# Good Corporate Governance Practices as a Model for Organisational Performance

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## ABSTRACT

*The study sought to assess the existence of good corporate governance practices in the Non-Governmental Organisations (NGOs) sector in Zimbabwe and how the existence or absence of the good corporate governance practices affected their organisational performance. The study was carried out in five NGOs whose headquarters are in Harare Metropolitan Province. The research used descriptive research design and questionnaires to collect primary data for analysis before drawing conclusions. The findings show that some Non-Governmental Organisations (NGOs) have bad corporate governance practices: Audits are not done regularly, there are poor ethical practices and some of the NGOs' activities were not transparent. The boards were not effective as no clear policies for the replacement of board members existed in the NGOs. The study recommended Non-Governmental Organisations to adopt corporate governance best practices in order to improve performance, accountability and to protect the interests of stakeholders.*

***Key Words**: Corporate governance, Organisational Performance, NGOs, corporate governance best practice*

## 1. Introduction

A famous statistician and Professor of Economics at the University of Chicago, Milton Friedman is remembered for his famous quote; *'The business of business is business'* (Friedman, 1970). However, for any corporate or Non-Governmental Organization (NGO) to successfully deliver the business for which it was established, it must be run by people with requisite skills and qualifications, and it must be run in a particular way taking into account issues of ethics, accountability and customer/client care to mention but just a few basic requirements.

### 1.1 Background of the study

Non-Governmental Organizations (NGOs) are non-profit making organizations. In Zimbabwe they are registered under the Private Voluntary Organizations Act [*Chapter 17:05*] as amended in 2002. The main mandate of NGOs is largely philanthropic and most are registered to work towards delivering emergency help, developing communities, offering advocacy on various issues such as human rights, HIV and AIDS, gender parity, good governance, good health practices, disease surveillance, eradication of poverty, access to education, food relief, achieving MDGs and SDGs and rendering other services that assist the government's efforts to improve livelihoods in communities. NGOs operating in Zimbabwe are classified as local, national or international and such classification comes from the source of their funding and scope of operation. There is no doubt therefore that NGOs play an important role in the economy of any country, particularly the developing countries, because they concern themselves with the betterment of society. Since some of them monitor issues of good governance, they must themselves be governed and run in an exemplary, accountable and transparent manner when performing their day to day activities in order to attract investors and public confidence (Wainaina, 2002). Good corporate governance is the anchor for any organization's efficiency in the use of resources, adhering to the regulations, good practices and the law (Gregory, 2000).

Non-profit making organisations are growing in size and numbers and have become the main domain in the world (Renz, 2012). NGOs play a major role in reducing poverty, promoting human rights, providing education and relief recovery worldwide (Johnstone, 2005).

Over the years, the number of NGOs in Zimbabwe has been growing rapidly. Moore and Stewart (1998) define a corporate as 'relating to a large company or group'. For the purposes of this study, NGOs are registered voluntary groups which are expected to take a leaf from good corporate governance practices. Corporate governance refers to a standard of rules that allow organizations to ensure that they are serving the needs of their shareholders, stakeholders, management team and customers/ clients effectively and responsibly. This requires that those tasked with running NGOs should do so in a way which meets the entity's short and long-term goals.

Those who fund NGOs expect them to do their businesses in accordance with corporate governance best practices such as competent selection of board members, aligning strategies with goals, being accountable, evaluating performance, making principled compensation decisions, having systems for managing risks effectively, displaying a high level of ethics, honesty and integrity, and having well-defined roles and responsibilities (i.e clear roles for the board, board chair, CEO, executive officers and management).

### 1.2 Some of the governance problems faced by NGOs

Performance is a measure of an organization's capability to fulfill its duties and serving stakeholders over time (Naidoo, 2009). Good corporate governance helps organizations to reduce the risks of closure or deregistration and attract investors, improve efficiency and stimulate the performance for an organization. Press reports in Zimbabwe are awash with issues of embezzlement of funds, corruption, politicization of food aid and lack of ethics among some NGOs which have led to loss of credibility in the eyes of the general public and create conflict with government. Philanthropic organizations are accountable to the source of their funds, goals for which they were established and the effects they have on the societies within which they operate.

