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Trust-building, agency, and the entrepreneur-HR Manager: A Nigerian case study

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Small businesses often have the Human Resource (HR) function managed by the CEO. Leadership tends to be informal and processes and procedures are still fluid. Trust – the willingness to take risks together and be vulnerable to others – is needed since trust drives performance. A small size could enhance communication and mutual understanding in an organization. However, any breach of trust greatly impacts the business and workplace morale. The paper’s objective is to explore, through case study methodology, how trust-building could resolve the problems of a CEO cum HR Manager. The findings suggest that trust-building overcomes agency problems unsolved by incentives and monitoring techniques; that entrepreneurs who double as HR Managers should build and rebuild trust constantly; and that cultural differences can affect the principal-agent relationships that the HR function oversees.

Keywords: Trust, entrepreneur, human resources manager, agency, trust-building, human resources, small business

INTRODUCTION

Trust and the Entrepreneur-Human Resource Manager

Small businesses, especially start-ups, often have the Human Resource (HR) function managed by the CEO. When they have some knowledge about managing human resources, for example, when they are MBA holders, they are able to cope with the level of HR required initially, until they have a staff size and a turnover large enough to maintain an independent human resource unit. Issues of trust are even more critical in these companies, since the CEO, the line manager and the HR manager are one and the same person. Where, in a larger organization, someone disaffected with performance appraisal, pay, work schedule, job description, work design, targets, etc. could have different options of the level at which to raise a complaint, in this type of organization, there is only one arbiter. Yet in small companies, the CEO cum HR manager depends to a very large extent on the small knot of people working in the organization. Leadership tends to be informal and many processes and procedures are still taking shape. Employees often have to multitask since it is difficult to have people specializing in different functions at this stage of the company’s growth. Hence a strong willingness to work together, to take risks together, to be vulnerable to one another – trust – is needed (Schoorman et al. 2007). According to Reina and Reina (2007: 36), “without trust, employees have little interest in being creative, taking risks and collaborating… generative power begins to wane and performance is diminished”.

Clearly, small entrepreneurial undertakings are no less affected by issues of trust than bigger organizations. There are some advantages. In a small outfit, having fewer people could facilitate communication, mutual understanding, bonding, even trust, because of reduced power distance that comes from not having several layers of hierarchy. Yet there are disadvantages: one employee’s breach of trust has a very high impact on the business and on the whole workforce morale. In a small organization, if people are not ready to take risks or be vulnerable and open, it becomes very difficult to work together.

Due to the special nature of the trust relationships in small businesses, the experience of an entrepreneur cum HR Manager is a good forum for validating the problem-solving approach to the application of trust concepts as suggested by Bigley and Pearce (1998). Schoorman, Mayer and Davis (2007) also point out that empirical studies of
reciprocity in trust are rare. Thus the methodology applied in this research adopted a case study approach to explore how trust-building features as a solution to the problem of agents’ moral hazards faced by a Nigerian CEO cum HR Manager in setting up and running a woodwork factory. The case study shows how the CEO cum HR Manager needs to trust and inspire trust. He has to be willing to take risks with and be vulnerable to the employees (Schoorman et al. 2007), and also get them to be willing to take risks with him (Davis et al. 2000).

A discussion of the outcomes of his efforts indicate that employee-employer relationships go through a cycle of trust, like many other relationships (Schoorman et al. 2007); and suggest that trust-building is essential to overcome problems that cannot be solved by incentives and monitoring techniques in an agency situation; and that HR Managers would do well to strive to build and rebuild trust constantly so as to optimize organizational performance.

This paper also suggests that institutional differences across cultures may affect the principal-agent relationships that the HR function oversees and that a deinstitutionalization perspective may be useful in managing human resources. As will be discussed below based on a case, the trust-building approach is the solution, since it tends to generate a deeper and more long-lasting resolution to both agency and institutionalization problems related to instances of negative work ethic.

**Trust, Agency and Human Resource Management**

The definitions and models of trust that have been developed over the years by different scholars have been compiled and summarized in Schoorman, Mayer and Davis (2007). In that paper, they explain that trust is found in relationships (344), is different from disposition to trust (345), entails readiness to risk (346) and to be vulnerable (347), may or may not be reciprocal (347), and is mediated by affect (348) and culture (350). Our current case study involves a relationship in which trust was involved from the start and yet clearly needs continuous building, confirms that it is different from disposition to trust, entails readiness to risk and to be vulnerable, should be reciprocal if the relationship is a long-term one, could be mediated or not by affect, and is definitely mediated by culture. In the case study, the three dimensions of trust highlighted by Schoorman, Mayer and Davis (2007), ability, integrity and benevolence, are shown to indeed be relevant in managing human resources. Trust is a dynamic quality in relationships, needing to be built, strengthened, rebuilt, intensified, all the time (Reina & Reina 2007; Rushton et al. 2010).

Human resource management seeks to manage principal-agent relationships in such a way that the agent-employee gives his best for the principal-employer in situations of information asymmetry and difficult to monitor (Eisenhardt 1989). The moral hazard of employees who do not bear all the risk of their actions is usually managed through performance management systems that try to motivate, incentivize and monitor optimally.

An employee may also have other interests that distort his priorities and conflict with his employer’s interests. To facilitate discussion, let us imagine an employee called Abu. Abu may carry out personal jobs during working hours; he may use the networks to which official jobs introduce him to further personal interests; he may prioritize work according to what he enjoys more, which may not be more profitable for the business; he may be interested in the growth or expansion of the business rather than its profitability if he has a penchant for being the kingpin in the organization; he may wish to fill job vacancies with family members even if they are not the best suited candidates for the job; etc.

