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Issues of governance in sport organisations: a question of board size, structure and roles

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Abstract

Governance is a critical component of the effective management of a sport organisation. Due to the changing nature of sport organisations, most notably the movement to adopt business models of operation, questions of appropriate forms of governance have attracted increasing research attention in the sport sector. This paper reviews the governance literature in sport management, and discusses issues of board roles and board composition. Four governance theories are presented to help us better understand how to interpret the function of board roles in sport organisations. We conclude by suggesting future research directions.

Keywords: *sport organisation; sport governance; board governance; board composition; board role*

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Introduction

Contemporary sport organisations face an array of performance pressures from the public, the organisations' members and the government. Escalating pressures include increased revenue generation, attracting higher membership numbers, and the provision of more member services, while at the same time producing world champion athletes or teams. Governance is a critical component of managing a sport organisation since it is concerned with issues of policy and direction for the performance of sport organisations (Ferkins, Shilbury, & McDonald, 2005; Hoye, 2006; Hoye & Auld, 2001).

With an appropriate governance system in place, organisational activities can be monitored to deliver benefits to sport organisations, members and society (Hoye, 2006; Mason, Thibault, & Misener, 2006). The failure to have an appropriate governance to control and monitor sport organisations can result in withdrawal of sponsorship, decline in membership numbers and participation and possible intervention from external agencies (UK Sport, 2004). In a governance system, the board is a critical mechanism because its main responsibility is to make certain that the activities of the organisation are carried out in the best interests of the organisation, its members and society. Good corporate governance acts to ensure that sport organisations are viable and effective in the present and future (Australian Sports Commission, 2005). However, in spite of the importance of effective governance, it has been acknowledged that little research has been undertaken to investigate sport governance (Forster, 2006; Hindley, 2003).

The purpose of this paper is to examine current literature about sport governance and board governance and to identify research gaps. To do this we briefly discuss the unique characteristics of sport organisations and present definitions of sport governance. Literature regarding sport governance with a particular emphasis on board governance, board roles and board composition is reviewed followed by a discussion of existing models of governance. We conclude by suggesting future research directions.

Sport organisations and definitions of sport governance

Sport organisations exist to provide sport products and services in the sport industry (Chelladurai, 2005). Many researchers have documented the distinctive characteristics of sport organisations and the list is relatively consistent (Chelladurai, 2005; Slack & Parent, 2006; Smith & Stewart, 1999). One critical difference between sport organisations and business organisations is the way they measure performance (Smith & Stewart, 1999). The main purpose of business organisations is to make a profit. On the other hand, fans or members of sport organisations commonly measure performance on the basis of championship. Profits made by a sport organisation might not satisfy fans and members if it finishes a season at the bottom. While many sport organisations such as sporting good manufacturers and athlete management companies are considered as for profit organisations, the majority of sport organisations that provide participation opportunities and promote sport are categorized as non-profit sport organisations (Hoye & Cuskelly, 2007). A non-profit board ensures that a sport organisation conducts its mission without striving to make a profit and that the benefits it creates are delivered to its members or individuals it exists to serve (Hoye & Cuskelly, 2007). A volunteer board at the top of a hierarchy of authority is the most common governance structure present in sport organisations (Kikulis, 2000).

While there has been no one agreed definition of sport governance, Hums and Maclean (2004: 5) defined sport governance as 'the exercise of power and authority in sport organisations, including policy making, to determine organisational mission, membership, eligibility, and regulatory power, within the organisation's appropriate local, national, or international scope.' Hoye and Cuskelly (2007:9) defined sport governance as 'the structure and process used by an organisation to develop its strategic goals and direction, monitor its performance against these goals and ensure that its board acts in the best interests of the members.'

These definitions encapsulate four concepts: power, direction, control and regulation. Governing sport organisations includes granting certain people within sport organisations *power* to do something they would not have otherwise done. Governance also includes giving sport organisations a *direction* or a strategy designed to achieve their goals. *Controlling* function is the third concept of sport governance. Activities of sport organisations should be controlled to ensure that the activities are congruent with organisations' interests and that sport organisations work toward an agreed direction. The last concept is *regulation*. It involves establishing rules, guidelines and policies for members to follow. If necessary, sport organisations could impose punishment if compliance requirements are not met (Ferkins et al., 2005; Hoye & Cuskelly, 2007; Hums & Maclean, 2004; Slack & Parent, 2006).

