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Corporate Governance and Corporate Entrepreneurship in Public Associations: The Case of the Riding School

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ABSTRACT

A comprehensive theory of the firm has to consider both the governance and the development of the firm. We propose an integrative model of governance and development. An empirical analysis of a public association with both public and private characteristics shows that these two processes influence each other. Our findings indicate that member influence implies a conservative development of the firm. On the other hand, the emphasis of the control function of the board creates a strong management position, which could imply a dynamic development. Thus, our main conclusion about the association is that the governance relationship between the members and the management of the association influences the developmental capacity of the association.

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DISCIPLINING AND FACILITATING ACTION IN A PUBLIC ASSOCIATION

A comprehensive theory of the firm has to include two important organisational processes, the governance of the organisation and the development of the organisation. These two processes of the firm have been elaborated in two different scientific fields, corporate governance (CG) and corporate entrepreneurship (CE), thus creating a separation of two organisational processes that are distinctively intertwined in praxis. Additionally, the bulk of research made on these two organisational processes has been focused on one single empirical domain, the listed capitalistic corporation. In order to develop a theory of the firm that includes both processes, and do not exclude other important associational forms, we propose a theoretical integration and an empirical expansion. In a rudimentary form, the integration is presented here as a model of CG and CE. We apply the model on a riding school that is organised as a public association.

Thereby we can analyse an organisation that has strong similarities with public-private partnerships (PPP). The riding school is private in the sense that government does not own it, and it is not even controlled by the municipality, though the municipality is the main risk taker. The riding school is public since everyone has the right to become a member, and thereby to control it. Consequently, the riding school contains the mixture between public and private that characterises a PPP and thereby the school experiences the specific opportunities and limitations a border organisation encounters.

The structure of the paper is as follows: The next section argues for the synthesis of CG and CE. Thereafter the case of the riding school is presented and analysed. The rationale behind the selection of the riding school is provided, as well as a short description of the method used. A summary of the case is given, before the case is analysed through four themes induced

from the case, but applicable to the overall model of CG and CE. Finally, conclusions from the analysis are drawn.

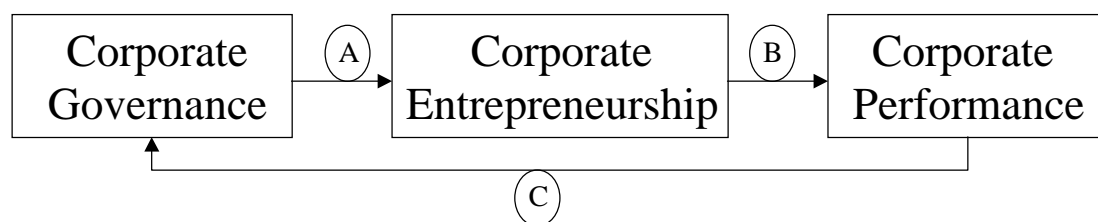
A MODEL SYNTHESISING CORPORATE GOVERNANCE AND CORPORATE ENTREPRENEURSHIP

Corporate governance (CG) deals with those mechanisms that determine the fate of the organisation (Schleifer & Vishny, 1997). It is focused on how the organisation, and especially the top managers, are disciplined in order to satisfy the important stakeholders of the firm and includes theories such as agency theory (Jensen & Ruback, 1983) and transaction cost theory (Williamson, 1996). Both theories assume silently business development to occur. The problem of the organisation is not its development, but the direction of the development, whether it will be in the interest of the top managers, or the principals.

Corporate Entrepreneurship (CE) deals with those factors that influence the process of creating new businesses within organisations in order to develop the organisation and to enhance an organisation's competitive position or the strategic renewal for existing business (Zahra, Jennings & Kuratko, 1999). Earlier attempts have been made by Peterson & Berger (1972) and Miller (1983). Recently the field of CE has gained a more systematic approach, with stronger theoretical content (Lumpkin & Dess, 1996; Zahra, Jennings, & Kuratko, 1999; Zahra, 1991; 1993a; 1999), with an attempt to find those factors that trigger and restrain business development in organisations, i.e., creating new business by redefining the firm's products, or services, or by developing markets. CE is generally interpreted as activities within an existing corporation that enhance the firm's proactiveness, its ability to innovate, take risk and seize opportunities (Covin & Slevin, 1991; Zahra, 1991).

