AN ASSESSMENT OF THE ROLE OF BOARD COMMITTEES’ CORPORATE GOVERNANCE PRACTICES IN A DEVELOPMENT FINANCIAL INSTITUTION: CASE OF AFRICAN DEVELOPMENT BANK GROUP (2000-2011)

BY

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GRADUATE SCHOOL OF MANAGEMENT, UNIVERSITY OF ZIMBABWE

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31 JULY 2012
DECLARATION

I, Brighton Madanhire, do hereby declare that this dissertation is my own work. I have referenced all my sources in acknowledgement of other people’s work. This dissertation has not been previously submitted to any University for the purpose of obtaining an academic qualification.

Student Signature .................................................. Date..........................

Supervisor Signature..................................................Date.........................
DEDICATION

I dedicate this research to my wife and children for their moral support, time during the two and half years of immense turmoil. Their everyday support was my source of energy and dedication.
ACKNOLEDGEMENTS

Special appreciation to my supervisor Dr. N Kaseke, thank you for being readily available all the time. To all the lecturers who took me through the courses from the beginning to the end of the programme, your efforts are greatly appreciated.

Further appreciation goes to my Editor Mr. PardonMirisi. I thank him for his effort.

I would like to thank management and staff at African Development Bank Group Head Office in Tunis, Tunisia and country offices for their support during the data collection process.
ABSTRACT
The study sought to assess the role of board committees on corporate governance in development financial institutions with particular reference to The African Development Bank Group.

The researcher conducted an assessment of the institution’s board committees’ terms of references, compositions, the level and quality of contribution and involvement to the organization’s corporate governance practices in addition to their everyday practices in the institution. The literature reviewed which relates to board committees showed that sub-committees are essential in corporate governance issues of a development financial institution. The review also showed that board committees play a pivotal role to the main board in terms of technical and more specialized issues about the organization.

Samples were taken from target population and further divided into stratus where a random selection of the final sample was done using the random selection approach. Data was collected through administering of questionnaires to board members, senior and middle management within the organization as well as from secondary data sources. A total of 70 participants from within the organization across Africa and at various managerial levels formed the target population.

The researcher concluded that the institution has board sub committees with varying terms of references that play pivotal role to the full board through deliberations on more technical issues on company activities and daily operations. Further, the bank has a corporate structure that’s seeks to accommodate various committees within the organization.

As a result, the research recommends that the main board should rely more on board committees since they have more technical capacity. In addition, more board committees should be convened since the institute is growing with more demanding issues. The researcher also recommended that the operations committee should have representations on a subcommittee to take into account detailed needs of members states.
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ABREVIATIONS

AFDB - African Development Bank
AGM – Annual General Meeting
OECD – Organization of Economic Cooperation and Development
CACG - Commonwealth Association for Corporate Governance
CAMD – Company And Allied Matters Decree
CEO – Chief Executive Officer
CFA – Chartered Financial Analyst Institute
ICSA – Institute of Chartered Secretaries and Administrators
IEO – Independent Evaluation Office of International Monetary Fund
AFDB – Asian Development Bank
FDI – Foreign Direct Investment
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CHAPTER ONE

1.0 INTRODUCTION AND BACKGROUND

The study seeks to assess the role that board committees play in contributing to a development financial institution’s corporate governance activities. Key structures, processes and mechanisms in business affairs of a company or firm are important in order to enhance long term shareholder value through accountability of managers and enhancing firm performance (CFA, 2009). Through such structures, processes and mechanisms, the well-known agency problem – the separation of ownership (by shareholders) and control (by managers) which gives rise to conflict of interests within a firm may be addressed such that the interest of the managers are more aligned with that of shareholders.

In recent years, the corporate scandals, some of which are still unfolding, involving high incidence of improper activities of managers expropriating the resources of a firm at the ultimate expense of shareholders prompt the intense reexamination and scrutiny of some of the existing corporate governance practices and also considerable interest in empirical research on the effectiveness of various corporate governance institutions and mechanisms (Pei, 2004).

Corporate governance is extremely important in the execution of an organization’s stated objectives. Corporate governance helps organizations to properly function reducing the chances of company failures and mismanagement of funds. It is essential to measure or assess corporate governance in order to satisfy interests and needs of stakeholders of an organization.

CFA, (2009) stressed that in the past decade the business world has highlighted the role that corporate governance practices play in maintaining viable entities and safeguarding investors’ interest. McGee, (2009) also
supported good corporate governance through stressing that governance failures such as Enron Corporation, WorldCom, Parmalat, and others in the early 2000s and the more recent troubles at Bear Stearns Companies, Lehman Brothers Holdings, and Northern Rock. McGee, (2009) further illustrated the risks posed by corporate governance breakdowns. These are only a selection of few examples from the developed world.

However, organizations in the development and humanitarian world have not been spared from problems that emanated from poor corporate governance practices leading to more radical shift to ways that companies are directed and managed in this ever changing business environment.

The advent of global economic crisis has brought the need for revisiting of corporate governance practices in most organizations especially the assessment of the contribution that board committees play in shaping an organisation’s corporate governance practices which further lead to their establishment in the organisation. This can be achieved through critical assessment and review of the role that board committees play in shaping corporate governance within an organization without forgetting the available frameworks on the corporate governance and committees. As Africa struggles to attract a fair share of the world’s foreign direct investment (FDI), it has to assure investors that their investments will be secure and efficiently managed on the basis of a transparent and accountable process. Such a situation can be assured through good corporate governance (Economic Commission for Africa, 2002).
This chapter highlights the introduction to the study giving an overview of the organization at the center of the study, African Development Bank Group (AFDB), in addition to highlights of the bank’s projects and some of the statistics for the relevant years. A background to activities of the development financial institutions is also highlighted in chapter one. Essential aspects of the study in particular, problem statement, objectives of study, research question, the proposition and significance of study are also highlighted in this chapter.
1.1 BACKGROUND OF STUDY

1.1.1 Overview

A great deal of research has been conducted on corporate governance structures and best practices leading to papers on such aspects and elements being produced. However, the issue of corporate governance has been evolving since the introduction of the subject in the late 90s. It is important to note that corporate governance issues are essential for organizations involved with humanitarian and development work. In addition, development financial institutions whose sole responsibility involves the mobilization of resources for use in the development sector through the provision of grants and loans at national and international level as well as to private sectors for the development of African countries mobilize resources for this purpose. Further, for the purpose of infrastructure development and poverty alleviation. This research seeks to bridge the gap on corporate governance, in addition to uncovering the role that board committees play in contributing and shaping corporate governance of organizations involved in funds meant for development work in relation to available frameworks and recommendations. The outcome of this research will further provide an understanding of development financial institutions’ corporate governance issues and possible recommendations concerning problematic issues so that they can potentially be overcome. Corporate governance helps companies operate more efficiently, gain access to capital, and safeguard against corruption and mismanagement. In addition, good corporate governance enables beneficiaries to have confidence and appreciation of the work of the respective development financial institution. It makes companies more accountable and transparent to investors and enables them to respond to legitimate stakeholder concerns, such as responsible environmental and social practices (Harvard, 2011). Corporate governance is also one of the most important ingredients in successful directing and managing of organizations even organizations involving donor funds (CACG, 2000).
1.1.2 Background of development financial institutions

Financial institutions are dedicated to fund new and upcoming businesses and economic development projects by providing equity capital and/or loan capital for the purpose of poverty alleviation and infrastructure development. According to Kheradjou (2009) a development bank is like a living organism that reacts to the social-economic environment and its success depends on reacting most aptly to that environment. The goals and objectives of development organisations are stated in the section below.

1.1.3 Goal and Objectives of Development Financial Institutions

The major goals and objectives of development financial institutions involve mobilization of resources for the purpose of development work in various sectors such as infrastructure development, Health and agricultural sustainability. Development institutions work with various stakeholders in their quest to achieve stated objectives, as they are essential in their day-to-day activities. Development financial institutions’ objectives include mobilization of finance for the purpose of giving grants and loans to both private and public sectors in areas they operate in. African Development Bank, Asian Development Bank, Breton Hood Institutions (IMF, World Bank), Southern African Development Bank and Infrastructure Development Corporation are some of the examples of institutions that provide grants and loans to both public and private sector for the purpose of various development activities.

Key roles of development financial institutions:

- Poverty reduction through agricultural support
- Infrastructure development through the provision of grants and loans
- Health sector support through water and sanitation improvements and support
- Private sector development through bridging finance support
- Advisory support of economic and policy nature.

1.1.4 Features of a development bank

A development bank has the following features or characteristics:

1. A development bank does not accept deposits from the public like commercial banks and other financial institutions that entirely depend upon savings mobilization.
2. It is a specialized financial institution, which provides medium term and long-term lending facilities.
3. It is a multipurpose financial institution. Besides providing financial help it undertakes promotional activities also. It helps an enterprise from planning to operational level.
4. It provides financial assistance to both private as well as public sector institutions.
5. The role of a development bank is of a gap filler. When assistance from other sources is not sufficient then this channel helps. It does not compete with normal channels of finance.
6. Development banks primarily aim to accelerate the rate of growth. It helps industrialization specific and economic development in general.
7. The objective of these banks is to serve public interest rather than earning profits.
8. Development banks react to the socio-economic needs of development.

1.2 THE AFRICAN DEVELOPMENT BANKGROUP (AFDB)

The institution is comprised of 53 African and 24 non-African countries promote economic and social progress in Africa through loans, equity investments and technical assistance. Structurally, the AFDB Group includes the African Development Bank, the African Development Fund and the Nigeria Trust Fund. Established in 1964 and headquartered in Tunisia, the Bank has provided a cumulative $55 billion in loans and grants in the region.

The African Development Bank Group’s mission is to help reduce poverty, improve living conditions for Africans and mobilize resources for the continent’s economic and social development.

With these objectives in mind, the institution aims at assisting African countries – individually and collectively - in their efforts to achieve sustainable economic development and social progress. Combating poverty is at the heart of the continent’s efforts to attain sustainable economic growth. To this end, the Bank seeks to stimulate and mobilize internal and external resources to promote investments as well as provide its regional member countries with technical and financial assistance.

In 2005, the Bank adopted a comprehensive Corporate Governance strategy, which serves as a framework and facilitated interventions in this area. The goal of the Bank’s strategy is to contribute to economic development by promoting good Corporate Governance in public and private sector corporations and ensure that they create value for shareholders and the other stakeholders, not only from a financial standpoint, but also in a socially and environmentally responsible way. A good Corporate Governance is also of direct concern to the Bank as an equity investor in private sector ventures and a financier of development projects, which often rely on the involvement of private sector corporations and State-owned Enterprises. The successful outcomes of such investments and projects clearly rely on a sound corporate governance environment, www.afdb.org/intranet accessed on 15 April 2012

Since adopting its strategy, the Bank has been engaged in a number of activities aimed at laying the foundations for sustainable initiatives that will contribute to anchor best corporate governance practices in development programs at country, regional and corporate levels. The Bank has also taken steps to identify ways to strengthen its internal institutional framework in order to better carry out its leadership role of promoting corporate governance in Africa. Within this context, the Bank has organized a series of meetings and events with the aim of improving coordination among the actors involved in promoting corporate governance, increasing knowledge transfer and
dissemination in areas relating to corporate governance among partners, and developing effective interventions to tackle corporate governance challenges based on best practices and lessons learnt (www.afdb.com/home accessed on 15 April 2012)

1.2.1 AFDB Organisational Structure summary

![Organogram]

Figure 1.1 Organogram
Source: www.afdb.org/intranet accessed on 13 April 2012

1.2.2 African Development Bank membership

a) Non-African Shareholding – 40%
b) African Shareholding – 60%
1.2.3 Top 10 Shareholders as at 31 December 2011

Table 1.1 Top 10 shareholders

<table>
<thead>
<tr>
<th>Country</th>
<th>Shareholding</th>
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<tr>
<td>Nigeria</td>
<td>9.3%</td>
</tr>
<tr>
<td>Algeria</td>
<td>4.2%</td>
</tr>
<tr>
<td>USA</td>
<td>6.6%</td>
</tr>
<tr>
<td>Germany</td>
<td>4.1%</td>
</tr>
<tr>
<td>Japan</td>
<td>5.5%</td>
</tr>
<tr>
<td>Libya</td>
<td>4.0%</td>
</tr>
<tr>
<td>Egypt</td>
<td>5.4%</td>
</tr>
<tr>
<td>Canada</td>
<td>3.7%</td>
</tr>
<tr>
<td>France</td>
<td>3.7%</td>
</tr>
<tr>
<td>South Africa</td>
<td>4.8%</td>
</tr>
</tbody>
</table>

Source: www.afdb.org/intranet accessed on 17 May 2012

1.2.4 Overview of the bank’s operations

The bank lends to both the public and private sectors. The bank also has co-financing operations with multilateral partners, bilateral institutions, governments and local firms. Public sector represents the bulk of the Bank’s activities. Private sector lending growth is the Bank’s overall long term strategy.

