CORPORATE GOVERNANCE PRACTICES AT TWAWEZA EAST AFRICA

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DECLARATION

This research project is my original work and has never been submitted to any other institution for the award of Masters, degree, diploma or certificate.

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D61/67225/2011

This project has been carried out by the student under my supervision and I confirm that it is being submitted to the university with my approval as the student supervisor.

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DEDICATION

This research work is dedicated to my loving family Mr. George and Mrs. Jane Okello, siblings Jacqueline, Dennis and Sharon.

TABLE OF CONTENTS

APPENDICES

TABLE OF FIGURES

ABSTRACT

Corporate Governance aims at enhancing internal governance practices through structures and control mechanisms that result in efficient and effective operations. Primarily, good governance practices demand a separation of roles between boards and management to strengthen adequate oversight and supervision, critical in avoiding conflict and ensuring clear accountability. Poor governance renders an organization an underperformer which fails to accomplish stated goals, and stands to lose the backing and goodwill of various shareholders. Government bodies, the private sector and the nonprofit sector alike have adopted corporate governance practices in an attempt to streamline accountability, responsibility and transparency measures within. Organizations operate in complex and dynamic environments that require complex, but flexible, governance regulation reflecting the uniqueness of each situation arising from specific factors such as legal and financial systems, culture, corporate ownership structures and economic conditions. This analysis cannot be truer in the case of international nongovernmental organizations which have to contend with starkly different socio-economic, cultural and political country contexts and internal upheavals but against which their mandate should be carried out with a stakeholder-approved satisfactory level of success. This objective of this study was to establish corporate governance practices at Twaweza East Africa. Methodology adopted was a case study with primary data collected from 8 respondents spread across key departments and secondary data from past reports and operating manuals, with Qualitative Data Analysis used to process this data. Findings show that the organization is currently in a state of transition as it refocuses implementation of multiple sector projects in Tanzania and education in Kenya and Uganda. There is reorganization in terms of structure, but most governance elements remain. An overarching Governing Board and a visible Advisory Board aside, respondents singled out the use of controls on procurement procedures for example heavily documented tendering processes, auditing and accounting, programmatic evaluation, and resource management including governance checks on potential partners, as mechanisms that support corporate governance. Board diversity, communication and overlap in program implementation responsibilities distorting supervision and accountability lines were noted to be challenges. It is recommended that Twaweza achieves gender and geographical diversity in its boards, draw on communication to create a culture that sees increased information sharing and ownership of organization values that will enhance compliance to policies beyond fear of sanctions. It should also address overlaps in responsibilities and embrace rigorous self-assessment beyond budget tracking to include qualitative performance audits with governance challenges revealed serving to foster need for internal self improvement. Study limitations experienced included time, refusal to divulge information by some respondents whilst others were not well acquainted with the concept of corporate governance and questioned its application to nongovernmental organizations. Suggestions for further research are a study that links impact of corporate governance practices to NGO performance from the perspective of stakeholders, a study that carries out stakeholder mapping beyond donors to identify other stakeholders and explore in what ways they can hold NGOs accountable and finally, a study that explores the extent to which founders influence application of corporate governance practices in their organizations.

CHAPTER ONE: INTRODUCTION

1.1 Background of the Study

Corporate governance is the economic, legal and institutional framework in which corporate control and cash flow rights are distributed among shareholders, managers and other stakeholders of the company (Eun and Resnick, 2007). Within this framework, there is creation of mechanisms for dealing with the agency problem in order to safeguard stakeholders' investment and ultimately, realize desired value returns for a firm's shareholders or provide a basis for them to re-examine their engagement. These mechanisms help to strengthen the governance system through appointment and operation of a competent and independent board of directors, an appropriate management incentive system, submission of audited, periodic management reports to the board and/or shareholders, as well fostering tight discipline of procedures and efficient operation.

Theoretical foundations that underpin this study are the open systems theory and the dynamic capability theory. An open system relies on sources in its surrounding environment for resources which are regarded as inexhaustible for all practical purposes. Organizations being dependant on input from their myriad stakeholders are thus open systems which draw on external resources to maintain operations. However, to survive and thrive, these organizations must cultivate use of core competencies to modify short-term competitive positions to build longer-term competitive advantage, a practice that the theory of dynamic capability postulates. Helfat et al. (2007) define dynamic capabilities refer to the capacity of an organization to purposefully create, extend, or modify its resource base, an evolutionary approach to the Resource Base Theory.

Non Governmental Organizations (NGOs) refer to organizations that are private, organized, not primarily commercial (non profit distributing to directors and owners), self governing and voluntary. The World Bank Directive of 2011 defined NGOs under two broad categories: operational NGOs with specific projects to implement and advocacy NGOs which exist to champion diverse causes. These organizations provide alternatives access to social amenities and services, complement state services in areas such as health, education, water (Kanyinga and Mitullah, 2006) and strengthen livelihood options or act as a check on state excesses, in terms of aiding groups like Civil Society Organizations (CSOs) that engage government on behalf of citizens.

There has been rapid proliferation of NGOs over the last three decades owing to globalization and unprecedented market liberalization by world governments. However, many NGOs are termed ineffective due to aid-corrupted priorities, limited reach, disparate projects, a festering per diem culture, lack of clear strategic focus and reflective practice. Indeed, they are seen as outsiders with foreign, non-consultative interventions. Significantly, NGOs being headquartered in capital cities serve to feed the notion of elite capture which supplants participatory engagement, cutting off key stakeholders and forming weak accountability mechanisms. Developments in the field of management science have necessitated a proportionate increase in the need for efficiency and accountability in organizations (Crane and Matten, 2007).

Amongst NGOs the changing environment has resulted in a push for innovation in addressing pressing social problems and good governance practices as competitive advantage strategies that build on efficiency and safeguard an NGO’s relevance and funding for future operations. The key driver is that donors and venture capitalists are looking to put their money in organizations with sound governance practices that see good administrative structures in place to drive value-for-money projects upon evaluation. Twaweza East Africa, a relatively young development initiative at 5 years has seen consistent support by its multiple funders as it treads the innovative path towards an informed East African citizenry.

1.1.1 Corporate Governance

Corporate governance refers to transparency, responsibility and accountability in the management and use of resources. Transparency is a concept that points to the open and accessible manner in which the said resources are sourced, allocated and retired while responsibility calls for a felt obligation to perform duty as required, by virtue of having accepted formal employ. Accountability on the other hand arises out of an exercise of authority by any subordinate given to him by his superior and which in turn demands being held responsible for outcomes. Adoption of good governance practices within an organization serves to enhance stakeholder and public goodwill, increased rate of return in terms of profits, wealth creation for shareholders or realized goals, and efficiency and effectiveness of business operations.

Over the last two decades financial scandals and major abuse of corporate power by boards and management of hitherto respected and thought of profitable enterprises in the US and Europe led to an interest in entrenching corporate governance in organizations. In 2002, Newsweek reported a 98.7% drop in share price of WorldCom to 83p after the then biggest carrier of internet traffic was discovered concealing USD 3.85 billion in expenditure after merging with MCI. Enron, an energy trading company collapsed in 2002 after reporting huge capital gains in late 2001 as a result of fraudulent accounting where billions of dollars were hidden in off balance sheet special purpose entities and partnership. Later, top management who participated in, and middle level officers who failed to report the underhand dealings were interdicted. Italian food giant Parmalat, faced prolonged criminal investigations in 2004 following the largest bankruptcy in European History, representing 1.5% of Italian Gross National Product (GNP), brought on by fraudulent financial deals with international banks through offshore centers in the Cayman Islands.

The corporate governance crisis led to the creation of a number of legislation aimed at corporate reforms, including the Sarbanes Oxley Act of 2002 which has control implications beyond the US boarders. Globally, the World Bank group and the Organization for Economic Corporation and Development (OECD) established the Global Corporate Governance Forum. The Forum’s objectives are to build a consensus in favor of appropriate policy, regulatory and corporate reform, coordination and dissemination of corporate governance activities, provide corporate development and human capacity building in associated fields of corporate governance, and train various professionals and other agents who are essential to bring about a culture of compliance. (Monyoncho, 2004).

