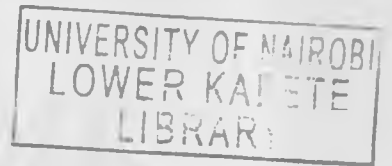


**THE RELATIONSHIP BETWEEN CORPORATE GOVERNANCE AND  
PERFORMANCE OF INTERNATIONAL NON-GOVERNMENTAL ORGANISATIONS  
IN SOMALIA**

**BY**

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OF THE DEGREE OF MASTER OF BUSINESS ADMINISTRATION  
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SCHOOL OF BUSINESS**

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## DECLARATION

I, the undersigned declare that this is my original work and has not been submitted to any other college or university.

Signature: MEME Date: 13/11/2012

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This research project has been presented with my approval as the university supervisor

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## DEDICATION

I dedicate this study to my supportive and loving family but most of all to my daughter, Daniella Kendi Meme, for her patience and understanding during the period I was studying.

## ACKNOWLEDGEMENT

I wish to thank my supervisor Dr. Josiah Aduda for his valuable guidance and support in the course of this project. Were it not for his efforts this study could not have been done. I would also like to thank my lecturers for their comments and contribution towards the success of this study.

I wish to acknowledge my parents Sylveria Muthoni and Dominic Meme and my brothers Brian Murithi and Walter Mwenda whose constant encouragement and follow up enabled me to complete the course. I would also like to thank Edith Siringi, for caring for my daughter during the long hours I spent away from home while studying.

This study would not have been fruitful without the contribution from the management of the INGOs in Somalia. I wish to thank them for the support and willingness to share information pertaining to their organizations. I would also like to acknowledge the contribution of my fellow colleagues who invariably made follow ups with the INGOs to ensure the questionnaires were completed.

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Last but not least I wish to thank the Almighty God; for his support, encouragement, giving me strength and determination that has enabled me to see the project through.

## ABSTRACT

While insecurity and lack of basic skills are cited as some of the limitations affecting INGOs activities in Somalia; corporate governance is an important tool in management of INGOs and failure to implement it can affect their performance. Unilateral decision making, lack of transparency in audit and financial reports, incompetence and mismanagement are some of the problems that can arise without corporate governance and if they are not arrested they can have a negative impact on performance.

This study sought to examine the relationship between corporate governance and performance of INGOs in Somalia. The objective of the study was to establish the corporate governance practices and their impact on performance. To achieve these objectives the study used a causal design study. The population of the study was obtained from a list of INGOs who were members of the Somalia NGO Consortium. Primary data was collected through a structured questionnaire that was administered to 58 INGOs. The study targeted members of board of directors and managers who were privy to the information as the respondents. The data obtained was analyzed using frequencies and regression analysis.

The study established that the majority of the INGOs had implemented 4 corporate governance practices, board size and composition, board meetings, audit committee and transparency and disclosure. When regression analysis was conducted on each of the 4 corporate governance practices, separately, there was a positive relation with performance though insignificant. The study also found out that together the 4 corporate governance practices had a weak positive relationship with performance.

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## **ABBREVIATIONS AND ACRONYMS**

<b>CEO</b>	<b>Chief Executive Officer</b>
<b>DY</b>	<b>Dividend Yield</b>
<b>ECOSOC</b>	<b>Economic and Social Council</b>
<b>ED</b>	<b>Executive Director</b>
<b>GAAP</b>	<b>Generally Accepted Accounting Principles</b>
<b>IFRS</b>	<b>International Financial Reporting Standards</b>
<b>INGO</b>	<b>International Non Governmental Organisation</b>
<b>IRS</b>	<b>Internal Revenue Service</b>
<b>ISE</b>	<b>Istanbul Stock Exchange</b>
<b>KCC</b>	<b>Kenya Co-Operative Creameries</b>
<b>MFI</b>	<b>Microfinance Institution</b>
<b>NGO</b>	<b>Non-Governmental Organisation</b>
<b>NSE</b>	<b>Nairobi Stock Exchange</b>
<b>OECD</b>	<b>Organisation of Economic Co-Operation and Development</b>
<b>ROA</b>	<b>Return on Assets</b>
<b>ROC</b>	<b>Return on Capital</b>
<b>ROE</b>	<b>Return on Equity</b>
<b>ROI</b>	<b>Return on Investment</b>
<b>ROS</b>	<b>Return on Sales</b>
<b>SPSS</b>	<b>Statistical Packages for Social Sciences</b>
<b>UK</b>	<b>United Kingdom</b>
<b>UNCTAD</b>	<b>United Nations Conference on Trade and Development</b>

# CHAPTER ONE

## INTRODUCTION

### 1.1. Background of the Study

The Social Welfare Department of Hong Kong (2002) states that corporate governance is the set of principles and practices adopted by a board, whether in the private or social welfare sector, that assure its key stakeholders that the organization is being managed effectively and with appropriate probity. It provides the structure through which the objectives of the organization are set and the means to obtaining those objectives and monitoring performance are determined.

The importance of corporate governance has been underscored especially after the failure of companies such as Enron Corporation. Brigham and Daves (2004), state that numerous companies are alleged to have engaged in deceptive, if not fraudulent practices. Trusting retirees have lost their life savings and many other investors have seen their portfolios drop sharply in value as evidence of executive misconduct emerges.

According to The Report of the Regional Seminar (1998) NGO's governance and management strategy are influenced by the following: financial management crisis; lack of a stable and diverse funding base; leadership crisis because of the lack of clarity between roles of Chairs and Executive Directors, Staff and Volunteers, Board Members and staff; lack of adequate professional and managerial skills; lack of or inefficient operational policies and structures; lack of competent and committed Board members or Chief Executives; Competition with other organizations with similar interests and final but not least dwindling relevance and lack of focus.

## **Corporate Governance and Performance:**

According to Edwards and Clough (2005), the connection between corporate governance and organizational performance lies in the multi-dimensional nature of (good) governance. Corporate governance involves ensuring compliance with legal obligations and protection for shareholders against fraud or organizational failure. Without governance mechanisms in place – in particular, a board to direct and control – managers might ‘run away with the profits’. Understood in this way, good governance minimizes the possibility of poor organizational performance.

Decision making by the board is critical as it provides the goals and objectives of an organization as well as the means of achieving them to enable success. Edwards and Clough (2005) went on to state that more recent definitions of good governance emphasise the contribution good governance can make to improve organizational performance by highlighting the strategic role of the board. Legal compliance, ongoing financial scrutiny and control and fulfilling accountability requirements are fundamental features of good corporate governance. However, a high-performing board will also play a strategic role. It will plan for the future, keep pace with changes in the external environment, nurture and build key external relationships and be alert to opportunities to further the business. The focus is on performance as well as conformance. The board is not there to simply monitor and protect but also to enable and enhance.

## **The INGOs in Somalia**

INGO is defined as any international organization that is not founded by an international treaty (ECOSOC, 1950).

On the other hand Anthony and Young (1988) simply defined NGO as an organization whose goal is something other than earning a profit for its owners. Usually its goal is to provide services.

Zietlow et al (2007) defined nonprofit as a designation given by the IRS to describe organizations that are allowed to make a profit but that are prohibited from distributing their profits or earnings to those in control of the organizations. If these organizations apply for and receive tax-exempt status from the IRS, they are not required to pay federal income taxes or state business income taxes except in specific cases. This classification makes them distinctly different from for-profit corporations which distribute profits to their owners or shareholders and must pay corporate income taxes on their earnings.

Since the mid-1970s, the NGO sector in both developed and developing countries has experienced exponential growth (Malena, 1995). This growth is characterized by donor and development partners' preference to channel aid through NGOs as they are considered to deliver services better than governments coupled with their flexibility and innovation.

Following the defeat of General Mohamed Siad Barre in 1991, Somalia continues to be a failed state since the government structure was replaced by warlords controlling specific areas in the country. As such rule of law is almost non-existent resulting in high levels of insecurity. In addition, the basic needs of the people such as food, health care facilities, education, adequate shelter are not met and as such a large number of the population in Somalia suffers from humanitarian crisis (Africa Report, 2008). This has led to the intervention of the international community in fostering peace in the country where several neighbouring countries including Kenya have attempted to broker peace in the country. However, 20 years down the road a peace deal is yet to be reached. In the meantime the people of Somalia continue to suffer from lack of the basic needs, human rights violation and insecurity.

Regardless of the level of insecurity in Somalia INGOs continue to play a vital role in alleviating the humanitarian crisis in the country. Most of the INGOs are based in Nairobi, Kenya with cross border operations in Somalia in an attempt to bring stability in the country especially in areas pertaining to rule of law, governance, health, education, development, food aid, agriculture amongst others. However, security, staffing, lack of basic demographic data and 'government' interference have been cited as some of the constraints that INGOs in Somalia face, impeding their development programmes and ability to reaching the vast majority of needy people in the country. While this is the case, the INGOs are sometimes characterized by unilateral decision making, lack of transparency in audit and financial reports and in some instances members of

governing bodies not being fully informed of the current programmes of the INGOs. These corporate governance issues among others could impact on the performance of INGOs.

## 1.2. Research Problem

The absence of competent governance structures and processes hampers the development of both individual organizations as well as the sector as a whole. Nonprofit boards face a tough challenge in that they oversee the performance of a single entity and at the same time are accountable to a larger public that is difficult to define (Wyatt, 2002). There is a growing need for NGOs throughout the world to be more effective and productive and one of the many ways they are achieving this is by broadening and strengthening the constitution of their boards (Mostashari, 2005).

Joher (2005) examined the structure of corporate governance and its impact on the firm's performance in Kuala Lumpur, Malaysia and concluded that there was a partial relationship. The presence of independent non-executive directors, managerial ownership and institutional ownership did not have any significant impact on firm's performance however; the firm size appeared to have significant impact on corporate governance. Muriithi (2008) in his study on the relationship between corporate governance practices and performance in the New Kenya Cooperative Creameries concluded that the adoption of corporate government practices that had also developed over time had in fact improved the company's performance. Bauer et al (2003) conducted a study on the effect of corporate governance on stock returns, firm value and performance in Europe and found no evidence of a relationship between governance and firm valuation in UK. This implied that the UK market was still adjusting. On the other hand there was a stronger relationship between governance and firm value for the European Monetary Union which implied that corporate governance standards had to a large extent been incorporated in stock prices.

In Kenya, previous studies conducted in the area of corporate governance and performance have concentrated on the profit making organizations. Some of the studies are: The relationship between governance practices and performance: the case of banking industries in Kenya

(Matengo, 2008); corporate governance practices of stock brokerage firms in Kenya (Mutunga, 2009). In addition studies have been done on corporate governance in public organizations and healthcare facilities; for instance, Mulili (2010) examined the concept of corporate governance practices from a historical perspective and explored how the agency theory and stewardship theory affect corporate governance practices focusing on the universities in Kenya. Mwangi (2006) conducted a study on integrated governance and provision of quality healthcare in non-profit institutions and focused on Gertrude's Children's Hospital.

