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Stakeholder accountability

A field study of the implementation of a governance improvement plan

Paul M. Collier
Department of Accounting and Finance, Monash University, Clayton, Australia

Abstract

Purpose – This study aims to focus on the accountability of organizations to multiple stakeholders with differing interests and power, where there is an absence of accountability towards shareholders.

Design/methodology/approach – Longitudinal field study via participant-observation.

Findings – The study focuses on the relations between the subsidiary and the parent boards and how a governance improvement plan affected the internal dynamics of the organization and helped to clarify the demands of multiple stakeholders. A stakeholder-agency model is developed which emphasises the role of governance, the importance of structure and process, and the culture or ethos of boards in which multiple stakeholders may have compatible rather than competing interests.

Originality/value – The paper focuses on the quasi-public sector and develops stakeholder-agency theory by identifying governance at the centre of differing relationships with stakeholders with unequal salience where there is both an economic concern with efficiency and a broader social concern.

Keywords Stakeholder analysis, Management accountability, Governance

Paper type Research paper

Introduction

Corporate governance has been defined as "the processes by which organizations are directed, controlled, and held to account … concerned with structures and processes for decision-making, accountability, control and behaviour at the top of organizations" (International Federation of Accountants, 2001, p. 3). Corporate governance has also been more broadly defined to include "the social organization of firms and their relation to their environments including their relations to states" (Fligstein and Freeland, 1995, p. 22) combining an economic concern with efficiency and a broader sociological concern with social, political and cultural factors.

In the UK, a series of reports (Cadbury Code, 1992; Greenbury, 1995; Committee on Corporate Governance, 1998, Hampel) has had a marked influence on the development of the *Combined Code on Corporate Governance* (Financial Reporting Council, 2003). Subsequent reports on internal control (Institute of Chartered Accountants in England & Wales, 1999, Turnbull) non-executive directors (Higgs, 2003) and the role of audit committees (Smith, 2003) have been embedded in the combined code. Similar approaches were adopted in other countries (International Federation of Accountants, 2006). Like the 2002 enactment of the Sarbanes-Oxley Act in the USA, improving corporate governance has been a response to various financial and accounting scandals.

There is a need to better understand governance in non-profit (Jegers and Lapsley, 2001) or non-governmental (Unerman and O'Dwyer, 2006) organizations where there is no single model of public management. This is particularly so in the quasi-public sector, a sector defined by Collier (2005) as a public sector organization in private sector clothing. Quasi-public organizations occupy a space between public and private sector

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organizations, a result of the withdrawal by government from direct service provision and the subcontracting of those services to the private sector or to non-governmental organizations. In this "privatized" non-profit distributing sector, there is a mix of public and private sources of funding, superimposed by a high degree of government regulation. The growth of these organizations may evidence a shift from a New Public Management paradigm to a governance paradigm which includes a range of different stakeholders, a greater use of networks rather than markets or hierarchies, and a greater partnership between public, private and civic actors (Ferlie and Andresani, 2006; Osborne, 2006).

Corporate governance has an important role to play in balancing the competing stakes of capital markets, the regulatory system, and the product/factor markets in which an organization operates (Jensen, 1993). This is particularly so in the quasi-public sector where accountability mechanisms have tended to focus on upward accountability to funders rather than downward to the recipients of services (Unerman and O'Dwyer, 2006). An absence of shareholders in the traditional sense from quasi-public organizations makes stakeholder theory a viable perspective from which to understand accountabilities to multiple stakeholders where power differentials in capital and factor markets and in regulation mean that differing interests need to be implicitly or explicitly prioritised.

This paper is the result of a four-year field study of a non-profit distributing quasi-public organization providing "affordable housing" to low-income tenants. There were no shareholders in the traditional sense, but there was a tripartite accountability: to the industry regulator, private sector financial institutions, and tenants. The study of Q Group is a study of the relations between subsidiary boards and the parent board and how a governance improvement plan (GIP) affected the internal dynamics of the organization and helped to clarify the differing demands of multiple stakeholders.

Within stakeholder theory generally, stakeholder-agency theory (Hill and Jones, 1992) provides a more explicit linkage between stakeholders and governance in which the firm is a nexus of contracts which encompasses implicit and explicit contractual relations between all stakeholders but in which power differentials are evident. Hill and Jones (1992) argued that managers are the only group of stakeholders who enter into a contractual relationship with all other stakeholders and so can be seen as the agents of other stakeholders, being policed by governance structures. This paper brings together elements from the stakeholder theory literature to develop and enhance the stakeholder-agency approach. In doing so, the paper explains the accountability by a governing body to multiple stakeholders with differential power, emphasising the importance of structure and process, and the culture or ethos of boards in which multiple stakeholders may have compatible rather than competing interests.

In the first section, the theoretical framework of stakeholder theory is described. The second section describes the research method. This is followed by the field study. In the fourth section, the findings are discussed against the governance and stakeholder literatures and in the final section the conclusions are summarised.

Stakeholder theory and the stakeholder-agency approach

Four forces operate on companies: capital markets; the legal/political/regulatory system; product and factor markets; and internal control systems headed by the board of directors (Jensen, 1993). There is substantial data to support the proposition that

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the internal control systems of publicly held corporations have generally failed to cause managers to maximize efficiency and value, further evidenced by the failure of firms to restructure themselves or engage in major strategic redirection without a crisis either in capital markets, the regulatory system or product/factor markets (Jensen, 1993). The legal and regulatory system is too blunt to handle the problems of wasteful management behaviour, whilst despite their eventual discipline, product and factor markets are slow to act as a control force (Jensen, 1993). By contrast, changes motivated by the capital market are generally accomplished quickly. Jensen (1993, p. 854) argued that ineffective governance was a major part of the problem with internal control mechanisms, concluding that:

> [...] the infrequency with which large corporate organizations restructure or redirect themselves solely on the basis of the internal control mechanisms in the absence of crises in the product, factor, or capital markets or the regulatory sector is strong testimony to the inadequacy of these control mechanisms.

The primary focus of this paper is the role of corporate governance in balancing the differing stakes of the other three forces.

