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Empirical Analysis of Value Added Tax on Economic Growth in Nigeria (1994-2018)

By

John Ayodele Ajayi, PhD and Rotimi Sopelu

This study examined the effect of Value Added Tax (VAT) on economic growth in Nigeria from 1994 to 2018. Secondary data, used for the study as relevant data on Value Added Tax Revenue, Total Revenue, Total Expenditure and Gross Domestic Product at current basic prices, were collected from the Central Bank of Nigeria statistical bulletin of 2018. Auto-Regressive Distributed Lag (ARDL) technique was used to estimate a multiple linear regression model that was tailored in line with the formulated hypotheses. Results from the study showed that there is a positive and insignificant effect between log value of total revenue and log value of total of value added tax on log value of gross domestic product while total expenditure has a negative and insignificant effect on log value of gross domestic product. The general hypothesis testing using F statistics (0.023**) also revealed that VAT has made significant impact on economic growth in Nigeria which is proxy by gross domestic product since its inception in 1994. Consequently, it was recommended among other things that there should be stringent penalty imposed on any individual or corporate body that indulges in any form of value added tax malpractices, if the high correlation between value added tax and overall tax revenue in Nigeria should be maintained. It is also recommended that government through Federal Inland Revenue Service should create an effective and reliable database for every vat-able person in Nigeria in order to minimize the incidence of tax evasion.

Keywords: Value added tax, Economic growth, Nigeria, ARDL

Introduction

Tax is a compulsory contribution imposed by a public authority irrespective of the exact amount of service rendered to the taxpayer in return (Jhingan, 2004). Thus, the tax system is not only an important instrument for generating revenue for the government; but also, a tool of national economic policy. Taxation arrangements can be used to redistribute income, correct market failure, encourage consumption of merit goods, discourage consumption of demerit goods and internalize externalities (Usman et al., 2019). Taxation is therefore incontrovertibly a major player in every economy of the world. The tax system is an opportunity for government to collect additional revenue needed in discharging its pressing obligations. Value Added Tax (VAT) is a tax on estimated market value added to a product or service at each stage of its manufacture or distribution and the additions are ultimately added to the final consumer (Kareem et al., 2020).

Aneke (2009) opines that taxes represent an instrument of fiscal policy used by government to manage the economic development of the state. Nzotta (2007) reported that tax is a compulsory contribution made by the citizens to the state or even an alien, subject to the jurisdiction of the government, for reasons of residence or property and this contribution is for general common good. He further stated that a tax imposes a general obligation on the taxpayer. This means that the taxpayer has a duty to pay the tax, if he is liable and should not in any circumstances evade it. These features thus make it criminal to evade taxes under any guise (Appah, 2011).

Despite this fiscal measure having been strategically placed as an important macro-economic tool to achieve economic growth and development, the three-tier structure of the government in Nigeria still faces a recurrent problem of dwindling revenue generation as characterized by yearly budget deficits and insufficient funds. This economic reasoning emphasized the revenue need of government and indicates that apart from strengthening the existing sources of revenue, it is also necessary for government to diversify its revenue base in order to meet its constitutional responsibilities. Myles (2000) states that the financial capacity of any government depends

among other things, on its revenue base, the fiscal resources available to it and the way these resources are generated and utilized. It is therefore, the duty of the government to adequately mobilize potential revenue across the country to prevent economic stagnation. This mobilization involves the adoption of economically and politically acceptable taxes that would ensure easy administration, accounting, verification, auditing and investigation based on the equality, neutrality and other attributes of a good tax. It is on the basis of this revenue diversification strategy that the government of Nigeria in 1994 introduced a new tax system called Value Added Tax.

The rationale behind the introduction of value added tax in Nigeria came from the study group set up by the federal government in 1991 to review the entire tax system. This review was urgently needed as it is proven theoretically that economic growth (GDP) depends on total government revenue generated via different means of which value added tax (VAT) revenue is inclusive. This proven assertion coupled with the need to revamp Nigeria's economy and set it on the path of growth and sustainable development, the Nigerian government worked tirelessly for years in search of a permanent solution to the economic problems it faced (Chigbu, 2014).

Hence, value added tax was proposed in Nigeria and a committee was set up to carry out feasibility studies on its implementation. In January, 1993, the then government agreed to introduce VAT by the middle of the year. It was later shifted to 1 September 1993 by which time the relevant legislation would have been made and proper groundwork for success already laid. The actual implementation however, did not commence until January 1994 after the promulgation of the Value Added Tax Decree No. 10(1and 2) of 1993 (now VAT Act No. 102 of 1993). According to the Act a, 'Vatable' organization is an existing manufacturer, distributor, importer or supplier of goods and services (Adegbie et al., 2016). This highlights the fact that every vatable person has the obligation to register for VAT payment. Professionals like lawyers, accountants, engineers and a host of others who provide professional services to their clients are required to register. There is therefore no threshold nor stringent conditions for registration. Registration of VAT is to cover all the business activities of the vatable persons. Therefore, all domestic manufacturers, wholesalers, distributors, importers and suppliers of goods and services in Nigeria are expected to register for VAT within six months after the commencement of the Act or six months from the commencement of business, whichever is earlier. The Value Added Tax Act of 1993 was enacted to repeal and replace the sales tax which had been in operation under the Federal Government Legislated Decree No. 7 of 1986. Adegbie et al. (2016) opined that the Act was marred by a number of factors and considerations and the narrow base of the old sales tax negates the fundamental principles of consumption tax which by nature is expected to cut across all consumable goods and services. Value added tax in Nigeria is a federal government tax, which is administered using the existing machinery of the Federal Inland Revenue Services (FIRS). However, the interesting aspect of Nigeria's value added tax is the very low single rate of 5% which is one of the lowest in the world and even in the West African sub-region. To mention but a few, Ghana has a rate of 10%, Republic of Benin 18% while Togo has multiple rates ranging from 5% to 30% (Olaoye, 2004). Evidence suggests that in these countries VAT has become an important contributor to government revenue (Adereti et al., 2011). It was against this background coupled with the dwindling revenue that the Nigerian government increased the VAT rate to 7.5% in February, 2020. In Nigeria, VAT is also a major source of revenue. For example, actual VAT revenue for 1994 was N5.03 billion (Central Bank of Nigeria (CBN), 2004). Five years later, the figure was N26.38 billion, and with the advent of democracy in 1999, VAT revenue figure stood at N586.24 billion and in 2012, the revenue generated through value added tax was N656.24 billion in 2013, N655.71 billion in 2014 (CBN, 2014). The National Bureau of Statistics (NBS), 2018) puts VAT revenue at N795.43 billion in 2015, N777.50 billion in 2016 showing a reduction in revenue by 2.25 percent; between 2017 and 2018, the revenue was put to N972.35 billion in 2017 showing an increase of 25 percent between 2016 and 2017. As of 2018, the VAT revenue stood at N1.11trillion as reported by National Bureau of Statistics (NBS) and N1.17 trillion in 2019 (CBN Economic Report, 2019). The question to be asked then is "how have these revenues generated from VAT affected the growth of the Nigerian economy"? This forms the gap which this study intends to investigate.

Research Hypothesis

For the purpose of this research work, the following hypotheses which are in null form are formulated and tested for the study.

Hypothesis One:
H_0: There is no significant relationship between Value Added Tax (VAT) and economic growth in Nigeria.

Hypothesis Two:
H_0: There is no significant relationship between Total Revenue and economic growth in Nigeria.

Hypothesis Three:
H_0: There is no significant relationship between Total Expenditure and economic growth in Nigeria.

Literature Review

Ofishe (2015) empirically analyzed the impact of value added tax on economic growth in Nigeria from 1994 – 2012. Ordinary Least Square technique was used to estimate three models in line with the formulated hypotheses. Results from the models revealed a strong positive significant impact of VAT on economic growth as proxy by GDP in Nigeria. It also revealed that there is a positive relationship or impact of VAT on total tax revenue over the period studied. Consequently, it was recommended, among other things, that government should put in place measures to effectively utilize generated VAT revenue for infrastructural and economic development. It also recommends the review of tax incentives to attract both local and foreign investors in order to boost economic growth in Nigeria.

Houssa et al. (2017) did a study on value added in two West African countries, namely Benin Republic and Burkina Faso. The study covered a period of sixteen years (1999-2014) where the activities of twenty key sectors of each country's national output-output tables sources of VAT gaps. Results from their analysis show that the VAT gap in Benin Republic is mainly explained by inefficiencies in some key sectors such as transportation, agriculture, sales, telecommunications, post office, agricultural-based industries and other service sectors. On the other hand, in Burkina Faso, the study revealed similar sectoral contributions to VAT gap, however, public administration played a more dominant role than her Benin counterparts.

Okoli and Afolayan (2015) examined the extent to which VAT has been contributing to Nigeria's total federally collected revenue and subsequently her position among the other three components. Hence the study employed an Error Correction Model (ECM) for the analysis. Data spanning 1994 to 2012 sourced from the Central Bank of Nigeria annual report and CBN Statistical Bulletin were used for the analysis. Results from the study revealed that VAT is the second-long term source of the total federally collected revenue.

The study of Lakuma and Sserunjogi (2018) on the value added tax gap analysis in Uganda shows that the compliance gap is estimated to be between 39 percent and 30 percent of potential VAT revenues during the period 2009/10–2016/17, and peaking in 2010/11 in that country. The estimated gap is higher than the typically observed levels in Sub-Saharan countries and near to the levels in Latin American countries. The estimated compliance gap increased to 64 percent of potential revenue in 2010/11, largely due to the significant reduction in imports during the 2010/11 election season, the lag effects of the global financial crisis, the effects of rebasing the economy from 2005/06 to 2009/10 and potential loss of information during the switchover from a manual VAT system to an electronic tax system. The gap has since gradually decreased to 30 percent of potential VAT revenues. The size of compliance gap relative to GDP was between 2.3 percent and 3.6 percent of GDP.

Owino (2019) carried on a study to empirically examine the impact of value added tax revenue on the economic growth of Kenya. Time series data for the period 1973 to 2010 was utilized. The study employed the Ordinary Least Square (OLS) technique to estimate the model. The empirical result found a positive but statistically insignificant relationship between VAT revenue and economic growth in Kenya. The study concluded that the impact of VAT on the economy is not statistically significant enough to influence the economic growth in Kenya, due to some problems (such as VAT gap), that are affecting the potentials of the country VAT system.

Abbas (2014) examined the impact of trade openness and liberalization on economic growth in developing countries during the period of 1990–2011 using the panel fixed effect model. The results showed that trade liberalization has a negative impact on economic growth of the selected countries whereas real exports make a significant positive impact on it.

Ahmed (2019) opines that the Nigerian GDP ratio stands at less than 1% (0.8%), which compares unfavourably to the ECOWAS average of 3.4%, and in September 2019, Ahmed (Nigeria's Minister of Finance) announced the government's proposed plan to increase the VAT rate by 50% from the standard 5% to 7.5% (which has been eventually increased to 7.5% in 2020). This revelation caused public outcry from tax experts, the general public and politicians, who said that the low VAT revenue was caused by weak tax administration, which tolerates VAT evasion that creates a huge VAT gap in the country.

Chigbu (2014) examined the impact of value added tax on the economic growth of Nigeria for the period 1994-2012. Secondary data collected from the relevant government agencies in Nigeria were analyzed with relevant econometric tests of Breusch-Godfrey Serial Correlation LM, White Heteroskedasticity, Ramsey RESET, Jarque Bera, Johansen Co-integration, and Granger Causality. Findings from the study showed that there exists a long run equilibrium relationship between economic growth and VAT. It was also found that VAT does granger, cause gross domestic product of Nigeria. On the basis of the empirical analysis, the paper concludes that VAT is one of the most important components of indirect taxes in Nigeria that affect the economic growth of the country and therefore should be properly managed to reduce the level of evasion by the input and output relationship in Nigeria.

Denis (2010) investigated the relationship between value added tax (VAT) and gross domestic product (GDP) in Nigeria. The study reveals that VAT is not effective as a revenue earner; this implies that significant parts of GDP which represent aggregate national income as well as aggregate national expenditure are not collected as tax.

Obianwuna (2005) conducted a study on value added tax implication for revenue generation in Nigeria. The major purpose of the study was to determine the implication of value added tax for revenue generation in Nigeria. The study adopted a descriptive survey design. The population for the study comprised 40 staff of the Federal Inland Revenue Service, Abuja and 120 staff from eight companies in Abuja totaling 160. The study found that broadening of the tax base has a different burden on imported goods and domestically produced goods and service. The study relates to the present study because both focus on VAT revenue collection in Nigeria.

Ugwu (2006) conducted a study on the administration of value added tax problems and prospects in the Nigerian economy. The major purpose of the study was to examine the prospects of VAT in the enhancement of public revenue in Nigeria. The study adopted a descriptive survey design. The population for the study comprised 35 Federal Inland Revenue Service Administrative Staff, 50 tax inspectors and 60 other categories totaling 145 in number. The study revealed that poor record keeping constitutes a problem to the success of VAT administration in Nigeria. It also revealed that poor quality personnel constitute problems for VAT administration in Nigeria. Ugwu's study relates to the present study because both focus on VAT administration. However, the present study differed from Ugwu's because the present study sought to find out the level of revenue realized each year while Ugwu's study was based on problems and prospects of VAT administration. In addition, Ugwu's study made use of primary data while this study applies secondary data.

Adereti et al. (2011) empirically evaluated the contribution of value added tax (VAT) to economic growth in Nigeria between 1994-2008. From their time series data of GDP and VAT revenue, it was observed that VAT revenue to total tax revenue averaged 12.4% which was considered very low when compared to other countries in Africa. The study also observed that there is no causality between VAT revenue and Nigerian gross domestic product. Both observations indicate that revenue from VAT has no significant impact on economic growth in Nigeria.

The literature reviewed above shows that there is no consensus among the various authors who have carried out empirical research on value added tax in developing nations and especially in Nigeria hence creating the gap which this study intends to address.

Methodology

Model Specification

This study made use of time series data from 1994 to 2018 which were collated from the Central Bank of Nigeria Statistical Bulletin. The data on economic growth is represented by GDP while data for Value Added Tax, Total Revenue and Total Expenditure represent the independent variables in the research model. In order to analyze the contributions of VAT to economic growth in Nigeria, a linear regression method was used for the analysis. The study is modeled according to the work of Rajeshwari (2010) and Onwuchekwa and Aruwa (2014).