Tricker (2012) highlighted that governance problems manifest when: NGOs become one man/one woman organisations with no board at all or when founders of the NGO become permanent members of the governing body. In some cases where the NGO has a board – appointments to the board are not based on merit such that board members lack necessary skills, knowledge and experience to carry out their duties. Some executive members of NGOs fail to keep board members informed and they fail to arrange induction of new board members and to update the board on the goings-on in the organisation. Some NGOs are fraught with poor control systems, lack of performance measures and no monitoring of executive actions. There are no clear checks and balances, lack of strategic focus and failure to rethink strategies as circumstances change. Some NGO boards suffer from poor chairmanship causing interpersonal politics and conflicts of interests. NGOs in Zimbabwe face these problems on a day to day basis hence the need for the study to examine the magnitude of the problems and the causes.

## 2. Literature Review

### 2.1 Corporate Governance

Corporate governance can be viewed from different angles using different lenses that suit the subject and these include political science, management, law, culture and economics (Aguilera, 2009). The concept of corporate governance sounds very simple and unambiguous. It can be defined differently depending on the area of study and viewpoints of the particular subject. Corporate governance is mainly concerned with the way power is exercised over entities (Tricker, 2012).

According to the Cadbury Report (1992), corporate governance is a system by which Business Corporations are guided and manipulated. Corporate governance is the framework of rules and practices by which a board of directors ensures accountability, fairness and transparency in an organization. Corporate governance framework consists of explicit and implicit contracts between the company and the stakeholders for the distribution of responsibility and rewards.

The corporate governance structure specifies the distribution of rights and responsibility among different participants in the corporation such as board, managers, shareholders and stakeholders. Corporate governance also spells out the procedure for making decisions on corporate affairs. By so doing, it also provides the structure through which the company objectives and monitoring of performance are set (OECD, 1999). The ICC (International Chamber of Commerce) adds that corporate governance is the relationship between corporate manager, directors and the providers of equity, people and institutions. It ensures that the Board of Directors is accountable for the pursuit of corporate objectives and that the corporate itself conforms to the legal provisions.

Corporate governance refers to the set of systems, principles and processes by which a company is governed. It provides guidelines as to how the company can be directed or controlled for it to fulfill its goals and objectives in a manner that adds value to all stakeholders in the long term (Thompson, 2009).

Cadbury Report (1992) posits that corporate governance is the system by which companies are directed and controlled. It is a procedure and process by which an organisation is directed OECD (2004). Corporate governance is the way business is conducted in accordance with the expectations of the owners or shareholders (Friedman, 1970). In the same vein, for NGOs, corporate governance refers to the way that donors expect NGOs to operate. Corporate governance are practices which are shareholder-centric (Fernado, 1998).

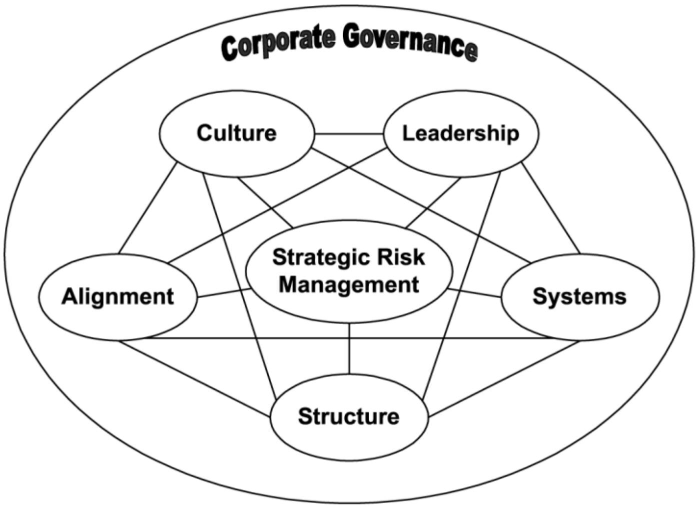
Shleifer (1997), states that corporate governance is a set of mechanisms which ensure that potential investors with external capital injections receive a fair return on their investment.