Stakeholder theory

In company law across most western countries, there is no doubt that shareholders are in a privileged position compared with other stakeholders. Hence, corporate governance in the UK is founded on the shareholder value/agency model. However, other models of governance take a broader view, for example that found in South Africa where the King Committee on Corporate Governance (2002) provided an integrated approach in the interest of all stakeholders, embracing social, environmental and economic aspects of organizational activities. It therefore supports, to some extent at least, a broader stakeholder model of governance.

Stakeholder theory is acutely relevant to the present study given the absence of shareholders in the traditional sense from the quasi-public sector. In such organizations, non-shareholder stakeholders have significant influence and their "stakes" need to be recognized by the governing body. Stakeholder theory offers organizations a way of identifying and reconciling disparate stakeholder interests by recognising organizational obligations to wider and more ethically concerned constituencies (Simmons, 2004).

Stakeholder theory derives from Freeman (1984, p. 46) who defined a stakeholder as "any group or individual who can affect or is affected by the achievement of an organization's objectives". Stakeholder theory can be seen either in terms of a multiple constituency model of organizational theory, or from a political science perspective in which accountability to stakeholders is a form of democratic representation (Simmons, 2004). However, shareholders are not democratically representative of society generally and stakes are held in the organization by employees, customers, suppliers, financiers, government and the community. Much of the argument behind stakeholder theory is that economic pressures to satisfy only shareholders is short-term thinking and organizations need to ensure their survival and success in the long-term by satisfying other stakeholders as well. In the quasi-public sector, economic pressures derive from government and lenders, both of which provide finance to support the organization's purposes. By contrast, there is usually a mixture of legal and moral obligation to the organization's service recipients, in which the legal obligations may be uneconomic. The removal of a profit-distributing purpose allows accountability to

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move beyond an economic focus (Dawson and Dunn, 2006). There is a need for balance between economic, legal and moral forces. In traditional theories of organizational control, the fairness of contracts is guaranteed through market efficiency, but social and moral responsibility goes beyond what is assigned to formal contracts (Antonacopoulou and Meric, 2005). Convergent stakeholder theory (Jones and Wicks, 1999) combines both approaches to show how managers can behave morally in a stakeholder context, although it assumes competition between contractual and non-contractual obligations.

Those who have "a stake" in an organization have something "at risk". The stakeholder view challenges the zero-sum assumption that gains by one stakeholder come out of the pockets of shareholders and emphasizes stakeholder linkages as part of a single network in which positive-sum strategies can lead to benefits for all or most critical stakeholders over the long run (Post *et al.*, 2002). Stakeholders first need to be identified (Mitchell *et al.*, 1997). There are many different classifications of stakeholder. Primary or contractual stakeholders are those who have a direct and contractual relationship with the firm, whilst secondary or diffuse stakeholders are situated at the borders of firms but may still be impacted by its actions (Carroll, 1989). There are cooperative and competitive stakeholders (Donaldson and Preston, 1995). There are also voluntary stakeholders where the basic principle of stakeholder management is mutual benefit; and involuntary stakeholders where the guiding principle has to be the reduction or avoidance of harm and/or the creation of offsetting benefit (Post *et al.*, 2002). The quasi-public sector is typified by the primary stakeholders of government, lenders and service recipients, as well as suppliers and employees (whose relationship to the quasi-public organization is no different to that in for-profit enterprises). However, the nature of government funding is that it involves secondary stakeholders whose taxes pay for the service delivery and therefore have an interest in economy and efficiency. Service recipients are often involuntary in that their need for a service may be a consequence of some social or economic disadvantage which brings them into the realm of service beneficiary. Their interest is less with economy and efficiency as with effectiveness in satisfying their need.

Not all governing bodies believe that shareholders are the only constituent to whom they are accountable. The ultimate justification of "management serving shareowners" may be morally untenable (Donaldson and Preston, 1995) in that it privileges those with economic interests over others. The results of a survey by Wang and Dewhirst (1992) showed that directors perceived different stakeholder groups; attached importance to responding to stakeholder expectations; and viewed some stakeholders differently depending on the directors' role. By contrast, O'Dwyer (2005) showed that there could be a systematic exclusion, silencing and disempowerment of stakeholders by a powerful board. Stakeholder theory is concerned with how the power of stakeholders with their competing interests is managed by the organization in terms of its broader accountabilities. A role for governance is to strike an appropriate balance between these interests when directing the firm's activities so that one stakeholder group is not satisfied to the detriment of others. However, organizations need to prioritise stakeholders and be explicit about that prioritisation (Gray *et al.*, 2006). There is a need to resolve conflicts between these primary stakeholder groups because if any stakeholder group perceives that it is being unfairly treated it will seek alternatives and may even withdraw from the firm's stakeholder system (Clarkson, 1995).

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A normative view is of managers as the agents of multiple and variably important stakeholders within a nexus of unequal and formalized contracts (Hill and Jones, 1992). Stakeholder analysis identifies, classifies and manages disparate stakeholder interests (Burgoyne, 1995) with the underlying principle that all persons or groups with legitimate interests who participate in an enterprise do so to obtain benefits with no *prima facie* priority of one set of interests over another (Donaldson and Preston, 1995). Stakeholder salience determines the degree to which managers give priority to competing stakeholder claims. This is determined by their possession of three attributes: the power to influence the firm; the legitimacy of their relationship with the firm; and the urgency of their claim on the firm (Mitchell *et al.*, 1997) with any relationship being the most critical one at a particular time or on a particular issue (Post *et al.*, 2002).

Theorizing stakeholder accountability: stakeholder-agency theory

A number of different models have been developed to theorize either accountability to stakeholders or the role of governance: stakeholder, accountability and polyvocal citizenship perspectives (Gray *et al.*, 1997); sovereign, socializing, individualizing and complementary forms of governance (Roberts, 2001); bureaucratic, professional, *ad hoc*ratic and communitarian contexts (Lindkvist and Llewellyn, 2003); and the managerialist matrix of rational goal, open systems, hierarchy, and self-governance models (Andresani and Ferlie, 2006).

