



Non-executive Directors in the Profit and Non-profit Sector: A Different Approach Towards Governance?

Mijntje Lückerath-Rovers*, Luc Quadackers, Auke de Bos

Abstract

After the recent scandals and the introduction of new corporate governance codes, non-executive directors (NED's) and supervisors have started playing an increasingly important role in providing the 'checks and balances' of organizations. Little is known about the way in which NED's fulfill their supervisory role. This article compares NED's in profit organizations to those in non-profit organizations. The underlying research is only exploratory. The article is a closer analysis of the results obtained from the Dutch Non-executive Directors Survey 2007¹. The results show that significant differences exist between NED's in profit and non-profit organizations. The practical relevance of this study is that it aims to highlight the differences of NED's within non-profit and profit organizations. An analysis of the differences may lead to a debate within society.

Keywords: Corporate Governance, Non-profit organizations, Non-executive directors, Survey.

Introduction

This article presents a study investigating the differences between non-executive directors (NED's) in profit organizations and non-profit organizations in The Netherlands. In profit organizations a balance must exist between *shareholders* and the executive directors, the latter being supervised by the non-executive directors. Non-profit organizations focus more on the balance between *stakeholders* (mostly society and government) and executive directors (Aartsen, Keet & Peij 2006). The distinction between profit and non-profit organizations also refers to differences in the concept of ownership. The difference between these viewpoints is part of the 'shareholder versus stakeholder' dilemma. Steane and Christie (2001) argue that governance with a shareholder-focus is aimed specifically at efficiency and profit-maximization, while governance with a focus on stakeholders is primarily concerned with bringing the various interests in line. As Gomes & Gomes (2008, p.265) summarize: 'in order to evaluate the performance of a public organization one has to measure in which sense the expectations of different stakeholders are satisfied. Therefore managers need to know exactly who they are and what they expect as outcome.' The difference between the shareholder and stakeholder approach in governance is thus, in essence, a difference in motivation: the first approach concerns a utilitarian point of view of

what characterizes directors and supervisors, the second is based more on connectedness and affinity amongst stakeholders within the motives of directors and supervision (Steane and Christie (2001)).

As a result of this, NED's may have a different focus when supervising profit organizations than they do when supervising non-profit organizations.ⁱⁱ This article provides a starting point for research whether, and how, this focus between NED's within profit and non-profit organizations differs. This article focuses specifically on differences in characteristics, views and practices of the 392 NED's that have participated in a survey of which the results have been presented in the Dutch Non-Executive Directors Survey 2007 (De Bos, Lückerath-Rovers & Quadackers 2007). The results only concern the differences in answers to questions from the survey without analyzing these differences. Therefore, this study is primarily descriptive in nature and should only be used as a rough guideline for future research.

The article proceeds as follows. The second section highlights some important differences between the profit and non-profit sector and presents the research question. The third section describes the methodology and the dataset. The findings are presented in the fourth section and are ordered according to five paragraphs from the Dutch Corporate Governance Code (Nederlandse Corporate Governance Code) concerning the board of directors: profile of the director, duty and work approach, independence, expertise and composition, and remuneration.ⁱⁱⁱ The fifth section summarizes and concludes the article.

Differences Between Directors in Profit and Non-Profit Sector

Listed companies form an important component of the profit sector.^{iv} Listed companies that have their statutory seat in The Netherlands fall under the Dutch Corporate Governance Code. This code is legally embedded because all companies that are covered by this Code – by law - need to apply the “comply-or-explain” principle in their annual reports. The Code assumes that the corporation is a long term partnership of the various parties involved with the corporation (stakeholders). The (two-tier) Board of Directors play an important role in balancing the various interests, often aimed at continuing the corporation. In this way, the corporation aims to create shareholder value in the long term. Aforementioned notwithstanding, originally the Corporate Governance Committee was supposed to take the capital market as its primary focus (Corporate Governance Committee 2003, p.66). The specification of the Code is mostly concerned with the relation between shareholders, executive directors and NED's (as well as accountants).

Whereas profit organizations often must strike a balance between shareholders, executive directors and NED's, non-profit organizations must take into account more explicitly stakeholders such as society and government (Aartsen, Keet & Peij (2006)). Aartsen, Keet & Peij (2006) state that this is due to, amongst other things, the fact that non-profit organizations receive means through taxes, government subsidies or contracts with the local governments and that therefore the public interests are more important to non-profit organizations. This large public stake may result in a greater expected degree of accountability and transparency than is expected of profit corporations (see Dawson and Dunn (2006, p.33)). In other words, “Accountability moves beyond an economic focus” according to Dawson and Dunn (2006, p.33).

