THE QUALITY OF CORPORATE GOVERNANCE PRACTICES OF TANZANIA LISTED FIRMS

By

Emmanuel Matinde

A Dissertation Submitted in Partial/Fulfillment of the Requirements for Award of The Degree of Master of Science in Accounting and Finance (MSc. A&F) at Mzumbe University

2013

CERTIFICATION

We, the undersigned, certify that we have read and hereby recommend for acceptance by the Mzumbe University, a dissertation entitled **The Quality of Corporate Governance Practices of Tanzania Listed Firms in 2012,** in partial fulfilment of the requirements for award of the degree of Masters of Science in Accounting and Finance of Mzumbe University.

Signature

____

Major Supervisor

Signature

____

Internal Examiner

Accepted for the Board of

____

Signature

____

DEAN/DIRECTOR,

FACULTY/DIRECTORATE/SCHOOL/BOARD

DECLARATION

I, Matinde Emmanuel, declare that this dissertation entitled **The Quality of Corporate Governance Practices Of Tanzania Listed Firms In 2012** is my own original work and has not been accepted in substance for any degree, and is not concurrently being submitted for any degree other than that of Msc. in Accounting and Finance at Mzumbe University. I also declare that this work is the result of my own investigations except where otherwise identified by references.

Signature ________________________________

Date ____________________________________

COPYRIGHT

ACKNOWLEDGEMENT

Above all, I would like to thank the Almighty God for the gift of a healthy life bestowed to me, and the blessing of a loving family and many committed individuals who have supported me in all aspects of life in totality as they've all contributed a lot to the success of this study.

I'd like to thank my supervisor, Mr. Gabriel Komba who worked tirelessly to provide me with assistance, guidance, and suggestions that have carried me through the whole process of conducting the study to this end.

My studies at Mzumbe University would have been very difficult if it weren't for the sponsorship from my employer, SAUT. I'd like to thank Rev. Dr. Charles Kitima and the whole administration of SAUT for the financial support. Special thanks to my uncle Nesphory Subira for the support he has given me.

Last but not least, I'd like to acknowledge the efforts of my good friends and some colleagues, all of them have been a big encouragement to me Ansbert Kishamba, Yuda Thadeo, Nicholaus Masawe, Gwatako Tago, Nenkondo Mkomeny, Revocatus kayaga, Paul Mbedule and others unmentioned for all sorts of assistance and support they gave me throughout the course of doing my dissertation, may God bless you always.

LIST OF ABBREVIATIONS AND ACRONYMS

AGMs	Annual General Meetings
OECD	Organisation of Economic cooperation and Development
CGI	Corporate governance Index
CMSA	Tanzania Capital Markets and Securities Authority,
CA 2002	Companies Act 2002
DSE	Dar es Salaam Stock Exchange
LDMs	Licensed Dealing Members
OCGI	Overall corporate governance index
SOX	Sarbanes Oxley Act
UK	United Kingdom
CEO	Chief Executive Officer
ICGN	International Corporate Governance Network
IRRC	Investor Responsibility Research Centre
SAUT	St. Augustine University of Tanzania

ABSTRACT

This study assesses the quality of corporate governance practices of Tanzania listed companies; Based on the Revised OECD Principles of Corporate Governance [OECD, 2004. Principles of Corporate Governance, Organization of Economic Cooperation and Development.], CMSA guideline for corporate governance practices in Tanzania 2002, and the companies act 2002. It further continues to assess the quality of each OECD principle applied by the listed firms

The corporate governance index (CGI) was adopted to measure the overall quality of corporate governance and disclosure practices of the 17 Tanzanian listed firms. A case study design was employed and data collected from annual reports, disclosure reports, memorandum and articles of association, company websites, and stock exchange website were reviewed to obtain the relevant information.

It appears that, in 2012, the overall corporate governance index (OCGI) scores of all Tanzania listed companies range from 50.54 to 73.61, on a scale of 0 to 100, with an average of 61.86. Results showed that cross-listed Tanzanian companies perform better than domestic-listed companies in almost every category, unlike in China where Cheung, (2008) found that cross-listed Chinese companies only perform better than domestic-listed companies in two categories, namely the role of stakeholders and disclosure and transparency

As a conclusion there is still a room for improvement of governance practices, and the approach to corporate governance in the Tanzanian listed firms need to be formal, transparent, and legally enforceable. An important factor for the success of our private sector development is dependent on the quality of its management. Therefore corporate governance should be at the top of the agenda as a pro business policy and should be embraced by all stakeholders in the society

TABLE OF CONTENTS

LIST OF TABLES

CHAPTER ONE
INTRODUCTION AND PROBLEM SETTING

1.1 Introduction

This Chapter introduces the problem and gives a clear picture on what exactly the researcher is going to do. It covers the background of the problem including corporate governance in Tanzania, statement of the problem, research objectives, research questions, scope of the study, significance and the limitations of the study

1.2 Background of the Problem

Tanzania is one of the developing countries in African continent with a per capital income of $1600.72 (URT 2012). "The poor quality of local system of corporate governance lies at the heart of one of the greatest challenges facing most countries in developing world" (Bhasin, 2010). Despite the renewed interests in the study of corporate governance around the world and acknowledgement of its importance in corporations, the subject has not received much attention in Tanzania and has not been actively debated and that, "*Tanzania has suffered from lack of effective corporate governance practices*" (Melyoki, 2005).

For the past decade, considerable attention has been placed on examining the benefits of corporate governance to shareholders. Studies on corporate governance around the world have demonstrated that good corporate governance contributes to better investor protection (La Porta et al., 2000), lower costs of capital (Skaife et al., 2004), improved stock returns (Bauer and Guenster, 2003; Gompers et al., 2003), and increased company market value (Black, 2001; Brown and Caylor, 2004).

Also there are an increasing number of studies focusing on the relation between specific aspects of corporate governance and a firm's market valuation in both developed and emerging markets. There are studies on specific aspects of corporate governance such as board composition (Agrawal and Knoeber, 1996; Hermalin and Weisbach, 2003;Bhagat and Black, 2002), executive compensation (Abowd and Kaplan, 1999; Bebchuk, Fried, and Walker, 2002), and ownership concentration (Himmelberg, Hubbard, and Palia, 1999; Morck, Shleifer, and Vishny, 1988). Although much has been learned from these studies, the results are mostly inconclusive. One potential explanation is that these corporate governance attributes are working simultaneously. In some cases, they may substitute for each other, while in other cases they may be complementary.

Consequently, there are a growing number of studies in which the authors try to construct a governance index that examines the effect of overall corporate governance practices on firm value. The logic behind this approach is that as these factors do not work in isolation, it makes more sense to use a comprehensive measurement to measure corporate governance practices.

In their pioneering work, Gompers et al., (2003) construct a "Governance Index" (G-Index) to proxy for the level of shareholder rights found in approximately 1500 large U.S. firms during the 1990s. Recently, the G-Index has become a benchmark for measuring the corporate governance quality of U.S. companies (Cheung, 2008). Since the development of the G-Index, there are a number of studies that apply a similar logic by constructing comprehensive indexes to capture the quality of corporate governance; (Bebchuk et al., 2005; Durnev and Kim, 2005; Klapper and Love 2003; Black et al. 2006). Companies have long known that good governance generates investor goodwill and confidence, "Theoretical models predict that investors pay more because they recognize that, with better legal protection more of the firms profit would come back to them as interest or dividend instead of being expropriated by managers who controls the firm" (La Porta et al., 2002).

Although much has been learned from these studies, their focus is primarily on relatively established markets. There is little research on relatively new markets, such as Tanzania.

As many developing countries continues to gradually open its equity market to the international investment community, the corporate governance standard of their listed companies will become a more critical issue as international investors will expect the corporate governance standard of their companies to be compatible with international standards. Still a growing firm with large needs of outside financing has more incentives to adopt better governance structures.

1.2.1 Corporate Governance in Tanzania

Formation and registration of companies, including public companies in Tanzania is regulated by the Companies Act 2002. "Registration or incorporation of new companies is provided under part II of the Companies Act (CA) 2002, by the presentation to the Registrar of companies, a Memorandum and Articles of Association under section 14" (Melyoki, 2013).

Tanzania's CA of 2002 provides the framework for governance of corporations in Tanzania. Most of the laws applicable in Tanzania in the governing of companies are adopted from other nations, especially European countries. This is vivid by the statement "The notion of a 'company' or a 'corporation' and its governance as developed in Western Europe were introduced into Africa and parts of the world through colonialism" (Ahunwan, 2002; Grant, 2003).

Tanzania is a former British colony which gained independence in 1961. The UK company law of 1929 was introduced into the country (Then known as Tanganyika) in 1932. This law laid down the framework for the Anglo-Saxon model of corporate governance for Tanzania. Therefore corporate governance existed long before the independence of Tanganyika (recently Tanzania); "For the last two decades, corporate governance practices in Tanzania have been debated in the context of state ownership of corporations where corruption (embezzlement, nepotism), managerial incompetence, political interference and government subsidisation of failing enterprises have been the defining features" (Bagachwa, 1992; Kihiyo, 2002)

The law was repealed in 2002, but many aspects of the old law remain, including the way a company is conceptualized, reflecting the original ideas of nineteenth-century Great Britain. The model recognizes shareholder as the key constituency in corporations. For example, S. 3 (1) of the CA (2002) states: "any two or more persons, associated for any lawful purpose may, by subscribing their names to a memorandum of association and otherwise complying with the requirements of this Act in respect of registration, form an incorporated company, with or without limited liability".