However, one other framework provides a more explicit linkage between stakeholders and governance. Like agency theory, Hill and Jones (1992) saw the firm as a nexus of contracts but unlike agency, encompasses implicit and explicit contractual relations between all stakeholders whilst recognising power differentials. Hill and Jones (1992) proposed a stakeholder-agency theory. Whereas in agency theory, principals hire agents to perform services on their behalf, managers are the only group of stakeholders who enter into a contractual relationship with all other stakeholders and have direct control over the decision-making apparatus of the firm. The unique role of managers suggests that they can be seen as the agents of other stakeholders. Both principal-agent and stakeholder-agency relationships are policed by governance structures.

This is a useful starting point for the field study described in this paper, although it is more appropriate to replace the role of managers with the governance structure that "polices" a series of contractual relationships in which there are power differentials. Stakeholder-agency theory has the potential to be developed by incorporating various aspects of stakeholder theory described above, in order to provide a more comprehensive understanding of the role of governance in stakeholder accountability.

This paper proposes a model that develops the stakeholder-agency approach in quasi-public organizations by incorporating the identification of multiple stakeholders, either voluntary or involuntary. The quasi-public organization has obligations to these stakeholders, who have differential power and expectations. There is, or at least should be, accountability to each of these stakeholders in terms of the organization's satisfaction of their economic, legal or moral obligations. However, stakeholder salience implies competing interests amongst stakeholders and the need to resolve conflicts. Therefore, an important role for governance is to assess the competing needs of stakeholders, and to balance and/or prioritise those needs. The preliminary model informing the research is shown in Figure 1.

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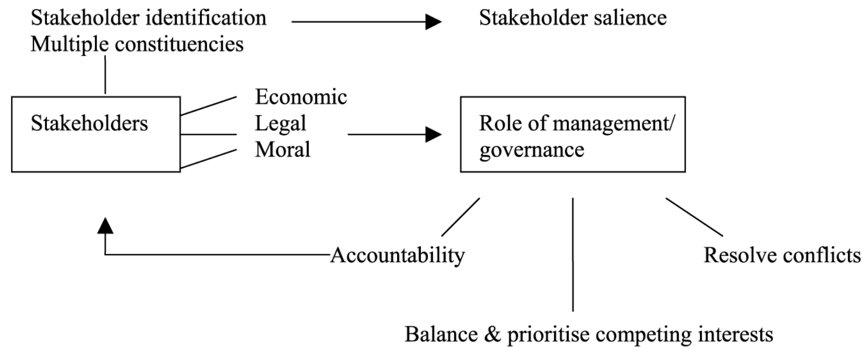

Figure 1.
Preliminary stakeholder-agency model

Governance of organizations outside the for-profit sector has been described as being carried out by Greer and Hoggett (1997, pp. 223-4), but who are typically not experts in the business:

> [. . .] elite volunteers [. . .] highly skilled and often dedicated people who are nevertheless drawn from a very narrow socio-economic background sharing a common language and set of assumptions [. . .] public spirited, progressive and managerialist.

By contrast, Loft *et al.* (2006) noted the role of expertise rather than representativeness which provided the essential public legitimacy for the governance process.

Therefore, the role of the often unpaid board of directors in the quasi-public sector is an important area for study, given its importance in balancing and prioritising stakeholder claims. Earlier in this paper we referred to the role of corporate governance in balancing the differing stakes of product/factor markets, capital markets and regulation (Jensen, 1993). The introduction of governance codes of practice for not-for-profit organizations that are comparable with the combined code (Dawson and Dunn, 2006) reflects the importance of governance in the quasi-public sector. Governance is an important and under-researched area, especially as "the emphasis on politeness and courtesy at the expense of truth and frankness in boardrooms is both a symptom and cause of failure in the control system" (Jensen, 1993, p. 863).

Research method

The normative theory of stakeholder identification explains why managers should recognize certain groups as stakeholders. By contrast, a descriptive theory explains the conditions under which managers do consider certain groups as stakeholders (Mitchell *et al.*, 1997). The approach in this study is a descriptive one, although future research could test the propositions shown in Figure 1 through survey.

Contextual evidence was obtained from prior studies of affordable housing (Whitehead, 1999; Williams *et al.*, 1999; Mullins *et al.*, 2001; Boyne and Walker, 1999; Walker and Jeanes, 2002; Collier, 2005) supplemented by websites of the Housing Corporation (the industry regulator) and the National Housing Federation (the industry trade association).

The primary source was field research with Q Group (the name has been changed for reasons of confidentiality), in which the researcher was an independent board member with access to board meetings, other informal meetings, other board members and senior executives. The organization was aware of the research that was being carried out.

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The data were gathered from participant-observation of formal board meetings and informal board meetings (e.g. single topic meetings to discuss strategic issues without the formality of agendas and minutes), working parties and away days, emphasising the motivation for and content of decisions and the process by which decisions were made. Data were also derived from board papers and verified by the minutes of those meetings and by subsequent progress reports. Rather than a study of individual board members, the study explicitly took the board-in-aggregate as the unit of analysis. The field study was therefore an ethnography of the board.

These observations took place over a four-year period. Approximately, one hundred meetings were observed over this period, lasting from two hours to a whole day (mean 2.4 hours). Detailed handwritten notes were taken during and immediately after the meeting and subsequently transcribed for analysis. These field notes were integrated with analysis of board papers which filled four four-drawer filing cabinets. The process took place throughout the four-year period, during which time the researcher was an active board member.

Participant observation is the primary tool of the ethnographer. The advantage of contemporary historical observation is that it captures a record of events as they occur, from the researcher's perspective, together with the organizational portrayal of those events as found in documentary research. These insider accounts (Ackroyd and Hughes, 1992) can be read in two ways – the information provided, and knowledge about the perspectives and cultures of those providing the information (Hammersley and Atkinson, 1995). This latter perspective is essential in interpreting the data collected.

The role of the researcher has been categorised as complete participant, participant as observer, observer as participant, and complete observer (Junker, 1960). In this study, the researcher was participant as observer, actively participating in board meetings with other board members being aware that there was a fieldwork relationship (Ackroyd and Hughes, 1992).