For instance, in the healthcare sector, the Commission Health Care Governance (Committee 'Meurs') has formulated a code of conduct for supervisory tasks in the Healthcare-sector (Commissie Health Care Governance 1999). The Committee Meurs says the following about the governance of non-profit organizations and that of corporations: ‘non-profit organizations have no shareholders, so the question becomes to whom the directors and supervisors are accountable. The social task of non-profit organizations, and in particular health care

organizations, demands more from proper directing of and adequate supervision on those organizations and requires methods for being accountable to stakeholders.' Analogous to this statement is, according to Aartsen, Keet & Peij (2006) the situation with housing corporations. Most corporations are foundations in which the directors are accountable to themselves. Second, it is more difficult for housing corporations, when compared to companies, to decide who the stakeholders are.

Another difficulty in governing a non-profit organization is put forward by Carver (2001, p.55). He describes different ownership concepts that apply to different types of organizations; for equity corporations ownership is represented by shares, for some non-profit organizations ownership is represented by membership, or may be more akin to the "moral" ownership of social contract, rather than based on a legal contract'. The 'link between ownership and board is tantamount to the relationship between principal and agent' he argues (p.65), yet public boards have little exposure to the public or their owners. This has as a consequence that public boards spend more time on staff issues rather than improving the connection with ownership and also makes them more vulnerable to lobbyists, pressure groups *et cetera* who represent themselves but not the public.

How is all this reflected in the corporate governance codes of the non-profit sector? Within this framework, the effect of *mimicking* is relevant (see Steane and Christie (2001)). Steane and Christie (2001) define *mimicking* as follows: creators of non-profit corporate governance codes will often be guided by the most important codes from the profit sector. In The Netherlands, this means that various non-profit sectors would use the Dutch Corporate Governance Code as their starting point; this is indeed observed in reality. For instance, the Governance Code Housing Corporations shows a striking resemblance (in structure) to the Dutch Corporate Governance Code.^v Despite this, a corporate governance code that covers all of the non-profit organizations seems difficult to realize. This is the result of the diversity of non-profit organizations, in terms of legal form as well as their multiplicity of stakeholders (Dawson and Dunn (2006)).

In conclusion, we can say that primary stakeholders of profit organizations generally are different from the primary stakeholders in non-profit organizations. These differences could lead to the conclusion that NED's of non-profit and profit organizations fulfill their tasks differently. This in turn gives rise to the question whether or not NED's differ in the interests they defend based on the type of organization they work for (non-profit or profit). Prior research shows that important differences do indeed exist (see for example Steane and Christie (2001)). No such study has been performed yet for The Netherlands. A first image of the differences can be formed by comparing characteristics, opinions and methodologies of NED's in the Dutch profit and non-profit organization. This leads to the following research question.

Research question: What differences exist between NED's in profit organizations and non-profit organizations in terms of their characteristics and opinions?

Methodology and Dataset

Over 3,000 NED's have been approached with the request to participate in a survey about the role of the director. In total, 420 NED's returned the survey, of which 392 surveys were useable for this article. The response ratio (13.1%) is above average when compared to similar research (see De Jong *et al.* (2007)). The NED's were asked questions in the following categories: profile of the director, duty and work approach, independence, specific knowledge and remuneration. The director was requested to keep in mind the most appealing directorship when answering the questions.

The sample that resulted comprises a broad spectrum of NED's. The sectors that were defined are listed companies, non-listed companies excluding family owned businesses

(from now on: “non-listed companies”), non-listed companies being family owned businesses (from now on: “family businesses”), health care institutions, housing corporations and a category called ‘various’.^{vi} In order to analyse the differences in characteristics and answers between the NED's, we used the Pearson Chi-Square and the T-test. The Pearson Chi-square test tests the null hypothesis that the given answer in the survey (for example, highest educational level) is independent of how these observations are divided into the two subgroups (profit versus non-profit NED). The chi-square test was applied to the questions with a non-numeric response. The T-test tests the null hypothesis that the mean of the two sub-groups is independent of the distribution of these groups. The t-test was applied to questions with a numerical answer (for example, age). A logit-analysis was conducted to analyze whether the combination of demographic characteristics increase the prediction accuracy whether a NED is with a profit or non-profit organization (dependent variable takes the form of a dummy-variable, 1 if NED is with profit organization, 0 otherwise).

Table 1 shows the number of NED's divided over the seven types of organizations present in the sample. The Table shows that 62% of the NED's is employed by a profit organization and 38% by a non-profit organization.

Table 1. Description of Dataset

	All NED's	
	n	%
PROFIT		
Listed company	73	18.6%
Non-listed company	128	32.6%
Family owned business	36	9.2%
Various	<u>7</u>	<u>1.8%</u>
Total profit	244	62%
NON-PROFIT		
Health care institution	60	15.3%
Housing corporation	60	15.3%
Various	<u>28</u>	<u>7.1%</u>
Total non-profit	148	38%
Total dataset	392	100%

RESULTS

Profile of the NED's

Table 2 lists six characteristics of the NED's: age, number of years the NED has been a director, age at which first directorship was accepted, the highest education finished, number of directorships, and the number of chairman positions.

The profile of the NED's for the entire sample shows that the NED is, on average: 58 years of age, has been a director for ten years, started his first (non-executive) directorship at age 49, has three directorships, one of which he is chairman. Furthermore, a large majority (74%) has an academic degree. Almost all of the characteristics are (statistically significant) different between the two groups of NED's, with the exception of the age at which the first directorship was acquired as well as the highest education finished.