The model is specified as follows:

$$GDP = f(VAT, TR, TE) \quad (3.1)$$

$$GDP = \beta_0 + \beta_1 VAT + \beta_2 TR + \beta_3 TE + \mu \quad (3.2)$$

Where:

GDP = Gross Domestic Product

VAT = Value Added Tax

TR = Total Revenue

TE= Total Expenditure

β_0 = constant

β_1, β_2 **and** β_3= coefficient of independent variable

μ = error term

Empirical Results and Discussions

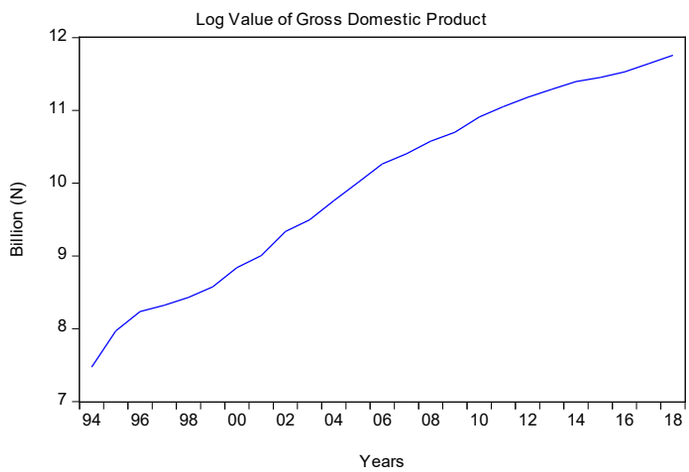
Table 1. *Descriptive Statistics*

	LGDP	LTE	LTR	LVAT
Mean	9.984192	7.169789	7.171086	4.958090
Median	10.26334	7.593364	7.704375	5.228378
Maximum	11.75793	8.676724	8.650925	6.802428
Minimum	7.474664	4.316020	4.230186	1.615420
Std. Dev.	1.326222	1.496040	1.503095	1.546884
Skewness	-0.307449	-0.735177	-0.748559	-0.588691
Kurtosis	1.751201	2.042086	2.059819	2.144438
Jarque-Bera	2.018331	3.207856	3.255520	2.206473
Probability	0.364523	0.201105	0.196369	0.331795
Sum	249.6048	179.2447	179.2771	123.9522
Sum Sq. Dev.	42.21274	53.71524	54.22305	57.42837
Observations	25	25	25	25

Note: Researchers computation with the aid of EViews 9 (2020)

Table 1 presents the description of the statistical properties of the variables under consideration in the study. The mean of the variables which include log of Gross Domestic Product (L_GDP), log of total expenditure (LTE), log of total revenue (LTR) and log of Value Added Tax (LVAT) are 9.98%, 7.16%, 7.17%, and 4.95% respectively amongst others.

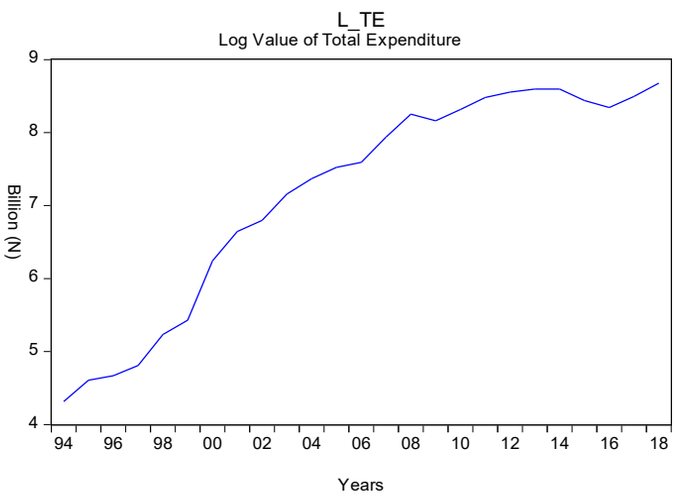
Figure 1. *Trend of Gross Domestic Products in Nigeria (1994-2018)*



Note: Researchers computation with the aid of EViews 9 (2020)

The trend of gross domestic products (GDP) in-Nigeria is graphically shown in Figure 1. Over the periods of consideration (1994 to 2018), the GDP of Nigeria barely shows an upward movement arising from improvements in investment and government expenditure in the country. However, it could be observed from the trends that the movement maintains a constant increase over a long time and a shortfall in a few years arising from an economic downturn experienced at different year's level.

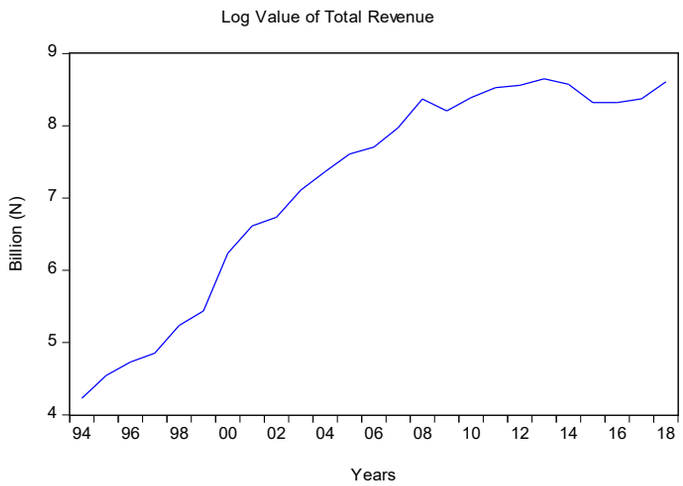
Figure 2. *Trend of Total Expenditure in Nigeria (1994-2018)*



Note: Researchers computation with the aid of EViews 9 (2020)

The trend of total expenditure in Nigeria is graphically shown in Figure 2. Over the periods of consideration, the total expenditure of Nigeria barely depicts an upward movement. However, the trend witnessed a sharp increase within 2007 and 2008 resulting from increase in government spending as a result of a national election conducted in the country within the year.

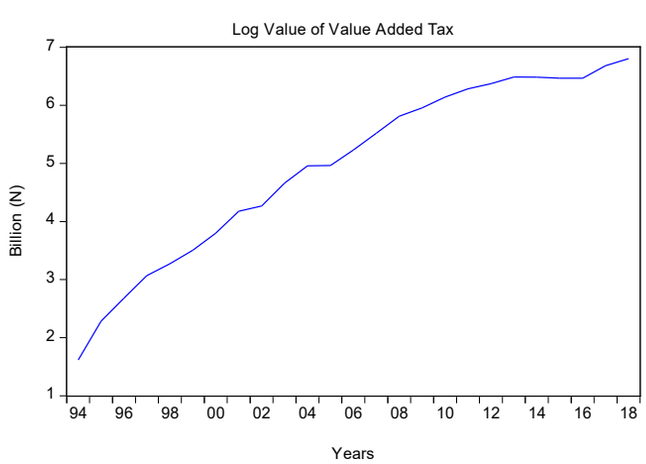
Figure 3. *Trend of Total Revenue in Nigeria (1994-2018)*



Note: Researchers computation with the aid of EViews 9 (2020)

The trend of total revenue in Nigeria is illustrated in Figure 3. Over the periods of consideration, total revenue in Nigeria barely depicts an upward movement. It could be observed that the trend increases in 1994 arising from the introduction of VAT, which added to the income level of the government of the country in the aforementioned year. However, between 2014 and 2016 the trend experienced a fall which could be as a result of a decrease in the oil level patronage in the country and the tax avoidance and evasion practices.

Figure 4. *Trend of Value Added Tax in Nigeria*



Note: Researchers computation with the aid of EViews 9 (2020)

The trend above shows the movement of VAT in Nigeria from 1994 till 2018. As it could be seen in Figure 4, the trend shows an upward movement with a little fall in 2003, 2005 and 2016 which could be as a result of reduction in consumption of VAT chargeable commodities in the country for the identified periods.

Unit Root Tests

To determine the order of the stationarity of the series, the Augmented Dickey-Fuller unit root test was engaged for which the results are presented in Table 2. The unit root test is usually employed to ascertain whether a time series variable is stationary or not.

Table 2. *Test for Stationary at Level and First Difference*

Variables	Table 2 – Augmented Dickey – Fuller (ADF) Test						I (d)
	Level			First difference			
	Model I	Model II	Model III	Model I	Model II	Model III	
LGDP	-1.470085	0.215487	2.088105	-3.038715**	-4.968100***	-1.593932	1(1)
LTE	-2.745871*	-0.418633	1.571405	-3.290961**	-3.623456*	-0.946208	1(1)
LTR	-2.962363*	-0.451380	1.602595	-3.436716**	- 4.456593***	-2.479838**	1(1)
LVAT	-5.513936***	-2.228366	1.776518	-3.965081***	-5.244759***	-1.963390**	1(1)

Note 1: Authors Computation using E- Views 9 (2020)

Note 2: *, ** and *** represent significance level at 1%, 5% and 10% respectively.

Table 2 shows that Gross Domestic Products (GDP) is not stationary at levels thereby, making the variable to be integrated of order one that is I(1). Hence, the variable is stationary at first difference. Similarly, all the independent variables which include: Total revenue (TR), total expenditure (TE) and value added tax (VAT) show that at first level difference, there is stationary at first difference which is at both intercept (model I), Intercept and trend (Model II) and None (Model III).

Cointegration Test

Table 3. *Johansen Cointegration Test*

Trace Test			
Hypothesized No. of CE (s)	**Trace Statistics**	**0.05 Critical Value**	**Prob**
None	46.65	47.85	0.0647
At Most 1	26.59	29.80	0.1121
Maximum Eigenvalue			
Hypothesized No of CE(s)	**Maximum Eigen Statistics**	**0.05 Critical Value**	**Prob**
None	20.06	27.58	0.3372
At Most 1	16.72	21.13	0.1856

Note: Authors Computation using E- Views 9 (2020)

Table 3 shows the cointegration test result of the analysis using the Johansen cointegration test in order to determine if there exists a long run relationship between the dependent and independent variables. However, it could be observed from the trace statistics result at both none (46.65) and at most 1 (26.59) has a lower value compared to the critical value result at 5% in both none and at most 1 respectively indicating that there is no long run relationship between the dependent and independent variables. Also, the Maximum Eigen value shows a lower value of 20.06 and 16.72 at both none and at most 1 result respectively compared to the critical value result at 5% indicating a no cointegration relationship between the dependent and independent variables in the research work which is similar to the outcome of the trace test. Hence, the result estimation will only test for the short run relationship between the independent and the dependent variables.

Model Estimation

Table 4. *Short run (Dynamic Model)*

Dependent Variable- Log Gross Domestic Product (LGDP)				
Variables	**Coefficient**	**Std. Error**	**T-stat**	**Prob**
Constant (C)	2.7823	1.7752	1.5670	0.3615
D(L_TE)	-0.1091	0.5025	-0.0217	0.8638
D(L_TE (-1)	-0.6385	0.2600	-0.2455	0.2462
D(L_TR)	0.122	0.3215	0.3797	0.7690
D(L_TR (-1)	0.4120	0.2145	1.9209	0.3056
D(L_VAT)	0.1492	0.2160	0.6907	0.6152
D(L_VAT (-1)	-0.1063	0.2490	-0.4270	0.7431
ECM (-1)	-0.4212	0.2751	-1.5313	0.3683
R^2	0.99			
Adjusted R2	0.99			
F stat (Prob)	1102.55(0.023)			
Durbin Watson (DW)	2.46			

Note: Authors Computation using E-Views 9 (2020)

Table 4 depicts the model estimation for the short run analysis using the Auto-Regressive Distributed Lag (ARDL) model. It could be observed that log of total expenditure (L_TE) at the level has a negative relationship with the log of gross domestic product (L_GDP) in Nigeria for the period under observation. This implies that a unit increase (decrease) in total expenditure will lead to decrease (increase) of 10.9% in the gross domestic product of Nigeria. However, at the first order, there also exist a negative relationship between government expenditure and gross domestic product in Nigeria. In relation to this, a unit decrease in government expenditure will tend to lead to an increase of 63.8% in the gross domestic product. Similarly, there is no significant relationship between total expenditure and gross domestic product which could be seen from the calculated probabilities which are greater than the critical value (5%) acceptance region at both level and first difference in the Table 4 above.

Furthermore, from Table 4 it could be seen that a direct relationship exists between log of total revenue (L_TR) and log of gross domestic product (L_GDP). Hence, a unit increase in the total revenue will bring about 12.2% increases in the gross domestic product at level. Whereas, at the first difference, a unit increase in the total revenue will bring about 41.2% increases in the gross domestic product. Meanwhile, there is no significant relationship between total revenue and gross domestic product at level and first difference showing higher values of 0.76 and 0.30 respectively which is above the critical value of acceptance at 0.05.

Additionally, result on log of value added tax (L_VAT) shows a positive relationship with the log of gross domestic product (L_GDP) at level. Hence, a unit increase in the value of value added tax will bring about 14.9% increase in the gross domestic product of Nigeria. Also, log of value added tax (L_VAT) has an insignificant affect on economic growth in Nigeria.

The Error Correction (ECM) Coefficient in Table 4 indicates the speed of adjustment from the short-run dynamics to long-run equilibrium is 42.12%. In other words, 42.12% of the long-run disequilibrium in the previous years is adjusted every year.

Conclusively, the Adjusted R^2 value of 0.99 indicates that 99% variation in gross domestic product is explained by total expenditure, total revenue and value added tax. The F-Statistic which is less than 0.05 confirms that the estimated model in Table 4 is significant and valid. More so, the Durbin Watson (DW) value of 2.46 falls in the range of acceptability indicating that there is no autocorrelation in the estimated model.

Post Estimation

The model estimated was validated and verified using a series of diagnostic and stability checks to scrutinize the independence of the residuals from the fitted model. For a model to be robust, the residuals must exhibit the required independence during the checks, if not; the model is unacceptable statistically and requires further model modification before additional diagnostic and stability checks. In this way, the ARDL model becomes unbiased to make the correct statistical inferences.

Tables 5 and 7 present the diagnostic test for the ARDL model. The tests employed to validate the ARDL model include; Serial Correlation Test using Q statistics, Heteroscedasticity Test and Normality Test.

Serial Correlation Test

Table 5. *Q-statistic Probabilities Adjusted for 4 Dynamic Regressors*

Autocorrelation	Partial Correlation		AC	PAC	Q-Stat	Prob*
.**| . |	.**| . |	1	-0.256	-0.256	1.5827	0.208
. *| . |	. *| . |	2	-0.081	-0.157	1.7510	0.417
***| . |	****| . |	3	-0.457	-0.572	7.3608	0.061
. |**. |	. *| . |	4	0.243	-0.174	9.0404	0.060

Note: Authors Computation using E- views 9 (2020)

Table 5 shows that the Q-statistics is insignificant at the acceptance critical value of 0.05. This indicates that there is no serial correlation in the model. Hence, the null hypothesis that there is no serial correlation cannot be rejected.

Heteroscedasticity Test

ARDL residual heteroskedasticity was tested with Breusch-Pagan-Godfrey Test statistic.

Null Hypothesis: No conditional heteroskedasticity

Alternative hypothesis: There is conditional heteroskedasticity

The results are presented below:

Table 6. *Heteroskedasticity Test: Breusch-Pagan-Godfrey*

F-statistic	0.091684	Prob. F (19,1)	0.9963
Obs*R-squared	13.34135	Prob. Chi-Square (19)	0.8206
Scaled explained SS	0.053935	Prob. Chi-Square (19)	1.0000

Note: Authors Computation using E- views 9 (2020)

From Table 6, the calculated F-statistics is 0.091 with a probability of 0.99 which is greater than the tabulated probability of 0.05. Thus, we accept null hypothesis that there is no conditional heteroscedasticity and reject alternative hypothesis that there is conditional heteroscedasticity. Evidence from the Table shows that the ARDL residual Heteroskedasticity Test cannot reject the null hypothesis of no conditional heteroskedasticity at the 5% significance level. Meaning that, no conditional heteroskedasticity exists in the residuals of the ARDL model. Therefore, we can conclude that the model is homoscedastic i.e. it has a zero mean and constant variance.

Normality Test

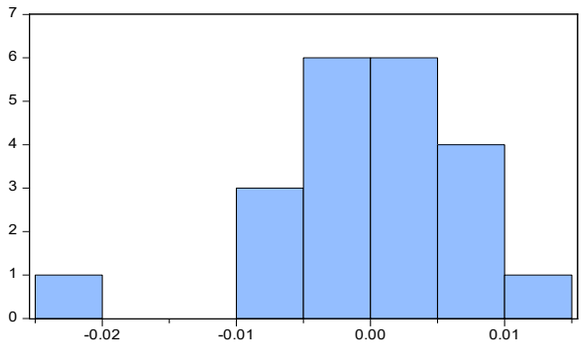
ARDL residual normal distribution was tested with Jarque-Berra test statistic.

