4,000 – 4,999 members	20 sections	90,571 members
Group 2	5,000 – 9,999 members	32 sections	230,851 members
Group 3	≥ 10,000 members	20 sections	472,886 members
Total		691 sections	1,546,765 members

Source: own table

The above table shows the three main groups of sections and the dedicated number of sections as well as the absolute number of individual members. Group one has been subdivided. It is obvious that, because of the large number of sections, voluntary governance in the first two groups seems to be manageable in the most comfortable way.

Size of the section

The analysis shows that the sections limit their activities to a certain working area, which often corresponds to one or more villages or cities. Sections are mostly named after villages

or cities, these being their domicile, e.g. Section Darmstadt, Section Wattens, Section Brixen, etc. Sections respect the working area of their close neighbour sections. For that reason the number of members cannot be extended arbitrarily. This argument is valid for all mentioned groups of sections. Even sections in big cities limit their activities to a certain working area. Sections may use a means to enlarge their working area by founding local branches (“Ortsgruppen”) as a sub-branch or sub-section. These sub-sections are also not founded arbitrarily; most of them already have a long history. The analysis of the interviews shows that it makes a difference whether a section is based in a village or a city, too. Small sections having their domicile in a village are integrated in this village. The Chairmen are known in the villages. The Alpine Club is personalized through them, as associations have no owners. The Chairmen have an important function in representing the local Alpine Club. They embody the Alpine Club in the way they represent the Club. Within bigger cities this function of the Chairmen disappears and has to be replaced, for example, by a branch office which enables members to communicate, but in a more formalized way, for example in offering opening hours.

Advantages and disadvantages of the size of the sections regarding the voluntary governance

The analysis of interviews shows that, with a growing number of members and services offered, it is essential even for voluntarily governed sections to adapt their governance structure and facilities: At a number of approximately 1,600 members, the communication with members has to be adapted by *establishing a branch office*. This result of the interview is tested also by a secondary data analysis throughout all Alpine Clubs under research. The border line is not exactly at this number of individual members but around it. It further depends on the local situation of a section if a branch office is established. Some smaller sections may also have established a branch office, but the scope of opening hours must also be considered.

The chairmen of sections with fewer than 1,600 members state that working voluntarily is possible at all levels of the organizations. It is not the number of members alone that is decisive, it is their expectations. Processes can be organized in a semi-professional way without disadvantaging the members. These small sections can be described as associations in a narrow sense, where fellowship and being together are the most important arguments to join the club. “The branch-office was an important step for us to increase membership”. From the governance side, a section with a branch office creates more responsibility for the chairman, i.e. a rental agreement for the branch office, inventory, working with marginal employed (paid) staff. Working voluntarily as Chairman of a large section (group 3) is very different to

being Chariman of a small section. Large sections have a cost intensive branch office with opening hours from Monday to Friday, and require a certain number of full-time paid staff. The paid staff does a lot of operational work concerning services for members, organization of event programmes, administration work for huts etc. Chairmen of large sections have a different scope of work, but still work operationally to a certain extent.

General assembly

The members are the most important stakeholder of Alpine Clubs. The analysis shows that the general assembly is a very important meeting point for members of sections. The focus of this compulsory event, according to the constitution and the law on associations, is on a social event. Interviewed chairmen are proud to encourage up to 10% of their members to join this annual meeting to get information about their club and their activities, meet friends etc. The obligatory items on the agenda are kept short, the interesting items for members, e.g. reports about various activities, presentation of special topics, honouring of longstanding members given more time. The purpose of the general assembly is also to show other stakeholders the scope of activities. Mayors of villages where sections are located may be invited as well as sometimes also representatives of other associations. General Assemblies of large sections (group four) are different, as these sections are located in cities. The associative life is of less importance for members, they are mainly interested in the services offered. The attractiveness of the general assembly declines, members are further not interested in executing their voting right. The above analysis goes hand in hand with the size of the section and what members expect to be offered by their section.

How to become a chairman of a section

Within sections it is also not usual to apply for such a job or function. The reasons for becoming a chairman are not dependent on the size of the section: “There was nobody to serve this office, or I was forced a little bit to do it, or the former chairman wanted me to take over this office, or I want to make a difference. It is an honour to be the chairman of a section”. Also within sections, when the chairmen started their function nobody explained the role to them in any detail. They only knew the number of meetings, the obligation of a general assembly. Some chairmen had another function within the section before, so they were familiar with the philosophy of their Club. The interviewees see the impact of this function mostly in being the representative of the association, but are forced to do a lot of operational work, too. The bigger the sections, the more it is necessary that the chairmen organize their team around them. Though the governance of the section is done voluntarily the chairmen put

a great deal of effort into establishing a team with shared responsibilities. The responsibilities increase in general, as such sections may own huts and need loans for them to finance big maintenance projects, they set up branch offices and have signed various contracts.

The scope of work of a chairman of a section, involvement in terms of time, qualifications

Interviewees stated that it is important that the chairman is also working operationally to show motivation and to appreciate the work done by the other members of the team. They also want to be in contact with the base of their Club, i.e. the individual members. Chairmen of large sections face the dilemma of working voluntarily with a restricted time limit and a large scope of work. They are forced to concentrate more on important topics. The interviews show also that it is dangerous for the chairman to take too much on himself. It is an advantage for retired people who love doing this job; but the crucial disadvantage is that they risk not having a voluntary team working around them, even when their term of office has expired. The involvement of a Chairman in terms of time is mostly lower than that of their colleagues on the Voluntary Board of the umbrella association. Many of them are not retired, so they are still obliged to earn money for their livelihood. For this reason, the time available to work voluntarily is limited. Another reason for the more limited time involved is the size of the Executive Committee working with the Chairman. Governance of the section will be shared by 13 to 14 members. The qualifications for working voluntarily as chairman are, in general, not different from those for their counterparts in for-profit organizations. It is about leadership abilities, such as communication skills, team spirit, feeling comfortable around people, the ability to make decisions, identification with the Club.

Requirements for voluntary governance

Within the sections there are three kinds of volunteers as defined in chapter 2.2. There are honorary managers, i.e. the Chairman and the members of the Executive Committee. The services are provided by volunteers as unpaid staff. And volunteers as volunteers are also required for temporary projects, e.g. organization of the general assembly or for a major renovation of a hut. All interviewed chairmen confirm that they govern their team *differently* from a team made up of paid staff. It is only about motivation and appreciation. Motivation through money is not possible. Volunteers do not earn any money besides the reimbursement of out of pocket expenses. “You cannot tell somebody to do something, or even force somebody to do something. You have to respect everybody’s motivation and available time.” Motivation can also be increased through special offers, e.g. providing equipment at a special price, team vests, saying thank you with an annual dinner. Governance of large sections with

more than 10,000 members comes closer to the governance of the Voluntary Board of the umbrella association. Such sections have appointed an association manager who is responsible for the governance of the branch office and the employed paid staff, but with limited responsibilities. The voluntary governance by the Executive Committee plays a more important role in sections than in the umbrella association.

The function of the umbrella association for the sections

The umbrella association with its head office plays an important role for the day-to-day business of the sections. It provides, as already mentioned in chapter 3.1, cost-effective services for the sections. Therefore, its purpose is further to **enable voluntary work** in sections requiring only a reasonable investment in time. It goes without saying that small sections would never be in a position to offer the full range of services on offer, even voluntarily, without the existence of the umbrella association. If small sections had to organize all services on their own, they would either reduce the scope of services or they would need much more personnel to organize all staff. The provision of services could never be done on the professional level as it is done by the umbrella association and also cost-effectively as already mentioned. “Each section can offer the “Rucksack” of services of the total Club on the same professional level, e.g. Alpine Club world-wide insurance service, huge number of huts”. Large sections provide a lot of professional services to their members and are therefore forced to undertake a lot of administrative work on-site done by costly paid staff. The utility of the umbrella association is definitely different for small sections or the above mentioned large sections. This utility is a very sensitive point in discussions of sharing membership fees between the umbrella association and the large sections. Even large sections (group 3) are dependent on the umbrella associations. But this discussion is ongoing in all Alpine Clubs under research. All interviewees are sure that the umbrella association is also necessary to represent the Alpine Club to the public and draw attention to important topics or problems. A section with 1,500 members will not be able to get attention like the total Club with e.g. 415,000 members. Basically all interviewees are sure about the services of the umbrella associations for the sections: provide education for the voluntary staff in the whole range, cost-effective support – e.g. membership subscription, Software to administrate memberships, lobbying on important topics, strategic developments, e.g. security in mountaineering, distribution of subsidies.

3.4 Summary of the Data Analysis

Summary of the Interviews with the members of the Voluntary Board

The presidents have a position/function with a lot of responsibility. They are president of the overall Alpine Club as well as president of their umbrella association. The job is not limited to representing the Alpine Club. The president, with the members of the Voluntary Board, has to make decisions, sometimes very delicate ones. All members are responsible, liable for their Clubs. It is amazing how the interviewees started their job. None of them had a real job description. The amount of time the presidents spend to execute their function is tremendously high. It must not be forgotten that they work as honorary managers. When asking them about the future of governance on an honorary basis for all members of the Voluntary Board they find it unimaginable to change to a situation where the president gets paid for his job. Such a system might change the whole structure at its roots. *“It is a challenge for the future: the whole governance structure should continue to operate on a voluntary basis. But to find those honorary managers willing to do these jobs, to motivate them and to create attractive functions will not be easy”* (President, SAC). What can be done is to improve the support, e.g. preparation of meetings, time limitation on meetings, professional communication system. The biggest Alpine Club considered in this research, the German Alpine Club, has the smallest Voluntary Board. It counts only five members including the president. The smallest Alpine Club of this research, the Alpine Club of South Tyrol has the biggest Voluntary Board. It counts 15 members. This analysis shows that the working methods might be different, i.e. the big club has to concentrate even more on strategic work. The organizational structure of the Alpine Club of South Tyrol is still similar to that of a section with regard to the number of members of the Voluntary Board. They all have numerous big Voluntary Boards (see chapter 4.2). What is also critical is how the Voluntary Board members see themselves, either as a managing committee or as a steering committee. The point of view has consequences for the workload the body has to undertake. The president of the German Alpine Club put it succinctly: For the time being the Voluntary Board has to deal with operational staff because the sections do not want to give even more power to the head office, the full-time staff. They want to keep the power with the Voluntary Board. The fact of the matter is, that in reality the power is upside down in certain cases: *“Of course, sometimes we have to make decisions, since certain topics cannot be presented to the sections at the Annual General Meeting as the sections are not in a position to cope with complex topics and to make decisions on it”* (President, DAV).

Summary of the personal interviews with the executive directors

The interviews with the executive directors show very clearly their formal and informal power. The formal power is restricted twofold. The limitation is first on the organizational side: the big Alpine Clubs have appointed or are ready to appoint a managing committee centred around an executive director, whereas the smaller clubs still manage this function through an executive director only. In any case, none of the paid managers are allowed to vote. Secondly, the limitation is financial, i.e. the bylaws define exactly the maximum amount additional to the budget on which decisions can be taken. The informal power is much more important for them: the executive directors are always the organizational link to the Voluntary Board. They are in intensive contact with their Voluntary Board members, mostly with their presidents and can therefore influence informally to a high degree the opinion making and the points of views of the presidents. They suggest the items for the agenda of all meetings of the various bodies, i.e. Voluntary Board, Federal Committee and Annual General Meeting. They also have a lot of informal power during the official decision-making processes, as they also have the opportunity to provide input in such discussions. The executive directors are responsible for their paid staff. They have to ensure that the operational work will be done to the satisfaction of the Voluntary Board. The information asymmetry is inherent in the system. It can be interpreted as a disadvantage when the Voluntary Board is seen as governing body compared to for-profit organizations where these bodies are present full-time and operatively involved in the daily business. It can, however, be seen as advantage as described by one of the vice-presidents during an interview: The size of the Alpine Clubs makes paid staff an inevitable structural element. They are aware of all topics, processes, they guarantee continuity. An Alpine Club of this size cannot be dependent on board members who do their job for a certain period and leave when their term of office is finished. The restructuring process for the governing bodies of the Alpine Club of South Tyrol shows also that with a growing number of paid staff, caused by a growing number of members and services offered, it is inevitable that communication within the organization be formalized. Their system, characterized by a high number of informal communication channels, worked very well till a certain point. The greater number of members, i.e. 57,421 as per December 2011, caused the change of organizational structures. The process is twofold: on the one hand it is to clarify the power and responsibility of functions and the formal communication channels, and on the other hand the Alpine Club of South Tyrol is willing to appoint a Federal Committee like the Austrian and the German Alpine Club have already done. The interviews show a clear difference in the view of the Voluntary Board between the executive directors and the Voluntary Board members themselves.