The corporate governance structure specifies the distribution of rights and responsibility among different participants in the corporation such as board, managers, shareholders and stakeholders (Cadbury Report, 1992). Millstein (1998:24), states that:

> Corporate governance encompasses the combination of laws, regulations, listing of rules and voluntary private sector practices that enable the corporation to attract capital, perform efficiently, generate profit and meet both legal obligations and expectations of society generally. It is the means by which a corporation assures investors that it has in place well performing management which ensures that corporate assets provided by investors are being put to appropriate and profitable use.

Corporate Governance in NGO entities includes the arrangement of structures of the organisation, the relationship with society, beneficiaries, stakeholders and the community (Gordon, 2004). Organisations operate in a society. NGO corporate governance is concerned with holding the balance between social goals, individual desires and communal desires.

The figure below summarises some of the basics in achieving good corporate governance.




**Source:** Drew *et al.* (2006)

**2.2 Theoretical Framework**

**2.2.1 The Agency Theory**

The study was based on the Agency Theory, also referred to as the Principle Agency Theory by Masdoor (2011). Agency theory has been recognised in other areas such as economics, finance, accounting and marketing (Wiseman, 2012). The Agency Theory examines the economic situation where one party is an agent carrying out the wishes of the other party - the principal (Wilkinson, 2005). The managers play the role of the agent for the board while the board acts as the agent of the owner. The Agency Theory recognizes that if a modern organisation is made up of players who may not act towards achieving good, it results in the development of agency dilemma (Tricker, 2012). The Agency Theory is mainly concerned with the separation of ownership, maximization of utilities and information asymmetry (Tricker, 2012).

## 3. Methodology

The study used a mixed research design in which positivism and interpretivism where the two paradigms used to achieve pragmatism. According to Sekaran *et al* (1984), a research design sets out how to collect, analyse and interpret data and to provide an answer to the research problem. The study made use of qualitative data collected using interviews and quantitative data which was collected using questionnaires. Five NGOs Mwanasikana Munhu Trust, Katswe Sistahood, Girl Legacy, CAMFED and Girl Child Network were used in the study because of feasibility, time and cost constraints. The NGOs under study had a population of 34 employees, and the Creative Research Systems Survey Sample size calculator gave a sample size of 30 (https://www. surveysystem.com/sscalc.htm#one). Five key informants were drawn from the executives of the NGOs and these were subjected to structured interviews.

## 4. Findings

The study had a response of 29 out of 30 respondents who completed and returned the questionnaires constituting a response rate of 96%. This was a high response rate by any standard. Kumar (2005) cited that fifty percent is regarded as an acceptable response rate in social science research. Richard (2005) however indicated that at least seventy percent is desirable and achievable in conducting research. 38% of the respondents were female and 62% were male depicting gender imbalance in the NGO sector in Zimbabwe despite the fact that all the NGOs chosen for this study deal with women and girl child issues.

In response to whether government was involved in ensuring good corporate governance practices in NGOs, 17% responded 'yes' while 83% indicated 'no'. This study felt that since NGOs are private voluntary organisations, issues of reasonable autonomy should be allowed to avoid micro-management and taking of orders from Government. In light of that, the minimal involvement of Government in NGOs was found to be proper by respondents.

| | | *Government playing role to ensure corporate governance practices* | *Rate overall performance of NGO* |
|---|---|---|---|
| ***Government playing role to ensure corporate governance practices*** | Pearson Correlation | 1 | -.748** |
| | Sig. (2-tailed) | | .000 |
| | N | 29 | 29 |
| ***Rate overall performance of NGO*** | Pearson Correlation | -.748** | 1 |
| | Sig. (2-tailed) | .000 | |
| | **N** | **29** | **29** |