Distribution of operational funding for the year 2010

Figure 1.2 Operational funding distributions for 2010

Source: www.afdb.org accessed on 17 May 2012
1.2.6 Project funding by sector for selected years (2000-2011)

Table 1.2 Projects distribution

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<td>A</td>
<td>Agriculture and Rural Development</td>
<td>5</td>
<td>5</td>
<td>4</td>
<td>3</td>
<td>3</td>
</tr>
<tr>
<td>B</td>
<td>Industry (including credit lines)</td>
<td>5</td>
<td>7</td>
<td>8</td>
<td>9</td>
<td>5</td>
</tr>
<tr>
<td>C</td>
<td>Finance</td>
<td>9</td>
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<td>H</td>
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<td>9</td>
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<td>5</td>
<td>4</td>
<td>5</td>
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<td>8</td>
<td>7</td>
<td>8</td>
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<td>100</td>
<td>100</td>
<td>100</td>
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Source: www.afdb.org accessed on 17 May 2012

1.3 PROBLEM STATEMENT

In recent years, the global economic crisis has brought untold suffering to many organizations including the development financial sector. The crisis had an impact on the level of contributions / donations to development financial institutions resulting in careful usage of available funds for development purposes. In addition, major donors are now more comfortable channeling funds through institutions that are being operated well. This also further led to the need for the assessment of the role that corporate governance aspects play in organizations. In spite of the acknowledgements of corporate governance application and adoption in recent years, reports of problems relating to the management and directing of companies have brought forth the need for the assessment and review of the role and contribution of board committees in shaping the corporate governance of development financial institution. The positive contribution of board committees increases the efficient and effectiveness on the full board enabling increased satisfaction of shareholders through increased performance of the company operationally and financially. The board’s role involves spearheading the organization strategically both in the short and long term (Franks and Mayer, 1994). Positive contribution of board committees leads to the positive corporate governance activities of the organization with corporate governance now a key ingredient in the efficient
and effective running of organisations. However, the board should be composed of various individuals with various skills at senior level.

It is also important for these highly skilled individuals to dedicate much of their time on more technical issues such as risk management, finance, accounting and audit as well as investment activities of the organization through the formation of board sub-committees.

Therefore, this study assesses the role that these board committees play in contributing and shaping corporate governance activities of a development financial institution with special attention to the environment in which they are created and their effectiveness.

1.4 AIM OF STUDY

The aim of study is to investigate, assess and evaluate the role that board committees play in corporate governance to find the effectiveness of their contribution and add to the existing body of knowledge in the area of research in relation to latest developments, available frameworks and recommendations in corporate governance. The study also seeks to come up with possible areas of improvement for board committees to add to any gaps that might be available in the area of study.

1.5 OBJECTIVES OF STUDY

The study sought

a) To review and analyze the current contribution of board committees to the development financial institution’s corporate governance in relation to available best practices.

b) To identify areas that has attracted implementation in relation to available corporate governance frameworks and recommendations.
c) To add to existing knowledge, the latest developments and challenges being faced by the development financial institutions in relation to best practices concerning board committees.

d) To assess the appreciation and acceptance of corporate governance activities of board committees by various management levels and other stakeholders in the organization.

1.6 RESEARCH QUESTION

A research question is critical in determining the type of information to be explored in the research (Saunders, 2000).

The main research questions are:

a) How effective are board committees’ practices in a development financial institute as viewed by the stakeholders – managers and directors?

b) To what extent is the development bank applying corporate governance practices relating to board committees and available frameworks?

b) What is the level of appreciation by and contribution of board committees to full board?

c) What is the role of board committees in shaping a development bank’s corporate governance practices?

d) What is the level of performance of board committees’ corporate governance practices in relation to set terms of references?

e) What are the compositions of board committees in relation to acceptable practices?
1.7 PROPOSITION OF STUDY

The study sought to test the following proposition:

Board committees’ contribution to corporate governance practices of development financial institutions is minimal due to availability of the main board in the organisation responsible for the corporate governance activities of the organisation as a whole.

1.8 SIGNIFICANCY OF STUDY

Corporate governance has become one of the most important ingredients in successful management and directing of an organization. Both public and private organizations have been implementing and revising their corporate governance positions in relation to their organizational practices to achieve set objectives in addition to increasing and maintaining good relationships with stakeholders. Therefore, it is important for organizations to assess their corporate governance practices to ensure conformity with available best practices.

The outcome of the research will be of great importance in:

- Finding the gap between the current level of application of corporate governance in relation to board committees of the organization and the recommended best practice.
- Identifying areas of improvement in corporate governance and further enabling development financial institutions to move with time in relation to changes that have taken place in corporate governance.
- Adding to the existing body of knowledge in the area of research.
- Coming up with any recommendations for improvement in relation to the area of research in relation to the organisation.
- Fulfilling Master of Business Administration degree requirement
1.9 SCOPE OF STUDY

This study assessed the role that board sub-committees play in shaping the corporate governance activities of the African Development Bank Group. The main focus of the study was the relevance and contribution of board committees to the main board and the organization as a whole in terms of corporate governance practices. The respondents of the study were board members, senior and junior managers and other key stakeholders in the organization.

1.10 STRUCTURE OF THE DISSERTATION

The research study is divided into chapters with each chapter dealing with specific aspects of the study. Chapter one contains introduction to the study, the background of study, research problems, objective of study, research question, research proposition and scope of study. Chapter Two contains the literature review for the respective area of study. This chapter also highlights the empirical studies and available frameworks for the discussion of the results in Chapter 4. Chapter Three highlights the research methodology used by the researcher in the study. Different methods were used by the researcher and these are stressed in this chapter. Chapter Three also dwells on research method, design, population, sampling techniques and data collection methods. Chapter Four present the research findings and discussion of the findings. Chapter Five is the last section of the study and presents the conclusions and recommendations resulting from the research study. In addition, the chapter highlights possible area of further research.
CHAPTER TWO

LITERATURE REVIEW

2.0 INTRODUCTION

Saunders (2000) pointed out that literature review as a basis for research, as a main purpose giving an insight into what other authors have researched in the same area. This enhances insight into the problem and helps to refine the research questions being explored by the researcher. This chapter reviews relevant literature and explores challenges and areas of corporate governance that have been evaluated, investigated or analyzed by other authors. Having established useful pointers, these will be adopted to the research objectives of this study where they relate to the African Development bank’s context. Literature on general application and requirements of corporate governance in relation to the board is endless, however, in the context of development financial institutions, the level of the contribution of board committees to a development financial institution is yet to be explored in relation to the general changes in the subject area, and this forms the most important ingredient in the success of an organization.

2.1 CORPORATE GOVERNANCE DEFINITION

Corporate governance is defined as referring to the private and public institutions, including laws, regulations and accepted business practice, which in a market economy govern the relationship between corporate managers and entrepreneurs (corporate insiders) on the one hand, and those who invest resources in corporations, on the other hand (John and Senbet, 1998). John and Senbet, 1998 also stressed that others consider corporate governance as simply the prevention of theft. Corporate governance deals with the ways suppliers of finance to corporations assure themselves of getting a return on their investment, how they make sure that managers do not steal capital or invest in bad projects (Kapumpa, 2001). Halpem, (1999) define corporate governance as the mechanism through which outside investors are protected
against exploitation by insiders. The definition shows that managers, major shareholders (individuals, other firms, family interests or governments) as well as large creditors such as banks are involved in corporate governance. However, outsiders include equity investors, providers of debt and minority shareholders.

Further from the definition, the discussion of corporate governance seems to be between insiders, those that have a management role in the firm (at either management or board levels) and those that have an interest in the firm but do not have any management roles that are generally referred to as outsiders.

Franks and Mayer (1994) as cited on https://www.wbius.org/9.%20JohnOkpara accessed on 12 April 2012 indicated that corporate governance includes the relationship of a company to its shareholders and society; in addition, the promotion of fairness, transparency and accountability; reference to mechanisms that are used to “govern” managers and to ensure that the actions taken are consistent with the interests of key stakeholder groups. However, the key points of interest in corporate governance include issues of transparency and accountability, the legal and regulatory environment, appropriate risk management measures, information flows and the responsibility of senior management and the board of directors. Franks and Mayer (1994) further argued that many companies in the US have adopted legal compliance mechanisms, which address ethics or conduct issues in formal documents.

The Kenya Private Sector Initiative for Corporate Governance (2009) also defined corporate governance as the manner in which the power of a corporation is exercised in the stewardship of the corporation’s total portfolio of assets and resources with the objective of maintaining and increasing shareholder value with the satisfaction of other stakeholders in the context of its corporate mission.

That initiative regards the key components of good corporate governance to be:
Accountability;
Efficiency and effectiveness
Integrity and fairness
Responsibility and
Transparency

2.2 THE NEED FOR CORPORATE GOVERNANCE IN DEVELOPMENT FINANCIAL INSTITUTIONS

The globalization of economies, financial and investment markets, in the 1990s led to increasing convergence of originally separate initiatives in corporate governance. This development has accelerated following the financial turmoil in world financial markets in 1998 which affected a number of economic sectors including development financial institutions (CACG, 1999). The globalization of the market place within this context has ushered in an era where the traditional dimensions of corporate governance defined within local laws, regulations and national priorities are becoming increasingly challenged by circumstances and events having an international impact (CACG, 1999).

Institutional investors, as they seek to deploy internationally the massive funds they represent, are insisting on high standards of corporate governance in companies in which they invest. In a number of cases, these institutions have set their own corporate governance standards as a measure for determining their investment decisions (CFA, 1999).

Public attention through high profile corporate scandals and collapses has forced governments, regulators and boards of corporations to carefully reconsider fundamental issues of corporate governance as essential for public economic interest. In addition, the volatility and instability experienced in emerging markets in recent times have drawn attention to the implications of corrupt practices and maladministration in national and international financial systems on public expenditure (O’Donovan, 2009). Other interesting developments in corporate governance include the rise of “ethical investors” requiring corporations to pay increasing attention to the social role of business,
notably in the areas of environment, health and safety, ethnic and community relations (ibid). More and more corporations are adopting social auditing standards in dealing with such matters as the ethical sourcing of products from developing countries and the treatment of communities in which they operate.

2.3 GOOD CORPORATE GOVERNANCE

The importance of corporate governance cannot be underestimated. Halpern (1999) as cited by http://www.scribd.com/doc/34003271/the-corporate-governance-of-listed-companies accessed on 12 April 2012 stressed that an economy's corporate governance system has a significant impact on the profitability and growth of corporations, their access to capital, and their cost of capital. The governance system can influence the decisions undertaken by firms and ultimately impact on the wealth created in a country (Halpern, 1999). McGee (2009) stated that good corporate governance helps to increase share price. In addition, it makes it easier to obtain capital and that International investors tend to be reluctant to lend money or buy shares in a corporation that does not subscribe to good corporate governance principles (McGee, 2009).

2.4 THE BOARD AND CORPORATE GOVERNANCE

Estrin (2002) as cited by http://www.scribd.com/doc/29903288/international-comparison-corporate-governance accessed on 13 April 2012 stressed that several researchers identified the key functions of the board as strategic, controlling (monitoring managers and accountability), institutional (building links with investors and stakeholders). In addition boards also approve core philosophy and mission, maintenance of legal and ethical practices, communication with shareholders, and review (Estrin, 2002). The available frameworks already published on the subject explicitly state the responsibilities of the board of directors (Estrin, 2002). CAMD (2009) stressed that a corporation’s by-laws and its declaration of board values and charter for the country in which the corporation operates serve as guiding principles of the role and fiduciary duties of the board. As in Nigeria, the role and responsibilities of the board of directors are stated in the CAMD (1990). However, CAMD (2009)
further indicated that in order for the board to meet and perform the stated responsibilities, board committees play a role in helping and providing technical expertise on specialized issues requiring ample time to deliberate on.

Requisite skills and competencies are required to effectively contribute to the leadership of modern corporations (Central Bank of Nigeria, 2006). The Central Bank also indicated that the board needs a range of skills and understanding to be able to deal with various business issues and have the ability to review and challenge management performance. An appropriate level of commitment to fulfill board responsibilities and duties is needed (ibid).

Yermack (1996) argued that board of directors has legal authority and obligation to monitor and control corporate activities in addition to protect shareholder interests. However, the establishment and availability of various sub-committees enables the board to function properly leading to more time being spent on specialized issues concerning an organisation such as finance and auditing as well as human resources.

2.4.1 Board Responsibilities

Hart (1995) indicated that board members have a duty to make decisions based on what ultimately is best for the long-term interests of shareowners. However, there has been much discussion in recent years about the needs for boards and management to balance the short-term operations of a company with a long-term sustainable strategic outlook. Hart (1995) further stressed that although shareowners with a short holding period may indeed be interested in corporate governance; long-term shareowners (those that hold shares for years) are more likely to incorporate corporate governance factors into their investment analyses. The reason is that governance aspects often affect company value over a long time frame (Hart, 1995).

CFA (2009) stressed that the board should act in the best interests of shareowners, board members. There is a need for combination of four things:
independence, experience, resources, and accurate information about the company’s financial and operating position. However, a board should be composed of at least majority of independent board members with the autonomy to act independently from management (CFA, 2009). Rather than simply voting with management, board members should bring with them a commitment to take an unbiased approach in making decisions that will benefit the company and shareowners CFA (2009). Board members who have appropriate experience and expertise relevant to the company’s business are best able to evaluate what is in the best interests of shareowners. Depending on the nature of the business, specialized expertise by at least some board members may be required (CFA, 2009).

In identifying that good corporate governance hinges upon the competence and integrity of directors and the board, it should be observed that standards of probity and fiduciary responsibility in the wider business environment are critical (CACG, 1999). Boards of directors are supposed to govern the corporations: They have the power to set dividends, to hire, fire, and set the compensation of the senior executives; to decide to enter new lines of business; and to reject merger offers or to approve and submit them to stockholders (Hart, 1995). These responsibilities of the board can be achieved through board committees who recommend to the full board on delegated issues.

2.4.2 The need for board committees

It is important for an organization to have sub-committees in order for more specialized and technical issues to be discussed at length within the organization (Halpern, 1999). More specialized issues are discussed at length by experts or more experienced individuals with the necessary skills. However, depending on each and every organization, the types of committees differ. It also depends on the nature and importance of the specialized area which leads to the need for a sub-committee. In addition, due to the unique composition of board committees, the inclusion of non-executive directors, various issues are handled in different ways usually more exhaustive as compared to executive
directors whose willingness to adopt certain measures might be compromised due to them being part of the payroll of the organization. However, some schools of thought might not see the importance of board committees as they claim that issues about the organization are only fully understood by those involved in the day-to-day operation of the organization, therefore, non-executive directors’ prescriptions might be poisonous to the organization including the corporate governance policies (Halpern, 1999).