Table 2. Profile of the Director

	All NED's		Profit NED's		Non-profit NED's		T-Value
	n	Mean	n	Mean	n	Mean	
Age	392	58	244	59.1	148	56.7	3.0***
Number of years of being a NED	384	10	240	10.3	144	8.4	2.6**
Age first directorship	384	49	240	48.9	144	48.3	0.7
Number of directorships	392	3	244	3.0	148	2.1	4.9***
Number of chairmanships	390	1	243	1.0	147	0.8	2.0**
	n	%	n	%	n	%	chi-square
University as highest education	390	74%	242	76%	148	70%	2.7
Percentage female NED's	392		244		148		20.8***
Male NED's	343	88%	228	93%	115	78%	
Female NED's	49	12%	16	7%	33	22%	

Significance: *= $p < 0.1$; **= $p < 0.05$; ***= $p < 0.01$

While the characteristics of the NED's might correlate we also performed a logit-analysis to see whether the above mentioned characteristics are significant predictors to classify the NED as either a profit or non-profit NED. The dependent variable takes the form of a dummy-variable, where non-profit NED's take the value 0 and profit-NED's the value of 1. The independent variables are the above-mentioned characteristics of the NED's, excluding the years of experience as a director (while this is a function of age and age when obtaining first directorship) and the number of chairman positions. Table 3 shows the results.

Table 3. LOGIT-Analysis

Dependent variable: 1 if NED with profit organization 0 if NED with non-profit organization	B	S.E.
Constant	-0.128	1.12
Age	0.023	0.02
Age first directorship	-0.005	0.02
Number of directorships	0.29***	0.08
Educational degree (dummy-variable)	0.078	0.18
Gender (male=1, female=0)	-1.252***	0.34
Nagelkerke R2	0.15	
Classification accuracy	65.7%	
Chi-square	45.0***	

Significance ***= $p < 0.01$

Based on the composition of the sample the classification accuracy of a random model would classify 62.3% of the NED's correctly in one of the two subgroups. In a model where the different characteristics are introduced, the classification accuracy increases to 65.7% (significant at $z < 0.00$). Only two independent variables are significantly contributing to the classification accuracy of the logit-model; the gender of the NED ($p < 0.00$) and the number of directorships ($p < 0.00$).

The most conspicuous difference in Table 2 is the percentage of female NED's in the sample and the logit analysis in Table 3 confirms gender is a distinguishing characteristic between profit and non-profit NED's. On average, 12% of the NED's is female; this is however 7% in the profit sector versus 22% in the non-profit sector ($p < 0.01$). This is remarkable because the discussion about more diversity in the board of directors is also often brought along the lines of the shareholder versus stakeholder approach. The board of directors should give a better representation of all the stakeholders than the homogeneous group it is now (See a.o. Walt and Ingley (2003), De Bos, Lückcrath-Rovers & Quadackers (2007)). These results point in

the direction that non-profit organizations are indeed more focused towards the stakeholder perspective than profit organizations, when considered from the standpoint of diversity.

Duty and Work Approach

Table 4 shows the results of the questions regarding the duty and work approach of NED's. First, nine questions were asked in which the NED could answer *yes* or *no*, for instance whether his or her type of work had changed after the implementation of relevant corporate governance codes and whether the advantages of a relevant governance code were greater than its disadvantages. When taken together, the NED's as a group have experienced a change in the type of work. Also, 85% believe that the advantages were bigger than the disadvantages of codes. When responding to the questions whether internal or external experts were invited in board meetings, some 96% and 81% of the NED's indicated that this indeed does happen. This leads to the conclusion that either the barrier to invite external experts is somewhat higher than to invite internal experts, or that internal experts are capable enough to respond to questions. Almost all of the NED's believe that they can adequately supervise management; only 67%, however counts supervising sustainable entrepreneurship as their duty. Only 15% of the NED's responds that there still is an old-boys network.^{vii} A small majority of the respondents indicate that they have a female member on the board. There are statistically significant differences between NED's in the non-profit sector and the profit sector regarding supervision on sustainable entrepreneurship ($p < 0.1$; 73% says yes, versus 63% in the profit sector), whether management is sufficiently supervised ($p < 0.1$; 91% says yes versus 95% in the profit sector) and whether females are employed in the board of directors ($p < 0.01$; 86% says yes versus 38% in the profit sector).

The NED was also asked whether he takes part in strategic decisions.^{viii} 57% of the 385 surveyed NED's indicates that he does participate in taking strategic decisions for the organization. On average, the director spends 12 hours a month on the directorship. Both questions show significant differences between NED's in the non-profit sector and their colleagues in the profit sector ($p < 0.01$ and $p < 0.05$ respectively). The director in the non-profit sector participates less in strategic decision making (50% indicates they participate heavily, versus 61% in the profit sector), but the director also spends less time on the directorship, on average. (10 hours versus 13 hours in the profit sector).