As with the CG literature, the empirical focus of CE has been on capitalistic firms, mainly large and listed (Zahra, 1991; 1993a; 1996) and to some extent on small and medium sized enterprises (Gabrielsson, 2002; Zahra & Huse, 2000). One of several reasons for this narrow perspective is the apparent simplicity it lend the theoretical work when limiting the performance variable to solely profit motives. It has been argued, (Lumpkin & Dess, 1996; Zahra, 1993a) that factors such as overall satisfaction and non-financial goals of the owners, such as risk and control considerations, have to be weighted more heavily in evaluating performance than mere financial goals. In PPPs, and especially in public associations, financial goals are of subordinated importance since the major objectives are member satisfaction. Additionally, a riding school has characteristics of an ideological organisation in the sense that one of the overall objectives consists of the realisation of an idea, in the case of the riding school, the idea of horsemanship.

FIGURE 1. THE INTEGRATED MODEL OF CORPORATE GOVERNANCE AND ENTREPRENEURSHIP



The model of the paper, as showed in figure 1, proposes that CG disciplines and enables managers and members of an organisation to perform CE, thus contributing to the organisation's performance. It is claimed that A.) The set of CG mechanisms that constitute the organisation, influence the organisation's capacity to engage in CE and the orientation of

it; B.) CE creates different levels of stakeholder satisfaction, which influence the performance of the firm; C.) The performance of the firm has crucial influence on the composition of the firm's CG mechanism.

Corporate governance is defined as the system where the wills of the principals are implemented in an organisation through controlling managerial action (Jensen & Meckling, 1976). This system consists of a set of different mechanisms. Presently there is no specific theory with the capacity to deal with all available mechanisms in a systematic fashion. The field is left with the second best alternative, a typology of governance mechanisms. We offer a typology of governance mechanisms (cf. Collin, 2000) that organises the mechanisms of governance according to its occurrence in the organisation's transformation process, and to its main behavioural focus (Table 1.)

TABLE 1. A TYPOLOGY OF CORPORATE GOVERNANCE MECHANISMS

	THE ORGANISATION AND ITS ENVIRONMENT			
BEHAVIOURAL FOCUS OF MECHANISM	<i>Organisation input factors</i>	<i>Organisation transformation process</i>	<i>Organisation output</i>	<i>Organisation environment</i>
<i>Premise</i>	<ul style="list-style-type: none"> • Market for managerial labour 	<ul style="list-style-type: none"> • Internal managerial labour supply • Organisation strategy/structure • Executive compensation 		<ul style="list-style-type: none"> • Culture • Mass media
<i>Action</i>	<ul style="list-style-type: none"> • Debt capital 	<ul style="list-style-type: none"> • Board of directors 		<ul style="list-style-type: none"> • State legislation • Regulations
<i>Output</i>	<ul style="list-style-type: none"> • Equity capital 	<ul style="list-style-type: none"> • Auditing 	<ul style="list-style-type: none"> • Product market 	

The mechanisms are directed towards influencing the managers' behaviour through influencing the premises of the managerial action, directly influencing the action, or influencing the action indirectly through reactions on the output of the organisation (cf Perrow, 1972). This dimension of the typology is important for principals since it indicates the knowledge needed by the principal in order to influence the organisation through the managers. Inspired by Ouchi (1980) we can assert that output control is possible to utilise in order to influence managers when output is measurable in a meaningful way, such as the risk-adjusted profit, number of products sold and so on. Action control is adequate when there is knowledge about the transformation process, and premise control is relevant when it is hard to measure the output and there is a high degree of information asymmetry and competence asymmetry.

The mechanisms of governance are located at the factor markets of the organisation, in the organisation, at the output markets of the organisation, and within the institutional environment of the organisation. This dimension is important for principals since it indicates the accessibility of the mechanism, those inside the organisation being easier to influence than factor markets and environmental factors.

The supply of capital creates opportunities for investments. Credit capital offers opportunities through its being the basic mean for investments, but puts a strain on actions due to its continuous demand on cash flow, and when risking bankruptcy, its right to discontinue the organisation (Berglöf, 1990). Residual capital, often termed ownership capital, supplies the investment with risk capital, but at the price of profit and the right to discontinue the organisation no matter risk of bankruptcy. The form of residual capital differs, however, slightly between capitalistic firms and public associations. The latter being non-for profit, the

positive residual will be re-invested in the organisation, and the negative residual will consume the organisational resources, until the credit capital will be transformed to residual capital.