Little attention is given in the research literature to the difficulties and value of meetings as a particular form of participant observation. Formal organizational meetings provide a valuable source of data that are less subjectively-influenced than a one-on-one interview. Meetings allow the interactions between various organizational actors to be observed and recorded. These meetings have their own agenda and are therefore not focused on the researcher's own agenda. In representing part of the daily life of organizations, meetings can provide multiple perspectives on issues of importance to the researcher.

Although stakeholder theory was the principal theoretical framework, the research did not undertake a stakeholder analysis approach (Burgoyne, 1995). There was no interview or observation of stakeholders *per se*, except insofar as they were "represented" on the board of directors. The level of analysis was the board and its internal relationships and the approach taken in relation to stakeholders was to focus on the role of the board and its accountability to three main stakeholders groups: the Housing Corporation as regulator; lenders; and tenants. This involved a bracketing-off of other stakeholders, including employees and suppliers. Given the absence of shareholders in the traditional sense, the research question was to discover how governance processes reconciled the competing interests and accountability to these three primary stakeholder groups.

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Field study

Q Group

In the UK, housing associations (HAs) "exist to provide housing for people who cannot afford other private housing" (National Federation of Housing Associations, 1996): (viii). Q Group was the result of a merger in 2002 between two HA groups that had transferred from local authority control in the mid-1990s. The merger had resulted in a group structure that had been established for tax purposes, comprising a parent company that provided finance and administration support to the subsidiaries: two HAs (HA-1 and HA-2), a property maintenance subsidiary, a subsidiary providing residential care to old and infirm residents, and a subsidiary whose role was to rent homes at market rents as a means of diversification to generate additional income for the HAs. In 2006, the group managed some 7,200 properties (including 1,300 sheltered properties for older people) with an asset value of £260 million funded by borrowings of £124 million, generating an annual turnover of £32 million. Q Group had adopted charitable rules for its two HAs to avoid corporation tax.

Boards of HAs comprised a mix of independent members, local authority councillors (to protect the interests of tenants), and tenants themselves. Board members were volunteers, some occupying positions on one board and some on two or even three boards within the group. After the merger in 2002, there were 57 board positions with 37 members occupying those positions. Table I shows the composition of the group.

The executive team comprised a chief executive, finance director and directors for housing management and maintenance (the same person occupied the role in relation to both HAs), land acquisition and property development, residential care and property maintenance. As for most other HAs, the executive directors who managed the business on a day-to-day basis did not occupy board positions, although they attended board meetings.

Shareholders

HAs are run as businesses although they are non-profit-distributing, with any surplus being reinvested to maintain existing homes and help finance new ones. Most HAs are companies limited by guarantee, registered under Industrial and Provident Society legislation. They have shareholders, who contribute £1 and are limited to a single non-transferable share. Most shareholders are board members and/or tenants and certain prescribed others but the number of shareholders in any HA is typically very small. They have no rights whatsoever to dividends or returns of capital, but they do have rights in annual general meetings to vote on the appointment of directors and auditors, adopt the financial statements and approve changes to the Memorandum and

Table I.
Composition of boards in Q Group in 2002

	Independent	Local authority	Tenant	Total
Parent	9	2	2	13
HA-1	8	3	4	15
HA-2	7	2	4	13
Property maintenance	5		1	6
Residential care	5			5
Market rental	5			5
Total	39	7	11	57

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Articles of Association. Shareholders had no effective power in HAs, nor did they seek to exercise any power during the field study, although individuals did exercise their voice as tenants.

Tenants

Each tenant has a tenancy agreement with the HA as landlord and the Housing Corporation Tenants Charter establishes best practice, with an independent Housing Ombudsman addressing any conflicts between landlord and tenant. All changes affecting tenants undergo an extensive consultation process, a requirement of the Housing Corporation. Tenant satisfaction surveys showed that in general, tenants were satisfied with the service provided (which tended to focus on speedy response to maintenance issues). This was a particular focus of the Audit Commission's inspection of Q Group in 2005. Tenants were able to exercise power through a Tenants' Association, although board members who were tenants sometimes raised issues at board meetings. The power of tenants arose largely because board meetings took a moral rather than a contractual position as to what was best for tenants due to the clear social ethos amongst the board and senior management. This ethos was reinforced through board recruitment, training and socialisation of board members and the origins of the HA itself. This ethos was evidenced by numerous decisions that for example, provided choice in accommodation for tenants, even though such choice could not be justified on any economic rationale.

Regulator

The regulator is the Housing Corporation, a non-departmental public body, which under the Housing Act, 1974 has regulatory and funding power over HAs. Funding takes place through "affordable housing grants" for new housing development. Regulation takes place through the publication of best practice guidelines, reinforced by regular reporting, performance measurement comparisons and inspection by the Audit Commission. Q Group had good relations with the regulator. The Chief Executive and Chair of Q Group both regularly met with the Housing Corporation's Lead Regulator, who also attended sample board meetings as part of the regulatory overview. The motivation for regulation was the provision by HAs of homes for people where much of the rental was funded from social welfare payments, i.e. the "housing benefit". The regulator has the power to intervene in (i.e. take control of) any housing association with which it is dissatisfied as to governance, effective management or financial viability.

Lenders

HAs are considered by lenders to be extremely low risk. The private funding market for HAs developed because there was security for lenders both through the value of the housing assets and the virtually guaranteed income stream flowing from those assets. The drive towards privatization and commercialisation of the public sector led to the transfer of much housing stock from local authority control to HAs using such private finance. Quarterly meetings were held between the lenders and Q Group's Finance Director and no problems were experienced with the borrowing covenants or any aspect of the organizations' financial standing. In fact, over the study period Q Group achieved several interest rate margin reductions as a result of its performance

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and the confidence level of its lenders, although competitive pressures did influence the lenders' decisions in this regard.

Stakeholder salience

The relations with stakeholders are essentially contractual rather than moral ones, based on legislation (the Housing Corporation), lending covenants and tenant leases. However, moral imperatives beyond legal enforcement were evident at virtually all board meetings, where the ethos of the boards to satisfy tenants beyond the scope of the lease was evident. Because of its power over funding new housing, monitoring and intervention, the regulator was considered by board members on all boards to be the most important stakeholder. Lenders also had a very high status as stakeholders because of the covenants supporting their loans and the regular meetings and reporting to ensure continuing financial viability. This status was not as high as the regulator because they were less able or willing to intervene in a HA unless there was risk of imminent financial failure.

