

MEASURING THE BENEFITS OF BOARD ROOMS IN FAMILY-OWNED BUSINESS IN PAKISTAN: AN ANALYTICAL HIERARCHICAL PROCESS APPROACH

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Abstract

Boardrooms are the major concern in making and implementing the strategies and organizational main goals. Corporate boards are accountable for major corporate decisions (Chen et al. 2017), and the effectiveness of such decisions depends on the board's characteristics. The main purpose of this research is to determine the most effective and the least effective benefits of having boardrooms specifically in the family-owned business. This will help the family-owned business to understand the significance and benefits of boardrooms so that they can better utilize them to enhance their businesses' effectiveness. To achieve the task, the researcher prepared the bi-polar questionnaire based on the model of benefits of boardrooms and for the responses, the experts were used to fill the bi-polar questionnaire, based on their experience in the boardrooms. For the analysis of this entire process Excel and the Expert Choice software were used to complete the analysis and the construction of the results. This research also shows that evaluating the CEO and fundraising are positively associated with boardroom effectiveness. Moreover, fundraising is also, a consistent factor that highly attracts boardrooms with sub-dimensions of funding proposals it will also provide better insight into the financial positions and activities these fundraising activities take place in different aspects to plan for the potential losses that could take place. Certainly, the most and least significant factors could be found and these factors will be considered in boardrooms to create effective processes.

INTRODUCTION

Boardrooms are the major concern in making and implementing the strategies and organizational main goals. Its arrangement must be responsive to the basic functions that are allocated to it: overseeing and monitoring, avoiding opportunistic behavior from executives, and providing advice to decision-makers to improve the management of the business. These markers have been

kept in view by researchers who have studied whether the determining factors in the composition of boards are related to the basic functions assigned and whether the mentioned composition impacts the management of the business (Borlea, Achim, & Mare, 2017; Cavaco et al. 2017; Farag & Mallin, 2017; Korent, Dundek, & Calopa 2014; Marinova,

Plantenga, &Remery, 2016; Terjesen, Barbosa, &Morais, 2016, among others).

Corporate boards are accountable for major corporate decisions (Chen et al. 2017), and the effectiveness of such decisions is dependent on the characteristics of the board. Prior literature largely focuses on how board characteristics are related to corporate productivity (Hu et al. 2010; Van Essen et al. 2012). Some studies have explored the effect of the board of directors' structure on organizational innovation. For survival in a competitive market, organizations are working hard to innovate and become pioneering. In business today, innovation is one of the most investigated topics. (Ladki & Ahmad, 2018). In Pakistan, only a limited number of studies happened to be conducted to explore the institutional determinants of CG practices.

The most applicable study is done by Arslan et al. (2019). This study is quite relevant, however, it is also different in several ways. Therefore, this study has its own implications and contributions for academia and for the ones in policy making. The study of Arslan et al. (2019) was more attentive on the quantitative method (survey interviews) and qualitative findings were missing. However, scholars argued the need of qualitative CG studies. Aguilera and Jackson (2010). It brings lots of motivation to us to fill the gap and expound the qualitative findings in more detail. Therefore, this study is completely dedicated to the qualitative method (semi-structured interviews) and findings are supported by the existing theories and studies. Family businesses are distinct from non-family businesses in terms of the features they possess and/or their behaviors.

These relate to the imminence of succession, financial performance, business complexity, and the age of the business, its governance, management, and ownership. (Koutra, Ali, Suleiman & Shammout, 2018). Despite the uniqueness of governance systems in family firms, few studies have taken into account the special nature of family-firm governance in specific contexts (Le Breton-Miller and Miller, 2009; Cesar and Magdy, 2016). Research on family-business boards focusses on board attributes and their relation to the firm's performance (Zattoni et al., 2015), while the element of what happens in the

boardroom is still to be explored (Ikäheimonen, 2014).

Pakistan has been experiencing remarkable economic growth in recent past, leading to a large surge in the number of unlisted companies, mainly family-owned organizations. The Securities & Exchange Commission of Pakistan has recently reported that the total number of non-listed companies has now surpassed the 50,000 mark, in counterpoint to the 5,000 or so companies registered (Gulzar & Wang 2010).