2.4.3 Empirical studies, the role and need for board committees

According to Chelsky (2008), numerous attempts have been made to improve the effectiveness of standing committees of the executive boards, but considerable dissatisfaction remains with their performance, particularly among members of the board itself. Interviews, survey data, previous reviews of the executive board committee structure, principles of good corporate governance, and experience in other multilateral institutions all suggest that these committees could make a more effective contribution to internal governance. Further analyses should also be done on measures to encourage executive directors to take stronger ownership of board committees, changes to the overall committee structure, and improvements in work practices.

IEO (2007) stipulates that survey of current and former members of the Executive Board indicates that almost two-thirds of respondents believe that significant changes in structure and operations would be needed for board committees to be effective. Only one-quarter considered them to be effective. About 8% of respondents considered board committees to be unnecessary and called for them to be de-emphasized or phased out. This shows mixed feelings on the importance of board committees to an organisation.

However, Business Round Table (2002, p.14), shows that specialized board committees have the potential to increase board efficiency and provide directors with a valuable tool for frank discussions of often complex issues and, where necessary, to conduct discussions independently of management. The round table also highlighted the contribution of board committees to good
corporate governance and noted that virtually all boards of directors of large, publicly-owned corporations operate using committees to assist them. A committee structure permits the board to address key areas in more depth than may be possible in a full board meeting.

The OECD (2004, p.6) stresses that while the use of committees may improve the work of the board they may also raise questions about the collective responsibility of the board and of individual board members. In order to evaluate the merits of board committees it is therefore important that the market receives a full and clear picture of their purpose, duties and composition. The accountability of the rest of the board and the board as a whole should be clear.

However, according to the IMF Annual Report (2005), the concern about the accountability of non-committee members on the board is clearly addressed by the fact that only the full board can take decisions. There is, however, scope for greater transparency on the purpose, duties and composition of committees. For example, neither the IMF Fund’s Annual Report nor its external website systematically provides information on the mandate, work program, or membership of Executive Board standing committees. The World Bank, in contrast, publishes information in its Annual Report, and on its external website, on each of its Board standing committees’ activities and membership.

2.5 TYPES OF BOARD COMMITTEES

According to Harrison (1987) as cited by http://wbiconpro/11.John accessed on 14 April 2013 there are two generic types of board committees. Management support or operating committee. Harrison (1987) also stressed that the primary function of these board committees, that is, to integrate decision management with decision control in boards of directors. This is also reflected by the composition of operating committees. The composition of these board committees is dominated by executive directors. The executive committee, the strategy committee and the finance committee are some of the examples of operating committee (Harrison, 1987).
The other type of committee is concerned with the control roles of boards. These so-called monitoring or oversight committees aim at the protection of shareholders’ interests by providing objective, independent review of corporate decisions. The primary function of these committees is to separate decision management from decision control. Examples of oversight committees are the audit, compensation and nominating committees. Verschor, (1993) pointed that as seen from a conflict perspective of board organization, oversight board committees can be effective mechanisms to separate decision management from decision control when these committees are composed primarily of non-executive directors who are independent of senior management.

Davis (1991, p.77), management participation on board committees has been thought of as tantamount to allowing the ‘fox in the henhouse’. However, the audit committee has been studied most notably in the literature as compared to other oversight committees. Audit committees can be viewed as monitoring mechanisms that are voluntarily employed in high agency cost situations to improve the quality of information flows between principal and agent (Beasley, 1994, p.33). Audit committees have been viewed as corporate governance mechanisms to protect the interests of shareholders by monitoring management and the external and internal auditors (DeZoort, 1997). However, Spira, (1998, p.30) has seen from a different practical point of view, definitions broadly agree that the audit committee is a board sub-committee of (predominantly) non-executive directors concerned with audit, internal control and financial reporting matters. Spira (1998) further argued that boards are comprised, predominantly, of independent non-executives, these and other oversight committees are accepted by reformers as valuable means to improve the independence of one-tier boards. As such, the following assumption suggests a positive association between independent oversight board committees and the independence of one-tier boards:

According to Lumsden (2002), there are six standing committees of the Board:
A) Audit Committee – oversees the Company’s financial reporting process and internal controls. This committee is directly responsible for the appointment, engagement and oversight of the independent public accountants and has sole authority to approve audit engagement fees and terms as well as significant non-audit engagements with independent public accountants.

B) Committee on Corporate Governance – considers and makes recommendations on matters related to the practices, policies and procedures of the Board. This committee has sole authority to retain and terminate director search firms and to approve retention fees and terms. Lumsden (2002) stresses that Corporate Governance Committee is usually responsible for general oversight of corporate governance.

The responsibilities of a corporate governance committee usually include some combination of:

Responsibility for:
- Alignment of the board’s operations with best corporate governance practice;
- Review of the effectiveness of committees;
- Overseeing the process for review of the board, the CEO and the chair;
- Approving corporate governance statements of the corporation;
- Determining the independence of the directors and monitor the ongoing status of those directors and
- Reviewing existing behavior and ethical guidelines for directors and considering questions of possible conflicts of interest.

C) Compensation and Benefits Committee – makes recommendations on organization, succession, the election of officers, consultant ship and similar matters, and consults on matters concerning executive compensation and on pension, savings and welfare benefit plans. This committee has sole authority to retain and terminate compensation consultants who advise on director or executive compensation and sole authority to approve retention fees and terms.
D) Finance Committee – considers and makes recommendations on matters related to the financial affairs and policies of the Company.

E) Committee on Public Policy and Social Responsibility – advises the Board and management on Company policies and practices that pertain to the Company’s responsibilities as a global corporate citizen, its obligations as a pharmaceutical company, and its commitment to high standards of ethics and integrity.

F) Research Committee – considers and makes recommendations on matters related to the Company’s strategies and operations for the research and development of an organization. This committee shall promote high standards of clinical ethics, and scientific integrity, with respect to the Company’s research.

For financial institutions, specialized committees are also established such as investment committee, assets and liabilities committee and risk management committee. However, terms of references for each and every committee are essential for efficiency and effectiveness as well as showing directions on how to conduct their business. In addition, it is also important for the committees to be independent and well respected by the board in order for them to be effective (Garvey and Swan, 1994)?

2.6 BOARD EFFECTIVENESS AND COMMITTEES

Numerous attempts have been made to improve the effectiveness of standing committees of the Executive Board, but considerable dissatisfaction remains with their performance, particularly among members of the Board itself (Estrin, 2002). Interviews, survey data, previous reviews of the Fund’s Executive Board committee structure, principles of good corporate governance, and experience in other multilateral institutions all suggest that these committees could make a more effective contribution to the Fund’s internal governance (Chelsky, 2008).
2.7 ROLE OF BOARD COMMITTEES

Board committees have the potential to increase board efficiency and provide directors with a valuable tool for frank discussions of often complex issues and, where necessary, to conduct discussions independently of management (McGee, 2009).

The contribution of board committees to good corporate governance was highlighted in the US-based Business Roundtable’s Principles of Corporate Governance (2002), which noted that virtually all boards of directors of large, publicly-owned corporations operate using committees to assist them. A committee structure permits the board to address key areas in more depth than may be possible in a full board meeting (Business Roundtable, 2002, p.14). While the use of committees may improve the work of the board they may also raise questions about the collective responsibility of the board and of individual board members.

In order to evaluate the merits of board committees it is therefore important that the market receives a full and clear picture of their purpose, duties and composition. The accountability of the rest of the board and the board as a whole should be clear (OECD, 2004, p.6).

- The need for a forum in which executive directors can less formally discuss detailed, more technical, or more complex issues, and thereby provide better advice to their authorities and inform and focus subsequent Executive Board discussions;

- With the Executive Board chaired by the Managing Director, committees chaired by executive directors allow for regular discussion of issues independently of management, giving directors full control over the timing of meetings and agendas and the formulation of recommendations;

- Committees provide a vehicle to discuss some issues pertaining to the operations of the Executive Board or independent evaluation; and
• By promoting a division of labor among executive directors, committees can enhance the Board’s efficiency.

The recommendation of the CACG (1998) goes hand in hand with The Combined Code (2002) which stresses the need for an independent audit committee to monitor the internal control systems and reliability of the organization’s financial statements. The Turnbull Report (1999) focused on the importance of internal control in relation to audit committees. Whilst the CACG emphasizes the need for independent discussion of board activities by board committees, the Higgs Report focuses on the establishment of remuneration committee which is essential for the deliberation of issues related to remuneration within the organization especially issues related to directors’ remuneration in relation to the company’s performance. In general, available frameworks support each other in terms of compositions of board committees; however, areas of emphasis differ between frameworks. The composition of board committees, according to available frameworks, should have non-executive directors as majority which shows a general positive confidence in non-executive directors.

2.8 BOARD COMMITTEES’ CONTRIBUTION TO CORPORATE GOVERNANCE ENHANCEMENT

Delegating specific board responsibilities to board committees can be an effective way of managing the myriad responsibilities of the board (Mayer, 1997). In addition, Board committees can improve decision-making by the Board.

Some board committees are formed largely with this consideration in mind – for example, executive, strategy and IT committees, to name a few. Having board committees may be especially useful if the board is large, given the difficulties of large-group decision-making. However, the primary reason for having board committees is to enhance the monitoring function of the board and its accountability to shareholders and other stakeholders (Nganga, Jain and Artivor, 2003). Board committees can allow non-executive and independent directors to
deliberate on areas where there may be conflict of interests between management and shareholders and make recommendations. This is especially so in matters dealing with financial reporting, internal control, remuneration, and appointment or removal of directors. It is therefore unsurprising that the three most commonly advocated board committees for improving corporate governance are the audit committee, nominating committee, and the remuneration committee. Further, in most cases, these committees are expected to have at least a majority of independent directors (Mak, 2001).

2.8.1 Pre-requisites for Effective Board Committees

Although board committees might enhance corporate governance, they are not a panacea. For example, audit committees have not prevented a series of spectacular business failures in the world (Okeahalam, 2004). Nevertheless, there are certain common features of board committees that can enhance their effectiveness.

These include (Okeahalam, 2004):

1. Qualified and independent committee members
2. Clearly defined charter
3. Regular, carefully planned meetings
4. Adequately resourced (including access to independent professional advice)
5. Adequate training/orientation for members
6. Balance between continuity and renewal

In other words, it is insufficient to have board committees, if the appropriate structure and processes are not in place for these committees. Unfortunately, it appears that board committees are often formed to meet the “letter” of the legal, listing or best practice guidelines, without sufficient consideration of these structures and process features (Rwegasira, 2000). Board committees can play an important role in corporate governance, in terms of improving decision-
making by the Board, but especially in enhancing the monitoring of management and accountability to shareholders. There is a considerable push towards the establishment of these board committees and improving the functioning of these committees, especially the audit committee (O'Donovan, 2009).

However, board committees are not a panacea, and it is counter-productive to push for the establishment of these committees (especially through mandatory rules) if there is a lack of qualified independent directors to serve on these committees. The lack of qualified independent directors is a real issue and represents a significant challenge to the establishment of effective board committees, and indeed effective boards of directors (Mak, 2001)

2.8.2 Significances of Board Committees

In organization that has established board committees; positive signs of their importance have been identified. These positive signs depend on the type of board committee and whether the committee members respect available corporate governance frameworks in addition to clear terms of references availability.

2.8.3 Remuneration Committees

Compared to audit committees, very few studies have examined whether remuneration (compensation) committees affect corporate governance. Using firms from the 1992 Fortune 250, Newman and Moses, (1992) found that when insiders are on the compensation committee, CEO compensation practices are more favourable for the CEO. They did not find a significant difference in compensation levels between firms whose compensation committees consist of at least one insider and those whose compensation committees consisted solely of outside directors (Mak, 2001).
2.8.4 Audit Committees

Given that two of the major roles of the audit committee are to oversee the financial reporting and internal control systems of companies, several studies have examined whether the existence and composition of audit committees are related to the incidence of financial statement fraud. Dechow (1996) and McMullen (1996) found that, compared to non-fraud companies, are less likely to have an audit committee in place prior to the fraud. Beasley (1999) found that fraud companies had lower percentages of outside directors on their audit committees. However, this relationship did not exist once the proportions of outside directors are in control.

The Committee of Sponsoring Organizations of the Treadway Commission in the U.S. published a study of 200 U.S. companies that had SEC enforcement actions against them for financial statement fraud over the period January 1987 and December 1997. Based on data from the study, Beasley (1999) found that fraud companies were less likely to have an audit committee and were less likely to have audit committees comprised entirely of outside directors. In addition, audit committees in fraud companies met less frequently than in non-fraud companies, this difference being especially pronounced for companies in the technology and health care industries. Carcello and Neal (2000) stressed that audit committee independence is related to the informativeness of accounting data in valuation, and to earnings management. However, the difference is earnings management is only found between audit committees with and those without a majority of independent directors. There was no difference in earnings management for audit committees with all independent directors compared to those with a majority only of independent directors (Oyejile and Soyibo, 2001). Carcello and Neal (2000) examined the impact of the composition of audit committees on auditor reporting for financially distressed firms. They found that the greater the percentage of affiliated directors on the audit committee, the less likely is the auditor to issue a going-concern report. Wild found that the market’s reaction to earnings report is more than 20 percent greater after the formation of the audit committee than before, suggesting that the audit committee improves the quality of financial
Several U.K. studies have examined the impact of audit committees on corporate governance. Peasnel (2000) studied whether the incidence of earnings management depends on board monitoring, including the presence of an audit committee. They focus on situations where performance is either poor (and therefore there is an incentive to manage earnings upwards) or exceptionally good (and therefore there is an incentive to manage earnings downwards). They found that companies that have a larger proportion of outsiders on their boards are less likely to manage earnings upwards in the event of poor performance. However, this is true only for companies where managerial ownership is low and therefore there is little alignment of shareholders’ and managers’ interests.