Government reforms

A number of changes took place after 1999, all directed at forcing HAs to be more efficient and thereby reducing the overall government contribution to affordable housing. Best Value was introduced in 1999 following its implementation in local authorities. It was supplemented by the first publication in 2001 of comparative performance indicators, emphasising service delivery to tenants, and in 2003 by the introduction of an Operating Cost Index. Mandatory efficiency savings were imposed through the requirement for an Annual Efficiency Statement from 2005.

There was a new emphasis on procurement, and the Decent Homes Standard in 2003 (Housing Corporation, 2000b) required all affordable homes to meet a specified standard by 2010, resulting in the need for a considerable expansion in investment by many HAs. The system of bidding for affordable housing grants encouraged HAs to compete against each other and to be more efficient (Housing Corporation, 2000a). Government reduced the size of the affordable housing grant and directed it to "development partners" comprising large HAs or consortia of smaller HAs with a preferred status. This led to a perception by HAs that "bigger is better" and to what became known in the industry as "merger mania".

Tensions in the boardroom

Each board had formal representation on other boards that was designed to ensure that all perspectives were listened to. However, these relations were complex, due to the large number of boards and board members, such that effective inter-board communication was impeded. Boards tended to take a provincial view of their functions and tensions emerged, not so much between individual board members, but between the boards themselves. These tensions to a large extent reflected the differing needs of stakeholders to whom each board saw itself as being aligned.

The major decisions made by HAs relate to property management, maintenance and investment in new properties. The merger had resulted in a parent company that was established as a service company to provide finance, administration, IT and management services throughout Q Group. The parent held no assets and recharged all its expenses to each subsidiary using various conventional formulae. The parent board saw its role as strategic and wanted to ensure that the Housing Corporation and

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lenders were satisfied with its performance. Consequently, it gave more salience to these stakeholders.

Whilst for Housing Corporation and financing purposes the parent was in the dominant role, attempts by the parent board to influence strategic direction met with obstruction by the two HA boards which held the legal ownership of all properties and provided the security for lenders. The two HAs were therefore in a powerful position within the group to make property management, maintenance and investment decisions. The HA boards saw their primary stakeholder as their tenants, a reflection of their moral as well as contractual obligations.

A second example of these tensions was between the two HAs and the market rental subsidiary. The HAs took a short-term view, preferring to invest in their own housing stock. The market rental subsidiary took a more strategic view that investing in their own properties would generate income which would in the medium to longer term be returned to the HAs with capital gains from subsequent sales. Over time, this would avoid the HAs being reliant on affordable housing grant. Whilst in both cases the stakeholders were tenants, the HAs' short-term view focused on current tenants and those on the council waiting list for affordable properties. By contrast, the market rental subsidiary board aligned itself with the private tenant market and with lenders who wanted to expand their investment in market rental properties.

The third example was the residential care subsidiary, which operated a nursing home and provided in-home care to aged and infirm people in their own homes. This was seen as meeting an important need for this client group. This subsidiary saw a need to expand its range of services to support residents in their own homes, delaying their eventual move to residential care, which was limited in capacity. The residential care board had aligned itself with a particular class of tenants, those in need of care, either in their own homes or in nursing homes and felt it was not being taken sufficiently seriously by the other boards within Q Group.

The fourth example was in relation to the property maintenance subsidiary. There were significant tensions in relation to the transfer price being charged by the subsidiary to the HAs for their maintenance requirements. This subsidiary carried a share of the group costs that stand-alone competitors would not have incurred, but the subsidiary was expected to set transfer prices that equated to arms-length prices offered by those competitors, many of which were small owner-operated businesses. It saw the HAs as its internal customers and therefore as its primary stakeholders but also felt hamstrung that it was unable to charge a higher price or sell its spare capacity on the open market.

The difference in salience given to each group of stakeholders was at the margins, but each board implicitly identified its own stakeholders. The parent board saw itself as managing the relationship with the regulator and lenders, and providing an at-cost service to the subsidiaries. HA-1 was dominated by independents and the chair was a chartered accountant. HA-2 had far less representation of members with a business background and was chaired by a tenant member. However, both HAs identified their current tenants as the most salient, with less importance given to prospective tenants, even though there was a significant council-maintained waiting list of people in need of housing. The market rental subsidiary had a more entrepreneurial spirit. Its long-term view to earn profits from the private rental was reinforced by its chair, an experienced property developer. The residential care subsidiary had a clear social focus,

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being chaired by a minister of religion, who together with a social worker were prime movers on welfare-related issues. The property maintenance subsidiary was dominated by people with building expertise and chaired by a building contractor.

The executive directors responsible for these activities carried out a group-wide function and reported to multiple boards. The structure of boards had been designed, not for operational reasons, but to minimise corporation tax. The composition of these boards reflected in large part the skills that were needed, but also reflected the personalities that could be expected to reinforce those skills. This is not to imply that any one board was superior to others, but rather that tensions between boards resulted from the salience given to different stakeholder expectations, reinforced by the composition of those boards.

The Q Group parent board had representation from all other boards, including the chairs of each of the subsidiaries, with additional independent members. It tended to reflect the tensions that existed between the boards themselves. Consequently, the parent board was hamstrung in its inability to enforce decisions, particularly with the HA boards. This led to substantial delays in implementing change as extensive consultation between boards took place. The two HA boards and the parent board had between 13 and 15 members which was not conducive to fast decision-making, whilst the other subsidiaries had a more practical five or six members (Table I). Some important decisions were taken by board members meeting for informal board meetings and away days to discuss strategy. Other decisions were made by cross-Board working groups. These meetings tended to be more productive than formal board meetings. However, delays still occurred as these decisions had to be ratified formally by each individual board. The executive team referred on many occasions to the high cost of the governance process and the extensive executive time committed to agendas, board papers, meetings and action plans, often duplicated across each subsidiary.

