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Governance and Strategy Implementation in the Federal Government of Somalia

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Abstract

The study examined the relationship between five governance principles - transparency, accountability, equity, and employee participation and financial strategy implementation in Somalia using a sample of 297 financial institutions. Corporate governance principles were moderately practiced (median of 3 and 4 on a 5-point Likert scale) and were significantly related to the implementation of financial management strategy (accountability: $r = .734$, $p < .05$; equity: $r = .534$, $p < .05$; employee participation: $r = .643$, $p < .05$; transparency ($r = .629$, $p < .05$). Somalia's federal government should strengthen corporate governance to improve financial strategy implementation.

Keywords: *Corporate governance, strategy implementation, financial Institutions, Federal Government.*

1.0 Introduction

Financial institutions are the foundation of the social and economic development of societies and the country. To be able to deliver on their mandate, financial institutions need to formulate and implement their strategies. The implementation of such strategies requires effective leadership which is provided through adherence to sound corporate governance practices.

Corporate governance

From a nation-state perspective, governance is concerned with managing states to ensure the quality of life for all citizens, and the separation of powers to grasp a strategy to achieve this goal (Fourier, 2006). Good corporate governance objectives are met when firms adopt provable responsibility, typically through internal and external financial reporting (Havel & Keane, 2016).

Corporate governance improves organization performance. Governance is based on a well-defined strategy. Poor governance hinders strategy implementation. Financial management must be overseen by effective company governance. Corporate governance reflects interrelationships among people and teams, giving performance resources (Brownbridge, 2007).

Corporate governance promotes efficient, effective, and sustainable institutions. Financial institutions have always been crucial to governments for socioeconomic growth. Somalia's post-conflict government is putting in place governance frameworks to improve organizational performance. Effective implementation can resolve financial issues. Transparency, accountability, equity and employee participation are governance ideals (Fourier, 2006).

Strategy implementation

Strategic management process is described in four interactive phases that are interactive. First is environmental analysis, which involves business definition, setting vision, mission, goals and objectives. This is followed by strategy formulation which involves crafting appropriate long-term goals and possible strategies for the firm (Kusumasari, Alam & Siddiqui, 2010).

According to Coulter (2010), achieving a goal requires successful strategy implementation. This involves aligning the strategy with the organization's mission and carrying out various activities that constitute the strategy. Organizational leadership tends to support strategy formulation more compared to strategy implementation. According to Kaplan and Norton (2001), this could explain why most strategies fail at the implementation stage.

This study studied the relationship between corporate governance and the deployment of performance-enhancing techniques by Somalia's financial institutions. Corporate governance is defined as "employee involvement," "transparency," "accountability," and "equity". Planning, control, budget, and resource allocation were studied (Nwankwo, 2004). This study was anchored in strategy implementation phase within the conversation of strategic management.

Problem Statement

Somalia ranked eighth most corrupt in 2019 (Transparency International, 2019). According to Somalia's Public Service Commission Report (2013), corruption manifested as bribery, power abuses, misappropriation, and collaboration. To solve this problem, top management should be "multifaceted" (Gallagher & Nadarajah, 2004), and decision-making is vital (Guesalaga & Johnston, 2010). Top management engagement in fixing performance gaps may lead to a conflict of interest in their supervision management if they are involved in the misconduct that caused the problem. The public financial management self-assessment report (2013) shows parliament's financial monitoring of the FGS. These concerns stem from public and financial sector governance structures.

Corporate Governance is responsible for responsiveness and accountability. Empirical evidence on its use and link to FGS financial management strategy is scarce. Previous studies have examined the relationship between corporate governance and performance (for example, Gaiku and Senaji, 2016) through its relationship with financial management strategy implementation. Adayemi (2014) said banks should embrace corporate governance. The relationship between CG, especially transparency, accountability, equity, and employee participation; and strategy implementation, including planning strategy actions, exercising control, budgeting, and resource allocation, has not been investigated.

The Federal Government of Somalia (FGS) has done little empirical research on financial management strategy. This study aimed to assess the relationship between CG and strategy implementation in Somalia's financial institutions. Effective corporate governance increases the likelihood of further investment in the business, according to scholars.

