IMPACT OF CORPORATE GOVERNANCE TOWARD ORGANIZATION PERFORMANCE: A CASE OF TANZANIA PORTLAND CEMENT COMPANY LIMITED

IMPACT OF CORPORATE GOVERNANCE TOWARD ORGANIZATION PERFORMANCE:A CASE OF TANZANIA PORTLAND CEMENT COMPANY LIMITED

By

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A Dissertation submitted to Partial Fulfilment of the Requirements for an Award of a Master of Science Degree in Accounting and Finance of Mzumbe University

2013

CERTIFICATION

We, the undersigned, certify that we have read and hereby recommend for the acceptance by the Mzumbe University a dissertation titled ***"Impact corporate governance toward organization performance. A case of Tanzania Portland Cement Company Limited "*** in partial fulfillment of the requirements for degree of Master of Science in Accounting and Finance(Msc. A&F).

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DEDICATION

This work is dedicated to my darling wife Nema-nadia and my lovely daughters Alyx-amaris and Alyx-amarin who missed my parental care during the hard time of my studies.

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LIST OF ABBREVIATIONS

ASIC	Australian Securities & Investments Commission
CEO	Chief Executive Officer
CMSA	Capital Markets and Securities Authority
DSE	Dar es Salaam Stock Exchange
FGDs	Focus Group Discussions
GAAP	General Accepted Accounting Principles
GDP	Gross Domestic Product
HIH	Heath International Holdings Insurance Ltd
HRM	Human Resources Management
ICT	Information Communication and Technology
IT	Information Technology
OECD	Organization for Economic Cooperation and Development
ROA	Return on Asset
ROE	Return on Equity
SPSS	Statistical Package for Social Sciences
TPCC	Tanzania Portland cement company ltd
URT	United Republic of Tanzania

ABSTRACT

The study investigated the impact of corporate governance toward organization performance with the case study of Tanzania Portland Cement Company Limited. To achieve this, specific objectives were formulated including (i) to assess the effect of board of directors' independence on effectiveness of corporate governance practices, (ii) to assess the effect of board of directors' composition on effectiveness of corporate governance practices and (iii) to assess the effect of board of directors' leadership structure on effectiveness of corporate governance practices. The study was carried out at the Tanzania Portland Cement Company limited. A sample of 120 respondents was selected and data collected through questionnaires, interview and FGDs. Data were analyzed both qualitatively and quantitatively.

The study found out that the non-executive directors influence to some extent executive directors duties; annual audited reports including half-yearly reports; shareholders to exercise their right to vote on directors' proposals; and the existence of non-executive directors influences all decisions made by voting at TPCC

Other findings include more non-executive directors on the board relative to executive directors and Board size influences organization performance in public listed companies in Tanzania. However, these findings are not assertive since they scored below the ≥90% decision criterion. Lastly, the study found that the separation of the two highest level positions in a company: those of the chairman of the board of directors and of the CEO have impact on corporate governance toward organization performance.

The study recommends that within the public sector, government bodies should develop significant body of material which addresses corporate governance issues.

It is therefore recommended to other scholars/researchers to conduct studies on the following variables which this research was not able to cover due to limiting factors;

Technology, Quality of Staff and Company Policy.

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CHAPTER ONE

INTRODUCTION, OBJECTIVES AND PROBLEM DEFINITION

1.1 Introduction

This study has assessed the impact of corporate governance on the performance of organizations, using Tanzania Portland Cement Company Ltd as a case study. Corporate governance is the ways in which a firm safeguards the interests of its financiers (investors, lenders, and creditors). The modern definition calls it the framework of rules and practices by which a board of directors ensures accountability, fairness, and transparency in the firm's relationship with its all stakeholders (financiers, customers, management, employees, government, and the community).

The corporate governance structure specifies the distribution of rights and responsibilities among different participants in the corporation, such as the board, managers, shareholders and other stakeholders, and spells out the rules and procedures for making decisions on corporate affairs. Other stakeholders include employees, suppliers, customers, company and other lenders, regulators and the community at large. By doing this, it also provides the structure through which the company objectives are set, and the means of attaining those objectives through monitoring performance. The need to improve corporate governance arrangements on government and business sector has arisen after in the context of the failure of large companies and particularly market instances of corporate fraud in the world.

The corporate governance commenced with the Cadbury Code of Practice published by the London Stock Exchange in 1992; proceeded with an Organization for Economic Co-operation and Development (OECD) inquiry by Organization for Economic Co-

operation and Development (OECD) in 1997-99, and the publication of OECD guidelines on corporate governance in 1999 and updated in 2004.

The Organization for Economic Co-operation and Development (OECD) guidelines have been adopted in national codes by all of the industrial countries; and with the assistance of the World Company and Asian Development Company, by many developing countries. The urgency of this endeavour was increased by the Asian Financial Crisis of 1997-98 that revealed the danger of systemic corporate governance failure (OECD, 2010).

In America adoption of Organization for Economic Co-operation and Development (OECD) guidelines on corporate governance is due to corporate fraud and misuse of capital which ultimately led to collapse of Enron Inc. Enron was based in Houston, Texas and was the seventh biggest company in United States in terms of revenue. Enron described itself as a provider of products and services related to natural gas, electricity and communications to wholesale and retail customers. It is now emerging that the company used ‘complex partnerships’ to keep approximately $570m in debt off its books so that it could continue to obtain cash and credit to run its trading business. It is alleged that since 1997, the company (Enron) overstated its profits by $569m. Enron booked significant profits in its accounts while hiding losses in off-balance sheet entities, such as limited liability partnerships. Enron had over 3,000 subsidiary companies. It invested or lent some US$5.4 billion to a number of companies or entities in which it had interests and which were then kept off Enron’s balance sheet (OECD, 2010).

WorldCom Management improperly transferred costs to its capital accounts and as such, falsely portrayed itself as a profitable business during 2001 and the first quarter of 2002 lead to the collapse of the corporations. The transfer of costs to its capital accounts violated established GAAP standards and was not disclosed to investors in a timely fashion. WorldCom Inc. ("WorldCom") was a major global communications provider operating in more than 65 countries. WorldCom provides data transmission and internet services for businesses and through its MCI unit provides telecommunication services for businesses and consumers. As the United States economy cooled in 2001, WorldCom's earnings and profit similarly declined, making it difficult for the company to keep its earnings in line with the expectations of market analysts. Starting in 2001, it appears that WorldCom engaged in an accounting scheme to manipulate its earnings and thereby support WorldCom's stock price. A major operating expense of WorldCom was its "line" costs (OECD, 2010).

In Australia due to inappropriate Shareholding percentages – shareholders used their powers inappropriately in electing the chairman and CEO who would work to their advantages. The practice resulted into the collapse of Heath International Holdings (HIH) Insurance Limited. The Heath International Holdings (HIH) Insurance Limited together with its group of companies was the second largest general insurance company in Australia. It consisted of 217 subsidiary companies with operations in a number of countries. The last published accounts for the HIH Group showed that as at 30 June 2000, it had net assets of approximately $940 million. The HIH Group collapsed on 15 March 2001 when provisional liquidators were appointed to the main companies of the group. The liquidators have now estimated the HIH Group deficiency at between $3.6 billion and $5.3 billion. A Royal Commission was established to provide a report on the collapse and is currently examining what caused HIH to collapse. Former HIH director, Rodney Adler, HIH Chief Executive Officer, Ray Williams, and former HIH Chief Financial Officer Dominic Fodera have been sued by Australian Securities &

Investments Commission (ASIC) in the Supreme Court of New South Wales (OECD, 2010).

In Europe, due to poor systems of directing and controlling business and lack of specifying the distribution of rights and responsibilities among different participants in the corporation, such as the board, managers, shareholders and other stakeholders, Harris Scarfe Limited collapsed in 2001. Harris Scarfe Limited was a discount department store chain with a 150 year history in the retail sector. Its collapse in April 2001 occurred after revelations of serious financial irregularities over a six year period. The Harris Scarfe accounts for December 31, 2000 showed net assets of $108m. The correct figure was close to $60m. Inventories were shown as $97m. The true figure was between $75m and $78m. Trade creditors were shown as $64m but they were closer to $90m (OECD, 2010).

In Africa, major financial events such as initial public offerings and takeovers are associated with debate about the effectiveness of various governance mechanisms. For example high profile cases of financial distress as previously discussed give rise to concerns about the effectiveness of outside directors, the link between governance and executive compensation, and the extent to which compensation reflects performance.

For many years now corporate governance has been an important strategy in improving corporate performance. The importance of corporate governance for economic development in Tanzania is increasingly being recognized by policy makers and regulators. The transfer of the ownership of corporations from state to private shareholders reflects this recognition. Private shareholding, operating in a market

economy, is considered more effective in controlling management than government shareholding in a centrally controlled system (Melyoki, 2005)

According to this, Tanzania has strategic interest and also commitment to develop the corporate governance environment. The introduction of the Steering Committee on Corporate Governance in Tanzania; the guidelines for corporate governance for Tanzania; and the development and recommendation of principles for effective corporate governance by the Capital Markets and Securities Authority (CMSA), are further indications that corporate governance is beginning to receive increased attention. Policymakers and regulators view the adoption of the recommended practices as an important step in influencing the behavior of managers and directors with regard to effective discharge of their roles in promoting shareholder interests aiming at addressing the interlinked development problems of corporate failures and poor performance by stimulating equitable private sectors and economic growth.

The corporate governance in Tanzania Portland Cement Company Limited is an important economic performance strategy. More than 50% of Tanzania Portland Cement Company Limited Directors practices good corporate governance. On 29 September 2006, the company that is TPCC went public and its shares started to trade at the Dar es Salaam Stock Exchange. During the year shares of the Company were continuously traded in the secondary market through auctions organized by Dar es Salaam Stock Exchange (DSE). In the year 2009 the performance of the Company's shares in the secondary market was as follows: Market capitalization as at 31 December 2009 was TZS 295.1 billion (2008: TZS 287.9 billion). Share price prevailing as at 31 December 2009 was TZS 1,640 per share, up from TZS 1,600 one year earlier (IPO price TZS 435 per share) (Tanzania Portland Cement Company Limited Annual Report of 2009, 2010)

The principal activities of TPCC are the manufacture and sale of cement. The cement demand in Tanzania and in the East-African region has been growing steadily over the last years; this despite the global financial crisis and worldwide economic downturn. Most of school leavers and retrenched employees form parastatal agencies and Government departments are engaged in micro and macro trading activities of Tanzania Portland Cement Company Limited's Products. With increasing prosperity and a pent up need for housing and infrastructure cement demand in the region will likely continue on a healthy level. Having invested in expanded capacity, the directors believe the Company is well placed to meet this growing demand. The directors have reviewed the current financial position of the Company and the existing long and short-term borrowings; on the basis of this review together with the current business plan, the directors are satisfied that the Company is a solvent going concern within the meaning ascribed by the Companies Act, 2002 of the laws of Tanzania and internationally accepted accounting principles TPCC, (2010). This shows how corporate governance has made valuable contributions to economic and social life of many people. They provide employment incomes, skills, education, healthcare, childcare to millions who would otherwise have been completely neglected by the public sector in their needs for these goods and services.

Some of other important aspects of corporate governance include creation of employment at a relatively low level of investment per job created. It is done at present since unemployment is a significant problem that has to be dealt with. The unemployment estimates show that there are many new entrants into labour force where just few of them are employed by the public sector and the rest who are the majority have to join the unemployed or underemployed or underemployed reserve. Most of them end up in the private sector and especially in Tanzania Portland Cement company limited.

1.2 Problem Definition

Despite the fact that the company is aware of corporate governance issues the real performance of a firm is not known because no research has been done there to determine it. The implementation of the Code of Corporate Practice and Conduct in Tanzania Portland Company Limited is based on the principles of effective corporate governance and the Governing Board is of the opinion that the Company complies with principles of good corporate governance. TPCC, (2010), the extent of impact of corporate governance on performance of an organization can be measured by using return on equity (ROE) and return on assets (ROA), where profit before interest is used as the denominator. It is well accepted and known that corporate governance constitute an integral and vital component of any firm economy. It contributes to the attainment of economic goals through that generation of profits.

However, the development of effective corporate governance has been hindered by different problems within and outside the organization. They include CEO duality, board independence, the number of independent directors to board size, as well as lack of managerial skills and entrepreneurial skills. Whether any of these factors applies, the extent to which each of them apply or affect corporate governance implementation is not known.