Summary of the interviews with the chairmen of the sections

The analysis of the interviews shows a broad picture of voluntary governance in sections. Alpine Clubs offer a distinctive feature from the organizational point of view: within one organization they unify sections of different sizes with different requirements for voluntary governance under one roof. Voluntary governance is not one and the same in the sections and cannot even be compared with the voluntary governance of the umbrella association. Even within the sections, with small, middle-sized or large sections, the voluntary governance is different. Each size group has its own characteristics and requirements, as presented above. Nonetheless, all interviewees in the role of the Chairman of their Club put a lot of effort into their voluntary governance. The village or city, being the domicile of the section, is the platform where the organization starts its activities. The village community is also reflected within the sections. The Chairman is well known and a lot of members know each other. Communication can be mostly informal. The atmosphere is very familiar and friendly. If a section has its domicile in a city, it has to adjust its presentation and communication to the behaviour in a city. The personal knowledge of the Chairman is substituted by a branch office. Consequently, the communication with them has to be formalized by offering a branch office with opening hours. The scope of services will also be extended according to the expectations of the members. The number of individual members grows for different reasons in sections: either with the village or city where the section has its domicile, or with the extension of the working area or the services offered to members. Today's most important service for members to attract them is the ownership of a climbing hall. In the end analysis, the number of members remains the bench mark for the governance system. Chairmen of sections owning huts report a difference in governing such sections. It causes a different scope of obligations and responsibilities. But Alpine Clubs are used to guiding and maintaining huts being their historical achievement. Alpine Clubs are guided voluntarily throughout the whole organization. These organizations represent every different scope of voluntary governance from very small sections to very big ones. It is very important to make a difference between working voluntarily in different functions in a section or in the umbrella association.

4 CORPORATE GOVERNANCE IN ALPINE CLUBS – RESEARCH OUTCOME

4.1 Corporate Governance in Alpine Clubs – New Governance Structure

Purpose of this system of rules for Alpine Clubs

“Corporate Governance is the system by which organizations are directed and controlled. The corporate governance structure specifies the distribution of rights and responsibilities among different participants in the corporation, such as the board, managers, shareholders, and other stakeholders, and spells out the rules and procedures for making decisions on corporate affairs” (Anheier, 2005, p. 230). This definition is basically true considering its adaptations for non-profit organizations, its distinctive features (chapter 2.2) and structural elements (chapter 2.3). The specialties of a corporate governance for Alpine Clubs as associations are presented in this chapter.

Alpine Clubs became very famous and successful over the years. They grew a lot in their structure and members. Alpine Clubs were founded as small associations (chapter 3.1), and in growing they had to adapt their governance system. The first important adaption of the governance system was decided at the Annual General Meeting of 1908 (DuOeAV, 1908) and will be explained in detail in the next subchapter. Since this time the structure has not changed dramatically for the two big Alpine Clubs, Austrian Alpine Club and the German Alpine Club. The Alpine Club of South Tyrol changed its governance system in 1996/1997 because of a legal necessity arising from the Italian law on associations. The Swiss Alpine Club recently reorganized its current governance system in the year 1994-1997 (Mäder, 2006, p. 289). The purpose of such a set of rules is to make clear and transparent the governance structure of the club as a whole, the rules and procedures for making decisions, and the guarantee of effective use of financial means. It is a commitment to all stakeholders inside and outside the club. A regular review of the established rules may help to improve the system and to adapt it if necessary. The aim of the initial installation of corporate governance for these Clubs is to be aware of the necessary elements and to consider the utility of the actual system in terms of its sustainability for the future.

A Corporate Governance Code as constitution of the community based on the principle of solidarity

The Alpine Club consists of its umbrella association and a number of sections. Actually the Umbrella Association with its constitution is the representative of, for example, *the Austrian*

Alpine Club. But the constitution of the Austrian Alpine Club or the German Alpine Club, etc. applies only to the umbrella association, of which the members are the sections. The Voluntary Board can only be responsible for the activities of the umbrella association and not for those of the sections. The sections are only implicitly represented in the constitution of the umbrella association as members of the same. Their legal status as independent associations is not obviously laid down. The consequence is that even individual members are not aware of being members of a section, a legally independent association with an individual constitution based on a corporate mission. All members, volunteer leaders, (un)paid staff and further inside stakeholders build up the so-called community based on the principle of solidarity. The crucial fact is that, according to the philosophy of corporate governance, there is no body governing this community based on the principle of solidarity. Alpine Clubs' overall governing principle is the principle of subsidiarity. Consequently, a governing body empowered to make decisions and followed by organizational subparts will not be convenient and will destroy this governing principle. A *Corporate Governance Code* as an invisible body or as a kind of holding may stand for the missing shell for the community based on the principle of solidarity. This set of rules may describe the function of all governing bodies, their interdependencies, the rules and procedures to make decisions and the general rules of conduct. The advantages of such a shell are manifold: it is the embodiment of Alpine Clubs in public, representing their total scope and their contribution to the society. The umbrella association and its sections may better harmonize their common language in representing their main purposes. All structural parts commit themselves to a corporate image. In addition to the several constitutions, a corporate governance code will further lay down a corporate culture in decision making, working together, etc.

New governance structure in terms of corporate governance for Alpine Clubs

The current structure has already been described in chapter 3.1. The obvious central part of this structure is the umbrella association. Legally it is an association based on an individual constitution. It is represented by the Voluntary Board. An association without members cannot exist according to the various laws on associations, see for example (Brändle & Rein, 2011, p. 59). The members of the umbrella association are the sections. The individual persons are members of several sections. The sections are in a certain dependency to the umbrella association which is laid down in the constitution. The most important dependency is that the sections have to accept the ideas and aims of the umbrella association. As already mentioned in chapter 3.1, the umbrella association provides some services where sections benefit from.

The *Annual General Meeting* within the umbrella association is always the highest body for decision making. Voting members are the sections, i.e. their chairmen or other delegates. In addition to the duties already mentioned in chapter 3.1, this body has to make decisions on corporate affairs, i.e. increase of membership fees, rules and tariffs for huts, rules for the granting of subsidies. A further body within this multilayered system of decision making is the *Federal Committee*, with various terms in the respective constitutions. The purpose of this body is to discuss in detail corporate affairs and prepare them to be decided at the Annual General Meeting. Its decisions are mainly effected as recommendations for the Annual General Meeting. A main task of this body is to convene the Annual General Meeting of the umbrella association. The *umbrella association* is guided by the *Voluntary Board*. With its workforce made of paid staff, it is responsible for the provision of several services to its direct members, i.e. the sections and implicitly the individual members. The financial conduct of the Voluntary Board is restricted to the umbrella association. The whole structure is built on two or three stages for making decisions. Three of the Alpine Clubs under research have a three-stage structure to make decisions, i.e. DAV, OeAV and SAC. The Alpine Club of South Tyrol so far works on a two-stage structure to make decisions. ***But all Alpine Clubs lack a steering or supervisory committee according to the idea of corporate governance.*** In concentrating on decision making, the steering regarding the overall purpose of the organization is missing. According to chapter 1.5, the director primacy model has already been described as a valuable model to explain the governance structure of non-profit organizations. Based on the analysis of interviews and the complexity of tasks today, this model may represent the best option for the governance of big associations, as Alpine Clubs are. The following model shows the new structure of Alpine Clubs. It is different to the actual structure in several ways. The detailed explanations will be given below:

Umbrella association as principal

The biggest difference to today's structure of Alpine Clubs, as presented in chapter 3.1, is to show the umbrella association on the top of the organizational chart. As already discussed in chapter 1.5 and chapter 2.2, non-profit organizations have no owner. Consequently the non-profit organization itself, in this case the association itself, appears as principal. It is the legal frame which enters into contracts, will have assets, contracts debts and holds the constitution. As already mentioned, the legal frame of an association is not conceivable without members and therefore members remain important. But members are not shown as quasi-owners as, especially in associations, unlike shareholders, members cannot be entitled to a part of the organization's profit or loss. They hold no equity in their organization which they would get

back in the event they withdrew their membership. Further, members may never participate in debts.

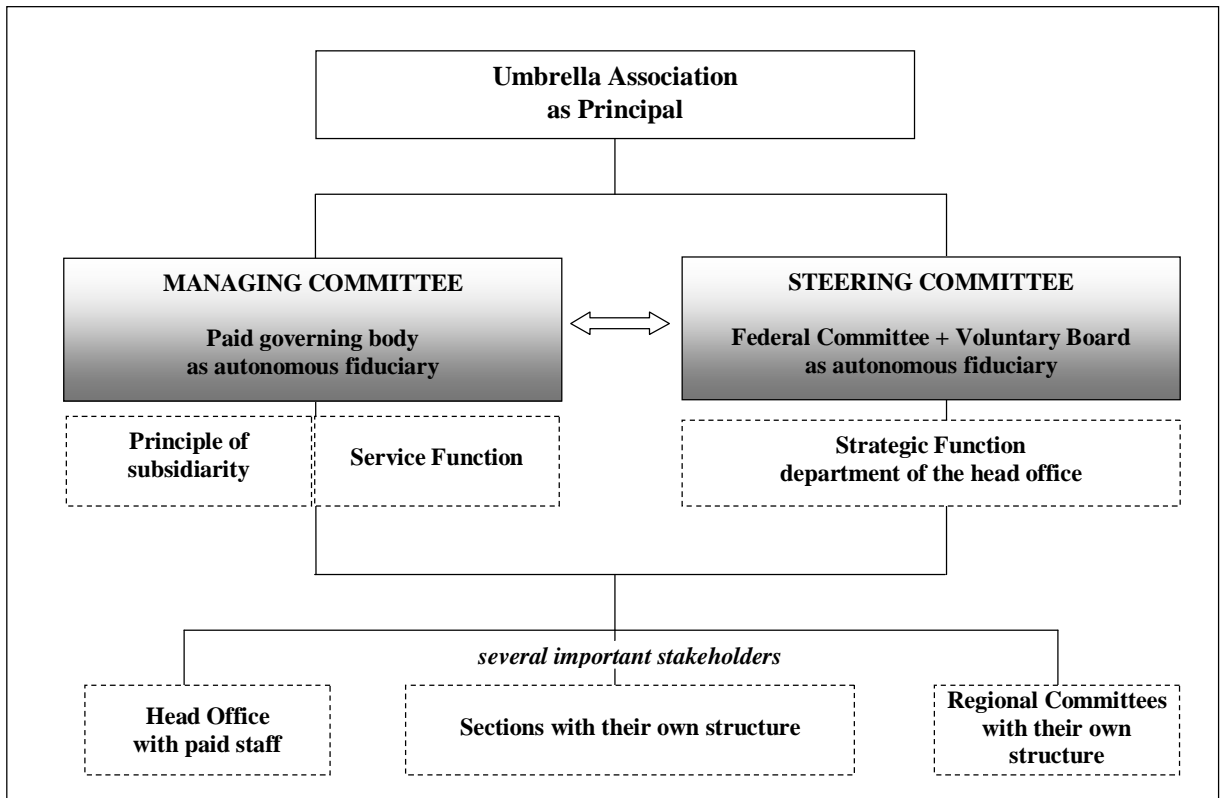


Fig. 17 New governance structure for Alpine Clubs

Source: Own figure

The fragmentation of the functions of the umbrella association

According to the figure below, the umbrella association has three major functions: it has to provide cost-effective services for the sections, to let them work voluntarily, and to offer services directly to members if sections are not in a position to do fulfil this function.

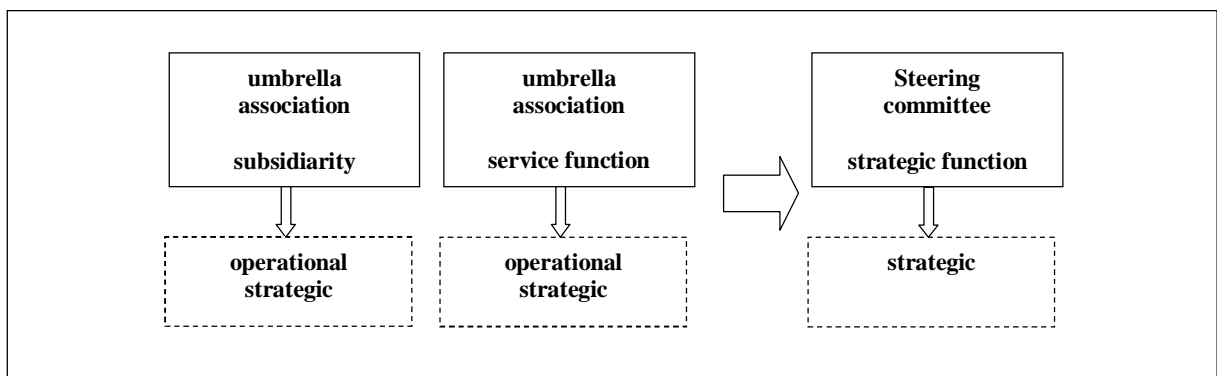


Fig. 18 Fragmentation of the functions of Alpine Clubs’ umbrella associations

Source: own figure

Besides this, the umbrella association is dedicated to some tasks which are offered solely by it, e.g. the education of volunteers (subsidiarity function and service function). The interviewees stated that the umbrella association must carry out strategic work for the organization as a whole, i.e. strategic development in several areas. In their operational and strategic scope, the function of subsidiarity and the service function remain with the new managing committee. The strategic function will be virtually linked to the new Steering Committee.

