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Prospecting for Practical Methodologies to Examining Links between Governing Boards' Performance and Organizational Effectiveness: the Changing Realities

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ABSTRACT

It is worrisome that in Nigeria governing boards are constituted as political settlements for political jobbers and party faithful. This paper therefore, examines difficulties in linking the performance of governing boards to organizational effectiveness. It discusses the complexities inherent in defining and measuring effective performance of either organizations or boards independently of each other, let alone drawing causal links between the two. It reviews qualitative researches that have attempted to establish correlations between board performance and organizational effectiveness, describes typical methodology and summarizes findings. The study raises the concern that CEO and staff performance, perhaps the major intervening variables between board performance and organizational effectiveness, are too often ignored in such research. It also raises questions about some of the commonly used proxy measures of organizational effectiveness. It argues that boards have not commonly assessed their own performance or that of their organizations, because of a lack of standardized best practices or codes, resources, expertise and a readily applied measurement and evaluation framework. To recalibrate the role and importance of governing boards in public sector organizations, this paper offers an evaluation framework relying on the principal-agency theory that might help to effectively serve as model to rejig and revitalize the link between governing boards' performance and organizational effectiveness in Nigeria.

Keywords: Prospecting, Practical Methodologies, Governing Boards, Performance, Organizational Effectiveness, Changing Realities.

INTRODUCTION

Governments establish public sector organizations purposely to offer public services and these public organizations in Nigeria should strengthen the rapid industrialization of the country and increase the social satisfaction of the citizens through their activities [1,2,3]. However, these realities are not visible [4] because most of these organizations are performing below expectations. Despite the apparent failures of these public organizations to deliver expected outcomes, the Nigerian government has yet to initiate intuitive and decisive strategies to tackle emerging challenges in the sector. Unless more attention is paid to governance of these organizations, they will continue to waste public funds, and this will further impoverish the nation [5]. Cognizant of the above, corporate governance has thus become imperative to ensuring that organizations achieve the mandates, which were designed for them by the government. Good governance also

creates an enabling environment for foreign investment, thereby promoting economic growth [6]. The role, importance and efficacy of governing boards were thus one of the important considerations in this study. In [7] submission, leaders must be more ethical for the economy of Nigeria to grow. Reason is that many corporate failures experienced in Nigeria have been attributed to poor institutional frameworks and governance behavior of leaders [8,9]. This underscored the importance of adherence to the principles of good governance as a panacea for agency issues and ineffectiveness in organizations. [10,11], encouraged improved funding of government parastatals in order to improve performance, but [12,13] said that if governing boards supervised CEOs more, organizations would become more effective. Suffice to say therefore, that public trust in organizations and their boards depend upon transparent governance structures and processes and clear accountability to stakeholders [14]. The assessment of board performance and organizational effectiveness is important to demonstrating accountability and generating public trust; not to mention its potential for informing allocation of resources. However, the establishment of causal links between effective boards and strong organizational performance is fraught with difficulties; not the least of which is the establishment of valid measures to gauge board performance and/or organizational effectiveness [15,16]. There is a long held conventional wisdom that good governance practices are important to organizational effectiveness and performance. Increasing research evidence supports this intuitive notion although, for the most part, it suggests correlative rather than causal relationships [17,18]. More so, many studies have been conducted regarding corporate governance issues in developing countries involving annual reports of organizations, information about popular standards of governance principles such as board composition, qualification, separation of ownership, and risk management posture of boards. The problems of assessing governing boards' performance and organizational effectiveness are thus entwined with those that afflict 'outcomes evaluation'. Rigorous evaluation may be prohibitively expensive while attempts to link project activities to subsequent consequences are difficult if not impossible [19,20,21,22,23,24]. To the above extent therefore, there are a number issues of concern in this context presented in question forms. What constitutes 'good' performance? What questions do we need to ask to determine whether a board is governing well or an organization is effective? How do we get the answers to those questions and how do we know that the information we get is reliable? Is an outcome the result of a particular program or a "constellation of influences (e.g. economic, political, environmental, demographic, public policies, external programs, private-sector activities, cultural norms) that are far beyond the influence of any individual program or agency?" [25,26,27,28,29]. Are there similar programs with which valid comparisons can be made? Are there material differences between those organizations (e.g. mission, target population, geographic location, staffing, and service methodology, funding level that must be considered in assessing impact? What's the relationship between program effectiveness and organizational effectiveness? What about agencies with multiple programs where goal achievement may vary from one program to another? In the light of the above raised concerns, this study preoccupies itself with the appropriate methodology to examining the linkages between governing boards' performance and organizational effectiveness, and these were analyzed and corroborated through qualitative data from extant and emerging literatures [30,31,32,33,34]. The findings are expected to improve public board performance and organizational effectiveness, thereby resulting in institution building, high-performing organizations and infrastructural development in Nigeria. According to [35,36,37,38,39,40], investors are more attracted to countries that are guided by strategic governance practices, because they are assured that efforts are in place by governments of such countries, to prevent corporate failures. With growing concerns by governments regarding how organizations could be more effective and considering the widespread clamor by practitioners and scholars for more understanding of the role of boards beyond their legalistic functions, this study is timely in providing possible solutions[41,42,43,44,45,46].

