

# APPENDIX 1: METHODOLOGY

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## 1. CHOICE OF SURVEY FOR DATA COLLECTION

The principal method of data collection for the Project has been a major survey. The original grant application envisaged a combination of a mailed questionnaire and a series of semi-structured interviews with directors, chief executive officers (CEOs) and legal/management advisors of NFP companies. The amount of funding actually received meant that it was not possible to undertake both forms of data collection. Given the paucity of even the most basic profile data on NFP companies,<sup>1</sup> the choice was made to undertake the survey by way of a mailed questionnaire. This approach was considered to be the most useful way to obtain a relatively accurate cross-sectional snapshot of NFP companies. Together with this profile snapshot, the survey was also seen as an effective way of obtaining large scale empirical evidence as to whether existing companies regulation is perceived by NFP companies (or at least the predominant group of them) as adequately meeting their needs, particularly in terms of structural suitability, disclosure and accountability requirements. Compared to say, face-to-face or telephone interviews, a mail-out questionnaire also has the advantages of:

- being a cost-effective way of obtaining large amounts of information from a large sample
- gives respondents time to consider their answers
- allows respondents to remain anonymous
- helps reduce interviewer bias
- gives geographical flexibility.<sup>2</sup>

### 1.1. Methodical limitations

It is, however, acknowledged that a survey is a 'heavy- metal' technique, with certain limitations:

- response rates from mailed surveys are generally lower than for face-to-face research
- respondents may choose whether to respond or not, leading to sample bias
- questions are generally not open-ended, thereby limiting the scope of responses (the questions asked do not necessarily match those most important to the respondent).<sup>3</sup>

These limitations have been mitigated to some extent through the inclusion of open-ended questions, and through ensuring a broad sample selection, as discussed below. Ideally, this largely quantitative survey data will, in the future, be supplemented by further qualitative research using a range of other techniques such as face-to-face interviews and case studies.

### 1.2. Sample selection

The questionnaire was sent to *all* registered companies limited by guarantee (except the small sub-set of superannuation trustee companies and those in external administration), thereby making it more akin to a census than a sample. Therefore there is no concern about sample selection or whether the sample was representative. That leaves only the question of possible bias arising from a non-response bias. This is discussed under Heading 5.

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<sup>1</sup> It is not even possible to identify the total number of NFP companies in Australia. ASIC's records do not separately identify this group. Neither the Australian Nonprofit Data Project (as reported in M. Lyons and S. Hocking, *Dimensions of Australia's Third Sector - Report of the Australian Nonprofit Data Project*, Centre for Australian Community Organisations and Management (CACOM) University of Technology, Sydney, 2000, especially p. 81), nor the recently released ABS Satellite Accounts ('Non-profit Institutions Satellite Account', ABS Cat. No. 5256.0 released 28 November 2002), distinguish the number of NFP companies from other forms of organisation.

<sup>2</sup> See M. Hager, S. Wilson, T. Pollak, P. Rooney, *Response Rates for Mail Out Surveys of Nonprofit Organizations: A review and Empirical Test* 32, June 2003, *Nonprofit and Voluntary Sector Quarterly*, 252 at p. 252–7.

<sup>3</sup> P. McNeill, *Research Methods*, 2<sup>nd</sup> edn, Routledge, London & New York, 1989, p. 47.

## 2. SURVEY FORMAT

A copy of the actual questionnaire is contained as Appendix 3.

A draft questionnaire was piloted with a trial group of eight CEOs/retired CEOs. Their (very useful) comments were taken into account in the final version.<sup>4</sup> Comments on an earlier draft were also kindly given by fellow academics and practitioners (legal, accounting and management) with experience in the field.<sup>5</sup>

The questionnaire addressed to the CEO was mailed to every registered company limited by guarantee (except those recorded as superannuation trustee companies and those in external administration). The questionnaire was divided into six main parts:

- A) General company profile - questions on principal activity, size (assets, liabilities, income, employees, volunteers, members), tax status, member-serving or public-serving etc.
- B) Legal structure - why a company was chosen as the legal structure and the success (or otherwise) of that choice etc.
- C) Stakeholders - who are the company's main stakeholders, what reporting (if any) is there to these stakeholders and have there been any tensions between them.
- D) Board composition and experience - demographics of those on the Board of Directors and their skills and experience, whether they are paid for their services etc.
- E) Board structure and procedures - how often the Board meets, induction of new members, the organisational role of the Board, advice received by the Board etc.
- F) Regulatory framework - what information (if any) should be made available to the public about the organisation, who is the most appropriate regulator, how well does ASIC perform etc.