Following classic agency theory, many human resource management practitioners would feel a need to appeal to Abu’s self interest. If Abu’s self-interest could be aligned with the company’s through incentives tied to the performance of the commission entrusted to him, then he will protect and further the company’s interests. Hence a lot of attention is paid to rewards management. In line with this, many scholars have studied incentive structures and the best way in which they can be structured in order to align the interests of principals and agents. Many reward systems are now more careful about rewarding the kind of behaviour they want, since ‘you get what you pay for’ (Kerr 1975). Different ways of monitoring performance have also evolved, in a bid to reduce information asymmetry. Monitoring conveys the negative format of an ‘incentive’ – being the disincentive that if Abu is caught doing what he ought not to do, he will be punished.

Agency theory postulates that once incentives are appropriately structured and information is made more symmetrical, agents will work in favour of their principals (Eisenhardt 1989). Time and experience have shown that there may be other variables at work. There have been situations in which the same incentive structure had the desired effect on some and not on others, perhaps due to differences in human nature; some men are motivated by traits other than self interest; greed could drive some to put their interests first even when the incentive to put their company’s interest first is high; ignorance or lack of skill even when there is good will, could makes the agent not to act as the human resource manager expects; etc. For example, A_1 and A_2 may be paid the same piece rate to get their work done. A_1 may work hard in order to be more productive and to earn the piece rate promised, while A_2 may for various considerations smile at the piece rate incentive and ignore it. A_2 may have an alternative use of his time which rewards him higher than the piece rate offered, whether financially or otherwise. A_2 may be simply lazy. A_2 may intend to get his work done, but may lack the knowledge and skill to be a good agent. Or A_2 may have a grudge against the company which makes him unwilling.
to do anything that would benefit the company. These scenarios highlight the need to isolate and address one underlying variable which if addressed might resolve all or considerably more of these issues than has been so far achieved. This underlying variable is the one that originally led the human resource manager to use the tools of incentives and monitoring; it is the trust or distrust variable. Distrust is the issue behind the agency theory perspective. However, because agency theory is built on economic theories that follow the homo oeconomicus model, it focuses on incentives and monitoring, aiming almost single-mindedly at driving Abu’s self-interest.

This rational self-interested man model does not take into consideration many other realities about man. A more workable model for human resource management should invoke the need for trust-building in order to promote other-regarding behaviour and an alignment of interests. Trust-building would create mutual interest and so could resolve the principal-agent fissure in a deeper way than incentive structures and monitoring systems.

Besides this, more research is needed to distinguish differences across cultures which affect trust in employment relationships and generate context-specific solutions. In Nigeria in particular, human resource managers may at times come up against an institutionalized negative attitude to work in workers who think that if the boss is absent, the pace should slacken; after all, “it’s not my father’s business”. In this scenario, Abu puts in effort in the tasks assigned to him when he is being observed, but sees no reason to continue doing so when his line manager is absent. There is therefore a basic flaw in work ethic, and the company’s first challenge may be to deinstitutionalize Abu (or a team of ‘Abu’s) before moving beyond this to other goals.

The thrust of this paper is to use a case study to examine a few problems of the agency theory perspective in human resource management in a small company, to propose a trust-building approach to resolving them, and to suggest that, specifically for Nigeria, and perhaps for countries in similar emergent economic conditions, a deinstitutionalization perspective may be relevant in these situations.

FRAMEWORK AND METHODOLOGY

Information asymmetry and moral hazard, (Eisenhardt 1989) make it difficult to achieve the levels of trust that could reassure the principal that the agent’s interest is aligned to his, especially when viewed against the background understanding of man as ‘homo oeconomicus’, characterised by an utility maximizing perspective (Jensen & Meckling 1976). Fligstein and Freeland (1995) identified the problems as issues of internal control, especially of hierarchy and motivation, and mention that they commonly occur where there is management on one side and workers on the other, or ownership on one side with control on the other, or division of labour into several levels of management.

Agency theory postulates that once incentives are appropriately structured and information is made more symmetrical (through monitoring), agents will work in favour of their principals (Eisenhardt 1989). Time and experience have shown that there may be other variables at work and that there is a need to exercise caution in applying agency theory (Donaldson & Davis 1991).

A single case study of Lumberworks Ltd. is used to explore, validate and extend the above ideas, following the suggestion by Tosi and Gomez Mejia (1989) that there may be need to research agency theory using additional behavioural science methodologies other than the psychometric approach commonly favoured, in order to enrich the understanding of the effects of monitoring and incentive alignment efforts. The special forte of case study as a research method is that it facilitates understanding of complex theories and provides a basis for application of existing ideas to specific situations in order to extend our understanding of underlying theory. According to Yin (1984), looking at a phenomenon in a real life context makes it more intelligible and guides our further understanding of its confines and its reaches.

Thus, using single case methodology, this paper found that monitoring and incentive structures, the most common responses to principal-agent concerns in human resources management, are limited in their effectiveness and that a trust-building approach is what is needed to achieve the much sought after alignment of interests. Since trust can only be built where there is integrity, it would appear from the case study that integrity is what really matters to the agent, and that a culture of integrity is what would grow mutual trust in such a way as to resolve most if not all the conflicts thrown up within the employer-employee relationship.

The case study data was gathered over several months in the first half of 2011 – through a series of interviews with the main protagonist of the case, observation and site visits to the company, and email correspondence between the protagonist and others.

The Case: Lumberworks Ltd.

Dapo Adeleye worked for about twenty years in the oil and gas industry, having obtained a degree in electrical engineering from the University of Lagos. He enjoyed his work as an engineer, but it was not enough: he had a passion to do something that would impact lives more directly, and the dream that attracted him was the setting up of a joinery business to address the challenges of getting woodwork done properly in the Nigerian construction industry. While he was still in paid employment, he commissioned a feasibility study that showed that such a business was indeed viable and would be a good
opportunity for any would-be entrepreneur to take up.