METHODOLOGY

This study is qualitative by design because it sought an understanding of a phenomenon relying mainly on secondary documented evidence. [47], recommended the qualitative design for studies that required in-depth exploration in order to better understand the lived experiences of the people or organization..Content analysis was adopted to ascertain the logical consistency of secondary evidence.

Theoretical Framework

This study adopted the agency theory. This theory came into public and academic awareness in the 1930s through the ideas shared by [48], where they analyzed that separation of ownership from control in public organizations would result in governance problems. The principle in the agency theory involves the relationship between the principal, in this case the boards, which represent the stakeholders, and the agents, who are the executives tasked with running the organizations. This principal-agent structure sometimes results in disputes because the interest of the principal, who often delegates decision making powers to the agent, may not be captured in the activities of the agent. According to Eisenhardt (1989), the agency theory perspective is useful in understanding such issues that are associated with the principal-agent structure. [49], suggested that the agency theory could be applied to eliminate opportunistic behaviors which arise from conflicts of interest in the governance of public organizations. [50] recommended that boards should be appointed to manage governance conflicts and serve the interest of the principal (stakeholder). [51], asserted that the theory had exerted great influence in regulating board-organizations relationships thereby reducing principal-agent issues in organizations. Therefore, no study on corporate governance (CG) is complete without reference to the agency approach because the theory increases understanding of the principal-agent relationship. The agency theory has been widely used in such studies to understand the behavior of governing boards and how these have aided the development of board practices in organizations. It also helped to determine the method of inquiry for this study.

Review of Issues in Literature

Existence of governing boards in public sector is indubitable and their appointment is backed by legislation in most countries, including Nigeria. Public board members are appointed through political selection and their activities are determined by the mandates specified in their bye-laws [51]. These boards are sometimes called boards of trustees, governing boards, or boards of governors, and they can perform executive or supervisory functions. Boards have been receiving attention since the global financial crises in Asia and Europe. It is common knowledge that these financial crises were exacerbated by the poor quality of corporate management practices, which resulted in bad investment decisions and caused the near-collapse of the world's finances. This suggested that boards were essential to the financial survival of organizations. Governing boards; role thus involves more than daily routine decision-making in organizations, but also involves developing strategic plans that will enhance organizations' value and stimulate and sustain growth. It is therefore imperative that governing boards operate in line with global best practices. According to [52] the reason for pursuing best practices is to improve organizational performance and effectiveness because it stimulates innovation. Researchers and practitioners differ on what governance best practices are. Most researchers believe that when practitioners use common, good, and appropriate management practices to improve quality and efficiency of organizations, such constitutes best practices [53]. [8], observed that governance is said to have conformed to best practices when it (a) is effective for an extended period (b) possesses measurable impact (c) is result oriented (d) is replicable in different organizations (e) is widely applicable, and (f) is generalizable. These good governance criteria have however not been fully met by any particular governance strategy [11]. They therefore recommend that rather than obsess about adhering to common governance practices and procedures to achieve effectiveness, serious organizations should instead search for those values and goals that defined their organizations. Herman and Renz further advised these organizations to develop practices and procedures which were consistent with these values, as well as the expectation of its operating environment, and shareholders' interests. Having good governance practices in place in the public sector is therefore essential because it reduces hindrances to market expansion and growth, promotes accountability and equity, and also assists developing economies to grow (Kodila-Tedika, Rindermann, & Christainsen, 2014). In general, organizations that are openly and honestly administered have incorporated good governance. Some of the hallmarks of good CG include honest and transparent transactions, adherence to extant rules and regulations, and existence of a detailed, precise, and effective reporting system [18].