The CA 2002 does not state the number of boards of directors that companies may form, but the practice on the ground is to form a one tier board. The responsibilities of directors are defined in Chapter VII of the CA 2002. It requires that the accountability of the company be exercised towards shareholders. This accountability is achieved through the presentation of annual financial (and other) reports at shareholders' meetings to enable the shareholders to gauge performance and make decisions as necessary. In addition, in 2002, the Capital Markets and Securities Authority (CMSA) and the Steering Committee on Corporate Governance in Tanzania introduced separate but related sets of principles for effective corporate governance which companies are being encouraged to adopt and implement.

Legal and institutional framework for listed companies as pointed out before therefore, involves the company registry for the incorporation of companies in Tanzania (including public companies that might later be listed), the Capital Markets Regulatory Authority (involved in case the intended company to be registered as an open ended investments company) and other regulations applicable to specific industry (line of business). That is, for a company registered at the company registry to qualify as a listed company it has to be a public company as defined under the Tanzania Capital Markets and Securities Act.

1.2.2 Dar es Salaam Stock Exchange (DSE)

The Dar es Salaam stock exchange (DSE) is a stock market located in Dar es Salaam, Tanzania. It was incorporated in September 1996 as a company limited by guarantee without a share capital and became operational in April, 1998. The DSE is a non-profit making body created to facilitate the Government implementation of the reforms and in the future to encourage wider share ownership of privatized and all the companies in Tanzania. The DSE membership consists of Licensed Dealing Members (LDMs) and Associate Members. LDMs are allowed access to the trading floor. Associate members are institutions and companies which support the DSE. It is a member of the African Stock Exchanges Association and the activities of the exchange are monitored and supervised by the Capital Markets and Securities Authority (CMSA). It operates in close association with the Nairobi Securities Exchange in Kenya and the Uganda Securities Exchange in Uganda. Plans are underway to integrate the three to form a single East African bourse. As of February 2013 there are seventeen listed companies. Table one (1) summarizes the current market listings

Table 1: DSE Listed Firms

Symbol	Company	Notes
01.**TOL**	Tol Gases Limited	Production of Oxygen, Industrial Gases, Welding Equipment
02.**TBL**	Tanzania Breweries Limited	Beer Brewing, Beer Marketing, Beer Distribution
03.**TATEPA**	Tanzania Tea Packers Limited	Tea Packaging and Distribution, Coffee Packaging and Distribution
04.**TCC**	Tanzania Cigarette Company Limited	Cigarettes, Tobacco Products
05.**SIMBA**	Tanga Cement Company Limited	Cement
06.**SWISSPORT**	Swissport Tanzania Limited	Aviation, Ground Handling, Cargo Handling
07.**TWIGA**	Tanzania Portland Cement Company Limited	Cement
08.**DCB**	Dar es Salaam Community Bank	Banking, Finance
09.**NMB**	National Microfinance Bank	Banking, Finance
10.**KA**	Kenya Airways	Aviation
11.**EABL**	East African Breweries Limited	Beer, Gin, Spirits
12.**JHL**	Jubilee Holdings Limited	Insurance
13. **KCB**	KCB Group	Banking, Finance
14.**CRDB**	CRDB Bank	Banking, Finance
15.**NMG**	Nation Media Group	Publishing, Printing, Television, Broadcasting
16.**ABG**	African Barrick Gold	Mining
17.**PAL**	Precision Air Services Limited	Aviation Services

Source: DSE 2012

To be qualified for listing as members, the said companies had to comply with the basic listing rules made by the Dar es Salaam Stock Exchange. The basic functions of the Dar es Salaam Stock Exchange fits well within the scope of corporate governance in that it provide a market for listed securities by creating conducive environment enabling companies wishing to join to do so and those wishing to leave as well. The DSE further facilitates price transparency as the price mechanism ensures buyers and sellers can trade at prices determined by the market. It further facilitates transparency through disclosure requirements on all price sensitive information so that investors make informed decisions. Disclosure is at two levels, first at the initial offering stage when companies have to fulfill elaborate listing requirements relating to offer documents and secondly, through continuous listing obligations, thus DSE also acts as an information hub. It further facilitates the pulling together of capital for enterprises by enabling companies to sell new shares/bonds at better prices which lowers the costs of capital and improves their chances of increasing operating profits.

1.3 Statement of the Problem

Corporate governance has for the last two decades, received much attention due to the high-profile collapses of a number of large firms in the developed countries such as Adelphia, Enron, WorldCom, and others, serving as the driving force to such recent U.S. regulations as the Sarbanes-Oxley Act (2002), which was considered to be the most sweeping corporate governance regulation in the past 70 years (Byrnes et al., 2003). The collapse of most of these corporations is associated with poor governance by regulators and governance advocates (Abdel-Khalik, 2002). If their assertion is correct then there must be an existence of a market premium for well governed firms.

In Tanzania there have been attempts to address the challenge of corporate governance. In 2002, the Capital Markets and Securities Authority (CMSA) and the Steering Committee on Corporate Governance in Tanzania introduced separate but related sets of principles for effective corporate governance which companies are being encouraged to adopt and implement.

And as part of the efforts to address the issue; several studies on corporate governance have been conducted in Tanzania, for example to understand the determinants of effective corporate governance in the country (Melyoki, 2005), The role of ECSAFA in promoting corporate governance in member countries (Gathinji, 2002), corporate governance and corruption (Kihiyo, 2002), and Corporate governance practices in Tanzania (Kiure, 2002). To the researcher’s best knowledge no research has been conducted to which the authors try to construct a governance index that examines the quality of corporate governance practices in Tanzania. Kiure (2002) examined the effect of overall corporate governance practices in Tanzania and found that corporate governance practices do influence investment decisions. However, her research did not cover the quality of those practices in a Tanzanian context. This research is focused on the quality of corporate governance practices in Tanzania's listed companies.

Therefore, for this study corporate governance index (CGI) is to be used to measure the overall quality of corporate governance and disclosure practices of the 17 Tanzanian listed firms.

1.4 Research Objectives

The main objective of this research was to assess the quality of corporate governance practices of the companies listed at DSE. Most specifically the study intended to apply the OECD principles to assess the quality of corporate governance practices in DSE listed firms

1.5 Research Question(s)

Considering the main objective being to assess the quality of corporate governance practices in Tanzania's listed companies in Dar es Salaam stock exchange, and the specific objectives; research questions were set as follows:

i. What is the quality of corporate governance practices in DSE listed firms?
ii. What is the quality of the board of directors in DSE listed firms?
iii. What is the quality on accountability and disclosure practices in DSE listed firms?
iv. What is the quality of rights of shareholders?
v. What is the quality on the equitable treatment of shareholders?
vi. What is the quality on the role of stakeholders in corporate governance?

1.6 Scope

This research will cover seventeen firms listed at Dar es Salaam stock exchange for the year ended December 2012. The data involved are from the period of the financial year ending 2012.

1.7 Significance of the Study

The findings from this research most importantly contribute toward the knowledge currently available on corporate governance.

i. The study provides the corporate governance ratings in Tanzania listed firms. The ratings in Tanzania is between 50.54 to 73.61 on a scale of 0 to 100 with an average of 61.86 this helps investors, government, institutions and researchers in their investment decisions and for research purposes. It measures the quality of corporate governance practices in DSE firms and provides a quantitative measure.
ii. Companies can understand their rating on corporate governance, and will have the authority and more reasons to improve their governance practices
iii. For the researcher, it will be one of the major requirements that are expected of him before being awarded the masters degree
iv. The findings might also be helpful for the government policy makers in the way firms' should be governed and in attracting more investment to private and government sectors
v. The research may also lay the foundation for further researches to be conducted on the issues concerning corporate governance in future.

1.8 Limitations of the Study

This research required a great deal of relevant information in order to come up with a valid conclusion on the subject. However, the following were considered as potential setbacks towards attainment of that goal.

i. Lack of sufficient time for data collection and data analysis.

ii. Financial setbacks. For the researcher to gain access to the required information, funds must be sufficient and available in time. However a well designed budget was planned to ensure that no part of the available funds will be put into an unnecessary use and the study was completed.

iii. Unwillingness to provide information, this is due to fear of being implicated on some of the issues or simply the lack of transparency policy of some of the institutions. This problem was addressed through ensuring confidentiality of the information given to the researcher and that data collected is only going to be used for study purposes and not otherwise, and to some extent the researcher was successful.

iv. The major limitation of this study however, is that there was no previous study or a set of corporate governance ratings around east Africa to compare with or against which companies were to be compared.

CHAPTER TWO
LITERATURE REVIEW

2.1 Introduction

This chapter is about what other researchers and scholars have said about the problem under study and what are the theories governing the study. In this chapter definition of the concept of corporate governance, discussions on corporate governance theories, codes of corporate governance and the conceptual framework are the relevant parts.