After an Executive MBA programme at the Lagos Business School of the Pan-Atlantic University, Lagos, Nigeria, he put his funds together and took the risk of leaving paid employment. He invested in a piece of land along the Lekki-Epe expressway and built a factory on it for making doors, cabinets, bookshelves and wardrobes. He faced an initial challenge when he was asked by government officials to pay five million naira for a transformer that would connect him to power supply, but he eventually decided instead to buy a generator that would suffice his level of production and cost him much less to maintain. He also transferred an old generator that had previously been written off to the site, and with the two, the old and the new, he was able to supply his power needs. As with many other businesses in Nigeria, he also had to create his own water supply; by constructing a borehole. Luckily, the road to the factory was graded after the first year of its existence, and so access to the premises improved considerably. Lumberworks slowly began to build up a clientele for the high quality and elegant doors he was able to produce, on a make-to-order basis.

He got skilled and very experienced carpenters to work alongside him, and styled himself a carpenter too, so that they would feel that he was one of them. He bought them safety equipment for their work and insisted on their resting well when off duty. He paid them well, showed concern for their welfare and became interested in their family stories. They were happy, or they seemed to be. Dapo was happy with his semi-formal leadership style and the warm response it was eliciting from his team.

The problems with productivity appeared gradually. He tried to get around them by various means; but, now, barely a year after opening the factory, he was fed up with his skilled staff. At this point, he was experiencing the perennial problem of agency and moral hazard, and, since the incentives he put in place had not worked, he was proposing to eliminate information asymmetry by placing his employees under observation. He wondered whether installing cameras would be a good idea or not.

Dapo was deeply convinced that he needed to improve the productivity of his workers, especially during the periods when he was not in the factory. If he installed CCTV cameras, he would be able to look at what was going on including whenever he was absent. However, before going ahead, he asked some friends, his old MBA classmates, to advise him on his intended step. In particular, he felt there might be some aspects of human psychology that he might have overlooked. A partial text of the conversation is included as an appendix.

The ideas that came from this consultation helped him to turn the situation around, especially one that showed him that his employees needed to trust him and to see the connection between how their salary was being paid and what they were doing. They needed to see how what they were doing could improve their lives and not only benefit the company. Dapo set up one-on-one meetings with a good number of his staff and gained their trust through deeper communication, supporting the theory of Reina and Reina (2007) that beyond competence and contractual trust, communication trust is needed. For example, a couple of employees had as their goal to become land owners, another wanted to get married. Yet another wanted to finish building a house. In these one-on-one meetings, they tied the personal goals of each employee to the corporate goal by describing the mutual objectives, the mutual vulnerability and the need for reciprocity in trust. In the next segment of the paper, the case study data are discussed to show how they support the need to go beyond incentivizing and monitoring to build trust. The former have their role to play but may not be enough if the organization is to perform optimally.

**Hitches with Monitoring when the Problem is Distrust**

Dapo’s interest in monitoring is in line with the instinctive response to agency issues and this not only within the human resource function. Fama (1980) commenting on the desire of principals to oversee what agents are doing, prophesied that there would be a forced evolution of devices that would allow principals to efficiently monitor the performance of their work teams and its individual members. Sure enough, many devices did evolve, including the CCTV camera.

The CCTV camera is used mostly in situations where the principal would like to impress upon the agent that all his movements are under observation, and that as such, any step he takes that is not aligned with the principal’s interest will be known to the principal, who can then take disciplinary action. To forestall accusations of invasion of the right to privacy, CCTV cameras are usually announced, so that the people know that they are being watched. It tends to make for a tense work environment. In situations where it works, it does so because it has become so much a part of the institutional culture that the people do not remember there are cameras around and act as they ordinarily would. However, the whole purpose of the camera is to catch people out. Once someone is proven guilty of inappropriate behaviour based on camera evidence, others are sure to become again conscious of being watched and the work atmosphere becomes again tense.

It is not clear that this is an atmosphere in which productivity can thrive and or be maximized. At best, it would work well in the event that the firm’s culture is deliberately based on an arms-length type of relationship with its employees, such that they are not asked to do anything beyond their contracted duties and they are in turn habituated to being held strictly to the fulfilment of their contracted duties and closely monitored for this. Perhaps this would work better in large structured organizations than in small and medium business.
enterprises, where it is common that the owner or manager expects that his staff will regard the business as theirs and go the extra mile to serve the customer, putting their own interests second to the principal’s in the process.

Monitoring may at times provoke employees

A couple of responses commended Dapo’s idea, pointing out only that, from a rights perspective, it would be important that the employees knew of the existence of the cameras. At the same time, a caveat was enjoined that the employees would avoid the cameras if the locations were revealed to them. Hence it was understood that the employees would not welcome the idea of being observed and could possibly still avoid working to expectations whether or not the cameras were in place. For agent CEOs, it is even easier to know the locations of ‘cameras’ and avoid them, since any internal monitoring plan would be at least approved, if not designed and implemented at the level of top management.

As the Enron case (Sims & Brinkmann 2003) showed, and as numerous cases of bad corporate governance continue to show, workers are smart enough to get round the monitoring structures erected once they know of their existence. Executives on corporate boards are often by virtue of the nature of the job handpicked from among the most intelligent candidates available, hence once they are decided to defraud the company, they will find the way to evade external (as well as internal) monitoring while being outwardly compliant with the law. Even as lawmakers continue to produce legislation and regulation like the Sarbanes-Oxley Act and its variants in different jurisdictions, ‘brilliant’ minds will continue to find ‘special purpose vehicles’ to carry out their purposes for or against their shareholder and stakeholder principals.