The new Steering Committee

The actual structure of Alpine Clubs is a two or three stage body to make decisions but lacking a steering committee according to the idea of Corporate Governance. Past minutes of the organization – the German and Austrian Alpine Club – are used to find out the historically intended function of this multilayered system to make decisions. In the year 1908 (DuOeAV, 1908), the Annual General meeting approved the change of the governance structure which is still valid today. The intention was to broaden the governance structure to take account of the territorial extension of the Club at that time (DuOeAV, 1909, p. 14) by choosing a restricted number of members to represent the requests and duties of the sections in different areas. The new governing body has been called the “*Hauptausschuss*” (DuOeAV, 1907, p. 19), *i.e. Federal Committee* (the original German term was “Hauptausschuss” for both, the Austrian Alpine Club and the German Alpine Club). Both Clubs changed the name of this body to today’s term “Bundesausschuss” for the Austrian Alpine Club and “Verbandsrat” for the German Alpine Club). At that time, the Federal Committee was dedicated to governing the Club and executing decisions made by the Annual General Meeting (DuOeAV, 1908, p. 29). The committee was represented by the president. The purpose of the Voluntary Board, called “Verwaltungsausschuss” (DuOeAV, 1907, p. 19), was only the management of the day-to-day business. Five members of the Federal Committee were appointed to the Voluntary Board, being responsible for the head office, originally called the “Vereinskanzlei” (DuOeAV, 1908, p. 30). The Voluntary Board at that time was only a sub-committee of the Federal Committee. The analysis of the interviews shows that today’s real function of the Federal Committee is more or less a rubber-stamp-board. The committee’s function within the Swiss Alpine Club is seen as slightly more effective. The preparation of papers is undertaken by the head office of the umbrella association, the agenda is also proposed by the head office and formally fixed by the Voluntary Board. The formal function is mainly reduced to recommendations, in contrast to the original purpose of this body. The real governing power today is the Voluntary Board, backed by its head office. As today’s president is chairman of the Voluntary Board and the

Federal Committee, the function of representing the club as president of the Federal Committee comprising the community based on the principle of solidarity is blurred because of the actual dominance of the umbrella association with the Voluntary Board and the head office. This problem arises in all three Alpine Clubs under research working with the three-stage structure to make decisions. Today's Federal Committee will therefore be promoted to the function of a *Steering Committee*. This new body is actively responsible for the strategic development of the club as a whole. It is a committee made up of volunteers. The workforce of this committee is provided by the head office of the umbrella association.

Scope of responsibilities, rights and duties of this new committee

This body makes decisions of fundamental importance to the whole Club. This function was originally laid down in the constitution of the year 1908 and is still valid today, but, as mentioned above, reduced to a rubber-stamp-body. This new body acts as the steward of the whole organization's mission and the purpose of the constitution. It holds the absolute responsibility for the Club. The Steering Committee must consider the interests of the sections and also those of the umbrella association. According to the intention of corporate governance, the Steering Committee must supervise the adherence to the constitution, it is responsible for the overall strategic line of the Club, and it advises the managing committee in executing the strategies. The function comes close to the two-tier model of for-profit organizations (see chapter 2.1).

The difference for the supervisory body in the narrow sense of for-profit-organizations is the greater scope of responsibility with regard to remaining the representative of the Club. This body will be empowered to make important decisions which may not have to be reconfirmed by the Annual General Meeting. If sections do not agree with decisions, they may ask to discuss them again at the Annual General Meeting. In terms of corporate governance, this committee is, further, the watchdog of the corporate governance. It will be responsible for establishing the corporate governance code, and may establish a body to discuss compliance to the commonly agreed rules and behaviours.

The Steering Committee and its members and the number of meetings

The president, as chairman of this body, represents the Club as a whole. The members of this body should be recruited by the national or regional committees representing the different sections and important stakeholders within the whole organization. The committee consists only of volunteers. These volunteers will continue to embody voluntary governance in the future. Their function as a role model for voluntary governance in the sections remains. But

governing a large organization such as umbrella associations are requires a different model of voluntary governance in these organizations. The number of members may be quite similar to today's number. According to the new tasks and responsibilities the number of meetings might be similar to today with three meetings, as the purpose is not to influence operational day-to-day business. The new Managing Committee with its executive director takes part in the meetings of the Steering Committee, but without voting rights.

Working as autonomous fiduciary

Alpine Clubs are huge organizations today. At least three clubs include more than a hundred legally independent sections. These members might have to discuss important topics at the Annual General Meeting. But it is definitely not effective to discuss the strategic line with such a large number of participants. Consequently the members of the Steering Committee must be entrusted by the sections, as members of the umbrella association, to discuss the overall strategic line together with the strategic workforce from the head office, and also to make decisions on it or to prepare the final decision to be made at the Annual General Meeting. The same problem occurs with complex matters. It might not be productive to discuss them at the Annual General Meeting; although correct according to the structure of the Club, effectiveness and quality of decision-making might suffer. As one president mentioned during an interview, even today's Voluntary Board sometimes has to make decisions on topics which cannot be discussed at the Annual General Meeting, as the sections would not be in a position to comprehend the scope of such complex decisions.

The Steering Committee as mediating hierarch

Team members must be sure of being treated as equals. Alpine Clubs consist of small, middle-sized and large sections. Possibly the most important function is to honour all sections as equal parts of the system, as each of them tries to do its best in fulfilling the mission of the Club.

The new Managing Committee – paid governance body

The Managing Committee as the second part of the new governance structure will be made up entirely of paid staff with a large scope of responsibility. It will also act as an autonomous fiduciary compared to the new Steering Committee. The complexity of tasks, the expected time to react to problems or answer questions entails being available during normal working hours, even for the decision making body. By installing a paid governing body the voluntary governance might be terminated, but if one considers the Steering Committee as the real

governing body of the umbrella association it remains. The huge number of operational decisions will be transferred to the paid governing body. The reasons to change the Voluntary Board to a paid governance structure will be explained in the following chapter, 4.2.

Working as autonomous fiduciary as member of the Managing Committee

By installing a paid governing body the worry about different attitudes between honorary managers and the members of the managing committee according to agency theory may occur. As discussed in chapter 1.5, volunteers and even paid staff in non-profit organizations can be better mirrored in stewardship theory. The behavioural assumptions of agency theory, where all parties are utility maximizers, will not be convenient for these organizations. Besides, the remuneration of the members of the Managing Committee will not be comparable to that of a CEO of a for-profit organization since there are no criteria to measure success as the basis of a probable bonus. The remaining fear might be the discussion about the distribution of power within the governance structure between the Managing Committee, the Steering Committee and the sections.

Cooperation between the Managing Committee and the Steering Committee

Even though both bodies are designed as autonomous fiduciaries, the cooperation between the Managing Committee and the Steering Committee will be of the same importance as the previous cooperation between the Voluntary Board and the executive director. The information asymmetry is inherent in this system and, according to the interviewees, not seen as problem or disadvantage. The information asymmetry to members of a Voluntary Board can be reduced only by a formalized structure of information and by trusting each other. Power play by paid managers can be undertaken easily, but as stewardship theory, with its implications, is the leading principle in governing non-profit organizations, misalignment in goals might not occur.

An advanced function of the Annual General Meeting of the umbrella association

The umbrella association is legally an association. Consequently it has to convene the Annual General Meeting. It has to elect the members of its bodies as nobody else is in a position to execute this function. Its further duty is to accept and approve the financial reports and accounts for the previous year. In addition to this legal function, the Annual General Meeting will be accorded an advanced function, which might be much more important and valuable for the sections. It will increase motivation to attend this meeting: the function of the Annual General Meeting will be, above all, to provide information, to discuss strategic developments,

to host lectures by distinguished visitors, to be an opportunity to meet friends, like-minded friends from other sections. Several workshops to discuss topics in detail are offered, too. As already explained, motivating volunteers is a very important task. Decision making on a few topics will be further reserved to the Annual General Meeting, e.g. increase of membership subscriptions for the individual members. The Steering Committee as the strategic governing body will inform on strategic decisions or let the sections re-vote on their recommendations. The democratic structure of Alpine Clubs will be better represented by re-voting.

Head office, sections and the regional committees

All of them represent important inside stakeholders or team members to fulfil the purpose of the mission. Sections still remain a special stakeholder as they are entitled to vote at the Annual General Meeting. The creation of a new perspective, whereby Alpine Clubs are understood and perceived as *multi* stakeholder organizations, is an additional benefit of the new structure. Even the regional committees, as part of the federal system, may be recognized as a valuable link to support voluntary governance.

4.2 Voluntary Board – Reliability of Governance

The future reliability of governance in the umbrella association

The analysis of the interviews with the members of the Voluntary Board of the umbrella associations which is presented in chapter 3.3 has highlighted some challenges which will have an impact on the governance system. The more these organizations grow, the more the question arises of whether the current governance structure is sustainable for the future. The answer with regard to the governance structure is given in the previous chapter, but will be explained in detail within this chapter. The figure below shows a comparison of all umbrella associations of the Alpine Clubs under research. The bench mark for differentiating between all umbrella associations is their total number of individual members which are organized in sections. Obviously the number of sections rises with the total number of members. The number of members in the Voluntary Board surprisingly declines with the overall size of the Alpine Club. The governance structure of the smallest umbrella associations resembles more governance structure of a section and those of the largest umbrella association those of a professional organization. The number of projects, tasks and duties determines the number of employees and the structure of the operative management. It is either an executive director only or a managing committee.

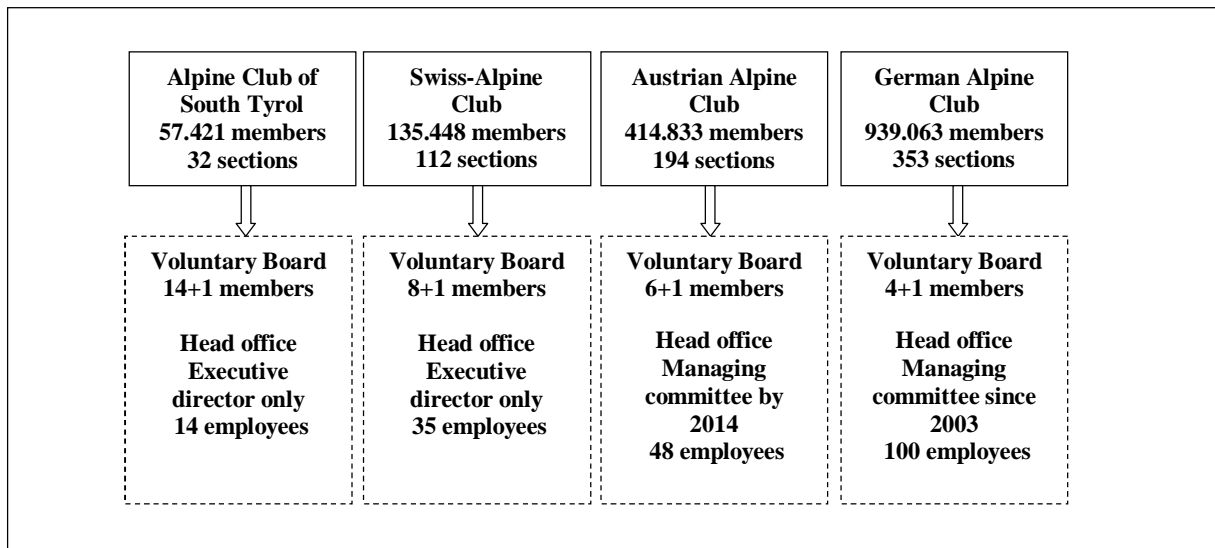


Fig. 19 Umbrella associations of Alpine Clubs

Source own figure based on figures of Alpine Clubs

The interviews conducted with various members of the Voluntary Board show that the Voluntary Board, with its structure, size and purpose, is a crucial factor. The interviewees themselves are not quite clear about their function. Some see themselves as members of a managing committee executing a lot of operational tasks; and some see themselves as members of a steering committee, situated between a managing committee and a supervisory committee. According to the constitution, the Voluntary Board *is* the governing body of the umbrella association, but the function of this body cannot be compared to that of an executive committee of a for-profit organization. The members of the Voluntary Board are not available during normal working hours. They are not in a position to do a similar job as their counterparts in for-profit-organizations. The question is to what extent they fulfill their task according to the constitution, rather than ending up as no more than a rubber-stamp-board (Hung, 1998, p. 107). Most of the members work almost part-time within their function. Some did or do even more. The crucial factor is whether there are members who are willing to work voluntarily nearly part time for a minimum one term of office. One interview-partner came to the point: if you want to have younger people for these functions and not only elderly or retired people, than it is necessary to change the amount of time required to fulfill these functions.

The volume of available time for members of the Voluntary Board

The dilemma for the Voluntary Board is the restricted time they have available because of working voluntarily, and the number of projects and tasks on the one hand, and on the other hand the sections which are mostly governed completely voluntarily. The members of the

Voluntary Board are also considered as a role model for working voluntarily in the sections. But in the event of a change in the constitution of the governing body of the umbrella association, it is important to make clear the difference in endowment of a voluntary function in the umbrella association to that in one of the various sections.

The size of the board

The size of the board further has an impact on the quality of decisions. The advantage of having a small Voluntary Board is certainly the time involved in the opinion building process and the time taken to make decisions. The disadvantage, according to the interviews, is the number of projects they, as honorary manager, have to take responsibility for. The Alpine Club of South Tyrol with its big Voluntary Board started a process to restructure this body: the number of members will be reduced, but at the same time another body will be created. The German Alpine Club started a discussion to enlarge their body by one member.