Due to the above situation of corporate governance and firm performance, there is a need to research on factors affecting the corporate governance and the contribution of corporate governance in improving the performance of corporations in Tanzania, with the case study of Tanzania Portland Cement Company Limited. The reasons behind are to prove whether corporate governance in Tanzania Portland Cement Company Limited contribute anything to the wellbeing of the shareholders and also to find the challenges

faced by Tanzania Portland Cement Company Limited in implementing the corporate governance principles.

The findings will help both Public and Private sector organizations to understand their position in improving corporate governance in Tanzania. Also they will help the Tanzania Portland Cement Company Limited Management to realize the contributions of effective corporate governance. Moreover, the study will provide inputs to other individuals who may develop interest in conducting similar studies about factors affecting corporate governance. Therefore findings of this research have the potentiality to generate empirical information on which plans may be based to scale-up corporate performance in making contribution to shareholders wealth maximization goal.

1.3 Research Objectives of the Research

1.3.1 General Objective

The research's general objective was to assess the impact of corporate governance toward organization performance of public listed companies at the Dar es Salaam Stock Exchange (DSE) using Tanzania Portland Cement Company Limited as a case study.

1.3.2 Specific Objectives

The specific objectives of the study were to:

(a) To assess the effect of board of directors' independence on effectiveness of corporate governance practices on the performance of organizations

(b) To assess the effect of board of directors' composition on effectiveness of corporate governance practices on the performance of organizations

(c) To assess the effect of board of directors' leadership structure on effectiveness of corporate governance practices on the performance of organizations

1.4 Significance of the Study

Corporate governance understanding will contribute to the development of transparency, accountability, fairness and wealth creation among other benefits to an economy such as Tanzania. It contributes to the development of an information culture and promotion of good governance in public companies.

1.5 Limitations of the Study

In this study, the practical constraints that the researcher encountered and which were beyond his control were financial limitation, time limitation and lack of inadequate cooperation from the leaders of TPCC Ltd and some of the respondent themselves. However, inspite the constraints faced, the area of research was convenient and easily accessible by the researcher. It comprised experienced TPCC ltd employees and had reasonable number of respondents. These made the researcher to collect accurate data.

CHAPTER TWO

LITERATURE STUDY OF IMPACT OF CORPORATE GOVERNANCE TOWARDS ORGANIZATION PERFORMANCE

2.0 Introduction

The rationale of conducting a research activity is to come up with the new or additional knowledge. Rwegoshora (2006) argues that, any meaningful research activity should be able to generate or expand knowledge; this can be possible by identifying the knowledge gap. Thus, the knowledge developed can fill the gap identified in the statement of the problem. In this chapter, basically various literatures related to this study are reviewed in order to identify the knowledge gap. Both theoretical and empirical literatures regarding the subject matter reviewed. At the end of this chapter, a synthesis or literature gap will be identified from both theoretical and empirical literature review. The chapter gives the theoretical ground of the study.

2.1 Theories of Corporate Governance

Several theoretical perspectives that explain corporate governance currently exist: Transaction cost theory, Agency theory, Resource dependence, Managerial hegemony theory, Class hegemony theory, Stakeholder theory and Stewardship theory.

This study is based on three theoretical perspectives. It is based on these three theories and therefore its results are tested against the claims of these theories. The theories are the agency theory, the transaction cost theory and stakeholder theory.

2.1.1 Transaction Cost Theory

The transaction cost economics theory is generally traced to the work of Ronald Coase in 1937, "*The Nature of the Firm"*. Coase points out that, economic organizations exist to minimize transactions costs of trading in markets (Melyoki, 2005)

The transaction cost economics theory focuses on the cost of a transaction defined as the costs that arise when individuals exchange ownership rights to economic assets and enforce their exclusive rights (Eggertsson, 1990 as quoted by Melyoki, 2005).

Transaction cost theory is premised with two key assumptions: bounded rationality and opportunism. The concept bounded rationality is defined as: the limited capacity of human beings to formulate and solve complex problems. It arises from human limitations in competence, knowledge and information processing capabilities (Melyoki, 2005) contend that the notion of a rational man could only apply in a situation where full information is available about all states of nature so as to be able to make optimal decisions. Full information would eliminate uncertainty which inhibits the establishment of the "correct choice" in a particular situation.

Opportunism is defined as self-interest with guile or cheating. Because individuals are interested in maximizing their own utility, they can engage in behavior that affects information, i.e. distorting the information they provide, and the misrepresentation of intentions (Melyoki, 2005)

To manage transactions involving opportunistic participants (such as management and other stakeholders), contracts need to be written in perfect ways. However, due to

bounded rationality and transaction costs, writing complete contracts which cover all states of nature is impossible because one has to search for relevant information and thus incurs transaction costs (Melyoki, 2005)

The relevance of transaction cost theory in corporate governance is related to the limitations in using contracts faced by company shareholders (equity capital providers) if they want to bind managers. The board of directors is a mechanism that has arisen to address problems that arise from opportunistic behavior by managers.

Transaction costs limit the role of the board in protecting the interests of shareholders because, it is argued, that the interests of other stakeholders are protected by separate contracts between the firm and those stakeholders which do not usually protect shareholders (ibid). These contracts form the basis of the claims by these stakeholders in the event of the firm being disbanded. Being residual claimants, shareholders remain unprotected if the firm is liquidated. As a result, the board of directors is argued to have, as its proper role, the protection of shareholder interests (Melyoki, 2005).

2.1.2 Stakeholder Theory

The stakeholder theory has two sub-categories of theories; the normative stakeholder theory which emphasizes the intrinsic value in stake holding, and views stakeholders as "the end" and the instrumental stakeholder theory which focuses on how stakeholders' value can be applied to improve corporate performance and efficiency. It treats stakeholders as "means to an end". (Melyoki, 2005)

The normative stakeholder theory requires everyone in society to be involved in the governance of corporations. Clarke and Clegg (Melyoki, 2005) posit that “stake holding represents a general sense of social inclusion; an economy or society in which every citizen is a valued member, everyone contributes and everyone benefits in some way”. This includes the process of corporate accountability which is reinforced and legitimized by either financial or material interest in the well-being of the economy or corporation.

The normative theory has its origin in the social conception of the corporation, which dates back to the later part of the 19th century. Based on the fundamental value and moral order of the community, the social entity theory views the corporation as a social institution in society. Since the corporation is involved in a number of aspects of social life, and affects a large number of people in terms of both welfare and potential risks, a public corporation should have particular social obligations such as fairness, social justice and the protection of employees For this reason, corporate governance must address the needs of a number of stakeholders (Melyoki, 2005)

Stakeholders are categorized into two board classes: the contractual and the community stakeholders. Contractual stakeholders have explicit contracts with the firm while community stakeholders have implicit ones.

The instrumental stakeholder theory legitimizes the claims of stakeholders on the grounds of stake holding as an effective means to improve efficiency, profitability, competition and economic success. A firm owes a sense of social responsibility to employees, to consumers, and to the general public constitutes an appropriate attitude to be adopted by those in business.

The instrumental stakeholder perspective holds the same claim as the social entity theory with respect to constituency representation in the decision-making processes of corporations. It reflects the belief that a corporation should serve multiple stakeholder interests rather than shareholder interests alone.

Managers operating within stake holding perspectives are required to take into account the interests of a range of stakeholders in the decision-making processes. These managers are viewed as the stewards of corporate assets for the benefit of stakeholders, rather than as agents working for the interest of shareholders as in the agency theory.

Thus corporate governance is viewed as a process by which corporation are made responsible for to the rights and wishes of stakeholders. It is a total of structure, arrangements and conventions by which corporations are managed to serve the interest of all stakeholders.

2.1.3 Agency Theory

Agency theory, developed by Michael Jensen and William Meckling in1976, has been fruitfully applied in examining the nature of the relationship in a firm that exists between the principal and the agent. The firm is viewed as a "nexus of contracts between different stakeholders of the organization". In an agency relationship, the principal hires and retains the agent because of the agent's specific talents, knowledge and capabilities to increase the value of an asset. This encourages efficient allocation of resources. However, the agent enjoys only part of the outcomes of his efforts (Denise and McConnell, 2003)

Agency theory is structure from agent-principle relationship which is dictated by both explicit and implicit contracts between management and shareholders. The success of the relationship is based on the level of information asymmetry that the two parties are faced with. While accounting system is viewed as a mechanism for monitoring these contracts moral hazard and adverse selection problems are imminent in the process (Mussa, 2010)

The agent's preferences or goals may at times differ from that of the principal's; the agent has an incentive to deviate from the principal's interests. It is usually assumed that the interest of the principal is to maximize wealth. The agent, on the other hand, is interested in a variety of issues such as career goals, large salary, corporate jets, plush offices, and expense account meals. Given this conflict of interests, the agent, if left alone, will pursue his own interests to the detriment of the principal's

The basic feature of agency theory is that decision rights are involved: decision management rights and decision control rights. Decision management rights include the right to initiate a decision and the right to implement that decision. The decision control rights include the right to ratify, i.e. give final approval to a decision. They also include decision-monitoring rights, which refer to a number of sub-rights: the right to measure the performance of the agent, and the right to reward or punish an agent according to the outcome of his decision. (Melyoki, 2005)

The delegation of decision management rights creates an environment in which the agent has more information about the outcomes of his efforts. This leads to information asymmetry between the principal and the agent. Information asymmetry between the agent and the principal implies that the principal cannot fully measure the outcomes of

the agent's efforts. For this reason, agency costs can be minimized but not eliminated (Hart, 1995)

Agency problems exist in two different forms: the failure of managerial competence and the failure of managerial integrity. Failure of managerial competence refers to unwitting mistakes made in executing managerial responsibilities. These can stem from adverse selection in a situation where the principal cannot ascertain if the agent accurately represents his ability to do the work for which he is hired and paid for. The failure of managerial integrity refers to willful behavior on the part of managers that reduces the value of the firm's assets. This arises from moral hazards (Martin, 2001)

Contrary to moral hazard assumption of market information asymmetry, the 'selective financial misrepresentation hypothesis' assumes symmetrical market information implying that; market mechanisms operate efficiently. Implicit to this assumption is perfect information. That is, the market reflects all prospects of accounting manipulation and is appropriately attached in pricing and contracting decisions, based on the fact that the accounting information reporting system serve the function of monitoring the agent-principle relationship. The reality of perfect information is hard to achieve in most markets in the world (Mussa, 2010)

The moral hazard problem relates more to parties to a contract. One party is exposed to more knowledge and information about actions in the contract than its counterparty. As it is the case with agent-principal theory. The agent, who is essentially the management, is more informed than are the shareholders about the company's accounts and the resulting financial statements. Thus, they have more incentives to manipulate the company's financial statements to their benefits. They are potentially insulated from risk

that may arise from their action as their contracts are secured in advance and their actions are extremely intricate and delicate to the eyes of the shareholders. It requires meticulousness and specialized skills to understand and judge their actions, at times special skills from auditors may be required. Thus management acts of creative accounting may as well contribute to the same problem of moral hazard to shareholders (ibid) Case and Fair (2007) argue that, adverse selection and moral hazard problems are information problems. Contracting parties cannot always determine the future behavior of the person with whom they are contracting. If all future behaviors could be predicted, contracts could be written to try to eliminate undesirable behaviors. Basically, from information economics perspectives moral hazard arises, as they put it, when one party to a contract passes the cost of its behavior on to the other party to the contract.

To address agency costs, a number of mechanisms are applied: country laws, contracts (bonds), incentives and monitoring Contracts are used as a mechanism to resolve ex-ante problems caused by the non-alignment of the interests of shareholders and those of managers. These contracts specify relationships between shareholders as principals and managers as agents; between shareholders (principals) and directors (agents); between directors (principals) and managers (agents). The contracts can be explicit or implicit. (Melyoki, 2005).

2.2 Empirical Literature Review

2.2.1 Corporate Governance and Performance

The previous section showed that the patterns of ownership and control and, thus, the systems of corporate governance varied considerably among countries. Ultimately, what is important is whether or not these different corporate governance arrangements and, in particular, differences in ownership and control affect corporate performance or

economic growth. If at the end of the day, corporate governance has no impact on performance, then it is not clear why policy makers should concern themselves with this topic.