It would seem that because ‘monitoring’ encourages a culture that is compliance-focused rather than values-focused, its long term sustainability as a tool for aligning interests is not assured (Weaver & Trevino 1999). Employees would be acting out of fear of ‘punishment’ rather than because they really want the best for the organization. Hence at every opportunity, each time that something is not covered within the scope of the compliance structure – regulations, codes, etc. – they will choose their own self interest again and again.

Other responses to Dapo quickly warned that even if monitoring worked short-term, it would fail long-term as a performance driver. The suggestion was mooted that “targets/metrics and other checks and balances” could work better, as these would be “more self motivated structures”. Thus we are led back to the idea of using incentives to appeal to the agent’s self-interest.

The cost of monitoring

Besides all this, the cost of monitoring can place quite a heavy burden on the company. The burden can be so great as to wipe out the advantages one might have wanted to gain from increasing monitoring capability. From a transaction cost theory perspective, it would be counter-intuitive to enter into a monitoring transaction of which the costs outweigh the benefits, if the money saved by so monitoring the agent is lost in paying for the cost of the monitoring. In the present case, the fact that transaction costs are not only measurable in cash but also in time was remarked upon. Indeed, the cost of spending executive time that could be used for more productive activity watching camera replays to ensure that worker time has been well spent may be prohibitive once one considers it in a more detailed manner! This is apart from the very high cost of installing and maintaining CCTV cameras (Armitage 2002).

In addition, because monitoring tends to breed more distrust, it can end up aggravating the problems already inherent in the principal-agent model. The concept of monitoring connotes a “guilty until proven innocent” approach, in keeping with theory X patterns, and employees that feel that they are not trusted may see no need to trust the human resource function or the CEO cum HRM either. This could lead them into excessive concern to take care of their own interests and therefore make them put their interests above the principal’s - the typical self-fulfilling prophecy cycle: P believes A is not trustworthy. Therefore P does not trust A. P erects a very elaborate security structure in order to protect himself from A. Seeing the structure, A perceives that P does not trust him. A therefore suspects that P may get rid of him at any time. He therefore decides that he should feather his nest before the time comes. Or A becomes intrigued by the monitoring structures set up by P and determines to outwit them. When, for one reason or another, A chooses to do otherwise than promote P’s interests when he comes to the point of conflict, then P sees this happening and thinks “I thought as much”. He does not realized that he provoked A by his actions; that if he had treated A differently, perhaps A would have responded differently to that treatment.

Incentives as a Solution in Situations of Distrust

Incentives have long been studied as the solution to principal-agent issues. Lazear (2000) in the preamble to his paper demonstrating the positive effect of the piece rate system on productivity, remarks that it is a cornerstone of theory in personnel economics that workers respond to incentives. Different and elaborate reward systems continue to emerge from different studies on incentives. There is the bonus system. There are stock option incentives; profit sharing incentives; deferred compensation agreements; promotions; etc. There are also advocates of group incentive reward systems especially in environments where teamwork needs to be promoted (Che & Yoo 2001). It is also possible to have a mixed structure. Infact, some have advocated that this mixing approach is
The best option and most effective.

Fama (1980) goes so far as to develop an alternative theory of firm ownership, viewing the firm as a set of contracts among different factors of production, with each factor being moved by self-interest. However, the experience of a good number of people also indicates that it is not always about incentives. There have been incidences of abuse of agency powers, particularly in cases of bad corporate governance, even in situations where the incentive structure had been crafted cleverly so as to align the interests of the management team with the shareholders, usually through stock options which made them joint owners. Many CEOs thus held stock in the companies they helped to destroy. It did not stop them from experiencing and giving in to conflicts of interests. In many cases, they went on to use their obvious access to insider knowledge to sell off their stock at the critical moment and to thus avoid the negative consequences of the crash resulting from their mismanagement of the company. This points to the presence of another or other variable(s) mediating the achievement of interest-alignment in principal-agent relationships to which HR practitioners need to be alert, especially when they are the very business owners.

Incentives may not always work as planned

Illustrating this in the Lumberworks case, after several suggestions as to incentive structure had been made (piece-rate; output based; etc.), Dapo clarified that he had tried some incentive structures already and these did not work. His workers did not seem to be responsive to incentives.

Also, Heath (2009) in exploring the uses of agency theory in business ethics, comments that business ethicists are justified in viewing agency theory-based incentive structures as contributory causes to unethical behaviour, particularly in the highly publicised corporate governance scandals in recent years (Heath 2009): Enron, Tyco, Worldcom, Parmalat, and Hollinger, to name a few.

An additional challenge with incentive structures is that setting them up to reward exactly what one aims to reward is a tricky task. It is very easy to aim to reward alignment of employees’ interests with the organization’s interests and end up rewarding some employees’ self-interest. Or to reward alignment of both interests in a short-term period only to discover in the long term that the interests have diverged due to some distortion that occurred along the line. For example, in the Enron case, the effort to avoid a negative earnings outlook at all costs and maintain a high credit rating led to the strategy of an intricate deception that eventually caused the downfall of the firm (Sims & Brinkmann 2003). In the meantime, the effort being made through crafty mechanisms, to ensure that trading partners and the public would not lose faith in the company, continued being rewarded and applauded until the bubble burst and everyone saw what was happening for what it was.

A similarly unfortunate case of misalignment was observed by Dias and Maynard-Moody (2006) when they looked at the goals of a public welfare organization and found what they called a “performance paradox—the same actions taken to achieve contractual results ironically produce negative program practice and poor client outcome”.