A paid governing body as solution for the timely dilemma

The Voluntary Board of the umbrella association legitimates the work of the head office in the umbrella association and the voluntary governance in the sections as well. As already stated in chapter 3.3, the head office of the German Alpine Club carried out a survey with its sections to find out whether they could imagine a governing body consisting of paid managers. The answer was that 30% could imagine a change in this direction. The new mission statement of the German Alpine Club contains a clear commitment to the voluntary governance of all organizations within the Club (DAV, 2012). Actually, none of the presidents of the four Alpine Clubs could even imagine a change in this direction. The figure below shows the consequences of the time requirements mentioned previously. The willingness of honorary managers working nearly half-time for these functions is a crucial factor for today's governance system. The desire not to fill these functions exclusively with retired people may be an argument in favour of a possible change. The complexity of tasks, the speed of necessary reactions could have an influence on availability during normal working hours. If the sections will not accept a change to a paid governance system the only options for responding to the enormous time involvement of the members of the Voluntary Board might be to hand the decision making on operational affairs over to the already established managing committees or executive directors, or to reconsider the number of the Voluntary Board members. Considering the reliability of the governance system a courageous change of the system has to be initiated:

The Voluntary Board, as a special type of the one-tier model, is not sustainable for large associations such as the umbrella associations of Alpine Clubs are.

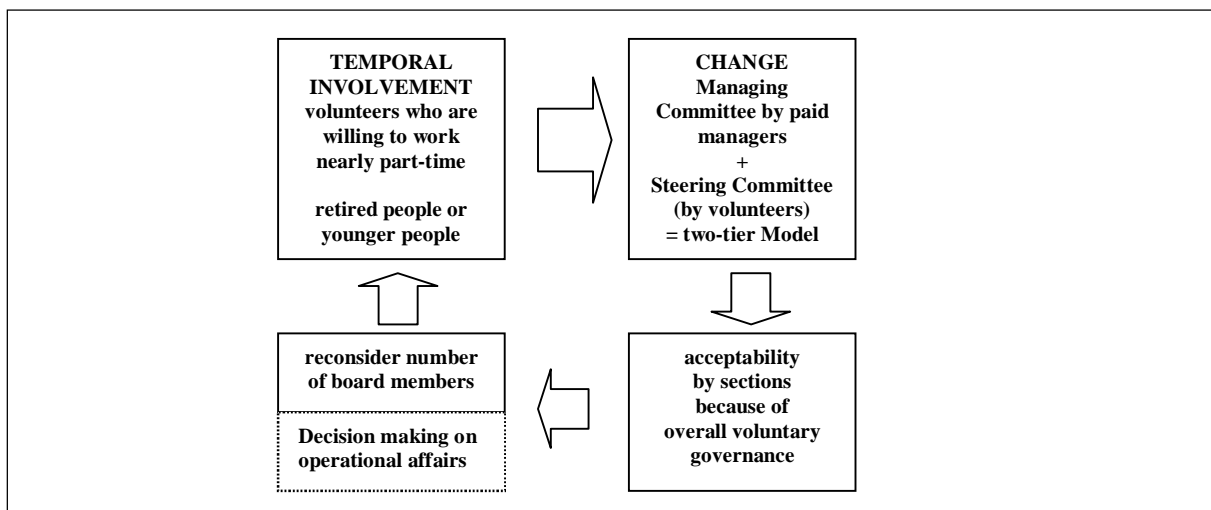


Fig. 20 Governance challenge for members of the Voluntary Board

Source own figure

Sticking with the voluntary governance of the umbrella association will not be sustainable according to the analysis of the interviews. Although a change of the governance system might be difficult, the only way to cope with the big scope of tasks and the inherent complexity is to change the governing board from working voluntarily to getting paid, although none of the Alpine Clubs could imagine taking this step. The installation of a paid governing body might be a challenge for the actual system and could have consequences for the legitimacy of the honorary guidance of the sections. The operational power will be handed over to a Managing Committee according to figure 17. The creation of a Steering Committee which concentrates the voluntary involvement to the strategic function is seen as the answer to the issue of availability during normal working hours, which cannot otherwise be achieved as most Voluntary Board members are working to the limits of their available time. It is also an answer to the growing size which makes it necessary to adapt the governance structure. When the governance structure of the Alpine Club in 1908 was changed for the first time, one referee said: “ *The constitution which still applies was intended for an association with about 60 sections and about 7,000 members. The number of the sections is now 330, the number of members ... 74-75,000*” (DuOeAV, 1907, p. 18). Today the situation is similar: counting DAV’s and OeAV’s sections and members together there are 547 sections and 1,353,896 members. Consequently the governance system must be changed again to cope with the challenges of the future. “*It is about tackling the numbers that we are dealing with nowadays.*” (President, DAV). The German Alpine Club, as the biggest Alpine Club under

research, might have to answer the question of the sustainability of its governance system first.

Governing body of the head office

Looking at all four Alpine Clubs with their umbrella associations, a development can be recognized. The total size of the club causes a different governance system according to figure 19. All four umbrella associations have set up head offices. The function they have to fulfill for their sections and the number of projects caused these offices to be set up. The number of paid staff is dependent on the total size of the club and, consequently, the number of services they provide. The head offices of the Alpine Club of South Tyrol and the head office of the Swiss Alpine Club are guided by an executive director only. The Austrian Alpine Club will appoint a Managing Committee by the beginning of 2014. The German Alpine Club already appointed a Managing Committee in 2003. The appointment of a Managing Committee will change the tasks of the members of the Voluntary Board. It releases them from a certain number of operational decisions. But, as the analysis of the interviews shows, the installation of a Managing Committee as the only means will not help to solve the problems of the time involvement of the Voluntary Board members. The figure below shows the number of projects and tasks as a variable in the decision to appoint a managing committee or continue working with a one-person system. Within the umbrella association, the operational work will be done mostly by paid staff. In some clubs there exist also so-called commissions which assist the paid staff. They help to keep the paid staff on a lower level.

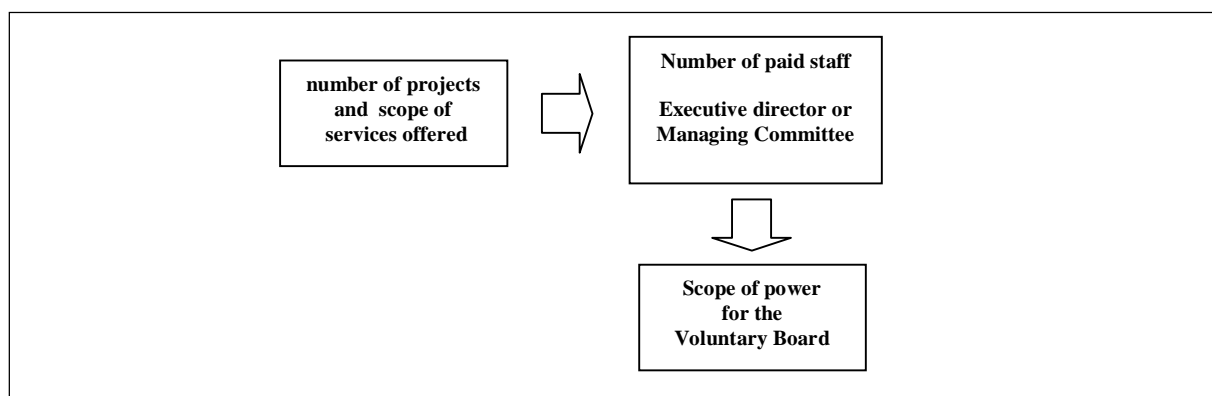


Fig. 21 Governance challenge for the head office

Source: own figure

The appointment of a Managing Committee in today's endowment is seen as intermediate step from a one-person governance model with an executive director only to a broader governance model to assure transparency and resilience. Further, it is important to spread the operational governance to a greater number of members. As already mentioned above, the

German Alpine Club is demonstrating that such a change in the governance system is not an ultimate step regarding the sustainability of voluntary governance.

The future reliability of governance in the sections

When discussing Corporate Governance in Alpine Clubs, it is not enough to analyse only the salient umbrella associations. The numerous sections are in direct contact with the individual members, in these organizational units the association's life is embodied through numerous activities. The analysis of the interviews conducted with several chairmen of sections shows that the governance challenges are quite different to those of their umbrella associations.

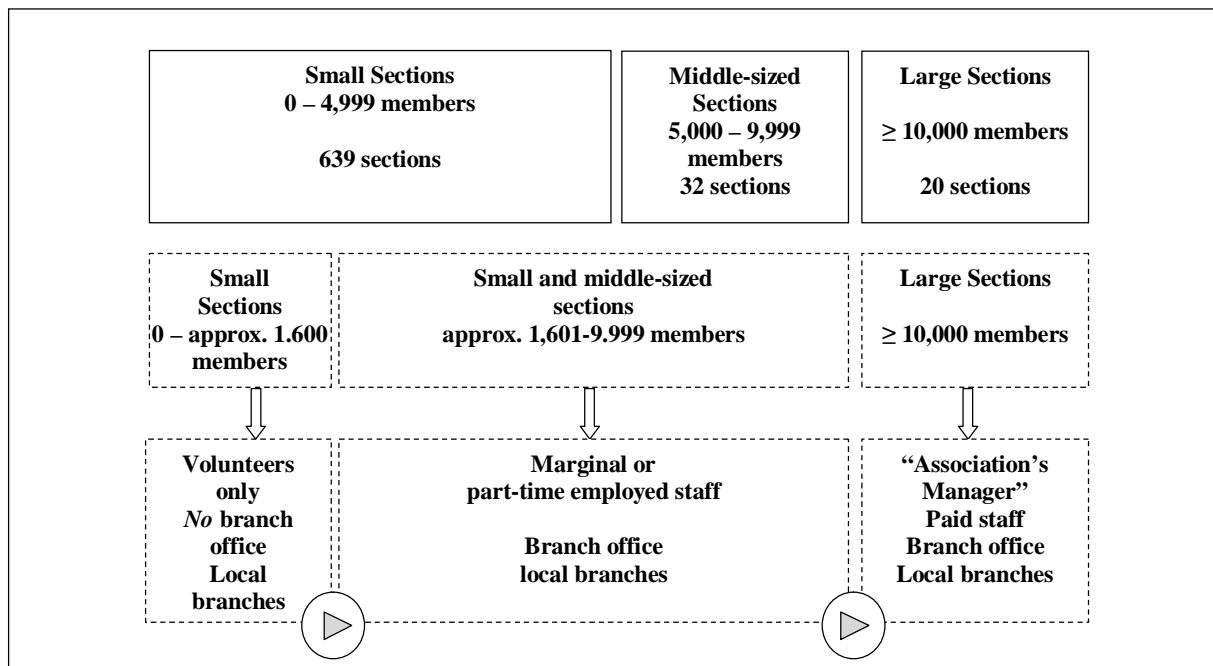


Fig. 22 Implications on classification of sections

Source: own figure

The figure above shows in the first line the preliminary division of sections as being the basis for the research design (see chapter 3.2): 639 sections of all four Alpine Clubs under research have a size, counted by memberships, up to 4,999 members. The middle-sized sections number only 32 sections. Large sections are sections with 10,000 and more individual members. Within all Alpine Clubs under research there are only 20 sections which belong to the German Alpine Club and the Austrian Alpine Club. The two smaller Alpine Clubs do not have such big sections counted by memberships. The result of the analysis of the interviews shows that the initial assumption used to classify sections and look for their governance challenges may need to be changed. Sections use some crucial means to remain small organizational units to enable their voluntary governance. The number of individual

memberships remains the benchmark to classify sections. The existence of huts is not a crucial factor for changing the structural requirements. Huts are an important historical feature within the Alpine Clubs. Not all sections are owners of huts. Small sections mainly have only one hut to care about, in exceptional cases up to four huts. Large sections may have a number of huts to maintain. Though sections grow in memberships, paid staff definitely remains rare. Only large sections are forced to employ paid staff to cope with the amount of administrative work. The governance challenges of each group according to the figure above will be explained in detail below.

New Governance structure for sections

In chapter 4.1, the director primacy model has been presented as a valuable model to explain the new governance structure of Alpine Clubs. The figure below shows the translation of this model to the sections of Alpine Clubs. Also within this framework, the section with its legal frame as association remains the principal of the governance structure. Individual members join their Alpine Club because of the purpose, the mission, and the services offered, which are laid down in the respective constitution. It is again the legal frame which enters into contracts, will have assets, contracts debts and holds the constitution. Members will never be involved in organizational losses, nor will they participate in the organization’s profit or assets in the event of a withdrawal of their membership.

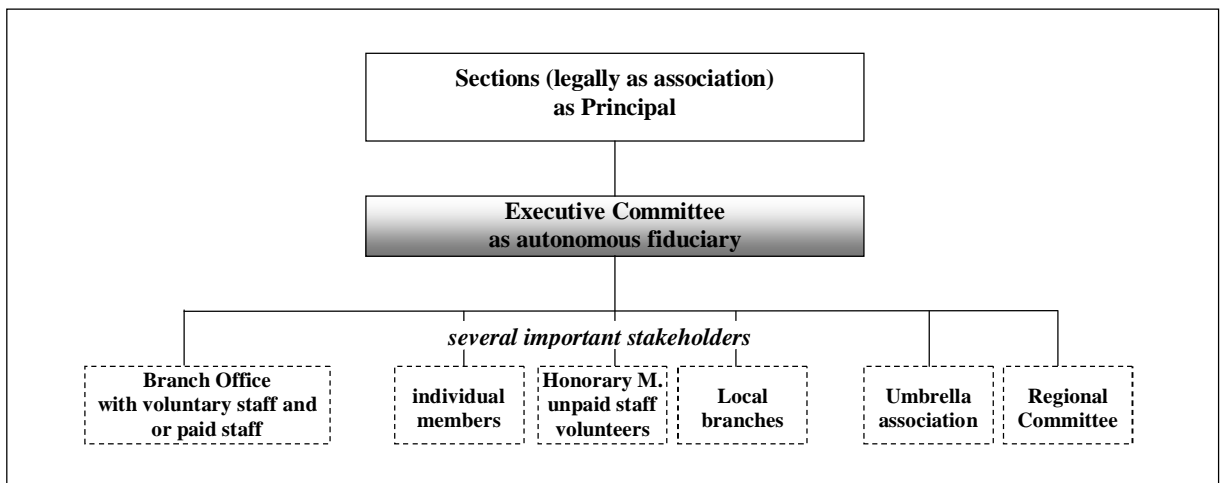


Fig. 23 New governance structure for sections

Source: Own figure

The Executive Committee as voluntary board represents the local Alpine Section. It also acts as steward upon the organization’s mission. Members are implicitly represented in the association’s general assembly where they can execute their voting right. The individual members, as well as volunteers in the broader sense, the local branches, the regional

committee, the umbrella association, all are important stakeholders of the organization, the local Alpine Section.