The last question in Table 4 regards the way in which NED's spend their time. The director was asked to rank, from one to five, five tasks on the basis of the time spent (one meaning most time, five meaning least time spent). On the basis of this ranking an average score is calculated (the weighted average number of times that the value one to five is assigned to a task). This means that the closer the score is to 1, the more often NED's indicate that on this task most time is spent. From the results it becomes clear that the most time is spent on strategy and risks and least time is spent on compliance with legislation. In terms of ranking of the supervisory tasks, the profit and non-profit sector do not differ. However, the score for 'strategy and risk' is significantly ($p < 0.01$) lower for profit than it is for the non-profit sector. This means the profit sector gives strategy a higher priority. In other words, the profit sector put this aspect in first place more firmly.

Table 4. Task and Methods

	All NED's			Profit NED's			Non-profit NED's			Chi-square
	n	Yes	No	n	Yes	No	n	Yes	No	
In your experience, did the type of work change after implementation of governance codes?	389	62%	38%	243	59%	41%	146	67%	33%	2.4
Do you think the advantages of governance code applicable to your organization are greater than its disadvantages?	348	85%	15%	212	83%	17%	136	88%	12%	1.9
Are internal experts invited to meetings of the board to expand upon issues?	389	96%	4%	242	96%	4%	147	95%	5%	0.9
Are external experts invited to meetings of the board to expand upon issues?	389	81%	19%	243	79%	21%	146	85%	15%	1.8
Does the board of directors govern the way in which the organization implements sustainable entrepreneurship?	389	67%	33%	243	63%	37%	146	73%	37%	3.5*
In your opinion, can the board of directors adequately supervise management?	389	94%	6%	242	95%	5%	147	91%	9%	2.9*
Do you feel that the board of directors is still mainly an 'old-boys network'?	390	15%	85%	243	15%	85%	147	16%	84%	0
Are any females employed in your board of directors?	391	56%	44%	244	38%	62%	147	86%	14%	85.7***
Contribution to strategic decisions	n	Some what	Many	n	Some what	Many	n	Some what	Many	Chi-square
As a director, how much do you contribute to the strategic decisions within your organization?	385	43%	57%	243	39%	61%	142	50%	50%	11.0***
Hours spent per month	n	Mean		n	Mean		n	Mean		t-value
On average, how many hours do you spend on this directorship per month?	383	12		239	13		144	10		2.3**
Supervisory tasks	All NED's			Profit NED's			Non-profit NED's			
Rank the supervisory tasks below from 1 to 5 on the basis of the time you spend on it as a director		Rank	Score		Rank	Score		Rank	Score	t-value
• Strategy and risks	381	1	2.0	236	1	1.9	144	1	2.2	2.7***
• Realisation targets	381	2	2.5	237	2	2.5	145	2	2.4	0.4
• Financial reporting	382	3	2.8	237	3	2.9	145	3	2.8	0.5
• Internal risk management	381	4	3.2	237	4	3.3	144	4	3.1	1.1
• Compliance with the law	380	5	4.4	236	5	4.5	144	5	4.3	1.6

Significance: *= $p < 0.1$; **= $p < 0.05$; ***= $p < 0.01$

With respect to the duties and procedures of the director we come to the conclusion that especially the direction of supervision is being explained differently by NED's active in profit organizations versus non-profit organizations. Even though both groups spend most time on strategy and risks, the NED's in non-profit organizations often feel that they are less involved with strategic decisions and less often can adequately supervise management. On the other hand, the NED's of the non-profit sector do more often feel that supervision of sustainable entrepreneurship belongs to their field. The results indicate that NED's in non-profit experience their task setting differently than NED's in the for-profit sector do.

Independence

Table 5 shows the results of the question whether the board of directors meets the demands for independence. In the survey it was not explained what the requirements for independency are. Research shows that despite the fact that in the various codes the criteria of independence are established, individuals use their own interpretation of independence to qualify as independent versus dependent (see, *inter alia*, De Bos, Lückerath-Rovers & van Zijl (2008), and Kroeze (2005)).

Table 5. Independence

	All NED's			Profit NED's			Non-profit NED's			Chi-square
	N	Yes	No	N	Yes	No	N	Yes	No	
Does your board of directors meet the demands of independence?	390	91%	9%	243	88%	12%	147	96%	4%	6.9***

Significance: *= $p<0.1$; **= $p<0.05$; ***= $p<0.01$

91% of the NED's report that the board meets the requirements of independency. This percentage is greater in the non-profit sector (96%) than it is in the profit sector (88%) and this difference is statistically significant ($p<0.01$). In the remarks to this question, reasons for not meeting these demands are, amongst others, that the board is dominated by a large shareholder or by other stakeholders.