Other bodies exist to enforce corporate governance related mandates. The International Corporate Governance Network (ICGN) was established to promote and coordinate research and development in corporate governance. In 1998, East Africa member countries held a regional conference in Uganda in 1998 to create awareness and promote Regional Corporation in matters of corporate governance, a precursor to Kenya's consultative corporate sector seminar in the same year which resolved to establish a private sector initiative for corporate governance. In October 1999 the private sector initiative adopted a national code of best practice for corporate governance to guide corporate governance in Kenya and was mandated to establish the corporate sector foundation to collaborate with other bodies including the Global Corporate Governance Forum, Commonwealth Association for Corporate Governance and the Capital Markets Forum. Soon after, the Commonwealth Association for Corporate Governance (CACG) proceeded to lay out guidelines for the practice of corporate governance in the commonwealth. These were adopted by Heads of Government during a meeting in South Africa in 1999.

1.1.2 International Non Governmental Organizations

In order to start the process of incorporation, and in line with the existing Act, an NGO requires articles of association signed by trustees or founders and filed with the state. In addition, bylaws need to be in place to guide governance and spell out fundraising strategies whether through paid membership, public donations or grants. NGOs which qualify for tax exemptions usually because they are viewed as providing critical goods or services, apply for and are issued certificates to this effect. Once fully established, an NGO's non-paid board members who are elected on a continuing basis are expected to meet periodically to develop, and sanction program and financial budgets in addition to approving professional hires and their compensation package. On reporting, these hires are given a contract detailing their job description and personnel policy manuals to guide their tasks and conduct. A number of practices are then adopted to contribute to effective controls, including annual submission of tax and regulatory reports which also have details on general nature of activities and compensation structures. These compliment other practices such as unambiguous accountability and reporting structures among management and staff, policy compliance, strategic planning, and cultivation of robust communication through relevant information systems.

Due to multi-party democracy and investor confidence, the number of NGOs being registered worldwide over the last three decades has risen, with their role as effective change agents in socio-economic sectors and international development being recognized. Donors have traditionally provided a notable percentage of countries' national budgets, thus exerting policy pressure on governments and raising doubt about NGOs' sustainability. Most NGOs are concentrated in major cities' slums and rural areas, headquartered in capital cities and deal in multiple social sectors. And although the aims of NGOs may be widely removed from those of their for-profit counterparts, need for proper management of physical, financial and human resources is shared with recognition that accountability is always on individuals in an organization's leadership or management, identified as such from their titles as undertakings. Indeed, Peter Drucker cited that a leader or company executive is always responsible, even for actions that he did not personally initiate (Cohen, 1937).

NGOs face complex governance challenges owing to creation or adoption of governance structures as need arises, having begun either as an informal group of people with a shared passion or to solve a common problem or address a community need. However, when the organization is formalizing to attract funding and increase impact, core staff recruitment and office space become necessary; with the old leadership structure suddenly responsible for relevant or localized personnel policies, staff supervision, a more detailed level of resource planning and greater responsibility for fundraising (Robinson , 2010). Emergent problems such as unwillingness to share power with recruited professional staff, role and responsibilities confusion or overlap, inadequate or lack of training on resource management, and lack of systems to support the transitions are poor governance indicators that manifest in program outcomes if left to fester.

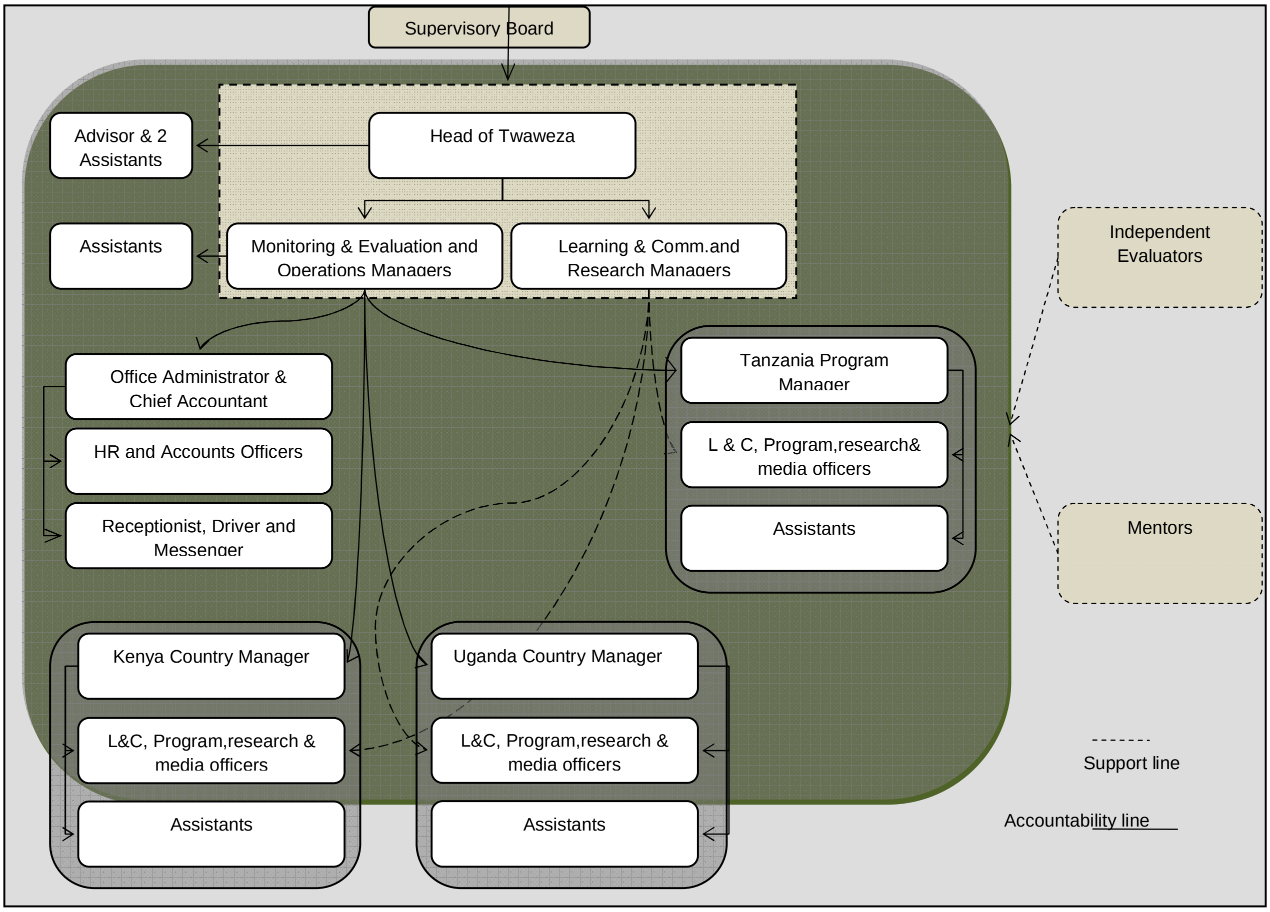
The NGO sector has adopted learning, a proactive approach that enables them respond to changes in their environment and acts to aid managers monitor and control strategy implementation as part of their responsibility to stakeholders. Without a concerted effort to integrate corrective and generative learning (Argyris and Schon, 1978), organizational performance regresses. Learning is supported by conscious knowledge management where NGOs' bare minimum employee headcount demands recruitment of multi-skilled knowledge workers who are specialists in their various fields but who can also easily overlap within the organization as a result of tacit knowledge made explicit. In so doing, most mid-level managers charged with information relays are seen as unnecessary and a redundancy is created amongst employees where no one person has monopoly of knowledge. The resulting compact organogram is composed of a board, lean management and staff, thus low staff overheads which additionally serves as a strategy for NGOs to face escalating competition for resources by international donor organizations and foreign government grants. At the same time, the challenge exists for managers to introduce and formalize governance processes so they reside in the organization in a form that all stakeholders can trust, draw from and relate their contribution.

1.1.3 Twaweza East Africa

Twaweza, meaning ‘we can make it happen’ in Swahili, is an initiative which seeks to enable East Africans improve their quality of life through a bold, citizen-centred approach to development and public accountability. The multi-donor funded organization has offices in Dar es Salaam, Tanzania Kampala, Uganda and Nairobi, Kenya. It was founded on the premise that when exposed to a ferment of information and ideas, and having access to practical tools, pathways and examples of how to turn these ideas into actions, ordinary citizens can become the drivers of their own development and act as co-creators of democracy.

Twaweza focuses on three core program domains: making practical information available at community level in the areas of water, health and education, deepening media quality through content influence of productions and supporting triangulation of sources for news bulletins and enhancing citizen monitoring activities through public watch initiatives. To enable nationwide reach, the organization works through framework partnerships with networks identified during a baseline survey as frequently accessible, at little to no cost, to the common citizen. These are the mobile phone networks, media, religious organizations, teachers’ unions and Fast Moving Consumer Goods (FMCG) companies.