The 10-page questionnaire with an explanatory covering letter was posted on 13 March 2002. Yellow paper was used to help distinguish the questionnaire and from general feedback, this seems to have been successful. The covering letter was addressed to the CEO and a reply-paid envelope was enclosed. The reverse of the covering letter had instructions for completion as well as space for contact details (for a copy of the results of the survey and/or willingness to participate in future focus groups, should they be held). On this page, all respondents were asked for their company name and number - simply to ensure that a follow-up letter did not get sent to those who had already completed it. The first page (covering letter and instruction sheet) was perforated and removed on receipt of the questionnaire. These 'first' pages were stored separately from the rest of the questionnaire to ensure confidentiality. In this way, no re-identification of the first page (with company name and number) and the completed questionnaire was possible.

While the questionnaire collected primarily quantitative information, qualitative data was also collected. The quantitative data was collected through: (a) closed questions that sought numeric ratings (for example, using a scale of 1 to 4, with a 'don't know' option where appropriate); (b) forced choice items (for example, 'Yes' or 'No'); and (c) multiple response options (for example, a list of possible documents that the respondent thought should be lodged with ASIC from which one or more could be chosen). Qualitative data was collected through open-ended questions that sought written comment or clarification.

The survey was promoted as widely as possible throughout the sector, on a variety of email lists, electronic bulletin boards and flyers<sup>6</sup> and a follow-up letter (also on yellow paper) was sent on 11 April 2002.

<sup>4</sup> We would like to thank Ms Barbara Hocking (Schizophrenia Australia Foundation), Ms Lyn Roberts (National Heart Foundation of Australia), Ms Lynette Moore (Alzheimer's Association Victoria), Mr Paul Geyer (Central Bayside Division of General Practice), Mr Lindsay McMillan (MS Society of Victoria Ltd), Ms Robyn Cowie (Vic Raid/Active Property Service Management Ltd), and Mr David Chalker for being the trial group of CEOs.

<sup>5</sup> We would like to thank Professor Myles McGregor-Lowndes (QUT), Professor Mark Lyons (UTS), Professor Ian Ramsay, Professor Richard James, Mrs Sally Sievers and Ms Lesley Alway (Phd candidate University of Melbourne), Dr Virginia Lewis (La Trobe University), Mr John Emerson (partner, Freehills, solicitors), Mr Robert Wright (solicitor), Mr Tony Lang (barrister), Ms Elizabeth Cham (National Director, Philanthropy Australia Inc), Ms Catherine Brown (consultant) and Mr David Gibbs (partner, McInnes, Graham & Gibbs, chartered accountants) for their thoughtful comments on the draft questionnaire.

<sup>6</sup> Notices were placed in *Philanthropy Alert*, Issue 11, 28 February 2002 and Issue 14, 29 April 2002; the internal email bulletin for Research and Evaluation Network, Department of Family and Community Services; 'Current Issues' section on the Centre for Philanthropy and Nonprofit Studies, Queensland University of Technology website at <<http://cpns.bus.qut.edu.au/>>; 'Community News' section of the weekly email bulletin 'Community Building News', produced by Infoxchange at <<http://www.infoxchnage.net.au/>>; 'Dramatic Online' at <<http://www.dramaticonline.com/>>; ProBono Australia E-newsletter, 18 April 2002 at <<http://www.probonoaustralia.com.au/>>; Centre for Corporate Law and Securities Regulation website, The University of Melbourne at <<http://cclsr.law.unimelb.edu.au/>>; one-page flyer sent with *Impact*, March edition, Australian Council of Social Service magazine and email bulletins by some of the State Councils for Social Service; March edition of the email newsletter by Australian Federation of Homeless Organisations; and the March

### 3. SAMPLE

The details of the registered office of all companies limited by guarantee were obtained from ASIC's records as at 1 March 2002. The questionnaire was sent to a total of 9817 companies limited by guarantee. The only companies limited by guarantee that were excluded were those recorded as 'superannuation trustee companies' (21 companies) and those that were in external administration. The sub-classification of superannuation trustee company identified in ASIC's records is no longer used so it was considered unhelpful to include this group when many of them may not be NFP companies. It was also not considered appropriate to include companies in external administration because a liquidator or administrator would be very unlikely to complete the questionnaire or to allow an employee to devote time to this.