The significant difference in independence as it is felt by NED's warrants further research. The difference could have arisen from a different perception of what the criteria for independence are (see also De Bos, Lückcrath-Rovers & van Zijl (2008), Kroeze (2005), and Bezemer *et al.* (2007)), or could be caused by – for instance – the profit aim of organizations, its management or the supervision thereof. It may be true that the management who is only interested in pursuing his or her own interests as described by the agency theory (Fama and Jensen (1983)) is less present in non-profit organizations and therefore less weight is given to independence of the supervisors.

Expertise and Composition

In the area of expertise and composition of the board, questions have been asked regarding the acquisition of the directorship as well as about the knowledge a director needs to possess. The results are tabulated in Table 6.

When asked if suitable people could be found to join the board, 95% of the NED's answered 'yes'. This percentage is the same for the profit and non-profit sector. 66% of the NED's indicate that it is important to have specific knowledge of a sector that you fulfill a directorship in. However, the NED's also often remark that not *all* NED's need to have this specific knowledge in a board. 69% of the NED's have come into their current position via co-optation or their own network. These questions also show no significant difference between NED's in the non-profit and the profit sector.

For six different themes, the director has been asked to rank whether i) knowledge of this subject is important (not at all, somewhat, very) and ii) how the director ranks his own knowledge in this area (insufficient, sufficient, good). The answers are converted to a weighted score, which score is the weighted average of the number of times the possible answers 'not at all important' (score 0), 'somewhat important' (score 1) or 'very important' (score 2) are given. In assessing their own knowledge in the same manner, the weighted score is calculated. The higher the score, the more important is the knowledge and the better the NED's assess their own knowledge. Notably, both the entire group as well as the differentiated group (non-profit and profit) indicate that having knowledge of strategy is the most important theme and also that personal knowledge of this theme is ranked highest by the NED's as well. Financial reporting takes second place, and corporate governance comes in third. Legal affairs are consistently ranked lowest, both with respect to the importance of knowledge as well as to personal knowledge. Significant differences can be found in the evaluation of personal knowledge regarding financial reporting ($p<0.1$; NED's in the non-profit sector score higher), personal knowledge of auditing ($p<0.05$; NED's in the non-profit sector rank this higher) and finally the importance of knowledge regarding corporate governance ($p<0.01$; NED's in the profit sector deem this more important). The results are consistent with our findings regarding rankings of supervisory tasks: here too, strategy was deemed most important and legal affairs were deemed least important (see Table 3).

Based on the above, few differences seem to exist between the two sub-groups in the sample with respect to the expertise of the director and the composition of the board.

Table 6. Expertise and Composition

	All NED's			Profit NED's			Non-profit NED's			Chi-square
	N	Yes	No	N	Yes	No	N	Yes	No	
Are you able to find suitable persons for the board?	386	95%	5%	238	95%	5%	148	95%	5%	0
Do you believe one should have specific knowledge of the sector for a directorship?	372	66%	34%	232	69%	31%	140	62%	38%	1,5
How did you obtain your directorship?				Co-optation/Network		Intermediary		Different		Chi-square
	All NED's			69%		14%		17%		
	Profit NED's			72%		13%		15%		
	Non-profit NED's			64%		16%		20%		
6,1										
	All NED's		Profit		Non-profit		T-value			
	Rank	Score	Rank	Score	Rank	Score				
How important do you feel the following items are?										
Strategy	1	1,7	1	1,7	1	1,7	1,1			
Financial reporting	2	1,5	2	1,5	2	1,5	0,7			
Corporate governance	3	1,3	3	1,4	3	1,2	3,0***			
Knowledge of sector	4	1,1	4	1,1	4	1,1	0,2			
Auditing	4	1,1	4	1,1	4	1,1	0,0			
Legal affairs	6	0,9	6	0,9	6	0,8	0,6			
How would you rank your own knowledge with respect to the following aspects?										
Strategy	1	1,7	1	1,6	1	1,7	1,3			
Financial reporting	2	1,5	2	1,5	3	1,4	1,4			
Corporate governance	3	1,4	3	1,3	2	1,5	4,2***			
Knowledge of sector	4	1,3	3	1,3	4	1,3	0,1			
Auditing	5	1,1	5	1,0	5	1,2	2,6**			
Legal affairs	6	0,9	6	0,9	6	0,9	0,6			

Significance: *= $p < 0.1$; **= $p < 0.05$; ***= $p < 0.01$

Remuneration

Table 7 gives the results of the six questions regarding remuneration of the NED's. In response to the question whether the remuneration has changed after the introduction of the specific codes, 28% responds that their pay has increased and 72% indicate that they receive the same amount. These percentages differ slightly between profit and non-profit organizations (30% of the NED's in non-profit organizations answer that their remuneration has increased versus 26% in the profit sector), but this difference is not significant. Although the reward has not increased for the majority of NED's, an even greater group indicates that their liability has in fact increased (43% indicate that their liability has changed). This percentage is significantly ($p < 0.1$) larger for NED's in the profit sector (46%) than for the non-profit sector (36%). Relatively more NED's in the profit sector carry liability insurance, but this difference is not significant (87% versus 81% in the non-profit sector).