These concepts suggest that sport governance aims to ensure that the board seeks to deliver outcomes for the benefits of sport organisations and their members and that the means used to achieve these outcomes are monitored effectively (Hoye & Cuskelly, 2007). In a sport organisation, the board is generally granted power to establish or ratify strategies, monitor activities carried out to achieve strategies and impose punishment if members violate rules. While sport governance does not only concern the board, the board plays a vital role in sport organisations and defining sport governance. Therefore it is relevant to understand the literature on board governance and the findings of previous governance research in sport management.

Governance research in sport management

Extant governance research in sport management has been mainly concerned with governance in global sport organisations (Forster, 2006), corporate governance in professional sport clubs (Michie, 2000; Michie & Oughton, 2005), applying agency theory to sport organisations (Mason, 1997; Mason et al., 2006), and board and staff relationships (Hoye, 2004, 2006). Table 1 provides a summary of existing governance literature in sport management.

In research on governance problems in global sport organisations (GSOs), Forster

Table 1. Governance literature in sport management

Sub theme	Author	Research focus/findings
Global sport organisations	Forster (2006)	Examined governance of global sport organisations
Corporate governance	Michie (2000)	Examined ownership and governance options for professional football clubs in UK
	Michie & Oughton (2005)	Examined the corporate governance practices at football clubs in UK
Agency theory	Mason et al. (2006)	The IOC should separate management and control functions
	Mason (1997)	Used agency theory to interpret the increases in revenues and explain how to decrease opportunistic behaviors by team owners in NFL
Leader member exchange	Hoye (2004, 2006)	Higher-quality relationships existed between board chairs and executives than between these two parties and board members; board performance was positively related to the perception of leader-member exchanges
Social constructionist approach	Hoye & Cuskelly (2003)	Board-executive relationships were perceived positively by effective boards
	Hoye & Auld (2001)	Self Assessment for Non-profit Governing Boards scale was found to be a valid and reliable scale. Effective boards were better at conducting their responsibilities than ineffective boards
Board roles	Inglis (1997)	Empirically examined board roles in Canadian sport organisations

Table 3. Board roles in different types of organisations

Type of organisation	Board roles
Profit organisation	• Develop organisation's missions and policy • Ratify strategies • Appoint, advise, replace, reward and evaluate CEOs/Managers • Oversee managerial activities • Report to owners/shareholders • Manage the relationship with external environment • Advance organisational image • Assure related legislations are met • Financial management
Non-profit organisation	• Determine organisation's mission and policy • Strategic planning • Monitor and assess programs and services • Appoint, monitor, evaluate, reward, replace and work with the executive • Assure that the organisation meets all legal requirements • Secure financial resources and manage financial matters • Manage the relationship with external environment • Appraise itself
Sport organisation	• Develop, formulate and monitor strategies • Formulate policies • Enhance sports organisations' public image • Review and monitor managerial activities and performance • Report to members and stakeholders • Employ, evaluate, provide advice and reward executives • Ensure organisational compliance with related legislations • Manage financial resources • Develop a risk managing plan • Self-assess • Initiate board development activities

monitoring of the executive directors as well as concern for fulfilling legal responsibilities; and *Community Relations* - developing and delivering specific programs and services, representing the interest of certain groups, raising funds, and promoting advocacy and community relations. A significant difference in the perception of importance and performance for the board roles between paid staff and board members and male and female members was found and Inglis (1997:174) suggested, 'understanding additional explanations for varying perceptions of the roles by gender should be a focus for further research.'

Miller-Millesen (2003) asserted that while there are different governance theories regarding board roles, there is no grand governance theory covering all board roles because each governance theory focuses on different roles of board members. He posited that theoretical origins of the best practice of board roles come from agency theory, resource dependence theory and institutional theory.