Null Hypothesis: The residual of the series is normally distributed.

Alternative hypothesis: There residual of the series is not normally distributed.

The results are presented as follows:

Table 7. *Normality Test for the Residuals*



Series: Residuals	
Sample 1998 2018	
Observations 21	
Mean	1.10e-15
Median	0.001528
Maximum	0.010297
Minimum	-0.021771
Std. Dev.	0.007417
Skewness	-1.140347
Kurtosis	4.565671
Jarque-Bera	6.696278
Probability	0.035150

Note: Authors Computation using E- Views 9 (2020)

The calculated Jarque-Bera statistics is 6.69 with a probability of 0.035 while the tabulated probability is 0.05. Evidence from the graph thus shows that the null hypothesis of multivariate normal distribution will be rejected at the 5% significance level, meaning that, the ARDL residuals are not normally distributed

Conclusion

The Nigerian government in its quest at increasing revenue mobilization decided to change the tax structure in order to ensure efficiency and effectiveness in the administration of tax, and reduce over dependency on oil as the only major source of revenue. This prompted the government to replace the sales tax with value added tax in December 1993 with the introduction of Decree 102 of 1993 which marks the phasing out for the Sales Tax Decree 107 of 1986, on the grounds that the previous system encouraged tax evasion, had a narrow base of revenue generation and deferred the payment of tax.

The study revealed that VAT has economic impact on consumption patterns of Nigeria which is in tandem with the works of Ajibola and Olowolaju (2017). Following the result of the data gathered using the Auto-Regressive Distributed Lag (ARDL), it was discovered from the coefficients result of the identified variables (Value Added Tax, Total Expenditure and Total Revenue) that VAT and total revenue has a positive effect on economic growth since the introduction of VAT in 1994 and this is in line with the study of Chigbu (2014), Udoffia and Godson (2016). However, total expenditure result depicted an inverse effect on economic growth of Nigeria based on the outcome of the data analysis. This result contradicts the outcome of Chude and Chude (2013).

The general hypothesis testing using F statistics (0.023) also revealed that VAT has made significant impact on economic growth in Nigeria which is proxied by GDP. The general outcome of this study conforms to the results of Chigbu (2014) and that of Ofishe (2015).

Conclusively, results from this study shows that value added tax has a positive significant effect on economic growth (GDP) in Nigeria. Its proper monitoring, collection, and usage is a necessary ingredient to achieve growth in the country.

The paper therefore recommends that government through the Federal Inland Revenue Service should create an effective and reliable database for every vat-able person to minimize (if not eliminate) the incidence of tax evasion. In the same vein, the entire tax system should be overhauled to discourage tax avoidance as VAT payers are ever willing to take advantage of loopholes in the tax system to reduce their tax liabilities.

In addition, as seen from the results of this paper that total expenditure has a negative effect on economic growth which ought to depict a positive effect. Hence, the government of Nigeria should develop a policy that will monitor the spending and disbursement of government funds for the purpose of improving economic output and as well increase the economics of scale. This can be done through effective incorporation of standard organizational ethics at all levels of government activities.

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Data for the Study

Year	GDP (Billion) N	VAT(Billion) N	TE (Billion) N	TR (Billion) N
1994	1762.81	5.03	74.89	68.73
1995	2895.2	9.82	100.34	94.05
1996	3779.13	14.6	106.66	113.32
1997	4111.64	21.5	122.63	128.21
1998	4588.99	26.38	187.23	188.15
1999	5307.36	33.31	228.34	229.79
2000	6,897.48	44.55	513.53	510.95
2001	8134.14	65.01	768.33	745.07
2002	11332.25	71.36	894.36	841.97
2003	13301.56	105.54	1282.87	1225.17
2004	17321.56	142.19	1586.11	1582.24
2005	22269.98	143.24	1853.1	2016.86
2006	28662.47	186.49	1984.98	2218.03
2007	32995.38	249.47	2799.74	2897.68
2008	39157.88	333.99	3841	4313.81
2009	44285.56	386.7	3507.7	3660.03
2010	54612.26	464.69	4089.92	4400.06
2011	62980.4	536.23	4821.67	5046.25
2012	71713.94	586.24	5190.52	5220.77
2013	80092.56	656.85	5406.77	5715.43
2014	89043.62	655.71	5415.6	5286.83
2015	94144.96	642.92	4619.59	4104.66
2016	101489.49	642.92	4203.59	4104.66
2017	113711.63	797.45	4897.45	4330.48
2018	127762.55	900.03	5864.8	5478.1

Source: CBN Statistical Bulletin

The Behavioral Perspective of Board Governance: Exploring the Strategic Role in Qatar

By

Maryam Ibrahim Al-Mansoori, DBA

Abstract

This study has expanded our insights into board governance in Qatar from the behavioral perspective by exploring the strategic task at times of changing complexity. By studying what happens outside and inside the boardroom, examining board member composition (knowledge diversity), competence (breadth and depth), ability to make, and shape, strategic decisions, as well as shape the context, conduct and content of strategy, we have further opened the "black box" in order to deep dive and analyze board behaviors and other controversial issues relating thereto. Mediation by use of skills and knowledge, criticality, and committees shows that the strategic involvement of the board of directors can be further enhanced. Through this research (Al-Mansoori, 2019) many observations were made that are general and at the same time may be specific to Qatar - fast economic development and global impact of digitalization that are soon going to have influence on the local practices.

The study proposed a new theoretical model for further enhancing board's effectiveness in Qatar and highlighted opportunities for increasing the readiness of boards for the impact of digitalization.

The research was developed from surveys and interviews with individuals who were chairpersons, board directors and CEOs of organizations in Qatar.

Keywords: Board governance, Behavioral perspective, Board directors, Qatar blockade, Strategic role

Introduction

Today, there is a general agreement on that board governance may have major impact and contribution to the firm's value creation (Ayari & Regaieg, 2018). Monitoring financial performance used to be considered the main objective for boards (Huse, 2018). However, applying a behavioral perspective for board governance has shifted board responsibility to the creation of value. Moreover, most studies on boards of directors have focused on input (composition of board) and output variables (board performance), without direct linkage to, or relationship with the inner board processes and mechanisms (Forbes & Milliken, 1999; Pettigrew, 1992). It is thus a call for more study on the actual behaviors of a board (what goes between the input and output of board work), which supplements knowledge on board governance (Huse, 2005, 2007; Pettigrew, 1992).

This study is about value creating boards and actual board behavior in Qatar. The State of Qatar has emerged as one of the world's most important producers of oil and gas and launched the National Vision with an objective to diversify its economy and become a knowledge-based economy by 2030. As we are moving to a knowledge-based economy in Qatar, investment in human capital and knowledge-based activities have become critical, but they are not fundamental to agency theory (Hoskisson et al., 2011). Agency theory, which dominated the theoretical analysis in management and strategy for the past two decades (Hoskisson et al.,2011) focuses on control activities driven by value protection matrices, with an approach to avoiding problems. Hence, the role of people needs to be integrated with boards and how they work.

The objective of this current study is to evaluate board governance in Qatar from a behavioral perspective, exploring their strategic tasks at times of change by going beyond the surface of board governance and focusing on the people as the main

actors to understand interactions between the independent actor (board member knowledge diversity) and board outcome. Focus is set on the strategic involvement for the creation of value (taking and shaping strategic decisions and shaping the conduct, content and context of strategy), mediated by the board culture (use of skills and knowledge, and criticality).

Boards and Corporate Governance

No one model or definition of corporate governance suits all environments, occasions and circumstances. In general, it is about setting of priorities, delegation of power, and organization of accountability (Levrau & Van Den Berghe, 2007). However despite the different definitions, there are universal standards, fundamentals, and principles of best practices that can be followed in the face of different drivers and requirements (legal, administrative), legal backgrounds, the cultural and political context, business forms linked to different business models and geographical jurisdiction (Leblanc, 2016; Mallin, 2016). Good corporate governance is expected to balance the interests of, and relationships among, the various stakeholders of the company while ensuring the long-term sustainability and success of the enterprise.

Understanding the behaviors of directors of a board leads to better support, and setting the foundation for the interpretation and implementation of strategies (McNulty & Pettigrew, 1999). The culture of a boardroom needs to foster interactive discussions to take the maximum benefit from the members, and fully utilize the use of skills and knowledge of the board members. A decision-making culture has a number of core concepts. Criticality in the boardroom is more foundational for the interactions and social system. Criticality is the individuality of the directors of the board and their ability to have independent discussions and a questioning attitude as part of a team (Huse, 2007).

Board members are key players in the organization and building the right board requires the possession of certain skills and knowledge by its members to fulfill their tasks as a member of a board of directors' team. The type of experience and skills required by boards is determined based on the context in which the organization belongs (Huse, 2007). Competence and knowledge can be categorized as firm specific knowledge (depth) and general business knowledge (breadth) (Bankewitz, 2016; Forbes & Milliken, 1999; Harrigan, 1983).

In the context of the debate on the involvement of the board of directors in strategy, McNulty and Pettigrew's framework suggest that strategy is a sphere of activity in which part-time board members are capable of controlling the management. Part-time board member's role can no longer be seen as simply approving an executive's ideas or strategies. Their know-how of the industry can challenge any executive at the operating level in the company on industry content (Table 1).

Table 1. *Strategic Involvement of Part- time Board Member*

	Definitions	Board Behaviors	Board Involvement
Taking Strategic Decisions	Influence is only felt internally at the end of decision process	Within the boardroom, the decision is either to approve, reject or review proposals	The whole board contribute in strategic decisions
Shaping Strategic Decision	Part-time board members influence is exerted at the proposal stage when it is developed by executives	Integration and testing of ideas by the management and non-executive board members, at the time of proposal preparation. This process enables board members to test the logic and challenges any assumptions, advise caution, and offer encouragement	Some, but not all, boards shape strategic decisions
Shaping the Context, Conduct and Content of strategy	Influence is continuous and not event driven	The board develops the context for strategic debate, establishes a process for strategy formation, monitors strategy content and adjust the approach of the executive in relation to strategy	A majority of boards shape the context, content and conduct of strategy

Note: Adapted from "Strategist on the Board" by T. McNulty and A. Pettigrew, 1999, *Organization Studies, 20(*1), 47-74.

The fact that directors of the board have different educational backgrounds, functional and industrial experiences, and knowledge, means they are likely to experience difficulties with interacting on the board with the way ideas are perceived, processed and responded to during discussions in the boardroom (O'Reilly & Williams, 1998). The behaviors and competencies of directors of the board, and the chairperson are critical for unleashing the potential of the board for value creation. Knowledge brought by the board directors is one measure on how effective the board can be, however, this knowledge must be used (Huse, 2018).

The State of Qatar

Qatar has a National Vision for 2030 with the aim that "Qatar becomes an advanced society capable of sustaining its development and providing a high standard of living for its people. Qatar's National Vision defines the long-term goals for the country and provides a framework in which national strategies and implementation plans can be developed" (Government Communication Office, 2019, para. 1). The Vision is to be achieved through four pillars, which are human development, social development, economic development, and environmental development as defined in the Vision 2030 document published by the General Secretariat for Development Planning (2008):

> Human development: of all its people to enable them to sustain a prosperous society.
>
> Social development: of a just and caring society based on high moral standards, and capable of playing a significant role in global partnership for development.
>
> Economic development: of a competitive and diversified economy capable of meeting the needs of, and securing a high standard of living for, all its people for the present and for the future.
>
> Environmental development: management of the environment such that there is harmony between economic growth, social development and environmental protection. (p. 11)

In Qatar, corporate governance codes were designed based on international best practices for the guidelines and standards promoting the principles of good governance. The scope of each outlines the framework of good governance, principles, scope of duties and relationships with different stakeholders/shareholders.

Part-time board members form the majority, if not the whole membership of boards in Qatar, with the average number of board members being 7-8, which is reflected in the research sample. The firm's legal counsel normally plays the board secretary role and responsibilities are limited to board meetings, logistics and basic administrative tasks.

On June 5, 2017, Qatar's neighboring countries (United Arab Emirates, Kingdom of Saudi Arabia, Egypt and the Kingdom of Bahrain) unexpectedly imposed a blockade isolating Qatar from its major air, sea and land links (BMI Research, 2018a; BMI Research, 2018b; Qatar National Bank, 2017; The Project on Middle East Political Science, 2017). The initial impact was severe, and the response from Qatar has been proactive, focusing on the sustainability and long-term economic value. Qatar's projects within the private sector have been designed for long-term economic self-sufficiency (Qatar National Bank, 2017). While the initial consequences of the blockade were critical, with stocks, tourism and imports dropping, the economy has recovered (Al Jazeera Arabic, 2018a; QatarGCO, 2018; Sergie, 2018).

This 'black swan' (The blockade) had enabled Qatar to advance development plans by tapping into the new opportunities this situation provided. The drive to accelerate progress in reaching Qatar's goals and aspirations was aided by the active role played by corporate boards, executives, government entities and partners, as well as non-profit organizations.

Research Model

An ideal empirical context for testing the strategic involvement of boards of directors exists in Qatar, where organizations have faced the national crisis from the blockade by its neighbors. Hence, the conditions of the business environment have changed and traditionally accepted strategies are not likely to be valid. Changes in the business environment in Qatar as a result of the blockade required a non-traditional way of thinking about boards of directors as they are the highest decision-making authority in an organization.

Two sets of hypothesis were tested in the research as illustrated in Figure 1. On the left hand side of the research model, we suggest that a board of directors' composition is represented by knowledge diversity, knowledge, and skills (general business knowledge (breadth) and organization-specific knowledge (depth). The right hand side of the model represents the strategic tasks of the board as concluded in the McNulty and Pettigrew (1999) framework. The center of the research model represents the mediators represented by use of skills and knowledge, and criticality as recent research has argued widely that the possession of competence (knowledge, skills, and knowledge diversity) does not ensure that the members of the board will make use of them.