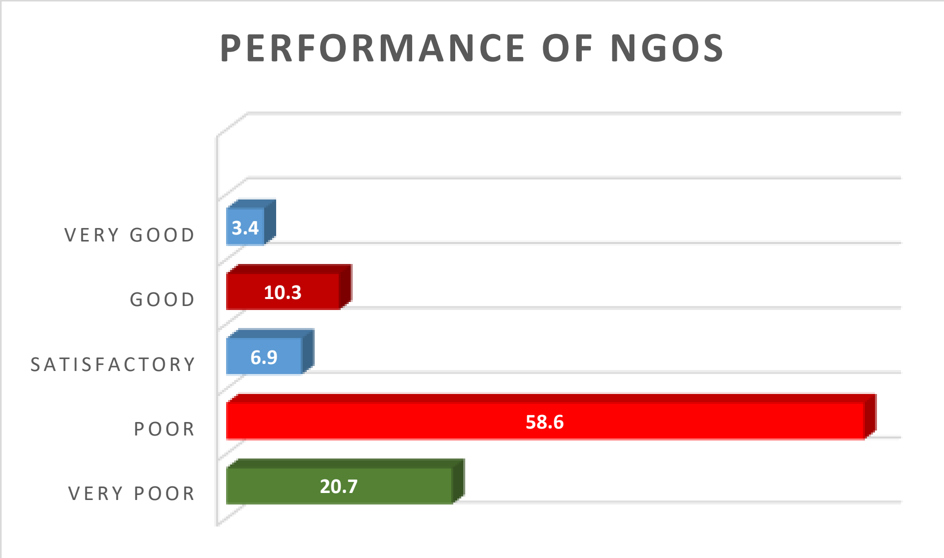
**. Correlation is significant at the 0.01 level (2-tailed).

There is a strong correlation between the involvement of government to ensure good corporate governance practises and overall performance of NGOs. All the key informants in interviews did not like the idea of government playing any role in NGO governance.

82% of the respondents disagreed that their NGO was practicing good corporate governance, 10% were neutral, 8% agreed to the notion. Thus the responses from respondents point to the fact that there was no good corporate governance in the NGOs and that is a worrying finding.

The study sought to find out if the NGOs where facing problems in trying to adopt good corporate governance practices; 21 (72%) of the respondents agreed that the NGOs were facing challenges in adopting good corporate governance as model for organisational performance and 8 (28%) were of the opinion that the NGOs were not facing challenges. The causes of challenges were singled out as not motivating employees, high nepotism, lack of accountability and gender imbalance among other reasons.

*Performance of NGOs*




The above table shows that 23 respondents (71.3%) rated the performance of the NGOs as poor due to the challenges they are facing in adopting good corporate governance practices as a model for organizational performance.

| | | *Rate overall performance of NGO* | *How do you rate quality of service delivery by NGOs* |
|---|---|---|---|
| *Rate overall performance of NGO* | Pearson Correlation | 1 | .399* |
| | Sig. (2-tailed) | | .032 |
| | N | 29 | 29 |
| *How do you rate quality of service delivery by NGOs* | Pearson Correlation | .399* | 1 |
| | Sig. (2-tailed) | .032 | |
| | N | 29 | 29 |

**. Correlation is significant at the 0.05 level (2-tailed).*

The results of computations show that there is a positive correlation between the performance of an NGO and its quality of service. The poor performance of the NGOs was affecting the quality of service. According to Khanchel (2007), good corporate governance should be related to high firm values, good quality of service and good performance of the organization. In response to the same question, key informants felt that the quality of their service is affected by Zimbabwe's volatile economic environment.

In response to whether board committees were functioning properly, 89.7% of the respondents concluded that the board committees' performance are poor across the NGOs which were under study. It is common cause that an effective board functions through its committees such as the Finance Committee, Audit Committee and Human Resources Committee to mention but just a few. If committees are not functioning well, it can be inferred therefore that the board is not functioning well.

Sixty-two percent of the respondents rated management of the NGOs as poor while 38% were satisfied by the management which they rated as good. From the collected data, it shows that the management in the NGOs is performing poorly and this led to poor performance of the organisation. Nwachuku (2007) emphasizes that executive directors without good corporate governance skills paint a misleading picture of the organisation.