Zietlow et al (2007) states that the success of a NGO is dependent on its workforce and governing body and structure it assembles to accomplish its mission. They go ahead to mention four key attributes for NGOs: ethics, governance, transparency and the constant building of trust. One of the key issues that motivate the importance of governance, structure, accountability and ethics is vulnerability to fraud. INGOs in Somalia operate in an environment of trust, implying that the guard may be down leading to misuse of funds or fraudulent activities. They are also largely controlled by a founder, CEO/ED or substantial donor leading to unilateral decision making. Further to this there is failure to include individuals with financial oversight expertise on the board of directors/trustees. In the recent past the role of INGOs in Somalia has received critical analysis due to their governance that has led to their poor performance. The humanitarian crisis in Somalia has also led to competition for donor funding by INGOs and over the years there has been duplication of effort by some of the INGOs providing the same services. This means that the donor funding in the end is not utilized in the most efficient manner and in some cases not utilized for the purpose it was intended. Funding for quite a number of projects is for a short duration of time - one year or less that results in high staff turnover contributing to weakness of 'institutional memory' that is important in the field of work.

These issues underscore the importance of corporate governance in ensuring efficient financial management of INGOs to ensure their sustainability which will further impact on performance. How these organizations are directed, monitored and controlled is important and so is transparency, openness and competence. There is therefore a need to critically look into the performance of INGOs in Somalia in relation to good governance. While several scholars like Ng'eno (2009) and Gakuo (2003) have researched on corporate governance practices among NGOs, their studies did not attempt to link the corporate governance practices to performance.

This study will therefore seek to find out the impact of corporate governance practices on performance focusing on INGOs in Somalia.

### **1.3. Objectives of the Study**

1. To establish the corporate governance practices of INGOs in Somalia
2. To establish the relationship between corporate governance and performance of INGOs in Somalia.

### **1.4. Significance of the Study**

This study will be useful to the INGOs' board members and management in their role as decision makers as they will acquire information on whether their current governance practices have an effect on their overall performance. This will assist them in making strategic decisions pertaining to their governance practices, prioritization of activities as well as efficient and effective use of resources.

In addition to funding, donors monitor and evaluate INGOs performance. Good governance is one of the conditions necessary for development assistance from donors and the findings from this study will therefore assist donors in prioritization of their funds towards activities that are effectively managed.

Finally, the study will add to the body of knowledge and will aid further academic research in the area of study.

## CHAPTER TWO

### LITERATURE REVIEW

#### 2.1. Introduction

This chapter reviews related literature on the subject under study as presented by various researchers, scholars, analysts and authors. The review has presented literature on the definition of corporate governance and its principles, theories, empirical evidence, the conceptual framework and measurements of performance that will be relevant to the study.

#### 2.2. Corporate Governance

Over the years there have been numerous definitions of corporate governance and some of the definitions are mentioned below:

Corporate governance can be defined as the set of laws, rules and procedures that influence a company's operations and the decisions made by its managers (Brigham and Daves, 2004). They further state that most corporate governance provisions come in two forms, sticks and carrots. The primary stick is the threat of removal if managers do not maximize the value of the resources entrusted to them while the carrot is compensation that acts as an incentive for managers to maximize intrinsic stock value.

Governance is also defined as the set of responsibilities that ensures accountability, achieves legitimacy with all key internal and external constituencies and establishes the mission as well as sustains the organizational well-being necessary to pursue that mission (Zietlow et al, 2007).

OECD (2004), states that corporate governance involves a set of relationships between a company's management, its board, its shareholders and other stakeholders. Corporate



governance also provides the structure through which the objectives of the company are set and the means of attaining those objectives and monitoring performance are determined.

Claessens (2003) defines corporate governance as a set of mechanisms through which firms operate when ownership is separated from management. This definition is close to the definition used by Sir Adrian Cadbury in Cadbury Committee (1992) where he states that corporate governance is the system by which companies are directed and controlled. He goes on to define the responsibility of the board of directors as the governance of their companies. The shareholders' role in governance is to appoint the directors and the auditors and to satisfy themselves that an appropriate governance structure is in place. The responsibilities of the board include setting the company's strategic aims, providing the leadership to put them into effect, supervising the management of the business and reporting to shareholders on their stewardship.

It has been established that corporate governance is applicable to nonprofit making organizations and is not confined to profit making organizations. Wyatt's (2002) defined good governance as a transparent decision-making process in which the leadership of a NGO, in an effective and accountable way, directs resources and exercises power on the basis of shared values. This definition recognizes that a well-governed organization is one in which the board's efforts are directed both inward and outward, towards the organization and towards the community.

### **2.2.1. Principles of Corporate Governance**

OECD (2004) recommended the following principles as essential for the development of good governance practices: promotion of transparent and efficient markets that are consistent with the rule of law and clearly articulate the division of responsibilities among different supervisory, regulatory and enforcement authorities; the rights of shareholders should be protected and they should be allowed to exercise them; equitable treatment of all shareholders including minority and foreign shareholders; recognition of the rights of stakeholders established by law or through mutual agreements and encourage active co-operation between corporations and stakeholders in creating wealth, jobs and the sustainability of financially sound enterprises; timely and accurate disclosure is made on all material matters regarding the corporation, including financial situation,

performance, ownership and governance of the company and finally ensure the strategic guidance of the company, the effective monitoring of management by the board and the board's accountability to the company and the shareholders.

Good practices suggested by The Social Welfare Department of Hong Kong (2002) to the NGO Sector in order to promote good governance were: active and committed board members who approach their important task in full knowledge of what it entails and with due responsibility; the board should focus on the key roles of strategic oversight, financial and performance monitoring and accountability to stakeholders; well defined policies and practices that provide ethical and responsible direction to the management and staff; self-analysis, critique and reflection that enable the board to continuously improve its corporate governance role.

### **2.2.2. Corporate Governance in NGOs**

The issue of good governance is key to the functioning of NGOs. It implies that the effective management of an NGO's resources is done in a manner which is transparent, accountable, equitable and responsive to the needs of the people. In order to ensure effective and proper management of resources good governance becomes an important aspect of every NGO since they are held accountable mainly to their funders (Lekorwe and Mpabanga, 2007).

The Social Welfare Department of Hong Kong (2002) recognized the fact that boards of NGOs, despite their voluntary nature are publicly accountable bodies, responsible to their stakeholders for the effective management of public funds, donations and services entrusted to them and of staff in their employment.

Since there is no profit measure to provide an indication of performance of NGOs, the personal appraisal by board members of the health of the organization is much more important in NGO than in a for-profit business corporation (Anthony and Young, 1988). In order to have a sound basis for such an appraisal, board members need to spend a considerable amount of time learning what is going on in the organization, and they need to have enough expertise to understand the significance of what they learn.

## **2.3. Theories of Corporate Governance**

### **2.3.1. Agency Theory**

Agency theory is concerned with the relationship between the principal and the agent. Jensen and Meckling (1976) defined the agency relationship as a contract under which one or more persons (the principal(s)) engage another person (the agent) to perform some service on their behalf which involves delegating some decision making authority to the agent. In the case of INGOs in Somalia the principal would be the INGOs board of trustees while the agent would be the management of the INGOs. Brigham and Daves (2004) state that in financial management the primary agency relationships are between shareholders and managers and between shareholders and debtholders. However there are other relationships between the shareholders and stakeholders such as employees, customers, suppliers and the community.

In these relationships a conflict of interest referred to as agency problem may arise especially when the agent does not act in the best interests of the principals. Some examples of these agency problems as stated by Brigham and Daves (2004) can occur when an owner/manager incorporates a business and then sells some of the stock to outsiders leading to the now part-owner/manager working less strenuously, because less of the wealth produced by this labour will accrue to him or her. Similarly, the part-owner/manager may take more perquisites because some of his or her costs will be borne by the outside shareholders. Finally, the part-owner/manager will have an economic incentive to raise his or her salary, bonus and stock option grants as high as possible because most of the costs of such payments will be borne by outside shareholders. To minimize the agency problem there is usually an agency cost that is incurred and some of the ways managers can be encouraged to act in the shareholders' best interest would be through managerial compensation, direct intervention by shareholders, threat of firing and threat of takeovers. Under direct intervention of shareholders a more independent board of directors is preferred as a management-controlled board is seen to be the weak link in the chain of managerial accountability to shareholders. Donaldson and Davis (1991) state that an impartial review will occur more fully where the chairperson of the board is independent of executive management. Where the chief executive officer is chair of the board of directors the impartiality

of the board is compromised. On the other hand a conflict of interest between shareholder and creditors can occur when an organization takes on new projects that are risky and could potentially lead to a loss that is borne by creditors. For their own benefit, shareholders through managers should deal fairly with all its stakeholders (Brigham and Daves, 2004).

### 2.3.2. Stewardship Theory:

Stewardship theory is an alternative view to the agency theory and the key aspect of it is that managers will act responsibly as stewards of the resources they are in charge of. According to Donaldson and Davis (1991) the executive manager, under this theory, far from being an opportunistic shirker, essentially wants to do a good job, to be a good steward of the corporate assets. The theory holds that there is no inherent, general problem of executive motivation. Given the absence of an inner motivational problem among executives, there is the question of how far executives can achieve the good corporate performance to which they aspire. Thus, stewardship theory holds that performance variations arise from whether the structural situation in which the executive is located facilitates effective action by the executive. Structures will be facilitative of this goal to the extent that they provide clear, consistent role expectations and authorize and empower senior management.

Further to the above, the main function of the board is not to ensure managerial compliance or conformance but to work with management to improve organizational performance (Cornforth, 2002). As such management ideas and practices should be applied to governance. From the same perspective board members should be selected on the basis of their expertise and contacts so that they are in a position to add value to the organisation's decisions. When selecting a board member in INGOs their expertise should be in line with the INGOs area of intervention in order to enable the organization achieve its set goals. In addition a board member's previous external links especially with donors are critical in enabling the organization source for more funding. In addition board and managers should receive proper induction and training and should know how to operate effectively as a team.

### **2.3.3. Resource Dependency Theory**

This theory is based on the premise that an organization depends on its environment for its resources and as such it must establish good relations to ensure constant flow of the resources and information.

Davis and Cobb (2009) mentioned three core ideas of the theory: (1) social context matters; (2) organizations have strategies to enhance their autonomy and pursue interests; and (3) power (not just rationality or efficiency) is important for understanding internal and external actions of organizations. Their main emphasis was on power and they stated that if dependence of resources comes from relying on a sole-supplier, then the solution is to find and maintain alternatives.

Another solution is in the selection of the board members. Board members are selected for the important external links and knowledge they can bring to the organization and to try to co-opt potential external threat (Cornforth, 2002). The theory suggests that an organization can manage uncertainty by inviting a representative of the source of constraint onto its governing board thus trading sovereignty for support (Davis and Cobb, 2009). Donor funding is important for the INGOs in Somalia and during board members selection their external links especially with donors could assist in attracting more funding.