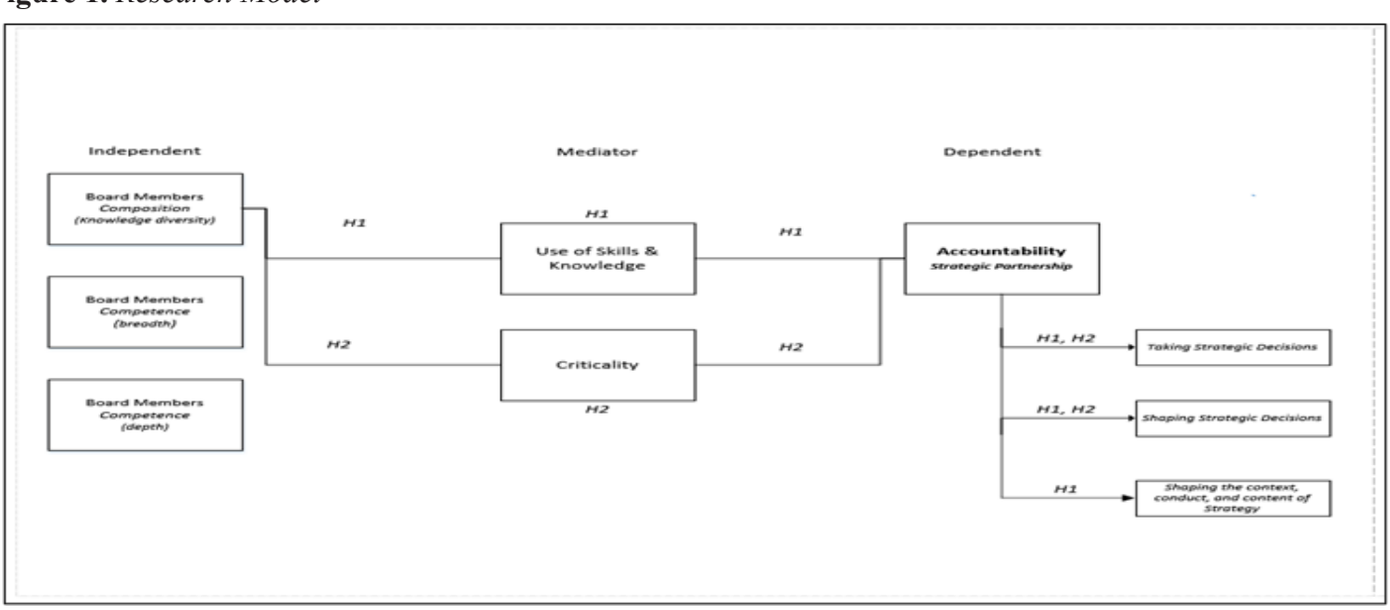
The corner stone of dynamics in the boardroom and strategic involvement is centered with the members who would set the rules and norms based on their competence and team composition. Therefore, we hypothesize (refer to Figure 1) that:

- Hypothesis 1:
  The use of skills and knowledge (mediator variable) positively mediates the relationship between board member composition knowledge diversity (independent variable) with the dependent variables:
  (i) Taking strategic decisions
  (ii) Shaping strategic decisions
  (iii) Shaping the context, conduct, and content of strategy

Many elements affect how the board of directors' designs strategy, which are not necessarily based on the competence of the members. One of the key attributes for value-creating boards is the culture of the boardroom, where the ability of fostering interactive discussions gets the maximum benefit of the members. Following this argument, we hypothesize that the decision-making culture in the boardroom represented by criticality, is a key component of board decision making:

- Hypothesis 2:
  Criticality (mediator variable) positively mediates the relationship between board member composition knowledge diversity (independent variable) with the dependent variables:
  (i) Taking strategic decisions
  (ii) Shaping strategic decisions

Figure 1. *Research Model*



Note: Adapted from "The Behaviourial Perspective of Board Governance in Qatar Context: Exploring the Strategic Role at Times of Changing Complexity" by M. I. Al-Mansoori, 2019, [Unpublished doctoral dissertation]. SBS Swiss Business School, Kloten, Switzerland.

Research Design

The research model was designed to examine the mediation effect of boardroom culture (criticality) and the use of the skills and knowledge. In order to meet the research question and based on the nature of the research, mixed methods were used to get beyond the surface of the behavioral perspective of board governance.

Empirical Challenges with a Qatari Sample

The population from which the sample was drawn was inevitably influenced by the characteristics of the firms and industry - the number of board members participating in the study was limited due to small market size, multiple memberships on boards, and accessibility to the board members and chairs.

Qatar has a total population of 2.7 million. The total number of companies listed on the Qatar Stock Exchange (the country's only stock exchange) is 46 (Qatar Stock Exchange, 2019).

Another key constraint was due to the socio-economic environment in Qatar. An overwhelming majority of board memberships are held by Qatari's – even within that it is concentrated amongst a few powerful families (Dsouza, 2017, 2018). These individuals are part of the ruling elite and can be classified as a population that is unattainable for research studies. Many of them either are Ministers in the government or hold positions of similar rank.

However, the views and insight extracted can be generalized to understand board practice and factors influencing membership. Self-reporting bias may be a concern, but that is a general problem in research on boards, and one, which is difficult to avoid (Stiles & Taylor, 1996). The limitations of a cross-sectional study must also be highlighted. The study drew a general picture of board behavior, but it was limited to a single point in time. Currently, there is no data tracking changes over time.

Despite the limitations, this study and the collected data shed light on under-researched areas of board behavior and their strategic involvement (taking decisions, making decisions, reconfiguration).

Population and Sample

The 15 sample organizations were classified as Public Private Partnership (PPP), State Owned Enterprise (SOE), Government entities and Publicly Listed in Qatar. Inclusion of participants was that they were associated with the set categories of firm types, the chair of the board of directors, board members, the chief executive officer (CEO) and members from the management team if they participate in board meetings.

Data Collection, Editing, and Project Management

Accountability and creation of accountability model designed by Huse (2005) was the basis for the design of the "Value Creating Board" survey instrument (Huse, 2010), and "the order of the questions was carefully chosen based on earlier experiences, pre-tests and recommendations" as explained by Huse (2010, p. 369). Questions related to the areas of strategic involvement were influenced by the study of McNulty and Pettigrew (1999) on the board involvement in strategy and were broken down into three main areas, which are taking strategic decisions, shaping strategic decisions, shaping the context, conduct and content of strategy.

Quantitative data. Questionnaires completed were 50 with a 48.54% completion rate. The main goal of the questionnaire was to discern the context of the board's behaviors in connection with the dimensions in the empirical model using predictor variables, which are board members' competence (breadth and depth), board members' composition (knowledge diversity), use of skills and knowledge, taking strategic decisions, and shaping strategic decisions, shaping the context, conduct, and content of strategy, and criticality. There were four sets of questionnaires designed, targeting the four different groups (chairperson, board members, CEO, management).

Qualitative data. Semi-structured face-to-face interviews followed the questionnaire to address the research questions of the study. The interviews were done purposive with chairs of the board of directors, board members, and CEOs who were willing and available to participate. A total of 15 individuals participated in the face-to-face interviews. The in-

terviewee held multiple roles at the same time where 12 out of the 15 are CEOs in addition to their roles with boards.

The participants in the research were assured that their responses would be anonymous, and that they did not have to take part in the research if they did not wish.

Quantitative Results

Hypothesis 1:
Pearson's r partial correlations are conducted to examine hypothesis 1. Prior to examination of the correlation results, descriptive statistics (M=33.39, SD=5.86, Possible Range: 6-42) for Board Members: composition (knowledge diversity) suggests the participants were above the midpoint score (24) for this variable indicating at least moderately high levels, on average.

The difference between the two correlations, the original (O) and mediated (M), is tested to prove if this mediation is significant. Controlling for the mediator (use of skills and knowledge), there were significant partial mediations of the relevant hypothesis 1 related relationships, (i) Taking strategic decisions, (ii) Shaping strategic decisions, and (iii) Shaping the context, conduct and content of strategy.

After inclusion of the use of skills and knowledge mediator the original relationship between (i) Taking strategic decisions and composition knowledge diversity reduced significantly from a moderately strong positive relationship to a non-significant weak negative correlation (Original r = 0.331, Mediated r = (- 0.132), z = 2.286, p = 0.022). After inclusion of the use of skills and knowledge mediator the original relationship between (ii) Shaping strategic decisions and composition knowledge diversity reduced significantly from a moderately strong positive relationship to a weak positive relationship (Original r = 0.47, Mediated r = 0.07, z = 2.121, p = 0.033). After inclusion of the use of skills and knowledge mediator the original relationship between (iii) Shaping the context, conduct and content of strategy and composition knowledge diversity reduced significantly from a strong positive relationship to a weak positive relationship (Original r = 0.505, Mediated r = 0.06, z = 2.349, p = 0.018).

Hypothesis 2:
Pearson's r partial correlations are conducted to examine hypothesis 2. Prior to examination of the correlation results, descriptive statistics for each variable suggest that, on average, the participants were above the midpoint scores indicating at least moderately high levels for each variable examined.

The difference between the two correlations, the original (O) and mediated (M), is tested to prove if this mediation is significant. Controlling for the mediator (use of criticality), there were significant partial mediations of the relevant hypothesis 2 related relationships, (i) Taking strategic decisions and (ii) Shaping strategic decisions.

More specifically, after inclusion of the criticality mediator the original relationship between (i) Taking strategic decisions and composition knowledge diversity reduced significantly from a moderately strong positive relationship to a non-significant weak negative relationship (Original r = 0.33, Mediated r = (-0.103), z = 2.14, p = 0.03). After inclusion of the criticality mediator the original relationship between (ii) Shaping strategic decisions and composition knowledge diversity reduced significantly from a moderately strong positive relationship to a non-significant weak negative relationship (Original r = 0.47, Mediated r = (-0.003), z = 2.49, p = 0.012).

Table 2. *Summary of Results in Terms of Supported and Not Supported Hypotheses*

Hypothesis 1: The use of skills and knowledge (mediator variable) positively mediates the relationship between board members' composition knowledge diversity (independent variable) with the dependent variables of taking and shaping strategic decisions as well as shaping the context, conduct and content of strategy		
Variables	Role	Supported / Not supported
Use of Skills and Knowledge	Mediator	Supported
Board Members: Composition (knowledge diversity)	Independent	
Taking strategic decisions	Dependent	
Shaping strategic decision	Dependent	
Shaping the context, conduct and content of strategy	Dependent	

Hypothesis 2: Criticality (mediator variable) positively mediates the relationship between board members' composition knowledge diversity (independent variable) with the dependent variables of taking and shaping strategic decisions		
Variables	Role	Supported / Not supported
Criticality	Mediator	Supported
Board Members: Composition (knowledge diversity)	Independent	
Taking strategic decisions	Dependent	
Shaping strategic decision	Dependent	

Note: Adapted from "The Behaviourial Perspective of Board Governance in Qatar Context: Exploring the Strategic Role at Times of Changing Complexity" by M. I. Al-Mansoori, 2019, [Unpublished doctoral dissertation]. SBS Swiss Business School, Kloten, Switzerland.

Qualitative Results

Statistics are insufficient to describe boardroom dynamics, behaviors and the relationships among board members and accountability. By analyzing the data some surprising findings were not among the attributes tested in the research model, for example the role of committees.

Board tasks. The three main board tasks identified (monitoring/control, service, and strategic tasks) were described as the most common tasks handled by boards in Qatar conditional with the frequency of doing certain tasks, organizational position in its life cycle, the market conditions and competence of board members. RSK has had around 12 years of accumulated experience in board membership and currently is an active board member with six memberships within Qatar and two outside. Three of the memberships were as a chairperson. His full-time position is as a CEO. He said, "Board roles have changed drastically in specific industries in Qatar after the blockade to become more active and strategic. I am in boards that are now participating in designing investment policies and represent business sector demands and requests to the government". Auditing has been the main task from members of the board, which is both a result of the absence of a clear philosophy of the tasks of boards and an absence of an awareness of board membership tasks and responsibilities. This has led to playing the board task of being auditors to protect company assets rather than building partnerships. KSK is a CEO who has around nine years of accumulated board experience, one as vice chair, four as board director (local) and two internationally. He also said, "Increasing awareness by members of their tasks, legal risks, and duties, which are assumed to be known to members, would help make passive members more active and push them to contribute". The same idea was reinforced by ABL when saying, "The main challenge is the understanding of the role of the board and the role of being a board member".

The blockade and board tasks. The blockade on Qatar, which began in June 2017, has also influenced the tasks, behaviors and practices of boards, "There is big change as a result of the blockade and perspectives and framework on how things have been seen changed", explained YAJ as a CEO. The blockade accelerated the process of economic development and had an influence on regulations. ABN said, "[The] blockade made a positive impact on boards, and the members became more engaged and interested. The blockade not only brought many business opportunities but also empowered local industries. Boards reviewed corporate strategies in light of the blockade, repositioned their business and tapped into new opportunities". Awareness of local industrial opportunities increased. Board membership gives status and power to members, but it includes liabilities as well. Often members were not clear about these responsibilities, which impacted their commitment and the use of their skills and knowledge.

Committees. Committees were not among the variables selected for this study, but they are identified by the participants in the study as an important tool used by the board to facilitate the decision-making process, provide depth to the organization through the attendance and participation of concerned members of the management team and offer a less structured setting for technical discussions and the exchange of ideas.

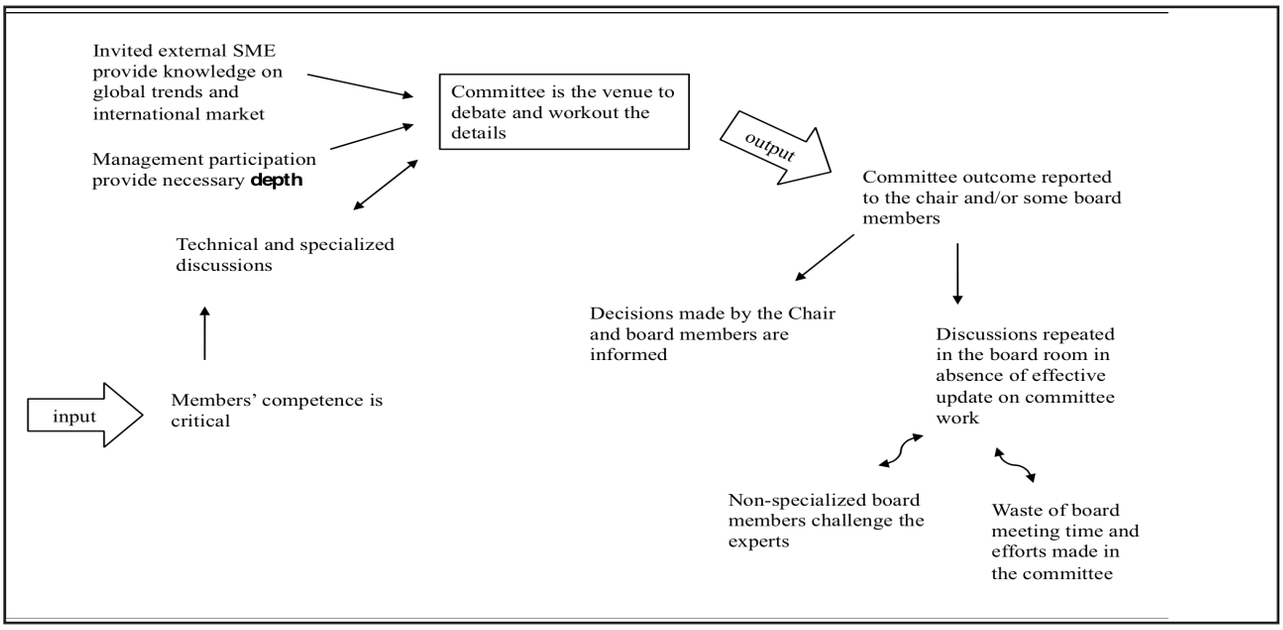
Apart from the discussions happening inside the boardroom, a number of other more focused discussions take place in the forum of board committees, which tend to be more technical and specialized.

Committees fulfill a vital role in supporting the decision-generating process of the board and facilitating its task. As FSA described, "Topics brought to the board for approval go through committees for filtration and discussion. For example, investment related decisions first will be proposed by management, then discussed in the investment committee, whose recommendations are shared with the executive committee with final recommendations being presented to the board for decision". He added, "Committees are the vehicle for using the skills and knowledge [of the members] and this depends on the selected members skills, knowledge, competence, etc."

There is a misconception among the board members about reporting the outcomes of committee discussions causing a gap in the flow of information and communication between the board and the committees.