Agency theory

Agency theory (Fama & Jensen, 1983; Jensen & Meckling, 1976) can be used to frame the relationship between CEOs/managers (agents) and owners (principals). From this perspective the board is a mechanism to monitor managerial behavior and to assure that managerial activities are aligned with the principals' interests (Fama & Jensen, 1983; Rhoades, Rechner, & Sundaramurthy, 2000). The board of directors should control CEOs/managers and ensure that their organisation engages in activities that are congruent with community expectations (Clarke, 2004; Fama & Jensen, 1983; Gibelman, Gelman, & Pollack, 1997; Miller-Millsesn, 2003; Rhoades et al., 2000). The board roles, therefore, include hiring, replacing, monitoring, assessing and compensating CEOs/managers, developing missions, approving and evaluating programs/services, allocating resources, managing finance, as well as ratifying major strategies/decisions made by management (Fama & Jensen, 1983; Fligstein & Freeland, 1995; Forbes & Milliken, 1999; Miller-Millsesn, 2003). The concept of owners is not directly relevant to many non-profit sport organisations. Mason et al. (2006) argued that "principals" in non-profit sport organisations are the parties that receive the benefits of the achievements. This could be the organisation itself and multiple stakeholders, such as members, clients, governments, volunteers, society and sponsors. In this schema the agents are the paid staff responsible for the organisation's operation. The board of directors is the mechanism to ensure that paid staff behave in a manner that befits the interests of multiple stakeholders.

While agency theory addresses the monitoring and controlling role of a board it has limitations. Firstly, agency theory is a simplified model. It assumes there are only two main participants – the principal and the agent – in organisations (Daily, Dalton, & Cannella, 2003). In reality, organisations are comprised of more than two members. A board interacts with organisational members other than just CEOs/managers, such as providing consultation to other members. Secondly, it is likely that when CEOs/managers serve an owners' interests, their interests are satisfied at the same time (Lane, Cannella, & Lubatkin, 1998). Therefore, the board may not only monitor CEOs/managers but also assist CEOs/managers to achieve organisational goals. Thirdly, to protect their careers and reputation in the managerial market, CEOs/managers are likely to behave in a manner aligned with the owners' interests (Kosnik, 1987). In this situation, the board may pay less attention to monitoring CEOs/managers. An additional limitation of agency theory is that organisations operate in an open system, and they influence and are influenced by the external environment in which they operate (Chelladurai, 2005). However, agency theory assumes that board effectiveness is only associated with good monitoring functions. Therefore, researchers have used resource dependency theory, institutional theory and stakeholder theory to further explain the relationship between organisations and the external environment.

Resource dependency theory

Resource dependency theory states that organisational survival is based on organisational capabilities to acquire and maintain resources essential to the organisation (Pfeffer & Salancik, 1978). In resource dependence theory the board of directors serves as a mechanism connecting the organisations with external resources (Hillman, Cannella, & Paetzold, 2000; Miller-Millsesn, 2003). The duties of directors are to reduce external uncertainty, access needed information, bring resources and represent the organisations (Daily, Dalton, & Rajagopalan, 2003; Hillman et al., 2000; Lynall et al., 2003; McNulty & Pettigrew, 1999; Miller-Millsesn, 2003). Resource dependency theory is mainly used to explain the roles of non-profit boards (Miller-Millesen, 2003). When organisations are in a stable environment, the board is less likely to engage in helping organisations to access external resources. In this case, the board may primarily engage in administrative functions (Miller-Millesen, 2003).

Institutional theory

In complement, institutional theory emphasizes the importance of normative structure and rules in guiding and constraining organisational behaviors (Lynall et al., 2003; Miller-Millsesn, 2003). The main concept behind the institutional theory is that a particular pattern of doing things evolves over time and becomes legitimated. The organisation changes structure, processes or behaviors to meet normative or moral requirements (Luoma & Goodstein, 1999; Pfeffer, 1982). As such, if boards have similar roles, it is the result of these roles having become accepted ways or a result of coercion (Miller-Millsesn, 2003). Board roles in institutional theory include attending meetings, adhering to related laws/regulations, filing required documents, insisting on sound financial management tools and avoiding conflict-of-interests situations (Ingram, 2003; Miller-Millsesn, 2003). Through coercive, mimetic or normative processes, organisations of the same type will gradually become similar (DiMaggio & Powell, 1983). Organisational practices are also able to be predicted by reviewing organisational history or industry traditions (Eisenhardt, 1988).