### **2.3.4. Stakeholder Theory**

The theory is on the basis that organizations should be responsible to stakeholders in society other than just an organisation's owners (Cornforth, 2002). There can be no truly sustainable development progress without an ethically critical consideration of stakeholders. It is precisely through stakeholder theory's challenging dilemmas such as "who is the customer, the beneficiary or the donor?" that one gains a platform for broader considerations (Renz, 2007).

The key stakeholders for the INGOs working in Somalia are the people in need of humanitarian assistance, vendors, donors and employees. The INGOs main responsibility lies with these stakeholders.

## **2.4. Corporate Governance Practices**

The study will focus on the following corporate governance practices:

### **I. Board Size and Composition**

According to the Committee on Corporate Governance (1999) the board composition allows for effective decision making and supervision of the management. Further to this the board size should give room to fruitful discussions and appropriate, swift and prudent decisions. There is no perfect number of board members due to the different factors that may influence the board size e.g. corporation's size, the business environment and special characteristics. The board should include outside directors in order to maintain practical independence and the appointment of board members should be through a transparent procedure that reflects broadly the diverse opinions of shareholders. Board members should also be competent and professional

### **II. Board Meetings**

Board meetings provide a platform where management decisions affecting the organization are made and the interests of shareholders are represented. Regular meetings should be held and minutes and reports circulated to the board members within the specified period of time to allow for effective decision making. Board meetings should also follow the laid down policies for efficiency.

### **III. Audit Committee**

An audit committee improves stakeholders confidence in the reliability of an organizations processes and procedures and as such provides an independent reassurance through its oversight and monitoring role. Financial Reporting Council (2010) affirms that an audit committee is

established by the board of directors in order to review the organisation's internal financial controls; to monitor and review the effectiveness of the company's internal audit function; to make recommendations to the board in relation to the appointment of the external auditor and to approve the remuneration and terms of engagement; to review and monitor the external auditor's independence and objectivity and the effectiveness of the audit process; to develop and implement policy on the engagement of the external auditor to supply non-audit services, taking into account relevant ethical guidance regarding the provision of non-audit services by the external audit firm. The board should satisfy itself that at least one member of the audit committee has recent and relevant financial experience. The audit committee should hold regular meetings and ensure that some meetings coincide with key dates within the financial reporting and audit cycle.

#### **IV. Transparency and Disclosure**

UNCTAD (2006) states that one of the major responsibilities of the board of directors is to ensure that shareholders and other stakeholders are provided with high-quality disclosures on the financial and operating results of the entity that the board of directors has been entrusted with governing. The objectives of the enterprise, ownership and shareholder rights should also be disclosed. Many shareholders and stakeholders would be interested in information that would help them determine that management is running the enterprise with the best interest of all shareholders and stakeholders in mind and not to unduly benefit any related parties.

#### **2.5. Empirical Studies on Corporate Governance and Performance**

Kyereboah-Coleman (2007) researched on the effect of corporate governance on the performance of firms in Africa by using both market and accounting based performance measures. Data was obtained from 103 listed firms drawn from Ghana, South Africa, Nigeria and Kenya covering the five year period 1997-2001. The direction and the extent of impact of governance was dependent on the performance measure that was examined. The findings showed that large and independent boards enhance firm value, with the board size having a positive effect on performance. Whereas combining the positions of CEO and board chair had a

negative impact on corporate performance. The frequency of board meetings as a measure of board activity intensity, though insignificant, had a negative relationship with ROA but very weak positive relationship with market based performance in the overall sample. The size of audit committees and the frequency of their meetings had positive influence on market based performance and ROA measures and that institutional shareholding enhanced market valuation of firms. Finally, the results pointed out that both country and sector characteristics influence the impact of governance on corporate performance

Kajola (2008) examined the relationship between four corporate governance mechanisms (board size, board composition, chief executive status and audit committee) and two firm performance measures (ROE, and profit margin), of a sample of twenty Nigerian listed firms between 2000 and 2006. The results provide evidence of a positive significant relationship between ROE and board size as well as chief executive status. The study implied that that the board size should be limited to a sizeable limit and that the posts of the chief executive and the board chair should be occupied by different persons. The results further revealed a positive significant relationship between profit margin and chief executive status. The study, however, could not provide a significant relationship between the two performance measures and board composition and audit committee. Last but not least, the results clearly showed that there was a strong relationship between the dependent variables (ROE and profit margin) and the independent variables (the four corporate governance mechanisms- board size, board composition, chief executive status and audit committee) at 1%, 5% and 10% levels.

Sanda et al (2005) studied the effect of corporate governance mechanisms on firm financial performance by sampling 93 firms quoted on the Nigerian Stock Exchange for the period 1996 – 1999. The findings were that board size was significantly positively related to firm performance. While making a case for a board size of ten and for concentrated as opposed to diffused equity ownership, the results argued for the separation of the posts of CEO and Chair. Moreover, although the results found no evidence to support the idea that boards with a higher proportion of outside directors perform better than other firms, there was evidence that firms run by expatriate CEOs had a tendency to achieve higher levels of performance than those run by indigenous CEOs.



Adnan et al (2011) investigated the impact of corporate governance on efficiency of twelve listed banks in Malaysia between 1996 and 2005. The corporate governance variables were represented by board leadership structure, board composition, board size, director ownership, institutional ownership and block ownership, while bank efficiency was used to measure the performance. The findings revealed that smaller board size and higher percentage of block ownership led to better efficiency. However, the rest of the corporate governance variables did not have significant and consistent impact on efficiency.

Shaheen and Nishat (2005) related corporate governance score to operating performance, valuation, and shareholder payout for the Karachi Stock Exchange listed firms. They based their research findings on 226 firms out of 700 firms that were listed on the stock exchange. They found a positive correlation between ROE and 4 out of 5 audit committee measures and only 3 were statistically significant. They further concluded that performance was positively related to most of the governance categories they considered and the relationship was significant.

Kouwenberg (2007) examined the impact of a voluntary corporate governance initiative on firm value in an emerging market by considering the case of Thailand. The study used a large cross-section of 320 listed firms from 2003 to 2005. They found that a standard deviation increase in the code adoption index was related to a 10% increase in average firm value while controlling for firm-specific factors and industry effects. The relation was highly significant and not present prior to the introduction of the code, suggesting a causal link from code adoption to firm value. There was strong evidence of a positive relation between the adoption of a voluntary corporate governance code and firm value in an emerging market.

Aksu and Kosedag (2005) investigated the relationship between transparency and disclosure and firm performance in the ISE. They studied a sample of large capitalization and liquid ISE firms and their transparency and disclosure scores as measured by an objective examination of their annual reports and company web sites for the inclusion of transparency and disclosure attributes. The companies with higher scores, especially in the category of board and management structures, had higher returns and accounting measures of profitability. The firms that also used IFRS in the preparation of financial statements had higher transparency and disclosure scores and commitment to better disclosure scores. Finally their findings revealed that there was a stronger relationship between disclosure scores and performance while early IFRS adoption

improved the weak relationship between transparency and disclosure scores and performance measures.

Ongore and K'Obonya (2011) examined the interrelations among ownership, board and manager characteristics and firm performance in a sample of 54 firms listed at the NSE. Governance was measured in terms of ownership concentration, ownership identity, board effectiveness and managerial discretion; while firm performance was measured using ROA, ROE and DY. They found a significant positive relationship between foreign, insider, institutional and diverse ownership forms and firm performance. On the other hand the relationship between ownership concentration and government, and performance was significantly negative. The role of boards was found to be of very little value, mainly due to lack of adherence to board member selection criteria. The results further showed significant positive relationship between managerial discretion and performance.

Mang'unyi (2011) explored ownership structure and corporate governance and its effects on performance of firms within Nairobi, Kenya with reference to commercial banking sector. A total of 40 bank managers drawn from state-owned, locally-owned and foreign-owned banking institutions participated in the study. The findings showed no significant difference between type of ownership and financial performance and between banks ownership structure and corporate governance practices. Further results revealed that there was significant difference between corporate governance and financial performance of banks. However, foreign-owned banks had slightly better performance than domestically –owned banks.

Miring'u and Muoria (2011) examined how corporate governance affects performance in commercial state corporations in Kenya. The results were based on a sample of 30 respondents out of 41 commercial state corporations. The findings were that the board size mean for the sample was found to be ten while a minimum of three outside directors is required on the board. The study disclosed that there was a positive relations between Return on Equity and board size and board compositions of all state corporations.

## **2.6. Measurement of Performance**

According to Harvey et al (2010) the ability to monitor and report on performance is increasingly important for any successful sector. Individuals, organizations or systems cannot improve unless their shortcomings are identified and practical and creative solutions for improvements are put forward.

In for profit making organizations ROE, ROA, ROI, Market Return, ROS, ROC, DY amongst others are frequently used as measurements of firm performance. Pandya and Rao (1998), in their study on diversification and firm performance relied on 3 firm performance measurements ROE, ROA and Market Return. Khatab et al (2011) relied on ROA and ROE as measurement of firm performance in their study of corporate governance and firm performance in the Karachi Stock Market. ROE, ROA and DY were used by Ongore and K'Obonyo (2011) in their study of the effects of selected corporate governance characteristics on firm performance in Kenya.

The above measurements of performance while ideal for profit making organizations would not be the best performance measurements in this study. This is because the study will rely on information gathered from INGOs whose aim is not to make a profit but to provide humanitarian and sustainable development which is far reaching and affects the society as a whole. The study will rely on the operational performance of the INGOs as time and resource constraints will not adequately allow for a study on the impact on beneficiaries.

The four measurements of operational performance that this study will rely on will be borrowed from Harvey et al (2010) key criteria for assessing system performance and progress:

### **I. Coverage/Sufficiency**

While the needs of affected population have continually increased the resources to match these needs are insufficient. Humanitarian access is seen to be declining, owing to insecurity and/or host government restrictions. In the most contested environments, insecurity for aid workers has increased markedly. This measurement will be critical in determining how far reaching the humanitarian aid is despite the odds.

## **II. Relevance/appropriateness**

Humanitarian needs assessment and allocation of resources is important. Needs assessment remains a weakness since evaluations and beneficiary consultations continue to note problems of multiple assessments without sufficient follow-up. Beneficiaries continue to be inadequately consulted and involved in assessments and subsequent programme design.

## **III. Effectiveness**

Preparedness/timeliness, coordination, monitoring and human resources/institutional capacity are important measures of performance of humanitarian organisations. INGOs flexibility and fast response to emergencies, coordination of the various components within their organisations, constant monitoring and evaluation by their stakeholders and their operational capacity in terms of qualified personnel, attitude and experience to plan and effectively implement appropriate programmes have an impact of their ability to execute their objectives.