Miscommunication between committees and the board are illustrated in Figure 2. In the centre committee work regarding specialized technical discussions is depicted. Input is received from those shown on the left-hand side; members selected to serve the committee based on their related experience and competence. These may also be external subject matter experts invited as needed. Participation by the firm's management team provides organizational depth. Regardless of the level of discussions made in the committee and quality of recommendations to be shared with the board for decision-making, the outcome is diluted mainly because of the method of reporting. This communications gap hinders the efficiency of committee work and causes misalignment among board members.

Figure 2. *Miscommunications Between Committees and the Board*



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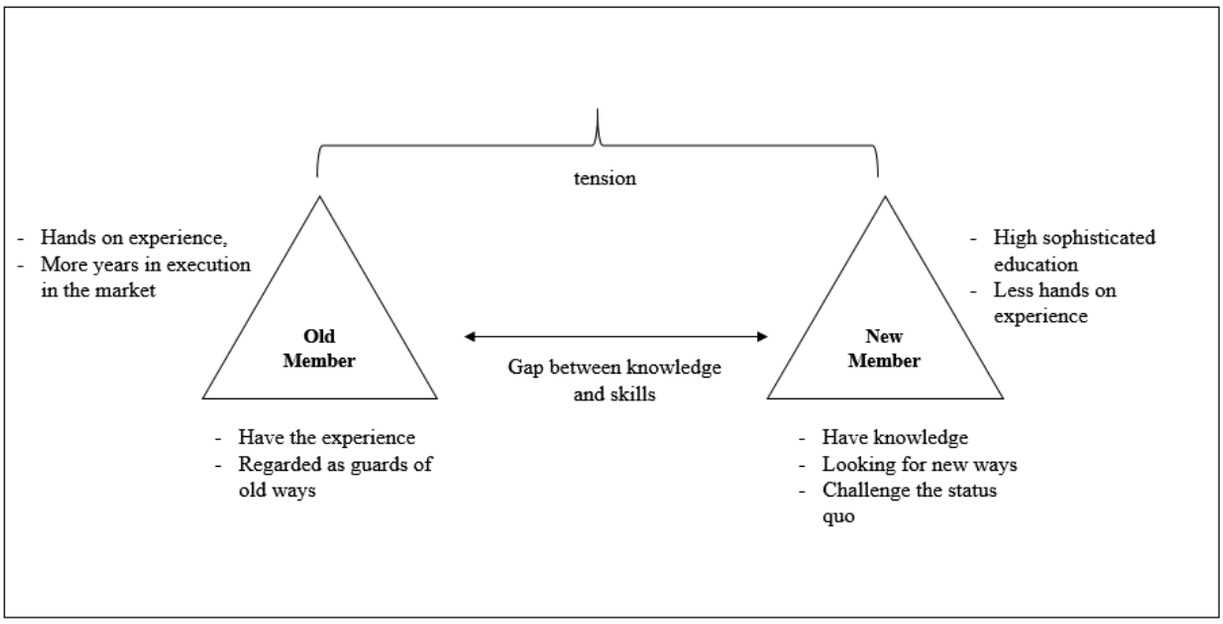
Members diversity. As a result of the economic development in Qatar, the selection of board members has improved over the past ten years, giving more attention to competence and skills, which has contributed to an injection of new, younger members to boards who have had an influence on the culture in boardroom. The challenge of diversification and selection still exists and needs serious attention and ABL observed that, "Diversity is limited, because members are selected to represent organizations for whom they work, so diversity is presented in terms of different organizational representation and not the diversity of skills and backgrounds of the individual representatives".

Moreover, improvement initiatives have not been free of cost and knowledge and age diversity has brought a new set of challenges to boards. TAK described the situation, "Members have also been grouped as old members and new members. The former typically defend the legacy and act as an old guard using old ways and resist change. On the other hand, the latter group tries to find opportunities. This creates a big issue". This tension caused as a result of members diversity is illustrated in Figure 3. On the left hand side are the old members who generally have more hands-on experience and been with the firm since its early establishment, and on the right hand side come the new board members who are mostly younger in age with a more sophisticated education and exposure to international board practices. The tension is created because of the different perspectives and experiences within both groups.

Figure 3. *Tension Caused as a Result of Members Diversity*



Note: Adapted from "The Behaviourial Perspective of Board Governance in Qatar Context: Exploring the Strategic Role at Times of Changing Complexity" by M. I. Al-Mansoori, 2019, [Unpublished doctoral dissertation]. SBS Swiss Business School, Kloten, Switzerland.

Even though the changes are coming slowly and undertaking the change process creates a set of challenges, TAK has argued that the intended outcome is crystalizing, "Boards are becoming more strategic, because there are many which are fairly new (newly established or reformed) and includes a membership of younger members".

Discussion

The reality of board action is that it is not straightforward, which can be seen in the differences between the statistical outcomes and the findings from the interviews. From the statistical analysis, we can see that the hypotheses positively mediate the relationship between the independent variables with the dependent variables. Even though the interviews were designed to discuss the same variables used in the questionnaire, several discoveries and common themes emerged in the discussions. Despite the different perspectives, demographics, and backgrounds of the interviewed individuals, the role of committees emerged as one of the main mediators supporting the task of the board. Boards in Qatar have been developing rapidly in the past ten years. Yet improvement is still required to raise awareness of the duty of a board, the responsibilities and tasks of board members, and the philosophy of boards, which varies based on where the organization is in its life cycle, challenges, and priorities. Absence of clarity on the board philosophy impacted the task handled by the board, and the knowledge and skills of the members.

Fast economic development led to the injection of new blood onto boards, adding new skill sets, knowledge, and younger members. This contributed to the increase of knowledge diversity and heterogeneous thinking. However, negative side effects have also emerged, especially the stress in the relationship and thinking between the two groups of board members (old members, new members), which has impacted the task of the board and the use of skills and knowledge.

The blockade contributed to the development of board tasks in the strategic perspectives and had boards working closely with management toward one common objective in a limited time period.

Strategic task. Theoretical work done on the strategic involvement of boards has found that boards of directors are willing to participate in the strategic process; however, they usually are constrained as the only opportunity to do this is at the time of crisis. In addition, it was a challenge for the boards to understand what strategy means and what it constitutes (Stiles & Taylor, 2001). The root of the different interpretations was the knowledge diversity of new board members, that is, those exposed to international board experience are more familiar with structured methods of strategy formation and implementation as derived from certain well-established international practices and processes. However, the old members who are with hands-on experience and insight in the local markets had their own definition of the meaning of strategy and how to contribute to it. Strategic involvement was emphasized by all boards during the blockage of Qatar by its neighboring countries, which was the crisis the literature referred to. During the early days of the blockade, the task of boards was reshaped, with closer involvement in the review of corporate definition, market, active assessment and review of strategic proposals. Boards sustained this level of active involvement until the new normal in the market and their organizational scope were set, and business went back to normal within the new conditions and context.

Yet, the ambiguity of the meaning of strategy was also acknowledged in literature when some organizations lacked an articulated corporate strategy; however, it was rare that an organization did not have, at a minimum, a rough strategic outline (Stiles & Taylor, 2001).

Use of skills and knowledge. There was a time when being a board director was viewed as an attribute to one's wealth and connections that served as an entry into the business community. This is not the case in today's changing business environment. The challenge with modern directors is to define their task and to avoid the interference and participation in the daily operations of the organization where they have board membership and, at the same time, know what is going on in the market and in the organization so they can make recommendations and contributions based on their required task (Huse, 2010). Understanding of the task expectations and actual tasks performed were found to be a fundamental element in board effectiveness.

Even though board selection and membership were based on competency and experience, fulfillment of the task and use of the skills and knowledge was not guaranteed. Absence of a clear grasp of the board's responsibilities in Qatar led to having the dominant task played by boards in auditing and control. This had its advantages when it came to the protection of shareholders' interests and organizational assets; however, it limited the scope of the organization and the CEO in adding a real value for the organization. This current study found that boards managed several different tasks (auditing, servicing, strategic) interchangeably, as there was a fine line between different activities. However, there is a challenge with the use of skills and knowledge, and an appetite in the boardroom for new ways of doing things, which negatively influenced the commitment and participation of board members. The organization also was detached from the board and the decision-making process. CEOs argued that boards did not understand the challenges faced by the organization and raised doubts on the role of the board as a partner for success.

Even though boards in Qatar have well-established regular committees and ticked all the right establishment and operational boxes, their performance was not viewed as being as effective as it could have been. It has been proven that a smaller group of board members can be more effective in the evaluation and examination of complex issues (Wommack, 1979), and several studies have found that board members influence strategy primarily through committees (Daily et al., 1996). However, board members are not able to influence strategy in the regular and standard committees, like audit and compliance committees, for example, which are created to meet regulatory compliance to governance requirements and are not focused on the organization's future or examination of its resources (Wommack, 1979). In addition, in the current study, the communication flow between committees and the board was found to be deficient, impacting the effectiveness and task of committees. Ineffective communication from the committees to the full board caused a lack of coordination between the two and potential repetition of work.

Agenda. The board meeting agenda was found to be one of the important tools facilitating the strategic involvement of board members. The board agenda in Qatar followed the standard process

and covered regular and re-occurring items mostly related to operational updates, financial performance and budget (reporting on past performance and activities). This type of agenda constrains the boardroom discussion from taking a future orientated outlook on strategic matters and strips the opportunity to discuss ideas and proposals brought by the management (McNulty & Pettigrew, 1999). On the other hand, board agendas, which are planned to include topics related to strategic tasks performed by board members can ensure the involvement of the board members in strategy making and will carry out clear and direct responsibility.

Board secretary. MWM Consulting (2018) conducted a study on board effectiveness and identified three key "safety valves" for enhancing board effectiveness and the board secretary was on the list. The research highlighted the contribution made by the secretary that went beyond administrative support to the operations of board meetings to being an "invaluable source of counsel and advice to not only their chairperson but also the other directors, and as an important neutral sounding board on issues that are emerging" (p.14). The board secretary was found to take equal responsibility with the CEO for the education of the board members and supporting their strategic involvement. Mallin (2016) stated: "the company secretary has a range of large responsibilities, including facilitating the work of the board … and that such information flows well between the various constitutes [board meeting, committees] … and will assist with the professional development needs of directors and induction requirements for new directors" (p.185). Hence, more focus and better utilization of the board secretary is to be considered. In the current study, the board secretary was viewed as being a cornerstone for the onboarding of new board members and the support for the Chairperson in clarifying the task expectations and liabilities of both board members and CEO.

Board as team and knowledge diversity. The board of directors, at its core, is a governance framework representing the unity of its members (Bammens et al., 2011). The capability of the board to carry out its duties in the creation of value is rooted in the collective and individual behaviors of its members, and as stated by MWM Consulting (2018): "the board needs to be designed and managed as a high performing team … engineering diversity- especially of thought patterns; investing in team building; and addressing weak links" (p.3). Knowledge diversity and the selection of members was not a major concern for boards in Qatar. The commitment and participation of the busy members of the board, level of readiness for board meetings, and utilization of skills and knowledge were among the areas that had an impact on boards' effectiveness.

Even though diversity improves the quality of discussions and decisions, it also had a down side because it lowers the level of satisfaction of members in the group (Martins & Milliken, 1996). Knowledge diversity was found to be a double-edged sword, creating a dialogue and understanding gap between old members and new members board members.

Times of changing complexity. The overwhelming business environment of the 21st century has been characterized by rapid and disruptive change, transitory and incomplete information and an overall sense of ambiguity and uncertainty require greater information processing demands. This is determined by parts of the strategy as well as the management and technologies structure of the organization (Keller et al., 2007). The overall impact of digitalization on boards was seen in the use of technology and boardroom management systems. The current study questionnaire was designed to gather information on four main areas impacted by digital technology, which had influence on board behaviors such as the changing strategic context, data-driven decision-making, the disappearance of organizational boundaries, and short-term strategizing. Board members' preparation and readiness for board meetings, taking initiative to find his/her own information, the knowledge of the market/industry and sharing information across organizational boundaries, decision-making processes, and sensing opportunities, were all related to the four defined areas. Boards in Qatar need to start taking more serious steps to widen the scope of the impact of digitalization on boards as it is fast developing. In 2014, an artificial intelligence robot was appointed as a board director that had equal voting rights for investment decisions at a Hong Kong venture capital fund (Brown, 2014). This confirmed the growing impact of technology, where board members will be hired based on the value of the brainpower they bring and the model influences

rather than their functional expertise and market knowledge, which can be replaced by technology. Available tools to increase board readiness for the impact of digitalization are summarized in Table 3. The blockade had accelerated many activities and re-positioned board tasks by creating a new modus operandi. The strategic task played by boards during the early time of the blockade demonstrated how boards as a team could be agile and restructure themselves to be more open for ideas and sense and take on opportunities out of the crisis. Organizations boundaries in the local market at that time were diminished and the skills and knowledge of board members were stretched. This gave an enough evidence that boards in Qatar can increase their readiness to the global impact of digitalization and take benefits from the technological advancement if it is given the necessary attention with a more focused and structured approached.

Table 3. *Available Tools to Increase Board Readiness for the Impact of Digitization*

Impact of Digitalization on Boards	Changing Strategic Context	Short-Term Strategizing	Disappearance of Organizational Boundaries	Data Driven Decision Making
Description	- more reliance by board on data than intuition for decision-making. - board more involved in shaping strategic decisions. - frequent shaping of content of the strategy by board and external environment.	- real-time responses influences strategy formation. - strategy conduct becomes uncertain, unstructured and abstract. - encouragement of experimentation, failure, feedback, learning and constant adjustment are encouraged by board.	- board actively interacts with wider ecosystem when shaping strategy.	- board members are less valued for their expert answers and more valued for their ability to ask the right questions. - boards have access to real-time data.
Recommendations on How to be Addressed	Utilization of Committees to: 1- brainstorming between board members and management. 2- create dynamic relationship between board members and management. 3- Inviting Subject Matter Experts to exchange ideas, updates on market trends and forecast (locally an internationally). 4- function as active focus group working out ideas, change business model, evaluation of opportunities prior to taking to board.			
	Better utilization of dynamic and real time dashboards.	update the practice on what strategy means, tools, activities and time period for both "old school" and "new school" board members, and equip with required training.		Board role to be more focused on giving ideas and options.
	Frequent update from CEO on risks and market dynamics.			Utilization of data science (big data) and Artificial Intelligence (AI) for data analysis and forecasting, with deployment of appropriate IT solutions/tools.

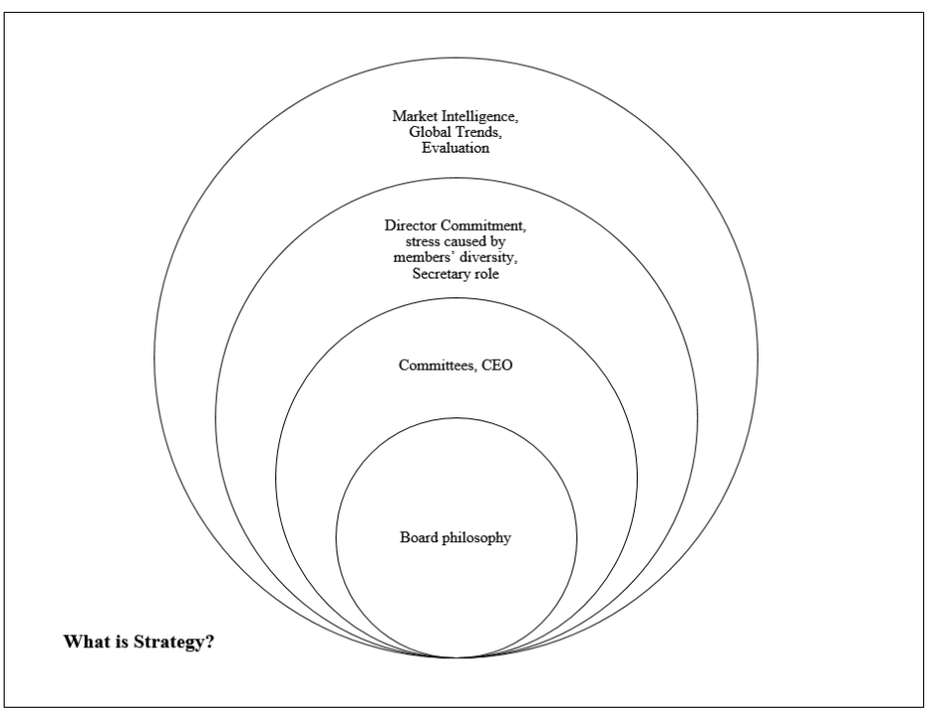
Note: Adapted from "The Behaviourial Perspective of Board Governance in Qatar Context: Exploring the Strategic Role at Times of Changing Complexity" by M. I. Al-Mansoori, 2019, [Unpublished doctoral dissertation]. SBS Swiss Business School, Kloten, Switzerland.