In response to whether there is enough transparency in the NGOs such as knowledge of the CEO's salary, 79% disagreed that there was transparency, 10% chose to be neutral while 11% agreed that there was transparency in the NGOs. Transparency is one prerequisites for good corporate governance and most NGOs under study were found wanting on this aspect. Key informants felt that issues of salary are personal and should not be made public.

On whether regular audits where being carried out in the NGOs, 69% disagreed, 17% remained neutral while 14% agreed that there were regular audits. It was therefore concluded that there are no regular audits in the NGOs, a situation which is not healthy for the stakeholders and it resonates badly with good corporate governance practices. Non-profit making organisations are extremely diverse in terms of size, mission, funding sources and organisational structure and for that reason, sound financial management practices should be adhered to in order to be accountable to funders (Coe, 2011).

Turning to the board's ability to attract more funding, 72% of the respondents stated that the board had no ability to attract funding, 14% remained neutral while 14% agreed that the boards had the ability. It was concluded in this study that the boards of NGOs are not competent to the level of attracting more funding to sustain or improve the activities of the NGOs. Like any organisation, NGOs should achieve going concern status regardless that they are not profit-making, lest they close shop if no funding is forthcoming their way. The key informants also painted a deem view on the ability of board members.

In response to whether inactive board members are removed in line corporate governance practices, 76% of the respondents disagreed that inactive board members are being removed, 10% were neutral and 14% agreed to the notion. It was concluded that most NGOs were not replacing board members who discontinue from offering service. The net meaning of this was that the NGOs were running without full board membership, a thing which makes decisions either invalid or questionable.

Ethical practices are the bedrock of good corporate governance; 78% of the respondents disagreed that there was ethical practice in the NGOs, 10% chose to remain neutral while 12% agreed that ethical practices existed. According to Marange (2006), corporate governance is the system by which organisations are directed, controlled and held to account. It focuses on policy, system and direction, which are the primary role of the board. Mukute (2006) further highlights that corporate governance also relates to the compliance to the ethical practices, regulations and standards of best practices. Key informants who were made up of executive members refuted the perception that there were poor ethical practices in NGOs.

In response to whether independent board members were remunerated, 81% of the respondents stated that they were not remunerated while 15% remained neutral and 4% stated that they were remunerated. It was concluded that the board members were offering services voluntarily. That was viewed as proper since NGOs are non-profitmaking entities.

It was also concluded that all the NGOs under study were able to remunerate their employees without difficulty, a practice which was viewed as good corporate governance. Any good organisation is measured by the way it treats its most important resource, the Human Resource (workers).

## 5. Summary of findings

The NGOs under study are facing challenges in their quest to adopt to good corporate governance as a model of organisational performance. The issue of good corporate governance is not receiving adequate attention in the NGOs. The boards in NGOs are not functioning to optimal capacity as those members who discontinue attending meetings are not removed or replaced. The NGOs under study are good employers as they were meeting their obligations to pay employees regularly. Independent board members in the NGOs were not being remunerated because NGOs are voluntary organisations as such board members also offer voluntary service. Ethical practices were viewed as low in the NGOs. It was found out that the NGOs under study depended on traditional base of funders, board members did not have the capacity to attract more funding from other sources. Accountability is fundamental for the existence of any organisation but the NGOs were not carrying regular audits, a thing which affected their achievement of good corporate governance practices and transparency was viewed as low in the NGOs.

## 6. Recommendations

The study recommended that:

6.1 Board members who stop offering service should be replaced to achieve optimum performance of NGO boards.

6.2 The Ministry of Social Welfare should ensure that NGOs carry out regular audits in their operations without seeking to run or micro-manage them.

6.3 NGOs should have competent board members who have the skills and ability to attract more funding and expand the services of NGOs.

6.4 NGOs should improve their ethical practices in order to win public confidence.

6.5 Management of NGOs should be transparent by having a formal remuneration structure based on a known grading system.

## 7. Suggestions for Future Research

There is need for further research to find out the recommended relationship between NGOs and Government as that area has caused conflict with NGOs complaining that Government harbours interests to micro manage them yet they are non-State players while Government complains that NGOs are overstepping their mandate and their behaviour should be checked.

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