Perhaps, the more important consequence of these tensions in the boardroom was the failure of Q Group to think and act strategically with confidence. This was frustrating to the executive team and to many board members who recognised the need to change. The failure of Q Group's application for development partner status with the Housing Corporation exacerbated this problem as it was felt widely that without growth the Group would become a marginal player compared with other, much larger HAs.

The governance improvement plan

The impetus for change came in 2003 with the release of the regulator's policy on Board Member Remuneration (Housing Corporation, 2003). This changed the situation that had prevented board members from receiving any payment for their services. This relaxation was in exchange for boards implementing a GIP. The total payment permitted was within a prescribed range that restricted the ability to pay more than nominal sums to board members.

The opportunity to pay board members was linked by the board to the ability to drastically change its governance structure in order to be more strategic, reduce the inter-board tensions and reduce the size of boards. This it was hoped would both reduce the administrative burden and enable the boards to operate more effectively. Q Group undertook extensive consultation with tenants, regulator and lenders over

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more than a year before finally deciding to pay board members, linked with a series of governance improvements. Commencing in October 2004, board members were paid annual fees (paid monthly) of £1,000 for membership of a single board, £3,000 for membership of two or more boards, with £7,500 being paid for chairs of boards, reflecting the additional responsibilities they held.

Q Group adopted the principles laid down for good governance by the Housing Corporation and the National Housing Federation. The first major outcome from the GIP was the rationalisation of the subsidiaries. The activities of the market rental subsidiary were transferred to the two HAs, but the function of market rental would continue within the HAs, at an increased level. The board members who focused on market rental would hold positions on the revised HA boards to ensure that focus was not lost.

The residential care subsidiary was also closed, with its business transferred into the two HAs. Again, the board members who focused on residential care would hold positions on the revised HA boards to ensure the continued importance of that function. Contrary to earlier scepticism by some board members, the activities of the residential care and market rental subsidiaries were effectively merged into the HAs. This gave greater voice to those aspects of the group's activities, more than they previously had as independent subsidiaries, although some tensions remained as to the relative importance of long-term investments for income generation purposes compared with provision of affordable housing to those in immediate need.

The friction between the HAs and the property care subsidiary was resolved following an in-depth study of competitor prices and the establishment of a service level agreement with the HAs that enabled the subsidiary to make a small profit. There was an acceptance by the HAs that this could be justified by the superior level of service the subsidiary was able to provide, together with the recognition that if the subsidiary failed the HAs would have to bear a larger share of the corporate costs. As its activities were unregulated, the property maintenance subsidiary was to remain as a separate function, and increase its business from external sources (other HAs without an in-house maintenance function). With the new transfer price mechanism established, the property maintenance subsidiary found the opportunity to be far more strategic, developing a business plan that enabled it to service its primary internal customers whilst generating external work to improve its capacity utilisation and profitability.

The Q Group parent would also remain unchanged, providing services to other members of the group. However, there would be cost savings through the elimination of two boards. Discussion did take place in relation to merging the two HAs into a single one, but these were deferred, as the proposal met stiff opposition from both HA boards.

Each board member signed an Agreement for Services that covered their appointment for three year terms up to a maximum of nine years; a time commitment of at least a half-day per week; the role of the board; code of conduct, etc. Board member appraisals were carried out, comprising self-evaluation followed by a meeting with the chair of their board and an independent board member. These resulted in feedback to board members and their chairs, and the identification of training needs. Individual appraisals were followed by composite assessments of board effectiveness by the boards themselves, and an independent review of governance by the (outsourced) internal auditors.

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The second major outcome was the reduction in size of boards. Some reduction in numbers of board members had taken place since the merger through natural attrition and these positions had not been replaced. A decision was made to reduce the number of members on each board. Table II shows the new board sizes with a comparison to the original number of board members taken from Table I.

The board size was therefore reduced from its post-merger level of 57 board positions held by 37 members (Table I) to 28 positions held by 23 members. About four executive directors filled a further five board places, formalising the position of the executive directors as board members. The rationalisation provided the opportunity to ask board members to resign where individuals had been identified through the appraisal process as not able to contribute effectively at board meetings, either through lack of time, understanding, preparation or commitment. Whilst a number of these were tenant members and independents, this was seen as improving the boards' overall ability, not diminishing its tenant focus.

In the year following the commencement of payment to board members, the numbers of board meetings increased, from quarterly to monthly for the two HAs, and to bi-monthly for the property maintenance board. Only the parent board retained quarterly meetings although the number of working groups, away days and informal board meetings increased significantly. Laptop computers were provided to all board members and intranet access enabled them to download board papers and view various performance measures and financial reports online. These changes provided an environment where a more strategic focus could be taken by boards and a greater balance achieved between the differing needs of stakeholders. This was the third major outcome of the GIP.

There was no evident change in the prioritisation of the main stakeholders, as this was influenced by external factors rather than factors over which the boards had any control. However, the relations between boards noticeably improved as they recognised the need to balance their sectional interests by accommodating the differing expectations and differential power of each stakeholder group. The rationalisation of boards and board members brought with it a clearer focus. The reduced number of board members allowed more attention to strategic issues, and facilitated clearer relations between the parent and subsidiaries on strategic issues, reinforced by cross-board membership. However, the more informal cross-board meetings at which many strategic issues were discussed became more prominent, and approval of recommendations at formal board meetings became easier. There was a more explicit reconciliation of the

Table II. Composition of boards in Q Group following GIP

	Independent	From HA-1	From HA-2	From property maintenance subsidiary	Executive	Total
Parent	4	1	1	1	2	9
Property maintenance subsidiary	3	1	1		1	6
		Local authority	*Tenant*			
HA-1	4	2	2		1	9
HA-2	4	2	2		1	9
Total	15	6	6	1	5	33

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competing demands of different kinds of tenants. There was an increased acceptance that more development was needed to address the longer-term need for more affordable housing; the need to provide a wider range of services to the infirm; and the ability to provide maintenance services to outside organizations.