In the transformation process of the organisation, the board of directors, supported by a market for directors, aligns the strategy of the corporation with the organisational structure, with the ultimate capacity to give direct orders to the top management, i.e., to directly affect the action. The composition of managers through recruitment is performed through the use of the external and the internal managerial supply. The action of a manager can be influenced by the executive reward system utilised in the organisation. The auditors make the scrutinising of the actions performed by the managers, in the interest of the principals and the other stakeholders, especially the state.

The output of the organisation is subject to the competition level of the product or service markets. With increasing levels of competition, the restraints on management increase, ending at the perfect competition where not even price is possible to influence.

The governance mechanisms of a single organisation are embedded in the organisation's environment, constituted by culture, that bound rationality through traditions and norms; mass media, that offers information and analyses of the organisation to the public; and state legislation and regulations by associations, that influence actions through rules and sanctions.

In order to exploit the fruits of the division of labour, the principal has to discipline the manager, as well as to enable managerial action. Enabling is not the opposite of disciplining, but a dimension of its own, where the environment and the principals contribute to the capacity of the managers to shape the production function of the organisation in a productive

fashion. Enabling is, however, not a subject of CG, but has been dealt with in the literature of CE.

Corporate Entrepreneurship refers to the process of creating new business within established firms to improve organisational profitability and enhance a company's competitive position or the strategic renewal for existing business. CE entails creating new business by redefining the firm's products, or services, or by developing markets (Zahra, 1991). CE is defined as activities within an existing organisation that enhance the organisation's risk taking, its ability to innovate, and its proactiveness (Covin & Slevin, 1991; cf. Lumpkin & Dess, 1996).

The essence of entrepreneurial risk taking is the commitment of different resources to a venture. If there is an abundance of resources, the risk of the venture could be high, but the risk for the organisation is low, since it does not threaten the organisation's existence. Entrepreneurial risk taking is reserved for those ventures that bind so much resources that it constitute a threat for the organisation's existence.

Innovativeness is the capacity of an organisation to create new products and services or to make new combinations of resources within the organisation (Lumpkin & Dess, 1996). It constitutes what Schumpeter termed creative destruction through developing alternatives to the established products or technologies.

Proactiveness can be defined as strategic opportunism, i.e., to be able to interpret new demands, and to act upon this new interpretation of the demands, without being bound by the strategy of the organisation. Thus, it represents the creative destruction of an organisation's established strategy.

Two important remarks have to be made when it concerns CE. It has been claimed to be a posture (Covin & Slevin, 1991; Zahra, 1991; Zahra & Huse, 2000). Later, Zahra (1993a) notice that CE could have costs for the organisation, making a too high level of CE harmful for the performance of the organisation. We claim that CE is always a cost for the organisation, in the meaning of consuming resources, implying that organisations tend to vary their intensity and duration of CE (Zahra, 1993a, 1993b). CE is a costly activity, consuming resources and attention that could have been invested in the present operations. We claim that CE is a propensity, i.e., a latent capacity to entrepreneurial activities that is triggered by situations that are experienced as critical in the organisation, by the principals or other powerful stakeholders. Hence, organisations will tend to economise on CE activities. This further complicates the case, since the most important question turns out to be the following: What situations can be experienced to be critical, and as a result trigger CE?

Finally, performance and the feedback loops in figure 1. have to be mentioned. Performance is a concept that is relative to the dominant stakeholders, and especially to the principals. In many models, profit is the sole performance factor. Others have argued that performance is a multidimensional concept (Lumpkin & Dess, 1996; Zahra, 1993a) With our ambitions of making the theory applicable to other organisations than capitalistic, performance has to be defined in its most theoretical proper way, that of principal satisfaction. Efficiency of a public association, such as a riding school, is not profit, but for example realisation of good horsemanship.

We have now indicated relationships between the governance of the organisation, and the development of the organisation. We now turn to an application of these ideas: The case of the riding school.