Of the responses received, 59% of respondents were in fact the company's CEO.<sup>7</sup> Questions were also asked about whether the CEO was a director of the company in order to ascertain if the perspective was that of a person who was a member of the Board or an observer of the Board - an 'insider' or an 'outsider'. The results showed that 58% of respondents were 'outsiders'. This is in contrast to the earlier, smaller study by Steane & Christie in which their questionnaire was directed to the Chair (that is, an 'insider').<sup>8</sup> The questionnaire used in the Project was directed to the CEO rather than the Chair because it was thought that the CEO was the person most likely to be able to complete the questionnaire with the least amount of effort. In contrast, the Chair would be more likely to be a volunteer who would need to consult the CEO for some of the information in any event. It was also an opportunity to obtain a different perspective to Steane & Christie.<sup>9</sup>

### 4. RESPONSE RATE

The initial number of responses was about 1000. After a follow-up letter was sent on 11 April 2002, further responses were received until mid-August 2002. The total number of returns was 2089, with 1736 of those being completed questionnaires, 355 being 'returned to sender', and one being not completed at all, but returned in the reply paid envelope. Of the completed questionnaires, a small number did not have the company name or number on the perforated first page - these responses were still included in the data set.<sup>10</sup>

From the 300 or so people who rang or emailed after they received the follow-up letter and from the subsequent follow-up telephone survey that was conducted (see Heading 5), it is clear that there was a very high non-receipt rate. Similar non-receipt rates have been experienced in earlier studies and are not uncommon when there is reliance on a public register.<sup>11</sup>

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edition of the email newsletter for the Australian Council on Disability (National). We would like to thank these organisations for allowing the notice to be placed in their respective publications/websites.

<sup>7</sup> Question 7.4 asked: 'Are you (that is, the person completing this questionnaire on behalf of the company): the company's chief executive officer?' 'Yes' or 'No' (tick 'Yes' if you are the company's most senior employee even if you have a different title.)

<sup>8</sup> P. Steane & M. Christie, 'Nonprofit Boards in Australia: A Distinctive Governance Approach', 2001, 9 *Corporate Governance* 48 at 51.

<sup>9</sup> Steane & Christie, n. 8.

<sup>10</sup> On the basis of phone calls received from some of these respondents when they did receive the follow-up letter, it seems that the details were omitted from the first page because of a concern about confidentiality. There was, therefore, no need to exclude these responses from the data set.

<sup>11</sup> See M. McGregor-Lowndes, 'Nonprofit Corporations – reflections on Australia's Largest Nonprofit Insolvency', 1995, 5 *AJCL* 417 at p. 420: 'After the collapse of the NSC [National Safety Council], the Victorian Corporate Affairs Commission wrote to all Victorian companies with section 66 licences [licence to omit the word "limited" from company name] to request a copy of their audited financial statements...The Commission could only make contact with 62% of the companies on their register.' See also results of a similar study conducted by McGregor-Lowndes of companies listed on the Queensland register to which 35% replied: M. McGregor-Lowndes, 'Regulatory Compliance of Two Forms of Nonprofit Enterprise', unpublished LLM thesis, Griffith University, 1989, p. 91.

When the non-receipt rate is taken into account, the response rate is estimated to be 39%.<sup>12</sup> Getting about a third of companies responding was very pleasing given the length of the questionnaire (10 pages), the detailed knowledge of the organisation required to complete it and the fact that the majority of NFP companies rely on volunteers.<sup>13</sup> Having the imprimatur of both The University of Melbourne and Philanthropy Australia and the prior advertising within the sector seems to have contributed to the response rate. The response rate is similar to earlier Australian studies, including that conducted by Steane & Christie,<sup>14</sup> and is common for mail-out surveys.<sup>15</sup> It also reflects the subject of the survey was an organisation rather than an individual. Research shows that where the questions are about the characteristics of an organisation (such as the number of employees or annual budget), rather than about the individual (such as the respondent's sex, age or annual income), the typical response rate is substantially lower.<sup>16</sup>

## 5. NON-RESPONSE AND SAMPLE BIAS

### 5.1. Follow-up telephone survey

In order to explore whether there were any systematic differences between those organisations who participated in the study and those who did not (that is, to check if the sample was in any way biased), a follow-up telephone survey was conducted in August 2002.<sup>17</sup>

The sample was selected from the total population of non-responders to the original questionnaire. Companies were excluded if the questionnaire sent to them had been returned to the sender or was undeliverable. A random sample, stratified by State, of non-respondents was drawn. The population from each State/Territory was sorted by street number to avoid any bias in location within the State.<sup>18</sup> Contact numbers for the selected companies were then found using either White Pages online, or by searching the web for a company web site. If no contact number or address could be located this was noted and a new company selected randomly. The companies were contacted by telephone. The research assistant<sup>19</sup> asked to speak with the CEO or equivalent person. If they were not available but would be available within the next few days a message was left and a note made of when to call back. If they would not be available for more than a week the assistant would explain why he was calling and asked if there was anyone else who may know about the survey.