## **IV. Efficiency**

Overheads and programme support costs are of concern to humanitarian organization since the overall capacity of the humanitarian system is consistently seen as in need of strengthening. This is because their preparedness relies on this. In some cases donors have invested in attempts to strengthen the capacity of particular institutions. The level of staffing, procurement, funding and information flows is critical to the performance of INGOs and as such efficiency is a key indicator of their performance.

## **2.7. Summary**

Various theories have attempted to address the issue of corporate governance and in addition to this researchers have carried out studies to find the link between corporate governance and firm performance. Based on the empirical studies gathered there have been opposing findings on the relationship between corporate governance and firm performance however, various scholars have continually underscored the importance of corporate governance in both profit and nonprofit

making organizations. While several scholars have attempted to find out the corporate governance practices adopted by various NGOs in Somalia there has been no attempt to link this corporate governance practices to their performance. It is of great importance to find out if there is a link between the corporate governance of the INGOs in Somalia and their performance.

## **CHAPTER THREE**

### **RESEARCH METHODOLOGY**

#### **3.1. Introduction**

This chapter presents the research design that the researcher embarked on when collecting data, the population studied, sampling method, type of data to collected, data analysis and the reliability and validity of the data.

#### **3.2. Research Design**

In this study a causal research design was employed in seeking to understand the relationship between the independent and the dependent variables. A causal study attempts to explain relationships among variables, that is, how one variable affects, or is “responsible for,” changes in another variable. Similar to Ongore and K’Obonya (2011) the study focused on the effect of the organization’s corporate governance practices on its performance where the independent variables were the corporate governance practices while the dependent variables were the organizational performance indicators.

#### **3.3. Population of the Study**

The study targeted 58 INGOs that were members of the Somalia NGO Consortium as at 2011. Since there were only 58 members, the whole population was taken. A list of the members is on appendix I.

### 3.4. Data Collection

The study relied on primary data that was collected through administration of a structured questionnaire using the likert measurement scale. The questionnaire was divided into 3 sections. Section A pursued information on the organization background in terms of years of operation in Somalia and the key area of intervention. Section B pursued information on the corporate governance practices that were relevant to this study such as board size, composition, transparency and disclosure. Lastly, section C pursued information on the organisation's performance based on the four performance indicators that were relevant to this study. A sample of the questionnaire is on appendix II.

The respondent for each INGO was the senior manager or board member familiar with the INGO's corporate governance and performance.

### 3.5. Data Analysis

The study employed statistical measures such as frequency in determining the prevalent corporate governance practices in the INGOs. To determine the correlation between corporate governance and performance of the INGOs the following regression analysis model borrowed from Kajola (2008) was used:

$$PER_i = \beta_0 + \beta_1(\text{BOARDCOMP}) + \beta_2(\text{BOARDMTG}) + \beta_3(\text{AUDITCOM}) + \beta_4(\text{TRANS\&DISCL}) + \epsilon$$

*Where:*

$PER_i$  = Organisation Performance is obtained from the mean of performance indicators: Coverage/Sufficiency, Relevance/Appropriateness, Effectiveness and Efficiency

$\beta_0$  = Constant Performance with zero Corporate Governance Practice

$\beta_{1-4}$	=	Coefficient of Variation
BOARDCOMP	=	Board Size and Composition
BOARDMTG	=	Board Meeting
AUDITCOM	=	Audit Committee
TRANS&DISCL	=	Transparency and Disclosure
$\epsilon$	=	Other Factors

Mean is used to measure each of the corporate governance practices.

The Statistical Package for Social Sciences (SPSS) was used to analyse the data.

### 3.6. Data Reliability and Validity

A census was carried out on all the INGOs that are members of the Somalia NGO Consortium that provided a high degree of accuracy in the data that was collected as well as improved on its reliability. The data collected was therefore representative.

Further to this the data obtained on the NGOs' performance was over a period of three years which provided reliable data and improved the degree of accuracy. In addition the questionnaire was simple and with senior managers or board members being the targeted respondents the data provided was more accurate.

Most of the questions were closed ended therefore data collected was easy to analyse.



## **CHAPTER FOUR**

### **DATA ANALYSIS AND PRESENTATION OF FINDINGS**

#### **4.1. Introduction**

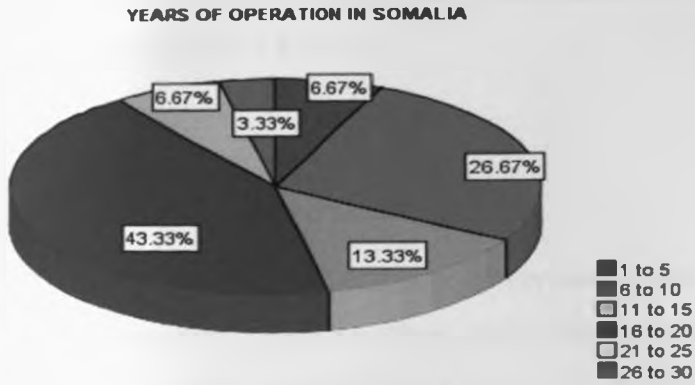
This chapter presents the findings and interpretation of the data collected in the following key areas: the INGOs background including the number of years of operation in Somalia as well as their area of intervention. Further to these, findings on the corporate governance practices within these organizations will be analysed as well as the correlation between the corporate governance practices and their performance.

#### **4.2. Data Presentation**

A census of 58 INGOs was carried out and out of these only 30 responded representing a response rate of 51.72%. The slightly above mid-point response rate was attributed to the sensitivity of the information both within the organisations as well as the country of operation. Nevertheless, all the questionnaires were considered eligible due to the completeness and authenticity of the responses.

#### 4.2.1 Organisation Background

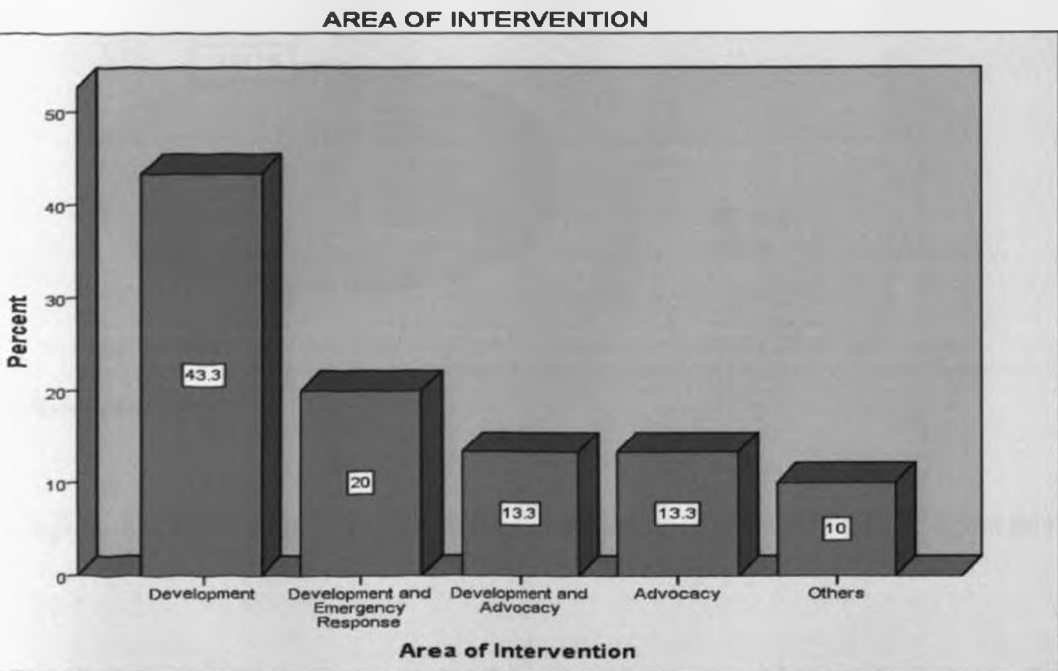
*Graph 1: Years of Operation in Somalia*



Source: Field Data 2012

The above graph shows that the majority of the INGOs (43.33%) have been operating in Somalia for the last 16 to 20 years. This is followed by 26.67% of the INGOs with operations in Somalia between 6 to 10 years. Only 3.33% of the INGOs have in Somalia for the last 26 to 30 years.

*Graph 2: Area of intervention*



Source: Field Data 2012

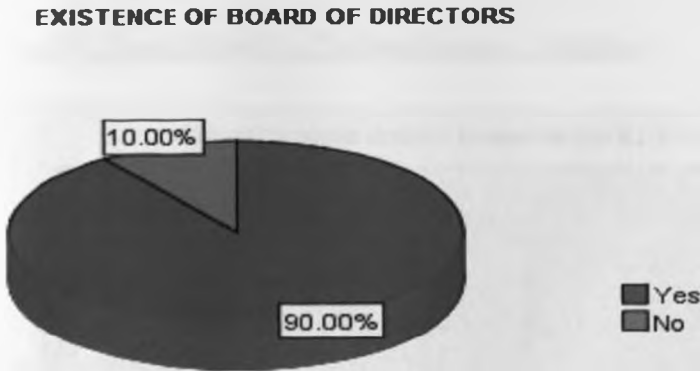
Development is depicted as the key area of intervention by the majority of the INGOs (43.3%) with 33.3% of the INGOs combining development with other areas of intervention such as emergency response and advocacy.

**4.2.2. Corporate Governance Practices**

The graphs and tables under corporate governance practices summarise the findings on board size and composition, board meetings, audit committee and transparency and disclosure. The feedback on the tables was ranked on a scale of 1 – 5, where a scale of 1 was strongly agreed and a scale of 5 was strongly disagreed.

**4.2.2.1. Board Size and Composition**

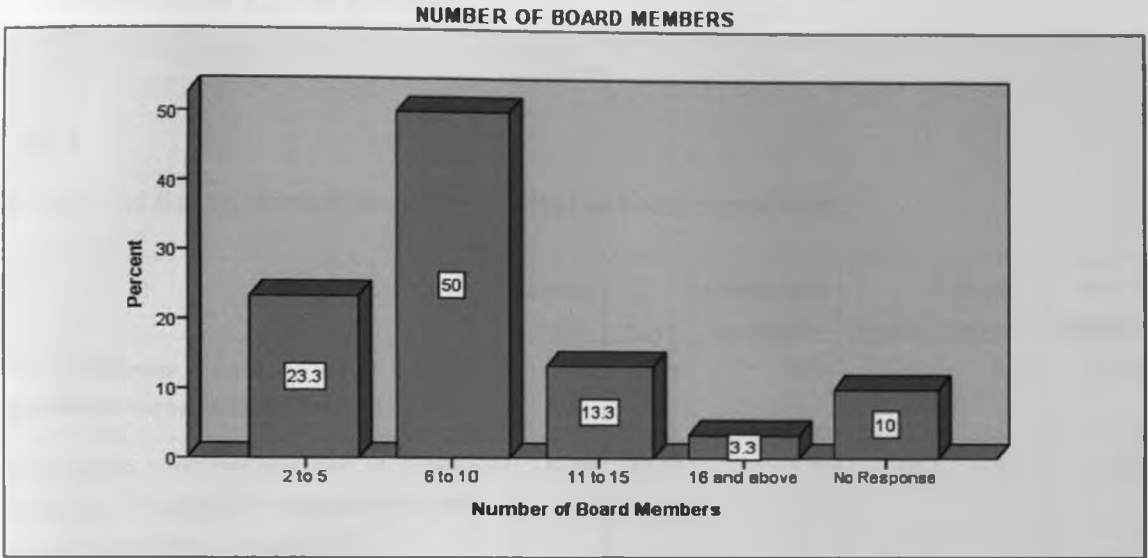
Graph 3: Existence of a Board of Directors



Source: Field Data 2012

Graph 3 depicts that 90% of the INGOs have board of directors as opposed to 10% that do not.