2.2 Definition of Corporate Governance

Corporate governance has no single definition (Tricker 2009); it can be defined as "A matter which is concerned with holding the balance between economic and social goals and between individual and communal goals" (Cadbury, 2002). It stipulates that the governance framework is there to encourage the efficient use of resources and equally to require accountability for the stewardship of those resources. The aim is to align as nearly as possible the interests of individuals, corporations and society. It involves a set of relationships between a company's management, its board, its shareholders and other stakeholders; it deals with prevention or mitigation of the conflict of interests of stakeholders (Georgen 2012).

OECD (2001) defined corporate governance as private and public institutions, including laws, regulations and public institutions, which together govern the relationship, in a market economy, between corporate managers and entrepreneurs (corporate insiders) on one hand, and those who invest resources in corporations, on the other

The Capital Markets and Securities Act of Tanzania (1994) defines corporate governance as the process and structure used to direct and manage business affairs of the company towards enhancing prosperity and corporate accounting with the ultimate objective of realizing shareholders long-term value while taking into account the interest of other stakeholders.

Definitions vary according to different authors as seen in th above paragraphs "The variations between the definitions reflect the different perspective taken by the authors, there are others with a relatively sharp focus, but corporate governance is better if defined involving all the elements that can affect the exercise of power over corporation; thus corporate governance is about the way corporate entities are governed and is about the exercise of power over corporate entities" (Tricker, 2009; Clarke, 2004)

2.3 Perspectives of Corporate Governance

Corporate governance can be addressed from two broad perspectives: the liberalist and the communitarian perspective (Bradley et al, 1999; Clarke and Clegg, 1998). The liberalists' perspective views corporations as only accountable to shareholders. In this perspective, the corporation legitimate goal is to serve the interests of those who own it i.e. shareholders. The legitimate claims of other stakeholders are satisfied by meeting the contractual obligations that are between the managers and shareholders.

Within the communitarian perspective, corporations are required to become accountable to other stakeholders than to shareholders alone. In this respect shareholders become one stakeholders group among a number of stakeholders. The results of these differing views are different goals for corporations, for which managers are held accountable (Bradley et al., 1999).

2.3.1 Rule Based vs. Principle Based Corporate Governance

Many commentators on corporate governance used to contrast what they called Anglo-American (or Anglo-Saxon) approach to corporate governance with the continental European approach. In effect they distinguished case-law based company law in the US and the UK, from the rule based European law. However, when the US responded to the

Enron scandal with stringent new corporate governance law (the SOX Act), it became apparent that the American and the British corporate governance no longer shared similar foundations indeed, it is now apparent that they are based on fundamentally different philosophies. One is built on the perspective of rule based legal approach to governance, the other on a non-prescriptive, principle based, more self-regulatory approach.

In the United States and China, which have adopted a similar approach, corporate governance regulation is essentially through the law. Companies, boards, and directors are expected to obey the law and follow the regulations of regulatory authorities and stock exchanges, or face penalties including in some case unlimited fines and jail.

By contrast in the United Kingdom and Hong Kong, indeed in all those commonwealth countries whose company law has been influenced over the years by UK law, including Australia, Canada, India, Singapore, South Africa, Tanzania and other smaller nations, corporate governance regulation is based on compliance with codes of principles and good practice. Companies, boards and directors are expected to follow the relevant code or explain the corporate circumstances which have led the board to choose not to conform.

2.4 Theories of Corporate Governance

Corporate governance is the system by which corporations are directed and controlled. The governance structure specifies the distribution of rights and responsibilities among different participants in the corporation (such as the board of directors, managers, shareholders, creditors, auditors, regulators, and other stakeholders) and specifies the rules and procedures for making decisions in corporate affairs. Governance also provides the structure through which corporations set and pursue their objectives, while reflecting the context of the social, regulatory and market environment.

Theories describe the field's approach to a subject matter; they are the philosophical foundation of the subject. Corporate governance can be seen from various theoretical perspectives. Thus there are different theories underlying corporate governance; the major ones being the agency theory, stewardship theory, stakeholder theory, resource dependency theory and political theory (Abdallah and Valentine, 2009; Wan Fauziah et al., 2012). The emergence of these theories addresses the cause and effect of variables, such as the configuration of board members, audit committee, independent directors and the role of top management. (Abdallah and Valentine, 2009)

2.4.1 The Agency Theory

This is a theory explaining the relationship between principals, such as a shareholders, and agents, such as a company's executives. In this relationship the principal delegates or hires an agent to perform work. The theory attempts to deal with two specific problems: first, ensure that the goals of the principal and agent are not in conflict (agency problem); and second, that the principal and agent reconcile different tolerances for risk. Among various theories discussed, the agency theory perspective is the most popular and has received a great deal and numerous attention from academics (Jensen and Meckling, 1976; Fama and Jensen, 1983) as well as practitioners. It provided the basis for governance standards, codes and principles developed by many institutions (Calpers, 1999; OECD, 1999, 2004; ICGN, 1999, 2005). Boards are appointed by the shareholders to monitor and control managerial decision making to protect the shareholders' interest. In particular, this monitoring role was expected to be effectively performed through independent non-executive directors and that the positions of Chairman and CEO should be held by different persons (Cadbury, 1992; OECD, 1999; ICGN, 1999, Combined Code, 2006).

2.4.2. Transaction Cost Economics (TCE)

Closely related to agency theory is transaction cost economics (Coarse, 1937). Coarse recognized that a firm could save costs by undertaking activities within the organization rather than externally. In other words the firm would get goods and services at lower price than in the market place. Transaction costs consist of costs incurred in searching for the best supplier/partner/customer. It therefore emphasizes on the cost of enforcement or checks and balance mechanisms, such as internal and external audit controls, information disclosure, independent outside directors, the separation of board chairmanship from CEO, risk analysis, and audit, nomination, and remuneration committees. The argument is then advanced that such enforcement costs should be incurred to the point at which the increase in costs equals the reduction of the potential loss from non-compliance (Tricker, 2009).

Both transaction economics and agency theories are concerned with managerial discretion and both assume that managers are given opportunism (self-interest seeking) and moral hazard, and managers operate under bound rationality (Stiles and Taylor, 2001). In other words, directors and top management act in their own best interest, not necessarily in those of the shareholders. But transaction cost analysis focuses on governance structures and mechanisms, whereas agency theory sees the firm as a set of contracts.

2.4.3. Stewardship Theory

Stewardship theory looks at governance through a different lens from agency theory, reflecting the original legal view of the corporation. Unlike agency theory, stewardship theory assumes that managers are stewards whose behaviors are aligned with the objectives of their principals. The theory argues and looks at a different form of motivation for managers drawn from organizational theory. Managers are viewed as loyal to the company and interested in achieving high performance. The dominant motive, which directs managers to accomplish their job, is their desire to perform excellently. Specifically, managers are conceived as being motivated by a need to achieve, to gain intrinsic satisfaction through successfully performing inherently challenging work, to exercise responsibility and authority, and thereby to gain recognition from peers and bosses. Therefore, there are non-financial motivators for managers.

Stewardship theory reflects the classical ideas of corporate governance. Directors' legal duty is to their shareholders not to themselves, or to other interest group. Contrary to agency theory, stewardship theory believes that directors do not always act in a way that maximizes their own personal interest: they can and do act responsibly with independence and integrity. Stewardship theorists argue that, clearly, this is what most directors actually do. Of course, some fail, but this does not invalidate the basic concept (Tricker, 2009).

The theory also argues that an organization requires a structure that allows harmonization to be achieved most efficiently between managers and owners. In the context of firm's leadership, this situation is attained more readily if the CEO is also the chairman of the board. This leadership structure will assist them to attain superior performance to the extent that the CEO exercises complete authority over the corporation and that their role is unambiguous and unchallenged. In this situation, power and authority are concentrated in a single person

2.4.4. Stakeholder Theory

Stakeholder theory is a theory of organizational management and business ethics that addresses morals and values in managing an organization. It was originally detailed by Edward Freeman in 2010, who identifies and models the groups which are stakeholders of a corporation, and both describes and recommends methods by which management can give due regard to the interests of those groups (Freeman, 2010). In short, it attempts play to address the Principle of Who or What Really Counts.