Increasing boards' effectiveness. Whatever boards do, there are many people who believe that they should enhance what they are doing. Based on the findings of the current study, the model presented in Figure 4 is suggested to support the strategic involvement of the board and increase effectiveness. Enhancing the effectiveness and supporting the strategic involvement of board can be accomplished through having a clear board philosophy setting the tone, defining clear task responsibilities and expectations for board membership, followed by the role of board committees with an enhanced communication mechanism ensuring an open flow of information and sharing of committee discussions and recommendations. The CEO's task expectations when it comes to the relationship with the board, information sharing and accountability for acting on directives/ ideas and bringing solutions is of equal importance as the role of committees. The initial two layers in the model influences the directors' commitment, releasing the stress and communication challenge between members from old/new members.

This is in addition to the empowerment and efficient use of the board secretary's position as enabler and facilitator for structured board meetings and productive discussions among the directors. The foundation and starting point of the model is defining what strategy means, which influences the board task expectation, and when it comes to activities related to the taking and shaping of strategic decisions, in addition to shaping the context, conduct, and content of strategy. This model will assist in increasing board effectiveness as well as support boards with aligning their strategies and plans with the QNV 2030 pillars of human development, social development, economic development and environmental development, which ensures the sustainability of national resources and care for the environment.

Even though Qatar seems very different, in fact, there are many similarities in board functioning. The behavioral dynamics of board governance can make the difference in board performance and differentiation between good, bad and great boards (MWM Consulting, 2018).

Figure 4. *Suggested Model to Support the Strategic Involvement of the Board*



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Power as a Factor of Effectiveness in IM Projects

By

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Abstract

The aim of this article is to highlight the role of power within a triad of selected factors – trust, power, and knowledge – that determine the effectiveness of Interim Management (IM) projects. The text discusses the preliminary results of a longitudinal study based on the empirical-inductive approach. The study was conducted in Poland in 2019–2021 in enterprises using Interim Management (IM) in their operations. The statistical analysis confirmed the validity of the empirically adopted factors, including power. A statistically significant relationship was found between the level of power and the level of trust. The implications of the findings can be used by both Interim Managers (IMs) and clients for the planning of their pre- and mid-project tasks. Research may be continued in other companies representing various sectors and management cultures, also outside Poland, to search for further variables and their correlations with trust, power, and knowledge.

Keywords: Power, Trust, Knowledge, Effectiveness, Interim management, Empirical-inductive research

Introduction

Interim Management (IM) is a form of employment where an organisation hires a highly skilled expert for a specified period of time to achieve specific objectives (Inkson & Heising, 2001; Isidor et al., 2014). There are different work arrangements that can be used: Interim Managers (IMs) can become employees of the organisation, work for it as self-employed persons, or be involved as third parties (similarly to a temporary employment agency that hires IMs to place them in their clients' companies).

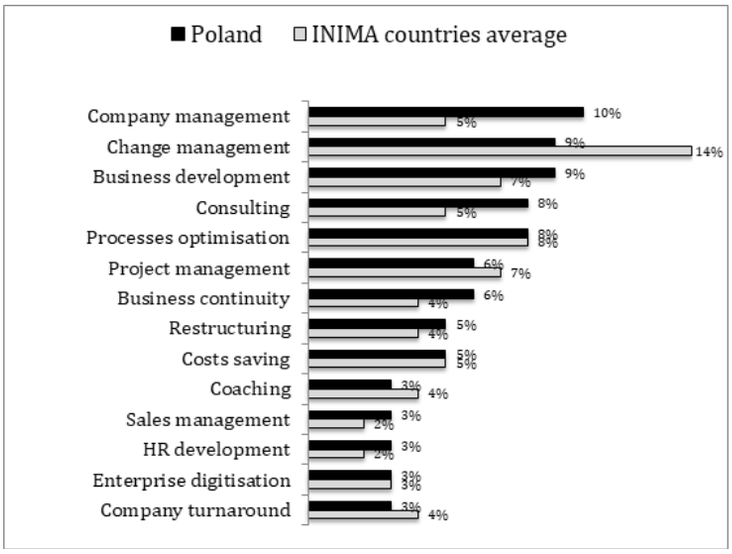
According to Eurofound:

> Interim management is a form of employment in which a company 'leases out' workers to other companies temporarily and for a specific purpose. Such leasing of workers is the main objective of the employer company, but, unlike a temporary employment agency, its staff is limited to highly specialized experts who are sent to the receiving companies to solve a specific management or technical challenge or assist in economically difficult times. In contrast to traditional fixed-term work arrangements, interim management has some elements of consultancy, but the expert has employee status rather than that of external advisor. (2020, pp. 51–52)

Interim Management seeks primarily to provide external managers responsible for IM projects, i.e. for temporary internal operations with a predefined purpose and scope, aimed at achieving specific and long-lasting business outcomes (Wendt et al., 2014).

Interim Managers are mainly people who enter this career path after they have acquired experience in top management positions, i.e. in management boards or supervisory boards. Strategy, management and sales projects rank high as regular areas of work for IMs. Companies typically seek external support of IMs with projects related to transformation, which suggests that the lack of certain skills, organisational changes or the need for an additional manager are the key reasons why enterprises opt for this solution. This thesis finds its confirmation in research conducted by the International Network of Interim Management Associations (INIMA) in nine European countries: Poland, France, United Kingdom (UK), Germany, Austria, Switzerland, Liechtenstein, Italy, and Spain (Figure 1). The findings presented below put a particular emphasis on Poland's case as this article is based on the authors' study conducted in this country.

Figure 1. *Business Issues Managed by IMs in Their Last Project*



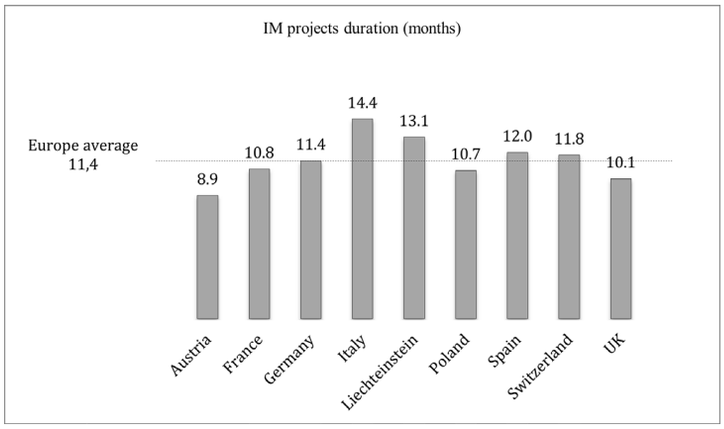
Note 1: Adapted from the 2021 European Survey conducted in January 2021 by the International Network of Interim Management Associations (INIMA).

Note 2: Only first 81% and 74% of projects are shown for Poland and other countries, respectively.

Observations made on the basis of these results and the nature of IM projects prompt a question about the scope of power necessary to perform these tasks. This is particularly important taking into account the relatively short time that IMs have at their disposal, as illustrated in Figure 2 for Europe and Figure 3 for Poland.

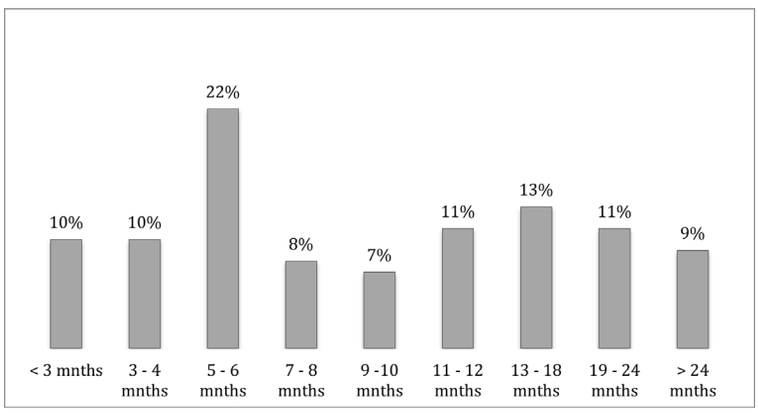
It is worth noting that the proposed research programme could be extended to include other European countries, using the same research architecture and research instrument. Such an approach would be possible due to similarities of project perspectives with regards to power. Not only are the areas of IMs' involvement similar across countries, but also the duration of IM projects does not differ from the average.

Figure 2. *Average Duration of IM Projects in Europe (in months)*



Note: Based on the 2021 European Survey conducted in January 2021 by the International Network of Interim Management Associations (INIMA).

Figure 3. *Duration of the Last IM Project in Poland (in months)*

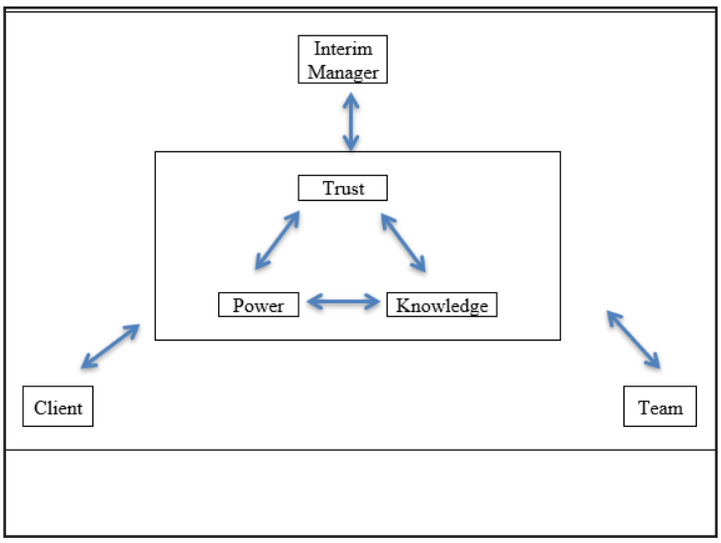


Note: Based on the 2021 European Survey conducted in January 2021 by the International Network of Interim Management Associations (INIMA).

The authors of this article developed a research programme that combines three categories of effectiveness factors in IM projects: trust, power, and knowledge (Skowron-Mielnik & Sobiecki, 2020a). These factors were selected based on an analysis of extant research in the field of IM (Goss & Bridson, 1998; Weerd de, 2015). At the same time, three perspectives were identified for further analysis: (1) the perspective of the client who hires the IM; (2) the perspective of the client's team of employees who cooperate with the IM; and (3) the perspective of the IM (Figure 4). In full-time employment, power is determined by the system applied across the company, and as such it depends on the employee's formal

position as well as informal but well-established social relations. Upon acquiring a new project in a new company, the IM must gain power; however, this means that he or she must enter the existing system of power that the current stakeholders and beneficiaries of the company's present organisation are unwilling to change. The entrepreneur will not share power and the IM will share knowledge only to a limited extent unless both parties in this business relationship (the IM project) do not trust each other.

Figure 4. *Proposed Research Model*



Note: Developed by authors based on own research concept.

In light of the above, the following research questions were formulated: (1) Is power a factor that can largely determine the effectiveness of IM projects? (2) How does power relate to the other two factors: trust and knowledge? (3) How is power shaped in relations with clients, teams of employees, and IMs?

Dimensions of Power in IM Projects

The importance of power has been recognised by theorists in various fields (Oliveira, 2010). In the mainstream theory of functionalism, Pfeffer (1992) observes that power is critical to organisational and individual success. Representing a non-functionalist and therefore more critical approach, Clegg et al. (2006) defined the importance of power as inscribed in the core of the organisation's achievements; without it there would be no social relations that make up the organisation and the common effort to collect and coordinate individual wills, endeavours, and energies. Power is often closely connected with restrictions and domination. Clegg et al. (2006) and Pfeffer (1992) argue that power research is traditionally a less studied area, with business research showing a particular tendency to ignore organisational power or attribute it to illegal behaviour. While power can also be positive and facilitate the agreement of interests represented by different parties, in practice the two concepts of "power" and "power over" may overlap, whereby the classification of power as positive or negative may depend on the situation of specific entities and the actual sources of power (Oliveira, 2010).

Searching for methodological foundations, the authors turned to studies conducted by Handfield and Bechtel (2004), whose conclusions shed some light on the relationship between trust and power. Their findings were found to be adequate in terms of the choice of research construct and research instrument, and could therefore be applied to our study of power for three reasons. Firstly, Handfield and Bechtel point out that due to the recent development of knowledge and practice, supply chain management covers many levels of management practice, extending far beyond the boundaries of the company's organisation and includes online shopping, raw material sourcing through strategic partnerships, logistics provided by third parties, relocating production to other countries, and global competition. Secondly, IM applies to equally broad areas of practice, as indicated in Figure 1, and our study sought a single universal construct and research tool to examine the scope of power and either confirm or reject a relationship between power and trust. Thirdly, given Handfield's and Bechtel's bibliographic review of perspectives, such as theoretical foundations, constructs and research based on them, search for a multifaceted scientific approach combined with a unified theoretical construct, their publication was found to be particularly helpful when choosing the theory and research instrument applicable to our surveys.

Handfield and Bechtel compiled a review of 74 studies, analysing the relationship between trust and seven other constructs in supply chain management (Table 1).

Table 1. *Trust with Respect to Seven Other Constructs Identified in Research*

No.	Trust vs. other constructs	Number and percentage of publications	
1	Trust – Power	6	8%
2	Trust – Dependency	13	18%
3	Trust – Economic performance	10	14%
4	Trust – Collaboration	16	22%
5	Trust – Dependency on assets	7	9%
6	Trust – Risk	12	16%
7	Trust – Communication	10	14%
Total		74	100%

Note: Adapted by authors from "Trust, Power, Dependence and Economics: Can SCM Research Borrow from Paradigms? By R.B. Handfield and C. Bechtel, 2004, *International Journal of Integrated Supply Management, 1*(1), pp. 1-23.

For the purposes of our study, the relationship indicated in the first row of Table 1 is further developed in Table 2. It presents relations between different types of trust and power proposed by Handfield and Bechtel, as well as the concept of power types and their impact on IM projects according to Wendt et al. (2014). Effectively, the Table identifies power types specific to IM projects (Column C), which to a varying degree contribute to the overall success of the project.