A number of strategic approaches followed the implementation of the GIP. Having failed to achieve development partner status with the Housing Corporation, Q joined in with a consortium headed by one of the largest HAs in the region in order to access affordable housing grant. The consortium was successful in its bid for funds to develop new properties. A new property purchase scheme was initiated by the HAs with lender funding but with no government financial support, which helped tenants towards home ownership, an investment involving £10 million. A new retirement village with 90 homes for independent living for older residents was commenced, with a £15 million investment from Q Group's own funds and with lender support but again without government funding. The property maintenance subsidiary found new external work with other HAs. There was also an increased attention to feasibility studies for further large-scale property developments.

These initiatives arose from a renewed strategic vision to use the group's internal funds, supported by borrowings, to engage in activities that government supported but were unwilling to fund. Initiatives that had previously stalled gained prominence. Prior to the GIP, these activities had frequently been on board agendas but had come to no avail due to the tensions described in this paper. The boards themselves accepted that these changes were a result of fewer boards, fewer board members and the payment of board members that legitimised them within the group, but more importantly gave them a renewed sense of worth and confidence in their role and a motivation to act rather than wait for the executive. The executive directors, who had previously felt that the boards had impeded plans to expand their operations, were more satisfied as a result of the restructuring that their plans were now receiving more board support. As the chair of the parent said in the 2005/2006 Annual Report, the restructuring of boards in the GIP was aimed at better "reflecting the communities in which we work".

Discussion

Q was not a non-profit organization. Rather it was a non-profit distributing organization that needed to generate an accounting surplus to ensure reinvestment in property maintenance and future development activity. However, its status as quasi-public was clear, given its transfer from the public sector and its function in providing affordable housing to those who could not afford market rents. Despite Q being quasi-public, government funding continued (albeit reduced) through the housing grant for new home construction and the payment of housing benefit to many tenants, which was a significant contributor to the rental income earned by Q. However, the majority of investment funds were contributed by private sector financial institutions. As a result of this status, the field study of Q Group is more representative of non governmental organizations, existing at the intersection of both private and public models. The uniqueness of Q Group's structure was the absence of a strict hierarchical structure of board control. This provided a rich description but should not invalidate generalisation to more typical organizational structures.

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Stakeholders

The field study is an example of the broader focus of governance (Fligstein and Freeland, 1995) not only on an economic concern of the regulator but also a broader social concern for those in need of affordable housing. This is consistent with the stakeholder-agency perspective, in which we have shown the role of governance in balancing the needs of different stakeholders in terms of both economic and social concerns. The importance of stakeholders was a moral and ethical issue in this field study, as well as a legal-contractual one as all three of Q Group's stakeholders were primary or contractual stakeholders (Carroll, 1989). There were no shareholders in a practical sense in Q but the regulator and lenders had substantial power that was a major concern of the boards in satisfying their accountabilities. Tenants had voice both directly and through their Tenants' Association. In this study, the "stakes" of employees and suppliers were bracketed-off to concentrate on tenants, lenders and the regulator.

However, contrary to Unerman and O'Dwyer (2006) the field study did exemplify the accountability, not only to lenders but also to service recipients. This should not be seen as an either/or "upwards" versus "downwards" accountability, but as a multiple (tripartite in this field study) accountability, admittedly with differences in stakeholders salience and prioritisation. Unlike O'Dwyer (2005), Q Group was clear about and committed to its accountabilities to its three stakeholders.

Contrary to Donaldson and Preston (1995), it was evident that differential power led to the need to prioritise stakeholders (Gray *et al.*, 2006) in Q Group. Stakeholder analysis (Burgoyne, 1995) was not an explicit approach undertaken, but was implicitly taken for granted by each board within Q Group, each prioritising a different stakeholder depending on the role and function that the board had carved out for itself. Consistent with survey research by Wang and Dewhirst (1992), this field study found that the boards took a broad view of their accountabilities to stakeholders, although different boards privileged certain stakeholders over others and the industry regulator was in a dominant position, supporting the findings by Yamak and Suer (2005). Improving stakeholder relations by a more strategic approach was a motivating factor for Q Group's GIP. Stakeholder analysis and salience may therefore be either explicit or implicit in the stakeholder-agency approach.

Consistent with Post *et al.* (2002), the field study showed that benefits to one stakeholder were not accompanied by a cost to other stakeholders. The network of stakeholders were such that the regulator provided the operating framework and close supervision, lenders provided funding in return for security, both of which made possible the provision of affordable housing for tenants. Accountabilities were tripartite and not mutually exclusive. This recognition is an important element of a stakeholder-agency model. Whilst prioritisation of claims did exist because of differential power, a holistic view is that multiple accountabilities were mutually reinforcing rather than competing.

The contracts with the stakeholders of Q Group were formalized but unequal (Hill and Jones, 1992). In the field study, prioritisation reflected the relative power of each stakeholder to influence Q Group; the legitimacy of their relationship with Q Group; and the urgency of their claim (Mitchell *et al.*, 1997). Survival depended on satisfying the regulator and lenders, with tenant choice and satisfaction under tenancy contracts less important. There was little evidence in the field study of changes in critical relationships or issues over time (Post *et al.*, 2002) other than the emergence of external customers as stakeholders who were seen as more important after the GIP.

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Consequently, the stakeholder-agency model reflects the relative power, legitimacy and urgency of stakeholder claims, which factors can change over time.

Stakeholder-agency theory

The field study presents a rich, empirical study of the context, causes and early consequences of the implementation of Q Group's GIP. The field study reveals evidence of all four forces operating on companies as identified by Jensen (1993). Capital markets can be seen in the action of private sector lenders who finance the bulk of affordable housing assets. The legal/political/regulatory system can be seen in the role of the Housing Corporation as industry regulator. Factor markets were less in evidence in this field study but product markets were reflected in the central position of tenants – albeit in different "classes" reflecting their different needs – as the consumers of the organization's activities. Finally, the board of directors provided an integrative mechanism which was more effective after the implementation of the GIP. The field study shows how each of the boards in Q Group reflected different stakeholder interests and how the GIP was aimed at improving the effectiveness of this process.