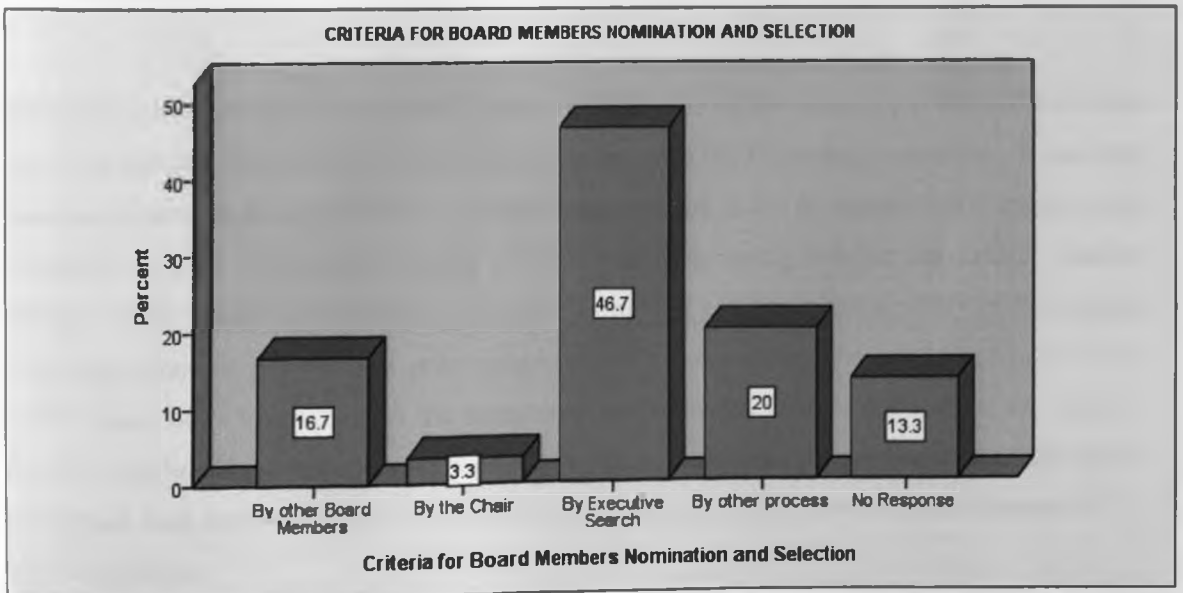
***Graph 4: Number of Board Members***



Source: Field Data 2012

The graph illustrates that of those with board of directors, 50% have 6 to 10 board members with a minority at 3.3% having 16 and above board members.

***Graph 5: Criteria for Board Members Nomination and Selection***



Source: Field Data 2012

46.7% of the INGOs' board members are nominated and selected through an executive search while the minority at 3.3% by the chair.

**Table 1**

The table and figures below summarises findings on board composition:

	Strongly Agree	Agree	Neither Agree Nor Disagree	Disagree	Strongly Disagree	No Response
Role of Chairperson of the Board and ED or CEO are separated and held by different persons	66.7%	10.0%	3.3%	3.3%	3.3%	13.3%
When selecting board members level of professional qualifications is important and deficiencies in the skills of current board members are considered	56.7%	23.3%	3.3%	.0%	3.3%	13.3%
During the selection process for board members links and/or prior contacts with donors is important	20.0%	23.3%	20.0%	16.7%	6.7%	13.3%
There is gender balance in the board composition	40.0%	26.7%	6.7%	6.7%	3.3%	16.7%
There are more male board members than female	13.3%	30.0%	16.7%	13.3%	10.0%	16.7%
The period of time that each board member serves is important as it affects the performance of the board	40.0%	30.0%	6.7%	6.7%	3.3%	13.3%

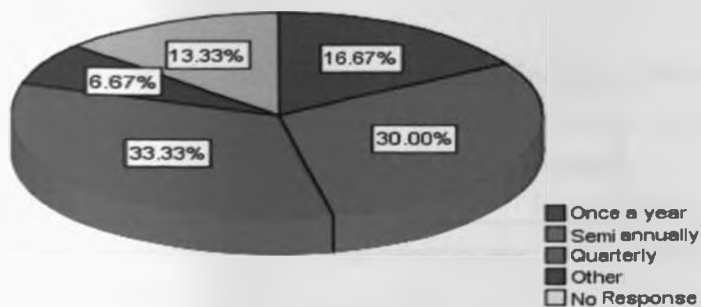
Source: Field Data 2012

The majority of the INGOs were of the opinion that the role of the chairperson was separate from that of the ED or CEO and held by different persons with 66.7% strongly agreeing. It was also clear that professional qualifications and deficiencies in the skills of current board members are considered by most of the INGOs, with 56.7% strongly agreeing with the statement. Despite 20% and 23.3% being in either strongly agreed or agreed categories respectively in the ranking of the importance of links and/or prior contacts with donors during the selection process, 20% neither agreed nor disagreed with the statement. In addition, 70% of the INGOs felt that the period of time board members served was important as it affected the performance of the board. Last but not least 66.7% of the INGOs were of the opinion that there was gender balance in the board composition.

#### 4.2.2.2. Board Meetings

**Graph 6: Frequency of Board Meetings**

**FREQUENCY OF BOARD MEETINGS**

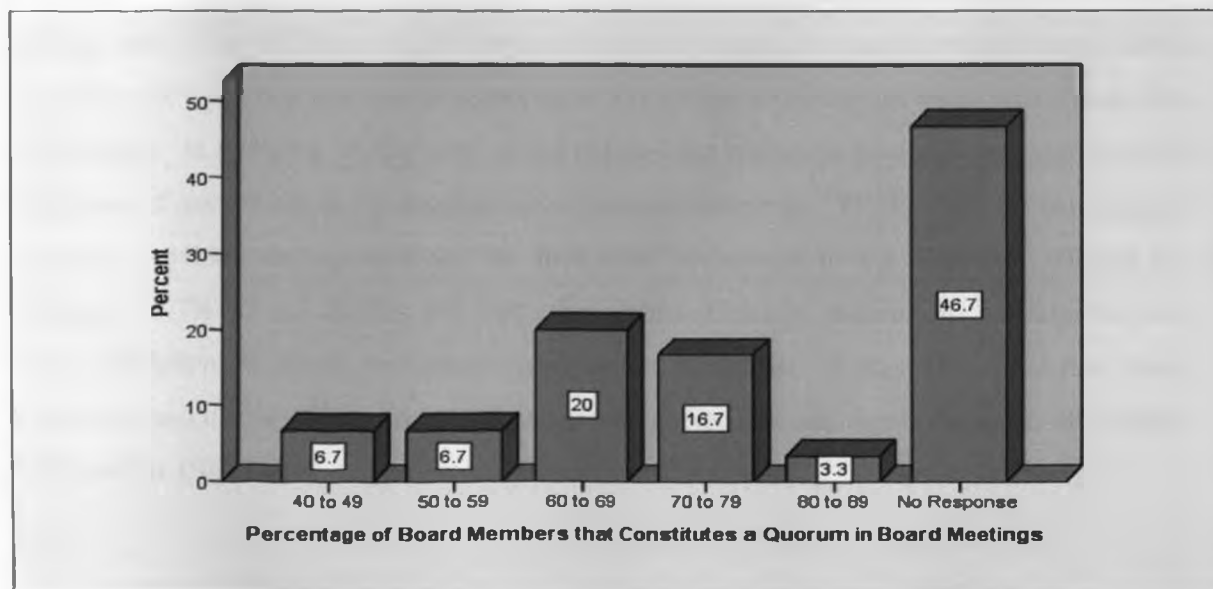


Source: Field Data 2012

The above graph illustrates that 33.33% and 30% of the INGOs held board meetings either quarterly or semiannually respectively. 13.33% of the INGOs did not respond and of this 10% had indicated that they did not have board of directors.

**Graph 7: Percentage of Board Members Constituting a Quorum in Board Meetings**

**PERCENTAGE OF BOARD MEMBERS THAT CONSTITUTES A QUORUM IN BOARD MEETINGS**



Source: Field Data 2012

Graph 7 shows that 46.7% of the INGOs did not respond to the question on the percentage of board members constituting a quorum in board meetings. Of those who responded, the majority at 20% were of the opinion that 60-69% of board members constituted a quorum.

**Table 2**

The table and figures below summarises findings on board meetings:

	Strongly Agree	Agree	Neither Agree Nor Disagree	Disagree	Strongly Disagree	No Response
There is an induction process/package/training for new board members	40.0%	26.7%	13.3%	3.3%	3.3%	13.3%
Calendar of meetings or key events affecting board is shared with all members	46.7%	33.3%	6.7%	.0%	.0%	13.3%
Sufficient time is provided between circulation of documents to aid decision and subsequent meetings	43.3%	33.3%	10.0%	.0%	.0%	13.3%
Adequate time is provided during meetings for thoughtful discussion to aid decision	60.0%	13.3%	13.3%	.0%	.0%	13.3%
Open communication, meaningful participation and timely resolution of issues encouraged during meetings	56.7%	20.0%	10.0%	.0%	.0%	13.3%
Board discussions and decisions are recorded accurately, adequately and timely	53.3%	26.7%	6.7%	.0%	.0%	13.3%

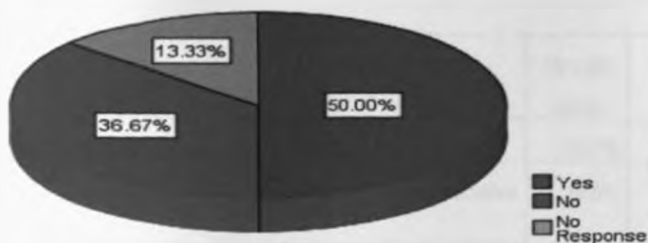
Source: Field Data 2012

The majority of the INGOs at 66.7% have an induction process for new board members. At the same time 70% felt that calendar of meetings of key events affecting the board was shared with all members. In addition, 76.6% were of the opinion that sufficient time was provided between circulation of documents to aid decision and subsequent meetings. 73.3% also felt that adequate time was provided during meetings for thoughtful discussion to aid decision. During the meetings, 76.7% of the INGOs felt that open communication, meaningful participation and timely resolution of issues was encouraged during meetings. It was also clear that board discussions and decisions were recorded accurately, adequately and timely based on the opinion of 80% of the INGOs.