2.0 Literature Review

Somalia's federal government uses the board to guide its financial institutions, and the board gives executives resources to achieve the organization's goals (Daniel, 2003). The resource is sound corporate governance, which ensures transparency, accountability, equity, and employee participation. This theory (RDT) states that the board provides resources to the senior management team.

In this study, staffs will implement a financial strategy based on board guidance; this is a resource organization members rely on to carry out their mandate. Board members can be insiders, specialists, business experts, or community influencers. These play an important role by providing diverse resources that improve organizational functioning.

According to McConnell and Denis (2003), most companies are creating space for employees to learn, exercise, and make decisions. By establishing agents, an organization can increase its market share and gain a competitive advantage. Stewardship Theory suggests that senior managers have pro-organizational motives to ensure that the organization performs well.

In this theory, employees take cues from executives and work hard to achieve goals. This theory emphasizes an organization's need to be good stewards of resources. When the FGS was a good steward, development parties gave it more money (Hendry, 2002; Shen, 2003). However, the theory refutes the agency theory's central assumption that shareholder and executive motive conflicts.

3.0 Methodology

A cross-sectional survey of 297 respondents from the federal government of Somalia was conducted using a questionnaire for data collection. This design was appropriate because the aim of the study was, first, to describe the status of corporate governance and financial strategy implementation; and secondly, to describe the relationship between corporate governance practice and implementation of financial strategy in financial institutions in the Federal Government of Somalia. The collected data was analysed using both descriptive and inferential statistics. The results comprise frequencies, means and standard deviation; and correlation coefficients with the associated p-values.

4.0 Results and Discussion

Descriptive Statistics of Practice of governance principles

Table 1 shows descriptive statistics results on corporate governance practices.

Table 1: Measures of Corporate Governance Practices

Corporate Governance Practices	N	M	SD	Coefficient of Variation (%)
Employee participation				
All employees/Staff in the institution are assigned duties/tasks in advance	297	3.14	1.457	46
There are regular departmental meetings in the institution which give out a report.	297	3.22	1.331	41
Staff/Employees are often included in decision making	297	2.65	1.254	47
There is adequate sharing of information in the various departments of the institution	296	3.02	1.353	45
Actions are complementary and mutually supportive	297	3.30	1.247	38
Decisions are arrived at through a consensus	297	3.21	1.567	49
The institution encourages and facilitates professional teams for its employees/staff	296	3.19	1.294	41

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Overall Mean	**297**	**3.10**	**1.36**	**44**
Transparency				
There is a transparent governance structure in the institution	296	3.05	1.36	45
There is fairness in procedures and processes in the institution	296	3.07	1.27	41
The department has strategic goals aligned with the institution's strategic direction	297	3.41	1.31	38
An important aspect of transparency that is of particular importance to individual staff is the right of access to documents of the institutions.	297	3.29	1.31	40
Access to documents have to be made in writing, including electronic means, reasons are not required, but applications must be sufficiently precise to enable the institution to identify the requested document.	297	3.17	1.24	39
Overall mean	**297**	**3.20**	**1.30**	**41**
Accountability				
There is an accounting framework in the institution	297	3.41	1.31	38
The institution management submits on-time annual reports, which represent all the activities done by the institution.	297	3.53	1.33	38
The institution is internally and externally regulated.	297	3.56	1.29	36
There is a performance evaluation for all the members of staff in the institution.	297	3.27	1.33	41
There is a monitoring and evaluation system in the department.	297	3.18	1.33	42
The department reports to the supervisory board are submitted in writing	297	3.30	1.30	39
The head of the institution reports often the correct position to the government	297	3.50	1.22	35
Decisions taken in the institution are gratified with approval	297	3.22	1.28	40
Overall mean	**297**	**3.371**	**1.30**	**39**
Equity				
The is a resource management policy in the institution	297	3.11	1.29	41
There is fair distribution and access to resources within the institution	297	2.88	1.30	45

There is racial and ethical diversity within the institution	297	2.85	1.38	48
All the employees in the institution are engaged fairly	297	2.86	1.33	46
There is an equal degree of entitlement among all employees in the institution	297	2.82	1.47	52
Overall mean	**297**	**2.90**	**1.35**	**46**
Grand mean	**297**	**3.14**	**1.33**	**43**

Governance and Financial Strategy implementation

The relationship between corporate governance practices (employee participation, transparency, accountability, equity) and the implementation of financial management strategy was assessed using Pearson product-moment correlation where the strength and direction of the relationship between corporate governance and implementation of financial management strategy was estimated. The results of correlation analysis are presented in Table 2.