Role of Governing Boards and their Effectiveness in Public Organizations

Boards do not perform the same function as managers or CEOs in organizations. The business of CEOs is to run the organization and pursue its strategic goals and policies while boards are responsible for giving CEOs focus and as well as monitor them to be able to achieve those goals efficiently and effectively [10]. Boards are monitoring bodies that help management prevent problems, seize opportunities, and make the corporation perform better than it otherwise would. According to [15] also, boards are important CG tools needed to overcome agency issues in listed companies. A more efficient management system is required for organizations to be more profitably administered and responsive to societal needs. One determinant of such an efficient management system in organizations is an effective board and most nations of the world have adopted them as an instrument of CG. Boards are good governance determinants in organizations. Board functions are basic in principle, across organizations. The effective execution of these functions is however determined by some factors which boards have to contend with, such as board members' age, organizational dynamics, CEO duality, gender, and educational qualifications of members [33]. They suggested that irrespective of the uncontrollable factors of market efficiency and society's values, which could affect governance structures, boards can develop additional methods to enforce control in organizations. [42], suggested that boards could add value to shareholders through the creation of competitive advantage, rather than just protect existing shareholder value. The role of governing boards includes ensuring that public organizations are accountable, effective, and operate in ways that would protect the interest of stakeholders. The Nigerian Securities and Exchange Commission (SEC) code of CG concurred with this opinion by stating that boards were supposed to assume responsibility for the efficient and effective management of their organizations in accordance with best governance practices and organizational goals [8]. This makes them vital organizational monitors. [15] remarked that boards were important management organs that were responsible for adopting good governance policies and practices in organizations. Because boards are responsible for strategic decision making in public organizations, Boards are viewed as the connector between the organization and its operating environment. Board roles therefore vary and are dependent on national perception [9]. Apart from risk management, other governance responsibilities of public boards include monitoring of CEOs and their compliance with regulatory provisions, provision of information that is necessary for organizational operations, and establishment of external linkages for operational efficiency [15]. Optimal board performance is however only obtainable through diligent pursuit of clearly defined and mutually acceptable strategic goals rather than personal policies [13]. Boards also need access to and diffusion of trustworthy information, without which they may be unable to meaningfully give strategic direction to organizations [20]. Consequent upon the above, governing boards are the eyes and ears of government in public organizations and their positions in public organizations are often held in trust. It has been established that the provision of public services is unreliable in developing nations and it is safe to assume that this situation could be linked to governance failures in these countries [21,26]. Effective governing boards are therefore critical to the survival of public organizations. This explains the reason they are more preferred in most public quoted or government-owned companies and in most developed and developing economies. Empirical research has confirmed that effective boards are commonly known to have a significant impact on the performance of their organizations [30]. As such,[9] concluded that for organizations to be continually successful, they need to be managed by boards that are effective and who do not shy away from taking strategic decisions. The quality of boards will determine their effectiveness and the ensuing success of their organizations. Certain conditions determine the impact of boards. According to [17], the efficient constitution of boards enables them to perform their oversight functions effectively. The leadership structure of public boards is critical to organizational performance [26]. [30], recommended that separating board chair and CEO roles can stimulate organizational performance while [9] considered the separation of offices as a governance best practice. Board structure has implications on outcomes and particular attention should be paid to determining which structure would be appropriate for organizations so that stakeholders' expectations can be met. Although [26] insisted that there was no generic board structure which, when applied at all times, guaranteed organizational success, it has been discovered that specific board compositions are more viable in comparison with others. For instance, it is proven, from the agency point of view, that monitoring and controlling of management activities is more effective with independent boards because they will be more objective in their assessment of executives' performance since they are not financially dependent upon the organizations or CEOs [40]. This enhances the separation of powers between the executive and non-executive members, minimizes conflicts of interests, and promotes good governance [34]. [14], thus advocated board independence because they discovered through their study that independent boards practiced good governance and attracted more foreign investors thereby leading to economic development. in effect, shareholders' and stakeholders' needs are easily met when boards are independent. If public boards are to perform their oversight functions effectively, they must be well constituted. According to [15], the educational and professional qualifications of board members and CEOs indicate the quality of such boards and their adherence to good governance principles. In essence, a responsible board should have respectable qualifications and competences, else, effective governance and positive outcomes will be unrealistic [8]. When board members lack this important basic quality, they easily exhibit poor governance behaviors that could increase the cost of operation and ultimately reduce performance [14]. [9] however recommended that boards be composed of dependent and independent directors to have a mix of skills and improve their performance. He assumed that the autonomous structure of the board would encourage boards to exert control, as needed, thereby encouraging board independence and eliminating performance issues. Board independence alone does not, however, guarantee organizational effectiveness [14]. Therefore, a balance of experience, skill, and knowledge is needed to keep board decisions professional and in the interest of all stakeholders. A typical public board is made up of a board chair that oversees the board affairs and takes responsibilities for boards' decisions, and board members whose responsibilities include supporting the board chair to chart strategic policies, paths, and priorities for the organization. Membership of boards in Nigeria cannot be less than five and they are mainly composed of executive and non-executive directors following the provisions of the SEC code [8]. Board size also matters in achieving organizational goals. Boards that are smaller in size enjoy excellent communication among each other and are thus able to communicate efficiently with CEOs and effectively coordinate their activities [43]. Also, small boards can leverage their skills and expertise to make informed decisions effortlessly [8]. The monitoring abilities of small boards could, however, be hindered if the organization is large and the tasks to be accomplished are much. [11], however, concluded, from their study of Chinese firms, that the size of an organization informed the structure of its board while the regulations in nations mostly informed board independence. [13] also discovered that in Nigeria, board gender increased only as board size increased. Another board feature that influences board performance is the incentives that members and employees have access to [11].