This research find out which factor is the most important and which factor are least important outcomes of having a boardroom. This research provide the family owned businesses to understand the importance of boardrooms, and what the major and minor benefits of the boardrooms. The idea has used the Analytical hierarchical approach (AHP) which is used to identifying the most and the least important factors as per the responses received by the experts (Board members) in this research. The initial factors and the benefits sort out from the research papers and checked the importance of the factors already researched in Pakistani perspective. The main purpose of this research is to find out the most effective and the least effective benefits of having boardrooms specifically in the family owned business. This will help the family owned business to understand the significance and the benefits of boardrooms, so that they can better utilize the boardrooms to enhance the effectiveness of their businesses. The nature and construction of this research make it unique as the analytical hierarchical approach is not used in evaluating the boardrooms. Furthermore, specifically understanding the benefits of boardrooms within the family owned business is another unique point of the research which will open the horizons of this area of research in to the multiple dimensions

Literature review:

Academic research on boards has also devoted increased attention to how CEO-board relationships influence board effectiveness. Empirical researchers expect that a lack of social independence from management can negotiation board effectiveness in the strategy-making process. It is suggested,

for instance, that CEOs keep their boards largely passive and uninformed in strategic decision making through cooptation. Boards are in charge of the governance of nonprofit organizations and they make sure the compliance with all ethical and legal identities. Legal, domination, and ethical responsibilities require strong financial understanding and awareness. The involvement of the members of board who are familiar with budgets, financial statements, and nonprofit tax law is of extremely importance.

Some other basic requirements include applying for grants, fundraising, the timing of funding proposals, implementing capital reserve funds, monitoring the investment policy, and thorough financial judgment. In comparison with the agency model of the board as a controlled mechanism, empirical data suggests that boards have a broader and more comprehensive role with non-

executive directors involved in giving advice and enhancing strategy discussions. Lorsch and MacIver (1989, p. 64) stated that many directors believe the giving of advice and counsel 'to be the board's key normal duty'. Demb and Neubauer (1992, p. 82). Two broad types of relationship - competitive and complementary - were identified, with major differences in consequences for board effectiveness. The parting of the roles of chairman and chief executives has been acceptable in terms of limiting executive power and increasing non-executive independence (Cadbury, 1992).

These studies propose that the work and functioning of boards are empirically variable, and the involvement and influence of boards within the host firm will be mediated not only by external conditions and the structural features of boards, but also by board processes and the motivation and skill of individual directors acting as members of a functioning group (Pettigrew and McNulty, 1998). Forbes and Milliken present their argument that the effectiveness of boards depends on social-psychological processes, related to group participation and interaction, the exchange of information and critical discussion. They describe an effective board as one that can perform distinguishing service and control activities successfully (task effectiveness) and yet may continue working together (cohesiveness). Both these resulted criteria are distinct, but both contribute to firm

performance. The relationship between board task performance and cohesiveness is theorized as curvilinear. Task performance by boards requires 'extensive communication and deliberation, and board members must have a certain minimum level of interpersonal attraction in order to engage in these things ... [they] must trust in each other's judgment and expertise' (Forbes and Milliken, 1999). With the assumptions provided in agency theory, the presence of independent non-executives within the board can improve the effectiveness of these mechanisms through direct monitoring and the appropriate manipulation of remuneration (rewards) and sanctions (executive dismissal). These mechanisms intentionally target executive's calculation of self-interest - both positive and negative. They can be seen not merely to constrain, but to actually promote and encourage the very self-interested opportunism that they are looking forward to aligning. But the regular presence of non-executives at board-related meetings has other, quite unfamiliar and diverse potentials for accountability.

Empirical support for the association between boards, which, maintains the monitoring practices in its high standards and improves the organizational performance is actually mixed (Hillman and Dalziel, 2003). Thus, these findings reinforced the argument of Fama and Jensen (1983) that the key donors perform a monitoring function which in an organization is supplemented with the help of their "investment". This makes them strongly support the organizational efficiency with assurance because of their financial commitment to the very organization. The objective is to synthesize, appraise and extend the contemporary knowledge and awareness on comprehending both (i) theoretical perspectives and (ii) empirical evidence that contribute to the diversification of boards has a wide range of firm financial and non-financial performance, including risk taking and efficiency, corporate social responsibility (CSR), and compensation. Further, the chief executive officer (CEO) pay and a numerous set of financial institutions performance measures (e.g., merger and acquisition [M&A], earnings management, intellectual capital, innovation, and ethical reputation)

Instituting a formal evaluation of the CEO's performance shows its impact in maintaining a

balance the way it works in making a portion of the CEO's compensation, which depends on acquiring the objectives correlating with the board. (See the insert "Evaluating the CEO.")