It is concerned with values and beliefs about the appropriate relationships between the individual, the enterprise, and the state. It involves a discourse on the balance of responsibility, accountability, and power throughout society. It is not a predictive theory that can be researched. Consequently, this societal view of corporate governance is probably better thought of as a philosophy rather than a theory (Tricker, 2009)

In the traditional view of the firm, the shareholder view, the shareholders or stockholders are the owners of the company, and the firm has a binding fiduciary duty to put their needs first, to increase value for them. However, stakeholder theory argues that there are other parties involved, including governmental bodies, political groups, trade associations, trade unions, communities, financiers, suppliers, employees and customers: sometimes even competitors are counted as stakeholders - their status being derived from their capacity to affect the firm and its other morally legitimate stakeholders. The nature of what is a stakeholder is highly contested with hundreds of definitions existing in the academic literature (Miles, 2012)

2.4.5. Resource Dependency Theory (RDT)

Resource dependency theory takes a strategic view of corporate governance. It sees the governing body of a corporate entity as the lynch pin between a company and the resources it needs to achieve its objective (Tricker, 2009). These resources could include, for example, links to relevant markets including potential customers and competitors, access to capital and other sources of finance, provisional of know-how and technology, and relationships with business, political, and other societal networks and elites. Resource dependency theory proposes that actors lacking in essential resources will seek to establish relationships with (i.e., be dependent upon) others in order to obtain needed resources (Tricker, 2009)

2.4.6. Managerial and Class Hegemony

This perspective on the governance of companies focuses on the view that directors have on themselves and its impact on their behavior and corporate governance implications. Directors in some companies perceive themselves as an elite group. This self-perception encourages them to behave in an elite way, dominating both the company organization and its external linkages (Tricker, 2009). Top management appointments ensure that newcomers fit into that elite and sustain its image. Similarly new independent directors are likely to be nominated and appointed only if they sustain the dominance of the ruling group. Class hegemony recognizes that directors' self image can affect board behavior and performance. Further executive directors with their own self-image bolstered by access to information, knowledge of ongoing operations, and decision making power, may dominate board decisions (Tricker, 2009). These theories can be clearly elaborated through table number ten (10)

2.5 Corporate Governance Codes and Principles

With a focus on publicly traded companies, Principles of Corporate Governance provide specific guidance for policymakers, regulators and market participants in improving the legal, institutional and regulatory framework that underpins corporate governance. "They also provide practical suggestions for stock exchanges, investors, corporations and other parties that have a role in the process of developing good corporate governance" (OECD, 2004). Corporations are supposed to adhere to the principles set by the relevant authorities in their areas, and if not specify the reasons for non compliance.

The first report on corporate governance was on the financial aspects of corporate governance in UK, produced by a committee chaired by Sir Adrian Cadbury (1992) set up in response to various company collapses. The report proposals and its code of best practice emphasized the importance of independent non-executive directors, with independence defined as independent of management and free from any business or other relationship which could materially interfere with the exercise of independent judgement, apart from their fees and share holdings; the audit committee was also advocated.

In 1999 the OECD Principles were originally issued, and since then they have become the international benchmark for corporate governance, forming the basis for a number of reform initiatives, both by governments and the private sector; The Cadbury Report became significant, influencing thinking around the world. The Principles were revised in 2003 and they cover six key areas of corporate governance;- ensuring the basis for an effective corporate governance framework; the rights of shareholders; the equitable treatment of shareholders; the role of stakeholders in corporate governance; disclosure and transparency; and the responsibilities of the board (OECD, 2004).

Subsequently seven more reports on aspects of corporate governance have been produced in Britain, together with the combined corporate governance code. Other countries followed with their own reports on corporate governance. These included the Vienot Report (1995) from France, the King Report (1995) from South Africa, the Toronto Stock Exchange recommendations on Canada Board Practices (1992).

In 2002, the Capital Markets and Securities Authority and the Steering Committee on Corporate Governance in Tanzania introduced separate but related sets of principles for effective corporate governance which companies are being encouraged to adopt and implement. They covered four major parts; - Directors including board and board committees, remuneration; Role of chairman and chief executive; Shareholders; Accountability and audit. (CMSA, 2002)

This study discusses corporate governance principles and codes based on the revised OECD Principles for they are widely recognized Principles of Corporate Governance. The use of an international standard as a benchmark enables Tanzania listed companies to benchmark themselves against firms in other markets so that they can participate more successfully in international capital markets. Specifically, we will employ the OECD principles of corporate governance to measure the quality of corporate governance practices:

2.5.1 OECD Principles of Corporate Governance

The OECD Principles were originally issued in 1999 and have since become the international benchmark for corporate governance, forming the basis for a number of reform initiatives, both by governments and the private sector. The Principles were revised in 2003 to take into account developments since 1999, through a process of extensive and open consultations, and drawing on the work of the Regional Corporate Governance Roundtables for non-OECD countries. The new Principles were agreed by OECD governments in April 2004. The Principles cover six key areas of corporate governance – ensuring the basis for an effective corporate governance framework; the rights of shareholders; the equitable treatment of shareholders; the role of stakeholders in corporate governance; disclosure and transparency; and the responsibilities of the board; Each of these are explained below.

Principle i: Ensuring the basis for an effective corporate governance framework

The corporate governance framework should promote transparent and efficient markets, be consistent with the rule of law and clearly articulate the division of responsibilities among different supervisory, regulatory and enforcement authorities (OECD, 2004). This principle was treated separately in the revised set of principles, and requires countries to promote transparent and efficient markets, the rule of law and clearly articulate the division of responsibilities among different supervisory, regulatory and enforcement authorities. The principle requires a corporate governance framework to be developed with a view of its impact on the overall market participants and the promotion of transparent and efficient markets. The principle largely appears to encourage accountability among those institutions that have a bearing on corporate governance. A clear division of responsibilities among authorities is needed to ensure that the public interest is served. The issue of resources and the integrity of supervisory, regulatory and enforcement authorities are also pronounced in this principle.

Principle ii: The rights of shareholders and key ownership functions

The corporate governance framework should protect and facilitate the exercise of shareholders' rights, including their rights to information on timely basis and their participation in companies decisions (OECD, 2004). The principle recognize the property right of shareholders and attempt to reveal them: the rights to secure methods of ownership, convey or transfer shares, obtain relevant information on the corporation on a timely and regular basis, participate and vote at general meetings, elect members of the board and share in the profits of the corporation. Embedded in the rights of shareholders is the concept of ownership of the corporation by its shareholders. The ownership rights give rise to a number of other rights. In general this principle is aligned with the liberalist perspective of corporate governance in which shareholders are sovereign and are entitled to exercise ultimate control over corporations.

Principle iii: The equitable treatment of shareholders

The corporate governance framework should ensure the equitable treatment of all shareholders, including minority and foreign shareholders (OECD, 2004). In this respect, the principle calls for the enactment and enforcement of laws that provide adequate protection of shareholder rights. Investor protection flows from the first principle. Rights can only be meaningful if they are protected. This principle appears to reflect the possibility of conflicts of interest between minority shareholders and company insiders- management, directors and possibly large shareholders who may collaborate to appropriate private benefits of control (Denise and McConnell, 2003). Consequently, a governance framework should provide effective protection of these vulnerable interests.

Principle iv: The role of stakeholders in corporate governance

The corporate governance framework should recognize the rights of stakeholders established by law or through mutual agreements and encourage active co-operation between corporations and stakeholders in creating wealth, jobs, and the sustainability of financially sound enterprises (OECD, 2004). The principles recognise that not only shareholders are important for the survival of a corporation, other stakeholders play an important role as well. It is also noted that stakeholders should obtain redress when their rights are violated. Also, the corporate governance framework should evolve mechanisms that enhance stakeholder participation. For example, employees' interests should be protected and they should have the right to access information.

Principle v: Disclosure and transparency

The corporate governance framework should ensure that timely and accurate disclosure is made on all material matters regarding the corporation, including the financial situation, performance, ownership, and governance of the company (OECD, 2004). This principle addresses the problem of the information asymmetry which exists between insiders in the company (management and directors) and shareholders of the company and other stakeholders. The principle is meant to encourage corporate insiders to disclose material information that is useful in evaluating their performance as well as in making other decisions that determine the future of the enterprise.

Principle vi: The responsibilities of the board

The corporate governance framework should ensure the strategic guidance of the company, the effective monitoring of management by the board, and the board's accountability to the company and the shareholders (OECD, 2004). Under this principle the board is required to play a significant role in directing the company and a checklist of what a board requires to accomplish the tasks expected of it is provided: accurate, relevant and timely information. Directors are also called upon to act with due diligence while exercising impartiality with respect to classes of shareholders and stakeholders (i.e. act with fairness towards all stakeholders).

2.6 The Need for Corporate Governance

The need for corporate governance became suddenly clear in 2002 as a series of corporate failure, frauds and other tragedies which led to the destruction of billions of dollars of shareholders' wealth, the loss of thousands of jobs, criminal investigations of dozens of executives and record-breaking bankruptcy filings in the world; examples include Enron and Royal Ahold scandals. It appeared that every one of the mechanisms set up to provide checks and balances failed at the same time. "Even auditors failed to give early warnings on the bankrupt companies; all at a sudden everyone was interested in corporate governance" (Malubi 2011). In the US, the Sarbanes-Oxley Act was quickly passed by the Congress.

These high profile collapses in US and Europe have had and continue to have international implications, and could seem to illustrate a number of short-comings in a way that the companies were run and managed.

First Enron appeared to highlight a basic need to ensure as far as possible that the directors are people of integrity and act honestly; that external auditors are able to ask searching questions unfettered by the need to consider the potential loss of large audit/accounting fees; and contribution that could be made by independent directors on board and committee who question intelligently and insightfully.

Then Royal Ahold appears to highlight what may occur if the involvement of investors is suppressed: a corporate structure that had empowered a dominant CEO; enable the directors to have over-generous remuneration packages and ultimately led to Ahold's demise, as income was found to be overstated.

2.7 Empirical Literature Review

As the need for corporate governance increases for the past decade; different studies has been conducted on the subject. Considerable attention has been placed on examining the benefits of corporate governance to shareholders, the impact of corporate governance system in economic efficiency, corporate governance and firm's performance (Shleifer and Vishny, 1997; John and Senbet, 1998; Hermalin and Weisbach, 2003), corporate governance models around the world (Themistokles and Evaggelos, 2009), Principles of corporate governance (Mertzanis, 2001) in both developed and emerging markets.