Governance challenge - branch office

The analysis of interviews shows that, with a certain number of individual members, the organization may change its structure corresponding to the expectations from their stakeholders: The interviewees, i.e. Chairmen of the sections, stated that this might be the case at about 1,600 members. Branch offices are set up in smaller sections, too, but it is above all the scope of opening hours which creates the need for further personnel, i.e. marginal employed staff or part-time employed staff and therefore causes a change in the governing of the section. The structural character of a section up to this mark is small and beautiful. The grade of professionalism can be maintained at a lower level without any consequences to the effectiveness of the organization. The Chairman's function is not to delegate or to tell everybody what to do. Within this system "everybody knows what to do". Up to the mentioned bench mark of 1,600 members it is possible to govern a section without a branch office, which results in low regular administration costs. It does not mean that some sections also within this group do not offer their members a branch office to communicate. The total personnel is made up of volunteers of all three kinds, i.e. honorary managers, unpaid staff and volunteers. The amount of time invested in voluntary work is manageable. With the growing number of members and the creation of a branch office, the professionalism of the organization grows as well. The branch office with defined opening hours requires (unpaid) staff. It is possible, depending on the opening hours, to work with marginal employed staff. The majority are part-time employees. Paid staff does not play an important role up to this number of members. Besides, sections are not in a position to afford costly staff. Every section puts a lot of effort into offering an attractive event programme for their members. The larger the section, the bigger the programme of events offered. It is a means for them to distinguish themselves from other sections.

Governance Challenge - local branches

The foundation of local branches as sub-sections is an intelligent means for sections to extend their working area. Associations have to be integrated in a village, otherwise they will not be able to recruit people working voluntarily and people as members. A growing section by members might have an impact on the governance system. The foundation of local branches is a means to grow by members but remain a small section with regard to voluntary governance.

By selecting some sections of the Austrian Alpine Club, this governance challenge will be explained:

Table 12: Governance challenge – local branches

	Number of local branches	Total number of members	Number of members of the home section	Number of members in local branches
Section Steyr	5	3,558	2,581	977
Section Spittal/Drau	12	4,115	2,816	1,299
Section Wels	9	4,925	2,961	1,964

Source: own table based on figures of the Austrian Alpine Club

The legal responsibility of the Chairman of such sections covers the necessities of the home section and the various local branches, but the voluntary governance is divided among several Chairmen. The Chairman of the section is directly responsible for the members of the home section. The Chairman of a local branch is morally responsible for its branch of the section. Both, the home section as well as the local branch, offer services and programmes of events for members. The advantage of this shared system is that the provision of services is spread across a larger working area. The local Alpine Club is available nearby. A further advantage can be derived from the point of the voluntary governance: governance of a growing community of members can be split up among several governance bodies. The demands on time for honorary managers can be reduced to a manageable amount. The structure with local branches is a comfortable answer to enable voluntary governance of larger sections and to let the Alpine Clubs extend even to small villages with the support of their home sections. Large sections also use local branches as a means to grow by members, but they are also attractive for foreign people to become a member. Local branches or groups in foreign countries are guided locally, taking account of the needs of the members there. Of course, the Chairmen of large sections are responsible for all members of their section, but the direct voluntary governance can be reduced to the number of members in the local city as only these will make direct use of the branch office of the section. It reduces the administrative cost of the branch office, but the administrative cost for memberships will rise. For historical reasons, the Austrian Alpine Club with its sections in Vienna is attractive for members in neighbouring countries like Poland, Hungary, Czech Republic, and Slovakia. Local branches are a means to grow as already mentioned. There is no clear line about where sections start to found local branches to grow and also to manage the voluntary governance of a bigger number of members. Local branches also enable large associations to grow even more. All Alpine Clubs under research are basically familiar with this means to grow and to spread the voluntary governance.

Governance challenge – umbrella association

It goes without saying that voluntary governance of the sections is further enabled by the umbrella association. As already mentioned, the umbrella association provides services on a cost-effective basis for the sections. It is a striking advantage of Alpine Clubs that even the smallest section or local branch can offer the full package of services to attract potential members to join or to convince existing members to stay. A so-called corporate identity in services is only possible with the existence of a body being entitled to provide them. The appearance of the Alpine Club without these corporate services would be different. None of the sections would continue to be in a position to offer the corporate services on a similar professional level.

Governance challenge – Executive Committee of sections

The size of the Executive Committees compared to the Voluntary Board of the umbrella association is normally much bigger. The average number of members of these committee is about 10-14 members. The compulsory members of this committee are the Chairman, the Vice-Chairman, Treasurer, and Secretary. Other members of this committee are representatives determined by the services offered, i.e. Alpine Representative, the Nature Protection Representative, the Youth representative, the Huts representative, representatives for PR etc. As all the work is done on an honorary basis the representatives of all areas are part of this committee, also in recognition of their work as volunteer. Voluntary governance in sections has one distinctive feature: it is about sharing responsibility between a number of motivated people. Governing a section mostly means working operationally, and for that reason spreading the work to a larger group might be a further answer to enable voluntary governance to continue. When the number of decisions rises, sections may establish informal smaller committees to make decisions faster. These smaller committees consist mainly of the Chairman, the Vice-Chairman, the Treasurer and the Secretary. The scope of decision making is the approved budget. The Executive Committee remains the official body to make major decisions. The meetings of the Executive Committee vary in content and quality. They are mostly held to provide information to the members of the honorary team and as a means to demonstrate plausible transparency in the decision making process. The decisions are taken on topics prepared and discussed in advance.

Governance challenges in large sections

The German Alpine Club and Austrian Alpine Club have large sections according to the scale of this research. Such sections number more than 10,000 individual members. The German

Alpine Club holds two exceptional big sections, each containing more than 70,000 members. In such big sections, challenges may occur similar to those faced by the umbrella associations. Big sections are forced to employ a reasonable number of paid staff to cope with all administrative staff. In offering services to members, even those sections rely on volunteers as unpaid staff according to the spirit of the whole Alpine Club and, further, even these organizations can offer services to their individual members in a cost-effective way. According to the suggested governance model for the umbrella association large sections might be in favour to a similar change.

4.3 Supervision and Control in the Alpine Club Governance Structure

The topic of supervision and control is an essential part of corporate governance. It discusses the scope of control and its effectiveness, as already mentioned in chapter 2.3. Stewardship theory is proposed as an adequate concept and consequently has an impact on the endowment of supervision and control. The actual organizational chart of Alpine Club as presented in chapter 3.1 with its established bodies suggests a lot of control within the system. The Annual General Meeting, as the highest decision making body, has to accept and approve the financial reports of the previous year and the budget for the following year, etc. Members of their organizations, either the umbrella association or the sections are there to demonstrate their satisfaction with the work done in the past and the work proposed for the future. The Federal Committee, as another established body also has the role of discussing and making decisions on important tasks. This committee recommends the Annual General Meeting to accept and approve the financial reports and to approve the budget. According to the new governance structure for Alpine Clubs discussed and the analysis of the interviews, the scope of supervision and control must be reduced sufficiently that it can be or could be done effectively. The director primacy model, being the basis for the new governance structure of the umbrella association as well as the sections, implicitly applies stewardship theory and therefore provides the framework for supervision and control in Alpine Clubs. Control from outside the organization, the state and the law on associations has been presented in chapter 2.3. Alpine Clubs as associations are also subject to these regulations, but their limited effectiveness does not support the purpose of supervision and control, i.e. the stakeholders' satisfaction. The appointment of auditors according to the law on associations is currently the most visible instrument of supervision and control. It covers the formal type of control in checking the compliance of the financial conduct with accounting principles and the proper

use of resources in ways compatible with the constitution. It is not the duty of the auditors to check the profitability, the usefulness and economy of activities of an association. The essential part of supervision and control as steering is lacking in the current structure.

The new governance structure for Alpine Clubs supports a different form of supervision and control in two ways: first of all, it considers a separate body for the steering of the organization as a whole, the Steering Committee. As already mentioned, this committee is free of operational tasks, it is responsible for the overall strategic line of the Club. This body acts as the steward of the whole organization's mission and the purpose of the constitution. Secondly, the new governance structure allows a systematic integration of stakeholders, which will be discussed in the next chapter. Alpine Clubs as associations have no owner. It is for the stakeholders to represent the missing owner. The formal control, according to the law on associations, undertaken by auditors will remain, as its concern is only the past and not the future.

Supervision and control by the members, i.e. the sections at the Annual General Meeting of the umbrella association

Supervision and control by the sections as members can be executed at the Annual General Meeting. As already mentioned members' control rights according to the law on associations are less developed (chapter 2.3). Besides that, the function of the Annual General Meeting as the actual highest decision making body is questioned in its scope of supervision and control. The Annual General Meeting of the umbrella association is an assembly of delegates, i.e. the chairmen of the sections or other authorized members of the Executive Committee. Sections let the umbrella association act as *autonomous fiduciary*. They trust their umbrella association with providing all the services sections need for their individual members, which further enables the sections to work voluntarily. Even with such an intense cooperation in executing an adequate control right at the Annual General Meeting one must consider the contradiction in which sections find themselves: on the one hand the umbrella associations have to operate on an extremely professional level, which requires intense communication to really get the scope of various problems or topics. On the other hand, the chairmen of the sections are working voluntarily with a limited amount of time available to them. Consequently, chairmen may give higher priority to the challenges in their sections than they do to dealing with topics of the umbrella association and to executing supervision and control. In addition to this dilemma, the underlying theoretical concept of stewardship theory control in the sense of agency theory is contradictory, too. The parts of agency theory e.g. electing the members of

the new Steering Committee will remain as well as selected strategic decision making, e.g. an increase in membership subscriptions. One chairman of a section expresses his frustration about the voting at the Annual General Meeting during an interview: “The voting is useless, it simply gives you a brief impression that you are participating in decision-making”. For the aforementioned reasons, it is suggested that responsibility for decisions of general importance for the club as a whole be transferred to the *newly appointed Steering Committee*, as this body may be in a position to discuss these topics, accept and approve them. It might be more effective to inform the participants at the Annual General Meeting about the decisions taken, and, in the event they are dissatisfied, members may have the possibility to discuss topics again. In chapter 4.1 an advanced function of the Annual General Meeting has been discussed. It is about motivating sections, i.e. their Chairmen or other authorized members to come. The problems discussed confirm the function of the bodies of the umbrella association as autonomous fiduciary.

Supervision and control by individual members at the General Assembly of sections

Members of the sections are the most important group of stakeholders. They bring in the money and enable the sections to provide the promised services. The members’ function is different to that of shareholders of corporations in the for-profit area. Members hold no capital share in their association, but as a stakeholder they have a certain right to know what the money they brought in is used for. The General Assembly gives members the opportunity to get information. The auditors inform about their auditing and suggest the financial reports be approved. Formally it is an important step for the accountability of the Executive Board. This procedure will still be part of corporate governance. The interviewees from the sections confirmed that the General Assembly in the sections is, above all, a social event for the members, with compulsory procedures constituting only a small part. The number of members participating is up to 5 % to 10% of the total number of members. An example is used to illustrate the contradictory nature of this meeting: Section Liezen of the Austrian Alpine Club has 1,889 members as per December 2011. About 200 members will come to the General Assembly and participate more actively in the social life of their association than others. It is a challenge to organize a meeting for this number of people but, on the other hand, considering the rights members have, e.g. voting for an increase in membership fees, for the construction of a climbing hall, most of them do not really care about it. The opportunity to influence the decisions of the General Assembly is not very promising with such a small number of participants. From this point of view the members are an ambivalent group of stakeholders, as from the financial point of view they provide the financial basis for the

association, but when it comes to the matter of control the majority are not willing to take an active part. *“The stakeholder function of some members ends with paying their membership fee”*. The bigger the section, the greater the gap between the total number of members and those attending the General Assembly. Section Edelweiss numbers 36,348 members, of which about 2 % attend the General Assembly. This development may be similar to the function of an association in a village and a city: the reduced level of socialisation of members in an association located in a city is reflected in participation in the social life of the association. Reflecting these facts, the application of the director primacy model in sections as suggested in chapter 4.2 is a logical consequence. Members trust the executive committee to use the financial means in a proper way. Members are not in a position to understand and approve the financial reports, but in voting on such topics they act as the ultimate border line for the executive committee. The challenge continues to be how to cope with those members who are not willing to take part in the life of the association. They may only be interested in consuming services at a cost-effective level and not in the further functions associations must fulfil, i.e. the representing of interests through lobbying or the building of communities (see chapter 2.4). In applying the new governance model, the general assembly’s function in electing the members of the executive committee and the approval of the financial reports will remain unchanged.