The ownership and control of firms are pronounced and vary dramatically across countries. Therefore, one of the questions that arises when considering whether or not corporate governance affects performance includes whether or not owner-controlled firms are more profitable that manager-controlled firms? A priori it is not clear whether or not concentrated ownership and control will improve performance. On the one hand, concentrated ownership by providing better monitoring incentives should lead to better performance. On the other hand, it might also lead to the extraction of private benefits by controlling block holders at the expense of minority shareholders. These issues are central to the debate surrounding corporate governance practices, particularly since concentrated holdings are the primary means of control in so many countries around the world.

Therefore, one question to ask is whether or not the agency problem arising from the separation of ownership and control is a serious one and does concentrated ownership effectively overcome these problems? The principle-agent model suggests that managers are less likely to engage in strictly profit maximizing behaviour in the absence of strict monitoring by shareholders. Therefore, if owner-controlled firms are more profitable than manager-controlled firms, it would seem that insider systems have an advantage in that they provide better monitoring which leads to better performance. The vast majority of empirical studies, it turns out, do seem to favor the beneficial effects of enhanced monitoring as a result of higher ownership concentration.

Gugler (1999) provides a comprehensive survey of empirical studies of the effects of ownership concentration on corporate performance, beginning with the seminal work of Berle and Means (1932) to more recent work by Leech and Leahy (1991), Prowse (1992), Agrawal and Knoeber (1996), and Cho (1998). Based primarily on studies from the US and UK, he finds that although the results are ambiguous, the majority of studies find that "owner-controlled" firms significantly outperform "manager-controlled" 32 firms. Firms are usually classified as owner controlled if there is a single block of equity exceeding 5 or 10 percent. The dependent variable used in these studies were are all proxies for the performance of the firms as measured by net income/net worth, rate of return on equity or Tobin's Q, or the riskiness of returns. Although a number of studies find no significant difference between the two, the number of studies that find that manager-controlled firms outperform owner-controlled firms is negligible.

On balance, therefore, the empirical evidence is supportive of the hypothesis that large shareholders are active monitors in companies, and that direct shareholder monitoring helps boost the overall profitability of firms. This result is also borne out by studies of managerial turnover. For example, Franks and Mayer (1994) find a larger turnover of directors when large shareholders are present, again indicating that large shareholders are active monitors. It seems, therefore, that the beneficial effects of direct monitoring, and a better match between cash flow and control rights, more than outweigh the costs of low diversification opportunities or rent extraction by majority owners.

Although the evidence points to a greater role and fewer restrictions for large shareholders, the policy implications of these results should be viewed with caution. One of the problems with the numerous studies that exist on the effects of ownership concentration on corporate performance is that they are all based on US or UK samples of firm data. There are some exceptions however, notably, Round (1976, Australian),

Thonet and Poensgen (1979, German), Jacquemin and Ghellinck (1980, French), and Prowse (1992, Japanese). For example, Thonet and Poensgen (1979) found that for a sample of listed German manufacturing firms, manager-controlled firms significantly outperform owner-controlled firms in terms of profitability, but that owner-controlled firms had higher growth rates. Jacquemin and Ghellinchk (1980), using French firm data, found no differences between familial and non-familial controlled firms.

2.2.2 Corporate Governance in the World: Strengths, Weaknesses, and Economic Implications

One of the most striking differences between countries corporate governance systems are the contrasts in the ownership and control of firms that exist across countries. Corporate governance systems can be distinguished according to the degree of ownership concentration and the identity of controlling shareholders. While some systems are characterized by wide dispersed ownership (outsider systems), others tend to be characterized by concentrated ownership (insider systems) where the controlling shareholder may be an individual, family holding, bloc alliance, or financial institution and other corporations acting through a holding company or via cross shareholdings. Therefore, two of the most basic conflicts that can occur in corporate governance are the conflict between a controlling managers and 'outside' widely dispersed shareholders, and the conflict between 'inside' controlling shareholders and outside minority shareholders, see Shleifer and Vishny (1997) and Becht (1997). While the interface between management and dispersed shareholders has been an extensively studied aspect of corporate governance, the consequences of the relationship between large controlling shareholders and weak minority shareholders are less well understood. However, it is this latter relationship that is the most common form of corporate governance found in both OECD and non-OECD countries.

International comparisons of ownership concentrations across countries. Until recently, lack of hard data has been a major impediment to research in this area. The European Corporate Governance Network (ECGN) was founded in 1996 as a vehicle for encouraging comparative empirical research on corporate governance in Europe. For the European countries, therefore, it was possible to get the most up-to-date information available based on the recent work in this area by the ECGN. Data for the US and Japan, on the other hand, has had to rely on older studies and is the most recent available. As can be seen from the table the average equity holding of the largest shareholder10 varies from 40% to 80% in most continental European countries whereas ownership concentration is substantially lower in the UK, US, Japan, and the Netherlands. Additional information on ownership concentration is provided by Franks and Mayer (1995), who find that in Germany and France, 80% of large publicly quoted companies have a single shareholder that owns more than 25% of the stock, while in the United Kingdom; the equivalent figure is 16%. Furthermore, the authors find that in more than half of the largest French and German firms there is a single majority shareholder i.e. a single shareholder owns more than 50% of the stock; whereas the equivalent figure for the UK is 6% (Gugler, 1999).

According to Bloch and Kremp (1999) It is also possible to have concentrated ownership but dispersed voting power. This can be accomplished through the use of voting caps (i.e. restrictions on voting rights of large share positions) which can be used to prevent large shareholders from exercising control. For example, although a shareholder may own 40% of the shares, there is a restriction that allows only 10% of the shares to be voted. This effectively gives rise to a situation of concentrated ownership but where the means for performing direct monitoring are not available due to the dispersion in voting power. Therefore, although this type of system affords some protection to minority shareholders from voting rights restrictions, concentrated ownership but dispersed voting power has mainly disadvantages from a corporate governance perspective. This is

because not only does it insulate management from effective direct monitoring by the owners, but it also protects them from more indirect means such as hostile take-overs. For example, when cash-flow and control incentives are misaligned there are few means of intervention available to remove inefficient management i.e. take-overs are difficult, also resulting in "strong managers and weak owners". This system also results in low liquidity, low diversification possibilities for investors, and a high cost of capital. Therefore this system has all the consequential problems of monitoring found in outsider systems but none of its advantages. While an individual firm might chose this ownership structure, this governance structure is the exception rather than the norm. For these reasons, as a system of corporate governance, this structure is not really observed in practice.

2.2.3 Outsider Systems of Corporate Governance and Performance

Outsider" systems, typical of the United States and the United Kingdom, are characterized by relatively widely dispersed share ownership and high turnover. These systems tend to foster a more open and equitable distribution of information and place a stronger emphasis on the protection of shareholders rights and, in particular, those of minority investors. Systems that protect minority shareholders discourage active corporate governance since they give rise to an absence of concentration of ownership. Since strong minority shareholder protection is also associated with an active stock market, the corporate governance frameworks in the US and UK is designed to promote stock market activity. For example, minority investors are normally afforded a high degree of protection in securities law, and the requirements for disclosure tend to be relatively stringent.

Regulation in outsider systems has traditionally been structured to strike a balance between providing adequate shareholder protection whilst, at the same time, allowing

investors to assume risks as they see fit. This requires a framework that emphasizes the need for reliable and adequate information, so that investors are able to make informed investment decisions. For example, regulation has traditionally been structured to provide information to, and create relative equality among, investors regarding access to information. For this purpose, disclosure requirements are fairly stringent and there is a strong emphasis. For example, elaborate rules prevent groups of shareholders from communicating and sharing information among themselves without making the information available to all shareholders. In addition, the legal framework supports the rights of shareholders to control the company and in many cases the board and management are explicitly accountable to shareholders. Theoretically, shareholders (through the use of their voting rights) have the power to select members of the board and to vote upon key issues facing the company. In practice, however, the fragmentation of ownership is a serious barrier to the actual exercising of such control.

The promotion of financial markets is also important for sectoral development. Industry sectors that rely on external funding are favored in outsider systems, where there is strong protection of minority shareholders and more transparency. Another important aspect of an active equity market is that this also encourages innovative activity, entrepreneurship, and the development of a dynamic small and medium sized enterprise (SME) sector. For example, venture capital and business angels are vital in supporting innovative activity and entrepreneurial talent, and these are intimately linked with stock markets since this provides investors with both an exit mechanism and liquidity. If we believe that active financial markets are linked with economic development, then regulations that promote stock market activity may provide one of the underlying sources for economic growth. For example, the protection of minority shareholders, which is linked to the development of stock markets, is critical to promoting innovative activity, entrepreneurship, and the development of sectors that rely on external funding.

The corporate governance framework in outsider systems also favors the use of public capital markets. The importance of equities and corporate bonds as a source of long-term finance is an important feature of outsider systems. Debt financing by banks tends to be short term and banks tend to maintain arm's length relationships with the corporate sector. For this reason, debt-equity ratios are relatively low. Capital markets in outsider systems also play a much greater role in influencing the behaviour of key parties. The monitoring of management relies largely on the discipline of capital markets, which is thought to serve as a particularly effective device for disciplining managerial behaviour. For example, share prices are likely to fall whenever management fails to maximize shareholder value, exposing the company to the threat of a take-over bid and the removal of inefficient management. However, liquid stock markets, strict trading rules, and adequate disclosure of information (all characteristics associated with outsider systems) are necessary in order for the market for corporate control to act as effective disciplining device.

2.2.3.1 The role of Financial Institutions on Corporate Performance

Share ownership in the UK, and increasingly in the US, is characterised by the domination of

institutional investors (see table 3 above). In the last forty years, both the US and the UK have seen a sharp rise in the proportion of equity held by financial institutions, coupled with the declining role of individuals in direct ownership. Rising from less than 10% of all equities in the 1950's to over 40% today, institutional investors have become the largest owners of equity in both countries. Over the same period, the proportion of shares directly held by individuals has fallen from about 90% to around 50% in the US, and from about 50% to around 20% in the UK.15 The reasons for this trend can be attributed to the tax incentives extended by governments to collective schemes and the wide growth of mutual funds and unit trusts as a result of the advantages of wider

diversification, professional management, and lower execution costs relative to direct share ownership. A further factor explaining this phenomenon has been the increasing tendency for companies to issue shares directly to institutional investors in the primary market, as their funding requirements have risen in recent years.

2.2.3.2 The Role of the Board of Directors on Corporate Performance

In addition to the control exercised by institutional investors, another relatively low-cost monitoring device can be found in the board of directors. The board plays a major role in the corporate governance framework. The board is mainly responsible for monitoring managerial performance and achieving an adequate return for shareholders, while preventing conflicts of interests and balancing competing demands on the corporation. When necessary, the board also has the authority to replace the management of the corporation. For example, if management is under-performing, then the board can replace the current management with new, presumably more efficient, management that will maximize the firm's profits. The board is also responsible for reviewing key executive and board remuneration.

The Cadbury and Greenbury committees, set up in the early 1990's following a series of high profile corporate scandals and collapses, have been credited with being the driving force behind many recent advances in the corporate governance framework in the United Kingdom. In the UK, the board of directors tends to be made up of an equal number of executive and non-executive directors, the proportion of non-executive directors increasing since the recommendations of the Cadbury committee in 1992. Non-executive directors play a key role in exercising control, and in this regard the Cadbury code recommends a minimum membership of three on each company board. The proportion of companies with combined Chairman and CEO roles, a feature linked to a number of corporate collapses, has also declined in the same period.

The recommendations of the Cadbury and Greenbury committees were also critical to the widespread establishment of board committees relating to the audit and strategy of the corporation. Audit committees were proposed in order to develop the monitoring role of non-executive directors. The recommendations suggest that audit and strategy committees have a minimum membership of three and exclude all executive directors. These committees have been almost universally adopted, although some smaller companies have been slower to respond.

2.2.3.3 The Role of Market Mechanisms on Corporate Performance

The market for corporate control is perhaps a much more effective disciplinary device than either monitoring by institutional investors or by the board of directors. Capital markets in outsider systems play a key role in influencing the behaviour of participants in the corporate governance framework. As mentioned above, when then management of a firm is inefficient or failing to maximize shareholder value, this exposes the company to the threat of a take-over bid, with the consequential removal of inefficient management. In the UK there has been an average of over 200 mergers and acquisitions per year over the last decade, compared with an average of about 50 in Germany. While up until now the market for corporate control has not been a key feature of insider systems of corporate governance, this is gradually beginning to change, as mergers and acquisition activity is increasing and hostile takeovers are becoming more common. The US in particular has an active market for corporate control as witnessed by its active market in mergers and acquisitions, including a significant number of hostile take-overs. For example, in the mid-1980s alone, the value of US mergers totaled approximately one trillion dollars, representing 40% of average annual market capitalization. However, the extent of hostile take-overs in the US may be somewhat overstated, with only 172 successful bids between 1985 and 1989. Nevertheless, the mere threat of a take-over may be enough to act as an effective disciplining mechanism and to diminish the motivation for managerial opportunism.