They found no evidence of a direct relationship between audit committee existence and earnings management. However, they found that the relationship between board composition and earnings management is most pronounced where an audit committee is present. This is consistent with audit committees enhancing the monitoring role of outside directors (Wild, 1996).

Song and Windram (2000) studied 27 post-Cadbury cases they found that companies with financial reporting irregularities had a lower proportion of outside directors on the board. They also found that companies that had audit committees with more members with financial management experience and with formal qualifications in accounting or auditing are less likely to experience financial reporting irregularities. In addition, higher audit committee meeting frequency is associated with lower incidence of financial reporting irregularities.

2.9 THE UK COMBINED CODE (2002)

The combined code (2002), one of the available codes on corporate governance, calls for listed companies to have an audit committee. The code sees an audit committee as key for the development and maintenance of internal controls for the organisation. The Combined Code recommends that
the committee should consist of at least three non-executive directors and that a majority of the NEDs should be independent (Combined Code, 2002). Whilst other recommended board committees might be composed of executive directors, audit committees should entirely be composed of non-executive directors.

The code further stresses the purpose of having an audit committee:

- Help the board of directors to fulfil its obligations in respect of financial reporting, by appointing board members to consider audit partners.
- Strengthen the independence of the external auditors by providing them with another channel of communication with the board, other than the chairman of the board, CEO or CFO.
- Independently increase public confidence in the credibility of the company’s financial statements

The code focused on a number of corporate governance issues and recommended at length good practices concerning the board and board committees. The implication of the code will mainly be to the board where an independent audit committee will be established as a pre-requisite to the organisation. The committee will be independent, and gives power to the members in relation to internal controls and the quality of financial statements of the organisation. The UK combined codes emphasises the need for the committee to be composed of non-executive directors to increase the level of independency and impartiality. Under the recommendation of The Combined Code (2002), all issues related to internal controls, financial reporting of an organisation and the relationship between the organisation and external auditors lies with the audit committee.

2.10 THE HIGGS REPORT AND REMUNERATION COMMITTEES

The report recommends on the composition, role and responsibilities of the remuneration committee. The report recommends that:

- The committee should have at least three members, all of them independent
- It should publish terms of reference setting out its responsibilities
• At a minimum, it should have delegated responsibility for setting the remuneration of all the executive directors and the chairman
• The remuneration committee should work closely with the nomination committee to make sure that any incentive schemes are properly structured.

The remuneration committee plays a pivotal role in helping the board on all matter related to remuneration in the organisation especially in relation to board members. Therefore, it is essential for an organisation to have a remuneration committee composed of non-executive directors. It is not a good practice for executive directors to discuss issues related to remuneration especially if they are; therefore, an independent committee is essential which will solely be responsible for this function.

2.10.1 Purpose of remuneration committee

- produce annual reports on executive remuneration
- review package and approve corporate goals that are relevant to the remuneration package
- make recommendations to the main board with regard to incentive based and equity based remuneration

The remuneration committee is a specialised sub-committee solely responsible for an organisation’s remuneration activities. Therefore, the Higgs report emphasized the need for the establishment of a remuneration committee which affects all decision by the main board on remuneration aspects. The main board will therefore be forced to take into account recommendations by the committee though the final decision will be done by the main board.

2.11 THE GREENBURY COMMITTEE (1995)

The committee recommends that ‘to avoid potential conflicts of interest’; a remuneration committee consisting entirely of non-executive directors should be set up by the board. The committee shall have terms of references to guide
its operations. In addition, the committee shall be responsible for coming up with remuneration strategies to attract and retain quality staff within the organization. Detailed remunerations issues shall be dealt with by the committee in support of the activities of the full board (Greenbury, 1995). The recommendations contributed positively to the quality of remunerations in organisations due to quality discussion on remuneration by the appointed committee. In addition, non-executive directors are usually objective in deliberation of remunerations issues since they usually do not have direct association with the organisation other than sitting on the board. The composition of non-executive directors enables the benchmarking of remuneration strategies using experience from elsewhere which is positive to the organisation.

**2.12 THE TURNBULL COMMITTEE (1999)**

The committee strongly recommends the importance of internal controls to safeguard the company’s assets and for efficient and effective operations and internal systems. The Turnbull Report (1999) states that ‘reviewing the effectiveness of internal control is an essential part of the board’s responsibilities’. This authority to conduct the review might be delegated to the audit committee, but the board as a whole is responsible for the statements on internal control in the company’s annual report and accounts. The report emphasizes the importance of the audit committee.

The recommendation by Turnbull committee of the importance of internal control and the establishment of an audit committee affect the way the full board make decisions on issues pertaining to internal controls and well as the quality of financial reporting of an organisation. Therefore, the detailed analysis of internal control systems and quality inspections of financial information has to pass through the audit committee before final approval by the board. As a result, the activities of the full board on these aspects of the organisation’s activities will be limited and scrutinised by internal experts. Overall, the chances of irregularities will be minimised.
2.13 CACG’S FIFTEEN PRINCIPLES

The CACG’s fifteen principles recommends that there should be a process of appointing individuals to positions on the board that provides a mix of proficient directors, each able to add value and bring independent judgment to bear (CACG, 1998). The recommendation calls for the establishment of a nomination committee solely responsible for nomination functions. This reduces the power of the main board since this nomination aspect will now be the responsibility of the nomination committee. The principles are positive for the functioning of the board since external experience will be brought in the organisation with thin the relevant sector.

2.14 THE KING’S REPORT

The King Report (2002), states that a unitary board structure is appropriate for companies, with a mixture of executive and non-executive directors on the board. This enables committees that are formed by the board to be effective and independent as well as being transparent which are key ingredients in good corporate governance practice. The board further states one of the key responsibilities of the board to manage risk. However, through the investment and risk management committee, the board will manage to perform the task as the committee will devote much of its time deliberating on specific issues related to investments and risk.

The king report is one of the codes of corporate governance that discussed at length board committees and provide sound recommendations. The report stresses that the board should meet at least once every three months, and information about the number of meetings held and the attendances of each director should be included in the annual report (Coyle, 2002). Committees of the board should have written terms of references, and there should be transparency and full disclosure of committee matters.

All companies should have:

- Audit Committee
And non-executive directors should play an important part in all committees of the board. The performance of each board committee should be reviewed regularly. The report further recommended that a board committee, the nominations committee, should carry out a review at least once a year of the effectiveness of the board itself, and also assess its mix of skills, experience and demographics (Coyle, 2002).

The recommendation of the code has implications on board compositions, that is, executive and non-executive directors. In addition, various board committees should be available with specific functions and terms of reference which affects the way the board operations. In other words, the main board has the final say on all matters of the board; however, the board should also consider recommendations from technical committees.

2.15 EMPIRICAL STUDIES

2.15.1 Size of the board and company performance

Empirical studies have shown that the relationship between board composition and overall firm performance in the for-profit sector. Board composition is usually defined as the percentage of outside (or inside) directors on the board; firm performance is measured typically by various accounting variables, such as return on assets, return on equity, variations on Tobin’s Q ratio, net earnings and growth in sales. Overall, these studies yield contradictory results. Baysinger and Butler (1985) find some evidence that companies perform better if their boards have more outsiders. MacAvoy et al. (1983), Hermelin and Weisbach (1991) and Bhagat and Black (1999) obtained little to no evidence that the proportion of outsiders (or insiders) on the board is related to stock market performance or accounting measures of profitability. In contrast, Molinari, et al. (1993), Klein (1998), and Agrawal and Knoeber (1996) found a negative relationship between firm performance and the per cent of outsiders on the board.
In a different vein, Yermack (1996) maintained that smaller corporate boards are actually more efficient than larger boards since he found an inverse relationship between board size and firm value. Klein (1998) examines the relation between firm performance and board committee composition. She found a positive relationship of the percentage of inside directors on board committees dealing with long-term strategic investment decisions and various accounting and market measures of firm performance. She also reported differential stock market reactions around proxy mailing dates between firms whose boards proposed to increase the percentage of insiders on these committees and firms whose boards proposed to decrease this percentage. Klein (1998) also attested for associations between the percentage of outside directors on board monitoring committees (for example, audit and compensation) and firm performance.

The associations between these factors are less compelling. No significant cross-sectional relationships are found, although there is some weak evidence that markets react positively to boards that increase the percentage of outside directors on board compensation committees.

2.16 Board diversity

With globalization and technology advances bringing about diversity in clients, operation and market competitions, board diversity in terms of gender, races, nationality (local or foreign) of directors and their background, expertise and experience have recently attracted increasing interest in research. Some initial empirical researchers found that board diversity is positively correlated with firm value (Pei, 2004).

Lorsch and Maclver (1989) remarked that the work of the board is done in committees. This view is also shared by regulators who often focus on specific committees rather than the whole board, for example, the independence of audit committee members. One potential advantage of board committees is that by delegating functions to subgroups of the board of directors, the free-rider problem that plagues large groups is reduced. We point out a more subtle
effect. When different board members sit on different committees, the implied separation of board functions can affect decision making in committees. This in turn can have important implications for corporate governance.

Members of a committee certainly have a much stronger influence on a committee’s agenda than non-members whose preferences are thus less represented in the decision process. However, the formation of committees per se does not guarantee a clean separation of functions. After all, board members usually sit on more than one committee and meet in general meetings. For this reason, (real) task separation not only depends on the presence of committees, but on the degree of interaction between members of different committees. The interaction between board members and committees interlock. Committee interlock is expected to increase, for example, if the fraction of directors who serve on both committees is larger.

Generally, firms with committees should have a lower interlock than firms without committees. For those firms that are required to have board committees by regulation, possible proxies for interlock are, e.g., whether or not the chairman of the compensation committee also sits on the audit committee or the fraction of compensation committee members who also sit on the audit committee. The empirical literature that analyses whether the existence of audit committees influences the quality of the financial reporting process produces mixed evidence. While Dechow, Sloan, and Sweeney (1996), and Beasley et al (2000) find a positive association between audit committee presence and financial reporting quality, Beasley (1996) and Peasnell, Pope, and Young (2005) find no such relationship. Two of the most important board functions are setting CEO pay and overseeing the financial reporting process. Different committees are responsible for performing these functions.
2.17 CHAPTER SUMMARY

This chapter looked at various definitions of corporate governance. Corporate governance has been said to involve the proper managing and directing of an organization in order to satisfy shareholders as well as keeping the organization in business to meet the set objectives. The chapter also looked at the significance of corporate governance in relation to the board and board committees as well as the various types and recommended board committees. The chapter also looked at the best practices in relation to board committees, their composition and some of their terms of references.
CHAPTER THREE

RESEARCH METHODOLOGY

3.0 INTRODUCTION

This section describes the research design utilized by the researcher. The section also describes the target population, sampling procedure and sample size of the study, the data collection instrument used and issues pertaining to its validity and reliability, the procedure followed to gather data using statistical techniques (Saunders, 2002).

3.1 Research Design

Howard and Sharp (1983, p.6) defined a research as seeking through methodological processes to add to one’s own body of knowledge and hopefully to that of others, by discovering of non-trivial facts and insights. According to Saunders, Lewis and Thornhill (1997), there are two approaches to research – positivism and phenomenology which are also known as qualitative and quantitative approaches.

3.1.2 Positivism

Cassel and Symon (1997, p.2) observed that the assumption behind the positivist paradigm is that there is an objective truth existing in the worlds which can be revealed through the scientific method where the focus is on measuring relationships between variables systematically and statistically. Qualitative research methods are premised on multiple meanings of individual experiences, socially and historically constructed with the intent of developing a theory or pattern (Creswell, 2003). Positivism approach adopts the philosophical stance of the natural scientist. In such research one would prefer working with an observable social reality and that the end product of such research can be law-like generalization similar to those produced by the physical and natural scientist. The assumption being that the researcher would not be independent of the research and neither affects, nor is affected by the subject of the research (Remenyi, 1983, p.33).
3.1.3 Phenomenology

This approach is so called because it is based on the way people experience social phenomena in the world in which they leave. It can be contrasted with positivist approach which treats the social world in the way it would be approached by the natural scientist, something with which the phenomenologist would feel uncomfortable (Saunders et al., 1997).

Qualitative research requires a natural setting as a direct source of data and uses descriptiveness extensively (Bearnish, 1994, p.89). The researcher is the key instrument mostly and should be present when the event occurs. It is narrative and the researcher is guided by the general mind and there is no hypothesis or a priori theory (Bearnish, 1994, p.89).

3.1.4 RESEARCH PHILOSOPHY

Research philosophy was metaphorically illustrated as one of the research onion that must be peeled away layer by layer with each later representing a process before coming to matters such as the choice of data collection (Saunders et al (2003, p.84). The research philosophy is underpinned by three different or mutually exclusive views which play a vital role in business and management research such as, positivism, interpretive and realism Saunders et al. (2003). In addition, a research philosophy premised on positivism places emphasis on highly structured methodology to facilitate replication and quantifiable observations that led them to statistical analysis. The researcher is independent of and neither affects nor is affected by the subject of research under the assumption of positivism, Saunders et al.,(2003, p.84)

3.2 RESEARCH APPROACHES

Saunders et al. (2003) pointed that an important observation and states that the extent to which one is clear about the use of theory at the beginning of their study raises important questions about the research designs.
3.2.1 Deductive Approach
This approach seeks to explain causal relations between variables and involves developing a hypothesis which is subsequently tested by the collection of quantitative data. An important characteristic of the deductive approach is that concepts need to be operationalized in a way that enables facts to be measured quantitatively (Saunders et al., 2003, p.86). One of the major advantages of the deductive approach is that it stresses numerical analysis and objectivity, reliability and replication of findings.

