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Full length Research Paper

Board role performance in Uganda's services sector firms

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The present paper sought to confirm factors that are relevant to board role performance in Uganda and as a corollary empirically tested the relationship between individual dimensions of the model of board role performance. The study was cross-sectional and correlational and the analysis was conducted using Structural Equation Modelling (SEM) with Analysis of Moment Structures (AMOS) software on a sample of 128 service firms in Uganda. Findings indicate that a four-dimensional model of board role performance was determined to be the best fitting model for Ugandan service firms. From the results we do claim, that board role performance causes the scores observed on the measured variables of boundary spanning, effective partnership, environmental scanning and control of the organization. The measured variables are the individual dimensions of the model of board role performance. The present study provides one of the few studies that have analysed with confirmatory factor analysis (CFA) using AMOS to test board role performance measurement model and provides a benchmark for Uganda's service firms wishing to leverage performance of their boards. However, using cross-sectional data does not allow for testing of the process aspect of the model; still, it provides evidence that the model can stand empirical tests of the four elements of the model. Additional research should examine the process aspects of board role performance and also test our model in predicting firm financial performance. The model in this paper might improve the quality of board role performance and apply to other sectors of Uganda's firms to avert the problem of ineffective boards as evidenced by consistent firm failures in Uganda. By improving the quality of board role performance, boards will demonstrate their relevance in company direction and improvement of company value to the benefit of all stakeholders.

Key words: Board role performance, service firms, analysis of moment structures (AMOS), Uganda.

INTRODUCTION

The overall objective of this study is to confirm factors that are relevant to board role performance in Uganda and empirically test the relationship between individual dimensions of the model of board role performance in Ugandan service firms. This is because a paucity of empirical board role performance models to use in practice has often led to the perceived attrition of credibility of board role performance among firms. Moreover, understanding the nature of effective board role performance is important in management and economics research that focuses directly on what boards need to do in order to perform their roles more effectively (Ong and Wan, 2008), especially in developing countries‟ context, to lift their social economic development.

The issue of board role performance, a concept resulting from corporate governance came to prominence in Uganda between September 1998 and May 1999 when four Ugandan banks were closed for imprudent banking practices (Habyarimana, 2003) and poor internal governance (Bank of Uganda, 1999; Brownbridge, 1998) which illuminated two problems associated with board role performance in Uganda. First, the investors were/or are not getting the best out of the firms in Uganda given their poor performance. Recently, there have been

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dependence role. Subsequently, Hillman and Dalziel (2003) described the monitoring function and the provision of resources function.

Most of the previous studies on board roles, however, focused on developed countries‟ contexts. Research on board role performance within a developing country-context is still considered fragmented (Huse, 2000) and is relatively in its infancy (Heuvel et al., 2006). Literature review illustrates that conceptual and methodological improvements could enhance this area of study (Heuvel et al., 2006; Babic et al., 2011). This implies a clear dearth of empirical research studying developing country-contexts to validate the performance of board roles identified in the literature.

Board role performance in Uganda

According to the Uganda country assessment report and programme of action (2007), unitary boards – reflecting the British company laws - are the dominant structure for public and private limited liability companies in Uganda. This means that the roles that boards play are dictated by such a structure. Moreover, the Ugandan companies Act, Cap.110 stipulate a minimum of two directors for both public and private companies‟ registration. This requirement can be construed a requirement for companies just to register. The Act is silent on how to ensure performance of the duties for which such board members are required on a company. More so, there is no statutory requirement for executive and non-executive or other categories of members on the board of directors.

It can be argued that directors should be qualified persons reflecting a diversity of training, experience and backgrounds. It could also be desirable for the board to include a balance of executive and non-executive directors to mitigate against dominance of individuals or interest blocs in the decision making. However, in Uganda there is no law prescribing the appointment of executive and non-executive directors of companies. The absence of such provisions within the Companies Act might weaken the balance, independence and objectivity within company boards in the performance of their duties. Hence we believe there is need to develop a model of board role performance in Uganda. Corroborating support for this belief is provided by the fact that the number of directorships tenable in Uganda is also unlimited except for under the Capital Markets Authority Regulations‟ limit of not more than five directorships and two chairmanships for listed companies. The effectiveness of a director involved on several boards simultaneously and the potential created for conflicting situations and competing interests can negate benefits of board role performance.

Meanwhile, the board is usually permitted under the Articles of Association to delegate power to committees which exercise powers as may be required by the board. The Companies Act, Cap. 110 Laws of Uganda requires that every company shall have a secretary. In the Companies Bill 2004, some changes have been introduced under part V regarding management and administration, where it states that it is optional for single member companies to have a Company Secretary and it is mandatory for public companies to have a secretary. Similarly, the Companies Act contains prohibitions, restrictions and qualifications relating to the appointment of directors, their powers and duties and their conduct. However, the Act does not provide term limits for directors but prescribes the director‟s age limit at 70 years, only applicable to public companies. Other companies may if they wish provide upper age limits in their Memorandum and Articles of Association.

Uganda country assessment report and programme of action (2007) noted that failure to enable boards to operate vigorously and to introduce new ideas can impact on the boards‟ performance of their roles in the country. As noted earlier, the company law in Uganda contains prohibitions, restrictions and guidelines relating to the appointment of directors, their powers and duties and their conduct. Some of them include the eligibility criteria, the criteria for composition of boards and the criteria for remuneration of directors.

According to the Institute of Corporate Governance of Uganda Manual on Corporate Governance (2001) which is not binding, candidates for election to the board should have the background, experience or specialized knowledge that corresponds closely with the business of the company. The lacuna in the Uganda company law and the Institute of Corporate Governance of Uganda Manual on Corporate Governance manual on corporate governance that is not binding might lead to ambiguity regarding board role definitions and their (roles) performance by existing boards in Uganda. Consequently, we suggest that in the case of Uganda, this study conceptualizes board role performance from theories mentioned earlier as the way managers and directors perceive board role performance and hence confirm, using SEM, a model of board role performance for Uganda‟s service sector firms.

Hypothesis development

Unitary boards support the hypothesis, that between owner as principal and managers as agents a conflict of interest exists and the board as an internal mechanism has the task of monitoring managers, board role performance is contingent on its independence from management. This line of reasoning implies that boards should be composed of a large number of independent members. This view is inconsistent with the stewardship theory, which holds that managers act in the owners‟ interest, and boards are thus better off composed of a large number of internal, executive directors (Babic et al.,