Figure 1 Twaweza Organizational Structure



Source : Twaweza Strategic Plan 2008-2012

1.2 Research Problem

Corporate governance has application in every organization where resource management and allocation is critical for effectiveness, competitiveness and goal achievement. The governance practices adopted have a direct bearing on the degree of control and strategic performance. Responsibility and accountability must be backed by effective governance structures and control mechanisms that enhance board and management's ability to respond and adapt to the internal and external environments. At the very core, these individuals must have sufficient knowledge of what constitutes good corporate governance practices and manners in which to identify and address dysfunctions, drawn from experience and met need for adequate information. Whilst external agencies such as those charged with taxation, immigration and registration of persons, and internal coordination exercise regulatory control on given aspects of organizations, most NGOs are not bound by important accountability mechanisms including the disclosure clause of the International Accounting Standards (IAS). Thus responsibility for self-regulation, accountability, and ethical practice is vested in board members

Corporate governance practices proposals have traditionally been recommended for adoption by public companies. However, their relevance as an aspirational goal for nonprofit corporations and non-public companies is widely recognized (McDermott and McDermott, 2004). The extent of study on their application within international NGOs is unsatisfactory, with larger focus being on government and the private sector. A study on the contribution of non-state actors to development (Kingoro and Bujra, 2009), analyzed governance in NGOs. They found that members did not have a voice, the spirit of volunteerism was diminished, boards were rarely held to account and the organizational founders wielded too much power over boards, founders and volunteers whilst resisting diversity and inclusiveness of the governing body. Some have no clear separation of roles between board and management, blurring the governance line, and leading to conflict. It is against this backdrop that corporate governance practices suffer even as other scenarios thrive to weaken accountability, including exposure to little or no training for diverse management skill sets yet these individuals remain responsible for extensive resources. On the flipside, donors seek NGOs that demonstrate mission impact upon monitoring and evaluation, a verifiable indicator of good governance.

Machuki and Oketch (2012) researched on corporate governance structures and performance of HIV/AIDS NGOs in Nairobi. Wambua (2006) looked at state corporations in Kenya. Linyiru (2006) did his study on corporate governance practices in banks in Kenya. Kyereboah and Biekpe (2005) focused their research on corporate governance on the performance of Microfinance Institutions in Ghana. Sanda, Mukaila and Garba (2003) studied Corporate Governance Mechanisms and Firm Financial Performance in Nigeria. Aggregated findings from these studies support the application of corporate governance practices for efficiency and competitiveness, and without which strategic focus regresses and operation costs escalate.

There is need to add on to existing knowledge as regards governance practices in international NGOs. More so at one that is a native initiative, and which since inception, has attracted multiple international donors each with their own set of requirements tied to funding and some of whom sit on the board of the given NGO. What are the corporate governance practices at Twaweza East Africa?

1.3 Research Objective

The objective of this study will be to establish corporate governance practices at Twaweza East Africa.

1.4 Value of the Study

The case study will present a detailed look at corporate governance practices at a local NGO funded by multiple Western-based donors with a view of providing additional knowledge that will enhance the application of CG amongst similarly defined NGOs. In practice, findings will also be helpful in inspiring, triggering or escalating transfer of knowledge on CG to organizations in the wider nonprofit sector and contribute to policy in the governance of NGOs.

In addition, highlighting governance practices at Twaweza will serve to address hitherto stated ignorance of the recipient about the source, existence and utility of knowledge, a problem identified in knowledge transfer (Szulanski, 1994). This is critical as in having a reference point or external benchmark, cross- linkages for insights and awareness will be encouraged that will serve to influence future decision making processes.

Thirdly, the research study will also add to the strategic management knowledge body by providing data on paradigm shifts in NGO governance. Previously, CG has been extensively studied from a private sector perspective.

CHAPTER TWO: LITERATURE REVIEW

2.1 Introduction

Corporate Governance has evolved to become one of the most important topics in management with scholars and practitioners suggesting it as a key factor in value creation for an organization. This chapter examines literature on corporate governance including its meaning, importance and governance structures. It further outlines principles of good governance.

2.2 Theoretical Foundation

Various theories of corporate governance including agency theory (Jensen and Meckling, 1976), stakeholder theory (Freeman, 1984), resource dependency theory (Aldrich and Pfeffer, 1976) and Stewardship theory (Donaldson and Davis, 1994) propose that anchoring the exercise of power and control of organizations in good corporate governance has positive performance implications, more especially when appropriate facilitating structures are well defined and entrenched (Machuki and Oketch, 2012).

The agency relationship alludes to the more formal contract that exists between owners and a manager for the latter to manage invested resources for the benefit of the former, measured in terms of wealth creation or other realized objectives. It is a way in which suppliers of finance assure themselves of getting a return on their investment (Shleifer and Vishny, 1997). But recognizing that the manager exists as an individual who seeks to advance his own needs and interests, the dilemma then presents itself in how to keep the manager accountable to shareholders and from engaging in self-dealing (Monks and Minow, 2008). Corporate Governance as sets of mechanisms and processes help ensure that companies are directed and managed in a way that addresses this conflict. This includes application of mechanisms such as installation of a board of directors, appointing external auditors, enrolling in corporate government rating schemes, invoking shareholder voting rights and flagging takeover threats, some of which are agency costs to keep managers accountable.

Stakeholder theory broadens the view of parties considered as stakeholders in an organization and includes those internally and externally to whom an organization is obligated to. This means that other than wealth creation for owners, policies should aim at benefitting employees, suppliers and members of society at large who seek to know that the organization is environmentally, economically, legally and morally sound. Resource Dependency Theory on the other hand advances the thought that organizations rely on the external environment to provide the resources and functions it needs in order to maintain themselves. In developing relationships with these outside entities, it then becomes inevitable that systems are put in place to meet the resource providers' demands thus review of priorities is forced. Lastly, the Stewardship Theory argues that managers' need for achievement and internal satisfaction dictates improved performance in their roles as stewards of organizational resources towards higher profits and maximization of stakeholder returns.

All the theories acknowledge that there are different parties involved to form organizations that are hierarchical. With financiers and other stakeholders in the periphery of the day-to-day, the board of directors is at the apex supported by the CEO, with staff at the lowest level. This conception is the application of what organizational theorists have labeled the 'purposive-rational' model (Pfeffer, 1982) or the 'managed systems' model (Elmore, 1978) to organizations. This model is derived from Weber's description of bureaucracy (Gerth and Mills, 1946) as goal-directed instruments under the control of rational decision makers where responsibility and authority are hierarchically arranged (Herman and Associates, 1994).

Governance is too complicated and dynamic to be reduced to some inviolate division of labor (Chait, 1993), a necessary perspective as in many organizations, as there is always the tension to demarcate the board's work and that of professional management, resulting in scenarios where focus is on constant re-definition of each party's roles and responsibilities. The Board Member's Book (Brian O'Connell, 1985) builds on this view as it sees fluidity in activities that go on in organizations, objecting to the long-held notion that policy should be formulated by the board and implemented by staff : '…it is naïve to assume that the staff doesn't have considerable influence –usually too much-on policy formulation.' Indeed, policy and administration are often interconnected. The challenge to govern rests with a few, however inclusive a process. A delicate balance must be maintained where boards and management are careful to avoid over involvement to the extent they abdicate their oversight and strategic planning roles, and micromanaging which can kill staff morale and productivity and jeopardize positive returns.

2.3 Meaning and Importance of Corporate Governance

Corporate governance is the process by which organizations are directed, controlled and held accountable. Principles of Management (Moshal, 2011) cites that human organizations are subject to imperfections and dysfunctions as they are managed by individuals who carry a natural tendency to distort the functioning of the system and make it as per their own convenience and comfort. Thus control as a component of governance helps in achievement of objectives by optimum utilization of resources.

It encompasses structures and processes that guide authority, accountability, stewardship, leadership, direction and control exercised in organizations. Good corporate governance requires that institutions produce results that meet the needs of stakeholders by making the best use of resources at their disposal, accountability being a key requirement but which can only be enforced where law and transparency thrive.