Institutional theory does not fully explain why and how organisations are likely to resist change. Resistance come from the opposition of interest groups, high cost of change or lack of understanding of change (Slack & Parent, 2006). In this situation, the board may have to enter into negotiation with members in order to accept change or develop alternative strategies to replace the change. For some types of organisations, such as non-profit national sport organisations, failure to comply with institutional expectations may result in, for example, the loss of government subsidies. Therefore, the government may force non-profit national sport organisations to accept change even though they may be psychologically resistant. In this situation, it is likely that compliance is just symbolic so that the institutional force has little impact on the organisation (Luoma & Goodstein, 1999; Stone, Bigelow, & Crittenden, 1999). The board may just complete required paperwork rather than strategically engage in change.

Stakeholder theory

Stakeholder theory can also be used to better understand the board roles in sport organisations. Stakeholder theory contends that the organisation should govern the relationship with various stakeholders (Clarke, 2004). For profit sport organisations, stakeholders include shareholders, employees, members, and suppliers. For non-profit sport organisations, there are many stakeholders and these can include sponsors, funding bodies, staff, general public, communities, and government (Australian Sports Commission, 2005). Organisations can serve a wide range of social purposes and create value for stakeholders (Blair, 1995; Clarke, 1998; Clarkson, 1995). Due to these multiple stakeholders, organisations have to balance the interests of various stakeholders and the primary board role is to identify, understand and satisfy the needs of stakeholders (Carver, 1997). However, shareholders/owners own equity, and have rights to manage and control organisations and the board may be asked by shareholders/owners to perform tasks that do not necessarily meet stakeholders' interests. The board may spend much of its time on communicating, negotiating or develop multiple programs for various stakeholders.

Each theory outlined above has been based on corporate governance rather than on sport governance. While research on sport governance has been increasing, there have been few empirical studies that focused on board roles in sport organisations (Inglis, 1997; Shilbury, 2001). Among the few studies, no theoretical frameworks were applied. The above theories offer a foundation for sport governance. Sport researchers can examine whether these theories can be transferred from corporate governance. Moreover, researchers have argued that no single theory can fully explain the range of board roles and responsibilities. Thus it seems that a multi-theoretic approach will best help us to understand board roles (Clarke, 2004; Miller-Millesen, 2003).

Board composition

Does size matter?

There are a number of propositions about the optimum size of a board. Agency theory suggests that board members are selected to manage relationships between the board and the manager and board size should be enough to prevent managerial hegemony (Miller-Millsesn, 2003). Resource dependence theory advocates that a large board has the ability to link the organisation to the external environment and secure critical resources as well as being likely to provide the knowledge and skills needed (Goodstein, Gautam, & Boeker, 1994). Pfeffer and Salancik (1978:172) noted 'the greater the need for effective external linkage, the larger the board should be.' If boards are trying to reduce external uncertainty, board members should have explicit abilities to reach their goals and the board size should be large enough to provide a wide diversity (Abzug, 1996; Luoma & Goodstein, 1999). Zahra and Pearce (1989) asserted a large board size means the company has a better ability to understand and respond to diverse stakeholders. They also argued that a large board size could reduce the possibility of the CEO's control of the board and provide more talent to lead the organisation (Chaganti, Mahajan, & Sharma, 1985). Zahra & Pearce (1989) have empirically demonstrated that firms with a good financial performance have a larger board size (10-15 board members) than failing firms.

However, Herman (1981) and Goodstein et al. (1994) contend that large boards are weak boards as in-depth discussion becomes unlikely; diversity, contention, fragmentation and factions make it harder for the board members to work as a group and reach an agreement. Large boards may also be less participative, less cohesive and less likely to reach an agreement. Difficulties in communication and inhibition of the strategic action might exist which in turn limit the board members' contributions (Dalton, Daily, Johnson, & Ellstrand, 1999; Forbes & Milliken, 1999; Goodstein et al., 1994). Jensen (1993) suggested that a small board can help organisations improve performance. Empirical studies have also shown that small boards can help firms gain better financial performance (Daily, Certo, & Dalton, 1999; Yermack, 1996).