A major drawback of the approach however is that there is a risk that validity of findings might be compromised since social phenomena may not be reliably measured and quantified. On the other hand, qualitative methods allow flexibility in the research process. Many qualitative methods allow the researcher to change the nature of the interventions as the research develops in response to the changing nature of the context (Cassel and Symon, 1997).

3.2.2 Inductive Approach
This method was developed to cater for the shortcomings of the deductive approach. This approach reflects that theory should follow data, unlike the deductive approach, that is, the researcher starts with data collection then arrives at possible explanation about the research phenomenon.

The researcher used both the deductive and inductive approaches for this study. The two approaches differ in that the deductive approach in firmly based within the positivist paradigm, whereas inductive approach exhibits an interpretivist orientation to research (Gill and Johnson, 1997, p.37).

3.3 RESEARCH METHODOLOGIES AND STRATEGIES

a) Case study
Case study involves collecting empirical data, generally from only one or a small number of cases and provides rich detail about those cases, of a predominantly qualitative nature. Case study approaches are available such as ethnographic, hermeneutic, echogenic and the principles and methods followed
should be made clear. Insights into a particular situation are provided through case studies and often stress the experiences and interpretations of those involved. New understandings, explanations or hypotheses are generated also through the use of case studies. However, it does not usually claim representativeness and should be careful not to over – generalize (http://www.dur.ac.uk/r.j.coe/resmeths/types.doc accessed on 12 April 2012).

b) Survey
Empirical study involves collecting information from a larger number of cases, perhaps using questionnaires; this is usually described as a survey. A survey might make use of already available data, collected for another purpose. However, a survey may be cross-sectional (data collected at one time) or longitudinal (collected over a period). Surveys involve some qualitative analysis. Issues of generalizability are usually important in presenting survey results, so it is vital to report how samples were chosen, what response rates were achieved and to comment on the validity and reliability of any instruments used (http://www.dur.ac.uk/r.j.coe/resmeths/types.doc accessed on 12 April 2012).

c) Experiment
Experiments involve the deliberate manipulation of an intervention in order to determine its effects. The intervention might involve individual pupils, teachers, schools or some other unit. However, if the researcher is also a participant for example a teacher this could be described as ‘action research’. An experiment may compare a number of interventions with each other, or may compare one (or more) to a control group. If allocation to these different ‘treatment groups’ is decided at random it may be called a true experiment; if allocation is on any other basis, for example.Using naturally arising or self-selected groups it is usually called a ‘quasi-experiment’ (http://explorable.com/non-probability-sampling.html accessed on 12 April 2012)

Issues of generalizability are usually important in an experiment; therefore, same attention must be given to sampling response rates and instrumentation
as in a survey. It is also important to establish causality by demonstrating the initial equivalence of the groups (or attempting to make suitable allowances), presenting evidence about how the different interventions were actually implemented and attempting to rule out any other factors that might have influenced the result (http://explorable.com/non-probability-sampling.html accessed on 12 April 2012).

3.3.1 Method used in this study

The researcher used survey method using questionnaires and face to face interviews to collect primary data from the target population

3.3.2 Questionnaires

Questionnaires are form containing a set of questions, especially one addressed to a statistically significant number of subjects as a way of gathering information for a survey http://www.thefreedictionary.com/questionnaire accessed on 13 June 2012.

a) Advantages

• Questionnaires enable the gathering of responses in a standardised way making them more objective.

• Generally it is relatively quick to collect information using a questionnaire. However in some situations they can take a long time not only to design but also to apply and analyse (Milne, 1999)

• Information can be collected from a large portion of a group using questionnaires. This potential is not often realised, as returns from questionnaires are usually low. However, return rates can be dramatically improved if the questionnaire is delivered and responded to in class time (Milne, 1999).

b) Disadvantages
According to Milne, (1999) questionnaires are standardised. Therefore, it is not possible to explain any points in the questions that participants might misinterpret. This could be partially solved by piloting the questions on a small group.

Large amounts of data that can take a long time to process and analyse can be generated by open ended questions (Milne, 1999).

If the questionnaire takes a long time to complete, respondents may answer superficially. The common mistake of asking too many questions should be avoided (Milne, 1999).

Respondents might wish not to give all the information that they may have if they think that they may not benefit from the research (http:www.fibromyalgiadiabeteshelp.com/430/personal-models-of-diabetes-questionnaire/ accessed on 12 April 2012).

3.3.3 Interviews

Interviews involve one on one conversation with physical presence of all parties involved.

1) Advantages of interviews

a) Interviews have many advantages, the most significant of which is questioning people who cannot write their responses. This category also includes illiterate subjects or subjects who do not write as frequently as they speak. Oral responses from these individuals will contain much more information than would affect their written responses.

b) Another advantage of the interview method is that it actually results in a higher response rate than does the questionnaire. Many people who would ignore a questionnaire are willing to talk, with an interviewer who is obviously interested in what they have to say.
Another advantage of the interview technique is that you can plan to ask questions at several levels to get the most information from the subject. This approach is unique to the interview. The combination of structured and unstructured questions can provide depth and richness to the data and, at the same time elicit data that are comparable from one subject to the next.

### 3.4 TARGET POPULATION AND SAMPLING TECHNIQUES

Sekaran (2000, p.27) defined a population as the entire group of people, events or things of interest that the researcher wishes to investigate. Luck and Rubin, (1997, p.31) defined a population as the entire group about which some specific information is required. The research findings were based entirely on the responses of the selected population. However due to the impossibility of gathering information from all the selected population members, sampling techniques were used. Fraenkel and Wallen (1996, p.54) state that the population can be in two categories which are the target and the accessible populations.

<table>
<thead>
<tr>
<th>TARGET GROUP</th>
<th>AVERAGE POPULATION SIZE</th>
<th>SAMPLE SIZE</th>
</tr>
</thead>
<tbody>
<tr>
<td>DIRECTORS</td>
<td>15</td>
<td>10</td>
</tr>
<tr>
<td>SENIOR MANAGERS</td>
<td>30</td>
<td>15</td>
</tr>
<tr>
<td>MIDDLE MANAGERS</td>
<td>15</td>
<td>9</td>
</tr>
<tr>
<td>JUNIOR MANAGERS</td>
<td>10</td>
<td>10</td>
</tr>
</tbody>
</table>

**Table 3.1: Target Population**

Source: www.afdb.org/intranet accessed on 13 April 2012

The table above shows the distribution of the target population and the selected sample sizes. The target population is the population to which the researcher would really like to generate. However, this population is rarely available. Therefore, the population to which researcher is able to put under study is the accessible population (ibid). The population for this study was made
up of directors, managers and senior officers of the organization who are from within the organization. The study was only confined to the organization under study. According to Vermeulen (1998, p.65), the larger the sample the more representatives it is of the population. A large random sample always gives an estimate close to the parameter (ibid).

### 3.5 Sampling

Sampling is the process by which a researcher selects a sample of participants for a study from the population of interest (Leary, 2004, p.10). A sample is a small part of anything designed to show the style, quality and nature of the whole (Ferder, 1974, p.65). A sample is used to approximate the measurement of the whole population well enough within acceptable limits.

Two ways of sampling:

- Probability, and
- Non probability sampling

#### 3.5.1 Probability Sampling

Under this technique samples are gathered in a process that gives all the population components equal chances of being selected.

#### 3.5.2 Types of probability sampling

**A) Simple random sampling**

A method of sampling that assures all the members of the population included in the sample and randomly select the desired number of subjects (http://explorable.com/probability-sampling-sampling.html accessed on 16 April 2012)

**B) Stratified random sampling**

This technique is also known as proportional random sampling. Subjects are initially grouped into different classifications such as age, socioeconomic status or gender. The researcher randomly selects the final list of subjects from the different strata. The strata must not have overlaps. Researchers use stratified
random sampling if they want to study a particular subgroup within the population. It is also preferred over the simple random sampling because it warrants more precise statistical outcomes (http://explorable.com/probability-sampling-sampling.html accessed on 16 April 2012).

C) Systematic random sampling

Systematic random sampling can be likened to an arithmetic progression whereby the difference between any two consecutive numbers is the same.

D) Cluster random sampling

This method of sampling can be used when simple random sampling is almost impossible due to the size of the population.

i) Boundaries are identified by the researcher, for example, countries within Africa
ii) A number of selected areas are identified. All areas or countries should be given equal chances of being selected within a population

iii) All the individuals within the selected areas can be included or subject can randomly be selected from the identified areas (http://explorable.com/probability-sampling-sampling.html accessed on 16 April 2012)

E) Non-Probability Sampling

Under this technique samples are gathered in a process that does not give all the individuals in the population equal chances of being selected. It is a product of a randomized selection processes. Subjects in a non-probability sample are selected on the basis of their accessibility or by the purposive personal judgment of the researcher (http://explorable.com/non-probability-sampling-sampling.html accessed on 16 April 2012)

F) Judgemental sampling
Under this technique subjects are chosen to be part of the sample with a specific purpose in mind. The researcher believes that some subjects are fit for the research compared to other individuals. This is the reason why they are purposively chosen as subjects.

G) Convenience sampling

With convenience sampling, the samples are selected because they are accessible to the researcher. Subjects are chosen simply because they are easy to recruit. This technique is considered easiest, cheapest and least time consuming.

H) Consecutive sampling

This technique seeks to include all accessible subjects as part of the sample. However, the technique is very similar to convenience sampling. This non-probability sampling technique can be considered as the best of all non-probability samples. It includes all subjects that are available that makes the sample a better representation of the entire population.

I) Quota sampling

A non-probability sampling technique which ensures equal or proportionate representation of subjects depending on which trait is considered as basis of the quota, http://www.experiment-resources.com/non-probability-sampling.html#ixzz1wLRfrYCa accessed on 02 May 2012.

3.6 Sampling method used in this study

3.6.1 Stratified Sampling

In this study, the researcher grouped the population by level within the hierarchy – directors (executive and non-executive), management and general staff and other stakeholders representing stratified random sampling. The researcher went on to select representatives randomly from the strata to come up with actual respondents from each group. Random figures were generated representing positions in the organization from each stratum. The random numbers were later picked for the survey representing each member of the
population and giving each element of the population an equal chance of being selected.

The main advantage of stratified sampling is that one is guaranteed a balanced sample. The disadvantage of stratified sampling is that it's harder to do.

3.7 TYPES OF DATA COLLECTED

Two data collection instruments were used in this research: a questionnaire with questions on measuring effective corporate governance. The instruments consist of items related to the common corporate governance issues in development financial institution. Once the final version of the questionnaire was completed, the questionnaires were distributed to the respondents. Of the various method of questionnaire distribution, random distribution method was used within the organisation but to individuals at levels that has to do with corporate governance of the organization (http://www.dur.ac.uk/r.j.coe/resmeths/types.doc)

A) Primary Data

Primary data is information collected by the researcher directly through instruments such as surveys, interviews, focus groups or observation. Tailored to his specific needs, primary research provides the researcher with the most accurate and up-to-date data.

Advantages:
1. Most reliable form of data
2. Direct interaction with the customers
3. Most unbiased form of data

Disadvantages:
1. Usually expensive
2. Comprehension potential of the respondents a major issue
3. Takes more time
4. Will create false results if, not conducted properly
5. Skill and expertise of researcher matters a lot

**B) Secondary Data**

It refers to the statistical material which is not originated by the investigator himself but obtained from someone else's records, or when primary data is utilised for any other purpose at some subsequent enquiry. This type of data is generally taken from newspapers, magazines, bulletins, reports, journals etc. According to Zigmund (2003), Secondary data are those already in existence for some other purpose than the answering of the question in hand, [http://www.ehow.com/facts_6806780_define-primary-secondary-data.html](http://www.ehow.com/facts_6806780_define-primary-secondary-data.html) accessed on 02 May 2912

**Advantages**

- Use of secondary data is very convenient.
- It saves time and finance.
- In some enquiries primary data cannot be collected.
- Reliable secondary data are generally available for many investigations.

**Disadvantages**

- It is very difficult to find sufficiently accurate secondary data.
- It is very difficult to find secondary data which exactly fulfils the need of present investigation.
- Extra caution is required to use secondary data.
- These are not available for all types of enquiries.

Many experienced researchers use a combination of both primary and secondary data, conducting secondary research first, and then following up with primary research to fill any gaps in the study. This gives researchers a more comprehensive picture.
3.8 RESEARCH INSTRUMENTS

3.8.1 Questionnaire Design

A survey is a research technique that is used to collect information from a group of people with the use of a questionnaire. To write the question and set up the questionnaire is essential for development of a survey research design (Zigmund, 2003, p.66). The way the questionnaire is designed enables people to choose their own responses and express their opinions. The questionnaire consists of both open-ended and closed questions. This enables the researcher to get more in depth responses, as is planned to analyse the responses quantitatively and qualitatively, interpreting what people wrote with the help of theory.

3.8.2 Components of the Questionnaire

The questionnaire consists of three sections. The first section consists of the demographic questions about the respondents. This include age, gender and level of hierarchy with the organization. The second section consists of statement complied according to what constitute good corporate governance. The last section consists of the company’s current practices.

3.8.3 Pre-test of the Questionnaire

The questionnaires were pretested to few individuals to test the research instrument before final distribution of the questionnaires. A pre-test is a trial run with a group of respondents, used to find problems with the questionnaire design (Zigmund, 2003, p.209). The pre-test is done to check if it is feasible to collect information on corporate governance issues for a particular company.