Accountability to stakeholders

The new governance structure of Alpine Clubs authorizes the Managing Committee and the Steering Committee to act as autonomous fiduciary in the umbrella association. As mentioned above, it acts as the steward of the organization’s mission. This is also true for the executive committee in the sections. Members are the most important stakeholder, but these governing bodies are accountable to all important stakeholders inside and outside the organization according to the constitution of Alpine Clubs. Chapter 2.3 discusses the endowment of supervision and control by stakeholders. Stakeholders judge the effectiveness of the organization on their personal performance criteria. Non-profit organizations in general, and so associations too, face the lack of a generally accepted measure of performance. One possible way to deal with the multiple stakeholder groups and their varying and sometimes conflicting expectations is strategic stakeholder management.

4.4 Integration of Stakeholders in the Alpine Club Governance Structure

Integration of Stakeholders in the umbrella association

Stakeholders represent the missing owner and it is the board members who should be representatives of different stakeholders of the organization (see chapter 2.3). The question is which stakeholders are to be considered as important for the organization. As already discussed in chapter 1.3, Speckbacher developed a valuable method for non-profit organizations to reduce the number of stakeholders. He divides the stakeholders into primary and ordinary ones. Primary stakeholders are those whose contractual claim on their return from the investment is incompletely specified and hence unprotected. To protect them from this *hold up* Speckbacher suggests endowing them with residual rights of control (Speckbacher, 2008, pp. 302). The following table shows a corresponding overview with the principle of primary and ordinary stakeholders applied to Alpine Clubs and their umbrella associations.

Table 13: Primary and ordinary stakeholders of umbrella associations

<i>Stakeholder Group</i>	<i>Stakeholders</i>	<i>Right to make decisions</i>
Primary stakeholders	Steering Committee incl. the Voluntary Board	yes
	Regional Committee's chairman as member of the Steering Committee	yes
	Sections	yes
	Volunteers	no
Important ordinary stakeholders (examples)	Members – directly for selected services according to the principle of subsidiarity	no
	State's authorities for subsidies	no
	Friendly Alpine Clubs	no
	CAA – Club Arc Alpin	no
	Several sponsors	no
	Interested public domain	no
	Various stakeholders for any division in the head office, e.g. Mountaineering	no
	National important associations	no

Source: author's construction based on Speckbacher, 2008

The integration of stakeholders is in accordance with the constitution: the sections, as members of the umbrella association, can execute their residual right of decision making at the Annual General Meeting of the umbrella association. This differs from the situation for individual members as members of the sections. If individual members are not satisfied with the provision of services by their section, they may leave the club or change to another section. If the sections are not satisfied with the provision of services of the umbrella

association they cannot easily leave the club because they may lose the status of being a section of the Alpine Club and the numerous services that entails. Without them they are not able to offer the services to their members at a professional level. The connection between the section and the umbrella association is crucial within this system: on the one hand, the sections are dependent on the provision of services of their umbrella association; on the other hand it is the sections which are responsible for attracting new members. The umbrella association will support them by providing advertising material, but it is above all the services of the local sections which motivate members to stay or leave. A so-called hold up (see above) is not only on one side of this contract, it is twofold. Sections get a lot of professional information from the umbrella association throughout the year. Further, they can execute their voting right at the Annual General Meeting. Nonetheless the influence of the sections as members of the umbrella association is limited to their voting rights. It is, above all, a limitation that large sections cannot overrule small sections with their wishes and requests.

The stakeholder priority model of Speckbacher, as presented above, is valuable in identifying stakeholders and their integration in accordance with the constitution. But there are a lot of ordinary stakeholders who are important for the cooperation and communication within the Alpine Clubs, yet who, according to the constitution, have no rights to make decisions. The right to make decisions is not the only feature to classify stakeholders and besides this, it might not be effective or valuable for certain groups of stakeholders. As already mentioned in chapter 1.3, the purpose of the integration of stakeholders is not only communication with relevant parties. It is actually about achieving organizational goals within a situation of increasing complexity and divergent values and interests. Integration of stakeholders in Alpine Clubs might create a complex set of relationships because of the divergence in stakeholder interests. The constitution of Alpine Clubs provides them with a complex array of interests.

First of all, Alpine Clubs may face a lot of *normative stakeholders* according to Phillips. This group consists of stakeholders to whom the Alpine Clubs have a moral relationship as well as a stakeholder-based obligation (Phillips, 1997, p. 53): Alpine Clubs see themselves as representatives of all mountaineers not only those who are members of the Club. Alpine Clubs therefore stand for freedom of access to footpaths for all alpinists. Further groups of equally ranked stakeholders are clustered according to the main fields of activities: protection of the Alpine environment, freedom of footpaths, mountaineering, maintenance of huts, youth and families. By using the stakeholder-relationship model of Savage (Savage, Nix, Whitehead, & Blair, 1991), which was discussed in chapter 1.3, the aforementioned groups

and further stakeholders can be classified according to this model and a determined strategy of communication established: Alpine Clubs may have *supportive stakeholders*, e.g. small and middle-sides sections, the Steering Committee, friendly Alpine Clubs. *Marginal stakeholders* may be the greater number of individual members setting aside their direct decision making right in their section. Alpine Clubs also face *nonsupportive stakeholders* in discussions concerning the protection of the alpine environment, e.g. the cable car sector. Large sections may be classified as *mixed blessing stakeholders*, as their potential to threaten as well as the potential to cooperate is high. This might be true also for several state authorities, for example in harmonizing hygiene rules for huts. According to the stakeholder relationship-model of Frooman (Frooman, 1999), state authorities are endowed with *withholding stakeholder power*. State authorities providing subsidies, above all for huts, execute a lot of power over Alpine Clubs by their potential to withdraw subsidies. All Alpine Clubs under research are more or less dependent on these subsidies, and without them the maintenance of the huts will not be affordable.

The challenge is the organizational integration of these stakeholder groups. Spitzack et al suggest a cluster based on two criteria, namely power and the scope of participation (Spitzack & Hansen, 2010, p. 384). Based on this model, the integration of stakeholders in umbrella associations will vary, ranging from active listening to holding real stakeholder power, either with no right to make decisions or with the right to make operational or even strategic decisions. The solution of how to deal with such a divergent field of stakeholders might be a *strategic stakeholder management* with a consistent approach. At the end of the day, the performance of the umbrella association is based on the responsiveness to their divergent stakeholders' concerns (Balser & McClusky, 2005, p. 296).

Integration of Stakeholders in the sections

When talking about stakeholder integration in sections, the starting point will again be a stakeholder classification based on Speckbacher. All sections may have at least the following stakeholders contributing specific resources and creating value for the organizations. The primary stakeholders as listed in the table below are the Executive Committee, the volunteers as unpaid staff, the individual members, the Chairman of a local branch in there is one. Again according to Speckbacher, primary stakeholders get the residual right to make decisions. The umbrella association, contributing a lot of services in return for a share of membership fees is not authorized to contribute to decision making. Together with the regional committee, both

stakeholders may be classified as important inside stakeholders. Neighbouring sections are, funnily enough, not an important stakeholder for a section. Ordinary stakeholders, who are also important for the sections, are also listed in the table above. These stakeholders will have no residual right to make decisions which may be in line with their level of engagement in the sections.

Table 14: Primary and ordinary stakeholders of the sections of Alpine Clubs

<i>Stakeholder Group</i>	<i>Stakeholders</i>	<i>Right to make decisions</i>
Primary stakeholders	Executive Committee	yes
	Volunteers as unpaid staff	Yes via their representative in the Executive Committee
	members	yes
	Chairman of the local branch	yes
Important ordinary inside stakeholders	<i>Umbrella association</i>	<i>no</i>
	<i>Regional Committee</i>	<i>no</i>
Ordinary stakeholders outside	Mayor of the village, city	no
	Authorities	no
	Potential members	no
	Neighbourhood Sections	no
	Hut tenants	no
	Unpaid staff of local branches	no
	Several sponsors	no

Source: author's construction based on Speckbacher, 2008

The integration of stakeholders again occurs in accordance with the constitution. The Executive Committee, with its members, is the body charged with making the decisions of day-to-day business according to the approved budget. According to the definition of Speckbacher (Speckbacher, 2008, p. 302), these committees are made up of all representatives contributing specific resources that create value for the section. Volunteers, as unpaid staff, are represented via their representatives. An example: the Alpine Representative is a member of the Executive Committee; the tour-guides are represented via the Alpine Representative. The individual members as stakeholders require a more sophisticated view. Firstly, their integration is also in accordance with the constitution: they execute their voting right at the General Assembly. Secondly, in the last chapter the participation of the members in the aforementioned General Assembly was discussed. There are at least two groups of members: a smaller group, about 5- 10 %, who exercise their voting right, and a bigger group which is not willing to do so. The difficulty might be twofold: the active member, participating in the General Assembly, may influence the orientation of the section, but according to the weak development information rights this influence may be of a low impact. And the bigger passive group of members is not willing to take an active part. *In paying the annual membership fee these stakeholders may be satisfied with the provision of services to them.* As mentioned above, the most important stakeholders, the individual members are, for the most part, not interested in executing their residual right of control, but some decisions, e.g. the election of

the members of the Executive Committee or the formal approval of the members of the Executive Committee, cannot be delegated to somebody else. A section's main concern might be the real integration of its most important stakeholder: the individual members. This integration will already be done by providing a member's magazine at least twice a year. Further integration through information might be provided through a quarterly stakeholder's newsletter or an annual event, e.g. an Alpine Club day to make an Alpine Club section and its services tangible for its stakeholders. As discussed in chapter 2.4, one important asset of corporate governance in non-profit organizations is that associations may have the function of an alternative resource of legitimacy. Such a function may only be available in cases where active citizenship is required and the organization cares about regular communication with its stakeholders. A risk is that members of a section become no more than customers and are only interested in cost-effective services. An overemphasis on the service function may diminish community building, as mentioned above. The reasons why the umbrella association has no residual right power are varied: the federal organization (see chapter 3.1) allows the sections to act independently whilst being a member of the umbrella association. This loose cooperation is laid down in the constitution with rights and duties. Further, the law on associations provides no legal background to execute control over members in the case of a construction with an umbrella association where members are also associations. According to the constitution of some Alpine Clubs, it is the section's duty to provide annual reports to the umbrella association. This duty could be expanded by giving advice and obligatory directives to the sections. The advantage may be that the umbrella association would be aware of the financial situation of its partners, and could minimize a possible risk of failure. One function of the umbrella association is also to support a section in case of financial troubles. Stakeholder integration in sections is above all via information. A right to make decisions might not be of interest for the ordinary stakeholders listed.

4.5 Scientific Significance - Applicability of Research Outcome on Non-profit organizations with similar Governance Structure

Within this dissertation a comprehensive overview of corporate governance for non-profit organizations respectively associations has been presented by discussing the adequate theoretical basis, the appropriate elements of corporate governance a new governance model and the reliability of the voluntary governance. The field of non-profit organizations is widespread. In order to bring out a significant research outcome it is necessary to narrow the research field. The research field in the dissertation has been narrowed to Europe and further

to the most important legal framework for forming non-profit organizations in Europe which is the voluntary association. Voluntary associations are further to divide into public-serving organizations and member-serving organizations. Research so far in this field has been concentrated on public-serving organizations, e.g. in Germany on the salient social welfare organizations, research for member-serving organizations is lacking. Public-serving organizations resemble firms, member-serving organizations resemble associations (see chapter 2.1). Member-serving organizations are not easy to grasp because of their huge quantity and diversity. The countries where the organizations under research are registered, i.e. Austria, Germany, Switzerland, South Tyrol have a great tradition in establishing voluntary associations, e.g. in Austria there are 117,828 associations registered (Statistik Austria, 2013, p. 197), in Germany there are 580,294 associations registered (ZIVIZ Zivilgesellschaft in Zahlen, 2012 p. 13).

Theoretical basis of corporate governance

The literature research for this dissertation has shown properly that agency theory with its behavioural assumptions and implications plays a dominate role as theoretical basis to establish governance structures. This is true for for-profit organizations as the debate about corporate governance started in this area because of the many worldwide crashes. On this background the definition of corporate governance of Sir Adrian Cadbury (chapter 2.1) with the focus on supervision and control is to reflect. Goal conflicts between the principal and the agent, information asymmetry and different risk preferences (chapter 1.1) are in the centre of the attention of a governance structure. The shareholder primacy model (fig. 1) mirrors these attributes installing the shareholder as principal, the board of directors as first-order agent and the management as second-order agent. So far established corporate governance codes for for-profit organizations transform the focus of supervision and control in rights and duties of the board either in the one-tier model or in a two-tier model. Remunerations plays further an important role in these codes, too.