Corporate governance as a concept is easily recognizable where failure or success is evident within organizations. Dysfunction symptoms include, but are not limited to fraud, challenges regarding executive turnover, bribery, and employee misconduct for example theft and resource waste, charges of overcompensation and underhand recruitment practices amongst other forms of corruption by top management executives and board members. On the other hand, high corporate governance standards generally lower the cost of capital, increase the operating performance of industry, and accelerate the flow of investment.

2.4 Corporate Governance Structures

Responsibility for organizational governance rests with the appointed board, usually referred to as the governing board. Boards that hold themselves and their organizations to high standards of accountability start with individual members who are committed to giving the time and quality attention for responsible trusteeship. These board members view their service on nonprofit boards as a public trust that requires establishing a framework for accountability and exercising governance within that framework (Peter Bell, 1993). The Board of Directors or Governance Boards in NGOs are charged with providing long-term vision for their organization through strategic planning and at the same time maintaining the reputation and values of the organization.

In practice, the actual responsibilities of boards are influenced by the organization's age, size, scope, method of selecting members and composition of the board, leadership styles and relationship between the CEO and board chairperson and inevitable cycles in leadership transitions. However, their role includes but is not limited to determining the organization's mission and purpose, selecting and supporting the CEO, reviewing the CEO's performance, planning for the future, approving and monitoring the organization's programs and services, providing sound financial management, enlisting financial resources, advancing the organization's public image and strengthening its own effectiveness as a governing board (Herman and Associates, 1994). A leadership transition may also influence the role of the board. When a new executive takes office, the board may actively engage in oversight until it is sure that the executive is managing well or may engage in day-to-day management of the organization to fill the leadership vacuum and protect the organization upon departure of the CEO, and up until replacement by a suitable successor.

The roles, functions and membership of the board need to be altered to meet the new challenges the nonprofit organization confronts. Many of these changes in board roles, functions, and membership are predictable because they are natural consequences of organizational growth (Mathiasen, 1990). This is an ongoing challenge in growing organizations that seek to limit or completely disengage administrative roles from old board members.

Organizations have stated missions, usually with identified outputs and outcomes achievable through following a projected non-linear path to realize desired change. Management includes the CEO, Executive Director as well as top and middle-level managers who combine their efforts to initiate activities towards organizational objectives. This borrows from Management by Objectives (Drucker, 1955) a philosophy recommended it as a management philosophy to promote managerial self-control. MBO is a concept based on measurable objectives set in a participative manner and is an approach which suggests a periodic review of performance so as to adjust goals in line with the changed situation. However, these amendments must not be so frequent as to be rendered meaningless and create confusion among subordinates.

Management is directly accountable to the board of directors, a working relationship that if not handled as a partnership, may affect the overall effectiveness of both parties and performance of an organization. A study of effective chief executive officers (Herman and Heimovics, 1991) noted that a distinguishing variable associated with successful executive directors is their ability to work through and with their boards to position their organization in its environment.

The most critical work that chief executive officers, executive directors and other individuals in NGO management do is to design a governance information system that meets the needs of the board. This system serves to provide updates on key activities and events, requests for help when appropriate in line with the stated mandate and information about problems before they become incapacitating. In turn, the board uses this information to make policies and take key strategic decisions.

Stakeholders are concerned with the sustainability of organizations for their own varied interests. Indeed, prior to engaging with the organizations, they assess the benefits of investing largely based on how resources are managed and who is responsible. In organizations where governance structures are in place and their utility is understood and harnessed, effective and efficient procedures safeguard returns. NGOs serve a multitude of stakeholders, including donors, staff, volunteers and the beneficiaries of the services being provided, whose goals and needs may be heterogeneous (Speckbacher, 2003).Managing the needs of the different stakeholders may be more complicated in NGOs due to potentially conflicting interests of revenue sources (donors), aid providers (staff and volunteers), and the beneficiaries of the service. Being held accountable to the various stakeholders will no doubt have an impact on the form and structure of governance that NGOs employ. Bottom-up accountability can be an important mechanism that allows beneficiaries to hold related stakeholders to account (Roche, 2009).

In recent years, governance scandals have resulted in the legal indictment of former staff deemed responsible for having played a role in the gross embezzlement of funds by boards and management. Although they did not benefit monetarily, the silence of the finance officers and auditors upon discovery of anomalies in books of accounts made them out as accomplices. Arguments that they were subordinates who were simply following rules did not hold. Another group of stakeholders constantly caught in the poor governance loop is the suppliers, some of whom are awarded tenders based on their ability to quote using insider information and therein provide kickbacks to the procurement officers concerned. It may be hard for others without the organization to pinpoint such cases, but their keenness on resource management and strategy implementation can help flag unexplained dysfunctions.

2.5 Principles of Good Governance

A principle is defined as a rule or fact about how something should happen or work. It serves as a guide to the overall functioning of a system. Good governance principles are thus reference points for organizations which seek to realize benefits accrued from applying them within their specific context. The purpose of these principles as discussed at the Charity Commission by Lindsay Driscoll, Chair of the Governance Code Steering Group (May, 2010), is to assist board members to enhance their decision making, increase their accountability and enable them to provide strong leadership. The principles set out good practice but which should be intimately linked with responsibilities agreed on and legal requirements imposed on board members to ensure harmonization and effectiveness during governance practice.

The six core principles give guidance on how an organization can achieve desired levels of corporate governance practice. First, they dictate that an effective board will provide good governance and leadership by understanding their role which alludes to both theoretical application and extended practice in order to gain experience hence mastery of the dictates of expected deliverables. Second, the board should ensure realization of organizational purpose without which there will be no value proposition for further engagement by all stakeholders involved. Providing vision and strategic management of key resources are board responsibilities that aid in the achievement of organizational objectives. Third, the governance principles dictate that a board will work effectively both as individuals and as a team. Individual board members have their terms of references guiding their contribution as team members, but at the same time, their required commitment to bringing unique perspectives to an organization's governance is critical to ensuring quality decisions after analysis of various possible alternatives.

Finally, the last three principles call for boards to exercise effective control, behave with integrity and be open and accountable. Control as a function points to mechanisms that a board can adopt to be applied internally within an organization in the management of resources for example audits. These same mechanisms can be used to ensure integrity, transparency and accountability as proper application tend to reveal any deviations from the intended results.

CHAPTER THREE: RESEARCH METHODOLOGY

3.1 Introduction

The purpose of the study was to establish corporate governance practices at Twaweza East Africa. The following chapter discusses the methodology that was used in order to obtain the information required for the study. It gives details of the research design and gives justification for use of the case study, and discusses the data collection and data analysis methods or techniques.

3.2 Research Design

The research design chosen for this study was a case study of Twaweza East Africa. It aimed to give an in-depth understanding of corporate governance practices at the Non Governmental institution that is typical of many other cases. A case study enables the researcher to conceptualize a plan of operation, to undertake the various procedures and tasks required for the completion of the study being undertaken (Kumar, 2005).

The case study allows for an in depth investigation of an individual, group, institution or phenomena whose primary purpose is to determine factors and relationships among the factors that have resulted in the behavior under study (Mugenda and Mugenda, 2003). Further credence is lent to the case study as an approach which places more emphasis on a full contextual analysis of fewer events or conditions (Cooper and Schindler, 2007). This serves to sharpen focus on given variables, provide deeper analysis of issues and identify suitable strategies for addressing dysfunctions.

3.3 Data Collection

Both primary and secondary research data were collected during the study. Secondary data was be sourced from key documents at Twaweza. These are the Articles of Association that brought the organization into being, the two main operational manuals: the Human Resources Policy Manual and the Finance and Administration Policy Manual, Strategic Plan 2008-2012 and 2013-2017 and audited reports.

Primary data was collected during the research through interviewing. Interviews were administered on 8 individuals formerly and currently in management and senior officer positions in Learning and Communication, Programs, Research, Monitoring and Evaluation, Operations and Finance departments. The interview guide contained structured and semi-structured questions on corporate governance practices at Twaweza East Africa. This included questions related to appointment to and factors determining composition of the Board, roles and responsibilities of Board members, management and senior staff, separation of roles between the Board chair and Twaweza's Head, communication, internal and donor social audits, financial reporting and human resource management.

3.4 Data Analysis

Data collected was analyzed using the content analysis technique qualitative data analysis (QDA). The technique is characterized by its iterative and progressive, holographic and recursive nature. As a non-linear approach, it is cyclic, constantly calls the researcher back to a previous part based on new observations in order to collect more related data and its singular parts containing aspects of the entire process of observing, thinking and collecting.