Table 2: Correlation Results

Variable/Construct	1	2	3	4	5
1. Participation					
2. Transparency	0.613				
	<.001				
3. Accountability	.619**	.690**			
	<.001	<.001			
4. Equity	.632**	.490**	.460**		
	<.001	<.001	<.001		
5. Implementation of financial management strategy	.643**	.629**	.734**	.534**	
	<.001	<.001	<.001	<.001	
	297	297	297	297	297

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

Accountability

The results in Table 2 reveal that accountability is highly correlated to financial management strategy ($r = .734$, $p < 0.05$). This is a positive and strong correlation coefficient implying that there exists a strong relationship between accountability and financial management strategy that is statistically significant. The results support Cadbury (2000) argument that controls that are implemented in the framework of corporate governance are designed to promote efficiency in utility of resources and promote accountability to enable effective administration of resources used that are used by managers.

Accountable organisations may be more likely to perform better and attracts resources from stakeholders (see eg., Suanah et al., 2012). In this regard, lack of or inadequate accountability reduces support and commitment; this situation acts as a barrier to collaboration, sharing of knowledge and support necessary for enhancement of performance of an organisation.

As has been established by the OECD (2019) and Bossu and Rossi (2019), the legislative or regulatory frameworks that establish a mandate for institutions constitute a key component of the overall corporate governance and implementation. It is therefore imperative that legislation be enacted setting the minimum requirements for corporations while financial regulators should also be empowered to make regulations that further require compliance by financial institutions.

Fiscal management provides information required to spur an organization's objectives and allows for prudent allocation of resources in a manner that ensures that the objectives of the company are pursued without compromising shareholder value. Accounting enhances performance of organizations of all types and financial institutions operating in Somalia should cue from existing research and adopt any complementary strategies that may enhance their performance (Cravens & Tayles, 2000).

Employee Participation

The second strongest correlation was between "participation" and "implementation of financial management strategy" ($r = .643$, $p < 0.05$), which was positively and highly correlated to financial management strategy and a p of below 0.5 indicates that the relationship is statistically significant. Vitols and Kluge (2011) argue that for companies to innovate more, outdo competition and perform, they must utilize both the intellect and the physical capital of their employees.

Participation connotes the degree to which citizen participation programs fulfill their objectives. Citizen participation enables the citizenry to learn about government activities that are relevant to them. This argument is extendable to employee participation in decision-making in organizations. Such involvement will lead to better performance of the concerned organizations (Bruce et al, 1995).

Employees' sense of belonging and self-realization are key to an organization's identity and loyalty as a workforce that feels involved in the decision-making process and believes its feedback and contribution is valued is likely to commit to the realization of the overall objectives of the firm. The converse is true for entities that do not embrace meaningful participation and where employees are driven solely by remuneration (Stivers et al., 1998).

Recently, there have been committed efforts across jurisdictions to adopt measures for promoting gender balance within senior management of organisations predominantly through disclosure requirements (OECD, 2019). It has been established that most organisations have pursued this through mandated quotas and voluntary targets. Therefore, financial institutions in Somalia can adopt some of these measures to ensure that they also holistically participate in the improvement of national corporate governance systems in line with acceptable international developments.

Transparency

Transparency was also found to significantly relate to the implementation of financial management strategy ($r = .629$, $p < 0.05$). Damodaran (2007) argues that to achieve transparency can be achieved in the organisational processes if it is mandated to employ internal control systems to achieve crucial confidence in financial reports in addition to compliance with applicable regulations.