Trust-Building Solutions

Trust is the plasma within which business transactions live and move. Within the company, trust affects performance (Davis et al. 2000). Outside the company, the more trust there is, the more long term and strategic alliances can be established for business growth, both internal and external to the firm. It is only because A trusts that B will pay him that he delivers goods, or vice versa. If there were no trust, it would be difficult to do business at all, as no one would want to part with value without receiving value in return simultaneously in order to avoid being vulnerable (Schoorman et al. 2007), and simultaneous transactions are difficult to achieve, given the nature of the goods and services in exchange. It therefore behoves all corporate entities to be interested in trust-building both within and without the company. Building trust is however, often an uphill task.

Basically, in agency theory, trust is what is not there, and it is distrust that makes the human resource manager focus on how to appeal to Abu’s self interest. He cannot trust that if he is absent or ignorant of what Abu is doing, making use again of our fictitious employee, Abu will consider and give priority to the best interests of the company. Interestingly, Abu could feel the same way: in the sense that, once he realizes that the company does not trust him, he will be less inclined to go out of his way to look after its interests. As one of the commentators on the CCTV Lumberworks saga noted, even Dapo's employees who are in supervisory roles would lose interest in carrying out that task once they perceived that he did not trust them to do the monitoring of the staff who report to them. The CCTV cameras would make human supervisors redundant, and unless the communication with them concerning this issue is carefully handled, it could spark feelings of resentment towards the principal.

Trust heals the gaps in agency relationships

Stout (2003) explains how the presumption that man is only looking to his own self-interest, when carried to its logical conclusion, would mean that no principal would want to employ an agent to represent him. Particularly, she shows that no one would want a self-interested man to be on the Board of any company, for the simple reason that it is impossible to trust such a person to look after the
interests of the stakeholders in the company (and she points out that the incentive for Board members to do their work rightly is often inadequate). Precisely what is needed to carry out the role of a director of a company in an upright manner, to ensure good governance, is an atmosphere of trust because of an expectation of some degree of other-regarding behaviour or altruism from all the people placed on the Board in representative capacity (Stout 2003). They are expected to leave possibly more lucrative activities aside to dedicate their time and attention to monitoring the CEO and his team on behalf of the shareholders.

Research to establish the most efficient steps to trust-building and the elements of trust-building in different environments of business requires a bottom-up approach in order to rightly address the issues (Bigley & Pearce 1998). The ones who are most affected by ‘lack-of-trust’ issues are the ones most likely to give an indication of what they would consider to be signs of trust. From the Lumberworks experience, what Dapo needed was to go deeper in communication trust, looking at it from the Reina and Reina (2007) model. On the other hand, if one follows the Schoorman, Mayer and Davis (2007) model, what he needed was to strengthen the employees’ perceptions of integrity and benevolence; since he had already the ability dimension of trust fully covered both ways. Once he did these two things using the one-on-one meetings, things changed.

Trust enhances other values and helps build the organization’s culture

If an organization succeeds in building a culture of trust, then there would spring networks of embeddedness that would beyond financial considerations make everyone work to align their interests with those of their company. Eventually Dapo did not need to talk to each and every employee before things changed. The word got round. The task of the human resource function became much less onerous on the CEO who could now devote more of his energies to other matters, such as business development.

Within such an organizational culture, good and careful succession planning would mean that those who would reach top management would have imbibed that same culture and therefore would be more likely to understand the fiduciary responsibilities they owe to their company and abide by rules of good governance when they are entrusted with the resources of the company. Their focus would thus be less on furthering their own interests by structuring their compensation to favour themselves, etc. It is expected that this would work better than the incentive approach of stock options which has sometimes been used to achieve interest-alignment and which has failed in many instances as management members owning shares in the company still place their own interest above the company’s and engage in sharp practice. When, as happens occasionally, some companies wish to recruit ‘fresh blood’ into management from external sources, they would then do well to consider the culture of the company from which the prospective executives are coming from in order to ensure that they fit in the new company.

The idea of trust-building in a values-oriented setting is supported by the study of Caza, Barker and Cameron (2004) on the positive effects of virtuousness on organizational performance. In the said article, they relied also on the empirical study by Cameron, Bright and Caza (2004) which found that organizations with assessed highly on virtues significantly outperformed those with low scores: they made more money, they were less affected by downsizing and passing through difficult times; their employees were more innovative; and the firms enjoyed more loyalty from customers and employees.

All the activity referred to as the parameters for comparison in the above reference are employee-controlled activities, and it is usually when employees’ interests are aligned with the organization’s that they translate into firm performance; hence the need for human resource managers to pay particular attention to whatever can raise employees’ degree of alignment with the firm’s interests. It is more likely that agents act virtuously when the firm culture is virtuous and encourages virtuousness. It is also when the human resource managers ensure that the work environment emphasizes trust that it becomes easier to get deep involvement from the workers which make them put in their best energies and ideas and innovate for the success of the company.

Trust can go hand-in-hand with effective monitoring and appropriate incentives

In human resource management, especially in small businesses, monitoring and incentive techniques need to be complemented by trust-building, which is the solution that actually attacks the problem at its roots and therefore has more chances of succeeding and this in a sustainable way. As noted by Weaver and Trevino (1999), the message and support conveyed by a values orientation, in this case those inherently fostered in trust-building activity, is needed to support compliance goals that are indicated by monitoring and incentive structures (Weaver & Trevino 1999). To achieve the entrenchment of values into the system, Yau suggests methods and procedures to improve corporate governance practice in Taiwan, with a focus on compliance, in order to complement the overall regulatory structure and achieve some degree of monitoring that could enhance values in practice (Yau 2010).