Table 7. Remuneration

	All NED's			Profit			Non-profit			Chi-square			
	N	Yes	No	N	Yes	No	N	Yes	No				
Did your remuneration increase after the introduction of the governance codes?	385	28%	72%	241	26%	74%	144	30%	70%	0,8			
Did your liability change after the introduction of the codes?	390	43%	57%	244	46%	54%	146	36%	64%	3,7*			
Do you have a liability insurance for management / directors?	389	85%	15%	244	87%	13%	145	81%	19%	2,7			
	N	Yes	Yes, however ¹	No	N	Yes	Yes. however	No	N	Yes	Yes, however	No	Chi-square
Is your remuneration adequate?	380	56%	29%	15%	240	56%	31%	13%	140	56%	26%	18%	2,1
	N	Mean in Euros		N	Mean in Euros		N	Mean in Euros		T-value			
Estimated average hourly salary	383	124		239	155		144	64		7,9***			

Significance: *= $p < 0.1$; **= $p < 0.05$; ***= $p < 0.01$, ¹Yes, however a future increase would be justifiable

Figure 1 displays the percentage of NED's specified per remuneration category both for profit and non-profit organizations.

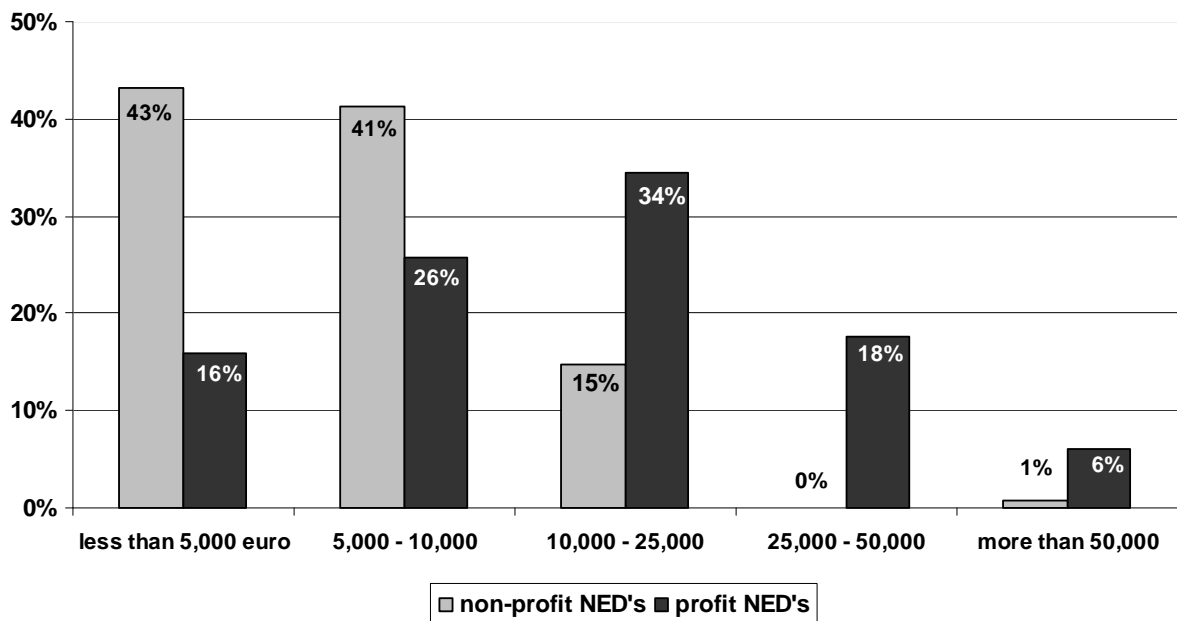


Figure 1. Difference in Remuneration Between Profit and Non-profit Organizations

Figure 1 makes it apparent that NED's in non-profit organizations earn less than their colleagues in profit organizations. This can also be seen from the results in Table 7 where estimated average hourly salaries are approximated. This average hourly pay is calculated by taking the average of the remuneration category and dividing it by the number of hours per years spent on the directorship. When taking all NED's together, the estimated average hourly pay is 124 euros; however, when specified for profit and non-profit we find that the average pay is 155 euros and 54 euros, respectively. This difference is statistically significant ($p < 0.01$).

The relation between an increase in reward, the changing type of work and the (as perceived by the director) increase in liability is a theme for future research. Maassen, Van den Bosch

& Volberda (2005, p.655) also ask the question: 'What do these developments in governance mean for the composition of the board and the preparedness of capable entrepreneurs and NED's to take a seat on boards? After all, with the increasing formalization of the directorships, also the bureaucracy, liabilities, number of meetings and time spent increase correspondingly.' From this point of view, an increase in remuneration would be defensible. The NED's were asked to indicate whether they believe the remuneration they receive is adequate. 85% of the NED's think his or her reward is sufficient, of which 29% say that a future increase would be just. Some 15% believes that the pay they receive is insufficient. There is no significant difference between the sectors.