### 4.2.2.3. Audit Committee

**Graph 8: Presence of Audit Committee**

**PRESENCE OF AN AUDIT COMMITTEE**

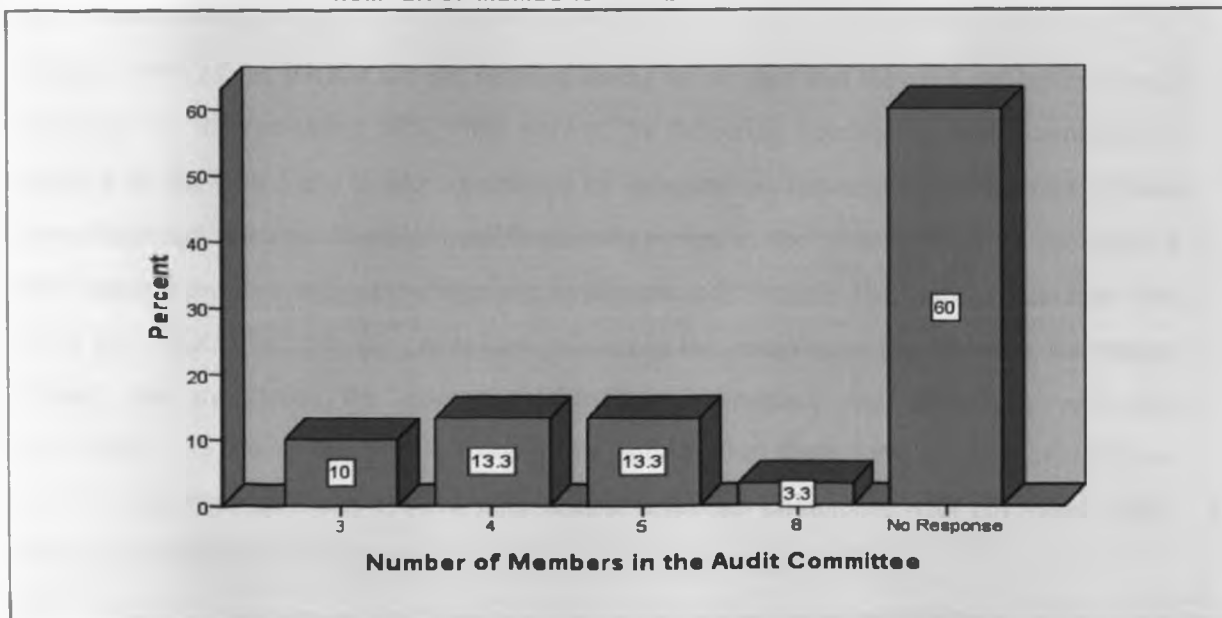


Source: Field Data 2012

The findings depicted that 50% of the INGOs had an audit committee while 36.67% did not. Of the 36.67%, there were those INGOs that had an internal auditor instead, however 13.33% of the INGOs did not respond.

**Graph 9: Number of Audit Committee Members**

**NUMBER OF MEMBERS IN THE AUDIT COMMITTEE**



Source: Field Data 2012



According to graph 9, the majority (60%) of the INGOs did not respond to the question on the number of members in the audit committee, while there was a tie at 13.3% of the INGOs who were of the opinion that the number of audit committee members was either 4 or 5.

**Table 3**

The table and figures below summarises findings on audit committee:

	Strongly Agree	Agree	Neither Agree Nor Disagree	Disagree	Strongly Disagree	No Response
Audit Committee is appointed by the board	26.7%	13.3%	3.3%	6.7%	.0%	50.0%
Audit Committee are independent non-executive directors	20.0%	20.0%	6.7%	3.3%	.0%	50.0%
At least one member has relevant financial qualifications/experience	36.7%	13.3%	.0%	.0%	.0%	50.0%
Committee monitors the integrity of the financial statements, reviews and monitors the external auditor's independence and objectivity and their effectiveness	40.0%	10.0%	.0%	.0%	.0%	50.0%
Committee meets the external and/or internal auditors without management to discuss audit issues	23.3%	16.7%	6.7%	3.3%	.0%	50.0%
There are as many meetings as their role and responsibilities require with critical meetings coinciding with key dates within financial reporting and audit cycle	10.0%	23.3%	10.0%	3.3%	3.3%	50.0%

Source: Field Data 2012

In table 3, 50% of the INGOs did not respond owing to the fact that they did not have an audit committee. Of the remaining 50%, 40% were of the following opinion: the audit committee is appointed by the board and it was constituted by independent non-executive directors; at least one member had relevant financial qualifications/experience; the committee meets the external and/or internal auditors without management to discuss audit issues. The findings also show that 50% of the INGOs felt that the committee monitored the integrity of the financial statements, reviewed and monitored the external auditor's independence and objectivity and their effectiveness. 33.3% of the INGOs were of the opinion that there were as many meetings as their role and responsibilities require with critical meetings coinciding with key dates within financial reporting and audit cycle.

#### 4.2.2.4. Transparency and Disclosure

**Table 4**

The table and figures below summarises findings on transparency and disclosure:

	Strongly Agree	Agree	Neither Agree Nor Disagree	Disagree	Strongly Disagree	No Response
Interested stakeholders are provided information on financial and operating results of the organisation	46.7%	26.7%	13.3%	.0%	.0%	13.3%
Organisation's accounting policy is in line with GAAP	60.0%	26.7%	.0%	.0%	.0%	13.3%
Significant transactions are extensively disclosed	46.7%	30.0%	6.7%	3.3%	.0%	13.3%
Ownership structure is disclosed to interested parties	30.0%	40.0%	16.7%	.0%	.0%	13.3%
Structure, composition, role and function of the board is shared with stakeholders	33.3%	43.3%	10.0%	.0%	.0%	13.3%
Board committees are set up to address potential conflicts of interest	16.7%	43.3%	16.7%	6.7%	3.3%	13.3%

Source: Field Data 2012

Table 4 captures transparency and disclosure, where the majority stated that interested stakeholders were provided information on financial and operating results with 46.7% strongly agreeing. 86.7% of the INGOs' accounting policy was in line with GAAP with 76.7% of those, stating that significant transactions are extensively disclosed and structure, composition, role and function of the board is shared with stakeholders. 70% of the INGOs were of the opinion that ownership structure is disclosed to interested parties and board committees are set up to address potential conflicts of interest.

#### 4.2.3. Corporate Governance and Performance

Regression analysis that excluded cases listwise was performed to determine the effect of each of the corporate governance practices on performance and finally to determine the effect of all 4 attributes of corporate governance on performance.

**Table 5**

Regression analysis on the contribution of board size and composition towards performance:

Predictor	Coef	P
Constant	1.935	.000
Board Size and Composition	.217	.092

R = 0.337      R-sq = 0.114      R-sq (adj) = 0.77      N = 26 cases

Performance Mean = 2.37      Board Size and Composition Mean = 1.99

Source: Field Data 2012

According to table 5 there is an insignificant relationship ( $p=0.092>0.05$ ) between performance and board size and composition alone at the 5% level of significance. With the R-square of 11.4%, we can conclude that board size and composition makes a very weak contribution to the performance of the INGOs.

**Table 6**

Regression analysis on the contribution of board meeting towards performance:

Predictor	Coef	P
Constant	1.589	.000
Board Meetings	.496	.002

R = 0.575      R-sq = 0.33      R-sq (adj) = 0.302      N = 26 cases

Performance Mean = 2.37      Board Meetings Mean = 1.57

Source: Field Data 2012

On the other hand, Table 6 shows that there is a significant relationship ( $p=0.002<0.05$ ) between performance and board meeting alone at the 5% level of significance. However R-square of 33% leads to a conclusion that board meetings alone makes a weak contribution to the performance of the INGOs.

**Table 7**

Regression analysis on the contribution of audit committee towards performance:

Predictor	Coefficients	P
Constant	2.008	.004
Audit Committee	.218	.524

R = 0.179      R-sq = 0.032      R-sq (adj) = -0.042      N = 15 cases

Performance Mean = 2.38      Audit Committee Mean = 1.71

Source: Field Data 2012

There is an insignificant relationship ( $p=0.524>0.05$ ) between performance and audit committee alone at the 5% level of significance. With an R-square of 3.2%, we can conclude that audit committee makes a very weak contribution to the performance of the INGOs.

**Table 8**

Regression analysis on the contribution of transparency and disclosure towards performance:

Predictor	Coef	P
Constant	1.811	.000
Transparency and Disclosure	.322	.081

R = 0.349      R-sq = 0.122      R-sq (adj) = 0.085      N = 26 cases

Performance Mean = 2.37      Transparency and Disclosure Mean = 1.73

Source: Field Data 2012

The table illustrates that there is an insignificant relationship ( $p=0.081>0.05$ ) between performance and transparency and disclosure alone at the 5% level of significance. With an R-square of 12.2% we also conclude that transparency and disclosure makes a very weak contribution to the performance of the INGOs.



**Table 9**

Regression analysis on the contribution of board size and composition, board meetings, audit committee and transparency and disclosure towards performance:

Predictor	Coef	P	Mean
Constant	1.959	.005	
Board Size and Composition	.111	.558	1.97
Board Meetings	.575	.050	1.48
Audit Committee	-.750	.127	1.71
Transparency and Disclosure	.395	.214	1.61

R = 0.69      R-sq = 0.476    R-sq (adj) = 0.266      P (all predictors) = 0.134      N= 15 cases

Performance Mean = 2.37

Source: Field Data 2012

Table 9 reflects the findings on the effect of all the 4 corporate governance practices, that is, board size and composition, board meetings, audit committee and transparency and disclosure, on performance. There is an insignificant relationship ( $p=0.134>0.05$ ) between performance and the 4 corporate governance practices at the 5% level of significance. The R-square of 47.6% implies that the independent variables (board size and composition, board meetings, audit committee and transparency and disclosure) do not account for most of the variability in the dependent variable (performance) of the INGOs.

### **4.3. Summary and Interpretation of Findings**

#### **4.3.1. Organisation Background**

The findings show that the majority of the INGOs began their operations in Somalia about 16 to 20 years ago in order to provide humanitarian aid in the country. This coincided with the period following the defeat of General Mohamed Siad Barre leading Somalia to anarchy and subsequent humanitarian crisis. This key finding supports the Somalia - UNOSOM I (1997) statement that, by 1992, almost 4.5 million people were threatened with starvation, severe malnutrition and related diseases; an estimated 300,000 people, including many children, died; some 2 million

people violently displaced from their home areas and all institutions of governance with at least 60 per cent of the country's basic infrastructure disintegrated hence the need for humanitarian aid. The findings further demonstrated that within the last 6 to 10 years a significant number of the INGOs were set up in Somalia. This was a result of an outbreak of violence between Somali Islamic Courts Union and rival warlords in South Central Somalia. It was also the period that Ethiopian troops joined the fight against the Islamic Courts Union leading to a humanitarian crisis with many Somalis fleeing their homes in Mogadishu and other South Central regions.