Qualitative data analysis is based on an interpretive philosophy whereby the researcher examines the meaningful and symbolic characteristics of data collected in order to arrive at inference conclusions. Systematic and objective identification of specified characteristics of messages and using the same approach to relate trends in making inferences underscores content analysis (Nachmias and Nachmias, 1996)

CHAPTER 4: DATA ANALYSIS, RESULTS AND DISCUSSION

4.1 Introduction

This chapter presents analysis, results and discussion on the Board, Roles and Responsibilities of the board, management and professional staff, resource management and control, as well as communication. The data was gathered from an interview guide as the research instrument. The interview guide was designed in line with the objectives of the study.

4.2 Corporate Governance Practices at Twaweza

4.2.1 Board Appointments, Composition and Meetings

The study sought to find out from the respondents composition, policy on appointments, diversity in the board as constituted, number of executive and non-executive members and frequency of meetings. It also inquired about how less quorums during board meetings are addressed, and the elements of accountability the board considers when assessing performance.

Respondents said that Twaweza has a Governance Board and an Advisory Board. Currently, in a critical transition phase and in line with its Strategic Plan 2008-2013, Twaweza is moving towards self-governance. The Governance Board is the highest governance body of Twaweza. It has 1 executive and 5 non-executive directors who are appointed based on donors' in-house policies which apply to Twaweza as a grantee. These members are formally elected during joint donors' meeting in May, with others being appointed. Non-donor board members serve for two years terms, which may be renewed once. The Board normally meets physically once a year in May, usually in East Africa, over two days; one day formal business, second day site visit and participating in key sessions to discuss the half year updates. At its discretion, the Board may also meet more often or invite other donors or experts to attend its meetings. Board meetings are facilitated by the Chairperson, with all meeting materials including agenda papers and draft minutes shared at least two weeks before members converge. Standing committees deliberate on issues and make recommendations to the board for approval or disapproval. In case of a tie during voting, the Chairperson of the board casts the deciding vote.

The Board of Directors approve the overall long term 5 year strategies and budgets, and scrutinizes annual plans and reports, including audited financial reports. It is charged with engaging with the organization at a higher strategic level by providing feedback to proposals and reports; inform its conceptual and intellectual development, and link it with relevant international endeavours. The Governance Board is additionally charged with appointing, supporting and holding accountable the Head of the organization, and overseeing the appointment of independent evaluation entities and their terms of reference. Finality in decision making rests with the Governance Board after meeting deliberations, with less quorum leading to cancellation and rescheduling of meetings before travel and convergence.

The Advisory Board plays a critical advisory role, rather than governance or binding decision-making or legal function, sharply focused on substantive and strategic programmatic, evaluation, learning and communication aspects (See Annex 2 for Advisory Board Terms of References). It has 15 members in total, with 1 being ex-officio. This board is composed of subject matter experts drawn from different but related fields in development in East Africa and internationally Advisory Board members are appointed by the Governance Board in consultation with Twaweza management. Advisory Board meetings demand participation of at least 51% of all members, who constitute a quorum, and by a vote of two thirds of its members recommend to the Governance Board changes to the composition and/or terms of the Advisory Board. The members who serve in their personal capacities meet twice a year, in April and September. Members serve for a term of two years, renewable to a second consecutive term of two years, after which they must retire from the Advisory Board. Retired members are eligible for re-election to the Advisory Board 11 months after date of retirement. In order to ensure continuity and avoid simultaneous retirement, about one half of the first set of non-donor Advisory Board members shall serve for three years and the remainder for two years. This caters for succession planning.

For both boards, power is held by the members as a group and not to individual members. And as per policy on diversity, the boards as constituted bear a reasonable mix of expertise and age but suffer on the aspects of gender and geographical spread. However, demarcation of executive and non-executive roles showed a clear balance of power. Although respondents were not aware of a structured evaluation on the performance of the Boards they were in agreement that as stakeholders they were fairly satisfied that the boards offers constructive guidance to the organization through monitoring and evaluating implementation of strategies, adherence to policies and plans, and being independent from management but making use of adequate management information to underscore decision making. Timely delivery of outputs and implementation success in comparison to budgeted amounts are key factors in determining governance performance.

4.2.2 Role Separation and Responsibilities of Board and Management

Respondents were asked what role differences, if any, existed for the board and management, sense of ownership amongst stakeholders and presence of guiding procedures and policies manuals. They were in agreement that there is a clear distinction between the board's role as policy maker and the head's role as chief administrator aided by terms of reference and job descriptions respectively, organizational organogram, strategic plans and detailed annual plans. Management roles as held by the Learning, Monitoring and Evaluation Manager, Communication Manager, Country Managers, Operations Manager and Research Manager is deliberate. This arrangement is meant to free the Head from the day to day executive and operational functions whilst enabling him to focus on the strategic and relationship building aspects, to read widely and reflect at depth on Twaweza effectiveness, and communicate to the management team. He develops and recommends to the board a long-term strategy, ensures continuous improvement in the quality of program deliverables, ensures Twaweza has an effective management structure, attends to personnel matters including hiring and firing of staff, and is responsible for maintaining a working environment that promotes ethical practices, attracts, retains and motivates employees.

Job descriptions are drawn up for Management, are included in the advertising scripts during management recruitment and may be finalized prior to reporting of incoming manager. The job descriptions serve as accountability markers and managers are assessed against them in determining delivery performance. Board members on the other hand get terms of references which guide their entire service. However in practice, the lines can get blurred when overlaps in responsibilities exist or when the head sees need to get involved in program implementation. Accountability, checks and balances thus become grey areas. There is a sense of ownership to a satisfactory extent by shareholders, largely the board, head and senior management in country offices who have lengthy quarterly meetings on how the intervention design and policies fit within the operating context.

Of equal importance is the issue of representation and delegation. An acting appointment of the head of more than one month must be endorsed by the Board Chairperson. When a manager is absent for two days or more, he may appoint, with endorsement of the head, another manager or competent employee of the unit to serve as Acting Manager. Persons serving in acting appointments are adequately briefed and prepared to undertake their roles and major issues and guidelines discussed during the handover process. As a general rule a written handover memo is prepared and copied to the head with understanding that the powers of officers in acting positions are normally limited to managing the day to day affairs commensurate to the position, and shall not extend to changing agreed programs/work-plans, reversing prior decisions or deciding on major matters that shall incur obligations over a longer term beyond the acting appointment.

Twaweza has policies and procedures manuals accessible by and applicable to management and professional staff alike. These are presented in hardcopy form to fresh recruits and are also available on the organization's website for download. These are the Human Resource Policies Manual and the Finance and Administration Policies Manual. Contained in the Human Resources manual are elements for example the Code of Conduct that guides engagement as a manager and employee, and disciplinary action should either categories be found to be in breach. Disciplinary action meant to maintain fairness, harmony, effectiveness and accountability may lead to termination if one is found to have committed misconduct such as theft, fraud or misappropriation of properties, or has been found to have used his position for illegal or corrupt personal gain. Of equal importance in fostering transparency is the issue of conflict of interest which is addressed under Code of Conduct thus:' No employee shall, while in the employment, engage in any business or activity that would undermine his performance or conflict with the interests of the organization which shall generally not enter into agreements with or procure goods or services from employees, directors or their relatives, except for exceptional circumstances where it is demonstrated to be in its best interest, and no viable alternatives are possible. All such decisions shall be fully documented and disclosed/ communicated in writing to the Board. No employee or director may involve him/her in any decision-making process, or seek to in any way to influence it, where he or his relatives may be in a position to gain privately from the decision. All employees shall disclose forthwith any or potential conflict of interest and seek approval before proceeding.'

When governance related issues arise, unit managers are charged with addressing the operational ones that they can deal with at their level but those that need organization wide attention are referred to the Head who can forward the same to the Governance Board with recommendations.

4.2.3 Resource Management and Control

Respondents were asked about criteria for project selection, monitoring and evaluation, organizational self-examination and existing accountability and transparency mechanisms. They recognized the existence of 8 point criteria in place for project selection, after which financial resources are extended after due diligence checks. Checks carried out on potential partners include quality of governance and leadership credentials, and overall management of the partner organization. Half of the respondents however highlighted the need to refine presentation of selected projects to the wider management and justification for such, which has in the past slowed initiation of implementation. One mechanism that Twaweza uses to measures effectiveness of implementation, thus resource management, is monitoring, evaluation and learning, a system for knowledge capture with a department that amongst other things focuses on elements like verifiable indicators of success and program milestones. Its critical contribution in informing governance decision making has repeatedly called for a systematized way of documentation and communication.