Summary and Conclusions

The results of this research show that NED's in profit and non-profit organizations have a different stance towards supervision within their organization, or at least experience it differently. Some of these differences are unmistakably due to the nature of the organization; for instance, it can be expected that the supervision on large organizations requires more time and consequently also results in a larger reward. However, this article has also shown other differences, such as tasks and practice, in which it appears that the type of organization in which the director is working, has an influence on the director's execution of his task.

The second section makes the case that in the non-profit sector, the primary stakeholders are different from the primary stakeholders in profit organizations. In profit organizations, the most important stakeholders are often the shareholders, while in non-profit organizations, no shareholders exist and the primary stakeholders can vary. The results also show that non-profit NED's focus more on sustainable entrepreneurship than profit NED's do. This seems to stem directly from the fact that in the non-profit sector, society has a more central focus. In this respect, it is salient to see that in the mission statement of the Commission Corporate Governance, explicit mention that corporate sustainable entrepreneurship is *not* a part of the Dutch Corporate Governance Code (2003, p. 66). The reason that is given for this is that corporate sustainable entrepreneurship is not connected to a national partnership structure and the reach of the code is also broader than simply developing a code of conduct for Dutch enterprises on the capital market. This point of view may contribute to the fact that for profit NED's spend less time focusing on sustainable entrepreneurship. Furthermore, in the non-profit sectors, females make up a larger part of the boards. Due to this fact, non-profit boards are more varied and give a better reflection of society. Our finding that more females participate in non-profit boards is congruent with the results of Steane and Christie (2001). A third interesting difference is that the demands of independence for NED's are more often followed in the non-profit sector. From within a 'social responsibility'-paradigm, one could conclude that in the areas of sustainability, diversity and independence, the non-profit sector outperforms the profit sector.

The results show that a non-profit NED, when compared to a profit NED, is employed in smaller organizations, spends less time on the directorship and earns less from the directorship. This may indicate that NED's in the non-profit sector have a less complex task than their for-profit colleagues. Moreover, the findings show that a non-profit director is less able to adequately supervise management, contributes less to the strategy of a corporation, is less likely to interfere and asks fewer critical questions. From these differences one may infer that non-profit NED's could do well to adopt the more critical stance and possibilities for better supervision of their profit colleagues. An interesting subject for research would be whether an increase in remuneration and time spent would lead to a leveling out of the differences between the two types of NED's.

This article has only presented an exploratory inquiry, without giving normative opinions. Future research into the possible causality will have to take into account the different results. We believe that this study has indicated a few interesting themes for future research and in

doing so, contributes to research into a possible difference in focus of NED's employed by profit and non-profit organizations.

References

- Aartsen, O., Keet, B. & Peij, S. 2006, "Public Governance bij woningbouwcorporaties, zorginstellingen en ZBO's", *Management Executive*, maart/april.
- Bezemer, P.J., Maassen, G.F., Bosch van den, F.A.J. & Volberda, H.W. 2007, "Veranderingen in de service-rol van commissarissen in Nederland", *Maandblad voor Accountancy en Bedrijfseconomie*, September 2007, pp. 420-428.
- Burger, A. & Dekker, P. 2001, *Noch markt, noch staat. De Nederlandse non-profitsector in vergelijkend perspectief*, Sociaal en Cultureel Planbureau, Den Haag.
- Carver, J. 2001, "A theory of governing the public's business. Redesigning the jobs of board, councils and commissions.", *Public Management Review*, vol. 3, no. 1, pp. 53-72.
- Commissie Governance Code Woningcorporaties 2006, *Governance Code Woningcorporaties*.
- Commissie Health Care Governance 1999, *Aanbevelingen voor goed bestuur, goed toezicht en adequate verantwoording in de Nederlandse gezondheidszorg*.
- Corporate Governance Committee 2003, *The Dutch corporate governance code. Principles of good corporate governance and best practice provisions*, The Hague.
- Dawson, I. & Dunn, A. 2006, "Governance codes of practice in the not-for-profit sector", *Corporate Governance*, vol. 14, no. 1, pp. 33-42.
- De Bos, A., Lückerath-Rovers, M. & Quadackers, L.M. 2007, *Nationaal Commissarissen Onderzoek 2007*, Erasmus Instituut Toezicht & Compliance.
- De Bos, A., Lückerath-Rovers, M. & van Zijl, N. 2008, "Zorg over onafhankelijkheid in een one-tier board: terecht of niet?", *Goed Bestuur*, 1, pp. 12-21.
- De Bos, A., Lückerath-Rovers, M. & Quadackers, L. 2007, "Verschillen tussen mannelijke en vrouwelijke commissarissen", *Tijdschrift voor Goed Bestuur*, vol. 2, December.
- De Jong, A., Mertens, G.M.H., Oosterhout, J. van & Vletter- van Dort, H.M. 2007, *Substance or symbolism? Corporate Governance practices of institutional investors*.
- Fama, E.F. & Jensen, M.C. 1983, "Separation of Ownership and Control", *Journal of Law & Economics*, vol. 26, no. 2, pp. 301-325.
- Gomes, R.C. & Gomes, L.O.M. 2008, "Who is supposed to be regarded as a stakeholder for public organizations in developing countries? Evidence from an empirical investigation in Brazilian municipalities", *Public Management Review*, vol. 10, no. 2, pp. 263-275.
- Kroeze, M.J. 2005, "Onafhankelijkheid van commissarissen", *Ondernemingsrecht*, vol. 7, no. 8, pp. 272-278.
- Maassen, G.F., Van den Bosch, F.A.J. & Volberda, H.W. 2005, "Het gebruik van toezichthoudende commissies binnen raden van commissarissen in beursgenoteerde