THE CASE OF THE RIDING SCHOOL

METHOD

The integrated model of CG and CE will be explicated through a case study conducted on a riding school organised as a public association. A riding school organised as a public association in Sweden is a firm that primarily produce riding lessons for their members. It is a democratic organisation, thus everyone has the right to be a member of the association and to vote on the annual meeting. Typically, associations tend to have a board composed by members and if large enough, to have a general manager that is professional, i.e., has a salary from the association. The riding school owns the horses that are used in the lectures. Care-taking of the horses are part of the education, but very often the basic responsibility rest with a salaried personnel. Most of the riders are youngsters, typically girls. They are educated in dressage and jumping, less often in wagon-riding, and even less often in western riding. The industry is rather conservative in offering new products.

A riding school organised as a public association offers the opportunity to find out the characteristics of collective property rights compared to private property rights, which are in depth studied and claimed to be superior concerning business development (Jensen & Meckling, 1976). Swedish riding schools, organised as public associations, and engaged in providing riding for young people (below the age of 25) will be supported by the municipality. The support consists of financial means and sometimes by assets, such as stables owned by the government. Thus, the case is an example of a partnership between a risk-taking municipality and an operation performed by a public association. Finally, the case offers an opportunity to study an activity that experience market forces, but are dominated by an idea, to learn people behave properly and in harmony with a horse. Hence, it is an ideological

organisation that implements an idea facing resource constraints. Profit is not a goal. Sometimes not even member satisfaction is a goal, at least not when it is opposing to the idea of horsemanship.

The data was collected during September 2002, using interviews and archival data from the riding school. Interviews were held with the current chairman of the board and one former chairman, two former managers of the riding school and two instructors. Archival data consisted of yearly accounts and all protocols from the boards meetings reaching back to the 60's. A unique material covering the hourly utilisation of each horse and pony every day from 1993 to 2001 has been used. A detailed case description can, due to space constraints, not be presented here. We therefor present a short summary of the case followed by a thematic analysis of the case.

A SUMMARY OF THE RIDING SCHOOL CASE

The riding school was founded in 1946. Three years later a boy of 9 years of age started his training at the school. From that day on, he has been a leading figure at the riding school, as a successful rider in jumping during the 60's, as an instructor since 1959, as the general manager of the riding school from 1972 to 1995. The riding school financed and built an establishment in 1959 that still is in use. It was expanded in 1992 by an enlargement of the indoor arena and by the construction of a new stable for private horses, and further expanded in 1998 by a new indoor arena and a new stable for privately held horses (see Table 2, line 9). The ownership of the establishment was transferred to the municipality in 1978 because of sever financial problems in the association. The expansions during the 90's were financed through a co-operative agreement between the association and the municipality. These arrangements are

common in Sweden for public associations organising youth activities within sport and politics.

TABLE 2. DATA OF THE RIDING SCHOOL

Line	Corporate Governance	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001
1	Director average year of experience	3,5	3,0	2,7	3,0	2,5	2,7	2,8	3,5	4,1	3,8	4,8
2	Director, standarddev of experience	3,0	2,3	2,2	2,0	1,8	2,0	2,4	2,7	3,5	3,6	4,7
3	Men proportion on the board	41%	38%	43%	25%	21%	17%	44%	47%	46%	47%	42%
4	New Chairman of the board	0	1	1	0	0	0	1	0	0	0	0
5	New General Manager	0	0	0	0	1	0	1	0	0	0	1
6	Instructors average year of employment	1,7	2,7	3,7	3,0	2,3	3,3	3,6	3,5	4,5	5,0	6,3
7	Instructors standarddev of employment	0,6	0,6	0,6	2,8	2,1	2,6	2,7	3,1	3,1	3,6	4,8
8	Liquidity (current assets/short-term debt)	281,5%	107,9%	87,7%	68,5%	30,3%	19,3%	41,6%	84,3%	84,5%	83,4%	58,1%
	Corporate Entrepreneurship	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001
9	Extended establishment	0	1	0	0	0	0	1	0	0	0	1
10	Number of horses			20	19	20	21	22	22	22	22	25
11	Number of ponnies			12	12	12	11	12	12	12	12	12
12	Total number of horses			32	31	32	32	34	34	34	34	37
13	Turnover of horses	5%	5%	10%	39%	41%	19%	16%	18%	9%	16%	14%
14	Turnover of ponnies	4%	0%	4%	17%	54%	19%	21%	0%	30%	39%	21%
	Corporate Performance	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001
15	Number of members	786	878	1089	921	782	924	887	920	888	896	769
16	Horse riding hours			8956	9682	8948	9605	8547	8938	9151	9684	8804
17	Ponny riding hours			7052	7177	7102	7087	6479	6860	7411	7886	7352
18	Total riding hours			16008	16859	16050	16692	15026	15798	16562	17570	16156
19	Riding hours per pony			568	598	592	655	540	572	630	668	595
20	Riding hours per horse			496	542	509	525	448	462	484	514	435
21	Sales			2528518	2573172	2538413	2785286	3026454	3203945	3663639	4277321	3942677
22	Financial surplus	261352	-550576	-47179,59	257401,6	-81290,88	-118638,4	288091,9	716820,2	106154	12031,24	-183092,3