When considering power (competence) as a predictor of effectiveness in IM projects, based on the interpretation of Table 1 and Table 2 from the perspective of a possible relationship between the former and the latter, the hypothesis about the existence of such a relationship seems justified, particularly in light of the observations made in the first row of Table 1, "Trust – Power", and in Column C of Table 2, "Power in IM projects", for the following types of power: informational power, referent power, expert power.

One might also conclude that the attributes necessary for the selection of a research instrument could be derived from Column C in Table 2. However, choosing between a validated questionnaire from the subject literature and the development of a completely new instrument, the authors of this study decided to use a research instrument built around the attributes of power identified in Column A in Table 2. Consequently, the authors opted for the use of a questionnaire based directly on the types of power identified by French and Raven in their study (1959).

Table 2. *Relationships Between Power and Trust*

Power according to Handfield and Bechtel (2004)		Power in IM projects	
A. Power according to French Jr. and Raven (1959)	B. Trust according to Lewicki and Bunker (1995), and Sheppard and Tuchinsky (1995)	C. Power in IM according to Wendt et al. (2014)	
Coersive power	Calculus-based trust	Coercive power	Strength 0–3
Based on the expectation that the other party will use coercion/punishment if objectives are not met	Trust is maintained through deterrence and the threat of punishment that is likely to occur if trust is violated; the threat of punishment is likely to act as a greater motivator than a promise of a reward	Obtained indirectly through applying to legally and/or organisationally empowered superiors	1
Expert power	Knowledge-based trust	Expert power	Strength 0–3
Power originating from the perception of one's knowledge in a given area	A relationship based on knowing the other party and therefore being able to anticipate their behaviour	Based on competence, expertise and experience within the scope of the IM project, as well as within change management and project management	3
Referent power	Identification-based trust	Referent power	Strength 0–3
Rooted in the identification of one party with the other, based on a sense of unity	A relationship based on one's identification with the desires and intentions of the other party	Rooted in a respected and liked personality	3
Reward power	No theory proposed by Handfield and Bechtel	Reward power	Strength 0–3
Based on one's ability to reward; it occurs when one party recognises that they can be promoted by the other party		Obtained indirectly through applying to legally and/or organisationally empowered superiors	1
Legitimate power	No theory proposed by Handfield and Bechtel	Legitimate power	Strength 0–3
Power originating from values internalised in one of the parties, which dictate that the other party has a legitimate influence that must be accepted by the former party; this is the most complicated construct that refers to structural sociology, group norms, and social psychology		Power within the authorised project tasks – direct application of one's authority on a regular basis or indirectly through individual authorisations issued by the legitimate authority whenever necessary	2
x	x	Informational power	Strength 0–3
		Full access to all information for the purposes of the IM project	3
x	x	Referent power	Strength 0–3
		Direct access to and respect of top management, including decision-makers, management board, and project sponsors	2

Note: Adapted by authors from "Trust, Power, Dependence and Economics: Can SCM Research Borrow from Paradigms? By R.B. Handfield and C. Bechtel, 2004, *International Journal of Integrated Supply Management, 1*(1); Metodyka Interim Management by R.Wendt, E. Madra, K. Niesiobedzka-Rogatko and G. Sobiecki, 2014.

Methodology

Our methodological approach originated from grounded theory, where hypotheses and theories are constructed on the basis of systematically collected empirical data, with the resulting theory emerging from systematically conducted field studies and the analysis of empirical data referring directly to the observed part of social reality (Glaser & Strauss, 2009). In order to determine to what extent the use of IM solutions influences project effectiveness, defined as meeting the organisation's needs, the proposed research programme required multiple surveys to be performed with respect to IM projects implemented in real business organisations. The surveys were conducted in 2019 and 2021. This study focuses on nine already completed IM projects (Table 3), which should guarantee a relative objectiveness of all respondents (clients, IMs, teams). In an attempt to avoid confounding our study design and results, the names of the participating organisations and respondents remain anonymous. The study was carried out in two stages. Firstly, surveys were conducted among clients who commissioned projects with IMs and supervised their implementation, as well as teams managed by IMs. To this end, a questionnaire was applied that used the Likert scale (Table 4). The original questionnaire was prepared in English; however, for the purposes of the field study conducted in Poland, certain corrections were introduced to account for the local cultural context of selected terms and concepts.Secondly, having collected and analysed the questionnaires from clients and teams in all companies listed in Table 3, the authors conducted interviews with clients and IMs in the respective companies to obtain a more complete picture of power and its importance in the implementation of IM projects.

Table 3. *Description of IM Projects Included in the Study*

Project	Functional area / industry	Duration	Result – type	Result vs. objective	Respondents	Research tool	
#1	IT / IT	6 months	Implementation of an IT system	Achieved 100%	Client	Questionnaire	Interview
					IM	–	Interview
					Team	Questionnaire	–
#2	Logistics / Rail vehicle repairs	12 months	Implementation of a logistics management system	Achieved 100%	Client	Questionnaire	Interview
					IM	–	Interview
					Team	–	–
#3	Production / Mobile device repairs	5 months	Technology transfer	Achieved 100%	Client	Questionnaire	Interview
					IM	–	Interview
					Team	Questionnaire	–
#4	Finance / Consulting	6 months	Implementation of a financial reporting system	Achieved 100%	Client	Questionnaire	Interview
					IM	–	Interview
					Team	Questionnaire	–
#5	Operational / Construction	8 months	Improved ability and effectiveness of contract performance	Achieved 100%	Client	Questionnaire	Interview
					IM	–	Interview
					Team	Questionnaire	–
#6	Operational / Sales in retail shops	6 months	Process improvement	Achieved 100%	Client	Questionnaire	Interview
					IM	–	Interview
					Team	Questionnaire	–
#7	HR / Surface treatment and anti-corrosion coating	12 months	Replacement for the duration of a planned leave	N/A	Client	Questionnaire	Interview
					IM	–	Interview
					Team	Questionnaire	–
#8	Finance / Surface treatment and anti-corrosion coating	6 months	Covering the vacancy until a full-time employee could be hired	N/A	Client	Questionnaire	Interview
					IM	–	Interview
					Team	Questionnaire	–
#9	Operational, furniture industry	6 months	Improved effectiveness of managers' work	Achieved 100%	Client	Questionnaire	Interview
					IM	–	Interview
					Team	Questionnaire	–

Note: Developed by authors based on own research plan. IM = Interim Manager

Table 4. *The Questionnaire Form*

Research tool dedicated to power

Dear Respondent,

- By completing this questionnaire, you participate in a scientific research on Interim Management (IM).
- The research is conducted as a joint effort of the Poznań University of Economics and Business, and the Interim Managers Association (SIM) of Poland.
- As a person that has been part of an IM project, you are invited to share your valuable insight with us by answering these questions and thus contributing to the discovery of factors that may have an effect on IM projects and their outcomes.

Instructions for completing the questionnaire

- Please mark your answer for each question by circling a number from 1 to 7 (on the right). Choose the number that best represents your opinion regarding the issue asked in the question.
- Choose the answers spontaneously, to the best of your knowledge.

Anonymity

- Your personal data and answers as well as the data and answers of other respondents will not be disclosed.
- Your answers will be statistically processed in a pool of data along with the answers from other respondents. As a result, only the aggregated observations will be published regarding the factors that, statistically, can have an impact on IM projects and their effectiveness.

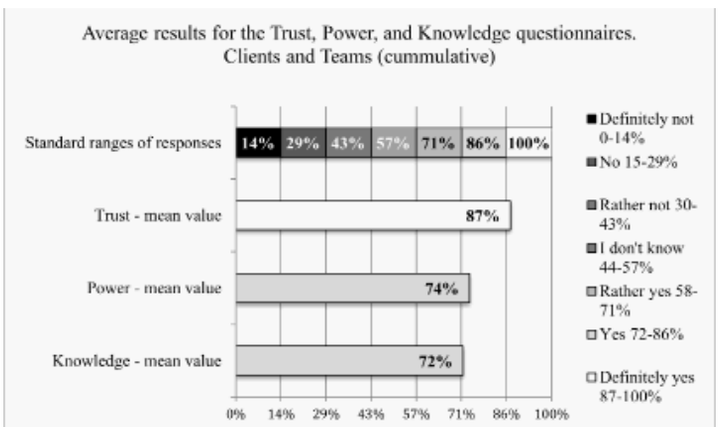
No.	Questions	Answers						
1	This person can give me extra time off.	1	2	3	4	5	6	7
2	This is the person I report to and to whom I answer for my responsibilities.	1	2	3	4	5	6	7
3	This person can make me feel important.	1	2	3	4	5	6	7
4	This person sets the standards for me.	1	2	3	4	5	6	7
5	This person can give me good references.	1	2	3	4	5	6	7
6	This person assigns tasks for me to carry out.	1	2	3	4	5	6	7
7	This person can make me feel accepted as a person.	1	2	3	4	5	6	7
8	This person can make it easier for me to do my job.	1	2	3	4	5	6	7
9	This person can make me feel part of his/her team.	1	2	3	4	5	6	7
10	This person can provide me with special benefits.	1	2	3	4	5	6	7
11	This person can make me feel appreciated.	1	2	3	4	5	6	7
12	This person can give me a job that I don't like.	1	2	3	4	5	6	7
13	This person can provide me with the necessary technical knowledge.	1	2	3	4	5	6	7
14	This person can make my work difficult.	1	2	3	4	5	6	7
15	This person can give me reliable advice regarding my work.	1	2	3	4	5	6	7
16	This person can make the working environment unpleasant.	1	2	3	4	5	6	7
17	This person can share his/her vast experience and/or knowledge with me.	1	2	3	4	5	6	7
18	This person can turn one's presence at work into an unpleasant experience.	1	2	3	4	5	6	7
19	This person can give me good technical guidance.	1	2	3	4	5	6	7
20	This person assigns responsibilities to me.	1	2	3	4	5	6	7

Note: Adapted by authors from "The Bases of Social Power," by R. P. French and B. H. Raven, 1959, in D. Cartwright (Ed.), *Studies in Power,* pp. 259-269.

Power in IM Projects: Results

The scores for all three categories of factors proved to be high (Figure 5). Particularly high scores were obtained for trust and power, with the former corresponding to the mean value for "Definitely yes" and the latter being equivalent to the response "Yes". Knowledge produced the lowest score that corresponded to the response "Rather yes". As a result, it was concluded that the high scores confirmed the correct choice of effectiveness factors in IM projects.

Figure 5. *Trust, Power, and Knowledge – Mean Values for Total Results from Nine Surveys*

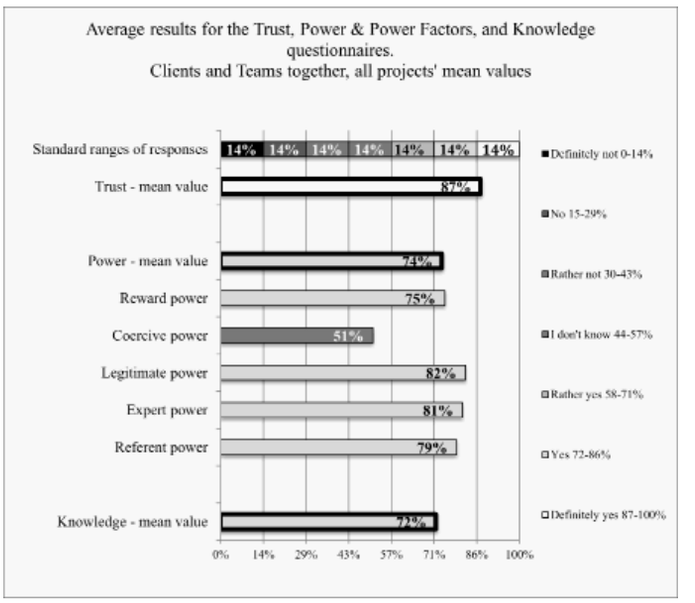


Note: Developed by authors based on research by PUEB[1] and SIM.

Descriptive statistics shows that in order to obtain a relatively high effect of the project and ensure its durability, one requires, firstly, a very high level of trust and, secondly, a high level of power.

The next figure (Figure 6) presents five types or detailed elements of power (reward power, coercive power, legitimate power, expert power, referent power), compared with the overall scores for power, trust, and knowledge, based on the cumulative opinions of clients and teams.

Figure 6. *Trust, Power, and Knowledge – Mean Values for Total Results from Nine Surveys: The Perspectives of Clients and Teams*



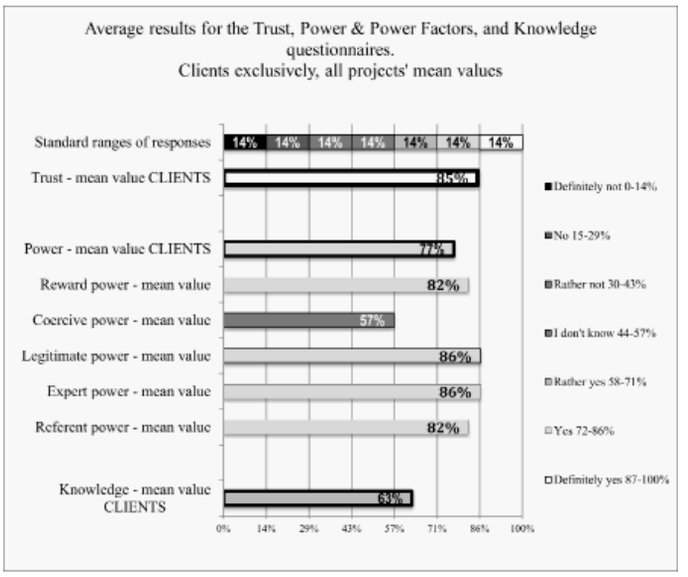
Note: Developed by authors based on results by PUEB and SIM.

Figure 6 shows that in the category of power three factors are of greatest importance for ensuring effectiveness of IM projects: legitimate power, expert power, and referent power, with all three assessed at the level corresponding to the response "Yes". Coercive power and reward power scored the lowest, which suggests that in IM projects the effectiveness of these classic tools of exercising power is low.

The next two figures present the results separately for each category of respondents: Figure 7 – Clients' opinions, and Figure 8 – Opinions of teams cooperating with IMs. In the case of the former (clients), three factors emerge as the most important in the category of power to ensure project effectiveness: legitimate power, expert power, and referent power. The first two (legitimate power and expert power) were assessed at the level equivalent to the response "Definitely yes". The score for the third factor (referent power) corresponded to the response "Yes".

1 PUEB – Poznań University of Economics and Business (Poland); SIM (in Polish: Stowarzyszenie Interim Managers) – Interim Managers Association of Poland.

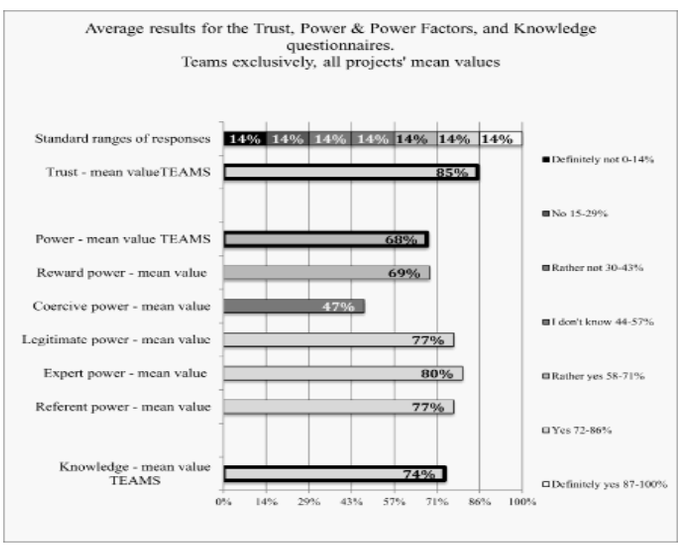
Figure 7. *Trust, Power, and Knowledge – Mean Values for Total Results from Nine Surveys: The Perspective of Clients*



Note: Developed by authors based on research by PUEB and SIM.