Once put through to the relevant person, he would explain why he was calling (including that there were many valid reasons for not completing the survey, and that we were interested in discovering why some companies had not responded as a way of checking on possible sample bias). The person was then asked if they recalled receiving the survey:

- a. If they did not, they were asked if anyone else may have received it (if yes, asked to speak with that person).
- b. If it appeared they had not received it, they confirmed the address we had for them.
- c. if they *did* recall receiving it, they were asked why they had not completed it
- d. As a final question, they were asked how many employees and volunteers the company had, and approximate income of the company.

<sup>12</sup> The lower bound estimate was 33%, the upper bound was 47%.

<sup>13</sup> There were 86.6% of respondents with one or more volunteers and 26.1% with no full or part-time employees.

<sup>14</sup> See the Victorian Corporate Affairs mail-out and the McGregor-Lowndes survey, n. 11. The response rate for the Steane & Christie survey (n. 8, pp. 51–2) was 34% (118 responses received from a total sample of 350) - note, this study did not rely on a public register for addresses.

<sup>15</sup> W.L. Neuman, *Social Research Methods: Qualitative and Quantitative Approaches*, 2nd edn, Allyn & Bacon, Boston, 1994.

<sup>16</sup> See M. Hager, S. Wilson, T. Pollak, P. Rooney n. 2, pp. 254–5 where they note that in such surveys an acceptable rate can be as low as 15%. Even if no allowance is made for non-receipt, the 'raw' response rate was 17.7% (namely, 1736 completed out of 9817 sent).

<sup>17</sup> Prior to August 2002 replies were still coming in.

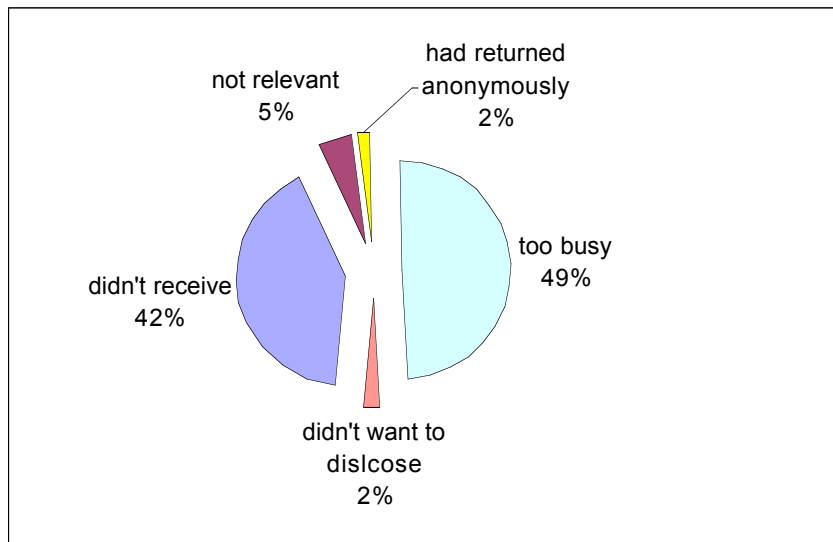
<sup>18</sup> For example, sorting by company name may have resulted in regional clumps where the region name was used as the company name. Similarly for street names and postcodes.

<sup>19</sup> All telephone survey calls and interviews were conducted by Michael O'Neill during his time as a research assistant on the Project. We would like to acknowledge and thank him for his work.

If a company was uncooperative or uncontactable, a further company was randomly sampled to replace it.