There are studies on specific aspects of corporate governance such as board composition (Agrawal and Knoeber, 1996; Hermalin and Weisbach, 2003; Bhagat and Black, 2002), executive compensation (Abowd and Kaplan, 1999; Bebchuk, Fried, and Walker, 2002), and ownership concentration (Himmelberg et al., 1999; Morck, Shleifer, and Vishny, 1988).

Although much has been learned from these studies, the results are mostly inconclusive. One potential explanation is that these corporate governance attributes are working simultaneously. In some cases, they may a substitute of one another, while in other cases they may be complementary. Consequently, there are a growing number of studies in which the authors try to construct a governance index that examines the effect of overall corporate governance practices on firm value. The logic behind this approach is that as these factors do not work in isolation, it makes more sense to use a comprehensive measurement to measure corporate governance practices.

In their pioneering work, Gompers et al., (2003) constructed a "Governance Index" (G-Index) to proxy for the level of shareholder rights found in approximately 1500 large U.S. firms during the 1990s. Their results suggest that firms with stronger shareholder rights have higher firm value, higher profits, higher sales growth, lower capital expenditures, and make fewer corporate acquisitions. Bebchuk et al., (2005) constructed an entrenchment index based on six provisions, which are selected from a total of 24 governance provisions developed by the Investor Responsibility Research Centre (IRRC). They found a negative relation between the index scores and firm valuation, as measured by Tobin's Q for U.S. firms from 1990–2003. For Russian firms, Black (2001) constructed a corporate governance risk measure and found a positive relation between corporate governance behaviour and market valuation among a small sample of 21 Russian firms. Cheung et al., (2007) show that in Hong Kong, a company's market valuation is positively related to its corporate governance practice. Cheung (2008) conducted a similar study in China constructing a comprehensive corporate governance index to measure the quality of corporate governance mechanisms in China's stock markets.

In this study the same approach is adopted to measure the quality of corporate governance practices in Tanzania listed firms. Corporate governance index (CGI) is to be used to measure the overall quality of corporate governance and disclosure practices of the 17 Tanzanian listed firms.

2.8 Corporate Governance Indices

The current focus on corporate governance has led many to seek more information on the quality of governance practices at specific companies. It is becoming more common for investors to consider governance issues when making investment decisions. In response to this interest, several organizations are offering corporate governance ratings which evaluate governance practices of public companies commonly known as corporate governance index/indices.

Corporate governance index uses the indicators of corporate governance to measure the quality of corporate governance in firms. In recent years, financial economists and commercial providers of governance services have created measures of corporate governance quality that breaks down into one number (a governance rating or index) the multiple dimensions of a company's governance. Corporate Governance indices have been developed by many companies and researchers. However, the majority of these are relevant only to developed economies. This is a flaw that is quickly being corrected since developing economies also need to have proper Corporate Governance measures. Of the notable Corporate Governance indices that have been formulated are the following: the Corporate Governance index developed by Khanna et al., (2001), Klapper and Love, (2002), the Gompers, Ishii and Metrick index(2003), the index developed by Black, Jang and Kim, (2003a and 2003b), the FTSE-ISS Corporate Governance index (2005), the Ananchotikul (2008).

Of these, only the index developed by Ananchotikul, (2008) was specifically formulated for developing countries. According to Ananchotikul, (2008) the major aspects of Corporate Governance are: board structure, board responsibility, conflict of interest, shareholder rights, disclosure and transparency. She constructs a firm Corporate Governance index for firms in Thailand which uses only information available from public sources such as company disclosure reports, annual reports, company websites, and stock exchange of Thailand databases. Up to 87 criteria are analyzed. The values for Ananchotikul's, (2008) index range from 0 to 100, with 100 being the perfect Corporate Governance score and 0, the worst. The interesting part about this index is the fact that it uses only publicly available information. The author argues that when using survey questions from management, firms may report inaccurate information – what they consider to be the correct answer instead of what is actually taking place in the firm, and some firms may not respond at all. This poor response rate is a problem that is especially true in developing countries (Ananchotikul, 2008).

Almost all the Corporate Governance Indices have some common themes:

Shareholder Rights is important in all cases and almost all the authors (Khanna et al., 2001; Black et al., 2003; Ananchotikul, 2008; Gompers et al., 2003) have a sub index devoted to Shareholder Rights.

The board of directors of a firm: This is shown in two ways – the emphasis on responsibilities of the board of directors (Ananchotikul, 2008; Black et al., 2003; Cornelius, 2005; Khanna et al., 2001; Klapper and Love, 2002) and the emphasis on the structure of the board (Ananchotikul, 2008; Black et al., 2003; Cornelius, 2005; Khanna et al., 2001).

Transparency is another aspect which is important to a good Corporate Governance system since transparency inspires shareholder confidence in the firm (Ananchotikul, 2008; Black et al., 2003; Khanna et al., 2001; Klapper and Love, 2002).

Another major element of Corporate Governance is that of the audit committee's performance. After the crash of the Arthur Andersen accounting firm, the audit process has been under strict scrutiny. The index constructed by Black et al (2003) includes a sub index on the audit committee and the FTSE ISS Index also includes a sub index on the audit committee (Cornelius, 2005) while Klapper and Love, (2002) have a component titled 'accountability'.

The literatures points to these aspects of governance as the most important to the proper functioning of a firm and they are covered by the OECD principles which are the major reference in formulating our index. Therefore the same components are also used in the construction of the Corporate Governance Index for Tanzania listed firms.

An important contribution of this study is to construct a quantitative measures of corporate governance—a Corporate Governance Index (CGI) for seventeen (17)

Tanzanian listed companies in 2012, and use it to measure their corporate governance quality. The index runs from 0 to 100 with higher values indicating better governance. The index is constructed basing on the OECD principles of corporate governance; covering the rights of shareholders; the equitable treatment of shareholders; the role of stakeholders in corporate governance; disclosure and transparency; and the responsibilities of the board, as sub indices.

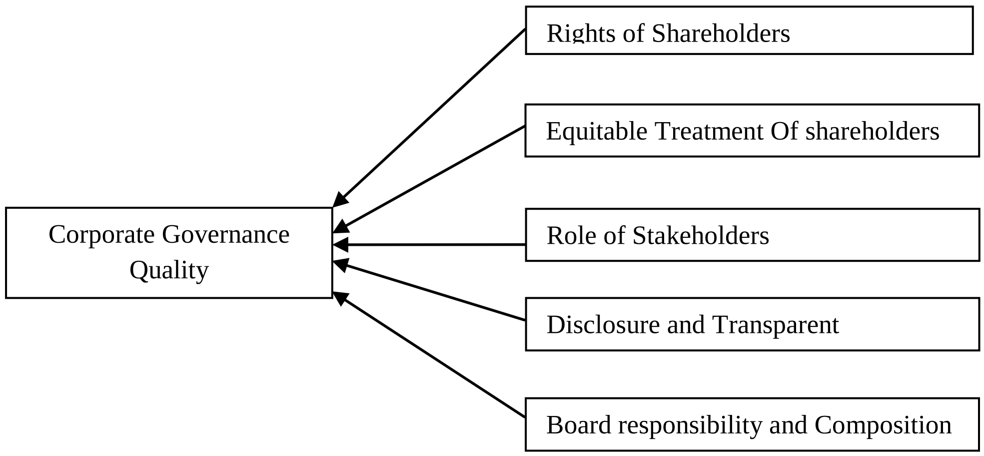
The use of publicly available information is adopted because; Most of previous studies which constructed governance index relying on survey responses from companies' administrators or executives ware faced with problems of low response rate and self-selection. Self-evaluation of corporate governance is problematic because it touches upon issues very sensitive to the well-being of the company (Ananchotikul, 2008). Moreover, if firms with poor governance misreport, then these survey-based ratings would not measure the strength of governance at all.

2.9 The Conceptual Framework of the Study

Conceptual framework can be defined as a set of coherent ideas or concepts organized in a manner that makes them easy to communicate to others. In this study corporate governance is measured through its indicators derived from the OECD principles which are; rights of shareholders, equitable treatment of shareholders, role of stakeholders, disclosure and transparent, and board composition and responsibilities.

Therefore, in order to measure the overall quality of corporate governance, each of these drivers must be tested. The overall performance of corporate governance depends on the individual performance of the sub-categories. The sub categories are given weights as indicated by table 3. Diagrammatically it can be seen as follows

Table 2 Schematic Diagram of Conceptual Framework: Corporate Governance Indicators



Corporate Governance Quality = fx (Rights of shareholders + Equitable treatment of shareholders + Role of Stakeholders + Disclosure and transparency + Board responsibility and Composition)

From table 2: Corporate governance quality depends on the performance of the company in all the five categories. Thus how the rights of shareholders are exercised will influence the corporate governance quality, how the companies handle their stakeholders, how do they disclose their information and what kind of information, how transparent the companies are, how is the board formation and composition; all these factors influence the final corporate governance score.