#### **4.3.2. Corporate Governance Practices**

The study shows that the majority of the INGOs have a board of directors with the board size and composition being an integral part. The study confirms Adnan et al (2011) argument that smaller board size led to better efficiency. This is because, out of the 90% INGOs with board of directors 50% have 6 to 10 board members and a minority at 3.3% have 16 and above board members. It is evident that in most of the INGOs the board members are nominated and selected through an executive search leading to a concern on their independence. On the other hand the findings confirm that the majority of the INGOs separate the role of the chairperson from that of the ED or CEO and ensure they are held by different persons. This is a clear indication that the organisations are trying to minimise the agency problem. This further confirms the study by Donaldson and Davis (1991) who argued that impartiality will occur more fully where the chairperson of the board is independent of executive management. Where the CEO is chair of the board of directors the impartiality of the board is compromised. It was also clear that professional qualifications and deficiencies in the skills of current board members are considered by most of the INGOs, supporting the study conducted by Cornforth (2002). He argued that board members should be selected on the basis of their expertise and contacts so that they are in a position to add value to the organisation's decisions. This also supports Davis and Cobb (2009) view that the resource dependency theory suggested that an organization can manage uncertainty by inviting a representative of the source of constraint onto its governing board thus trading sovereignty for support. Last but not least it was interesting to see that while the majority of the INGOs (66.7%) were of the opinion that there was gender balance in the board composition, 43.3% felt that there are more male board members than female contradicting the previous statement. The study also showed that when it came to the gender balance in the board,

16.7% of the INGOs did not respond as opposed to 13.3% that did not respond to the statements pertaining to the other issues on board size and composition.

For effective decision making 33.33% and 30% of the INGOs hold board meetings quarterly and semiannually respectively, with the majority affirming that 60-69% of board members constitute a quorum. The majority of the INGOs stated that there was an induction process in place for new board members. At the same time the calendar of meetings of key events affecting the board was shared with all members and sufficient time was provided between circulation of documents to aid decision and subsequent meetings. Finally during meetings, open communication, meaningful participation and timely resolution of issues was encouraged. These findings confirm Cornforth (2002) argument that board and managers should receive proper induction and training and should know how to operate effectively as a team.

The study revealed that half of the INGOs have an audit committee while 36.67% do not. Some of the INGOs that do not have an audit committee indicated that they have an internal auditor in its place. 40% of the INGOs affirmed that the audit committee is appointed by the board and it is constituted by independent non-executive directors confirming the Financial Reporting Council (2010) argument that an audit committee should be established by the board of directors. The study further confirms the council's view that at least one member should have the relevant financial experience and the committee's mandate is also to review and monitor both the external and internal auditors' independence and objectivity.

The findings on transparency and disclosure support UNCTAD (2006) view that high quality disclosures should be on the financial and operating results of the entity, with the majority of the INGOs stating that interested stakeholders are provided information on financial and operating results of the organisation. In addition, a majority of the INGOs stated that significant transactions are extensively disclosed and structure, composition, role and function of the board is shared with stakeholders.

The findings illustrate that the majority of INGOs have incorporated the 4 key corporate governance practices, that is, board size and composition, board meetings and transparency and disclosure. Though, the audit committee governance practice was least incorporated, some INGOs indicated that they had an internal auditor in its place.

### 4.3.3. Relationship between Corporate Governance and Performance

The study shows that there is a positive relationship between performance and board size and composition which is in line with Miring'u and Muoria (2011) argument that there was a positive relation between performance measured by ROE and board size and board compositions of all state corporations. The study further disclosed that at the 5% level of significance,  $p = 0.092 > 0.05$ , which implies that the relationship between performance and board size and composition alone was insignificant. The R-square of 11.4%, leads to a conclusion that board size and composition makes a very weak contribution to the performance of the INGOs which does not support Sandra et al (2005) and Kajola (2008) arguments that board size was significantly positively related to firm performance.

The study further provides evidence that there is a positive relationship between board meetings and performance and at the 5% level of significance the relationship is significant with  $p = 0.002 < 0.05$ . However R-square of 33% leads to a conclusion that board meetings alone makes a weak contribution to the performance of the INGOs. This partially supports Kyereboah-Coleman (2007) argument that the frequency of board meetings as a measure of board activity intensity had a very weak positive relationship with market based performance in the overall sample.

The results show a positive correlation between performance and audit committee. However, with an R-square of 3.2%, it is clear that audit committee makes a very weak contribution to the performance of the INGOs and at the 5% level of significance  $p = 0.524$  implying that the relationship is not significant. These findings do not support Kajola (2008) argument that performance has a negative relationship with audit committee though insignificant. The findings partially supported Shaneen and Nishat (2005) conclusion that there was a positive correlation between performance measured by ROE and 4 out of 5 audit committee measures and only 3 were statistically significant.

The study further concludes that there is a positive relationship between performance and transparency and disclosure though it is very weak with an R-square of 12.2%. At a 5% significance level the relationship is insignificant since  $p = 0.081 > 0.05$ . This contradicts Aksu



and Kosedag (2005) findings that there was a strong relationship between disclosure scores and performance.

Finally the results showed a positive correlation between performance and all 4 corporate governance practices, that is, board size and composition, board meetings, audit committee and transparency and disclosure. R-square of 47.6% implies that the governance practices do not account for most of the variability in the INGOs performance and at 5% significance level the relationship is insignificant since  $p = 0.134 > 0.05$ . These findings are not in line with Shaheen and Nishat (2005) conclusion that performance was significantly positively related to most of the governance categories they considered. The results did not also support Kajola (2008) argument that there was a strong relationship between performance and the 4 corporate governance mechanisms - board size, board composition, chief executive status and audit committee.

## CHAPTER FIVE

### SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

#### 5.1. Summary

The aim of the study was to establish the corporate governance practices of INGOs in Somalia and their impact on the performance of these INGOs. The study concentrated on the following key corporate governance attributes; board size and composition, board meeting, audit committee and transparency and disclosure. On the other hand performance was measured by coverage/sufficiency, relevance/appropriateness, effectiveness and efficiency.

A causal design was employed in order to find the link between corporate governance and performance. The corporate governance practices formed the independent variables while performance was the dependent variable. The study relied on primary data through a structured questionnaire that was administered to 58 INGOs in Somalia with the respondents being either senior managers or board members.

The data was analysed using statistical measures such as frequencies to determine the prevalent corporate governance practices. The findings were that the majority of the INGOs had board size and composition, board meetings and transparency and disclosure governance practices in place. However, half of the INGOs had audit committees while others did not respond and of those who responded there was a split feedback, with some having an internal auditor instead and the remaining not having either an audit committee or internal auditor altogether. On the other hand a simple regression model was used to establish the relationship between corporate governance and performance. It was established that the four attributes of corporate governance had a positive relationship with performance though their contribution was weak. In addition when the four attributes were separated the study found out that each attribute, on its own, had a positive relation with performance though it was weak.

## **5.2. Conclusions**

Corporate governance is essential in the activities of NGOs. While studying the corporate governance practices of the INGOs it was established that the majority had board of directors with a small board size. However, the independence of the board is in question given that executive search was the main method of nominating and selecting the members but to dispel this the findings showed that the roles of the ED or CEO were separated from those of the board's chairperson. In addition, the board meetings are held frequently, free communication is encouraged and information is shared in a timely manner. The study also found out that INGOs had an independent audit committee and in some cases an internal auditor in its place. Transparency and disclosure scored highly in terms of implementation and was supreme. This in principle implies that 4 corporate governance attributes, board size and composition, board meetings, audit committee and transparency and disclosure, are perceived to be important in running the INGOs and in ensuring provision of humanitarian aid.

The study further examined the relationship between corporate governance and performance of INGOs in Somalia. The regression analysis carried out between corporate governance and performance revealed that they both moved in the same direction though the relationship was insignificant. When the analysis was conducted on each of the corporate governance attributes separately the relationship was also positive. However, the results showed that 3 of them, board size and composition, audit committee and transparency and disclosure, did not significantly affect the performance of the organization and their contribution towards performance was also weak. On the other hand, 1 corporate governance attribute, board meetings, had a significant effect on performance though the contribution was weak.

Nevertheless, the findings from this study led to a conclusion that corporate governance is insignificantly positively related to performance.

## **5.3. Policy Recommendations**

The INGOs' managers should assess their overheads and support costs which seem to impact on the performance of their respective organisations. Most of the INGOs felt that the overheads inclusive of support costs were significant and on the rise hampering their performance. In

addition, the managers should assess their procurement plans, processes and time spent on procurement with a view to improving them.

More needs to be done in a bid to increasing donor funding. The donors should recognise the humanitarian crisis in Somalia and increase the level of funding towards activities that will improve on Somali people's sustainable development. The findings established that humanitarian needs are on the rise and the needs could only be met if the donor funding also increased and matched the needs.

The media could also play a great role in raising awareness in the world over on the humanitarian crisis in Somalia. This could lead to more donor funding and intervention from the international community in a bid to finding lasting peace in the country.

The level of insecurity in the country hampers the INGOs work in Somalia significantly and the 'governments' in Somalia should identify with the needs of the people and extend more security towards the INGOs to ensure the affected people receive the assistance they need.

#### **5.4. Limitations of the Study**

This study targeted senior managers and board members as the respondents and given their busy schedules due to their roles and responsibilities in the INGOs they had limited time to dedicate to the questionnaires. As a result most of the questionnaires were not returned despite the constant follow ups.

Further to above, most of the INGOs' headquarters are based outside the country with the Somalia country offices that are based Kenya, being regulated on the kind of information they could divulge. Some of the regional managers were not empowered to disclose information pertaining to their corporate governance practices and unfortunately the respective offices at the headquarters level did not respond to the questionnaires sent by email.

Activities in Somalia are treated with high level of sensitivity due to the volatile conditions in Somalia. As such most of the INGOs were not comfortable disclosing all the information

requested in the questionnaire and some of them preferred not to be involved in the study altogether.

### **5.5. Suggestions of other Studies**

This study concentrated on coverage/sufficiency, relevance/appropriateness, effectiveness and efficiency as measures of performance with information emanating from the INGOs in Somalia. In measuring performance future studies can target beneficiaries and obtain their perception of the INGOs performance. The findings on performance obtained from beneficiaries might differ from the ones in this study.

There are quite a number of national NGOs registered in Somalia and their corporate governance practices could be studied. The study could also establish the relationship between their corporate governance practices and their performance.

Last but not least, this study found that there was a weak relationship between corporate governance and performance of INGOs in Somalia. Future studies could try to examine other factors that might affect the performance of the INGOs in Somalia.