2.2.3.4 Tanzania Insider Systems of Corporate Governance performance

"Insider" systems typical of East African countries particularly Tanzania is characterized by concentrated ownership or voting power and a multiplicity of inter-firm relationships and corporate holdings. This is very different from the structure of companies in the US and UK, that are characterized by dispersed outside shareholdings. Holding companies, banks, other nonfinancial corporations, and familial control are dominant features of insider systems. This includes close relationships with banks, cross-shareholdings (both horizontal and vertical), and pyramidal structures of corporate holdings. The significance of a pyramidal structure is that it allows shareholders at the top of the pyramid to exercise control in disproportion to their actual holdings. Cross-shareholdings, pyramiding, dual-class shares, proxy votes, and voting trusts can all help shareholders extend their control at relatively low cost. Institutional investors such as pension funds, mutual funds, and insurance companies also tend to play a much smaller role in corporate governance than is the case in outsider systems (DSE, 2011).

The advantage of concentrated ownership or concentrated voting power is that it can overcome the problems with the monitoring of management that are associated with dispersed ownership. This is because when cash flow rights and control rights are aligned, majority shareholders now have both the incentive and the power to monitor management. And with dispersed ownership but concentrated voting power it is controlling block holders who have an incentive to engage in active monitoring. This is because, with concentrated voting power (or ownership) controlling block holders and majority shareholders obtain a large fraction of the benefits from monitoring, and the concentrated voting rights gives them the necessary power to influence the decision making process. The basic conflict, therefore, that arises with insider systems of corporate governance is between controlling shareholders (or block holders) and outside

minority shareholders i.e. “strong voting bloc holders, weak minority owners” or “weak managers, weak minority owners, strong majority owners” (DSE, 2011).

2.2.3.4.1 The Role of Tanzania Banks in Corporate Governance Performance

Long-term relations with financial institutions can affect the performance of the corporate sector. Differences in corporate governance systems are thought to influence the cost of capital and the availability and type of financing available to firms. For example, stock market capitalization as a percentage of GDP in insider systems is normally lower than that found in outsider systems. If the development of financial markets is linked with economic development then this can impinge upon economic growth. However, this may not matter if there are other sources of financing available to the corporate sector. For this reason, in insider systems there is a much greater emphasis on banks as providers of external finance and debt/equity ratios are typically higher.

Unlike the arms length relationships between banks and corporate clients found in outsider systems, banks in insider systems tend to maintain more complex and longer term relationships with the corporate sector. In particular, the Tanzania and Kenya systems of corporate governance are characterized by long-term relationships with banks which are thought to encourage bank financing, whereas firms in the Tanzania and Kenya benefit from high levels of equity capital. The benefits of a ‘bank-based’ system are that banks perform important monitoring and screening functions. The close relationships between banks and client firms in insider systems provides greater access to firm-specific information, and is thought to be a factor contributing to lower risk premiums, thus lowering the overall cost of capital faced by firms. For example, two of the principle assertions as to the merits of ‘bank-based’ systems are that it reduces asymmetric information problems enabling banks to supply more external finance to

firms at a lower cost, and thus increasing investment; and that it increases monitoring, thus ensuring firms are run more efficiently.

On the other hand, the emergence and survival of new firms is strongly affected by the possibility and cost of obtaining finance. In insider systems, characterized by small and illiquid public capital markets and the absence of venture capital markets, new firms and SMEs may find it very difficult to obtain equity financing. Therefore, the dominant financing pattern for firm start-ups and small firms in insider systems implies a heavier reliance on debt financing than found in outsider systems. This is a serious problem for new firms, since they have no established track record or long term relationship with the financial sector. Banks, in this case, tend to be too conservative in their lending policies. This is because banks face an asymmetric risk when assessing new start-ups. For example, in the worst case scenario the bank can lose all the credit it has extended to a new firm, but should the venture succeed the best the bank can hope for is to be fully repaid, including accrued interest. In this way, the bank is excessively exposed to downside risk. Therefore, the absence of an active equity market and a heavy reliance on debt financing, both characteristics of insider systems, can impinge upon the development of a vibrant and thriving SME sector.

Kopchick (2009), discovered that there is negative correlation between the levels of corporate performance and the education background of board of directors. Observably Shareholders population categories with lower levels of education happen to be the larger category. What the study could not establish fully is whether the argument that academic exposure matters little when it comes to the use of Code of corporate Governance is a valid one, the study do not cover all the factors associated with corporate governance and organization performance. This study assumes that there are other issues which impact the corporate governance toward organization performance in

the developing countries. Lee (2009) & Lee, Lee and Kim (2007) found that all corporate structure, board composition, CEO duality and independence directors emerged as negative factors in the intention to adopt corporate governance tools towards performance using experience from West Africa financial Sector as a impact do not stand alone in the corporate governance performance industry rather, there are other issues which need to be addressed by this study. These gaps include; gaps of time, location of the area of the study, methodologies used by the previous researchers as well as other impact associated with corporate governance toward organization performance industry in Tanzania which were not covered in other studies

2.3 Research Questions

Following from the literature review and objectives of the study, the following questions have been answered.

(i) What is the effect of board of directors' independence on effectiveness of corporate governance practices on the organizations performance?

(ii) What is the effect of board of directors' composition on effectiveness of corporate governance practices on the organizations performance?

(iii) What is the effect of board of directors' leadership structure on effectiveness of corporate governance practices on the organizations performance?

CHAPTER THREE

ANALYTICAL FRAMEWORK FOR IMPACT OF CORPORATE GOVERNANCE TOWARDS ORGANIZATION PERFORMANCE

3.1 The Conceptual/Analytical Framework

Under this section covers; research conceptual/Analytical framework, independent variable and independent variables.

The conceptual framework represents a model which concerns ascertaining the relative importance of the known antecedents of firm's performance. The researcher found that CEO duality and the proportion of independent directors to board size gives indirect impact towards the firm's performance but for the purposes of this study, the research question was whether the implementation of the principles of the Code of Corporate Governance impacts firms' performance. So, in measuring firm's performance, indicators used were Return on Equity (ROE) and Return on Assets (ROA). The profit before interest and tax figures were used as denominators. These indicators were used because they show the real performance of the firm.

The research has three groups of variables, namely the dependent variable, background variables, and independent variables. Each of the group has a number of variables as seen in Fig. 3.1.

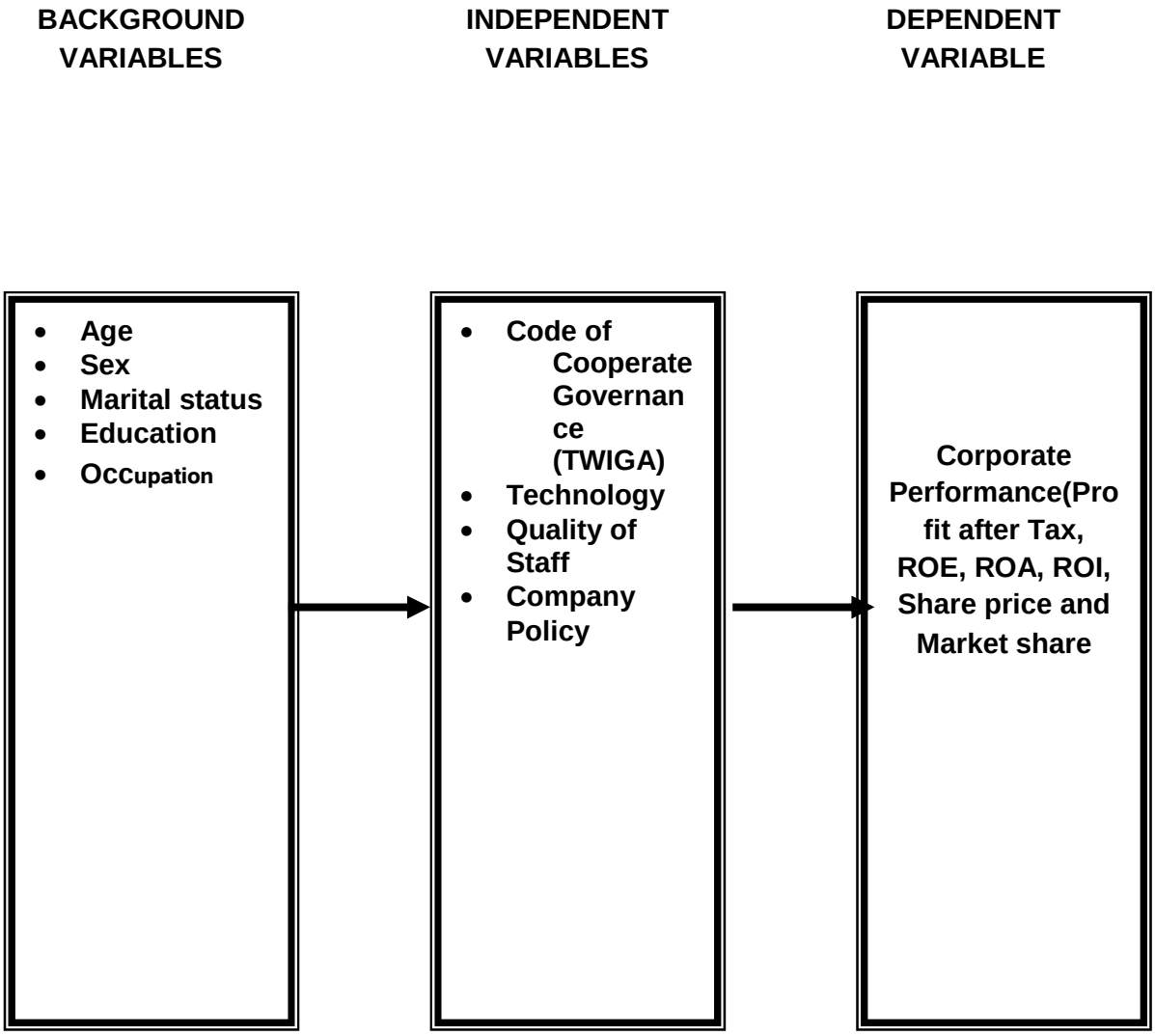
3.1.1 The Dependent Variable

Corporate performance is the dependent variable of this study. According to OECD, (2010) the performance of an organization is influenced by number of factors.

3.1.2 The Independent Variables

Return on Equity (ROE), Return on Assets (ROA), Return on Investment (ROI) Share price and market share are the independent variables of the study.

Figure 3.1: conceptual framework of the research



Source (Researchers design, 2012)

3.2 Research Hypothesis

A hypothesis is a tentative statement about the relationship between two or more variables. Basically is a specific, testable prediction about what a researcher expects to happen in this study. Null hypothesis involves a statement that says there is no relationship between two groups that the researcher compares on a certain variable while alternative hypothesis involves a statement that says there is relationship between two groups that the researcher compares on a certain variable.

Following from conceptual/Analytical framework diagrammatically appearing on figure 3.1 the following hypothesis is appropriate for this study;

3.2.1 Null Hypothesis Tested

The null hypothesis for this study was stated as performance of an organization is not influenced by corporate governance.

3.2.2 Alternative Hypothesis to be tested

The alternative hypothesis for this study was stated as performance of an organization is influenced by corporate governance.

The null and alternative hypothesis has been tested to provide answers to research questions inorder to meet the research objectives.

3.3 Operational Definitions of Concepts

Operational definitions provide or assign a modified meaning to concept so that it can be objectively measured empirically, hence allowing data which are necessary for testing the hypothesis to be collected with appropriate data collection methods/techniques.

Given the hypothesis of this study the operational definitions are limited to dependent variable-corporate performance and one independent variable corporate governance practices.