If the human resource manager could monitor the employees without their knowledge, would this solve the problem? It seems not. One of the ‘consultants’ on the Lumberworks Ltd. case study suggested that the cameras could be introduced to the employees as part of a quality assurance plan for output. The idea would be to film the
day-to-day activities of the company and the disclosed intention would be to review them regularly to see how to improve productivity. Apart from the slight element of deceit this would involve, the overall costs of the enterprise remains very high. It may also be difficult to sustain after a while.

**Work Ethic: A Human Resource Problem**

Recruiting the right people often means finding people who have a ‘ready-to-work’ attitude, or at least a ‘ready-to-learn’. In Nigeria, the oil boom and the subsequent degeneration of the quality and efficiency of civil service and the educational system have engendered a ‘get-rich-quick-with-the-least-effort’ mentality in many people. As Dapo experienced, theory X which, like agency theory, has an ‘homo oeconomicus’ model embedded in its theoretical underpinnings, seemed to be the only way to get some to work. One of the responses to his dilemma came from a factory floor manager who strongly feels that close monitoring is the only way to go if one wants to get rid of “truancy” and “lazying about doing nothing”. Yet theory X has been proved to be unsustainable in the long run. Another comment supported the factory floor manager’s recommendation, though suggesting other monitoring devices that are not as intrusive as the CCTV.

In the Lumberworks saga, the words used to describe the right people included “motivated staff” who have “inner ideals and values which constitute character” “influenced by love”, etc. These point to values that can subsist only if there be an atmosphere of trust.

A general idea that could be distilled from all the exchanges on the issue is that the right people and the right incentives would work well together; that getting the company culture right and having “transparent measure systems” should be the key to sustainability in employee performance since, with these in place, the agents would be focused on the principal’s interest whether or not he is present.

**The influence of work ethic**

The comment about the “typical Nigerian eye service set-up” refers to the propensity of some people to work only when the ‘eyes’ of the boss can ‘reach’ what they are doing. This would represent agency failure due to inadequate monitoring and non-alignment of interests (Abudu 1986). Umoh (date of publication unknown) and Plang (2011) also comment on the negative work ethic that has been observed to characterize some Nigerian workers. As we see in the case of Dapo, incentives sometimes fail to resolve this problem. He observed an attitude in his staff which made them resistant to the type of work ethic he wanted to prevail in his company. They already had set ideas about what constituted acceptable behaviour when the boss was in the factory and what was ‘normal’ behaviour when he was out of the factory. Dapo’s denoting it as the “typical Nigerian eye service set-up” is an acknowledgement that this is not unique to his factory. Rather it has become an institutionalized reality in some workplaces in the country.

Institutionalism, broadly speaking, looks into the way institutions conform or not to the norms in the institutional environment, indicating that when they do not conform, they could lose legitimacy and this may bring them back to heel. Exceptionally, if they are big and carry weight, their rejection of the current norm could set a new trend which other institutions then adopt in what is described at times as mimetic institutionalism. In their study of the change in attitude to downsizing in Japan, Ahmadjian and Robinson (2001) found that the whole institutional environment could and did change due to one powerful dissenter rejecting the status quo hitherto accepted by all the firms.

Institutionalism is not ordinarily a theory that looks at the individual. However, we can borrow the concept of ‘path dependency’ from this theory in order to understand how it can be difficult also for individuals to change behaviour which has been hitherto accepted as the expected in the environment, particularly when we think of the deep interaction individuals do have with their institutional environment through the influences of structuration over a period of time.

**The role of education and training in breaking path dependency**

Path dependency makes people cling to internal attitudes so deep that it is difficult to counteract them long-term only by external pressures of incentives and monitoring. The person has been so long used to certain behaviour that it is difficult for him to change if the reasons come from outside him. What the human resource manager needs to do is to provoke an equivalently deep experience that can give him internal convictions to change by leading him to a personal decision. This deep experience can be achieved through education. Education comes from the Latin word ‘educere’ which means ‘to lead out from’. Affected people can be led out of their deep seated habits by educating them in new habits.

For children, such education would need to take place as part of their formal education within primary, secondary and tertiary systems. For those who already are adults, such as the agents that Dapo or the HR Manager is trying to change, education can be delivered on the job in the form of training, where this training does not mean merely an effort to improve their technical expertise but rather is focused on opening minds to see the value of work and the value of time. A series of training programmes in work ethic would delve into different self developmental areas such as self leadership, drive, personal aspirations, etc. With this type of mentally challenging events, there is a good chance that the subjects of the exercise will change their worldview and be able to step out of their old institutional framework into a
new one. As happens in similar deinstitutionalization events, if a former strong dissident is the first to convert and adopt a new attitude, then it becomes even easier to carry the rest along and before long realizes, the whole team will have undergone a change. This is what Briscoe and Safford (2008) explain in their paper on the effect of Nixon’s visit to China on the attitudes of other world powers to China thereafter.

Conclusion

The conflicts inherent in principal-agent relationships due to diverging interests of the parties are not always resolved by increased monitoring and or the structuring of incentives. Thus human resource managers have experienced a number of instances that incentives and monitoring did not stop certain actors from disregarding the company’s interests. However, when these strategies are carried out within the wider context of a trust-building solution, it is possible to achieve a relatively strong alignment of interests. This is because trust-building attacks the problem at the root: it attacks and attempts to resolve the element of distrust which is due to the fear of being vulnerable to another and is at the core of all theorizing about both trust and agency (Schoorman et al. 2007; Bigley & Pearce, 1998).