As is invariably the case, it was difficult to contact people and get their co-operation. The final telephone sample comprised 57 non-respondents. While there is obviously a limit to what information can be obtained from such a sample, no evidence of bias was found - the non-respondents contacted were from both large and small NFP companies spread across a range of activities similar to our respondents.<sup>20</sup> Of the telephone sample, 49% said they were 'too busy', 42% said they 'did not receive it', 5% said it was 'not relevant to them', 2% did not want to give the information requested and 2% had actually returned the questionnaire but had done so anonymously.<sup>21</sup>

Figure 1: Telephone survey, non-response reasons



## 5.2. Other evidence of non-receipt

The information obtained from the follow up telephone survey about a high non-receipt rate was consistent with information obtained from over 300 phone calls and emails prompted by the follow-up letter sent in April 2002. The majority of these people reported not receiving the initial questionnaire but that they did (eventually) receive the follow-up letter. Non-receipt was often because it had gone to the company's registered office, which was different from its postal address (typically a post office box).<sup>22</sup>

## 5.3. Sample bias

In conclusion, the follow-up data from non-respondents showed a substantial heterogeneity to the main survey data in terms of company size, reported income, assets and liabilities (see Chapter 2, Profile). This heterogeneity did not indicate any markers of sample bias.

<sup>20</sup> Of the sample of 57 non-respondents, 37 were prepared to give an indication of their company's income over the telephone - of these 37 companies, 68% had income of less than \$3 million, 24% had income between \$3-5 million and 8% had income of more than \$5 million.

<sup>21</sup> That is, they had not completed the company name and number section on the first page but, in fact, their response was already included in the 1736 completed questionnaires.

<sup>22</sup> A company's registered office cannot be a post office box: *Corporations Act 2001* (Cth), ss 3, 100, 142, 144, 145, 173 and Pt 1.5 para 3.7; *Corporations Regulations 2001* (Cth), reg. 1.0.14. The ASIC register that is open to the public does not disclose a company's postal address.

## 6. ANALYSIS OF THE DATA

The analysis of the data consisted of four main stages. First, the data was cleaned and checked. Second, frequency tables were produced for the different variables. Third, cross-tabulations were produced to compare the NFP companies of different sizes, principal activities and other characteristics. Where variables were ordinal or nominal (which was in most cases) we used the chi-squared test of independence to test for significant differences between the samples of NFP organisations based on different characteristics. Fourth, where we had 'measured' data, for example, on the number of Board members or the frequency of Board meetings, we used the students' T-Test to compare means for the different samples of respondents.

### 6.1. Coding

In relation to the qualitative data collected (for example, where respondents have added comments or descriptions in the space provided), in most instances we have read the responses and then grouped them with similar responses. A descriptive label has been allocated to each group so that we could draw frequencies - for example, X% gave reason A, and Y% gave reason B and so on. Coding responses in this way helped us develop and refine our interpretations of the data. The coding procedure we used is described as 'latent' or 'semantic' coding.<sup>23</sup> Latent coding examines the text for the underlying or implicit meaning, or themes in the content of the text. We considered it to be the most appropriate method given that most of the questions answered in this way were based on personal opinion or perception. The use of coding for particular questions is indicated in the respective sections of the Report.

### 6.2. Collapsed charts

For a few questions, graded options were given. For example, in question 4.2 the options to circle in for response were (1), (2), (3), (4), (0) and respondents were told that (1) and (4) represent very definite positions and the numbers in between represent intermediate positions and thus, (1) = strongly disagree, (4) = strongly agree and (0) can't say. In some instances, in order to show the refined patterns more clearly, the 'can't say' or 'don't know' (0) responses were excluded, and the 'strongly agree' and 'agree' responses were collapsed to 'agree'. Similarly, the 'strongly disagree' 'disagree' were collapsed to 'disagree'. This was done only where the collapsed chart did not result in any distortion of the refined patterns. If there was a significant number of 'can't say' / 'don't know' responses these were noted in the text or in a footnote.

## 7. SUBSEQUENT FEEDBACK

A Summary of Preliminary Findings was distributed to all respondents to the survey who indicated that they wanted to receive the results. This was by ticking the relevant box and providing contact details on the reverse page of the covering letter. This was accompanied by an email/letter saying that feedback on the initial recommendations for reform was very welcome. This request was met with an enthusiastic response, and a number of respondents emailed or wrote to us with their opinions concerning the Preliminary Findings.<sup>24</sup>

The Summary of Preliminary Findings were also distributed widely to the media, the original triallists, relevant the government departments (for example, the Department of Family and Community Services, relevant Department/Registrar for Incorporated Associations in each

<sup>23</sup> W.L. Neuman, *Social Research Methods: Qualitative and Quantitative Approaches*, Allyn & Bacon, Boston, 2000, p. 295, quoted in Flack & Ryan, 'Accountability of Charitable Organisations: Meanings and Mechanisms', conference presentation at ANZTS, Auckland, November, unpublished, p. 12, 2002.