Appraising Boardroom Performance by Jay A. Conger, David Finegold, and Edward E. Lawler

III. Herman and Renz (1997) found that boards with a precise procedure for evaluating the CEO's performance happened to be more operational in effective organizations. In general, however, work with agency theory has brought some mixed results on the association between board performance and indicators of organizational performance, (Miller, 2002). Green and Griesinger (1996) observed that boards that involved in resource-related activities, such as involvement in fundraising and on providing personal financial contributions, turned out to be related with measures of organizational performance improvisation and augmentation. Siciliano (1996) found that augmented board member occupational diversity directed to greater organizational performance related to social performance and fundraising. Researches on academic boards have also shown increased consideration to how CEO-board relationships influence board effectiveness. Empirical re-searchers have often presumed that a lack of social independence from management may likely compromise board effectiveness in the process of strategy-making.

In fact, It also got proposed, in illustration, the CEOs hold their boards mainly inactive and uninvolved in strategic decision making through cooptation, or packing boards with their followers (e.g., Herman, 1981; Mace, 1986; Wade, O'Reilly, & Chandratat, 1990). Empirical evidence proposes that relatively large reductions in agency costs are derived from the mere introduction of financial incentives, or from relatively small levels of incentive alignment (Rediker & Seth, 1995; Zajac & Westphal, 1994). In fact, numerous empirical studies have provided indication that the portion of a board appointed by a CEO can increase the board's provision for the CEO's leadership. Studies have related the percentage of CEO appointments to the size of CEO compensation packages and explanations for CEO incentive compensation as well as to the acceptance of antitakeover provisions (Lambert, Larcker, & Weigelt, 1993; Main, O'Reilly,

& Wade, 1995; Zajac & Westphal, 1994). According to Kang et al. (2007, p. 195), board diversity may be defined as diversity in the composition of the board of directors and such diversity may be characterized in two ways which can be the directly observable ones (e.g. nationality, age, gender and ethnic background and the less visible one educational functional and occupational background).

Methodologies

This research merely focuses on important factors associated with board rooms. For achieving the task researcher prepare the bi-polar questionnaire on the basis of the model of benefits of boardrooms and for the responses the experts were used to fill the bi-polar questionnaire, on the basis of their experience in the boardrooms. Bi polar tends to find the percentages from highest to lowest ratings on dimensions and sub dimensions. It uses the scale of 1 to 9 where 1 is center point and 9 is considered as highly extremely agree or focus while choosing between factors. Respondents were the personnel having running family-owned business from past 5 years taking those individuals as population and sample which is also mentioned in the studies of (). The responses are collected from the experts were put in the expert choice, which gives the results of individual pair wise matrix as well as the combine. Pair wise comparison judgment matrix find out the local weights and the global weights shows the importance of the sub dimension in terms of the dimension.

Firstly, the measurements and the sub measurements are prioritized and the hierarchy has been formed to describe the dimensions and the sub dimension. Secondly, responses of Bi-polar questionnaire will be recorded in the expert choice by creating the responded sheet. Lastly, after that the pair wise individual responses will be recorded and after the receding the combine individual option channelized by which the software makes the PCJM and the internal consistency show at the end. For the analysis of this entire process Excel and the Expert Choice software used to complete the analysis and the construction of the results. It is also described by (Goodhew, 2009) that identifying any potential via single domain cannot be done merely different strategies and measurement could be done.

There are three stages through which the process is run: identification, selection and Prioritization

Stage1 identification

At the initial stage researcher has categorized the likely dimensions and sub dimensions of board rooms highlighted in numerous researches (Becker, 1962; Abdullah, Jaafar, & Taib, 2013).