Transparency is the openness of the firm in disclosing relevant information to allow the stakeholders to make the correct decisions. However, transparency requires a system to quantify it. According to Ali and Shaker (2017), there are four models to measure the transparency of disclosure of accounting information.

As found by Davis (2018), the financial sector is delicate and prone to external disruptions. This has made cross-jurisdictional regulations an area of significant interest among nations. This is because crushes in the financial sector potentially affect all facets of the economy and their veracity may not necessarily be confined to the territorial limits of a single country (Croci et al., 2019). This fortifies the need for embracing international best practices to cushion against a potentially catastrophic collapse of the financial markets (La Porta et al., 1997).

Transparency can be described as a crucial tool for a company that facilitates the assessment of the company's performance by disclosing accurate information and making them available to all firms. In addition, it also provides information about the company to the public (Balachandran, & Faff, 2015). This is consistent with Zaman, Arslan and Sidiqui (2014), who established a significant interrelation between transparency and fiscal performance.

Equity

Finally, equity and implementation of financial management strategy were moderately and significantly related ($r = .534$, $p<0.05$). This can be interpreted to mean that for most financial institutions of the Federal Government of Somalia, participation, transparency, accountability, and equity as corporate governance practices are key to influencing financial management. In general, the findings of the study support the arguments derived from Bidabad et al. (2012) study that by adopting the related key points of corporate governance practices namely, financial transparency, accountability, participation, and equity in information disclosure, successful implementation of the financial management strategy is achieved.

Equity as a corporate governance principle serves the purpose of ensuring that the leadership of organizations undertake their roles in a manner that does not prejudice members of the organization. It includes implementing mechanisms for protecting and facilitating the exercise of investors' rights and ensuring equitable treatment of all investors including minority and foreign investors. (OECD, 2019).

It is also understandable that skilled or rather highly qualified members give better room for strategy linkage to other sources, especially concerning resources that are key to achievement of corporate objectives (Ingley & van der Walt, 2011).

5.0 Conclusion

Drawing from the Resource Dependence and Stewardship Theory, Harrod-Domar Model, the Two-Gaps Theory, a positivist philosophy and the descriptive correlational cross-sectional quantitative survey were conducted. A total of 297 was surveyed using a structured questionnaire. Based on the findings it is concluded that corporate governance comprising transparency, accountability, equity, and participation had a significant relationship with implementation of financial management strategy and that corporate governance influenced implementation of financial management strategy.

Based on the descriptive results of the study, there was moderate corporate governance and moderate implementation of financial management strategy ($3.00 < M < 4.00$). Secondly, corporate governance (transparency, accountability, equity, and employee participation) had a significant influence on the implementation of financial management strategy. While accountability ($r = .734$, $p < .05$) had the strongest positive relationship with implementation of financial management strategy, equity ($r = .534$, $p < .05$) had the weakest influence.

Employee participation ($r = .643$, $p < .05$) and transparency ($r = .629$, $p < .05$) had the second and third strongest influence respectively.

Further, employee participation was not satisfactory concerning the involvement of employees in decision-making. This is even though employee participation is crucial in improving the performance of an organization.

6.0 Implications

Financial institutions in the FGS should intensify their implementation of corporate governance principles, namely transparency, accountability, equity, and employee participation in decision-making.

The finance minister of the Federal Government of Somalia (FGS) has called for appropriate policies to be developed by the FGS to strengthen the implementation of corporate governance principles. This intervention will provide stability to the economic environment which will provide a conducive business environment and improve the financial performance of financial institutions.

The government through relevant ministries and other stakeholders in the financial institutions of the Federal Government of Somalia should develop appropriate policies to improve corporate governance practices which can lead to the successful implementation of the financial management strategy.

7.0 Recommendations

There was a moderate practice of corporate governance principles. This implies that studies should be conducted to ascertain the barriers to effective implementation of corporate governance principles in FGS.

Since employee participation was not satisfactory with regard to involvement of employee decision-making, financial institutions in the Federal Government of Somalia effectively engage the intellectual and physical capital of their workers to realise innovation, competitiveness and prosperity.

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