It is apparent that empirical studies on board size have inconsistent findings. Most researchers have found that the board sizes are larger in non-profit organisations (Callen, Klein, & Tinkelman, 2003; Cornforth & Simpson, 2003; Provan, 1980; Unterman & Davis, 1982) with sometimes as many as 30 members (National Center for Non-profit Boards, 1996; Oster, 1995). With a large board, non-profit organisations can have better ability to access external resources and can satisfy the desire for the volunteers' involvement. Some non-profit researchers had also tried to determine if there is a linkage between board size and board performance. Olson (2000) found that there is a positive relationship between board size and donations. However, in other research Miller, Weiss, and MacLeod (1988) and Bradshaw, Murray and Wolpin (1992) discovered that the board size was not related to board performance.

In summary, the question of board size remains controversial. However, there is a relative consensus that non-profit organisations have a larger board than profit organisations because the former's survival is mainly dependent on external resources, such as donations or government subsidies. When an organisation needs external resources to survive, it tries to recruit as many board members as possible to secure external resources and to create an extensive networking (Brown & Iverson, 2004; Miller-Millsesn, 2003; Rhoades et al., 2000). Little research has been conducted to examine the issue of board size in sport organisations. However, it is reasonable to anticipate that profit sport organisations will have a larger board size than non-profit sport organisations.

Board independence

Board independence has been primarily explored using agency theory. Agency theory argues that to effectively monitor the CEO/manager, organisations should have a monitor mechanism in place that can oversee and control CEOs/managers and protect the stakeholders. In turn, organisations will have a better performance (Fama & Jensen, 1983; Finkelstein & Mooney, 2003; Rhoades et al., 2000). An independent board or board with outside members is widely considered an appropriate mechanism (Fama & Jensen, 1983). Agency theorists suggest that a dependent board or a board with insiders, such as current or former managers/employees of the organisation, or those who are dependents of the organisations, is less likely to monitor the CEO and the independent board is more vigilant to oversee CEOs/managers (Dalton, Daily, Ellstrand, & Johnson, 1998; Fama & Jensen, 1983). Establishing a board with mostly external members is useful to connect with multiple stakeholders and can include voices and understanding from various stakeholders.

There is almost uniform agreement in the literature that an effective board is independent (Dalton et al., 1998). Jensen (1993) noted that CEOs/managers can be board members because they generally have intimate knowledge of the organisation and their knowledge can help the board make appropriate decisions. Links between board independence and financial performance have been inconclusive, finding the relationship positive (Dalton et al., 1998; Rhoades et al., 2000; Zahra & Pearce 1989), negative (Agrawal & Knoeber, 1996; Beatty & Zajac, 1994; Kesner, 1987; Pearce, 1983), and not related (Bhagat & Black, 1999; Chaganti et al., 1985; Finkelstein & Mooney, 2003; Hermalin & Weisbach, 1991; Johnson, Ellstrand, & Daily, 1996; Kesner, 1987). In summary, board independence is regarded as a mechanism for organisations to monitor CEOs/managers. When this mechanism is effectively in place, CEOs/managers would act in the interests of stakeholders and in turn benefit organisational performance. In sport governance, we know little about the issue of how organizational effectiveness and success relate to board independence.

Conclusion

Governance is a critical component of managing sport organisations; how to best monitor organisational activities, deliver benefits to organisations and guide an organisation is critical to organisational sustainability. The board plays a significant role in a governance system because decisions made by the board can affect the entire organisation. The literature review presented here has suggested that we can draw on existing theories to understand how boards work and use this information to design appropriate board structures for sport organisations. Empirical studies should be conducted to examine board composition in sport organisations, such as board size and board independences.

Future research is needed to explore the differences in board roles and board composition between profit and non-profit sport organisations, between national and local sport organisations, between professional and amateur sport organisations, and between Western and Non-Western sport organisations. It has been argued here that sport organisations are in a dynamic and competitive environment (Amis, Slack, & Hinings, 2004a). Comparing the differences in board governance within the sport sector can help sport organisations understand themselves and their rival organisations and in turn stand out in a competitive environment. According to an ancient Chinese military treatise, titled *The Art of War* written during the 6th century BC by Sun Tzu, if you know both yourself and your enemy, you will come out of one hundred battles with one hundred victories (Tan, 2001). In addition, examining differences in board governance between sport and non-sport sectors can not only help us clarify differences between the sport sector and non-sport sectors but also help researchers develop a framework or a theory for sport governance.

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