Stage2 Selection

After identifying second step is selection dimensions and sub dimensions from literature, it is important to acknowledge all dimensions and sub dimensions that will be applicable in effectiveness of board's rooms in Pakistan. For this Likert scale of 3 is selected where 1= is most important, 2= is slightly

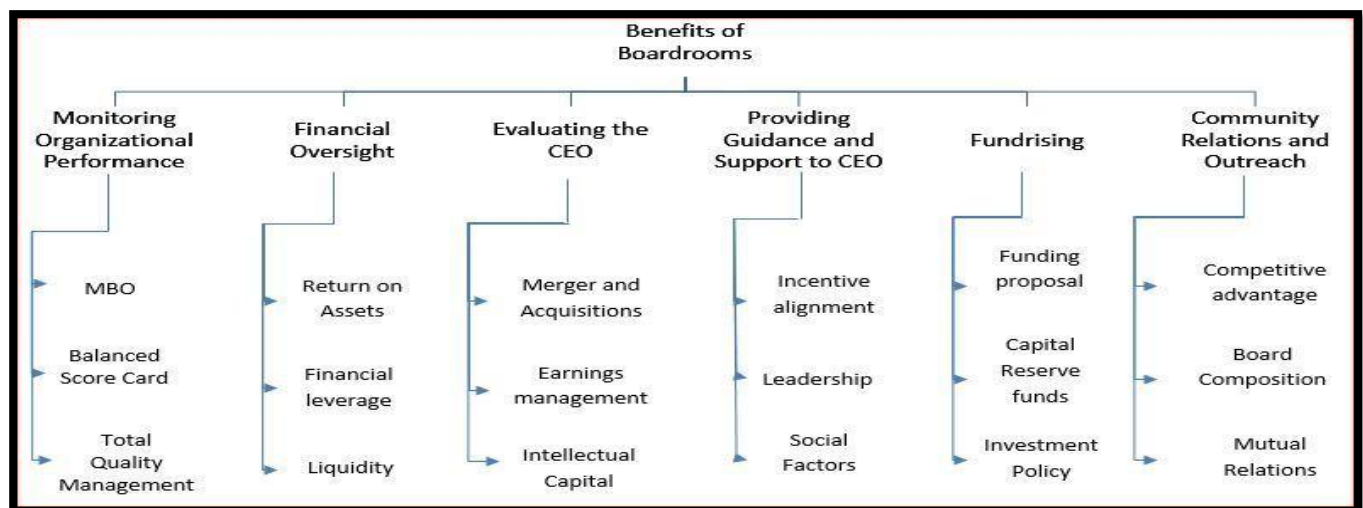
important 3= least important. Questionnaire distributed shown in table 1 to the family-owned business person.

Stage3 Prioritization

At this stage the dimensions and sub dimensions that are created on bi polar scale the scale set given by Saaty (1980) which elaborates the most and least important factors as per the preference of the respondents. Apart from those respondents AHP procedure applied the find most and least important here is the scale of Bi polar questionnaire suggested by Saaty (2005) that the scale should be used with the scale of 1 to 9 as showing below Saaty's Scale of Relative Importance.

Intensity of importance	Definition
1	Equal importance
3	Somewhat more important
5	Much more important
7	Very much more important
9	Absolutely more important
2, 4, 6, 8	Intermediate values

Fig.01 Saaty (1980). The analytic hierarchy process.



Results and Analysis

Source:Puyvelde1,Brown,WalkerandTenuta(2018)
 Figure 02 Hierarchies of Dimensions & Sub Dimensions

As we can see from the above hierarchy showing dimension and sub dimensions related to the board rooms selected from the responses. The above Hierarchy demonstrate about the 06 dimension

evaluated i.eMonitoring organizational performance (MPO), Financial oversight(FO, Evaluating the CEO (EC), Providing guidance & support to CEO (PGS), Fundrising (FR), Community relations and reach out (CRO. Moreover, each factor has 3 sub dimensions consisting of a total of 18 sub dimension that are evaluated.