The 90's were a turbulent decade in the history of the riding school. It started by a scandal, where the chairman of the board was found to have embezzled a huge amount of money. A new chairman 1992 replaced him (Table 2, line 4). A growing group of members were, however, dissatisfied with the development of the school, among other things, complaining about overused horses. At the same time, the management of the school was not well organised. A more or less staged coup replaced the chairman and many of the directors in 1993, decreasing the average experience of the board, but making it more homogenous in experience (Table 2, line 1,2,3). The following year, 1994, the riding school experienced a decrease in number of members (Table 2, line 15). They started, however, to exchange old horses with new horses (Table 2, line 13), which further decreased the low level of liquidity (Table 2, line 8). The board became even more similar in board experience, and now even in gender composition, containing 75 per cent women (Table 2, line 3). The critique levelled

against the misuse of horses increased (Table 2, line 18), which induced the board to ask for external judgement from the national equestrian federation. The judgement of the report was rather harsh. It strengthened the instructors in their opinion against the riding school manager, making them write a letter to the board, containing a similar hard critique. The result was that the board in 1995 changed the mandate of the riding school manager, retaining certain responsibilities under the control of the old manager, and creating a new position as riding school manager. A new manager was recruited (Table 2, line 5) and many new horses entered the school and replaced the old ones (Table 2, line 13, 14).

The new manager had his position for two years (Table 2, line 5), but was replaced because of cooperation problems with the board, and because of, let's say, strange financial manoeuvres. He was replaced by a young person, lacking equestrian education, but with ample experience of leadership since he was former military. At the same time, the chairman of the board retired, and a new chairman was elected, with long experience of the board (Table 2, line 4). The board had now gained in board experience, and had a heterogeneous composition (Table 2, line 1,2).

This change marks the end of the turbulent years of the school, from 1993 until 1997. Now started a stable period, only disrupted by new engagements induced by the new manager. He started an after-school recreation club for very young kids, with salaried personnel, paid by the municipality. He organised environmental activities at the school, which were nationally recognised and gave the association the first equestrian environmental price at a national meeting. He organised jumping competitions that attracted many of the national elite. The economy of the association was strengthened during his first three years (Table 2, line 21, 22). During his years, the utilisation of the horse capacity decreased, the turnover of horses

decreased (Table 2, line 13, 14), and the number of membership was rather stable (Table 2, line 15). The manager retired from the position when he got the opportunity to get a position at the national centre of riding education.

A THEMATIC ANALYSIS OF THE RIDING SCHOOL CASE

The case highlights aspects of a public association and the conditions influencing the governance and development of it. Four themes can be distinguished and will be described here:

- A decrease in corporate performance created dissatisfaction among the main principals, the members, which induced them to a governance change, i.e. associations appear to be more reactive, than proactive.
- Homogenisation of the board, with a low level of investment in the old governance structure, created a strong action capacity of the board.
- The board sought for managerial capacity to act and rewarded the manager with freedom of action.
- The innovations made by the manager were possible to fulfil since they were outside of the core business of the association, the riding school activities, and since they did not threaten important interests within the association.