3.8.4 Method of Questionnaire Administration

The researcher administered the distribution of questionnaires using web access method for easy administration and to get maximum response from the target population. Due to unlimited access to internet, the researcher managed to use the method effectively.
Advantages of the web based surveys

- Faster speed of responses,
- Substantially reduced cost, and
- Increased respondent flexibility

3.9 VALIDITY AND RELIABILITY OF DATA

Validity relates to the extent to which the data collection method or research methods describes or measures what it is supposed to measure (Lancaster, 2005, p.29). Reliability is concerned with whether alternative researchers would reveal similar information if they carried the same research (Easterby-Smith, Thorpe & Lowe, 2002). The questionnaire that was used to collect data for this study had its strengths and weaknesses. However, these weaknesses were addressed to enable the validity and reliability of the data to increase:

a. Respondents are given time to consider their responses carefully, therefore, there is minimal interference from an interviewer.

b. Questionnaires can be given to a large number of people at the same time which is cost effective.

c. Respondents receive uniform questions which makes interpreting easy especially from a large number of respondents. Therefore, there is uniformity.

d. A large number of issues can be addressed in a relatively efficient way increasing the chances of a high response rate.

3.10 LIMITATIONS

- It may be difficult to obtain a good response rate. Often there is no strong motivation for respondents to respond.
- Questionnaires are complex instruments to use in research and, if badly designed can highly mislead.
- Questionnaires are an unsuitable method of evaluation if probing is required – there is usually no real possibility for follow up on answers.
• Quality of data is probably not as high as with alternative methods of data collection, such as personal interviews.

• Questionnaires can be misused – a mistake is to try to read too much into questionnaire results.

• The researcher failed to access other information concerning bank activities due to ethical policy on access and dissemination of internal information about the development bank activities. However the information that the researcher managed to access led to meaningful conclusions to a reasonable extents.

3.11 CHAPTER CONCLUSION

The chapter highlighted the methodology used in this study including the research design, data collection instruments and types of data to be collected. The chapter also highlighted the research approach and strategy used by the researcher. The next chapter presents the results of the study and discusses the research findings.
CHAPTER FOUR

RESEARCH FINDINGS AND DISCUSSIONS

4.0 INTRODUCTION

This chapter analyses the study findings from the respondents in relation to responses on the questionnaire. The major issues to be discussed were focused on the assessment of the role that board committees play in shaping a development financial institution corporate governance practices. The results were analysed based on the concepts discussed in the literature review. The researcher made use of descriptive statistics in the form of tables, pie charts and bar graphs to represent the data.

4.1 RESPONSE RATE

The research questionnaires were distributed within the organization to individuals with significant input, appreciation of and contribution to the corporate governance of the organization from the junior management to the last level on the hierarchy. In order to manage the diversity of the organization’s offices in terms of locations, the researcher used web based distribution and also hand-delivered other questionnaires. Seventy questionnaires were distributed, 44 were returned representing a 63% whilst 26 questionnaires were not returned representing 37%.

The researcher used pie charts, tables and bar graphs to present the data on findings.
The response rate of 63% is satisfactory to come up with valid findings for the study. From the figures, more than half of the questionnaires distributed were returned making it possible for the researcher to come up with valid conclusions.

### 4.2 GENERAL INFORMATIONS

This section presents the general information about the population and response.

#### 4.2.1 Designation / level or position in the organization of the respondents

Respondents were asked to indicate their positions during the questionnaire answering process.

The findings are shown below.

<table>
<thead>
<tr>
<th>Target Population</th>
<th>Sample Size</th>
<th>Questionnaires received</th>
<th>Response Rate</th>
</tr>
</thead>
<tbody>
<tr>
<td>Directors</td>
<td>15</td>
<td>11</td>
<td>73%</td>
</tr>
<tr>
<td>Senior Managers</td>
<td>30</td>
<td>19</td>
<td>62%</td>
</tr>
<tr>
<td>Middle Managers</td>
<td>15</td>
<td>8</td>
<td>55%</td>
</tr>
<tr>
<td>Junior Managers</td>
<td>10</td>
<td>6</td>
<td>60%</td>
</tr>
<tr>
<td><strong>Overall Response Rate</strong></td>
<td><strong>70</strong></td>
<td><strong>44</strong></td>
<td><strong>63%</strong></td>
</tr>
</tbody>
</table>
Figure 4.1: Designation or various levels in the organization

Figure 4.1 shows the distribution of the respondents’ hierarchy within the organization. The majority of the respondents were senior managers who are part of those contributors to the corporate governance activities of the organization. In addition, they also have the capacity to know the level of corporate governance activities of the organization in addition to other levels of management. Therefore, from the results, senior managers represented 43%, junior managers - 14%, Directors and Middle managers were 43% and 21% respectively. The distribution of respondents gives credibility to the findings of this research due to the increased quality of the responses by management.

4.2.2 Duration with the organization of the population sample

Table 4.2 below shows the results from one of the questions on the questionnaire which asked the respondents to indicate the period they had been with organization in line with the researcher’s objective to assess the level of appreciation of the corporate governance activities in the organisation. The researcher requested the respondents to indicate years with the organization.
The results are shown in the table below:

### Table 4.2 Durations with the organisation

<table>
<thead>
<tr>
<th>TARGET POPULATION</th>
<th>Number of respondents</th>
<th>RESPONSE RATE</th>
</tr>
</thead>
<tbody>
<tr>
<td>Less than a year</td>
<td>11</td>
<td>15%</td>
</tr>
<tr>
<td>1 – 3 years</td>
<td>14</td>
<td>20%</td>
</tr>
<tr>
<td>3 – 6 years</td>
<td>21</td>
<td>30%</td>
</tr>
<tr>
<td>6 years and above</td>
<td>25</td>
<td>35%</td>
</tr>
</tbody>
</table>

A total of 35% represents individuals with 6 years and above, followed by individuals with 3-6 years with the organization represents 30%. The diagram also shows 1-3 years range with 20% representation and those with less than a year with the organization represent 15%. The figures in the table show that those with experience within the organization represented a higher group of respondents indicating a greater chance of knowing the organisation better in addition to its corporate governance activities and how it contributes to the organisation’s well-being. Their responses were therefore valuable in coming up with the findings of this study.

### 4.2.3 Level of education of the respondents

Respondents were asked by the researcher to show their highest level of education in line with the objective to find general level of education in the organisation. The findings are shown below.
Figure 4.2 Respondents’ level of education

Figure 4.2 shows that respondents holding first degrees represent 31% and 30% of respondents do have master degrees. Respondents with PhDs and other professional qualifications represent 19% and 20% respectively. The level of education of the selected population is satisfactory, increasing the quality of the findings of this study and the contribution of the respondents. Appreciation of the corporate governance by respondents was essential to the researcher for the successful carrying out of the study. Various professions are represented in the target population which increased the chance of getting quality responses and contributions.

4.3 BOARD COMMITTEES ACTIVITIES WITHIN THE ORGANISATION

4.3.1 Essential Board Committees are available in the organization

The research investigated whether board committees are available within the organization. The findings are shown below.

Figure 4.3: Essential board committees are available in the organisation

Figure 4.3 shows that, though, 16% were not sure or not aware of some of the board committees available within the organization, 84% of the respondents
acknowledged the existence of various board committees within the organization, and some went further to describe some of their terms of references. This implies that the activities of the board committees are known to many within the organization at various levels. The lesser percentage might be ignorance of the respective respondents as the majority were aware.

4.3.2 Board committees meet regularly within a year

One of the investigations carried out by the researcher is that of the assessment of any particular meetings of board committees. The findings are shown below.

![Bar Chart: Board Committees meet regularly](image)

**Figure 4.4: Board Committees meet regularly**

The proportion of respondents who acknowledged that the board committees met regularly represented 84% whilst 16% were not in agreement. The figures correspond well with the distribution of knowledge within the target population in relation to the availability of board committees and their activities within the organization. The results under this category show the proportion of individuals with greater appreciation of the subject in the organisation. Coyle (2002) stresses the need for board committees to meet regularly at least four times per year. The King Report (2002) also recommends that board committees meet at least once per quarter. The results above show that the majority acknowledged that meetings are convened by board committees whilst the minority believes that committees do not meet regularly per year.
4.3.3 Meetings Matrix

The investigation by the researcher revealed the following findings about meetings of board committees. The findings are presented in the tables below.

### Table 4.3a: Meetings scheduled for year 2010

<table>
<thead>
<tr>
<th>Meeting helps and attended matrix</th>
<th>Total Meetings Held per year</th>
<th>Attendance %</th>
</tr>
</thead>
<tbody>
<tr>
<td>Audit Committee</td>
<td>5</td>
<td>100%</td>
</tr>
<tr>
<td>Remuneration Committee</td>
<td>5</td>
<td>85%</td>
</tr>
<tr>
<td>Investment and Risk Management</td>
<td>5</td>
<td>100%</td>
</tr>
<tr>
<td>Operations Committee</td>
<td>5</td>
<td>100%</td>
</tr>
<tr>
<td>Corporate Governance &amp; Ethics Committee</td>
<td>5</td>
<td>90%</td>
</tr>
</tbody>
</table>

Source: www.afdb.org/intranet/annual report accessed on 25 May 2012

### Table 4.3b: Meetings scheduled for year 2011

<table>
<thead>
<tr>
<th>Meeting helps and attended matrix</th>
<th>Total Meetings Held per year</th>
<th>Attendance %</th>
</tr>
</thead>
<tbody>
<tr>
<td>Audit Committee</td>
<td>5</td>
<td>85%</td>
</tr>
<tr>
<td>Remuneration Committee</td>
<td>5</td>
<td>85%</td>
</tr>
<tr>
<td>Investment and Risk Management</td>
<td>5</td>
<td>90%</td>
</tr>
<tr>
<td>Operations Committee</td>
<td>5</td>
<td>100%</td>
</tr>
<tr>
<td>Corporate Governance &amp; Ethics Committee</td>
<td>5</td>
<td>90%</td>
</tr>
</tbody>
</table>

Source: www.afdb.org/intranet/annual report accessed on 25 May 2012

A total of 5 meetings were held in 2010 and 2011 for each committee. Similar meetings were planned for the year 2012. The analysis of the information from the study shows that 5 meetings were always scheduled per year for any of the board committees for the years under review. Audit, Investment and Risk management as well as Operations committee recorded 100% attendance percentage for both years. Remuneration indicated more that 80% attended for the years under review and corporate governance committee with an attendance recorded 90% for 2010 and 2011 respectively. The figures
were satisfactory considering that they exceeded the 50% mark. Basing on the findings, board committees for the organisation meet regularly to deliberate on the organisation’s activities. The figures are satisfactory.

The King Report (2002) emphasized that board committees should meet regularly, and as a suggestion, four times or more per year to deliberate the operations of the organization, giving enough time to more pressing issues. In addition, Coyle (2002) further stressed the importance of board members’ attendance at meetings to contribute to the business on the agenda and to take action on directors who does not attend meetings. The positive percentages showed that the directors of the institution fully respect the importance of the board committees’ meetings as they feed into the main board’s activities.

4.3.4 Board Committees deliberate on relevant issues of the organization

The researcher sought data on board committee deliberations. The data sought was linked to the objective of the researcher of getting views on issues that the board deliberated on leading to their relevance to the organization in addition to playing a critical role in driving the strategic position of the organization. The results are presented in the figure 4.5 below.

![Figure 4.5: Assessment of issues deliberated by board committees.](image)

The respondents who confirmed and acknowledged that board committees are involved in discussing relevant as well as important issues concerning the organization in line with the quest to strategically drive the organisation represented 85% and 15% of the respondents were against the relevancy of
issues discussed by the board. However, the figures show that the majority viewed board committees as necessary in terms of their term of reference and purpose in the organisation. Coyle (2002) highlighted the need for board committees to contribute effectively and efficiently to the full board through tackling issues that contribute to the success of the organisation. Dechow (1996), argued that though the full board will usually be responsible for the final decision, board committees are essential to exhaust technical issues. In addition, board committees usually have time and the expertise to tackle specialized issues about the organisation.

4.4 BOARD COMMITTEES ADHERENCE TO BEST PRACTICES

4.4.1 Majority of Committee members are non-executive

The investigation by the researcher showed the following composition of the board. The investigation follows the researcher’s objective of assessing the corporate governance practices of the board committees as they contribute to the overall position of the organisation in terms of the application of corporate governance.

<table>
<thead>
<tr>
<th>Category of Directors</th>
<th>Number</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Non-Executive</td>
<td>10</td>
<td>84%</td>
</tr>
<tr>
<td>Executive</td>
<td>5</td>
<td>16%</td>
</tr>
<tr>
<td>TOTALS</td>
<td>15</td>
<td>100%</td>
</tr>
</tbody>
</table>

Table 4.4: Board Composition
**Figure 4.6: Board Composition involves executive and non-executive directors**

Figure 4.6 show that respondents acknowledged that the composition of the board involves non-executive and executive directors. Further findings shows that 84% of the board are non-executive directors and 16% are executive. Non-executive directors bring a wide range of skills and experience on deliberations of the board, particularly in the area of strategy and business development, and also to ensure that there is suitable balance of power on board and in committees (Coyle, 2003, p.68). Institutional investors typically view a well governed company as one that has a majority of outside directors with no management ties to its board, undertaking formal evaluations of directors. Furthermore, the board with majority outsiders responded to requests from investors for information on governance issues (Okeaham, Oludele and Akinboade, 2003).