ondernemingen", *Maandblad voor Accountancy en Bedrijfseconomie*, , no. 12, pp. 647-657.

Steane, P.D. & Christie, M. 2001, "Nonprofit boards in Australia: a distinctive governance approach.", *Corporate Governance*, vol. 9, no. 1, pp. 48-58.

Walt, N.v.d. & Ingley, C. 2003, "Board dynamics and the influence of professional background, gender, and ethnic diversity of directors", *Corporate Governance. An International Review*, vol. 11, no. 3, pp. 218-234.

-

ⁱ The Dutch Non-executive Directors Survey (*Het Nationaal Commissarissen Onderzoek*) is a survey conducted by de Erasmus University in cooperation with Het Nederlands Kenniscentrum Commissarissen (NKCC). The survey is available in Dutch on www.toezichtcompliance.nl/publicaties.

ⁱⁱ The size of the non-profit sector in the Netherlands is relatively one of the largest in the world. According to a study by Burger and Dekker (2001) in the Netherlands almost 13% of all paid non-agricultural work of the Dutch working population is conducted in the non-profit sector. International the average is 5%. The non-profit sector is relatively a very important sector in the Netherlands.

ⁱⁱⁱ In the Dutch Code eight principles are dedicated to the Supervisory Board. These eight principles are: (III.1) task and process, (III.2) independence, (III.3) expertise and composition, (III.4) the role of Chairman of the Supervisory Board and the Secretary of the company (III.5) composition and role of three key committees (III.6) conflicting interests, (III.7) remuneration, and (III.8) the one-tier board structure.

^{iv} In this article it is assumed that non-profit organizations and family-owned business are more in line with the characteristics of listed companies than with non-profit organizations.

^v The Housing Corporations Governance Code has been prepared by various organizations in this sector (Commissie Governance Code Woningcorporaties 2006)

^{vi} In the category 'various' included mainly non-profit organizations, such as public broadcast, charities and educational institutions. In seven cases it was a profit organization (eg, dairy or agricultural cooperative). When it was unclear whether the organization was a profit or non-profit organization, the NED was not included in the analysis.

^{vii} Although also a majority (74%) of female NED's believes that no (more) old-boys network is present, the difference with the male NED's (86%) on this question is statistically significant (see (De Bos, Lückerath-Rovers & Quadackers 2007)).

^{viii} The NED could choose between the answers 'no contribution', 'contribute slightly' or 'contribute a lot'. The answer 'no contribution' was only given twice and is excluded from the analysis.

MIJNTJE LÜCKERATH-ROVERS* (*Corresponding author)

Erasmus University Rotterdam, Room L4-37, PO Box 1738, 3000 DR Rotterdam, The Netherlands e-mail: [luckerath\(at\)frg.eur.nl](mailto:luckerath(at)frg.eur.nl)

Mrs. dr. Mijntje Lückerath is Associate Professor at the Erasmus University Rotterdam in the Master of Financial Law department, teaching courses such as Financial Markets and Supervision, and Corporate Governance and Firm Performance. Her research focuses on the role of the board of directors, corporate governance and corporate board diversity. She is the author of the annual Dutch Female Board Index and co-author of the annual Dutch 'National Non-executive Directors Report' (Nationaal commissarissen onderzoek 2007). She is also a member of the Executive Board of the Erasmus Institute Monitoring and Compliance and a member of the Supervisory Board at the Investment Funds of the Dutch (sustainable) ASN Bank.

LUC QUADACKERS

Vrije Universiteit Amsterdam, The Netherlands

Dr. Luc Quadackers is working as a senior manager at the Professional Practice Department of Ernst & Young in Rotterdam. He is also affiliated as a researcher with the VU University Amsterdam. Luc's main research focus is on corporate governance, professional skepticism and auditors' judgement and decision making. He has published articles in national and international refereed and non-refereed journals as well as in newspapers.

AUKE DE BOS

Erasmus University Rotterdam, The Netherlands

Prof. dr Auke de Bos is Professor at the Erasmus University Rotterdam in the Master of Financial Law department, teaching courses such as Corporate Governance. His research focuses on the role of the board of directors, corporate governance and financial reporting. He is author of dozens of publications and co-author of the annual Dutch 'National Non-executive Directors Report' (Nationaal commissarissen onderzoek 2007, 2008 and 2009). He is also a partner at Ernst & Young.