Combineinstance–SynthesiswithrespecttoBoardRooms
 MainDimensions& Sub Dimensions

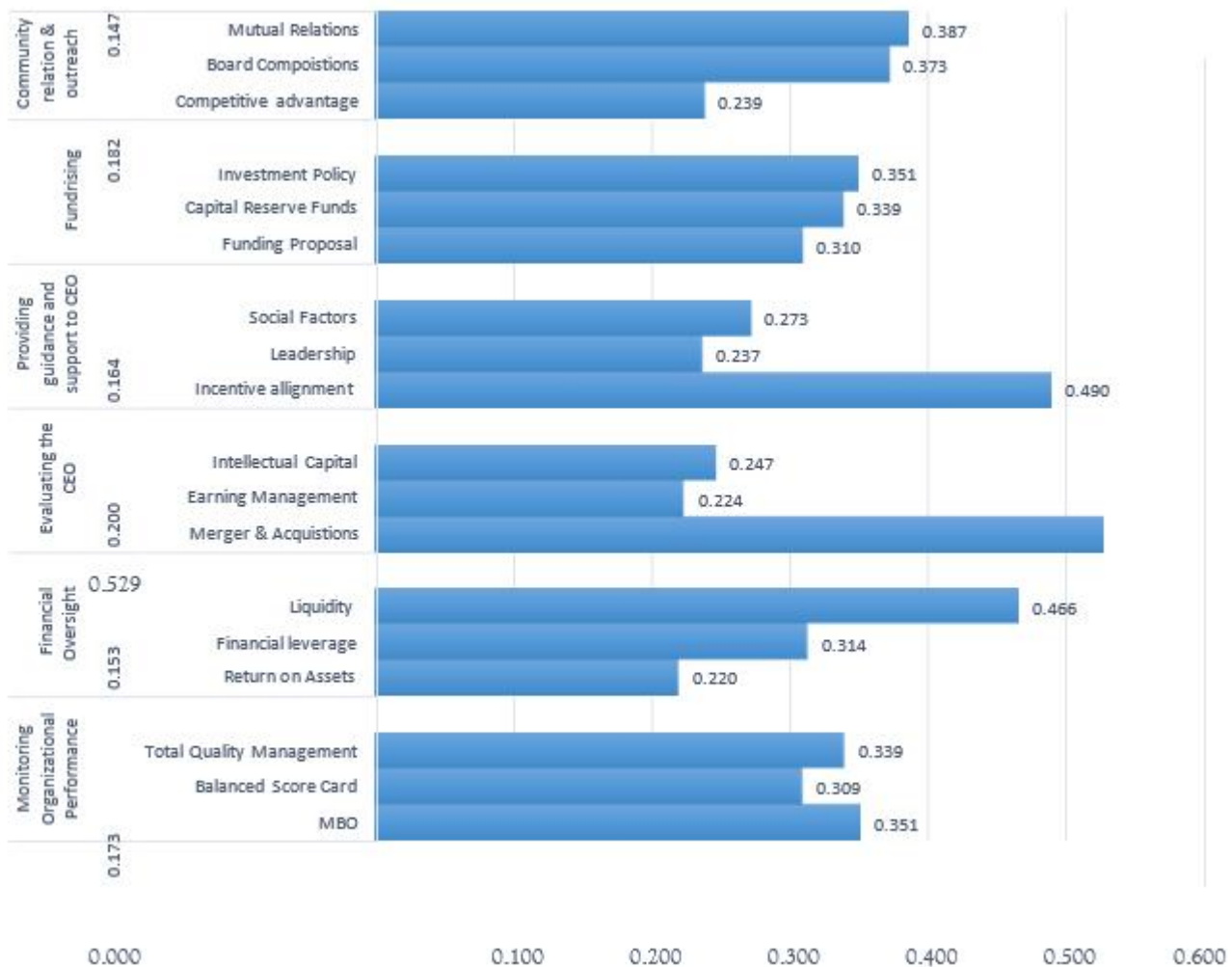


Figure03Model AHPSynthesisSummaries

As above figure shows weights in terms of percentage that is required for board rooms, while all values are analyzed on the basis of responses taken from respondents through which the highest and lowest percentages are founded. As we can see the Evaluating to the CEO is highest with 0.20 later on its sub dimension intellectual capital, earning management and Merger & Acquisitions

showing values of 0.247, 0.224 and 0.529 are rank has highest and display association with boardrooms. Whereas, community reach out and relation shows lowest association with value of 0.147 and sub-dimensions mutual relations, Board compositions and competitive advantage having values of 0.387,0.373,0.239 respectively giving least importance among all factors.