**4.5 RESPONDENTS’ PERCEPTION OF BOARD COMMITTEES**

**4.5.1 Board Committees have clear terms of references**

The researcher assessed and investigated whether there was acknowledgement of board committees’ terms of references was available. The results are presented below:

![Figure 4.7: Board committees have clear terms of references](image)
The results indicate that 65% of the respondents acknowledged having knowledge of board committees' terms of reference whilst 35% declined that the terms of reference are clear but acknowledged the availability of the references. In addition, 65% per cent of respondents appreciated the purpose of board committees and their work. Additional investigations by the researcher showed that detailed terms of references of board committees were available in the organization. According to the Central Bank of Nigeria (2006), terms of references for board committees provide a platform for direction and scope for committees and make life easier for members on areas to discuss and contribute without duplication of duties by board members. In addition, order will be maintained within the board as to who is responsible for what to overcome overlaps.

4.5.1 The Board delegates to Board Committees

The researcher investigated whether the board delegated to board committees on more technical issues that needed further deliberation. The results are shown in the diagram below.

![Diagram](image.png)

**Figure 4.8: Board make use of board committees through delegation**

Figure 4.8 shows that 60% of board activities were delegated as compared to 40% not delegated. This shows that the board has much needed confidence in board committees who are experts in various fields. According to Coyle (2003),
It is an acceptable principle of good governance that power over board appointments should rest with the whole board. When the board is sufficiently large, there should be a nominations committee consisting of non-executives. This committee should consider new appointments to the board and make recommendations to the full board, which should reach a decision about offering a position to the individual concerned. This is a perfect example when the full board delegates to a board committee. The committee is generally regarded as a more efficient mechanism than the full board for focusing the company on particular issues. But how does the committee structure fit within the context of collective responsibility for board members and what are the limits of that concept (Kapumpa, 2001)?

4.5.2 Board Committees contribute significantly to the organization

The researcher asked the respondents whether board committees contributed significantly to the organization. The outcome of the data collection responses are shown diagrammatically below. The question was in line with the researcher’s objective of assessing whether the organization was moving in line with new development in corporate governance.

Figure 4.9: Significance of contribution of board committees to the organisation

Corporate governance has been evolving since the introduction of the subject to the business world in the late 90s. Some of the initial recommendations, since the introduction of the subject, have since changed or been modified to
move in line with new business challenges, for example changes in accounting and auditing standards, changes in operating environment as well as increased competition from new players in the business world. Therefore, it is the responsibility of the board to assess the current level of activities that affect the organization as a whole. Board committees should therefore keep abreast with the developments through continuous self-development and soliciting for the development from relevant business sections.

Figure 4.9 above shows that board committees are contributing mostly to a reasonable extent in relation to changes to the business environment, be it competitiveness or regulatory issues. A total of 50% of respondents were recorded under contribution to a reasonable extent, 21% contribution to a large extent and 15% of respondents recorded an unqualified yes in terms of contribution of board committees to the changes. The lessor percentages were recorded under not at all as well as under contribution to a little extend.

However, from the results, this shows a small group which believed that more had to be done on top of the current performance of board committees to contribute significantly to the organization in terms of changes in the business environment especially in areas of addressing the increased poverty levels of other member states and infrastructure development.

4.6 PERCEPTION OF THE MAIN BOARD CONCERNING BOARD COMMITTEES

4.6.1 Proportion of experts in various technical disciplines

The researcher investigated the organization on board compositions for the committees in relation to field of expertise. The results are shown below:
Figure 4.10: Proposition of expert fields sitting on the board

Figure 4.10 shows that various fields of expertise are represented on the board, that is, those relevant to the organization’s objective of improving the well-being of African people through poverty alleviation and infrastructure development. Experts on poverty alleviation and economics have a 20% representation on the board, Human resources and Audit & Finance with 13% representation. Other fields of expertise have 7% representation. The levels of representations of various fields of expertise are satisfactory considering the major objectives of the organization. In addition, looking at the diversity of the organization, the representations are fair.

The CACG’s fifteen principles recommends that there should be a process of appointing of individuals to positions on the board that provides a mix of proficient directors, each able to add value and bring independent judgment to bear.

4.6.2 The full board is satisfied with the contribution of board committees

The research investigated the level of satisfaction of the board concerning contribution of board committees to the operations of the board. The results are presented below.
Figure 4.11 shows the level of satisfaction in terms of percentages. About 44% and 37% have an unqualified yes and to a larger extent satisfaction, respectively. Those satisfied to a reasonable represent 11%. Respondents with little and no satisfaction represent 5% and 3% respectively. The percentages shows that the greater part of the respondents are satisfied by the contribution to the wellbeing of the organization both corporate governance wise and operationally. One of the essential goals of the board is to strategically position the organization to meet stated goals and objectives. However, to achieve this, the board should make use of technical expertise through board committee members. Therefore, delegation of issues to committees will enable detailed discussion and devotion of enough time on issues pertaining to the organization (Mwapachu, 2001).

4.6.3 Board Committees are relevant to the organization

The researcher asked the respondents on views concerning the relevance of board committees to the organization. The response under this section sought to gather data relating to the objective of finding the role and appreciation of the having board committees in development financial institution. The results of the data collection are presented below:
Figure 4.12: Relevance of board committees to the organization

Figure 4.12 shows a general strong understanding of the relevance of board committees to the organization through an 80% response, agreeing that board committees are relevant to the organization. However, 20% stated that board committees are not relevant due to a lack or no evidence. In addition the minority argued as to why the full board’s work should be done by sub-committees. The King Report (2002) stressed the need for devotion of much time to major and strategic issues of the organization by more technical individuals leading to informed decision making. In addition, all angles concerning a particular issue will be exhausted.

Though the final say remains with the full board, sound recommendations will be furnished to the full board for consideration. In addition, meetings of the board, though they should be regularly done, they might deliberate on the final issues leading to the passing of final decision, however, all the other preliminary work might be done by board committees. This promotes efficiency and effectiveness in the organization as a whole.

4.6.4 The Board should make full use of board committees

The researcher sought views of the respondents on whether the full board made use of board committees taking into consideration quality of board decisions and resolutions passed. The results are shown in figure 4.13 below.
Figure 4.13: use of board committees by the full board

The researcher’s objective was to assess the role that board committees play in contributing to the activities of the board and to the strategies of the organization through the board. The outcome from the respondents shows that 40% stressed that the full board should make use of committees to a reasonable extent. Whilst 30% that board committees should be used to a large extend. Those who supported and thought that the board should use committees without reservations recorded 15%. However, 10% and 5% indicated that the board should make use of committees to a little extent and not at all, respectively. The figures show satisfaction in the activities and contribution of board committees mainly due to the diversity of level of expertise of the board committees.

4.6.7 The Board Members respect ideas, views and contributions of board committees even in conflict with other members

The researcher sought information on views concerning respect of ideas, views and contributions of board committees by the full board. The results are shown in figure 4.14 below.
Figure 4.14 shows that 40% have a positive attitude towards full board’s confidence on sub committees that is to a large extend, whilst 25% has unqualified yes concerning the board’s positive attitude towards sub committees. A total of 28% of the respondents believed that the board has a positive attitude to a reasonable extend whilst 5% and 2% believe the board has positive attitude to a little extend and not positive at all, respectively. The relationship between full board and sub-committees should be positive (McGee, 2009). This enables contributions by board committees to be adopted for the good of the organization.

4.6.7 Rating the performance of board committees

One of the objectives of the researcher was to investigate the performance of board committees in terms of performing their duties as per terms of references. This investigation was in line with the researcher’s objective of finding the general feeling of respondents concerning the performance of the available board committees. The results are shown below:
Figure 4.15 show that all committees recorded good results of above 30% each. All the audit committees received fair share of percentages in terms of rating with Audit and Investment and Risk Management committees recorded the highest percentages in terms of good performance. In addition, nomination committee recorded the highest percentage of excellent performance as compared to other board committees. The distribution of performances shows great appreciation of availability of the committees in relation to their terms of references. In addition, all the board committees received positive ratings stating from fair to excellent, though a small proportion of the respondents feel that degrees of poor performance exist in board committees. However, the majority of results above 30% acknowledged positive performances in the organisation.

4.6.8 Rating of all board committees in terms of the following key corporate governance aspects:

- Independence
- Responsibility
- Accountability
- Transparency
- Professionalism
- Appreciation of corporate governance
The researcher sought data on ratings of board committees in relation to some of corporate governance’s key aspects listed above. Table 4.5 shows feedback from respondents. The researcher asked the respondents to rate board committees using stated corporate governance aspect with the main objective of finding the level of compliance concerning these aspects. The results are shown below:

<table>
<thead>
<tr>
<th>Corporate Governance Aspect</th>
<th>Poor</th>
<th>Fair</th>
<th>Good</th>
</tr>
</thead>
<tbody>
<tr>
<td>Independence</td>
<td>10%</td>
<td>25%</td>
<td>65%</td>
</tr>
<tr>
<td>Responsibility</td>
<td>15%</td>
<td>28%</td>
<td>57%</td>
</tr>
<tr>
<td>Accountability</td>
<td>10%</td>
<td>22%</td>
<td>68%</td>
</tr>
<tr>
<td>Transparency</td>
<td>9%</td>
<td>35%</td>
<td>56%</td>
</tr>
<tr>
<td>Professionalism</td>
<td>6%</td>
<td>30%</td>
<td>64%</td>
</tr>
<tr>
<td>Corporate Governance Appreciation</td>
<td>7%</td>
<td>20%</td>
<td>73%</td>
</tr>
</tbody>
</table>

**Table 4.5 Committees ratings using corporate governance aspects**

Table 4.5 shows that all the respondents do appreciate the importance of corporate governance for the good of the organization through high percentages recorded under ‘appreciation of corporate governance’ though it was argued by a few that appreciation and actual practicing might differ. An average of 10% of the respondents believed that in terms of compliance with the selected corporate governance aspects are poor, whilst an average of 27% considered the compliance as fair. The majority percentage of 64% believed that the compliance of board committees in respect of corporate governance aspects was good.

King Report (1994) pointed out that primary characteristics of good corporate governance included:

- Corporate discipline - a commitment by a company’s senior management to adhere to behaviour that is universally recognised and accepted, correct and proper.
- Transparency – the ease with which an outsider is able to make meaningful analysis of a company’s actions, its economic fundamentals and the non-financial aspects pertinent to that business
- Independence – the extent to which mechanism have been put in place to minimize or avoid potential conflicts of interest that may exist, such as dominance by a strong chief executive or large shareowner.

4.6.9 Proportion of resolutions passed by board committees and adopted by full board.

In order for the researcher to assess and investigate the contribution of board committees to the organization, a question was asked on recommendations by board committees, which were eventually passed as resolutions by the full board. The results of the question are shown below:

Figure 4.16: Board committee contributions accepted by the full board

Figure 4.16 shows that the full board adopted 70% of recommendations from sub-committees, whilst 15% were fine-tuned or rejected. The study shows that 15% of sub-committee recommendations were pending consideration. The distribution of percentages shows that the full board takes into consideration contributions by board committees. The results, therefore, shows confidence by the full board that board committees play an important role in contributing to the decision making process of the organization. In addition, the full board
appreciates various professions represented on the board through sub committees. McGee, 2009 stresses that more technical and time consuming issues should be delegated or handled by sub committees who usually have time and expertise to deal with more detailed technical issues.

### 4.6.10 Proportion of Interlocking Board Members

The researcher investigated on board members sitting on more than one board committee within the same organization. The investigation was in line with the researcher’s objective assessment of the effectiveness of the board in addition to current levels of practices in the area of corporate governance and the changes that have been taking place in the subject area. The results are presented below:

![Pie chart showing the proportion of board members sitting on more than one committee.](image)

**Figure 4.17: Directors servicing more than one committee**

Figure 4.17 shows that 60% of the directors sit on one board committee with those sitting on two committee and more than two committees being represented by 20% each, respectively. The majority of directors sit on one board committee which shows that much time and effort will be devoted to the respective committees. However, the organisation has directors with multiple skills such as audit and finance who can also take part in risk and investment management committee. As the affected committees work hand in hand, the effect will not be negative.
According to Coyle, (2002) it is important for directors to limit the number of boards they sit on for effectiveness and efficiency purposes. Data collected shows that those directors, who sit on more than one board committees, do so as the committees are almost related such as audit committee and investment & risk management committee.

4.7 INTERVIEW RESPONSES

The researcher conducted interviews with the divisional manager for corporate affairs to gather data on the disclosure level of board committees, ethical standards, integrity and fairness as well as frank, independent discussions on all issues of the organisation at director level.

4.7.1 The level of disclosure and transparency

The organisation discloses in its annual report the remuneration of directors for any year under review with the help of human resources and administration committee. The level of disclosure shows the transparency level of the organization as all concerned stakeholders have a right to the information through the annual report. It is important for the stakeholders to be satisfied in terms of disclosure of information that will help in decision making especially to the institutional investors.

4.7.2 The level of ethical standards, integrity and fairness

The researcher conducted a qualitative survey to establish the level of ethical standards, integrity as well as fairness in the dealings of board committees in line with set guidelines on these elements on corporate governance. The results shows that directors are regularly guided and reminded on the need to maintain high ethical standards, integrity and fairness in all their dealings concerning the organisation’s business through the internal policies and manuals that directors can refer to at any time. The availability of the guiding principles enables committee members to maintain high level standards during the execution of their duties.
4.7.3 Level of open discussions in the organisation

The researcher sought qualitative data on the level of openness in terms of board committee discussions in the organization. The results show that board committees are guided by terms of references which determine the scope of board committee’s discussions as well as the parameters. The results further show that sub-committees are able to discuss everything that falls within their jurisdiction. This enables board committees to contribute without limitations or reservations increasing their efficiency and effectiveness for the benefit of the organization as a whole.

Though some of the activities are reserved for the full board’s final decision, the level of contribution by board committees reduces pressure and time for the full board. In addition, open discussions increase the available options for the full board through recommendations by board committees.