Determinants of Boards' Performance Impact on Organizational Effectiveness

According to [9], CG influences the financial growth of organizations and with growing demands for accountability in public organizations, stakeholders have beamed their searchlight on the management strategies employed by these organizations. The general assumption, therefore, is that boards cause organizations to be effective. However, [18] observed that the actual activity of boards that determine the effectiveness of their organizations has yet been unconfirmed. According to [20], an organization's effectiveness reflects the quality of the board. A combination of board structure, expertise, and size can determine performance of organizations. [19], discovered that boards that were small in size were relatively more effective while [20], demonstrated that boards, whose shareholders did not exert ubiquitous influence over them, outperformed others significantly. [19] also linked the emotional dedication and time put in by board members to their effectiveness in organizations while [11], asserted that the competence of board members would determine their performance. All these differing opinions about board impact led [9,15] to conclude that the definite activity or function of boards that actually determined the effectiveness of their organization was yet to be detected. Determining board impact on organizational effectiveness has been most challenging because according to [23], board effectiveness is a social construct and the opinion of stakeholders determines what constitutes effectiveness in their organizations. The writers, therefore, recommended the need to assess non-profits' effectiveness according to their type so that the results obtained could be credible. Findings by [27] suggested that boards that assigned roles to themselves through the use of committees and boards, which had a thorough process of self-evaluation often performed above average. Recent studies such as that of [9] suggested that globalization forced organizations to be more accountable in their strategies and this drove them to acquire more skills and competences. These new skills undoubtedly influence the quality and quantity of their decisions. The effectiveness of organizations, as summed up by [16] is also determined by effective management practices.

Models for Measuring and Evaluating Board Performance and Organizational Effectiveness

Several factors have inhibited the successful measurement of board impact on organizational effectiveness. These factors include the perception of organizations and owners on what effectiveness means for their respective organizations [20]. The successful measurement of board impact is often impaired by board diversity, unnecessary board interference, and the absence of a consistent standard best practice, which could stand as a yardstick for determining performance [22]. Most studies employed the quantitative methods of inquiry, such as surveys and questionnaires to assess boards [11] while some relied on tools like self-assessment and program evaluation (Babbie, 2004). One of the ways by which managers could be measured; according to Coetzee, Viviers, & Visser (2006), is by using scales such as the Sense of Coherence Scale (SOC) developed by [17] to measure certain traits in an individual that can contribute to his performance. Some other governance measurement tools include the Policy Governance Model (PGM), the Cooperative Board Model, and the Advisory Board Model [19]. To evaluate the effectiveness of an organization it is necessary to have a clear idea of (1) its ultimate goals, (2) the means being used to achieve those goals, and (3) the causal links between means and ends" [8]. Evaluation of organizational effectiveness or performance may be described generally "as an attempt to answer questions in four basic areas:

1. *Aim* – Is the organization or program doing the right thing; that is, tackling the right problem? This is generally a subjective judgment in which those with the greatest power will make the ultimate determination about what is right and what will be measured.
2. *Economy* – Does the organization or program make use of its resources in the most economical (least wasteful) manner possible? This is an input measure.
3. *Effectiveness* – Is the organization or program effective (successful) in achieving the outputs it intends to generate or outcomes (benefits) it desires? This is a measure of intended products and benefits.
4. *Efficiency* – Is the organization or program efficient? That is, does it get the best possible value for money, or outcome for the resources available? Does it achieve the best possible balance between expenditures and outputs or outcomes? This is a ratio of inputs to outputs (cost per unit of service or goods produced); or a ratio of inputs to benefit (to the intended client or consumer). Calculating the latter would be an onerous, if not insurmountable, challenge for any organization" [48].

Outcomes evaluation involves the collection, documentation and analysis of information that will permit a description of "what benefit has been created for who at what cost" [7] by a particular project or initiative and how this relates to the purpose and goals of the organizational sponsor(s). Outcomes evaluation is essential to accountability. Accountability may be defined as "Shared expectations about conduct and performance, a shared language in which fulfillment of those expectations will be described, shared criteria defined (*in that shared language*) as to what constitutes fulfillment, and a means of communicating (*results*). [14] "Outcomes evaluation serves accountability…managing organizations, programs and projects to achieve desired purposes and performance. Evaluation of the outcomes of organizational efforts can be both tricky and costly. 'Outcomes' are often difficult to define and assess in nonprofits as opposed to business enterprises where bottom-line profit /loss, return on investment, share value and price/earnings ratios are more readily measured. Attempts to link project activities to subsequent consequences may be difficult if not impossible. It is, in other words, difficult to establish a cause and effect relationship between the input/activity expenditure and the actual output products /outcome benefits." [18] Indicators of input efficiency and output (throughput) are more readily measured than outcomes, which are the real measure of organizational effectiveness and performance and community benefit. Some programs (e.g. health promotion, community development, public education, advocacy and capacity building) face special challenges in measuring outcomes. "It is also important to distinguish between evaluation of the effectiveness of a single project or program and the overall performance of an organization. It is arguably easier to assess the effectiveness of single programs or projects since they may have more concrete objectives, the achievement of which is more readily assessed. The overall effectiveness of an organization cannot readily be measured by summing the results of evaluations on multiple programs operated by it." [20]. There are however, commonly used organizational performance measures. Proxy, rather than direct, measures of board and organizational effectiveness have typically been used in research studies. Board and organizational reputation, agency capacity to raise funds, and the absence of repeated financial deficits are examples of such proxy measures. Assessments of board performance and organizational effectiveness have relied heavily on self-assessment by board members and CEOs. With few exceptions [21,25] there has been little effort to establish the validity and reliability of the instruments used as measures of board performance and effectiveness in organizations. [23] identified three types of 'objective' measures of organizational effectiveness: input effectiveness (success in obtaining essential resources), throughput effectiveness (efficiency in use of resources, or cost of production) and output or outcome effectiveness (success in product or goal attainment). [27], in a comprehensive treatment of the complexities of nonprofit effectiveness evaluation, identified "two basic kinds of evaluation standards: absolute standards and relative standards". Absolute standards are sufficiently concrete to allow assessment of how well an organization has achieved specified goals. Relative standards (benchmarks) allow comparison of an organization's achievements to results achieved by other organizations in a similar field or to its own past performance. *Structural measures* of *board effectiveness* have included formalization of board structure, including clarity of roles, rules and policies. *Process measures* have included dynamics such as vision; CEO leadership; board engagement in strategic planning; good meeting management; low level of conflict (within the board and between board and staff); dedication to the organization (measured by active involvement); program monitoring; financial planning and control; board development; and, constructive board involvement in dispute resolution. Measures of *organizational effectiveness* used in research have included effectiveness in carrying out mission (goal attainment); reputation of the board (capacity to attract credible board members) and organization; increases in annual budget (capacity to secure adequate funds as a measure of resource sufficiency); low deficit to budget ratios; and, results of accreditation surveys. A cautionary note about outcomes assessment comes from [9] who concludes that evaluation standards or benchmarks are "the products of inherently subjective, fragile, and highly political processes" and that funding decisions are more often based on relationships; "personal and organizational credibility based on track record, comfort and familiarity". This caution is overlaid on an earlier observation by [7] that "those with the most power will impose their beliefs about what ends and means are important and how they should be measured."