Table 1 Pairwise Comparison Judgement Matrix Main Dimension

Board Rooms	MOP	FO	EC	PGS	FR	CRO	Priority
Monitoring Organizational Performance	0.15	0.17	0.10	0.30	0.15	0.14	0.17
Financial Oversight	0.14	0.16	0.11	0.10	0.18	0.20	0.15
Evaluating the CEO	0.29	0.26	0.19	0.14	0.15	0.15	0.20
Provide Guidance & Support to CEO	0.08	0.22	0.18	0.14	0.20	0.13	0.16
Fundraising	0.16	0.16	0.22	0.12	0.18	0.22	0.18
Community relation & outreach	0.15	0.11	0.17	0.17	0.11	0.14	0.14
Consistency Ratio							0.07

Table 1 represents about the calculation related to the main dimensions of Boardrooms. Above values created via method of Geo-mean recommended by (Barzilai, Goolany, & Goolany, 1987). While compare out the comparative importance between variables, using technique of Pairwise comparison judgment matrix PCJMA geo-mean method that is most prominent way. Further geo-mean recorded and responses shown among below table 3 which represent the individual responses of Boardrooms evaluated from questionnaire. Similarly, the diagonal values are of 01 that remains same throughout the construct. As we can see from the above table that shows the value of Monitoring organizational performance with financial oversight 1/7 row wise and in the column that is 0.14, so ultimately respondent has chosen

monitoring organizational performance over financial oversight as it is compared. Parallel to that same step taken for 40 responses, while this process is endorsed by (Saaty, 1980); (Lootsma, 1980) while geo-mean is the method by which normalized weights can be calculated. Moreover, to that, geo-mean is adopted from each dimension and response from individuals and the arithmetic mean taking with priority towards calculating local weights that demonstrates the importance with respect to Boardrooms. Among all the factors most preferred is evaluating the CEO with 0.20. On second and third place is fundraising & monitoring organizational performance with 0.18, 0.17 respectively. While same process is applied with the subdimensions to find out the most prominent factor among these sub dimensions.

Table 02 Individual Response of One Responded

Board Rooms	MOP	FO	EC	PGS	FR	CRO
Monitoring Organizational Performance	1	1/2	1/4	3	1/7	8
Financial Oversight	2	1	2	1/2	1/7	9
Evaluating the CEO	4	1/2	1	1/7	1/3	6
Provide Guidance & Support to CEO	1/3	5	7	1	4	1/2
Fundraising	7	7	3	4	1	2
Community relation & outreach	1/8	1/9	1/6	3	1/2	1

Table 03 Pairwise Comparison Judgement Matrix Sub Dimensions

Monitoring Organizational Performance	MBO	BSC	TQM	Priority
MBO	0.34	0.45	0.26	0.35

Balanced scorecard	0.22	0.30	0.40	0.31
Total Quality Management	0.24	0.24	0.34	0.34
Consistency Ratio				0.06

Financial Oversight	ROA	FL	LQ	Priority
Return on Assets	0.21	0.29	0.16	0.22
Financial Leverage	0.23	0.33	0.38	0.31
Liquidity	0.56	0.38	0.45	0.47
Consistency Ratio				0.05
Evaluating the CEO	MA	EM	IM	Priority
Merger & Acquisitions	0.52	0.65	0.42	0.53
Earning Management	0.15	0.19	0.32	0.22
Intellectual Management	0.33	0.16	0.26	0.25
Consistency Ratio				0.08

Providing Guidance & Support to CEO	IA	LD	SF	Priority
Incentive alignment	0.48	0.60	0.39	0.49
Leadership	0.17	0.21	0.33	0.24
Social Factor	0.35	0.18	0.28	0.27
Consistency Ratio				0.07

Fundraising	FP	CRF	IP	Priority
Funding Proposal	0.30	0.42	0.21	0.31
Capital Reserve Funds	0.24	0.33	0.45	0.34
Investment Policy	0.46	0.25	0.34	0.35
Consistency Ratio				0.06