3.3.1 Corporate Governance Practices

Corporate governance is traditionally defined as the ways in which a firm safeguards the interests of its financiers (investors, lenders, and creditors). The modern definition calls it the framework of rules and practices by which a board of directors ensures accountability, fairness, and transparency in the firm's relationship with its all stakeholders (financiers, customers, management, employees, government, and the community). This framework consists of (1) explicit and implicit contracts between the firm and the stakeholders for distribution of responsibilities, rights, and rewards, (2) procedures for reconciling the sometimes conflicting interests of stakeholders in accordance with their duties, privileges, and roles, and (3) procedures for proper supervision, control, and information-flows to serve as a system of checks-and-balances.

In this study, corporate governance practices has been measured by independence of board of directors; composition of directors in the board that is non-executive directors vs executive directors and directors leadership structure.

(a) Board independent

(b) Board composition

(c) Board leadership structure

(a) Board Independence

The existence of non-executive directors is increasingly being viewed as an inadequate condition to ensure directors efficiently exercise decision control and protect shareholder interests (Monks, 2007). The argument underlying the non independence of the non-executive director is that, if a director is a friend of the CEO, it is just as difficult for him to be objective as it would be for an employee when it comes to evaluating management performance (Lorsh, 2004).

(a) Board Constitution/Composition

The board constitution covers three different aspects with respect to the effectiveness of the board: inside versus outside directors, board size and the age of board members (Tricker, 1994). An inside or executive director is an individual who is involved in the day-to-day management, and is a full-time employee, of the company. A non-executive director is an individual who is not involved in the day-to-day management and/or is not a full-time employee of the company or one of its subsidiaries, and is not a salaried employee of the holding company or the holding company's subsidiary. Non-executive directors are expected to execute decision control, as executive directors cannot critically review their own decisions. It is for this reason that non-executive directors are considered to be well placed to protect the interests of shareholders, and hence the argument for more non-executive directors on the board relative to executive directors

(c) Board Leadership Structure

Board leadership structure refers to the separation or non-separation of the two highest level positions in a company: those of the chairman of the board of directors and of the CEO. The argument for separating the two posts is based on agency theory and reflects the need to avoid concentrating power in the hands of a single individual to such an extent that the board fails to exercise control.

3.3.2 Organization Performance

The performance of an organization refers to its outputs- tangible or intangible which are useful to all its stakeholders and these outputs provides a justification of the organization's existence. The strategic plan and its operational framework (performance management system) indicates both inputs and related outputs.

Performance measurements and evaluation compares actual outputs to target output (effectiveness) as well as actual output to inputs used (efficiency)

Many financial and non financial indicators are used in evaluating performance of commercial organizations, however in this study Return on Asset (ROA) and Return on Equity (ROE) are used. In calculating ROA and ROE, net profit before tax figures are used as denominators.

CHAPTER FOUR

THE RESEARCH DESIGN

4.1 Research Area

The research focuses on public listed companies in Tanzania. This proposed study employed the case study of Tanzania Portland Cement Company Limited (TPCC) as one of the listed companies at the DSE.

Tanzania Portland Cement Company was a case that has been selected for study because it was a case that has several advantages to this research; it was close and easily accessible to the researcher, it was unique in that it represents the characteristics of most listed company by size, ownership composition and corporate governance issues.

4.2 Research Design

Research design means plan of action of the research study, collection, analyzing of data in view of research objectives and questions. In order to fulfill the objectives of the research, a case study design used whereby information to be collected was likely resemble that of corporate governance in some other cities of Tanzania.

The research conceptual framework was based on the following relationships;

- Effects of board of directors' leadership structure on effective corporate governance practices
- Effects of board of directors' composition on effective corporate governance practices

- Effects of board of directors' independence on effective corporate governance practices the study primarily will employ the survey method, whereby the researcher will be able to select a sample of respondents, and administer and standardized questionnaire and also conduct interviews. This was the best methods to use as the study involved the collection of original data that represented a population to large to observe directly. The data collection took place in two phases namely, questionnaires and interviews.

4.3 Sampling

Respondents were selected by stratified sampling. The strata of various enterprises done, sex of Dar es Salaam respondent, having got participation or not, and area where the economic activities were operated. Having got sampling frames from Tanzania Portland Cement company ltd, the actual respondents were obtained through systematic sampling whereby the first respondent from each stratum was selected by punching a random number on a scientific calculator, followed by addition of the sampling interval to get subsequent respondents.

4.4 Sample Size

For the purpose of achieving the overall objectives of the study, the researcher included 120 people whereby 90 were from Tanzania Portland Cement company ltd owned projects and 30 were from other economic activities.

4.4.1 Sampling Design

The study employed a purposeful selection of a case for study, which was Tanzania Portland Cement Company Limited (TPCC) as one of the listed companies at the DSE. Then from the case a sample was drawn.

4.4.2 Sample Frame

The sample frame was based on the total number of employees in the company. The company employs various types of employees and from their departments the sample was drawn. The sample frame was obtained from the human resource department from which a list of all employees was used for the purpose.

4.4.3 Sampling Techniques

The sampling technique used was a systematic random sampling technique. Out of the departments a total of 40 respondents were selected systematically from the departments. Each department contributes a total of 5 respondents.

4.5 Data Collection

The whole process of data collection included primary and secondary data. The data collected came from two main sources. The use of interviews for collection of primary data and the use of company's financial statements and annual reports for the collection of the 2006 to 2011 data were used in the analysis of the model.

4.5.1 Secondary Data Collection

The study complimented the primary data by collecting data from secondary sources such as the internet, company's annual reports for the past 5 years, other company statistics documents that provided by management and from related studies and books also secondary data was obtained from National Library which is in Dar es salaam Tanzania and also electronic data base sources such as CD and website. The other sources were the review of document such as office files, profiles, journals, thesis, books, magazine and newspapers.

4.5.2 Primary Data Collection

The following tools used to collect primary data:

4.5.3 Questionnaire

For data collection and detail information gathering the research prepared questionnaires which were directed to respondents, both open ended and closed ended questioners were used. Some of these questionnaires were forwarded to the public listed companies, Administrative officers at Tanzania Portland cement company ltd. This method was useful because a small number of information was required from a large number of people. The questions were very unambiguous and precise each respondent was asked exactly the same questions and the responses were analyses according to the pre-defined categories of information. Data collected using this technique was used in measuring the effect of board of directors' independence on effective corporate governance practices at the TPCC. The questionnaire for this research (Appendix 1) consists of open-ended, close–ended and tabular questions.

4.5.4 Observation

The actual situation was observed by the time when the operation of transactional business within the office was carried out. The data collected was used in measuring the effect of board of directors' leadership structure on effective corporate governance practices at the company. It was important to observer a procedure in action so that regulates and exception procedure was noticed.

The observation itself based on

- TPCC Office Layout this determined the position of the Tanzania Portland Cement Company Ltd, filing cabinets and other corporate office equipment whether convenient for employees and conductive to efficient working.
- Workload this indicated that the volume of activities awaiting processing is fairly economic.
- Delays this indicated that there are some procedures which are behind scheduled.
- Methods of working this indicated whether there was a lack in trained employee's in principles and practice in corporate management.

4.5.5 Interviews

One of the techniques of collecting data especially concerning membership environment and service giving was by means of interview the researcher visited officers of the Tanzania Portland Cement company ltd and DSE Government division to get more information through interviews. This was used in collecting data for third research question under study.

Due to environmental circumstances some of the research respondent was covered by this technique.

Questions were phrased unambiguously so that the interviewee supplies the required information. A checklist of points help to ensure that all relevant questions were asked of course, the interview need to stray from the points in the checklist.

There was a need to detect any unsatisfactory responses to questions and possibly used alternative methods to glean the required information some of the possible unsatisfactory responses appeared.

- Refusal to answer indicated that set procedures were not being followed and the members of staff were not aware of the good roles of corporate governance in Twiga cement company ltd.
- Answer with irrelevant information while the question are ambiguous this was noted that still their staff were not much informed with the concepts of corporate governance.
- Answer with insufficient information the system was designed which cover all the foreseeable user requirements and operational armistices.

4.6 Data analysis and Decision Criteria

The data collected were analyzed using the Statistical Package for Social Sciences (SPSS) to compute descriptive statistics. The raw data was factor analyzed using SPSS 17.0 (Green et al., 2000) to summarize the variables into smaller sets of linear composites that preserved most of the information in the original data set. The data was subjected to principal component analysis, a method categorized under the broad area of factor respondents were reporting on TPCC performance... To sum up, the data suggests that most respondents have either a positive or negative attitude toward corporate governance toward TPCC performance.

The decision criteria on the descriptive statistical findings is set to be at least 90% (≥90%) cumulative agree and definitely agree scores on the phenomenon measuring or assessing the impact of corporate governance on organization performance, TPCC in this context. Consequently, for the cumulative definitely agree and agree from the ≥ 90%

is the lesser the impact of the corporate governance phenomenon on the performance of the organization (TPCC).

CHAPTER FIVE

FINDINGS AND DISCUSSION

5.1 Introductory Remark

This chapter presents the findings of the study, analysis of the findings and discussion as per the objective of the study as explained in chapter one. The information presented in this chapter relied heavily on questionnaire, key informant interviews, FGDs and various documents on what has been done on the impact of corporate governance toward organization performance in public listed companies in Tanzania with a case study of Tanzania Portland Cement Company Ltd.

5.2 Respondents Description

The section presents respondents characteristics. This information included age, sex, marital status, academic qualifications, working experience, and designation levels of the respondents. Literature review has shown a variation on the answers given by respondents during surveys.

5.2.1 Age

Age of the respondents was important in examining the impact of corporate governance toward organization performance in Tanzania with a case study of Tanzania Portland Cement company Ltd... The study findings on the age distribution are presented in the Table 5.1 below

Table 5.1 Distribution of respondents according to age groups

Age group	Age range	Frequency	Percent (%)
Young	18-33	52	42.9
Grownup	34-49	64	53.6
Old	50-65	4	3.5
Total		120	100

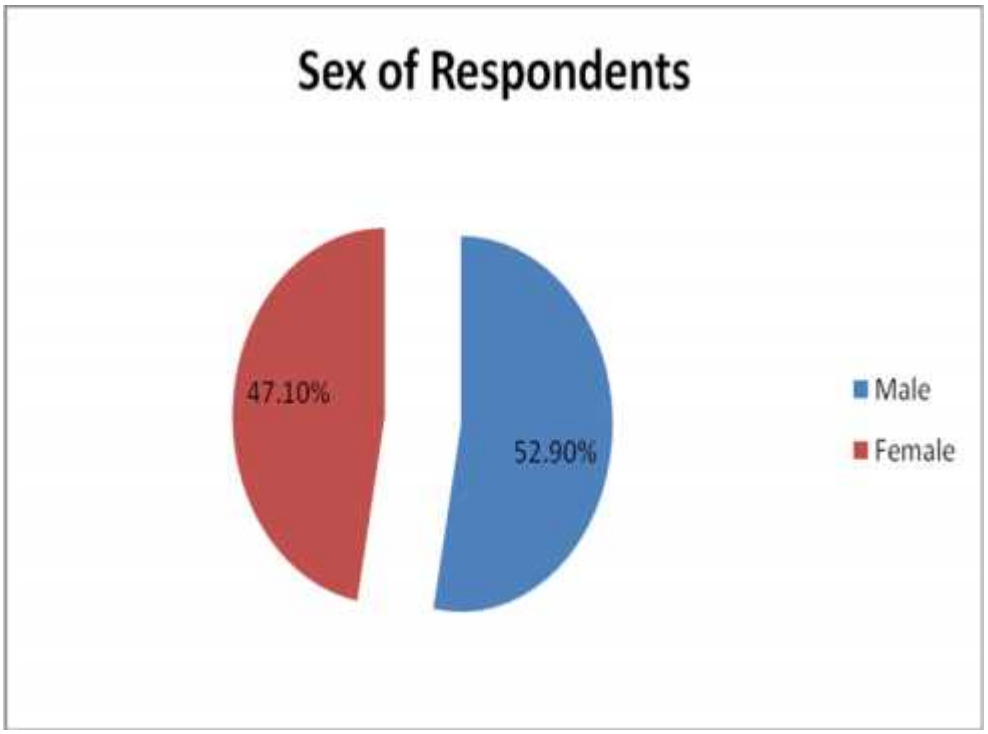
Source: Appendix 3 Research Findings at Tanzania Portland Cement Company Limited, March 2013

Results presented in Table above whereby the ages ranged between 18 and 65years grouped as young (18-33), grownup (34-49) and old (50-65). The overall results reveal that the 'grownup' age group consisted of the majority of the respondents (53.6%), whereas the 'old' group was only 3.5%. since random sampling was used to obtain the respondents who participated in this study, it implies that majority of heads of Departments in the study were adults aged between 34 and 49 years.