Under its guiding principles contained in the Finance and Administration Manual, Twaweza recognizes that management and staff are entrusted by the public to be responsible and effective stewards of resources and assets. This is one area that it has achieved a high level of success as financial and asset audits have seen the organization strive to achieve high levels of standards and accountability. An audit involves performing procedures to obtain evidence on the amounts and disclosures in the financial statements, with procedures used dependent on auditor's judgment including assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making risk assessments, the auditor considers internal controls relevant to Twaweza's preparation and fair presentation of financial statements and audit exercises held since the organization's inception have returned positive results. The statements include statement of management responsibilities which are signed off by the Head, as well as the external auditor's responsibility. The Board with the aid of financial plans and audited reports is then able to monitor application of resources to what value for the organization at given timelines.

In the Finance and Administration manual, the custodianship clause seeks to see that resources of the organization are effectively, efficiently, honestly and faithfully used to achieve the organization's objectives, and protected from loss, fraud, waste and inefficient use. This has been translated into a practice of asset tagging that physically assigns office assets to individual employees and they take responsibility for their safeguard. Secondly, cost effectiveness has seen funds used carefully to maximize quality and minimize cost in line with procurement procedures that see consistent supplier quote comparisons vis-à-vis quality offered. Thirdly, accountability calls for segregation of responsibilities and accountability exercised as appropriate, with specified roles for the Governance Board, Head, Managers, and employees. Again, this is mostly seen in the procurement of human and physical resources, with the Governance Board, Head and managers involved in personnel recruitment at different levels even as junior staff handle the initial tendering processes for onward approvals or rejections, with either outcome's process documented and filed for at least 3 years since the decision was taken. This practice is in line with the fourth principle of transparency which calls for full documentation with unusual circumstances explained, accurate recording, presentation and disclosure without undue delay of financial to those who have a right to request it. Finance Statements are prepared in accordance with internationally recognized standards and formats and are consistent with approved organizational Policies and Regulations. These statements are audited annually at the end of every financial year in June by an independent, internationally recognized audit firm, Deloitte. Finally, the integrity clause upholds zero tolerance for corruption and demands full clarity about how funds are utilized and records represent an accurate, true and fair reflection of reality. The need for presentation of actual receipts, invoices and quotations to accompany financial reports, as well as imprest retirement using the same and a decentralized procurement system are practices that support risk management, revealing successes such as sound financial credibility for long-term, secure funding as a result of compliance to policies and procedures.

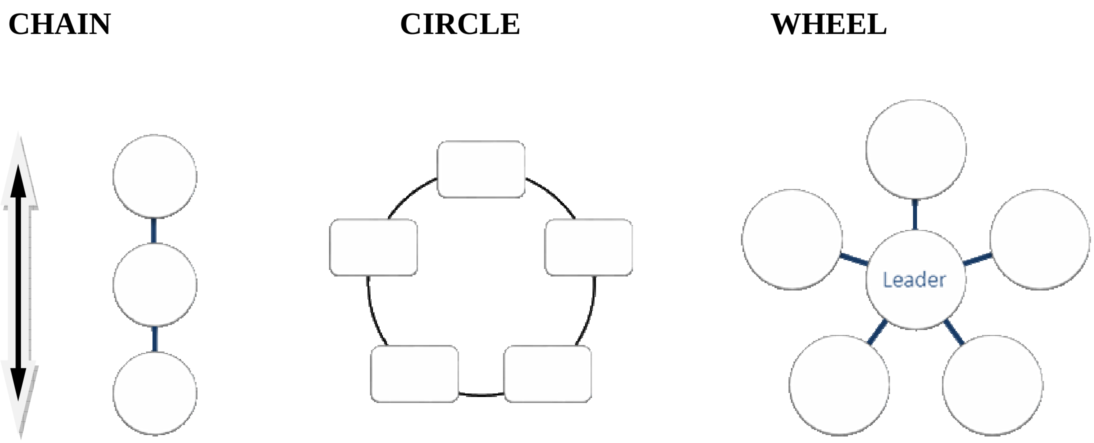
4.2.4 Communication

Built on a hierarchical governance structure, respondents identified three communication processes that Twaweza relies on to disseminate information and deliberate on issues. In chain, information flows up and down the hierarchy while in circle, members of a team communicate to those nearest to them and in wheel, the leader becomes the central figure of the team. The Chain as a process is effective in a top-down approach in receipt and dissemination of information touching on governance. Information in the form of program budgets and plans, administrative, human resource and program reports, strategies and audited reports are supplied to the Governance Board twice a year to enable it formulate, implement and evaluate cross-functional decisions that will enable the organization realize its short-term and long-term aims. Management as a whole is charged with ensuring that this information is timely, accurate, complete and relevant. After a decision has been taken and with finality in strategic decision making resting with the board, information is transmitted downwards.

The Circle process on the other hand has been found suitable for same cadre employees, for example managers who might wish to draw lessons from each others' experiences or discuss collaboration for effectiveness given a decision taken. Lastly, the Wheel is a common communication process, enabling governance backstopping, which the head and his managers use on a day-to-day to maintain accountability in how resources are applied, and receive frequent programmatic feedback necessary for monitoring effectiveness. Although effective in their application, these processes have nurtured information loopholes, for example, mid-level management respondents reported to having only seen abridged financial reports or periodic status summaries on expenditure trends.

Most staff are aware of and understand the organization's focus and strategic plan as a result of adequate orientation and constant interaction with direct supervisors. Expected gaps have been noted in seasons with a huge number of recruits, but these are addressed through intensive orientation and reading on available organizational literature, as well as extensive reading on related writings shared during reading and learning sessions.

Figure 2 Communication Processes within Groups



Source: Organizational Behavior: Theory and Practice (Cole, 1995)

4.3 Link to Theory

The focus on board independence is grounded in Agency Theory (Fama and Jensen, 1983). Corporate governance is designed to establish relations between managers, who are agents, and stakeholders, the principals who are represented by the board, so that outside investors can be protected against expropriation by insiders. It is a mechanism that Twaweza employs to reduce agency costs by ensuring corporate conformance with stakeholders' interests and expectations by limiting abuse of power, stealing or siphoning-off of corporate assets and wastage of resources arising from self-serving behavior of managers and other insiders. Thus the focus on the principal-agent relationship stems from the separation of ownership and management, leaving stakeholders as residual claimants whose interests can only be adequately protected through the practice of corporate governance (Oman, 2003) whose devices include carefully designed executive compensation contracts.

In the context of Twaweza, an open system highly reliant on resources from the external environment, ownership is by different stakeholders, determined by the value proposition presented in choosing to engage with the organization. Stakeholder theory identifies and models groups which are an organization's stakeholders, and both describes and recommends methods by which management can give due regard to the diverse interests (Freeman, 1984) The donors exist as long term funders, the Head of the organization as the founder and chief manager of resources, staff as the implementing custodians and the East African public as the beneficiaries who can attest to the programmatic impact of activities that Twaweza engages in. Thus it is clear that overlaps exist in the definition of who an owner, manager and stakeholder is, with an independent board being vital in safeguarding the collective interest, but more importantly the interests of stakeholders on the outside. In this role, the board exudes Stewardship Theory (Davis and Donaldson, 1989) which posits that senior executives will make decisions in the best interest of the organization by suppressing self-serving options.

Stewardship Theory (Davis, Schoolman and Donaldson, 1997) defined a series of factors that describe the management philosophy of stewardship including: open communication and long-term orientation and empowerment. On the other hand, the dimensions of open communication and empowerment are highlighted by the study focus on high-commitment organizations (Walton, 1985) while those of long-term orientation and empowerment are supported by findings from research on involvement oriented approaches (Lawler, 1986). These elements are direct by-products of communication and organizational culture which work to support the practice of corporate governance.

4.4 Link to other empirical studies

The application of corporate governance codes by an organization is motivated by the desire for more transparency and accountability, and a desire to increase investor confidence. Previous empirical studies have provided the nexus between corporate governance practices and these desired results. Machuki and Oketch (2012) researched on corporate governance structures and performance of HIV/AIDS NGOs in Nairobi. Mwakanongo (2007) looked at corporate governance practices in shipping companies in Kenya. Maina (2007) studied corporate governance practices in the insurance industry in Kenya while Wambua (2006) looked at state corporations in Kenya. Linyiru (2006) did his study on corporate governance practices in banks in Kenya. Kyereboah and Biekpe (2005) focused their research on corporate governance on the performance of Microfinance Institutions in Ghana. Sanda, Mukaila and Garba (2003) studied Corporate Governance Mechanisms and Firm Financial Performance in Nigeria. Findings from these studies endorsed application of corporate governance practices for efficiency and competitiveness.