<sup>24</sup> In particular, we would like to thank Dr Paul Morgan, Deputy Director of SANE Australia, for his detailed and helpful comments. Also Mr A.D. Lang, barrister, Ms Alice McDougall, Freehills, solicitors, and Professor Myles McGregor-Lowndes Queensland University of Technology for their comments at various stages of the Project. Also Mr Stephen Judd, CEO, The Hammond Group; Mr John Fry, Chairman, Frontiers Australia; Mr Alan Graham Executive Officer Australian Council of National Trusts and Mr Ian Dwyer, President, Kiandra Ski Club for their comments and feedback on the Preliminary Findings.

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State/Territory, the Federal Treasurer) and other contacts. Some media coverage was received<sup>25</sup> and this also generated further feedback. Several presentations have been made to a variety of audiences (both academic and to those working in the NFP sector),<sup>26</sup> which has also provided an opportunity for useful feedback. On two occasions other organisations with an interest in the recommendations made in the Preliminary Findings used the opportunity to gather feedback from their constituents to inform their positions.<sup>27</sup> The survey data was subsequently provided to us and has partly informed the recommendations made in this Report.

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<sup>25</sup> ABC Radio National interview 8.15am 4 March 2003; 'Non-profits may get new rules', *The Age* 28 February, 2003; 'Donors query executive pay', *Australian Financial Review*, 5 May 2003.

<sup>26</sup> Presentations by Ms Woodward include: *Building Better Boards A Dialogue for Nonprofit Organisations*, July, Sydney, organised by Nonprofit Governance & Management Centre (inaugural conference attended by more than 400 people); seminar for the Centre for Philanthropy and Nonprofit Studies at the University of Queensland, September 2002; *Doing Well*, bi-annual ANZTSR (Australian and New Zealand Third Sector Research Association) research conference, Auckland, November 2002 (conference paper published on conference website at <<http://www.uws.edu.au/ashs/anztsr/>>); Annual ACROD (National Industry Association for Disability Services) Conference, a conference for the Chief Executive Officers of their member organisations (approx 200 people) Canberra, 19 May 2003; seminar for the pro bono clients of Freehills, solicitors, Sydney, 17 June 200; and *Piercing it together – equity, empowerment & change*, ACOSS (Australian Council of Social Service) Annual Congress, Canberra 13 November, 2003.

<sup>26</sup> At the ACROD conference following the speech given by Ms Susan Woodward, note 26, ACROD asked participants to fill out a survey. A workshop was held at the Freehills seminar note 26, after Ms Woodward's presentation, during which participants discussed the recommendations made, and generated group views on their value for the sector.

<sup>26</sup> A copy of the survey form is contained in Appendix 3.

<sup>26</sup> *First Corporate Law Simplification Act 1995* (Cth) and *Company Law Review Act 1998* (Cth).

<sup>26</sup> For earlier Australian studies see C. McDonald, *Board Members' Involvement in Nonprofit Governance* Working Paper No. 16, Program on Nonprofit Corporations, Queensland University of Technology, 1993. (This was a study that involved the analysis of 242 questionnaires collected from 1218 NFP organisations registered under the *Collections Act 1966* (Qld), however, the legal nature of the organisations was not discussed); J. Radbourne, *Recruitment and Training of Board Members for the 90's and Beyond*, Working Paper No. 24, Program on Nonprofit Corporations, Queensland University of Technology, 1993, (a study that involved surveys, interviews and observations of Board meetings of thirteen Queensland arts organisations; the organisations 'were selected randomly and represented a variety of art forms and legal structures', p. 7); and P. Steane & M. Christie, n. 8 (a study that involved the analysis of one hundred and eighteen questionnaires collected from three hundred and fifty NFP organisations; again there was no distinction as to the legal nature of the organisations).

<sup>26</sup> Lyons & Hocking, n.1.

<sup>26</sup> For example, the Business Regulatory Advisory Group that has given input on reforms proposed as part of both the Simplification Program and the Corporate Law Economic Reform Program. This group is comprised of representatives of peak business (that is, 'for-profit') groups such as the Australian Institute of Company Directors, the Australian Stock Exchange and the Business Council of Australia. See also McGregor-Lowndes 'Regulatory Infrastructure for Nonprofit Organisations', Working Paper No. PONC97, August 2000, Queensland University of Technology.

<sup>27</sup> At the ACROD conference, following the speech given by Ms Susan Woodward, (see n. 26), ACROD asked participants to fill-out a survey. At the workshop held at Freehills, (see n. 26), after Ms Woodward's presentation which participants were divided into groups to discuss the recommendations made, and generated a group view on their value for the sector.

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