Dissatisfaction of performance induces governance change

The members of the riding school were dissatisfied because they were of the opinion that the horses were burden with too many hours and the quality of riding was decreasing. They organised a coup and replaced board members during two years (1994-1995). The governing

body of the association is built on democracy, thus making it rather easy to enforce change in the governing body through gathering members and inducing them to appear at the annual meeting. The tradition of the people's movement characterising many public associations in Sweden, implies that only members are selected for the board. As a consequence, the revolting members select themselves for the board.

One should note that the dissatisfaction was aimed at the present performance of the school. Future development and opportunities that could be exploited were not under consideration. Thus, actual performance influences the structure of CG (arrow C in Figure 1). The reason could be that actual performance is the factor that influences the member's satisfaction, which drives them to influence the association. The general conclusion is that in associations where the principals are the main consumers of the association's product and service, CG will be influenced by corporate performance in a reactive way.

Homogenisation of the board creates strong capacity to act

The reactive capacity of the association was very strong. Within a few years, the governing body changed dramatically: the members of the board were changed, the chairman was changed and a new riding school manager was recruited. The new, homogeneous board had a strong capacity for action. They changed the mandate of the new manager position in order to satisfy the demands of the old manager, i.e., to retain his authority, though his title was changed, and at the same time, retain power in the new manager position. The board made investments in new horses and in new ponies, thus straining liquidity. Finally, the board recruited a new manager when the newly recruited manager turned out to be a failure. Apparently, a change in the governance created changes that enhanced the risk of the

association, both in management and in investments, i.e., the level of CE increased (arrow A in figure 1).

The newly established board was organised because of a common interest, that of increasing the performance of the association. Thus, collective interest united the board and gave it strength. The board members were more similar to each other than board members were before and after the coup. Research has found (Pelled, 1996, Pfeffer, 1997) that low level of heterogeneity increase communication capacity and implementation strength. It is assumed, however, that innovative capacity decrease with a decrease in heterogeneity. The present case contradicts this assumption. One reason could be that the group was organised around a common interest of change. Another reason could be that they had only slight board experience, consequently they lacked strong investments in the former structure, power and strategies. This indicate that homogenisation could foster innovation, if it is accompanied with negligible investments in status quo. The backside of low investments in status quo is that it represents low level of experience. Lacking experience increases risk since the capacity to predict the outcome of new strategies is low. The risk is, however, ultimately, assumed by the municipality. Total failure, as was the case at the end of the 70's, was assumed by the municipality. The municipality did not hesitate to support the association because it was the only riding school of some importance in the municipal area, and the association could argue that they had changed their management towards better economic behaviour. Thus, associations backed by a strong financier, such as a municipality, can assume risk, and therefore engage in CE activities.

Capacity to act was sought for, and freedom of action was offered as a reward

After the restructuring of the riding school in 1997, the board recruited a young person with limited equestrian competence, but with a rather advanced leadership education from the military. They gave him an extended freedom of action. He used it to create some activities that were new for the riding school. Why did the board accept and tolerate the freedom of action? One reason could be that the board had made the necessary changes that were planned, new manager, new horses and a lower level of utilisation of the horses. The performance that the members experienced had increased to a tolerable level. Thus, the board could not, or did not want to, conduct more action. Now they only wanted to react on the new manager's actions. Control, not initiative, is indeed considered to be one of the main functions of a board (Dalton, Daily, Ellstrand & Johnson, 1998). The board tends to recruit a manager with strong action capacity. They did not consider equestrian knowledge to be the most important part of the competence sought for since this competence was contained by one of the instructors and by the former manager.

Riding schools have notorious bad economy. Thus, they cannot reward managers financially. Other rewards have to be sought for. One is to give the manager a fringe benefit including the right to have his horse at the stable without costs. Another benefit is to give a large degree of freedom. If the manager can do some things that maybe is not optimal for the school, but gives him great pleasure or a benefit, it is a cost that has to be weighted against the incentive effect it creates. The manager arranged jumping competitions where parts of the Swedish jumping elite participated. In order to accomplish this, he had to break down the resistance made by the competition committee at the riding school. The committee considered it more important to engage in local competitions, less flashy games. He broke down the

resistance, with the result that the committee was dissolved. When the competition was arranged, there were not enough voluntary labour available, so he had to command employees to work with the arrangements. Consequently, the costs of the arrangement were considerable for the association. Why did the board accept it? One reason is that the old manager, being a former elite jumper himself, supported it. Another reason could be that the board thought that the competition would make the manager work intense with all other duties. Finally, and maybe most important, the board and the manager realised that the manager will not stay his whole life at the school. Through arranging the competition, he could amplify his reputation and increase his employability. One indication that the competition was part of the reward for the manager is the fact that the competitions ended with him leaving the association. The competition did not have the organisational support as such, only as a mean of rewarding the manager. The conclusion is that freedom of action becomes part of the reward system in an organisation that lacks financial means for rewarding a manager.