In Nigeria, in addition to trust-building, the human resource manager could sometimes encounter a phenomenon of workers not being willing to work when they see no need – i.e. when monitoring is less, why should Abu kill himself? In these cases, there would be a strong need to educate or train staff attitudes to work in order to counteract the effect of an institutionalized habit of not working unless monitored, since full monitoring is impossible. Hiring the right people will go a long way towards achieving this, but since attitude to work is difficult to detect in a recruitment interview, it is important that certain practices be put in place in order to assure a corporate culture with the desired work ethic. This will be easier if trust-building structures are already in place in order to also promote other-regarding behaviour or ethical behaviour. In this way, the question of ‘why should Abu kill himself’ would have been answered.

In conclusion, it is important to encourage the CEO cum HR Manager to go beyond the traditional recommendations for agency theory gaps and to try the trust-building approach. The case study of Lumberworks confirms that monitoring and incentives can work for resolving agency issues, albeit in a limited way; while it suggests an extension of the range of solutions to include trust-building as a critical measure. A human resource manager in Nigeria should also take into consideration the Nigerian work ethic. Further empirical research could be aimed at exploring the distinct steps towards building cultures of trust based on the abundant body of theory available. It would also be useful to look into the possibilities of deinstitutionalizing negative and or self-interested attitudes that can inhibit trust-building and replacing them with productive and other-regarding ones through education and training activity.

REFERENCES


Appendix:

Email Records of Discussions between Dapo and ‘consultants’ (*please note that, in this informal and electronic conversation, some rules of grammar and syntax have been ignored*)

Subject: Improving productivity in manufacturing
20 January 2011 15:51

Ladies and Gents, in a bid to improve the productivity of my workers (esp when I am not around) I am contemplating installing cameras so that I can look at what’s going on over the web. Personally, I feel this will serve me well, but I would like some feedback also on the human psychology angle if it is a bad idea.

Thanks as I await your response.

Regards,
Dapo

Subject: Re: Improving productivity in manufacturing
Date: Thu, 20 Jan 2011 15:10:40

Dapo,

It is a fantastic idea if you can afford it. Just make sure there are no cameras in the toilet and bathrooms. Let the staff know there are cameras around but don’t expose the locations or else they will cleverly avoid the cameras and the aim of buying them will be defeated. Good luck bro.

Regards,
Soji

Sent: Thursday, January 20, 20113:57PM

Hi Uncle D.
I believe this is a good idea and will meet your expectations well. However, your staff need to know that there is a camera overseeing the activities of the factory and top management have access to the pictures.
BR
Chima

Hello Uncle,

My vote is NO CAMERA! Unless you are trying to make some reality movie episodes out of your establishment. I suggest you drive the business through more self motivated structures - Targets/metrics and other checks & balances.

I agree that in the short run you may experience some "film tricks" driven performance. But be assured this would not last as soon as the potential recruitment errors in the organization eventually find a way round the camera. This should not take too long.

Another flip side is the burden of watching the films when you can use the time to focus on business development.

Last line, the camera would not drive performance. Find the right people and get the job done.

In case, you need assistance on finding the right people, please let us discuss further.

Regards
Damilola
Thu, January 20, 2011 4:28:03 PM

Dapo, I go with Dammie on this. My take is that it is more sustainable to invest in good people who over time can gain your trust and give you their loyalty. I don't think my heart will be in a company where I am presumed guilty until proven innocent. Cameras, I’m sure won’t come cheap and neither will the investment to get the ‘right’ people.

I know good people are hard to find, but if your business is for the long haul, I'll say build the biz using motivated staff and forget the cameras.

I'm not an entrepreneur yet anyway, so all this is gut and head feeling.

All the best; whatever you decide to do.

Herbert Gidado

Thursday, January 20, 2011 4:36 PM

Dear Dapo,

I vote NO. "Outward behaviour can be controlled by fear ALONE, but the inner ideals and values which constitute character can be influenced only by love." You need to sell the Lumberworks way in real terms by having transparent measurement systems (Damilola). Your absence is also a true test of your business as a going concern.

CIAO

Wasiu

Sent: Thursday, January 20, 2011 5:16 PM

Hi Carpenter Dapo,

This is Mallam Moroof (The Ram Seller).

Installing the Camera like Baba Herbert said will only make your employees feel you’ve turned Chinese or Indian. You can imagine it is only Soji (master of production/factory floor) that thinks the investment is worthwhile.

However, if items (diesel/woods or other equipments) usually get missing in the factory/office, it might not be a bad idea fishing out the culprit.

So if it is to improve performance, I'm not sure it will; but if it is to reduce theft or other vices, I suppose they’ll also have a buy-in, as it will help them too (those that are straight-forward - which are the people you need).

Best wishes.

Moroof

Date: Thu, 20 Jan 2011 18:08:48 +0000

Guys,

Most of things you have suggested are nice to hear and good to talk about in an HR class. How many of you have worked on a factory floor before? While I won’t encourage close monitoring of employees, it will be good for them to know that 'big brother' is watching. It may not exactly improve performance, but it will definitely discourage truancy, lazing about doing nothing and enhance safety and security of the site. You can always revert back to the recordings when security and safety issues are being investigated. Believe me; these cameras have helped resolve dark areas around serious crimes and accidents in my company. Some of the revelations from the recordings were mind boggling. For me as factory worker, it is a definite YES.

Regards,

Soji
CEO,

I see it is not easy to be CEO.

My 2 cents:

Put yourself in their shoes, how would you feel, the day you discover that your employer installed cameras to monitor you (for whatever reason.. research, operations analysis, whatever ) ???????

It will not even reduce theft, they will beat the system, and you will lose the trust of the loyal ones. Read Dami’s mail again.