Evaluation and Conclusion

Findings from this study have revealed that governance in public sector organizations in Nigeria has remained uncoordinated, lacked consistent patterns, and decentralized in most organizations. It is thus safe to affirm that governance in public organizations in Nigeria does not have a particular structure. The study established lack of formal and distinct governance codes to guide governing boards. It must be asserted that governing boards' performance requires a customized governance system, which would be suitable for the public sector environment in Nigeria; this is required for public organizations to achieve desired results. The performance and growth of firms are relative to the existence of governance structures in those organizations. The consequence of this type of situation is that board members act according to their personal interpretation of what Corporate Governance should be. The study identified lack of standardized best practices to regulate board activities. It revealed that no specified guidelines were regulating the activities of boards in Nigeria. As a consequence of this loophole, most governing boards pursued their mandates and operations as they interpreted it, and this action polarized operations of some public sector organizations as there were no standard best practices to which boards and CEOs could be pinned. It was also found that boards were rarely evaluated. As the boards completed their tenures, they were thanked for their services or re-appointed, depending on their political connections. This structure was not designed for boards to have an impact and this situation makes organizational impact challenging to measure. The role of monitoring board performance rests on the legislative arm of government in Nigeria. This function is, however, neglected or compromised due to political affiliation. This neglected role has encouraged agency issues in many of the organizations. The study revealed that CEOs in Nigerian public sector desire a standardized board monitoring process which would be continuous and measurable. Good governance best practices are achieved when the practice is effective over time and is measurable. More so, inconsistent government policies are found to be unfavorable to boards' performance in Nigeria. There is a lack of continuity in government policies and this negatively affects governance and organizational effectiveness. Findings from this study has revealed that the principals in Nigerian public sector sometimes pursue opportunistic paths by taking steps which would yield maximum benefits to a few elites, rather than the common good or stakeholders' satisfaction. Some of the identified governing board roles included policy formulation and strategic planning, influence, monitoring and evaluation. Boards are necessary to provide policy directions and develop strategic plans that would enable pubic organizations focus on their mandates and increase their effectiveness. The agency theory also supports that principals should take responsible actions that would result in long-term organizational progress and survival. This study, therefore, discovered that if boards performed their oversight functions properly without being controlling, the performance of organizations would be ultimately enhanced. Evidence from the literature makes it imperative for this study to affirm that public boards in Nigeria were necessary and should add value to their organizations, the impact of these boards on organizational effectiveness was however not significant enough. This finding is based on issues raised against boards' activities, such as unclear roles, political interference, and lack of accountability.

RECOMMENDATIONS FOR POLICY

In the light of the findings of this study, the following recommendations are apt;

1) There should be a benchmark and procedures for measuring adherence of governing boards to Corporate Governance standards using independent assessors. This is exigent because absence of structures weaken any system and if the government of Nigeria desires to meet its goals through public enterprises, good Corporate Governance structures and codes must be established and sustained, irrespective of the party or individual in government.
2) There is need for training of governing boards of public organizations as soon as they are inaugurated. During this training, board members should be equipped with measurable skills that would enable the government to regulate board activities.
3) Board members should sign commitment letters after such training retreat. This letter would contain expectations from them and clarify what boards are to expect from their employers. The letter would also specify the rights and responsibilities of board members, including when they can be removed them from the board for non-compliance and non-performance.
4) As a follow-up, this study recommends that measurement and evaluation processes should be established to standardize best practices on public boards in Nigeria. M&E will surely stimulate innovation and healthy competition among public boards. This will, in turn, improve productivity and organizational outcomes.

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