Community Relation & Outreach	CA	BC	MR	Priority
Competitive Advantage	0.24	0.26	0.22	0.24
Board Compositions	0.34	0.38	0.40	0.37
Mutual Relations	0.42	0.36	0.38	0.39
Consistency Ratio				0.005

Table 3 elaborates about the subdimension same as PCJMA in main dimensions as it also shows consistency ratio as suggested by (Saaty, 1980), the threshold value for consistency ratio is 0.1 if it exceeds than that it is labeled as inconsistent so value must be less than < 0.1 . While all of the above if the values are 0 It will be termed as consistent. Apart from that all the tables lies under table 3 suggest the consistency ratio is well below $0.1 <$ that

shows that all values are reliable and appropriate to create PCJM. Researcher has used Expert Choice for structure of PCJM and finding consistency and for cross validation results are run in excel. Moreover to that finding normalize weights next process was to find global weights below table 4 elaborates about the local and global weights of dimensions and sub-dimensions of all.

Table 4--Synthesis Normalized Weights

Goal	Dimensions	Local Weights	Sub Dimensions	Local Weights	Global Weights
Monitoring Organizational Performance		0.173	• MBO	0.351	0.061
			• Balanced Score Card	0.309	0.053
			• Total Quality Management	0.339	0.059
Financial Oversight		0.153	• Return on Assets	0.220	0.034
			• Financial leverage	0.314	0.048
			• Liquidity	0.466	0.071
Evaluating the CEO		0.200	• Merger & acquisitions	0.529	0.106
			• Earning Management	0.224	0.045
			• Intellectual Capital	0.247	0.050
Providing guidance and support to CEO		0.164	• Incentive alignment	0.490	0.081
			• Leadership	0.237	0.039
			• Social Factors	0.273	0.045
Fundraising		0.182	• Funding Proposal	0.310	0.057
			• Capital Reserve Funds	0.339	0.062
			• Investment Policy	0.351	0.064
Community relation & outreach		0.147	• Competitive advantage	0.239	0.035
			• Board Compositions	0.373	0.055
			• Mutual Relations	0.387	0.057
Total		1.0			1.0

As from the above table 4 we can elaborate the values of normalize weights with relevant towards local and global weights. We can see most important factor associated with boardrooms is evaluating the CEO with highest 0.20 among main dimension, on the other hand fundraising is the second most associated factor with local weight of 0.18 having sub dimensions of funding proposal 0.31, capital reserve funds 0.33, and investment policy 0.35. While among main dimensions community relation and out react elaborates the least value of 0.14 among main factors. While focusing on sub dimension highest values consist of 0.5 of merger and acquisitions categorize with the main dimension of evaluating the CEO while comparing to other dimensions that are earning management and intellectual capital with 0.22, 0.24 respectively. On the other hand, sub dimension competitive advantage shows lowest local weight of 0.239 as compare to board compositions and Mutual relations 0.37, 0.38 among community relation and outreach.

Moreover, the above table represents about the values of local and global weights that tells the overall importance linked with the main and sub dimensions of the factors with respect to main goal of boardrooms. Apart from that local weight shows relevancy of the sub dimension towards main goal.

Conclusion and Recommendations

In the end this research elaborates about the dimension and sub dimensions related to the board rooms. This research also tells that evaluating the CEO and fundraising are showing positive association towards boardrooms effectiveness. As important factors appraised boardrooms effectiveness by clarifying individual roles and their responsibilities further high qualities board prospects represents high merger and acquisitions, that demonstrate a clear way to invest in appropriate way, rather than that earning management and intellectual capital that could be avail by putting CEOs as high-profile board members that can evaluate the individual performance to drive

appropriate members. Moreover, fundraising also, a consistent factor that highly attracted towards boardrooms with sub dimensions of funding proposal it will also provide better insight of the financial positions and activities these fundraising activities take place in different aspects to plan for the potential losses that could take place. Moreover, certain factors of advisory level could be aligned with financial and operational performance although future research could be prospered on psychological and behavioral perspective to understand structure, look for the diversity of the board also consider some financial aspects to evaluate performance.

Future Direction

Among future direction certain factors could also be evaluated with respect to any organization as well on different level owned family business. Certainly, the most and least significant factors could be finding and these factors will be considered with boardrooms to create effective process.

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