CHAPTER THREE
RESEARCH METHODOLOGY

3.1. Introduction

Research Methodology is a way to systematically solve the research problem. “It may be understood as a science of studying how research is done scientifically” (Kothari, 2008,). This part covers different areas that explain the methodologies used in executing the research exercise. The areas are, research design, sources of data, methods of data collection and data analysis methods and variable measurements.

3.2. Research Design

Research design includes the methodology and procedures employed to conduct scientific research, it also defines the study type and sub types. Kothari (2004); defines research design as “the arrangement of conditions for collection and analysis of data in a manner that aims to combine relevance to the research purpose with economy procedure”.

For this particular study the researcher employed a case study design. This is due to the reasons that case study design are often seen to adopts an interpretive approach to data, studies things within their context and considers the subjective meanings that people bring to their situation. It is a the method that study in depth rather than breadth; it places more emphasis on the full analysis of a limited number of events or conditions and their interrelationship

Both quantitative research approach and qualitative approaches were used. Quantitative research is based on scientific methods and can provide proof, while qualitative is based on social science methods and provides in – depth information on attitudes and beliefs. Qualitative ratings or quantitative scores or both are applied; where numerical score are used, they can be added up to calculate a total score with possibility of applying different weights to different criteria.

3.4. Types and Sources of Data

Kothari (2004) defines, “primary data are those which are collected afresh and for the first time, and thus happen to be original in character, secondary data are those which have already been collected by someone else and which have been already passed through the statistical process”.

The researcher mostly used the already available secondary data so as to obtain the quality information that have the required integrity in assessing the quality of corporate governance practices in Tanzanian listed firms. Where necessary primary data which was obtained from organizations secretaries had to be collected, these included reports on annual general meetings and annual reports for some companies with no websites. Secondary data ware obtained from several writings, reports and other previous researches.

In general data were obtained from company disclosure reports, annual reports, memorandum and articles of association, company websites, and stock exchange website. The conclusion was reached by utilizing such, data obtained from DSE listed companies.

3.5. Data Collection Methods

The researcher collected data from management information systems and the method used is a document review; where by annual reports disclosure reports, memorandum and articles of association, company websites, and stock exchange website were reviewed to obtain the relevant information.

In dealing with any real life problem it is often found that data at hand are inadequate, and hence, it becomes necessary to collect data that are appropriate. There are several ways of collecting the appropriate data which differ considerably in context of costs, time and other resources at the disposal of the researcher.

Primary data is needed when secondary data are inadequate for the researcher's objectives, for example where annual reports do not disclose all the necessary information. Primary data are obtained from company secretaries, investors and retail offices. Secondary data are obtained from the annual reports of the relevant companies, memorandum and articles of associations and relevant websites.

3.6. Data Analysis Methods

After the data have been collected, the researcher turns to the task of analysing them. Analysis refers to the computation of certain measures along with searching for patterns of relationship that exist among data-groups (Kothari, 2008). The collected data are analyzed using descriptive statistics; statistical package (excel) is used. The suitable data analysis model was developed, and simple statistical operations such as mean, median standard deviation are used to analyze the data.

3.7. Variable Measurement and Construction of Corporate Governance Index

The study consists of the 2012 seventeen (17) listed Tanzanian companies (see Table 1). For as September 2013 market capitalization for the 17 listed firms in Tanzania ranges from 11.35 billion TZS to 4,428.34 billion TZS. Data are obtained from company disclosure reports, annual reports, memorandum and articles of association, company websites, and stock exchange website. All data are processed according to the firm's fiscal year. The definitions of the variables used in this study are shown in Table 4. All variables are measured by the same measure, corporate governance index (CGI)

Table 3: Variables and Their Weights

Variable	Description	Weight (%)
OCGI	Overall corporate governance index	100
Sub-Index A	Rights of shareholders	20
Sub-Index B	Equitable treatment of shareholders	20
Sub-Index C	Role of stakeholders	5
Sub-Index D	Disclosure and Transparency	25
Sub-Index E	Board responsibility and composition	30

This study develops a corporate governance index of 82 questions (including sub-questions)[1] based on the OECD principles of corporate governance. The 82 questions are classified into five OECD corporate governance principles: rights of shareholders, equitable treatment of shareholders, role of stakeholders, disclosure and transparency, and board responsibilities. The full questionnaire is attached in Appendix.

The Index questionnaire was adopted from Cheung et al., (2008). Some questions concerning the rights of shareholders and the equitable treatment of shareholders are related to the first four provisions in Bebchuk et al. (2005). However, there are some questions which are not applicable in Tanzania because of the nature of the market and therefore were omitted.

For the rights of shareholders, the questions examine how shareholders are able to participate in major company decisions. For example, can shareholders ask questions in the Annual General Meetings (AGMs) and can they nominate or remove directors? The

[1] The questionnaire consists of 43 primary questions. Some questions contain several sub-questions. If we include the sub-questions, there are a total of 86 questions.

researcher also examined the amount of information disclosed in the notice to call AGMs.

For the equitable treatment of shareholders, it is examined whether the companies have explicitly mentioned one-share, one-vote in their article of association and facilitates proxy voting by minority shareholders. Questions on the disclosure of insider trading and related-party transactions are also included.

The third part of this study is on the role of stakeholders in corporate governance. The companies' disclosure of employee benefits, welfare and long-term incentive schemes, and disclosure on environmental issues are examined.

Next is disclosure and transparency. The assessment includes the amount of information (financial and non-financial) disclosed in the company annual report and the company website. Do they disclose a transparent ownership structure? Is the financial report disclosed in a timely manner? And if the company offers multiple channels of access to information

Finally the responsibilities and composition of the board is examined. The assessment includes the quality of the Audit Committee report included in the annual report, and the monitoring role of the board using questions on the board's activities such as do they participate in defining the company's mission, strategies, plans and policies and approval of the annual budget.

Then for the rating purposes, the weights are assigned to each section according to the number of questions contained in the category, as follows: rights of shareholders (20%), equitable treatment of shareholders (20%), role of stakeholders (5%), disclosure and transparency (25%), and board responsibilities and composition (30%). These weights are adopted from the original weights determined by a panel of experts from the OECD, the World Bank, the private sector (e.g., McKinsey and Companies) and regulators (the stock exchanges), and they are the same weights that were used by Ananchotikul, (2008) in her study.

In the rating procedure, each firm first gets a score (1 or 0) for each question. If firms did not report on a particular part of the CGI the value zero (0) was given for that question; this is in keeping with the literature (Khanna et al., 2001; Ananchotikul, 2008) since the absence of reporting on a corporate governance element indicates poor governance.

Then, the score of each section (sub-index) is calculated by enumerating the scores within the same section. For example, sub-index A is a total of the scores for questions in section A. The OCGI is then calculated as the total of the five sub-indexes. Finally, the sub-indexes and OCGI are rescaled from 0 to 100. Better governed firms have higher scores.

The procedure for measuring corporate governance practices used in this study is the same as the one commonly found in previous work; Specifically, awarding one mark for the presence and zero for the absence of an item of information in a firm's annual reports and accounts. The overall corporate governance (OCGI) scores are more comprehensive and representative of the quality of corporate governance practices, after taking into account the quantity and quality of the information disclosure by sub indices.

CHAPTER FOUR
RESEARCH FINDINGS

4.1 Introduction

This chapter presents statistical summaries of the analysis of data collected for the study, and also provide an interpretation and discussion of findings done in an attempt to fill the knowledge gap identified by the study in the literature reviewed.

The data analysis and the discussion of the findings presented in this chapter were focused mainly on providing answers to the research's specific questions so as to attain the specific objectives of the study which would in turn assist in accomplishing the main objective of the study.

The following are the research questions of the study which ware attempted to be answered by the analysis proceeding underneath.

i. What is the quality of corporate governance practices in DSE listed firms?
ii. What is the quality of the board of directors in DSE listed firms?
iii. What is the quality of accountability and disclosure practices in DSE listed firms?
iv. What is the quality of rights of shareholders?
v. What is the quality on the equitable treatment of shareholders?
vi. What is the quality on the role of stakeholders in corporate governance

4.2 Summary Statistics

4.2.1 Overall Corporate Governance Quality

Table 4 provides summary statistics for the data employed in the main analysis of this paper. The data set comprised of 17 Tanzania listed firms in 2012. The overall Corporate Governance Index (OCGI) is a total of the scores of the five governance components:

Rights of shareholders (20%), Equitable treatment of shareholders (20%), Role of stakeholder (5%), Disclosure and Transparency (25%), and Board composition and responsibility (30%). Firm-level governance scores are calculated using detailed information from companies' Annual Reports, Disclosure Reports, websites, memorandum and articles of association, and the Dar es Salaam Stock Exchange's website.

Table 4: Descriptive Statistics of OCGI and Sub-indices

Variable	Mean	Median	Minimum	Maximum	SD
OCGI	61.86	62.26	50.54	73.61	6.78
Sub-Index A	10.81	11.67	6.67	14.55	1.93
Sub-Index B	16.47	16.00	14.00	18.00	1.50
Sub-Index C	2.43	2.50	1.25	3.75	0.93
Sub-Index D	18.91	19.83	12.93	24.14	3.00
Sub-Index E	13.24	12.86	7.50	20.36	3.73

Source: Researcher's findings 2012

From this table above reveals that, the OCGI scores of all Tanzania listed companies range from 50.54 to 73.61, with an average of 61.86. This is above 50 percent, indicating that the companies are doing well.