Boards are responsible for governance in companies they oversee. The stakeholders' role is to appoint board members and auditors and to satisfy themselves that an appropriate governance structure exists, these being processes that constitute monitoring mechanisms that add to agency costs. Related to this, aspects such as board size, the presence of independent directors and duality have been found to influence corporate governance practices and thus overall performance. In addition to size, board composition may reflect its ability to be an efficient guide and that organizational performance is enhanced by smaller boards. Inclusion of outsiders in boards has been argued to strengthen firm value by lending experienced services and these members are intended to be the guardians of shareholder interests via monitoring and a critical disciplining device for managers (Kyereboah-Coleman and Biekpe, 2005). Similarly, to be effective monitors, it is also considered important for board committees to be independent. Further empirical evidence showing that the presence of audit, nomination, and compensation monitoring committees is positively related to factors associated with the benefits of monitoring.

However, when the CEO sits on the nominating committee for board members or when no nominating committee exists, firms appoint fewer independent outside directors or more outsiders with possible conflicts of interest. In addition, stakeholders' reaction to appointments of independent outside directors is more positive when directors' selection process is viewed as relatively independent of CEO involvement. Independent audit committees reduce the likelihood of earnings management, thus improving transparency. Finally, when the CEO serves on the nominating committee, the audit one is less likely to have a majority of independent directors. To carry out its function of control the audit committee must maintain a certain level of activity through increased frequency of meeting, especially in cases where the situation requires high supervision and control.

CHAPTER 5: SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

5.1 Introduction

This chapter provides the summary of the findings from chapter four. In addition, it gives the conclusions and recommendations of the study based on the objective of the study.

5.2 Summary of findings

The objective of the study was to establish corporate governance practices at Twaweza East Africa. The application of corporate governance practices in NGOs has not received much focus in previous literature. However, with the realization that effective corporate governance is critical to efficiency and effectiveness, and augurs well in attracting long-term funding, nonprofits are applying related practices.

The study revealed that Twaweza has several corporate governance structures in place including a Board of Directors, an Advisory Board and Human Resource Policy, and Finance and Administration Policy manuals which spell out code of conduct. The organogram, Terms of Reference for board members and job descriptions for management and staff set out clear lines of accountability and responsibility.

The two boards serve distinctly unique roles. A largely donor affair of 7 members of whom 2 are executive, the Board of Directors exercised leadership, enterprise, integrity, and judgment in directing Twaweza to achieve stated aims and to act in the best interests of the organization in a manner based on accountability, transparency and responsibility. Non-donor board members serve for two years terms, which may be renewed once. The BoD monitors and evaluates Twaweza's compliance with the relevant laws, regulations, governance practices and accounting and auditing standards, formulated long-term strategy of the organization, assessed performance of the Head and senior management and ensured Twaweza had sufficient and appropriate resources to achieve its strategic goals.

The second board, a development world consortium of 15 professionals, is the Advisory board. It has no decision making power or legal mandate and is led by its Steering Committee. The board exists to review and provide substantive strategic, conceptual and programmatic input, review and advise on independent evaluation, review and advise on learning and communication efforts, and promote lessons learned, scrutinize and advise on the annual workplan and narrative reports and audited financial statements and propose new members or changes to the Advisory Board composition to the Governance Board. Members shall serve for a term of two years (except as provided for below), renewable to a second consecutive term of two years, after which they must retire from the Advisory Board. Retired members are eligible for re-election to the Advisory Board 11 months after date of retirement.

In addition, the study showed that the boards had procedures in place to ensure that they were meeting their responsibilities including well defined Terms of Reference and succession planning. On the area of board meetings, members received relevant and accurate materials at least two weeks in advance, were strict on needed quorum before proceeding with meetings and there was an identified mechanism for a deciding vote when decisions had to be taken and there was a tie. Members bringing added value having provided individual independent judgment to bear on the decision-making process. The study also established that board meetings were facilitated but not grossly influenced by the Chairperson, and that both boards function in partnership with the executive management. In terms of appointments, the boards as constituted had qualified individuals who merited appointment, scored well in terms of expertise and age, but needed an added mix of gender and geographical spread to attain proper diversity.

The study established that the board's role as policy maker and the head's role as chief administrator and management's as implementer were distinct although uncertainty existed where overlaps occurred between the latter two. In corporate communication, the board needs to ensure that the organization communicates with all stakeholders effectively. The study indicated that being a hierarchical organization. Twaweza's communication culture has seen the adoption of processes that lean heavily to support this. It was noted that only certain cadres of stakeholders accessed fully audited financial report. For example, mid-level managers responded to having only seen abridged financial reports or periodic status summaries on expenditure trends.

Finally, resource management and control was shown to be largely successful with mechanisms such as internal board audits, external audits by Deloitte, implementing partner selection criteria, monitoring and evaluation in place. The Human Resource Policy Manual and the Finance and Administration Manual are very good write-ups on what is expected in terms of corporate governance, although in practice, it was noted that a clear line of supervision for professional staff was a challenge.

5.3 Conclusion

The study established that Twaweza has the fundamental corporate governance structures and practices in place. These include board installations, policy manuals that guide accountable management of resources and criteria for partnership checks that see prior investigation into elements including governance systems of potential partners..

However, from the study it is clear that holding the organization accountable, responsible and the requirement for it to be transparent has heavily been relegated to the Governance Board, with the contribution of other stakeholders being hazy. With the move towards self-governance, the board shortcomings and other challenges need to be addressed to enable an enhanced system for increased efficiency and effectiveness

5.4 Recommendations

Corporate governance practices have relevant applicability which can be elevated within the NGO sector through supportive cross-linkages for insights in order to address some perennial performance evaluation challenges. For example, in areas of financial control, resource management and internal communication models, NGOs can deliberately self-audit existing governance practices in a bid to learn from available sector studies on how to adapt governance innovations to suit their particular operating context. In this study, demonstration of how an Advisory Board supports a Governance Board provides a paradigm shift which adds on to existing knowledge and can contributes to policy that guides similarly defined NGOs. Indeed, as appertains to practice, governance boards in large international NGOs can benefit from this complimentary model through drawing from experiences of board members working in their areas of interest, and who, unlike professionally sourced country managers, work to distill expert awareness on alternate interventions.

Board diversity and independence work to foster management accountability and are critical to the submission of assenting and dissenting perspectives, both useful in the decision making process. The study lends credence to the fact that as constituted, boards need not overlook gender and geographical diversity because this would leave strategic thinking open to undue influence. In addition, in practice, there needs to be increased ownership of organization's values through creation of a culture that enhances compliance to policies beyond the fear of sanctions. Communication processes which dictate corporate culture, should build inclusiveness through provision of complete information as relevant to cadres of stakeholders, and encourage non-linear flow of information and discussions such that management and staff see a clear linkage between their daily work, its contribution to corporate governance within the organization and as a result, quantitative and qualitative outputs and long-term outcomes.

Policy and theory underscore role and responsibilities separation as well as respect for codes of ethics, both of which should not be relegated to cosmetic ventures. The overlaps in responsibilities as experienced between organizations' overall heads and management should be addressed conclusively as it can contribute to a sense of disempowerment over the long term and weaken the clear holding of management to account for non-delivery. In addition, even as NGOs draw their operating manuals and governance practices from the dictates of donor demands, they must be careful to uphold those policies and practices that have worked whilst being open to periodic rigorous self-assessment. Own assessment should include qualitative performance audit beyond budget spending, and this exercise must not be paralyzing to the extent that governance challenges breed a culture of infallibility, which might only serve to constrain opportunity for improvement.

5.5 Limitations of the Study

The study involved the participation of managers who had huge workload thus some interviews were rushed with little elaboration on some responses. Some respondents were also not well acquainted with the concept of corporate governance, did not understand why it should be applied to a NGO and still, there was delay tactic by some respondent who was not willing to divulge information.