4.7.4 The level of independence of directors

The researcher sought data on the level of independence of directors involved in board committees. The results show that it was difficult to truly assess the adequacy of the level of independence of each and every director, however, for the evidence gathered, the directors showed independence as guided by individual professionalism and professional institutions they represent. However, it was difficult for the researcher to further verify the assertions made by individual directors but from the little evidence gathered the level of independence was satisfactory.

4.7.5 CHAPTER CONCLUSION

The chapter shows presentations of the researcher’s findings on data collected. The results were shown using various diagrams. The researcher further analysed the findings using applicable tools and diagrams. The chapter also covered an analysis of qualitative data gathered through interviews and other secondary information.
CHAPTER FIVE

CONCLUSIONS AND RECOMMENDATIONS

5.0 INTRODUCTION

This chapter discusses the conclusions and recommendations as presented by the researcher, in relation to the objective of the study. The study involved experienced population chosen basing on hierarchy within the organization as well as high possibility of contributing to the corporate governance of the organization. Therefore, the results from this study were credible and valid due to the composition of the respondents. The conclusions and recommendations are in relation to chapter four which presented the findings and analysis of the study by the researcher. The researcher will also state in this chapter area of possible research.

5.1 CONCLUSIONS

The researcher came up with the following conclusions:

5.1.1 Roles of board committees

The researcher concluded that board committees reduce pressure from the full board due to board committees taking care of more technical issues of the board. It is usually time consuming for the full board to seat as one and deliberate on all issues and exhaust all possible solutions or decisions as one full board. The researcher concluded that the pivotal role that the board committees play is behind success of the board as a whole. The researcher concluded that the level of contribution of the board committees is high to a reasonable extend looking at the number of resolutions adopted as suggested and contributed by board committees. The researcher also concluded that before preaching sound corporate governance practices, board committees in the organisation walk-the-talk; they lead by example in terms of independence, declaration of conflict of interest and respect for corporate governance frameworks and other elements.
5.1.2 Adherence and practices in relation to corporate governance frameworks

a) The general practice of the organisation
The researcher concluded that the general practice of the organization in terms of corporate governance in relation to board committees and the full board is satisfactory to a large extent. The level of appreciation of corporate governance by the respondents is adequate which also goes hand in hand with their levels on the hierarchy of the organization. The researcher concluded that the organization adheres to available corporate governance frameworks through adoption of recommendations from the respective codes such as the establishment of board committees, non-executive and executive directors and running committees in accordance with set and pre agreed terms of references as well as the demonstrated general respect of corporate governance.

c) Structure of the organisation
The researcher also concluded that the organization has a high level of appreciation of the corporate governance as indicated by the structure of the organization. The structure accommodates the smooth application of corporate governance and running of the organization in a proper manner that satisfies various stakeholders.

5.1.3 Board committee’s availability and composition
The researcher also concluded that the organization has various board committees including audit, corporate governance and risk management committee which are some of the most key sub committees. In addition, a number of available board committees are tailor made for the organization to suit its nature of business. Other important functions such as credit and loans are handled by finance and risk management committee. The board committees contribute significantly to the organization and play a pivotal role to main board through provision of detailed technical analysis of issues under discussion as well as deliberating on essential board issues that are usually time consuming to the main board.
5.1.4 Contribution to the board activities and decisions

The researcher concluded that more technical issues are handled by the board committees. The researcher also concluded that the board is fully responsible for the final decisions though contributions from board committees are respected.

The full board harness contributions by board committees and deliberate on them. The respect of board committees is high to a large extent as viewed and supported by the respondents. Therefore, the researcher concluded that the influence of board committees on board activities is to a large extent high reflecting the importance of board committees to the organization. The study also showed that the board consulted relevant board committee for any issues that required technical expertise such as audit, risk and investment, remuneration and corporate governance, this, therefore lead to quality decision-making by the board as a whole. The availability of corporate governance committee in the organization increased the quality of compliance to available frameworks in addition to constant improvements and keeping abreast with corporate governance changes.

5.1.5 Contribution to the performance of the organization

The researcher concluded that the respect of corporate governance contributed to the success of the organisation. The bank has maintained its AAA rating status despite a number of financial institutions going under due to the compromising of corporate governance in recent years coupled with global financial crisis which badly affected a number of financial institutions through contagious effect.

The researcher concluded that the current level of application of corporate governance has contributed to the current positive performance of the organisation through increased good image and donor funds. Coyle (2002) indicated that there is a correlation between reduced donor contributions and
poor corporate governance since donors usually associates themselves with organizations who respect corporate governance. The increased contribution of donors’ funds shows that contributors respect the organisation’s activities.

5.2 The research proposition

The main aim of the study was to test the following proposition:
‘Board committees’ contribution to corporate governance practices of development financial institutions is minimal due to the availability, in the organization, of the main board which is also responsible for the corporate governance activities of the organization’

The proposition was based on the belief that the full board can be responsible for all activities without the establishment of board sub-committees, however, the availability of board committees which are fully responsible for all technical activities within the organization shows that enough time and analysis will be devoted to essential issues pertaining to corporate governance. In addition, the organization has a board which respect board committees and delegate some of its duties to committees for dipper and more technical analysis devoting the much needed time to critical issues of the organisation.

Therefore, the research proposition has not been accepted in this research because it was concluded that board committees play an important and pivotal role in terms of contributing to corporate governance issues of the organization and leading by example in implementation of the subject in the organization. The study showed that board committees are not just an extension of the board, but composed of technically capable individuals essential for the proper running of the organisation. In addition board committees are decision making bodies which by virtue of them being composed of directors who sit on a number of boards of various companies; bring with them the much needed experience and case studies from outside the organisation. In addition, the committees are not in the organization for ceremonial purposes but the full board relies, to a large extent, on the technical expertise of individual directors involved in board committees.
5.3 RECOMMENDATIONS

The recommendations below strengthen the corporate governance practices of the main board through board sub-committee in the organization. The organization, through the main board, will be able to adopt and implement the recommendations further enabling the efficient decision making process as well as increased appreciation of the organization’s activities by the intended beneficiaries.

- The researcher recommends that more committee meetings should be convened due to the increased size of the organization. The current schedules are not enough considering the size of the organization and the increased level of complexity.

- The researcher recommends that the level of application of corporate governance should be maintained in order to keep the current level of perception and positive credibility rating of the financial institution by investors and analyst.

- Regular board evaluation should be done through internal mechanisms such as assessment by the board of governors or the external evaluators as appointed by shareholders or other stakeholders. The organization should not wait for end of year evaluations but conduct them on a regular basis – quarterly or half years. This will enable the organization to make adjustments where necessary.

- Board committees should have mechanism of avoiding duplication of discussion of issues in main board. All the discussions should lead to final decisions as well as value addition to avoid, to some extent, lack of clarity about the role and comparative advantage of committees relative to the full board.

- The researcher recommends that there should be a geographic representation of member states to provide more detailed tailor made needs for each member state. The organisation will fully service the beneficiaries after taking into consideration detailed needs of individual
states’ needs since development levels differ in Africa. This also strengthens the relevance of the organization to the intended beneficiaries in addition to increased quality of decision-making process. Member states representatives will work hand in hand with operations and projects committee. In addition, a one size fit all approach to African development will not work due to differences in level of development and individual needs.

- Member state needs are increasing rapidly that board committees will soon need more capacity to address all the issues affecting member states, therefore, annual meetings should be increased creating more time for committees in addition increasing their effectiveness and perception by stakeholders. The institution represent the whole of Africa, therefore, it is huge in nature. In addition, board committee members should be increased to match the magnitude of the work being done by board committees.

- Level of adoption of contribution of committees should increase to reduce a lack of trust by other stakeholders and committee members that their concerns will be taken into account in full board deliberations though the final decisions vest with the full board.

5.4 AREA OF FURTHER STUDY

An area of further study is recommended to investigate the impact of donor appointed directors on development financial institutions’ performance and corporate governance practices.
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02 MAY 2012

AN ASSESSMENT OF THE ROLE OF BOARD COMMITTEES IN CORPORATE GOVERNANCE PRACTICES OF A DEVELOPMENT FINANCIAL INSTITUTION: CASE OF THE AFRICAN DEVELOPMENT BANK

I am a final year student with the University of Zimbabwe, Graduate School of Management studying towards attaining a Master in Business Administration Degree.

I am required to conduct a research in any relevant area of study in partial fulfillment of the studies. Accordingly, I am conducting a research to assess the role of board committees in corporate governance practices of a development financial institution: case of The African Development Bank Group (2000-2011). I have attached a questionnaire and am kindly requesting you to assist me by answering the questions in this questionnaire to the best of your ability. Your responses will form the basis of this research as all findings and recommendations will be based on your responses.

Please be advised that all responses given to this questionnaire will be treated with utmost privacy and confidentiality and will be used solely for academic purposes.

Kindly complete and return the questionnaire to the undersigned not later than 15th of June 2012.

Yours faithfully,

Brighton Madanhire
Mobile: +263 772 832 024
Email: bmadanhire@gmail.com
**APPENDIX B**

This questionnaire comprises of 5 sections. **Section A**, ask about general information and **Section B to E** is comprised of questions on various corporate governance issues. Please respond to all questions by ticking or placing an X in the appropriate box. **Section F** is made up of open ended questions. You are kindly requested to answer in short sentence form.

**PART A**

**SECTION A: PERSONAL OR GENERAL INFORMATION**

1. Please state your designation / level or position in the organization?
   - a) Board Member
   - b) Senior Management
   - c) Middle Management
   - d) Junior Management

2. How long have you been with this organization?
   - a) Less than a year
   - b) 1 – 3 Years
   - c) 3 – 5 Years
   - d) 6 and more

3. State your level of education
   - a) First Degree
   - b) Professional Qualifications
   - c) Master Degree
   - d) PhD

**PART B**

**SECTION A**

*Rating Scale for this section is 1 to 5*

1 – Strongly Disagree
2 – I disagree
3 – I agree,
4 – I agree to a larger extend,
5 - Unqualified Yes
### SECTION A: ESSENTIAL FOR EFFECTIVE BOARD COMMITTEES

<table>
<thead>
<tr>
<th>Question</th>
<th>1</th>
<th>2</th>
<th>3</th>
<th>4</th>
<th>5</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Essential Board Committees are available in the organization?</td>
<td></td>
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<tr>
<td>2. Board committees meet regularly within a year?</td>
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<tr>
<td>3. Majority of Committee members are non-executive?</td>
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<td>4. Board Committees has clear terms of references?</td>
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<tr>
<td>5. The main board delegates to Board Committees?</td>
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</tbody>
</table>

### SECTION B: CURRENT DETAILS ABOUT THE ORGANISATIONS’ BOARD COMMITTEES

<table>
<thead>
<tr>
<th>Question</th>
<th>1</th>
<th>2</th>
<th>3</th>
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<th>5</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Board committees contains non-executive directors</td>
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<td>2. Board committees contains expects in various technical disciplines</td>
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<td>3. The committees meet at least four times a year</td>
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<td>4. Members rotate after stipulated period of serving</td>
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<tr>
<td>5. Is the full board satisfied with the contribution of board committees</td>
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</tbody>
</table>

### SECTION C: APPRECIATION OF BOARD COMMITTEES ACTIVITIES AND PRACTICE

<table>
<thead>
<tr>
<th>Question</th>
<th>1</th>
<th>2</th>
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</thead>
<tbody>
<tr>
<td>1. Board Committees are relevant to the organization</td>
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<tr>
<td>2. Board Committees deliberate on relevant issues of the organization</td>
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<tr>
<td>3. Board Committees contribute significantly to the organization</td>
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<td>4. The main board should make full use of board committees</td>
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<tr>
<td>5. The Board Members respect ideas, views and contributions of board committees even in conflict with other members</td>
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</table>
SECTION D: ASSESSMENT OF INDIVIDUAL BOARD COMMITTEES

Assess the performance of the following board committees in the organization

Rating Scale for this section is 1 to 5

1 – Poor
2 – Reasonable
3 – Good
4 – Excellent

<table>
<thead>
<tr>
<th>Committee</th>
<th>1</th>
<th>2</th>
<th>3</th>
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</thead>
<tbody>
<tr>
<td>1. Audit Committee</td>
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<tr>
<td>2. Remuneration Committee</td>
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<tr>
<td>3. Nomination Committee</td>
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<tr>
<td>4. Corporate Governance Committee</td>
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<td>5. Operations Committee</td>
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<td>6. Investment and Risk Management Committee</td>
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PART C

This section is comprised of open ended questions. Please kindly provide your response below in short answer form.

1. Do you think the Board performs well with or without board committees?

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97
2. Do you think Board Committees are necessary to the organization?

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3. Please, list the qualities and competences essential for board committee members?

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4. Board committees should be given opportunities to deliberate on more important activities of the company and recommend to the board?

YES
NO

5. Do you feel the board committees contribute significantly to the success of the organization?

YES
NO
6. Which of the following do you think board committees contribute most to the organization? Please rank according to contribution and importance to the organization using the following scale:

1 = Fairly Important, 2 = Important, 3 = very important, 4 = extremely important

- Transparency
- Effectiveness and Efficiency
- Improved Internal control systems
- Improved / good company performance

**THE END, THANK YOU**
APPENDIX C

Interview Guide for interviews to with individuals responsible for the corporate governance issues of the organization

1. How many board committees does the organization have?
2. How often do Board committees meet per year?
3. What is the composition of Board Committees?
4. Do you have committee members who sit on more than one board committee? Please give more details.
5. What are the selection criteria for board members and who is responsible for the selection or nominations?
6. In terms of percentages, how many resolutions by board committees:
   - Were adopted?
   - Are still pending consideration and?
   - Were rejected?
7. Please provide the reporting structure and terms of references for the committees?
8. How often are the board committees assessed and who assess them?
9. What is the term of office for board committee members?
10. What is the level of independence of the directors?