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## APPENDIX I

### INTERNATIONAL NON-GOVERNMENTAL ORGANISATIONS IN SOMALIA

- AAH-I – Action Africa Help – International
- ACTED – Agency for Technical Co-operation and Development
- ADRA – Adventist Relief Development Agency
- AET – Africa Educational Trust
- AFREC – Africa Rescue Committee
- AFSC – American Friends Service Committee
- CARE – Cooperative Assistance for Relief Everywhere
- CARITAS Switzerland and CARITAS Luxembourg
- CCM Italy - Comitato di Collaborazione Medica
- CEFA – Somalia European Committee for Agricultural Training
- CESVI – Cooperation and Development
- CISP – Comitato Internazionale per lo Sviluppo dei Popoli
- CONCERN Worldwide Somalia
- COOPI – Cooperazione Internazionale
- COPA – Coalition for Peace in Africa
- COSV – Coordination Committee of Voluntary Service Organisations
- DIAL – Development Initiative Access Link
- DRC – Danish Refugee Council
- GREDO – Gole Yome Rehabilitation & Development Organisation
- Handicap International
- HISAN – Handicap Initiative Support and Network
- Horn Relief
- IAS – International Aid Services
- IMC – International Medical Corps
- INTERPEACE/WSP – Interpeace/War torn Societies
- INTERSOS
- IRC – International Rescue Committee
- IREX – International Research & Exchanges Board
- ISF – International Solidarity Foundation
- Islamic Relief
- JCCP – Japan Centre for Conflict Prevention
- LPI - Life & Peace Institute
- MAG – Mines Advisory Corp
- MDM – Medecins Du Monde
- MEDAIR
- MERCY CORPS Somalia
- MERLIN
- MURDO – Multi-National Relief and Development Organisation
- Norwegian Church Aid
- NPA – Norwegian People's Aid
- NRC – Norwegian Refugee Council

42. OXFAM GB
43. OXFAM NOVIB
44. PROGRESSIO UK
45. PSR Finland – Physicians for Social Responsibility – Finland
46. RI – Relief International
47. SAFERWORLD
48. SAWA – Swedish Africa Welfare Alliance
49. SCUK – Save the Children UK
50. SOLIDARITES
51. TERRA NUOVA – Terra Nuova Association for International Cooperation to Development
52. TROCAIRE
53. VSF Germany – Veterinaires Sans Frontieres – Germany
54. VSF SUISSE – Veterinaires Sans Frontieres – Switzerland
55. WAHA International
56. WOCCA – Women and Child Care Organisation
57. World Concern International
58. WVS - World Vision Somalia

## APPENDIX II

### QUESTIONNAIRE

#### THE RELATIONSHIP BETWEEN CORPORATE GOVERNANCE AND PERFORMANCE OF INTERNATIONAL NON-GOVERNMENTAL ORGANISATIONS IN SOMALIA

##### SECTION A: ORGANISATION BACKGROUND

- Q1. Name of the Organisation? \_\_\_\_\_
- Q2. How many years has your organisation been in operation in Somalia? \_\_\_\_\_ Years
- Q3. Do you have a Board of Directors in your organization? Yes [ ] No [ ]
- Q4. What is the organisation's area of intervention? (*Example: Health, Nutrition, HIV/AIDS, Advocacy*) \_\_\_\_\_

##### SECTION B: CORPORATE GOVERNANCE PRACTICES

###### Board Size and Composition

- Q5. How many members are serving in the Board of Directors?
- 2-5 [ ]      6-10 [ ]      11-15 [ ]      16 and above [ ]
- Q6. What is the criteria for Board Members nomination and selection?
- By other Board Members [ ]      By the Chair [ ]
- By Executive Search [ ]      By other process [ ] Specify \_\_\_\_\_

Please indicate your level of agreement with the following statements using the following rating:

**1 – Strongly Agree    2 – Agree    3 – Neither Agree Nor Disagree    4 – Disagree**

**5 – Strongly Disagree**

Q7.	The role of the Chairperson of the Board and Executive Director or Chief Executive Officer are separated and held by different persons	1	2	3	4	5
Q8.	When selecting board members their level of professional qualifications is important and deficiencies in the skills of current board members are considered	1	2	3	4	5
Q9.	During the selection process for board members links and/or prior contacts with donors is important	1	2	3	4	5
Q10.	There is gender balance in the board composition	1	2	3	4	5
Q11.	There are more male board members than female board members	1	2	3	4	5
Q12.	The period of time that each board member serves is important as it affects the performance of the board	1	2	3	4	5

**Board Meetings**

Q13. How many times in a year does the Board meet?

Once a year    [   ]                      Semi annually    [   ]                      Quarterly    [   ]  
 Monthly        [   ]                      Other                      [   ] Specify \_\_\_\_\_

Q14. What percentage of Board Members is required to constitute a quorum during Board meetings? \_\_\_\_\_

Please indicate your level of agreement with the following statements using the following rating:

**1 – Strongly Agree    2 – Agree    3 – Neither Agree Nor Disagree    4 – Disagree**

**5 – Strongly Disagree**

Q15.	There is an induction process/package/training for new board members	1	2	3	4	5
Q16.	A calendar of board meetings or key events affecting the board is shared with all board members	1	2	3	4	5

Q17.	Sufficient time is provided between the time documents necessary to aid decision making by board are circulated to board members and the subsequent meeting	1	2	3	4	5
Q18.	Adequate time is provided during board meetings for thoughtful discussion before coming to a decision	1	2	3	4	5
Q19.	Board meetings are conducted in a manner that encourages open communication, meaningful participation and timely resolution of issues	1	2	3	4	5
Q20.	Board discussions and decisions are recorded accurately, adequately and on a timely basis	1	2	3	4	5

### Audit Committee

Q21. Do you have an audit committee? (Tick as appropriate)

Yes [ ] No [ ] Why not? \_\_\_\_\_

Q22. How many members are in the audit committee? \_\_\_\_\_

Please indicate your level of agreement with the following statements using the following rating:

1 – Strongly Agree    2 – Agree    3 – Neither Agree Nor Disagree    4 – Disagree

**5 – Strongly Disagree**

Q23.	The audit committee is appointed by the board	1	2	3	4	5
Q24.	The audit committee members are independent non-executive directors	1	2	3	4	5
Q25.	At least one member of the audit committee has the relevant financial qualifications/experience	1	2	3	4	5
Q26.	The audit committee monitors the integrity of the financial statements, reviews and monitors the external auditor's independence and objectivity and the effectiveness of the audit process	1	2	3	4	5
Q27.	Audit committee meets the external and/or internal auditors without management to discuss matters relating to its submission and any issues arising from the audit	1	2	3	4	5

Q28.	There are as many audit committee meetings as their role and responsibilities require with critical meetings coinciding with key dates within the financial reporting and audit cycle	1	2	3	4	5
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### Transparency and Disclosure

Please indicate your level of agreement with the following statements using the following rating:

**1 – Strongly Agree    2 – Agree    3 – Neither Agree Nor Disagree    4 – Disagree**

**5 – Strongly Disagree**

Q29.	The board provides interested stakeholders with information on the financial and operating results of the organisation	1	2	3	4	5
Q30.	The organization's accounting policy is in line with the generally accepted accounting principles (GAAP)	1	2	3	4	5
Q31.	Significant transactions with related parties are extensively disclosed in the financial reports	1	2	3	4	5
Q32.	The ownership structure of the organization is fully and readily disclosed to all interested parties	1	2	3	4	5
Q33.	The structure, composition, role and function of the board is shared with stakeholders	1	2	3	4	5
Q34.	Board committees e.g. risk management committee, audit committee, to address potential conflicts of interest hence enhancing independent judgement are set up	1	2	3	4	5



## SECTION C: ORGANISATION'S PERFORMANCE

### Coverage/Sufficiency

Please indicate the trend in the last three years of the following using the following rating:

**1 – Strongly Agree    2 – Agree    3 – Neither Agree Nor Disagree    4 – Disagree**

### **5 – Strongly Disagree**

Q35.	The needs of the affected population have increased	1	2	3	4	5
Q36.	The number of affected population whose humanitarian needs are not met are on the increase	1	2	3	4	5
Q37.	The level of insecurity affecting the organisation's ability to reach all the population is on the rise	1	2	3	4	5
Q38.	The intensity of hostilities and attacks on humanitarian personnel and assets continues to rise	1	2	3	4	5
Q39.	The level of support from the government in enabling humanitarian access to the affected population has improved	1	2	3	4	5
Q40.	The overall funding resources for your organization has increased	1	2	3	4	5

### Relevance/appropriateness

Please indicate the trend in the last three years of the following using the following rating:

**1 – Strongly Agree    2 – Agree    3 – Neither Agree Nor Disagree    4 – Disagree**

### **5 – Strongly Disagree**

Q41.	The organization conducts humanitarian needs assessments frequently	1	2	3	4	5
Q42.	The number and quality of needs assessment conducted are adequate	1	2	3	4	5
Q43.	There is an improvement in the needs assessment practice, reliability and consistency	1	2	3	4	5
Q44.	The needs are appropriately prioritized and addressed	1	2	3	4	5
Q45.	The level of investment in needs assessment has improved	1	2	3	4	5

Q46.	The capability of the overall funding resources in meeting the population needs has improved (i.e. level of funding matching needs)	1	2	3	4	5
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### Effectiveness

Please indicate the trend in the last three years of the following using the following rating:

**1 – Strongly Agree    2 – Agree    3 – Neither Agree Nor Disagree    4 – Disagree**

**5 – Strongly Disagree**

Q47.	There is improvement in the quality of aid personnel in terms of qualifications, skills, attitudes and experience to effectively plan and implement programmes	1	2	3	4	5
Q48.	There is improvement in retention of qualified and experienced staff	1	2	3	4	5
Q49.	Field staff receive adequate support and supervision from the organisation	1	2	3	4	5
Q50.	The level of preparedness, coordination and responsiveness in case of emergencies and population needs has improved	1	2	3	4	5
Q51.	The quality of project monitoring and evaluation has improved	1	2	3	4	5
Q52.	The frequency of project monitoring is adequate	1	2	3	4	5

### Efficiency

Please indicate the trend in the last three years of the following using the following rating:

**1 – Strongly Agree    2 – Agree    3 – Neither Agree Nor Disagree    4 – Disagree**

**5 – Strongly Disagree**

Q53.	The overheads and programme costs especially staff salaries are on the rise	1	2	3	4	5
Q54.	The transaction costs related to overheads and programme support costs are not worth the burden on the programme	1	2	3	4	5
Q55.	The transaction costs related to overheads and programmed support	1	2	3	4	5

	costs are not significant					
Q56.	The administrative costs have been minimized leading to underinvestment in key capacities that could serve to improve performance	1	2	3	4	5
Q57.	The time spent in procurement processes and costs on staffing during emergencies has improved	1	2	3	4	5