About the rights of shareholders the companies scored approximately 11% out of 20%; on the equitable treatment of shareholders 16 percent out of 20 percent, which leaves only four percent unattained, meaning that the companies in Tanzania are doing great on this part. Other sub-indices are as seen in the table, 19% out of 25% for disclosure and transparency and 13% out of 30% for the board composition and responsibilities.

Table 5 addresses the issue of whether cross-listed companies have better corporate governance practices than those listed in domestic only. Out of seventeen firms only six are cross-listed

Table 5: Domestic versus Cross-Listed Foreign Firms

LISTED DOMESTIC COMPANIES						CROSS-LISTED FOREIGN COMPANIES				
Variable	Mean	Median	Min	Max	SD	Mean	Median	Min	Max	SD
OCGI	60.06	59.91	50.54	73.61	7.79	65.16	64.525	62.26	68.1	2.41
Sub-Index A	10.39	10	6.67	13.33	2.01	11.59	11.67	10	14.55	1.66
Sub-Index B	16.36	16	14	18	1.75	16.67	16	16	18	1.03
Sub-Index C	2.27	2.5	1.25	3.75	0.94	2.71	2.5	1.25	3.75	0.94
Sub-Index D	17.79	18.97	12.93	21.55	3.00	20.98	20.26	19.83	24.14	1.69
Sub-Index E	13.25	11.79	7.5	20.36	4.65	13.22	13.93	11.79	13.93	1.11

Source: Researcher's findings 2012

The results shows that cross-listed foreign companies perform better than domestic-listed companies in almost every category, the OCGI scores of domestic listed companies range from 50.54 to 73.61, on a scale of 0 to 100, while that of cross-listed firms range from 62.26 to 68.1.

4.2.2 Quality of the Board of Directors

Table 6 indicates specific questions which were selected from the sub-index of Board composition and responsibilities as an additional measure of quality of board of directors in Tanzania listed firms. Fourteen indicators were selected and the results on the quality of the board of overall firms are as shown in table 6. From the results almost all of the companies in DSE do not have their own corporate governance principle; they all depend and report on the codes provided by the international organizations. Eighty eight percent (88%) of the company have a written ethical code to be followed by their employees and directors. Three committees seem to be present in most of the companies, Audit, nomination and remuneration committees. Only an audit committee is present in all companies, remuneration and nomination committees are present in only 53% and 41% of all companies respectively. In all companies the board of directors composition have more than one third of the directors as non executive directors and in only eighteen percent among all listed companies is where you can find the chairman is also the chief executive officer (CEO)

Table 6:Results on the Determinants of Board Composition and Responsibilities

Determinant	Compliance	Non compliance	Observa tion	Percentage of compliance
Own corporate governance code	0	17	17	0.00
Ethical code for directors and Employees	15	2	17	88.24
Participation of the board in mission definition	0	17	17	0.00
Participation of the board in plans and strategies definition	17	0	17	100.00
Participation of the board in budget approval	14	3	17	82.35
Emphasis on Audit committee report	3	14	17	17.65
Chairman is not the CEO	14	3	17	82.35
Is the chairman independent	15	2	17	88.24
Presence of Audit committee	17	0	17	100.00
Presence or compensation committee	9	8	17	52.94
Presence or Nomination committee	7	10	17	41.18
One-third of the directors are non executive	17	0	17	100.00
Directors report	16	1	17	94.12
Disclose the payments to non-executive directors	12	5	17	70.59

Source: Researcher's findings 2012

4.2.3 Quality of the Disclosure and Transparency Practices

Table 7 indicates specific questions which were selected from the sub-index of Disclosure and transparency as an additional measure of quality of disclosure and transparency practices in Tanzania listed firms. Thirteen indicators were selected and the results on the quality of transparency and disclosure practices of all firms listed at DSE are as shown in table 6. From the results, three areas seem to be doing well; thus all companies use international accounting standards, they use reputable independent external auditors to audit their annual reports and they all have an internal audit department. The annual reports include financial and non-financial information, and most of the companies offer multiple channels of disseminating information to stakeholders such as annual repots, websites and press releases. So on the part of disclosure and transparency, DSE listed firms seem to be doing great as even the sub-index for disclosure and transparency weigh them at approximately 19% out of 25%. Most of the companies do not disclose on management shareholdings and they do not even practice share option as a form of executive compensation. Only eight companies (47%) present their annual reports in both English and Kiswahili.

Table 7: Results on the Determinants of Disclosure and Transparency

Determinant	**Compliance**	**Non compliance**	**Observation**	**Percentage of compliance**
The directors shareholding is disclosed	14	3	17	82.35
Management shareholding is disclosed	6	11	17	35.29
Annual reports provided in both English and Kiswahili	8	9	17	47.06
Annual reports include financial information	17	0	17	100.00
Annual reports include non-financial information	16	1	17	94.12
Annual reports can be downloaded online	14	3	17	82.35
The company uses international accounting standards	17	0	17	100.00
Presence of an internal audit	17	0	17	100.00
Annual audit performed by independent reputable auditors	17	0	17	100.00
Presence of a company website	15	2	17	88.24
Press conference/ Press release	11	6	17	64.71
Disclosure of remuneration policy for senior management and directors	14	3	17	82.35
A list of ten major shareholders	13	4	17	76.47

Source: Researcher’s findings 2012

4.2.4 Quality of Rights of Shareholders

Table 8 presents specific questions provided under the rights of shareholders, as an additional measure of the quality of shareholders rights. From the table, all DSE listed companies approve their board remuneration in their annual general meetings as the percentage of compliance is a hundred. They also hold annual general meetings and the notice to call shareholders involve names of directors and auditors to be appointed during the meeting. It is rarely for shareholders to ask questions during the annual general meetings, as the percentage for compliance is approximately six (6%). Also a compliance percentage on specific contact for investor relation personnel is 11.76 percent. Indicating that most of the companies do not provide contact for such a person.

Table 8: Results on the Quality of Shareholders Rights

Determinant	**Compliance**	**Non compliance**	**Observation**	**Percentage of Compliance**
Remuneration of the board is approved by shareholders	17	0	17	100.00
AGM notes include names of directors for appointment	16	1	17	94.12
AGM notes include names of Auditors for appointment	17	0	17	100.00
AGM notes include dividend amount and explanation	17	0	17	100.00
The company holds AGM	17	0	17	100.00
Shareholders have an opportunity to ask questions in an AGM	1	16	17	5.88
Do shareholders receive relevant information through Annual reports	16	1	17	94.12
Specific contact for an investor relation personnel	2	15	17	11.76

Source: Researcher's findings 2012

4.2.5 Quality on the Equitable Treatment of Shareholders

On the equitable treatment of shareholders; DSE listed companies performed extremely well in relation to the index questions provided. Companies comply with almost every determinant under review. The non compliance is seen only under influence of minority shareholders, where only one company out of 17 complied with the requirement. Table 9 shows the summary results

Table 9: Results on the Quality of Equitable Treatment of Shareholders

Determinant	Compliance	Noncompliance	Observation	Percentage of Compliance
One share one vote	17	0	17	100.00
Minority influence on board composition	1	16	17	5.88
No recent case on insider trading	17	0	17	100.00
Explanations for related party transactions	17	0	17	100.00
No non - compliance case regarding related party transactions	17	0	17	100.00
company facilitate voting by proxy	17	0	17	100.00
AGM notice sent in not less than 21days	17	0	17	100.00
Dividend policy disclosed	17	0	17	100.00

Source: Researcher's findings 2012

4.2.6 Quality of the Role of Stakeholders

The role of stakeholders assessed the companies' policies on the employees' welfare, the role o key suppliers, customers and community at large, and the environmental issues addressed by the listed firms. The sub index related to this is 'sub index C'. From table 4; out of the five percent marks allocated to the sub index, mean value is only 2.24.

4.3 Interpretation and Discussion of Findings

From the above descriptive statistics by the researcher, the OCGI scores of all Tanzania listed companies range from 50.54 to 73.61, on a scale of 0 to 100, with an average of 61.86. This is above 50 percent, indicating that the companies are doing well, compared with the Chinese firms when the same index was used; the results showed that Chinese companies range from 43.3 to 71.2, on a scale of 0 to 100, with an average of 54.8 (Cheung, 2008).

Among the 17 Tanzania listed firms, 6 of them are cross listed. Table 5 addresses the issue of whether cross-listed Tanzanian companies have better corporate governance practices than those listed in the mainland. The results show that cross-listed Tanzanian companies perform better than domestic-listed companies in almost every category, unlike in China where Cheung, (2008) found that cross-listed Chinese companies only perform better than mainland-listed companies in two categories, namely the role of stakeholders and disclosure and transparency.

The study can be convincing to say Tanzanian listed firms are doing better in corporate governance practices than Chinese listed firms, but this is not true as the study in China was conducted in 2008 and the researcher conducted it in Tanzania in 2012. The comparison is just for the understanding of the ratings and to facilitate the study. If the comparison is necessary then the study should be repeated in Chinese listed firms in 2012. But for the comparison of corporate governance practices of Tanzania listed firms in 2012 against corporate governance practices of Chinese listed firms in 2008; Tanzanian firms are doing better than Chinese firms.