Stakeholder-agency theory (Hill and Jones, 1992) has the potential to be developed to provide a useful framework to explore the role of governance in stakeholder accountability. The value of this approach is that it reflects a nexus of contracts between a multiplicity of stakeholders, but is capable of reflecting the differential power of those stakeholders. However, it is argued that the fulcrum of stakeholder-agency theory should be governance, as it is the role of a board of directors rather than managers to prioritise the claims of stakeholders, and to be accountable to those stakeholders, particularly where their claims may compete. Whilst, Hill and Jones (1992) argued that managers control the decision-making apparatus, the governing body more accurately takes this role, even though it may delegate day-to-day matters to management. Importantly, the board is unable to delegate to management its accountabilities to stakeholders, and neither can it delegate to management the prioritisation of the differing claims of those stakeholders.

Changes in the composition of the restructured boards through the GIP were important elements of this restructuring. Whilst the boards could be considered as comprising "elite volunteers" (Greer and Hoggett, 1997), this distinction eroded as the elite volunteers became paid members and senior managers joined the board. Natural attrition of board members, the introduction of an agreement for services and payment, performance appraisal and training all contributed to the increased professionalism of the board. Perhaps, most importantly, a sense of social ethos towards tenants was common to board and executive which effectively melded the culture as one. This common culture was reinforced by the inclusion on the HA boards of members from the previously separate subsidiaries who represented the interests of particular stakeholders. As such, the effectiveness of board members, even as perceived by senior management, could no longer be dismissed as readily as Greer and Hoggett did. It is unlikely that this shift towards a more common culture could have been achieved in this study without the GIP.

The field study provides evidence of how stakeholder-agency theory (Hill and Jones, 1992) can be developed by incorporating various aspects of stakeholder theory introduced earlier in this paper, in order to provide a more comprehensive understanding of the role of governance in stakeholder accountability. The field study

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is an example of an attempt to improve structures and processes in order to improve decision-making, accountability and control at the top of the organization. The field study also identified the boardroom tensions, between the various boards in Q Group, rather than within any one board. Therefore, the stakeholder-agency model should also reflect the importance of board culture.

Contrary to Jensen, the organization did proactively restructure itself in the absence of crisis, although there were strategic reasons for that restructuring, to enable the group to grow, improve its performance and continue to satisfy all its stakeholders. However, it could be argued that the possibility of crisis that might emerge through inaction was a motivating force[1].

Figure 2 shows a revised stakeholder-agency model to proposed in Figure 1 and identifies the central role of governance being influenced by structures and processes and by culture. It also shows that interests do not necessarily compete but can be reconciled through the ethos of the governing body.

Conclusions

This study has focused on the broader accountability of organizations in terms of the power of stakeholders with their differing interests. Accountability requires governance and a stakeholder accountability perspective is the only available option for organizations like Q Group, non-profit distributing, quasi-public organizations with social welfare objects. Q Group aimed to transform its governance structure to improve its efficiency and effectiveness, with one of its intentions being to improve its ability to satisfy its multiple but not mutually exclusive accountabilities. However, not all stakeholders were equal and on each of the dimensions of power, legitimacy and urgency (Mitchell *et al.*, 1997) the board explicitly or implicitly identified and prioritised the salience of each stakeholder. Improvements in governance were aimed at, and largely successful in improving the internal relationships within the structure of semi-autonomous boards. Appropriate strategies were implemented to meet external stakeholder demands in a changing environment, as much as the changes were concerned with improving efficiency.

It has been argued that these stakeholder claims, whilst being different, were not competing but complementary given the social ethos of the organization. In the field study, different boards within Q Group gave voice to different stakeholders, which in some sense they saw themselves as "representing". Board culture was clearly

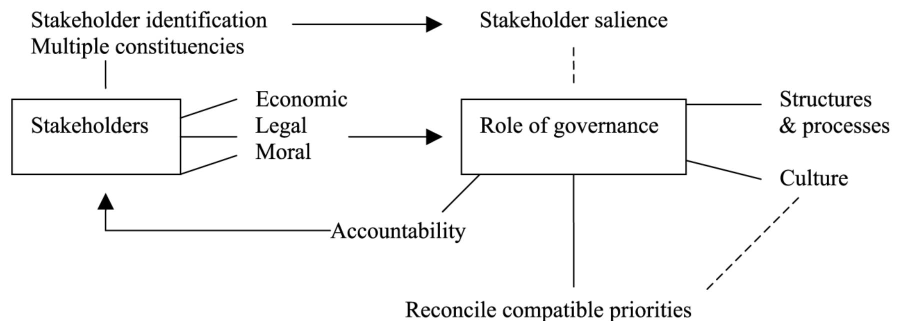

Figure 2.
Revised stakeholder-agency model

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important (Jensen, 1993) and the changes brought about by the GIP in Q Group showed that board performance could be improved.

The firm is a nexus of contracts between all stakeholders in which there are power differentials. Stakeholder-agency theory (Hill and Jones, 1992) has been developed by identifying governance at the centre of differing rather than competing contractual relationships with stakeholders. Boards of directors in quasi-public organizations have both an economic concern with efficiency and a broader social concern. Stakeholder-agency theory is re-focused on the role of the board as being accountable to multiple stakeholders, prioritising explicitly or implicitly the different (rather than competing) claims of those stakeholders. The relative power, legitimacy and urgency of stakeholder claims are factors that can change over time. Whilst board accountabilities may be multiple, these accountabilities may not be mutually exclusive but may be mutually reinforcing.

The stakeholder-agency approach involves a combination of structures and processes but also highlights the importance of an appropriate board culture. Although restructuring may not necessarily be driven by crisis, a desire for incremental improvement is important to bring about change in how differing stakes are managed by the board.

There are research opportunities that emerge from this study. Firstly, this has been an exploratory study, in a single setting with some unique characteristics that could be tested through field studies or by a broader survey-based approach. The structural novelty of this case has been as an example of internal (boards) and external stakeholder relationships with no dominant parent-subsidiary relationship and no shareholders. Whether there is a contingent explanation for the present field study, or whether its structural novelty is irrelevant to the development of stakeholder-agency theory is a second opportunity for further research.

Note

1. The author is grateful to an anonymous reviewer for making this point.

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Corresponding author
Paul M. Collier can be contacted at: paul.collier@buseco.monash.edu.au

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