Innovation will appear outside the core business of an association

The manager created the jumping competitions, he started an after-school recreation club for very young kids and he organised environmental activities at the riding school. The first activity was the only activity that was connected with costs for the association. The other activities were not attributable to large costs. In fact, the after-school increased the number of personnel at the school, without involving any costs for the association. Common for all three activities is that they are outside the core business of the association. To the core business belongs lectures in dressage and jumping for pupils at the afternoon and evening. The competition did to a certain extent compete with the core business, since it consumed part of

the personnel. On the other hand, as our analysis indicated, it was not an innovation for the association, but only part of the reward system. Thus, the core operation of the business was protected, which appears to be a general tendency of organisations (Thompson, 1967). A political argument could, however, be added. Avoiding innovation in the core business implies a peaceful relationship with most of the members and their organised interest, since they assumable are members because of the core business, the riding school activities. It is hard to imagine a successful implementation of a different product, such as western riding, if it withdraws resources from the core business. That is probably one of the limitations of an association. The core business is the recruiting rationale for the members, and they constitute a very powerful principal. Thus, the democratic nature of the association, and the fact that the principal is a consumer of the association's products, forces the innovations to be created outside the core business.

CONCLUSIONS

We have found that a decline in the performance of the association, as experienced by the members, induced a radical change in the governance structure of the association. The radical change in the governance structure of the association paved the way for entrepreneurial action, including large investments in horses and a risky modification of the leading managerial position. The risk paid off through the new manager, diverting the association from turbulence into a period of stable performance in the core business, and with new ventures in peripheral operations, such as elite jumping competitions and after-school club.

These findings are not surprising since what we have showed is that the principals experience performance, and are induced to change the governance structure of the organisation, in hope that it will imply a development that will influence the performance of

the organisation. Accordingly, the model in figure one is supported since our case showed that CG influences the level of CE, which influences the performance of the firm, as experienced by stakeholders of the firm.

The important observations of the paper are on the characteristics of the organisation. We have analysed a public association where the members are the consumers of the association's output. Though the municipality assumes the risk, the municipality is not engaged as an important principal. The major principal is instead the members of the association. The members are members because of the riding opportunities, and are engaged in the present riding quality and the present quality of horsemanship. Decreasing performance in these dimensions is the incentive needed to create energy in order to change the governance structure of the association. This is presumably contrasting a private firm, where governance changes also can be induced by future opportunities or threat, since a private owner can capitalise accommodation to the future through the price of the firm. Associations are not priced, and the members do not have individual stakes in the stock of the association. Thus, a public association has a tendency towards conservatism.

A public association has, however, a mechanism available implying that due consideration of the future and its opportunities are made in the association. Of all CG mechanisms, we found that the market for managerial labour and the executive compensation system could be combined into a structure that induce CE of a character that is not directed towards present members satisfaction. Our case showed, however, that capital and profit constraints limit the opportunities for executive compensation to benefits that are connected to the associations production, such as free stable box for the manager's own horse, or to aloud for ample freedom of action. A free stable box consumes resources such as space and hay, but

does not imply large risk for the association. Freedom of action as a reward, could be free of cost, or even bring revenues and increased performance to the association, as indeed where the case in our riding school case. It does, however, involve increased risk since the manager uses the freedom of action to create a new venture.

The most important conclusion is that the occupation of the scientific fields of CG and CE with capitalistic organisations is not warranted by considerations of them being the strongest exponents of CG and CE forces. Governance and entrepreneurship are features of an organisation, be it the Swedish multinational corporation Ericsson or a small Swedish riding school. The dynamics are different, but not of less importance. Being a mixture of private and public organisational characteristics, such as the public association analysed here, implies processes of governance and development that are different from the capitalistic organisation. Still, governance and development are important and constituent factors of these organisations.

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