5.2.2 Sex of the Respondents

The study sought to get the number of respondents who filled questionnaires based on their sex. The study findings on the sex of the respondents are presented in the figure 5.1.

Figure 5.1: Distribution of respondents by Sex



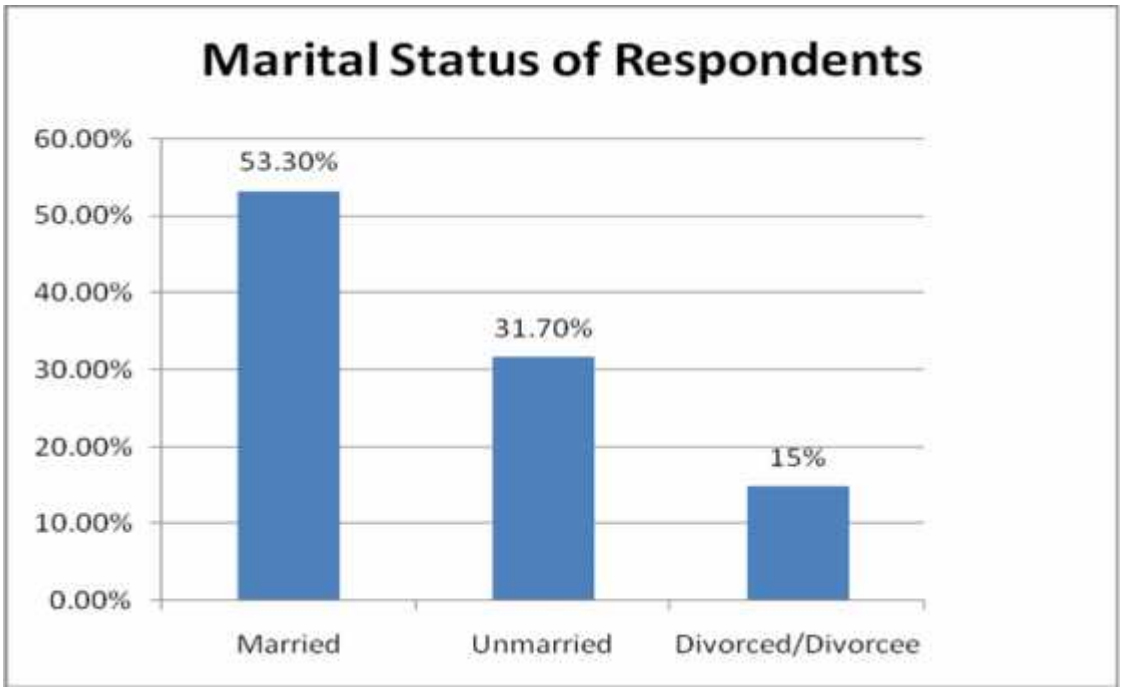
Source: (Research Findings at Tanzania Portland Cement Company Limited, March 2013)

Most of Respondents 63(52.9%) was men and only 57 (47.1%) were women (Figure 5.1). Male showed a higher response in filling questionnaire than females' respondents possibly because number of males' employees being higher than females' employees in the TPCC. However, all sex was represented to capture unbiased information on the impact corporate governance toward organization performance in Tanzania Portland Cement Company Limited (TPCC)

5.2.3 Marital Status

Marital status of the respondents was considered to the impact of corporate governance toward organization performance in Tanzania with a case study of Tanzania Portland Cement company Ltd. Marital status of the respondents is presented in figure 5.2.

Figure 5.2: Distribution of respondents by marital status



Source: (Research Findings at Tanzania Portland Cement Company Limited, March 2013)

The majority of the interviewed respondents 64(53.3%) ware married, while 38(31.7%) were unmarried (single) and the rest of the respondents were divorced/divorcee 18(15%).

5.2.4 Education Level

Education level of the respondents played important role in understanding impact corporate governance toward organization performance in Tanzania Portland Cement Company Limited (TPCC). Therefore, respondents were asked to show their education levels. The study findings concerning education levels are presented in the Table5.2 below.

Table 5.2: Distribution of respondents according their education level

Educational Level	Frequency	Percent (%)
Primary school only	15	12.5
Secondary School	42	35
Certificate/Diploma	35	29.2
Advanced Diploma/ First degree	20	16.7
Postgraduate Degree	8	6.6
Total	120	100

Source: (Research Findings at Tanzania Portland Cement Company Limited, March 2013)

The study found that 15 (12.5%) were having primary and most of them were unskilled labour. Others 42 (35%) having secondary school education, while 35 (29.2%) of the respondents hold a certificate/diploma education from different training institutions.

Only 20 (16.7%) of the respondents hold advanced diploma/University degree while only 8 (6.6%) of the remaining respondents hold postgraduate degree. The study findings show that secondary education holders were many compared to other groups of respondents.

5.2.5 Occupation

The researcher was interested in understanding occupation of different respondents. This was assumed to provide room for accessing information on assessing impact corporate governance toward organization performance in Tanzania Portland Cement Company Limited (TPCC). The study findings are presented in the figure 5.3.

Figure 5.3: Distribution of respondents according their Occupation



Source: (Research Findings at Tanzania Portland Cement Company Limited, March 2013)

The study found that (75%) of the respondents were employed while (25%) of respondents were self employed. The study shows that majority of the respondents were those who are employed as the experience shows most TPCC provide employment to qualified candidates every year per demand of the organization. Furthermore, the statistics showed that the respondents had a mixed working experience and therefore had required information on what was thought to be the impact corporate governance toward organization performance in Tanzania Portland Cement Company Limited (TPCC).

5.2.6 Designation Level of the Respondent

The researcher was interested in understanding designations of different respondents. This was assumed to provide room for accessing information on the impact corporate governance toward organization performance in Tanzania Portland Cement Company Limited (TPCC). The study findings are presented in the Table 5. 3

Table 5.3: Respondents designation level

Designation level of the respondent	Frequency	Percent
Senior manager	15	16.7
Line manager	25	27.8
Supervisor	30	33.3
Junior staff	20	22.2
Total	**90**	**100.0**

Source: Appendix 3 Research Findings at Tanzania Portland Cement Company Limited, March 2013

The study found that only 15 (16.7%) of the respondents were senior managers followed by other 25 (27.8%) who were line managers. 30 (33.3%) of the respondents

were supervisors which others 20 (22.2%) of the respondents were junior staff. The statistics shows that supervisor's staff composed almost fifty percent of the total respondents. However, all designation levels were consulted to capture detailed information particularly from the managerial cadres.

5.3 Presentation of the Study Findings

This section presents and discusses research findings as per study objectives. The study objectives include (i) assessment of the effect of board of directors' independence on effective corporate governance practices (ii) assessment of the effect of board of directors' composition on effective corporate governance practices and (iii) assessment of the effect of board of directors' leadership structure on effective corporate governance practices. The study has been conducted at the Tanzania Portland Cement Company Limited.

5.3.1 The Effect of Board of Directors' Independence on Effective Corporate Governance Practices at Tanzania Portland Cement Company Limited

This part provides study findings on the specific objective (i) on the effect of board of directors' independence on effective corporate governance practices at the Tanzania Portland Cement Company Limited. The existence of non-executive directors was being viewed as creation of an adequate condition to ensure directors efficiently exercise decisions to control and protect shareholder interests culminating into organization performance.

In this research the effect of board of directors independence on effectiveness of corporate governance practices has been assessed using influences of independent non-executive directors; on the duties of executive directors ensuring annual audited financial statements and other periodic performance reports; influences shareholders to

exercise their voting rights on directors proposal; and ensures that all corporate decisions are made by voting. The findings on each of these indicators are discussed in the following sections.

5.3.1.1 Impact of Independence on Directors duties

The existence of non-executive director's influences executive directors to fulfill their duties of reporting to the shareholders at the annual shareholder meeting was assumed to be one of the issues that affected the corporate governance toward organization performance in Tanzania Portland Cement Company Limited (TPCC). This was due to the fact that the existence of non-executive directors plays an important role for whatever kind of corporate governance. The study findings are summarized in the Table 5.4 below

Table 5.4: Directors duties

The existence of non-executive directors influences Directors fulfil their duty of reporting to the shareholders at the annual shareholder meeting	**Frequency**	**Percent**	**Cumulative Agree and Disagree**
Strongly disagree	11	9.2	
Disagree	13	10.8	20.0%
Neither agree nor disagree	9	7.5	7.5%
Agree	35	29.2	
Strongly agree	52	43.3	72.5%
Total	**120**	**100.0**	**100%**

Source: Appendix 3 Research Findings at Tanzania Portland Cement Company Limited, March 2013

The study found that the existence of non-executive directors influences executive directors to fulfill their duty of reporting to the shareholders at the annual shareholder meeting. The ensuring discussion on various reports affects organization performance i.e Tanzania Portland Cement Company Limited. The statistics in table 5.4 shows that a total of 87 (72.5%) respondents cumulatively agreed that the existence of non-executive directors influences executive directors to fulfill their duty of reporting to the shareholders at the annual shareholder meeting. This affects the performance of Tanzania Portland Cement Company Limited. On the other hand, few 24(20%) of the respondents did not see the existence of non-executive directors influencing executive directors to fulfill their duty of reporting to the shareholders at the annual shareholder meeting to affect the performance of Tanzania Portland Cement Company Limited; and the other 9 (7.5%) neither agree nor disagree. Therefore, though 72.5% is below the 90% decision criteria the above findings justify to some extent that the existence of non-executive directors influences executive directors to fulfill their duty of reporting to the shareholders at the annual shareholder meeting. However 20% suggest their presence is detrimental to the effectiveness of the corporate governance toward the performance of Tanzania Portland Cement Company Limited.

5.3.1.2 Existence of Non-executive Directors Influences Annual Audited Reports

The existence of non-executive directors influences executive directors to ensure annual audited reports were considered to be among the serious impact of corporate governance toward organization performance in Tanzania. The respondents were asked to indicate how they felt on effectiveness of the existence of non-executive directors in influencing ensurerance of Annual audited reports being sent to all shareholders before the annual general meeting hence reflecting the impact of corporate governance towards the performance of Tanzania Portland Cement Company Limited. The respondents' views are presented in the Table 5.5 below.

Table 5.5: Annual audited reports

The existence of non-executive directors influences Annual audited reports sent to all shareholders before the annual general meeting	Frequency	Percent	Cumulative Agree and Disagree
Strongly disagree	23	19.2	
Disagree	17	14.2	33.4%
Neither agree nor disagree	14	11.7	11.7%
Agree	25	20.7	
Strongly agree	41	34.2	54.9%
Total	**120**	**100.0**	**100%**

Source: Appendix 3 Research Findings at Tanzania Portland Cement Company Limited, March 2013

The study found that 23 (19.2%) of the respondents strongly disagreed with effectiveness of the existence of non-executive directors on ensures annual audited reports are sent to all shareholders before the annual general meeting hence reflecting on impact of corporate governance towards the performance of Tanzania Portland Cement Company Limited, and at the same time 17 (14.2%) the respondents slightly disagreed on effectiveness of the existence of non-executive directors influences on the same aspect. Overall 33.4% of respondents cumulatively disagree that non-executive directors have no impact on the performance of TPCC. Furthermore only 14(11.7%) respondents were neutral.

On the other hand, 25(20.7%) of the respondents agreed that existence of non-executive directors ensures annual audited reports are sent to all shareholders before the annual general meeting hence reflecting impact of corporate governance towards performance of Tanzania Portland Cement Company Limited, while at the same time other 41 (34.2%) of the respondents strongly agreed that existence of non-executive directors influences ensuring that annual audited reports are sent to all shareholders before the

annual general meeting hence reflecting the impact of corporate governance towards the performance of Tanzania Portland Cement Company Limited.

Overall, cumulatively only 54.9% (66) of respondents agree that existence of non-executive directors ensured that annual audited reports were sent to shareholders before annual general meetings hence reflecting impact of corporate governance on the performance of TPCC. According to ≥ 90% decision criteria, the cumulative agree score of 54.9% is far below to suggest weak performance of non-executive directors.

Based on the above statistics therefore, the existence of non-executive directors do not influence ensuring annual audited reports are sent to all shareholders before the annual general meeting suggesting no impact of corporate governance towards the performance of Tanzania Portland Cement Company Limited (TPCC).