According to teams (Figure 8), project effectiveness also turned out to depend the most on legitimate power, expert power, and referent power, i.e. the same three factors of power that were indicated by the clients. However, the scores for teams were 10 percentage points lower than in the case of clients. Legitimate power and referent power were assessed at the level equivalent to the response "Rather yes", with expert power rated the highest ("Yes").

Figure 8. *Trust, Power, and Knowledge – Mean Values for Total Results from Nine Surveys: The Perspective of Teams*



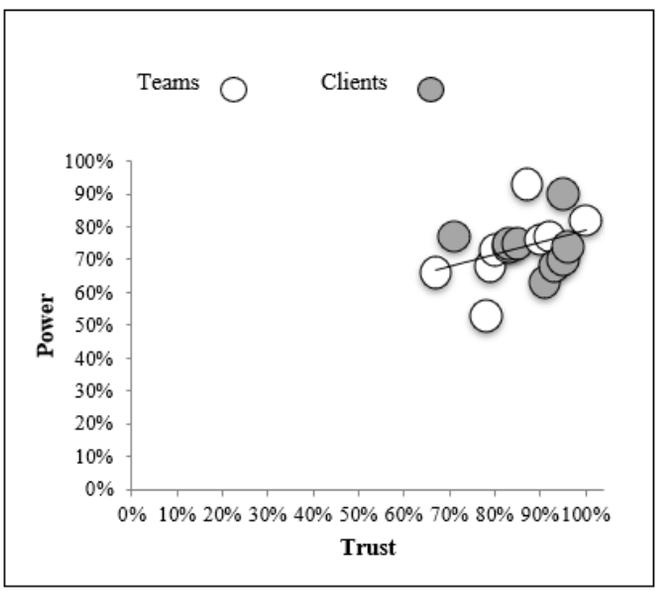
Note: Developed by authors based on research by PUEB and SIM.

While the scores for trust were equally high for both teams and clients, knowledge was assessed higher by the former (74%) than the latter (63%). One cannot say that power played an insignificant role for teams; however, the median for power was lower in the case of teams (68%) than in the case of clients (77%).

Conclusions, Possible Beneficiaries, and Future Research

In addition to the already presented relationships, established on the basis of cumulative scores for the analysed responses, it was also interesting to study the in-depth observations, i.e. the distribution of our findings with respect to individual IM projects. The results are shown in Figure 9.

Figure 9. *Relationships Between the Levels of Trust and Power*



Note: Developed by authors based on research by PUEB and SIM.

Descriptive statistics in Figure 9 shows that trust towards IMs was assessed equally high by both clients and teams, ranging between 65% and 100%, which means that most of the respondents answered "Definitely yes" and "Yes". In most projects, clients rated trust higher than teams. A positive relationship was also found between the level of trust and the level of power; however, there were clear differences between clients and teams. Clients described the level of power granted by them to IMs as higher, while in the perception of teams reporting to IMs the power exercised over them by IMs was lower. However, it should be remembered that clients assessed also the trust levels as slightly higher compared with teams. In light of the above, two hypotheses may

be proposed. Firstly, high trust levels seem to determine the scope of power given to IMs: the greater the trust (between 65% and 100%), the more power is granted to IMs (between 50% and 90%). Secondly, trust appears to have an indirect effect on the effectiveness of IM projects through power: the greater the power based on trust, the more effective the IM projects can become. Both hypotheses require further research and more data to verify the presented descriptive statistics by means of inferential statistics.

A few aspects of the study must be borne in mind. Firstly, the surveys discussed here were conducted on a sample of clients and teams in IM projects carried out exclusively in Poland, where interim management is generally less known and less frequently used compared with Western European countries. Therefore, studies conducted by researchers outside Poland would provide a valuable contribution to the discussion.

Secondly, the relatively low number of projects does not allow for an analysis of results with regards to companies' profile measured by factors such as company size or culture (corporations, ownership structure, etc.).

Thirdly, the projects covered thus far by our research were carried out mostly by IMs who were men, which at this stage makes it impossible to verify whether the relationship between trust and power is influenced by gender.

Moreover, it would be recommended for other research teams to continue and further expand our research. This is one of the reasons why the questionnaire dedicated to studying power is included in this article (Table 4). The trust-oriented questionnaire was published in an article last year (Skowron-Mielnik & Sobiecki 2020b, pp. 171–190), and the next article (in preparation) will contain the questionnaire that was used to test the level of knowledge.

In addition, researchers can use the presented results not only when studying the fairly narrow field of interim management, but also the much broader one – general management. This is possible because the trust and knowledge questionnaires, applied in our surveys, were borrowed from other researchers who used them for studying general management. In contrast, the knowledge-oriented questionnaire was developed by the authors for the purposes of this research; however, it is also based on literature dedicated to general management.

Furthermore, beneficiaries of this article include not only academics but also management practitioners – IMs, clients, and companies – both those that have been using IM solutions for years as well as those who are only just considering this approach to address their problems. Our findings may prove to be particularly beneficial to employees of companies who are already involved in an ongoing IM project or are about to join a project that is to be supervised by an IM.

Last but not least, expert power and referent power have been found to be of particular importance for project effectiveness. In terms of IM, these two types of power may either appear as new or differ from the types of power used in the client's company on a daily basis such as legitimate power, reward power, or coercive power. The latter tend to dominate in traditional styles of management based on demand and control. While the new types of power may emerge during the implementation of an IM project, the remaining employees of the company, including the end users of the IM project and its effects, will not be part of this process and will continue to be exposed to said traditional types of power. However, as the IM project expands and progresses, the interaction and collaboration between the project team members and its end users will be inevitable. This process may be facilitated by HR departments and managers of both the IM project team and the end users, who can use the findings presented in this article to conduct training courses during which their employees could learn more about the innovative aspects of the IM project related to new types of power and the illuminating perspective of trust versus power. Companies interested in such an approach, i.e. essentially in preparing their staff for an IM project before it starts, can use the information shared in this paper as an opportunity to increase the effectiveness of projects implemented in their organisations under the guidance and the supervision of IMs.

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The Post-COVID-19 Strategy' Haves and Have Nots

By

Mostafa Sayyadi

Abstract

This article highlights the direct impact of corporate strategy on organizational knowledge management, aiming at meeting organizational needs in a post-COVID world. Particularly, in this article, it is argued that when change becomes increasingly valuable, strategic changes can be implemented in order to prepare executives for the post-pandemic world.

Keywords: Corporate strategy, Knowledge management, The Post-COVID world, Organizational change

Introduction

After a comprehensive review of the literature, I found two things that business leaders are focusing on during the pandemic. Corporate strategy and knowledge management have been on the rise since the pandemic due to the large platforms of remote use. The executives I contacted told me that they are focusing on knowledge management along with corporate strategy. Here are some of the ideas gathered from executives leading during the pandemic. They are setting goals that are realistic and specific but leave room for change and adaptation so that the goals are not rigid. Primarily, following governmental regulation, they are focused on the rules of safety and security but also focused on profits, products, quality, and customer service. Some leaders, about half said that they have become slightly more rigid and are using Management By Objectives by coming up with overall goals for the organization and then minor goals for each department. Once established, they are monitoring goals every quarter and adjusting them or checking them off and creating others by looking at little to great progress on each goal. Every single executive asked felt that they are rewarding people so that they stay satisfied and happy, as they keep safe. I could not gather information on the post-pandemic at this time but some executives felt that a follow-up study would be warranted.

This article uses a literature based research approach to address the following research question:

- ***What's so new about corporate strategy in post-COVID world?***

The findings in this article are based upon prior studies and an industry research in the Middle East and North Africa (MENA) region.

Developing Strategy in Post-COVID World

One can now justify that the social media network has expanded to include remote workers. These workers may not realize it but they are now showcased online. Either they adapt and open up to be more vocal in meetings or they find themselves reclusive. Some employees have left industries due to the pandemic and executives are mindful of this. At the same time, they are cognizant of retaining talent from afar as they navigate through the pandemic to the post-pandemic. A few decades ago, Kogut and Zander (1993) highlighted the importance of knowledge management, and defined organizations as "social communities that specialize in the creation and internal transfer of knowledge"(p. 625). Organizations now need knowledge management more than ever.

In the post-COVID world, corporate strategy should include two dimensions, including analysis and pro-activeness. Zheng (2005) highlights the crucial role of analysis strategy in acquiring knowledge. In particular, she posits that knowledge acquisition "requires going deeper to the roots of problems, and that a higher degree of analysis could contribute to knowledge management" (p. 41). With knowledge management being more important as the virtual mindset has a vast approach with both depth and

breadth, analysis strategy can contribute to both practices of knowledge creation and acquisition in corporations. To develop an effective analysis strategy, executives can take the following actions:

- Focus on the effective coordination among different functional areas.
- Use various information systems (such as Executive Support Systems (ESS), Management Information Systems (MIS), Decision Support Systems (DSS), Knowledge Management Systems (KMS), Transaction Processing Systems (TPS), Office Automation Systems (OAS), and …) to support decision making.
- Use various business-planning methods (such as Cost–Benefit Analysis, Risk Assessment, Environmental Assessment, Program Evaluation, Participatory Methods, and …).
- Use control systems (such as Linear Control Systems, Non-linear Control Systems, Analog or Continuous Systems, Digital or Discrete Systems, Single Input Single Output Systems, Multiple Input Multiple Output Systems, Lumped Parameter Systems, Distributed Parameter Systems, and …).
- Use various cost control methods (such as Process Costing, Job Costing, Direct Costing, and …) for effectively monitoring the company performance.
- Use various management performance methods (such as Key Performance Indicators (KPIs) and Metrics, Balance Scorecards, Personal Development Plans (PDP), and …) to ensure that you move at the required level.
- Use various manpower planning and performance appraisal methods (such as Management by Objectives (MBO), 360-Degree Feedback, Assessment Centre Method, Behaviorally Anchored Rating Scale (BARS), Psychological Appraisals, Human-Resource (Cost) Accounting Method, and …) for senior managers.

Also, executives noted, they never taped or recorded a session before, but now it is a key point to capture the meeting minutes and provide venue for those that could not make the meeting. Remaining proactive, executives using a pro-activeness strategy refers to finding new opportunities and proactively responding to current challenges in external environments (Bergeron et al., 2004; Zheng et al., 2010). At first, this was somewhat easy because workers thought they would lose their jobs due to the pandemic. Over time, employees felt comfortable with technology and realized that they still have a career that is just going to be a little different now and in the future. Executives today agreed that applying knowledge actually emerges in interactions (Andrew, 1971; Polanyi, 1966; Sveiby, 2001). To demonstrate the importance of knowledge utilization as another construct of the knowledge-based view, Grant (1996) concentrates on knowledge application, and posits that companies are entities that apply knowledge to create competitive advantage. To develop an effective pro-activeness strategy, executives need to take the following actions:

- Actively search businesses that can be acquired.
- Actively introduce new brands or products in the market.
- Track significant and general trends in the market.
- Focus on basic research to provide you with a competitive edge for the future.
- Regularly modify the manufacturing/service technology.
- Eliminate those operations that are no longer profitable in later stages of life cycles.
- Focus on key indicators of operations forecasted (such as customer satisfaction, internal process quality, employee satisfaction, financial performance index).

Findings of an Industry Research Study in the Post-COVID Era in the MENA Region

This industry research adopted a quantitative approach. Large and medium-sized were defined as organizations with 100 or more employees. The researchers also selected followers along with operational, middle and senior leaders because there are more followers in organizations than leaders that their perspective is rich with data and can help formulate valid conclusions because of the lack of bias that they possess. This argument is in line with

Conrad (2012) that employees have a more realistic attitude than leaders toward their organizations' characteristics and the form of leadership they report to. In addition, it is evident that organizational leaders at lower levels frequently interact with other organizational members and can see what is actually happening in organizations (Brown, 2012; MacNeil, 2003). Thus, the research design involved an online survey questionnaire that was completed by both managers and employees working within large and medium-sized organizations across the Middle East and North Africa (MENA) region.

This survey questionnaire was developed based on existing scales established in the literature to measure the research variables (i.e. corporate strategy and knowledge management) and to test the relationships between them. Corporate strategy was measured using a scale of corporate strategy adapted from Venkatraman's (1989) study. The sample items included:

- Our company effectively uses the data provided by control systems and management information systems.
- Our company actively looks for new opportunities in today's global market environment.

Furthermore, knowledge management is measured in relation to the practices of knowledge management using 16 items. The sample items included:

- Our company has effective mechanisms to make sure every employee understands customer and shareholder needs.
- Our company has involved in cooperative and collaborative arrangements with others companies (excluding contract R&D).

The distribution of this questionnaire resulted in 622 (96.73 of the returned surveys) responses from 457 large and medium-sized organizations operating in a wide range of industries in the MENA Region. The sample characteristics have been presented in the following tables:

Table 1. *Gender*

Job Rank	Frequency	Percent
Female	191	30.71
Male	431	69.29

* N = 622

Table 2. *Years of Service*

Years of Service	Frequency	Percent
Less than 1 year	103	16.55
Between 1and 10 years	247	39.71
Between 11 and 20 years	149	23.95
More than 20 years	123	19.77

* N = 622

Table 3. *Job Rank*

Job Rank	Frequency	Percent
Employees	248	39.87
Managers	374	60.12

* N = 622

Table 4. *Average Age*

Average Age	Frequency	Percent
Between 20 and 25 years old	76	12.21
Between 26 and 30 years old	92	14.79
Between 31 and 35 years old	131	21.06
Between 36 and 40 years old	123	19.77
Between 41 and 45 years old	136	21.86
Older than 45 years old	64	10.28

* N = 622

Table 5. *Organization Type*

Organization Type	Frequency	Percent
Public	124	27.13
Private	333	72.86

* N = 457

Table 6. *Organization Size*

Organization Size	Frequency	Percent
Between 100 and 200 employees	211	46.17
Between 201 and 300 employees	78	17.06
More than 300 employees	168	36.76

* N = 457

After conducting exploratory factor analysis and confirmatory factor analysis, the findings illustrated an acceptable degree of validity and reliability for the two variables of this industry research. In terms of corporate strategy, Cronbach's α for analysis strategy was .83, and for pro-activeness strategy was .78. In terms of knowledge management, Cronbach's α for the construct of knowledge management was .81. Consistent with predictions, the results of the data analysis also indicated that corporate strategy had a positive impact on knowledge management in large and medium-sized organizations in the MENA region ($\beta = .52$, $p < .001$).

Conclusion

This research provides evidence of the sizeable impact of corporate strategy on knowledge management. With regards to corporate strategy, this research extends these lines of study by uncovering the argument that corporate strategy is an important organizational factor to propel leaders into the post-pandemic world, through building an effective knowledge-based company. Importantly, these findings fill a gap in the business literature by representing a significant step forward in specifying corporate strategy as a key factor in cultivating effective impacts on knowledge management performance within organizations. On the other hand, it was shown that when corporate strategy affected knowledge management, knowledge management could help to better perform in a post-pandemic world.

Like all studies, the present one is not without limitations. First, the findings of this industry research cannot be generalized to the larger population, and are confined to the sample. In addition, the survey results are only based on the perceptions of managers and employees.

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