Non-profit organizations with its distinctive features challenge the governance structure

In order to do research on corporate governance in non-profit organizations respectively associations the author shows that first it is inevitable to look at the distinctive features of these organizations. With all discussed features in chapter 2.2 as the legal framework, the property rights, the owner, the distribution of earnings, the bottom-line, the structure of the governing bodies, the personnel it becomes clear that research on corporate governance has to be refined to gain benefit for a applicable corporate governance model. *The basic implication*

is the used theory on which a governance model for associations is build on. The author shows that associations are working with *special personnel volunteers*. Volunteers are intrinsically motivated and this motivation may be destroyed by stressing the control or supervision which is used in agency theory. Extensive control would potentially result in an opposite effect, a so-called crowding out effect (chapter 2.3). The author shows in this dissertation that stewardship theory is therefore a valuable concept to build a new governance model. According to stewardship theory volunteers see themselves as steward of the organization's mission. The legal framework of the associations is a further challenge if one might try to just copy established corporate governance models. **Non-profit organizations respectively associations have no owners** consequently the nomination of an owner representing the principal as obligatory for the usage of agency theory is failing. As already mentioned in chapter 1.5 some scholars tried to interpret members as quasi-principals but this will produce misleading interpretations. Non-profit organizations further face the challenge of being multiple-stakeholder organizations. **Stakeholders** play an important role in associations as they replace the missing owner. The systematic integration of stakeholders in the governance model is inevitable for the successful functioning of a governance model for associations. The **voluntary board** as governing body is moreover not comparable to those of for-profit organizations. The main difference is that it consists of volunteers. Whatever is said in the literature about the normative role of governing bodies suffers only limited use to these organizations. Finally by using stewardship theory as main basis to build a governance model **supervision and control** is consequently to endow differently to those of agency theory.

Scientific significance: Attempts to adapt governance structures of for-profit organizations to associations will lead to unsatisfactory results as for above mentioned reasons. Consequently the author developed a new governance model based on the special requirements for associations. The huge number of registered organizations calls for a unique governance model for such organizations. So far the literature does not provide a governance model for these organizations.

The future reliability of the voluntary governance

Corporate governance in non-profit organizations or associations is connected with the voluntary board. The question of the sustainability of the voluntary governance is an important topic today. Associations in general are confronted with the changing face of volunteering. They may still be dependent on the old form of volunteering meaning that volunteers commit themselves for at least one term of office. The sustainability of the voluntary governance in Alpine Clubs is questioned via the results of the personal expert

interviews. Today's complexity of tasks and the expected time for reacting to problems or answering questions call for an increased availability at normal working hours. To enable voluntary governance in the umbrella associations, volunteers as honorary managers have to be totally released from operational decision making to concentrate on the real governance of the organization. Within small association, i.e. sections in Alpine Clubs it is still possible to maintain voluntary governance as sections use some intelligent means to cope with it whilst requiring only a reasonable investment of time.

***Scientific significance:** It is not only the governance structure it is also the reliability of the voluntary board which is significant because of the changing face of volunteering and therefore calls for answers from science.*

Alpine Clubs as case study

Alpine Clubs play an important historical and social role in Europe (chapter 3.1). These organizations are more than 150 years old. They were founded as small associations, today the Alpine Clubs under research count more than 1,6 millions of members. The founders' mission was to explore the mountains, to get access to mountains by building foot paths and huts. Alpine Clubs today are further a significant economic factor. They provide accommodation for lots of tourists in the Alps, they provide with their sections the special education to climb mountains safely, they guarantee access to the Alps by maintaining foot paths and they even support the protection of the Alps. These clubs with their organizational structure are seen *as role model* for lots of organizations with similar governance structure. In their long history they were forced to adapt their governance structure for several times and they will do so also in the future. *Alpine Clubs as case study are therefore in many ways a perfect example for this research.* These huge organizations unite under one roof organizations of various sizes: There is an umbrella association of huge size and further a several number of sections in various sizes. All of them face different challenges in governing their organizations. There are no comparable organizations with such an integrated governance structure connected by the same constitution.

Overall scientific significance: *The combination of theoretical research in the complex field of non-profit organizations together with the case study of Alpine Clubs brings out besides benefit to Alpine Clubs themselves applicable research results for organizations with similar governance structure in the field of member-serving associations. This refers to the governance structure, the reliability of the voluntary governance because of the changing face of volunteering and the social and economic challenges for associations in general.*

CONCLUSIONS AND SUGGESTIONS

Conclusions

This research on corporate governance provides valuable results which can be summarized in following three groups of conclusions:

A Theoretical concern

1. Corporate Governance in for-profit organization 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 governance codes developed so far and scholarly research concentrate on agency theory for non-profit organizations.
2. Corporate Governance in non-profit organizations or associations calls for an alternative theoretical concept. The behavioural assumptions for these organizations are better embodied in stewardship theory. Corporate Governance in non-profit organizations is further understood as a combination of theories, such as agency theory, stewardship theory, stakeholder theory and an ethical concern.
3. Corporate Governance in non-profit organizations is best embodied in the new director primacy model. It solves the problem of a desperate nomination of an owner respectively a principal. Non-profit organizations have no owners but founders; they are represented by a number of stakeholders.

B Conclusions regarding the current state of affairs

4. There are important differences between the organizational frameworks for forming non-profit organizations in Anglo-American countries and European countries: Associations are the most important legal framework for forming non-profit organizations in Europe, whereas in Anglo-American countries, the legal framework for forming non-profit organizations is the nonprofit-corporation, which is similar to a business corporation but endowed with a non-distribution constraint. The implications for corporate governance are different influenced by the theoretical framework.
5. The elements of a corporate governance for non-profit organizations as associations are the voluntary board, the executive director, the members, supervision and control, the stakeholders considering the identified adequate theoretical concept

6. Non-profit organizations as associations face the challenge of a special kind of personnel. Within this research three different kinds of volunteers are defined, as with the general term volunteer the different stages of commitment necessary for the governance are not expressed well: there are volunteers as honorary managers, volunteers as unpaid staff, volunteers as volunteers

C Conclusions regarding the research results

7. The new governance structure for Alpine Clubs considers the selected elements of the corporate governance model. It solves the problem of the missing owner, allows the integration of stakeholders and ensures adequate supervision and control.
8. The voluntary board as a special type of the one-tier model is no longer seen as a reliable governance structure for large associations. Today's complexity of tasks and the expected time for reacting to problems or answering questions forces large associations to rethink their governance structure.
9. Voluntary governance in small associations as Alpine Clubs' sections are is, however, enabled by several activities. They try to stay small in respect of governance, even by growing in individual memberships: sections set up branch offices to formalize the communication with their individual members. They further found local branches, so-called sub-sections and divide the governance activities between a number of committee members as well as make use of the professional services of their umbrella association, which is an important facet in making voluntary governance possible.
10. The empirical research has been narrowed to Alpine Clubs. But associations with similar governance structure will get value from the research results as the focus on stewardship theory, the reliability of voluntary governance, the discussion of the adequate governance model and the integration of stakeholders are important topics also for other organizations in considering their corporate governance.

Suggestions

The whole of this research and the conclusions lead to the following suggestions to researchers, consultants and honorary managers or responsible board members of non-profit organizations:

1. It is suggested to researchers and consultants by doing research on corporate governance in non-profit organizations to consider the distinctive features of these organizations which is the legal framework, the non existing owner, the structure of the governing bodies and the special personnel volunteers.
2. It is suggested to consultants to add stakeholders as one vital element of a corporate governance model for non-profit organizations because of the missing owner. These organizations face the challenge of multiple stakeholders with sometimes even contradictory expectations.
3. It is further suggested to consultants and responsible board members to provide adequate means of supervision and control depending basically on the chosen new theoretical basis and the specialties of these organizations.
4. It is suggested to responsible board members to implement the new governance model as this model helps to adapt the governance structure to today's reality and therefore maintains honorary managers in governing these organizations. It supports the interpretation of members as stakeholders and not as quasi-owners and the board is seen as autonomous fiduciary to the principal which is the legal frame of the non-profit organization respectively association.
5. The challenge of corporate governance in associations is the reliability of the voluntary board. It is suggested that the Voluntary Board as governance model in large associations, as umbrella associations of Alpine Clubs are, be changed to relieve honorary managers from operational tasks and take away the illusion of an operational governing of these organizations. The newly established Steering Committee provides an adequate involvement in governing these organizations.
6. It is further suggested to chairmen of small associations which sections of Alpine Clubs are, to enable voluntary governance by using intelligent means, e.g. set up branch offices to formalize communication with individual members, divide the governance activities between a number of committee members and finally make use of the professional services of their umbrella association.

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Own publications – see Introduction, p. 11

Following own publications are integral part of the dissertation by using partly the same references as listed above:

Eller H. “Volunteers within an Organizational Context – One Term is not Enough”

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Eller H. “The Impact of Stakeholders as Members of a Voluntary Board”

In: New Challenges of Economic and Business Development – 2012, May 10 – 12, 2012, Riga, University of Latvia; pp. 148-158; ISBN 978-9984-45-519-8; online at http://www.evf.lu.lv/fileadmin/user_upload/lu_portal/projekti/evf/konferences/maijs_2012/session8/Eller.pdf

Eller H. “Corporate Governance in Alpine Clubs: Research on Umbrella Associations”

In: New Challenges of Economic and Business Development – 2013, May 9 – 11, 2013, Riga, University of Latvia; pp. 217-228; ISBN 978-9984-45-715-4; online at http://www.evf.lu.lv/fileadmin/user_upload/lu_portal/projekti/evf/konferences/konference_2013/report7Session/Eller.pdf

Eller H. “Volunteers within an Organizational Context – One Term is not Enough”

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Eller H. “Corporate Governance in Alpine Clubs – A Must Have”

In: Journal of Business and Economics, Vol. 5, No. 5, May 2014, pp. 747-757; ISSN 2155-7950

Eller H. “Reliability of Voluntary Governance in Member-Serving Nonprofit-Organizations, Empirical Research on Alpine Clubs in Europe

In: The 5th International Research Symposium in Service Management, June 8-12, 2014, Pärnu, Estonia; ISSN 1694-0938 (Young Service Researcher Award)

Eller H. “Toward a Theory of Corporate Governance in Non-profit Organizations”

In: The Journal of American Academy of Business, Cambridge, Vol. 20, No.1, September 2014, pp. 141-148; ISSN 1540-1200

Eller H. “Ehrenamtliche Führung in Alpinen Vereinen am Beispiel des Oesterreichischen Alpenvereins” (Voluntary Governance in the Austrian Alpine Club as an example of Alpine Clubs)

In: Andeßner R., Greiling, D., Gmür M. &Theuvsen L. *Ressourcenmobilisierung in Nonprofit-Organisationen*, Linz: Trauner; 2014

Eller H. „Challenges on the Implementation of Corporate Governance in NPOs: Empirical Research on Alpine Clubs“

In: Neuert J. *Contemporary Approaches of International Business Management, Economics and Social Research*, Vol. 1, 2014, pp. 20-28, Institute for Management Research and Organizational Development, Diploma University, Berlin: epubli; ISBN 978-3-7375-1329-6
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APPENDIX

Appendix 1 - GLOSSARY

Federal organization

Alpine Clubs are constructed as federal system consisting of an umbrella association, legally independent sections and regional committees.

The principle of subsidiarity

The aim of the principle of subsidiarity is to guarantee a degree of independence for a lower authority in relation to a higher body or for a local authority in respect of a central authority.

Umbrella association

The umbrella association of each Alpine Club is the salient visible organization of the club but by considering the principle of subsidiarity this organizational part's purpose is above all to provide services for sections on a cost-effective basis. It is further responsible to prepare the overall strategic line to decide on the Federal Committee and the Annual General Meeting. The umbrella association is not representing a headquarter in common sense making decisions and passing them top down to its subsidiaries.

Annual General Meeting

The Annual General Meeting is the highest decision making body of the umbrella association. It is organized as assembly of delegates, i.e. the members are represented by the chairmen of the sections or authorized members of their boards.

The Federal Committee

This committee called "Bundesausschuss" or "Verbandsrat" or "Präsidentenkonferenz" in various constitutions of Alpine Clubs is conducted by the president of the umbrella association. According to the constitution it makes decisions of fundamental importance for the total club.

The Voluntary Board

This committee called "Präsidium" or "Zentralvorstand" or "Landesleitung" is the governing body of the umbrella association and has to execute decisions made by the Federal Committee and the Annual General Meeting. It is also conducted by the president.

The executive director

The executive director is the highest rank of paid staff of the umbrella association. The power to make decisions is limited to a certain amount according to the bylaws of a constitution.

Section/branch

It is a legally independent association with its own constitution. In certain matters the section is statutorily subordinate to the umbrella association.

Local branch

A local branch is sub-branch of a section and used as intelligent means to extend the working area of a section.

Executive Committee

The Executive Committee is the governing body of a section consisting of about 10 to 14 members. It is guided by the chairman.

The General Assembly

The General Assembly is the highest decision making body of a section where the individual members can execute their voting right.

Primus inter pares

The president of the umbrella association or the chairman of a section are primus inter pares meaning that their vote only counts equal to its other members of the board. On the contrary to a CEO (Chief Executive Officer) he or she is not allowed to give instructions to his or her colleagues of the body. The special function is that on equal votes in decision making his or her vote counts double.

Appendix 2 - INTERVIEW GUIDELINES

Interview Guideline 1a – President of the Alpine Club

Example German Alpine Club – Interviews done in German language

Interview Guideline 1b – Vice Presidents/Members of the Voluntary Board

Example German Alpine Club - Interviews done in German language

Interview Guideline 2 – Executive Director of the umbrella association

Example Austrian Alpine Club - Interviews done in German language

Interview Guideline 3 – Chairmen of sections

Example Austrian Alpine Club - Interviews done in German language

Interview Guideline 1a – President of the Alpine Club

Example German Alpine Club– Interviews done in German language

General questions

- You are the president of the German Alpine Club: Why did you want to become President? Which are your assets to execute this function?
- The Voluntary Board is the governing body of the organization: How do you interpret this function.