5.3.1.3 Shareholders Exercise their Right to Vote on Directors' Proposals

Furthermore, the existence of non-executive directors influences shareholders attending the annual general meeting to exercise their right to vote on directors' proposals was considered among the impact of corporate governance on the performance of Tanzania Portland Cement Company Limited. The respondents were asked to indicate how they felt on the existence of non-executive directors influences shareholders attending the annual general meeting to exercise their right to vote on directors' proposals hence influencing organization performance in Tanzania. The study findings are illustrated in the Table 5.6 below.

Table 5.6: Shareholders influenced exercise their right to vote on directors' proposals

The existence of non-executive directors influences Shareholders attending the annual general meeting and exercise their right to vote on directors' proposals	Frequency	Percent	Cumulative Agree and Disagree
Strongly disagree	15	12.5	
Disagree	16	13.3	25.8%
Neither agree nor disagree	13	10.8	10.8%
Agree	29	24.2	
Strongly agree	47	39.2	63.4
Total	**120**	**100.0**	**100%**

Source: Appendix 3 Research Findings at Tanzania Portland Cement Company Limited, March 2013

The study revealed that only 31(25.8%) of the respondents cumulatively disagreed that the existence of non-executive directors influences shareholders attending the annual general meetings to exercise their right to vote on directors' proposals making impact corporate governance towards to have impact on the performance of Tanzania Portland Cement Company Limited, while at the same time other 13(10.8%) of the respondents were neutral. Contrary to the above, 29 (24.2%) of the respondents agreed that existence of non-executive directors influences Shareholders attending the annual general meeting to exercise their right to vote on directors' proposals hence making corporate governance to have impact on the performance of Tanzania Portland Cement Company Limited. Also 47(39.2%) of the respondents strongly agreed that the existence of non-executive directors influences shareholders attending the annual general meeting to exercise their right to vote on directors' proposals making corporate governance to impact the performance of Tanzania Portland Cement Company Limited (TPCC).

Cummulatively Table 5.6 indicate that 76 (63.4%) of respondents agree that existence of non-executive directors influences shareholders attending annual general meetings to exercise their rights to vote on the executive directors proposal, hence making corporate governance to have impact on the performance of TPCC. Nevertheless, 63.4% is far below the ≥ 90% decision criterion, hence suggesting weak roles played by non-executive directors.

Therefore the above findings (statistics) signify that the existence of non-executive directors does not influence shareholders attending the annual general meeting to exercise their right to vote on directors' proposals, hence affected negatively performance of Tanzania Portland Cement Company Limited (TPCC).

5.3.1.4 Existence of Non Executive Directors Influences all Decisions Made by Voting

The existence of non-executive directors influences all decisions at annual general meetings made by voting were considered as reflecting impact of corporate governance towards the performance of Tanzania Portland Cement Company Limited (TPCC). Therefore, the respondents were asked to provide their views by indicating levels of agreement and disagreement on whether the existence of non-executive directors influences all decisions at annual general meetings made by voting hence affecting organization performance. The study findings are presented in the Table 5.7.

Table 5.7: All decisions made by voting

The existence of non-executive directors influences All decisions at annual general meetings made by voting	Frequency	Percent	Cumulative Agree and Disagree
Strongly disagree	17	14.2	
Disagree	11	9.2	23.4%
Neither agree nor disagree	12	10	10.0%
Agree	56	46.6	
Strongly agree	24	20	66.6%
Total	**120**	**100.0**	**100**

Source: Appendix 3 Research Findings at Tanzania Portland Cement Company Limited, March 2013

According to Table 5.7, the study found that 17 (14.2%) of the respondents strongly disagreed that the existence of non-executive directors influences all decisions at annual general meetings made by voting, hence making corporate governance to have impact on the performance of Tanzania Portland Cement Company Limited (TPCC). The other 11 (9.2%) respondents just disagree that the existence of non-executive directors influences all decisions at annual general meetings made by voting as above. Cumulatively 28 (23.4%) respondents disagreed on the phenomenon. At the same time 12 (10%) of the respondents neither agreed nor disagreed that the existence of non-executive directors influences all decisions at annual general meetings made by voting, hence making corporate governance to have impact on the performance of Tanzania Portland Cement Company Limited (TPCC).

On the other hand, 56 (46.6%) of the respondents agreed that the existence of non-executive directors influences all decisions at annual general meetings made by voting making corporate governance to have impact on the performance of Tanzania Portland Cement Company Limited (TPCC), and at the same time the other 24 (20%) respondents

strongly supported that existence of non-executive directors influences all decisions at annual general meetings made by voting hence making corporate governance to have impact on the performance of Tanzania Portland Cement Company Limited (TPCC).

Cummulatively, 80 (66.6%) respondents agree that existence of non-executive directors influences all decisions at annual general meeting made by voting hence making corporate governance of TPCC. Given the ≥ 90% decision criterion, 66.6% is still showing a weak influence by non-executive directors.

Consequently the above statistics therefore shows that the existence of non-executive directors does not influence all decisions at annual general meetings made by voting making corporate governance not to have impact on the performance of Tanzania Portland Cement Company Limited (TPCC).

5.3.2 The Effect of Board of Directors' Composition on Effective Corporate Governance Practices at Tanzania Portland Cement Company Limited

This part provides study findings on the specific objective (ii) on effect of board of directors' composition on effective corporate governance practices at Tanzania Portland Cement Company Limited. Specifically, it provides information on whether the more the non-executive directors on the board relative to executive directors the more the impact of corporate governance of an organization. In this section, the study explores independence of non-executive directors and board size.

5.3.2.1 Independent Directors

If Non-executive independent directors constitute the majority on the board of directors, it is assumed that corporate governance will have impact on the performance of

Tanzania Portland Cement Company Limited (TPCC). This was due to the fact that board's independent directors plays an important role hence in making objective decision for affecting the performance of TPCC. The study findings are summarized in the Table 5.8 below.

Table 5.8: Independent Directors

Non-executive directors constitute the majority on the board of directors	**Frequency**	**Percent**	**Cumulative Agree and Disagree**
Strongly disagree	11	9.2	
Disagree	17	14.2	23.4%
Neither agree nor disagree	13	10.8	10.8%
Agree	31	25.8	
Strongly agree	48	40	65.8%
Total	**120**	**100.0**	**100%**

Source: Appendix 3 Research Findings at Tanzania Portland Cement Company Limited, March 2013

The study found that more non-executive independent directors on the board relative to executive directors affect the performance of Tanzania Portland Cement Company Limited (TPCC). The statistics in Table 5.8 show that 31 (25.8%) respondents agreed that the more independent non-executive directors on the board relative to executive directors affect the performance of Tanzania Portland Cement Company Limited (TPCC), while at the same time 48(40%) of respondents strongly agreed. Cumulatively 79 (65.8%) respondents agree that the more independent non-executive directors on the board relative to executive directors affect performance of Tanzania Portland Cement Company Limited (TPCC).

On the other hand, Cumulatively 28(23.4%) of the respondents did not see that the more independent non-executive directors on the board relative to executive directors affect the performance of Tanzania Portland Cement Company Limited (TPCC) while the other 13 (10.8%) neither agree nor disagreed. Overall, these findings particularly 65.8% suggest that given the ≥90% decision criterion, the more independent non-executive directors has less/weak effect on the performance of TPCC limited.

Furthermore, the study of TPCC directors has indicated that most of the respondents were of the opinion that the optimum level of independent directorship is between 25% and 50% of the total size of the board, thereby making the independent directors roles limited as they do not take part into management. This composition limit the performance of the companies in Tanzania particularly Tanzania Portland Cement company.

5.3.2.2 Board Size Both Inside and Outside Directors

The board size both inside and outside directors was considered to be among the impact of corporate governance toward organization performance in Tanzania Portland Cement Company Limited (TPCC). The respondents were asked to indicate how they felt on the effectiveness of the board size both inside and outside directors toward organization performance in Tanzania. The respondents' views are presented in the Table 5.9 below

Table 5.9: The board size both inside and outside directors

The board size both inside and outside directors	Frequency	Percent	Cumulative Agree and Disagree
Strongly disagree	3	2.5	
Disagree	17	14.2	16.7%
Neither agree nor disagree	4	3.3	3.3
Agree	55	45.8	
Strongly agree	41	34.2	80%
Total	**120**	**100.0**	**100%**

Source: Appendix 3 Research Findings at Tanzania Portland Cement Company Limited, March 2013

The study found that very few 3 (2.5%) of the respondents strongly disagreed with effectiveness of the board size both inside and outside directors to be among the impact corporate governance toward performance of Tanzania Portland Cement Company Limited (TPCC) while at the same time 17 (14.2%) of the respondents slightly disagreed. Similarly only 4(3.3%) of the respondents were neutral. On the other hand, 55(45.8%) of the respondents agreed effectiveness of the board size both inside and outside directors to be among the impact corporate governance has toward organization performance of Tanzania Portland Cement Company Limited (TPCC), while at the same time other 41 (34.2%) of the respondents strongly agreed. Cumulatively, 80% of the respondents agree that the board size comprising of inside and outside directors is effective, making corporate governance to have impact on the performance of TPCC.

Yet given that ≥ 90% decision criterion, the findings suggest that the board size has not yet worked to the expectations of the respondents.

Based on the above statistics therefore, it is recommended that the non-executive directors are expected to make control decision, as executive directors cannot critically review their own decisions. It was for this reason that non-executive directors are considered to be well placed to protect the interests of shareholders, and hence the argument for having more non-executive directors in the composition of the board relative to executive directors to improve the organization performance.

5.3.3 The Extent the Effect of Board of Directors' Leadership Structure on Effective Corporate Governance Practices at Tanzania Portland Cement Company Limited

This section presents study findings based on the specific objective (iii) on the effect of board of directors' leadership structure on effective corporate governance practices at Tanzania Portland Cement Company Limited. It presents information on the separation or non-separation of the two highest level positions in a company: those of the chairman of the board of directors and of the CEO. The argument for separating the two posts was based on agency theory and reflects the need to avoid concentrating power in the hands of a single individual to such an extent that the board fails to exercise control.

5.3.3.1 CEO Duality

The positions of board chairman and CEO separation was considered to be among the impact of corporate governance toward organization performance of Tanzania Portland Cement Company Limited (TPCC) The respondents were asked to indicate how they felt on the effectiveness of the positions of board chairman and CEO separation towards

organization performance in Tanzania. The respondents' views are presented in Table 5.10 below

Table 5.10: CEO Duality

The positions of board chairman and CEO are separated	Frequency	Percent	Cumulative Agree and Disagree
Strongly disagree	3	2.5	
Disagree	17	14.2	16.7%
Neither agree nor disagree	4	3.3	3.3%
Agree	55	45.8	
Strongly agree	41	34.2	80%
Total	**120**	**100.0**	**100%**

Source: Appendix 3 Research Findings at Tanzania Portland Cement Company Limited, March 2013

The study found that very few 3 (2.5%) of the respondents strongly disagreed with effectiveness of the positions of board chairman and CEO separation to be among the impact corporate governance has towards performance of Tanzania Portland Cement Company Limited (TPCC) while at the same time 17 (14.2%) of the respondents slightly disagreed effectiveness of separation of the positions of board chairman and CEO to be among the impact corporate governance has towards performance of Tanzania Portland Cement Company Limited (TPCC). Only 4(3.3%) of the respondents were neutral.

On the other hand, 55(45.8%) of the respondents agreed effectiveness of the separation of the positions of board chairman and CEO to be among the impact corporate

governance has towards performance of Tanzania Portland Cement Company Limited (TPCC), while at the same time other 41 (34.2%) of the respondents strongly agreed. Overall Cumulatively, 96 (80%) of respondents have agreed. Yet, the results are below ≥90% decision criterion.

Based on the above statistics therefore, it is recommended that the roles of CEO and board chairman should be distinct and separated to ensure the balance of power of the two designations as well as to avoid conflict of interest. It is also to avoid a single person in the board to dominate others in decision making process so as to promote fair judgment and reasonable concern. At the same time 35% of the statistics shows that the operating performance of TPCC Co Ltd may be improved as a result of less conflict between the CEO and chairman and/or other directors. According to DSE (2010) report shows that firms which have been identified as earnings manipulators were more likely to have a CEO who also serves as a board chair (CEO Duality). The CEO duality in fact has a positive effect on firm performance under certain industries.