The study covered only one organization in the NGO sector, thus while it may provide specific individualized findings that can be related to another similarly defined organization, it may not be possible to generalize the data as organizations differ in many ways as far as corporate governance practices are concerned. The main limitations of the study were time and refusal to divulge information on certain elements of study by some respondents who were largely suspicious of the overall intent of the interviewer in selecting her immediate former employer as the object of study. The data collection instrument (interview guide) was also not pre-tested as a result of which ambiguities were not ruled out.

5.6 Suggestions for further research

Corporate Governance structures and systems can easily exist as cosmetic ventures in organizations to attract capital and human resources. This is especially so for NGOs that may not have proper means of quantifying and qualifying the end goal in terms of what mission success looks like or verifiable indicators listed in ambiguous terms such as quality, adequate or enough. A similar study should therefore be undertaken that strives to link the impact of corporate governance practices to NGO performance from the perspective of the organizations stakeholders.

Second, the idea of corporate governance stakeholders for most NGOs is also not well defined. Donors appear to be the only definable stakeholders and they constitute part of the advisory mechanism for projects to be undertaken, which in some instances can be viewed as a grave conflict of interest. A study can take up the need to do stakeholder mapping, identify forms of engagement for each group so as to clearly identify other actors in the environment who can hold NGOs accountable and in what forms, apart from its donors.

Another suggested area for further research includes a study of the extent to which founders heading NGOs influence application of corporate governance activities. Having grown into organizations, founders having recognized the essential role of professional workers in resource management and performance have gone ahead to recruit them. The forms and extent of their support to governance processes should be studied to better inform the dual role of strategic thinking and implementation that they grapple with, sometimes with negative effects.

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APPENDICES

Appendix 1: Interview Guide

This interview guide seeks to establish corporate governance practices at Twaweza East Africa. The data will be used for research purposes only, and the findings shared with you at your request. Your clear and comprehensive response will be appreciated.

SECTION A: BOARD OF DIRECTORS

1. Who is responsible for board appointments?
2. Is there a policy to guide such appointments?
3. Is there diversity in the board as constituted?
4. Numbers of (a) Executive members……………… and (b) Non executive members……………..
5. Are stakeholders suitably satisfied that the board offers constructive guidance to Twaweza?
6. How many board meetings have been held in the past financial year?
7. Were there extraordinary meetings of the board in that year? If yes, what constituted the main agenda?
8. How is the issue of less quorum addressed during board meetings where decisions have to be made?
9. Who is the Head accountable to?
10. What factors does the board consider when assessing the performance of:
    - The head
    - Management
    - Organization

SECTION B: ROLES & RESPONSIBILITIES

1. To what extent, if any, is there is a distinction between the board's role as policy maker and the head's role as chief administrator and implementer?
2. Is there a sense of ownership by stakeholders? Why? Why not?
3. Are there clearly spelt out job descriptions that incoming staff or board members can refer to and be held accountable for delivery?
4. Are there policies and procedures manuals accessible by everyone in the organization? To whom are they applicable?

SECTION C: RESOURCE MANAGEMENT & CONTROL

1. Is there a criteria in place for project selection, after which resources are extended?
2. Is a mechanism/system for knowledge capture in place internally to aid in monitoring, evaluation and learning?
3. Is there laid down procedure for addressing issues flagged by staff? Who ultimately addresses these with finality?
4. Does the organization embrace a robust culture of organization's self-examination? If yes, which aspects of governance successes and/or failures have emerged in the past?
5. What types of accountability and transparency mechanisms are you aware of in the organization? Do you consider them effective? Why or why not?
6. What cadres of stakeholders can access financial reports? When was the last one availed?
7. Do the annual reports contain a statement on the head's responsibility for preparing the accounts?
8. Does the annual report contain a statement on external auditors reporting responsibility for preparing the accounts?
9. Does the board have an audit committee?

SECTION D: COMMUNICATION

1. Would you say that all staff are aware of and understand the organization's focus/mission statement or strategic plan?
2. Which communication model has been adopted by the organization?
3. What information is supplied to the advisory board for consideration?
   -Financial -Administrative -Human Resources -Program Activities -Budgets & Plans -Strategy
4. How often is information supplied to the board?

SECTION E:

Please outline any other unique governance challenges that your organization faces.

Appendix 2: Advisory Board TORs

Twaweza Advisory Board

Revised Terms of Reference 2011

The Advisory Board plays a critical advisory role (rather than governance or decision-making function), sharply focused on substantive and strategic programmatic, evaluation, learning and communication aspects. The overall legal, governance and oversight responsibility currently lies with the Board of Directors, drawn from hosting donor.

1. Roles and responsibilities

The Advisory Board shall have a critical strategic and advisory role. Specifically, it shall:

 Review and provide substantive strategic, conceptual and programmatic input to Twaweza

 Review and advise Twaweza on the independent evaluation

 Review and advise on Twaweza’s learning and communication efforts, and promote lessons learned

 Scrutinize and advise on the annual workplan and narrative reports and audited financial statements

 Propose new members/changes to the Advisory Board composition to the Governance Board as needed

2. Composition

The Advisory Board shall consist of the following:

 One expert each from Tanzania, Kenya and Uganda knowledgeable in a Twaweza area and able to link or represent Twaweza with government or another key constituency in the region (3 members).

 Three international experts with knowledge and/or global linkages of value to Twaweza 3 members).

 The Head of Twaweza to serve as ex-officio (non-voting member) of the Advisory Board. S/he may request other members of the Twaweza secretariat to participate in (parts of) Advisory Board meetings as needed.

 Participation of at least 51% of all members shall constitute a quorum.

 The Advisory Board by a vote of two thirds of its members recommend to the Governance Board changes to the composition and/or terms of the Advisory Board.

Other considerations:

- Members shall represent diversity of expertise, interests, geographical backgrounds, gender and age.
- Members shall be people of the highest integrity.
- Members shall be able to commit to attending an annual two day meeting and one phone meeting, and respond by email periodically on critical issues.
- Members shall be committed to the values and aspirations of Twaweza, but otherwise value diversity of views, questioning of all dogmas and open debate.

3. Terms and Rotation

- The Advisory Board shall be appointed by the Governance Board in consultation with Twaweza management.
- Members shall serve for a term of two years (except as provided for below), renewable to a second consecutive term of two years, after which they must retire from the Advisory Board. Retired members are eligible for re-election to the Advisory Board 11 months after date of retirement.
- In order to ensure continuity and avoid simultaneous retirement, about one half of the first set of non-donor Advisory Board members shall serve for three years and the remainder for two years.
- Advisory Board members who fail to participate in three consecutive (physical or telephone) meetings without providing a compelling reason in writing will be automatically considered to have retired from the meeting.
- The Twaweza management may fill any casual vacancy that may occur (i.e. retirement of a member before the end of a term) at the next physical or phone meeting of the Advisory Board.

4. Decision-making

The Advisory Board members shall provide independent opinions and advice and serve in their personal capacities. The role of the Advisory Board is advisory and does not have binding decision making power (or legal mandate).

5. Chairperson

The Advisory Board shall have a Chairperson who:

- shall be elected from among the Advisory Board members by the Advisory Board members and be endorsed by the Governance Board
- shall serve for a term of two years
- may not be a representative of the donor members
- will be available to respond more regularly as needed (by phone and email) to the Twaweza Management.

6. Meetings

The Advisory Board shall normally meet twice annually as follows:

- a physical face to face meeting normally in East Africa once a year, usually around April, to consider previous year reports, endorse current year plans and budgets, discuss substantive program and strategy issues, and visit a field site (usually two days).
- a phone conference meeting, usually in September, for about two hours, to discuss half year progress and emerging key issues.
- The Advisory Board may schedule other physical and/or phone meetings as may be warranted, in consultation with Twaweza management and budget allowing.
- Key documents for the Advisory Board meetings shall normally be sent out so as to reach members two weeks prior to the meetings.

7. Communication between meetings

Between formal Advisory Board meetings communication shall be as follows:

- Advisory Board members shall be placed on key Twaweza mailing lists and receive all key publications and documents, including clippings of Twaweza in the News.
- Any critical advice needed in between Advisory Board meetings which would normally fall under the mandate of the Advisory Board will be made through a resolution by circular sent by email and require written confirmation.
- In cases of urgent or sensitive issues within the mandate of the Advisory Board that may emerge in between meetings the management shall seek the advice of the Advisory Board Chairperson on how to proceed, including on the manner and extent to which to involve the Advisory Board.
- The key deliberations of the Advisory Board and the minutes of its meetings shall normally be made available to Twaweza donors and vice versa.