Governance Model

- The Voluntary Board consists of 4 + 1 members. Which are your tasks as President
- Has anybody explained to you your tasks and responsibilities as President before your nomination? Are there any existing job descriptions?
- Can you describe the nature of the teamwork in the Voluntary Board. Do you rely on governance principles? Do you evaluate your method of teamwork?

- Which are the management tasks you are executing? (operative, strategic)
- How much time do you spend to execute your task (how many board meetings, single tasks, how many hours per week, per month)
- You are (not) retired – How can you combine your function as President with your full time employment
Where is the limit of what you can bear in working voluntarily as President?

- How do you assess the importance of the installed head office. Do you feel relieved from decisions which otherwise have to be made by the Voluntary Board?
- The role of the President: Do you see yourself more as member of a management board or more as member of a supervisory board?
- What do you think about the future of voluntary governance?

Qualifications

- You are looking for a successor. Which qualifications do you want him to have regarding education / professional experience, experience of life?
- Are you willing to achieve further qualifications?

Making decisions

- Which are the criteria to make decisions in the Voluntary Board and how are they made (criteria: economic criteria, policy oriented criteria)
- Do you have enough information when making decisions? How do you get necessary information
- How difficult is it to keep informed about all important topics of the association?
- Are you courageous in making decisions as President? What about your colleagues?
- Do you actively discuss the mission of your association with your colleagues in the Voluntary Board? Can you describe the image of your organization?
- To whom do you feel responsible in making decisions?
Can you give examples of stakeholders of the umbrella association (sections, authorities, customers, voluntary staff, etc.)?

Imagine working as paid president, do you think to act different?

Do you think that the function of the Voluntary Board according the constitution matches the reality of your work?

Interview Guideline 1b – Vice Presidents/Members of the Voluntary Board

Example German Alpine Club - Interviews done in German language

General questions

- You are the president of the German Alpine Club: Why did you want to be a member of the Voluntary Board? Which are your assets to execute this function?
- The Voluntary Board is the governing body of the organization: How do you interpret this function.

Governance Models

- The Voluntary Board consists of 4 + 1 members. Which are your tasks as member of the Voluntary Board?
- Has anybody explained to you your tasks and responsibilities as member of the Voluntary Board before your nomination? Are there any existing job descriptions?
- Can you describe the nature of the teamwork in the Voluntary Board. Do you rely on governance principles? Do you evaluate your method of teamwork?

- Which are the management tasks you are executing? (operative, strategic)
- How much time do you spend to execute your task (how many board meetings, single tasks, how many hours per week, per month)
- You are (not) retired – How can you combine your function as President with your full time employment
Where is the limit of what you can bear in working voluntarily as member of the Voluntary Board?

- How do you assess the importance of the installed head office. Do you feel relieved from decisions which otherwise have to be made by the Voluntary Board?
- The role of you as member of the Voluntary Board: Do you see yourself more as member of a management board or more as member of a supervisory board?
- What do you think about the future of voluntary governance?

Qualifications

- You are looking for a successor. Which qualifications do you want him to have regarding education / professional experience, experience of life?
- Are you willing to achieve further qualifications?

Making decisions

- Which are the criteria to make decisions in the Voluntary Board and how are they made (criteria: economic criteria, policy oriented criteria)
- Do you have enough information when making decisions? How do you get necessary information
- How difficult is it to keep informed about all important topics of the association?
- Are you courageous in making decisions as member of the Voluntary Board? What about your colleagues?
- Do you actively discuss the mission of your association with your colleagues in the Voluntary Board? Can you describe the image of your organization?
- To whom do you feel responsible in making decisions?
Can you give examples of stakeholders of the umbrella association (sections, authorities, customers, voluntary staff, etc.)?

Imagine working as paid member of the Voluntary Board, do you think to act different?
Do you think that the function of the Voluntary Board according the constitution matches the reality of your work?

Interview Guideline 2 – Executive Director of the umbrella association Example Austrian Alpine Club - Interviews done in German language

Voluntary Board

Can you describe the role of the Voluntary Board? How many board meetings are held?

What about the tasks/duties of the members of the Voluntary Board according the constitution?
Do these tasks match with the working reality?

Head office

How do you assess the importance of the head office in general with its paid staff?

Can you describe the importance of the Managing Committee which will be installed in the near future?

Can you describe the cooperation between the Managing Committee and the Voluntary Board? Who is in contact with whom?

Strengths and weaknesses of the existing governance structure
(Managing Committee and Voluntary Board)

If you had the power would you change the governance structure?

Which are the most important stakeholders of the umbrella association? How do you communicate with them?

Do you think about a performance measurement regarding the offered services of the head office?

Federal Committee

How do you assess the performance of this committee? To whom does this committee feel responsible?

Can you describe the role of this committee according the constitution. Does this role reflect the reality?

Regional Committees

Can you describe the role of these committees? How important are they in respect to the whole organization?

Annual General Meeting

How do you estimate the importance of this meeting?

- According to the law on associations?
- Further tasks?

Further questions

What do you think about the future of voluntary governance

- In the umbrella association
- In the sections

Interview Guideline 3 – Chairmen of sections

Example Austrian Alpine Club - Interviews done in German language

I INTERVIEWEE

Name:
Section/Year of Foundation:
Function within the association:
Age/gender:
profession:

II QUESTIONS REGARDING THE SECTION

2.1 How many individual members does your section count per 31.12.2011?																
2.2 What about the infrastructure of your section? <ul style="list-style-type: none"><input type="checkbox"/> huts/youth centres (number):<input type="checkbox"/> Maintenance of foot paths in km:<input type="checkbox"/> Climbing hall:<input type="checkbox"/> Climbing wall in public buildings, e.g. school:<input type="checkbox"/> Bouldering wall:<input type="checkbox"/> Branch office (if yes) opening hours:<input type="checkbox"/> Others:																
2.3 Why do you think is your section a small/middle/large section? What are the main influencing factors? <ul style="list-style-type: none"><input type="checkbox"/> Working area<input type="checkbox"/> Regional area (e.g. small villages around)<input type="checkbox"/> Regional interest for Alpine Clubs<input type="checkbox"/> Others																
2.4 Are people in your village/city aware of the existing Alpine Club?																
2.5 Which neighbouring sections are around?																
2.6 Which other associations are also recruiting for members?																
2.7 What about the advantages or disadvantages of the size of your section regarding the voluntary governance?																
2.8 Do you want to have more individual members in your section? Why?																
2.9 Do you employ paid staff? <table border="0" style="width: 100%;"><tr><td><input type="checkbox"/> Branch office</td><td><input type="checkbox"/> no</td><td><input type="checkbox"/> yes</td><td>x h per week/month</td></tr><tr><td><input type="checkbox"/> Administration of memberships</td><td><input type="checkbox"/> no</td><td><input type="checkbox"/> yes</td><td>x h per week/month</td></tr><tr><td><input type="checkbox"/> Accounting</td><td><input type="checkbox"/> no</td><td><input type="checkbox"/> yes</td><td>x h per week/month</td></tr><tr><td><input type="checkbox"/> For other tasks</td><td></td><td></td><td></td></tr></table>	<input type="checkbox"/> Branch office	<input type="checkbox"/> no	<input type="checkbox"/> yes	x h per week/month	<input type="checkbox"/> Administration of memberships	<input type="checkbox"/> no	<input type="checkbox"/> yes	x h per week/month	<input type="checkbox"/> Accounting	<input type="checkbox"/> no	<input type="checkbox"/> yes	x h per week/month	<input type="checkbox"/> For other tasks			
<input type="checkbox"/> Branch office	<input type="checkbox"/> no	<input type="checkbox"/> yes	x h per week/month													
<input type="checkbox"/> Administration of memberships	<input type="checkbox"/> no	<input type="checkbox"/> yes	x h per week/month													
<input type="checkbox"/> Accounting	<input type="checkbox"/> no	<input type="checkbox"/> yes	x h per week/month													
<input type="checkbox"/> For other tasks																
2.10 How do you create attention for your Alpine Club section <ul style="list-style-type: none"><input type="checkbox"/> showcase<input type="checkbox"/> website<input type="checkbox"/> distribute membership magazine on public places , e.g. local authority<input type="checkbox"/> Andere																
2.11 What is your advertising strategy for new members?																
2.12 What do existing members appreciate? (offered services, size of the section, friendly staff, etc.)																
2.13 How often do you communicate with your members and by which means?																

<input type="radio"/> Newsletter	<input type="radio"/> weekly	<input type="radio"/> monthly	<input type="radio"/> _____ others
<input type="radio"/> Social Media	<input type="radio"/> yes	<input type="radio"/> no	
<input type="radio"/> Membership magazin	– published x times a year		
<input type="radio"/> Others			

III GENERAL ASSEMBLY

3.1 Whom do you invite for the general assembly
<input type="radio"/> Individual members
<input type="radio"/> Mayor
<input type="radio"/> Other political representatives
<input type="radio"/> Representatives of other associations (if yes, whom)
<input type="radio"/> Whom else
3.2 How many members attend the general assembly on average
<input type="radio"/> 10% of the members, i.e. absolutely
<input type="radio"/> 5% of the members, i.e. absolutely
<input type="radio"/> Others
3.3 Do you see the general assembly only as a duty or do you use it as possibility that members can meet or as event to show other stakeholders which services you offer (Mayor, political representatives, etc.)?
3.4 Do you think about changing the procedure of this event?

IV EVENT PROGRAMME

4.1 Which types of events do you offer?
<input type="radio"/> In the winter season types:
<input type="radio"/> In the summer season types:
<input type="radio"/> Others, e.g. excursions
4.2 How many members are actively participating in the section? (active = members participate in tours, excursions and other events)

V GOVERNANCE

5.1 You are the Chairman of Section xx. What are your personal reasons to become a Chairman?
5.2 What are the responsibilities of the Chairman?
5.3 Has anybody explained to you your tasks and responsibilities as Chairman before the nomination (responsibilities, competences, tasks, liability)?
5.4 How many members does your Executive Committee count
<input type="radio"/> In the narrow sense: Chairman, Deputy, Treasurer, Secretary, etc.
<input type="radio"/> In the wider sense: additional members in the Executive Committee
5.5 How many meetings are held – 1x per week/1x per month?
5.6 Which are the management tasks you are executing (operative, strategic)?
5.7 How much time do you spend to execute your task (Meetings with the board members, Meetings with politicians, representative tasks, etc.)?

5.8 Your are (not) retired – How can you combine your function as Chairman with your full time employment?
5.9 Where is the limit of what you can bear in working voluntarily?
5.10 What do you need to govern your section voluntarily
<input type="radio"/> Motivated honorary managers and motivated volunteers as unpaid staff
<input type="radio"/> Personal motivation
<input type="radio"/> Support from the umbrella association
<input type="radio"/> others
5.11 Can you explain how you are working as leader with voluntary leaders and volunteers as unpaid staff
5.12 Do you have personal conversations between you and your colleagues in the Executive Committee?
5.12 What do you think about the future of voluntary governance?
5.13 You are looking for a successor. Which qualifications do you want him to have regarding education/ professional experience, experience of life?
5.14 Is it difficult to recruit volunteers (honorary managers, unpaid staff, etc) for the section?
<input type="radio"/> Executive Committee, e.g. Treasurer, Secretary
<input type="radio"/> Tour guides
<input type="radio"/> Others

VI STAKEHOLDER

6.1 Which are the stakeholders you cooperate often?
<input type="radio"/> Individual members
<input type="radio"/> volunteers as unpaid staff
<input type="radio"/> honorary managers
<input type="radio"/> neighboured sections of the Austrian Alpine Club – which ones
<input type="radio"/> neighboured sections of the German Alpine Club – which ones
<input type="radio"/> others
6.2 Which further stakeholders you need to cooperate
<input type="radio"/> regional politicians
<input type="radio"/> authorities (regional authority/federal authority)
<input type="radio"/> sponsors
<input type="radio"/> banking institutions
<input type="radio"/> others
6.3 Should your stakeholders be more active? Yes or no?
6.4 To whom do you feel responsible in making decisions as member of the executive committee – are you aware of the list of your stakeholders?

VII UMBRELLA ASSOCIATION

7.1 Importance of the umbrella association
<input type="radio"/> for the section
<input type="radio"/> for the whole association
7.2 Which are the tasks of the umbrella association on your opinion?
<input type="radio"/> education of all volunteers for the association

<input type="radio"/> service (general membership magazin, support in IT-systems, etc)
<input type="radio"/> lobbying
<input type="radio"/> discussion of strategic developments
7.3 Which further tasks do you want the umbrella association to cope with?
7.4 Does the work of the umbrella association limit the regional performance of the section?
7.5 How does communication take place between section and umbrella association?
<input type="radio"/> via newsletter
<input type="radio"/> via online platform
<input type="radio"/> via postage (letters)
<input type="radio"/> via telephone
<input type="radio"/> others
7.6 What about the importance of the annual general meeting of the umbrella association?
<input type="radio"/> Only duty
<input type="radio"/> Social event – important meeting to discuss with like-minded colleagues
<input type="radio"/> Informative meeting

VIII COMMITTEES

8.1 What about the Federal Committee?
<input type="radio"/> Representative of the sections?
<input type="radio"/> Discusses important topics for the whole association in preparation to the annual general meeting
<input type="radio"/> I do not be familiar with the function of the Federal Committee
<input type="radio"/> others
8.2 What about the regional committee and its importance?
<input type="radio"/> Gain information which has been given in the Federal Committee
<input type="radio"/> Coordinates matters of all sections of one region
<input type="radio"/> Unpleasant duty
<input type="radio"/> others