5.3.4. Board Independence, Board Constitution/Composition And Board Leadership Structure Toward Profitability Analysis for Five Years (2007-2011) At TPCC

Table 5.11 below compare the performance of TPCC Ltd with Board independence, Board composition and Board leadership structure towards profitability performance for the years 2007 and 2011.

Table 5.11: Board Independence, Board Constitution/Composition and Board Leadership Structure Toward Profitability Analysis for Five Years (2007-2011) At TPCC

Variable		Return on Asset (ROA)	Z VALUE	Return on Equity (ROE)	Z VALUE
Board independence					
Board independence	2011	14%	-0.49	17.7%	-0.209
Board independence	2007	12%		22.1%	
Board composition					
More than 33% non-executive directors on the board relative to executive directors	2011	12.9%	-0.55	24.1%	-.1
Less than 33% non-executive directors on the board relative to executive directors	2007	11.6%		18.4%	
Board leadership structure					
Separation of the chairman of the board of directors and of the CEO	2011	4.5%	-1.22	9.2%	-1.3
Non-separation of the	2007	12.5%		21.7%	

chairman of the board of directors and of the CEO					

Source: Appendix 4; Research Findings at Tanzania Portland Cement Company Limited, April 2013

Table 5.11 above shows that in 2011, the existence of non-executive directors increasingly viewed as an adequate condition to ensure directors efficiently, make control decision and protect shareholder interests in term of ROA and ROE as the TPCC profitability records shows in 2007 to 2011. The research findings showed that in 2011, TPCC had higher ROA of 14% than 2007 as it was 12%.. However, in terms of ROE, Tanzania Portland cement company Ltd had a lower ROE (17.7%) than 2007 as it was (22.1%). The result shows that the existence of non-executive directors has effects on performance of TPCC in terms of ROE but not in terms of ROA. This is due to fact that at TPCC Non-executive directors have responsibilities in the following areas,; strategy, performance, risk and people management.

(i) Strategy

Non-executive directors at TPCC are responsible in constructively challenging and contributing to the development of strategy and its implementation management.

(ii) Performance

Non-executive directors are responsible in scrutinizing and managing the performance through monitoring towards management in meeting agreed goals and objectives; and where necessary removing senior management. Non- executive directors are also responsible in succession planning at TPCC.

(iii)Risk

Non-executive directors are responsible in satisfying themselves that financial information of TPCC is accurate and that financial controls and systems of risk management are robust, working and defensible.

(iv)People

Non-executive directors are responsible for determining appropriate levels of remuneration of executive directors and have a prime role in appointing and where necessary removing senior management, and in succession planning.

Furthermore, the findings (Table 5.11) the results for board leadership structure indicate that, when TPCC operated with Separation of the chairman of the board of directors and of the CEO for the year 2011. Tanzania Portland Cement Company Ltd had lower ROA (4.5%) and ROE (9.2%) than 2007 when it operated with non-separation of the chairman of the board of directors and of the CEO. The ROA and ROE were 12.5% and 21.7% respectively.

However, for board composition, when TPCC operated with More than 33% non-executive directors on the board relative to executive directors, findings indicates that it performed better with a ROA of 12.9% and ROE of 24.1% respectively, than with less than 33% non-executive directors on the board relative to executive directors with a ROA of 11.6% and ROE of 18.4% respectively. The results seem to support the Tanzania Corporate Code of Governance recommendation that require companies to have at least one third independent members on the board. In terms of the Z value scores, there is no significance among the variables and ROA/ROE value for the 2011 data. In order for there to be a significant correlation, Z values must be below -1.96 or

more than 1.96. So, based on the 2011 data, Board independence does not have a significant impact on the profitability performance in five years period from 2007 to 2011.

CHAPTER SIX

STUDY SUMMARY, CONCLUSION AND RECOMMENDATIONS

6.1 Introduction

This final chapter of the dissertation provides study summary, conclusions, recommendations and further areas of the study concerning the main issues raised in this study. The conclusion addresses the theoretical and practical implications of the results as well as the contribution of this study to theory and policies important to address the key issue of impact of corporate governance toward organization performance. The limitations of this study are also highlighted and finally areas for future research are recommended.

6.2 Summary

The general objective of this study was to investigate impact of corporate governance towards organization performance with the case study of Tanzania Portland Cement Company Limited. To achieve this, specific objectives were formulated including (i) to assess the effect of board of directors' independence on effectiveness of corporate governance practices, (ii) to assess the effect of board of directors' composition on effectiveness of corporate governance practices and (iii) to assess the effect of board of directors' leadership structure on effectiveness of corporate governance practices. The study was carried out at the Tanzania Portland Cement Company limited. The study found out that the non-executive directors influence to some extent executive directors duties; annual audited reports including half-yearly reports; shareholders to exercise their right to vote on directors' proposals; and the existence of non-executive directors influences all decisions made by voting at TPCC. These findings suggest that corporate governance has impact towards organization performance in public listed companies in

Tanzania. However, these findings are not assertive since they scored below the ≥90% decision criterion.

Other findings include more non-executive directors on the board relative to executive directors and Board size influences organization performance in public listed companies in Tanzania.

Lastly, the study found that the separation of the two highest level positions in a company: those of the chairman of the board of directors and of the CEO is the impact corporate governance toward organization performance in public listed companies in Tanzania.

6.3 Conclusion

Following from the findings above, it can be concluded that much as there are many players in corporate governance, the independent board activities play a major role leading to organization's performance. For instance boards can decide to self regulate themselves that in the absence of formal corporate governance regulations in the country, they can start implementing the best practices as discussed in this paper.

How can we promote good corporate governance? One important step is to consider in detail which roles can best be played by markets, by self-regulation, by governments and by regulators. As the research demonstrates that, there is no universal answer, the weight of these corporate governance factors will vary from company to company, but they all have a role to play. The second step is to train professionals and educate the general public on corporate governance practices. In many countries, governments and

regulators have great difficulty in competing with the private sector for scarce professionals. It is also difficult to find qualified board members except for Tanzania where politics dictate and override professionalism.

One of the difficulties in dealing with corporate governance principles is that it is quite easy in the abstract to analyse and discuss such principles. However, it is far more difficult to develop practical strategies to ensure that these principles are effectively embedded as part of a company's day to day operations.

6.4 Recommendations

6.4.1 Recommendations for Policy Improvement and Performance Management

In this context, within the public sector, government bodies should develop significant body of material which address corporate governance issues. Checklists and questionnaires would be useful to companies as they attempt to assess standards of corporate governance and implement them. Clearly, individual factors will be relevant in developing a final corporate governance evaluation framework for a particular corporation. However, it is clear that modern thinking on corporate governance issues highlights the following essential elements being (OECD, 2010).

- the establishment of clear lines of responsibility;
- the development of a Code of Ethical Behavior which is binding on management and staff and which is communicated to stakeholders;
- the establishment of sound risk management frameworks which can provide confidence to stakeholders; and
- the incorporation of monitoring and review mechanisms at the strategic, operational and project levels.

It is important for the independent non-executive board members to understand the objective of an organization, and to align incentives for managers with the preferences of stakeholders, particularly shareholders. Second, it is important to benefit from transparency: stakeholders must be able to observe the actions of managers, and must have access to the information that is necessary to form an opinion on them. Third, accountability is important: managers need to demonstrate that they have done their utmost to achieve the objective of the organization.

6.4.2 Recommendations for Further Studies

The study has investigated the impact of corporate governance on organization performance, leaving other variables contributing to the performance of organizations (figure 3.1). It is therefore recommended to other scholars/researchers to conduct studies on the following variables which this research was not able to cover due to limiting factors;

(i) Technology

(ii) Quality of Staff

(iii) Company Policy

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APPENDIX I

QUESTIONNAIRE

MZUMBE UNIVERSITY

A Question for Research on

IMPACT OF CORPORATE GOVERNANCE TOWARD ORGANIZATION PERFORMANCE: A case study of Tanzania Portland Cement Company Ltd

By

ALEX F. MAVIKA. (MU) Student

Respondents Information

Information	P1	P2	P3	P4	P5	P6	P7	P8	P9	P10	P11
Age											
Sex											
Marital status											
Years of schooling											
Main occupation											

KEY: Sex: 1. Female 2. Male

Marital status: 1.Married; 2. Widowed; 3. Divorced; 4. Never married

Main occupation: 1. SME, 2. Crop production, 3. Etc

Fill in the space/boxes/blank provided after each requirement!

I	**Company profile**	2011	2010	2009	2008	2007
(i)	Number of employee					
(ii)	Year of establishment					
(iii)	Total asset value/capital					
(iv)	Sales on previous year					
(v)	Operating profit on previous year					
(vi)	Dividend paid to shareholders					
(vii)	Board size [number of members]					
(viii)	Number of non-executive directors in the board					
(ix)	Separation of chairman and CEO positions (are they different individuals?) [YES/NO]					
(x)	Management shares in the company [% of ownership]					
(xi)	Total annual remuneration to management					

2	**Shareholders control at TWIGA**	**Strong Agree**	**Agree**	**Strong Disagree**	**Disagree**	**Neutral**
(i)	Directors fulfill their duty of reporting to the shareholders at the annual shareholder meeting					
(ii)	Annual audited reports are sent to all shareholders before the annual general meeting					
(iii)	Half-yearly reports are produced and made public					
(iv)	Invitations to the annual general meeting are sent to shareholders in time					
(v)	Shareholders attending the annual general meeting exercise their right to vote on directors' proposals					
(vi)	Large shareholders exercise considerable influence at the annual general meeting					
(vii)	All decisions at					

	annual general meetings made by voting					
(viii)	The influence of large shareholders on director selection/appointment results in their control of the enterprise					
(ix)	The controlling shareholders have access to key people in the Organization					
(x)	Shareholders have the power to challenge or change the decisions of management and/or director					

3	**Effectiveness of board of directors at TWIGA**	**Strong Agree**	**Agree**	**Strong Disagree**	**Disagree**	**Neutral**
(i)	Non-executive directors constitute the majority on the board of directors					
(ii)	Economic and social affiliations exist between directors and the company or					

	company top management or large shareholder					
(iii)	The positions of board chairman and CEO are separated					
(iv)	Directors have established an audit committee					
(v)	The majority of members of the audit committee are non-executive directors					
(vi)	The process of selecting/appointing directors is known to all shareholders					
(vii)	Explicit criteria for selecting directors exist					
(viii)	Directors have a clear and approved procedure for running meetings					
(ix)	Information (board papers) reach directors on time before the date of meetings					
(x)	The agenda for the board meeting is set by the CEO (CED)					

(xi)	The remuneration committee exists					
(xii)	The board appoints remuneration committees					
(xiii)	The remuneration committee is made up of majority non-executives					
(xiv)	The governance committee exists					
(xv)	The board appoints the governance committee					
(xvi)	The governance committee is made up of majority non-executives					
(xvii)	The directors nomination committees exists					
(xviii)	The board appoints the nomination committee					
(xix)	The nomination committee is made up of majority non-executives					

4	**Board**	**Strong**	**Agree**	**Strong**	**Disagree**	**Neutral**

	power/control	**Agree**		**Disagree**		
(i)	Directors make the decision to hire a CEO					
(ii)	Directors can discipline/fire the CEO					
(iii)	Directors discuss and approve the strategy of the company					
(iv)	Directors make decisions about the CEO's (CED's) remuneration					
(v)	Directors formally evaluate their activities, the CED and the individual directors					
(vi)	The CEO is also the chairman of the board					
(vii)	The board of directors approve all major investment decisions					
(viii)	The board of directors approve company budgets					
(ix)	The board and management are in					

APPENDIX 2: A CHECKLIST OF ITEMS FOR DISCUSSION WITH DSE OFFICER

MZUMBE UNIVERSITY

A Checklist of Items for Discussion with DSE OFFICER for Research on

Impact of Corporate Governance Toward Organization Performance; A Case of Tanzania Portland Cement Company Ltd

By

ALEX FRANCIS MAVIKA. (MU) Student

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1. Officer identification: 1. Name_____

2.Position_____

3.Organisation_____

4. Experience_____

(i) Views on the contribution Corporate Governance to companies Performance.

(ii) Explanation on how the DSE supports Public listed companies.

(iii) Problems faced by Public Listed companies in DSE.

(iv) Explanation on how the DSE helps Companies in solving their problems

(v) Opinions on how to improve Corporate Governance so as to ensure that they contribute more to the performance of Companies.

(vi) Any other vital information about Corporate Governance in Public Listed Companies?