Charles

Thursday, January 20, 2011 7:05 PM

I have caught the guys on many occasions faffing around. Typical Nigerian eye service set-up, work like crazy when I am there, play football and sleep while I’m away. We did more work (200%) in 1 week with less than ½ workforce than the full compliment in 1 month!!

Point is that I am at my wits’ end as to how to increase productivity esp. since these guys are being paid, on an average, 20% above ind. standard. I tried theory Y (motivate by talk and by reward) but seems only X can give me mileage for my bucks!!

Dapo

Thursday, January 20, 2011 7:24 PM

CEO,

How are they being paid? Salary or commission basis?

I suggest you start paying based on unit of work done, if you have a way of measuring that. I know a tailor who has tailors working for him in his factory; they are paid based on what is produced. 5 shirts to sew, profit shared on the number sewed. Can this work with you?

Charles

Date: Thu, 20 Jan 2011 19:46:13 +0000

Dapo, let's get a bit more practical here. I have worked in a construction company for 2 yrs on site on a project that ran into over N100m abt 20yrs ago. I know the semblance of wot ure goin thru.

Still, if u’re prepared to spend on cams, then I suggest u think a bit on setting some kind of system that will minimize both truancy and theft.

So I ask:

Do u have a standard store wth a qualified store keeper who maintains bin cards and store ledger cards and reconciles daily? Do u have foreknowledge of d work to be done per day and the qty of each material rqrd to complete d work and time lines for completion?

Do u have a supervisor(s) responsible for ensuring timely completion (whose remuneratn is tied to completing an order within a specified time)? Do these supervisors monitor and ensure that material requisitions tally with agreed input qty for particular job orders?
Do u have large nos of casualised workforce? If so, loyalty will not b a pursuit for dem and strict monitoring will b crucial. There is need to have a scapegoat whose punishment will b a dterrent. I don’t know how big ur operatns are bt creatn a system early will help, evn if u still decide to toe d line of d cameras.

I’m really desperate dat u get it right so it will inspire others especially in our emba class.
All d best bro.
Herbert Gidado

Date: Thu, Jan 20, 2011 at 10:05 PM

Soji, I’m sure u know that Dapo, being on the field and in the line of fire each day can decipher which advice is applicable in his situation. At the end of d day, it is his call and all we’re doing is helping him reduce his probability of error.
He may need cameras; he may not. Not all successful factories have needed to invest in surveillance cams.
G’nite all.
Herbert Gidado

Date: Thu, 20 Jan 2011 20:47:36 +0000

EMBA graduates,

Factory work no easy as una think oooo. If e easy, factories will not be closing down everywhere. Running a factory is a serious issue not all these theoretical postulations. Imagine running a factory of 100 good, bad and ugly people. E no easy my brothers. Dapo, a combination of theory X and Y is what you need.

I wish you the best my guy. U go succeed in Jesus name. Amen.

Regards,
Soji

An external opinion:
Subject: Fwd: Improving productivity in manufacturing
Date: Thursday, 20 January, 2011, 15:37
Just received the following email from a good friend. What are your thoughts as the 'oga' or as the 'worker'? Fits into the general scope of the discussion. Also of practical use, since I need to reply the email after our meeting. Thanks in advance for the consultancy fee waiver.

---------- Forwarded message ----------
Date: Thu, Jan 20, 2011 at 3:50 PM
Subject: Improving productivity in manufacturing

Ladies and Gents, in a bid to improve the productivity of my workers (esp when I am not around) I am contemplating installing cameras so that I can look at what's going on over the web.
Personally, I feel this will serve me well, but I would like some feedback also on the human psychology angle if it is a bad idea.

Thanks as I await your response.

Regards,

Date: Thursday, 20 January, 2011, 17:00

Hi,

It all depends really. I think it's a bad idea, which could be detrimental to productivity and loyalty. There are a number of parties who stand to lose and would eventually be demotivated when this happens. I am assuming that this manufacturing company has supervisors and maybe....just maybe an assistant manager and obviously the employees.
Therefore the effects are as follow:

The major advantage of having cameras is that it is objective, especially if he is going to use it for performance evaluation and this is a benefit because it provides a manager with an unbiased method of performance evaluation and prevents the interference of a manager’s subjectivity in an employee’s review. When the manager uses the video surveillance to evaluate the employee, he or she will base the review only on the taped performance. The manager will present the employee’s actions directly to the employee with various criticisms and compliments. The employee will be able to view his or her performance on a particular date and have the benefit of being able to see exactly where the problem areas lie. This will make it easier for an employee to improve his or her performance. Secondly, the tape can be used as a tool to show employees their work habits and what they need to change to improve their performance.

Another advantage to having video surveillance is the fact that they can act as deterrents for bad behaviour by the employees. If the employees know they are constantly being viewed, more than likely they will do their best to work harder to please the customer or the watching boss. The cameras act as motivators that encourage workers to perform to the best of their abilities.

Even the employees can make references to the video tapes, by asking their manager to view so...so...so date and see if they actually did anything wrong...just as an example.

However I am not an advocate of surveillance because of the following disadvantages

Being constantly watched can make some employees feel that there is no trust between the management and employees. Even the supervisors or assistant manager will feel powerless and de-motivated. They will ask themselves questions such as, “why am I a supervisor”, when the boss is always watching and he/she doesn't allow me to exert my so-called limited authority?

The system can also lead to higher stress levels for the employees. They do not want to underperform, so they are constantly worrying about their performance. This type of stress could lead to working conditions that could harm the production of the company and invariably lead to things such as, decreased productivity, decrease in job satisfaction, high turnover. Human beings are bound to make mistakes and managers should learn to accept that as part of the working nature. Having a camera watch their every move could lead to the desire for perfection and that my friends, does not exist! Unless of course you support Arsenal football club! We play prefect football.