CHAPTER FIVE

SUMMARY, CONCLUSIONS AND POLICY IMPLICATION

5.1 Introduction

This chapter, in line with the specific objectives of the study, give a summary of the assessment of the findings following the analysis done in chapter four, and thus presented the major conclusion of the study, policy implication basing on the findings and the recommendations drawn from the this study.

5.2 Summary and Conclusion

The study's main objective was to assess the quality of corporate governance practices in DSE listed firms. Considering the analysis of data conducted and its resulting descriptive statistical output and the evaluation of findings reported in Chapter Four, it can be therefore concluded that, the quality of corporate governance in DSE listed firm is between from 50.54 to 73.61, on a scale of 0 to 100, with an average of 61.86. This is above 50 percent, indicating that the companies are doing well. This performance has been supported by their good performance in disclosure and transparency practices. Although performance on board of directors is not generally impressing, but on average other determinants have pulled the DSE listed companies into such a position

Cross listed firms seem to perform better than domestic listed firms, this may be due to the fact that they have to meet the requirement of more than one stock markets, so some of the governance practices which are not advocated by one market (for example DSE) may be advocated in other markets and sometimes mandatory in those markets. Therefore; there is still a need for Tanzanian firms (domestic listed) to improve their governance practices

An important factor for the success of our private sector development is dependent on the quality of its management. Therefore corporate governance should be at the top of the agenda as a pro business policy and should be embraced by all stakeholders in the society. At the end of the day we need more disclosure and transparency on governance practices, in all listed companies and we should not let our companies and Banks become a gateway for diverting our nations' wealth into the pockets of few politicians and business men. For example, our banks have been one of the most reckless in corporate governance in the past few years; for example they have been the gateway of EPA, and RICHMOND. All of these frauds have gone unnoticed without their anti fraud and money laundering department noticing anything. More recently, there have been a lot of frauds reported in our banks, and all of this bad news represents concerns of many Tanzanians who are looking for someone to trust and it seems no one is there to fill in this trust vacuum.

Good corporate governance cannot guarantee a stock market improvement but it can improve the prospects of a higher share price, especially over the longer term. It does so by reducing the possibility of scandal which would result in share price reduction by improving shareholder relationship so they are more inclined to invest.

5.3 Recommendations

The Government of Tanzania recognizes the need for good corporate governance, and in 2002 it issued a corporate governance code setting forth many international best practices. The code applies directly to stock exchange-listed companies.

Good corporate governance principles are critical for a developing country like Tanzania. They protect investors – and encourage new investment – by providing clear rules for a company's internal management and by providing enforceable standards to protect shareholder rights and access to information. They can also establish the country's reputation as investor-friendly. As expressed in the introduction to South

Africa's corporate governance code, "If there is a lack of good corporate governance in a market, capital will leave that market with the click of a mouse."

Lack of corporate governance, can fuel a crisis of confidence for Tanzanian investors. Thus, lack of corporate governance allows manipulative practices such as misleading financial reporting which has a very big negative impact to investors especially during the decision making process; and in general it undermines the confidence of the investors to participate in any type of collective investment scheme, which indeed is another setback as far as collective investments scheme industry is concerned.

The CMSA guidelines in 2002 did not prescribe a standard format for the presentation of the statement of corporate governance practices. Managers retain a great discretion to choose the medium, the extent as well as the quality of the corporate governance disclosures. At the moment, voluntary adoption and disclosures vary across firms as both adoption and disclosure of corporate governance are left to individual companies' management. And this made the study difficult to accomplish, as companies reports on corporate governance matters are not similar and in some cases not available. Therefore, the study examined governance practices in relation to the management behaviour of individual companies when they still reserve complete autonomy to determine their desired level of corporate governance practices and disclosure. The study could be more effective if there could be a minimum mandatory requirement for all companies to adhere in terms of corporate governance disclosure and practices. It is therefore a time for the regulations to set a standard disclosure for corporate governance practices in the annual reports. Therefore the following things are recommended

5.3.1 Corporate Governance Approach

The approach to corporate governance in the Tanzanian context to develop checks and balances need to be formal, transparent, and legally enforceable. A similar approach is recommended in the King (2002) report with respect to the appointment of directors (see paragraph 2.2.2 of the report). This approach to corporate governance is different from the approach in the UK where the approach particularly with respect to recommended principles is 'comply or explain'.

5.3.2 Disclosure of Corporate Governance Practices

To improve the quality of the information disclosure on corporate governance practices, the CMSA may adopt or prepare the national instrument for "Disclosure of corporate governance practices", with effect as soon as possible. The instrument should be intended to standardize the information disclosure provided by DSE-listed companies regarding their corporate governance practices; and should state that all DSE listed firms are required to disclose their corporate governance practices in accordance with the instrument. Thus, if possible, the corporate governance disclosures should also become mandatory.

5.3.3 Director Evaluations

It is recommended that companies introduce board evaluations. This is in line with international efforts to improve the effectiveness of boards. Demb and Neubeauer (1992) recommend that boards should introduce director evaluations and feedback. Directors need to establish criteria for evaluating individual directors. The criteria should focus on important issues for the specific company and should be linked to the kinds of decisions and processes necessary for the effective performance of the company. Evaluations should be performed at two levels: the level of the board as a whole, and of individual directors and the CEO. Evaluation criteria need to reflect the actual performance of the people being evaluated, and need to be linked to the criteria for appointing directors.

5.3.4 Practical Application of the Notion of Stake Holding in Tanzania

The notion of stake holding in Tanzania is one that is discussed widely with respect to the public sector but also in the context of privately-owned companies. The Company Act of 2002 introduces the notion of stake holding to all companies by requiring directors to consider the interests of employees as one of their duties and to treat these in addition to those of shareholders. Despite this, employees are not represented on boards of directors and most of the companies do not disclose enough information regarding stakeholders. Research on the potential role of employees and other stakeholders in corporate governance will improve understanding of future corporate governance practices in Tanzania

5.3.5 Applying the OECD Principles to Assess Corporate Governance in Tanzania

The OCED principles for effective corporate governance discussed in chapter 2 can be applied as a framework for the further description and analysis of corporate governance in order to further understand the status of the various elements of this framework as applied to Tanzania.

5.4 Knowledge Contributed and Suggestion for Further Research

The vital contribution to knowledge from this study is that, findings deduced from this study has provided as far as corporate governance in Tanzania are concerned, a situation of corporate governance practices of DSE listed firms. It is also stepping stone to further extensive corporate governance studies that can relate corporate governance to firms' performance or market valuation.

The variation in corporate governance practices among firms in Tanzania can facilitate a study to find out the influencing factors of voluntary corporate governance practices by firms listed in DSE. This can help when improving the existing corporate governance principle of best practice or when developing the new corporate governance codes for the companies to adopt.

Research could also be carried out to gain insights about the motivation, if any, for companies to adopt and implement the recommended guidelines recommended by the CMSA or those by the Steering committee on Corporate Governance in Tanzania.

The major limitation of this study however, is that there was no previous study or a set of corporate governance ratings around east Africa to compare with or against which companies were to be compared. Also the study was not able to provide a clear cut corporate governance rating to act as a benchmark which can be an overall measure of corporate governance firms in Tanzania, as the regulatory framework do not give a mandatory minimum requirement for companies to adopt. This gives room for further studies to be conducted so as to create a generally acceptable benchmark of measuring corporate governance practices in Tanzania listed firms.

Also this study has employed a case study approach focusing on companies listed on the Dar es Salaam stock exchange. The results highlighted general issues which, to a certain extent, are also valid for companies considering listing on the Dar es Salaam stock exchange. Further research with a study based on a survey, particularly with respect to non-listed firms, will provide a stronger base for generalisation over a wide range of companies.

REFERENCES

Abdel-Khalik, A. R. (2002). "Reforming Corporate Governance Post Enron: Shareholders' Board of Trustees and the Auditor." *Journal of Accounting and Public Policy* **21**(2): 97-103

Abowd, J. M., and Kaplan, D. S. (1999). Executive compensation: Six questions that need answering. Journal of Economic Perspectives, 13, 145-168.

Agrawal, A., and Knoeber, C. R. (1996). Firm performance and mechanisms to control agency problems between managers and shareholders. Journal of Financial and Quantitative Analysis, 31, 377-397.

Ananchotikul, Nasha. 2008. Does Foreign Direct Investment Really Improve Corporate Governance? Evidence from Thailand. *Bank of Thailand Discussion Paper* DP/03/2008,

Bauer, R. and N. Guenster (2003). "Good Corporate Governance Pays Off." *Deminor Ratings. Nisan*.

Bebchuk, L. A., Fried, J. M., and Walker, D. I. (2002). Managerial power and rent extraction in the design of executive compensation. The University of Chicago Law Review, 69, 751-846.

Bebchuk, L., Cohen, A., and Ferrell, A. (2005). What matters in Corporate Governance? Working Paper, vol. 491. Harvard University.

Bhagat, S., and Black, B. (2002). The non-correlation between board independence and long-term firm performance. Journal of Corporation Law, 27, 231-273.

Bhasin, M. (2010). "Corporate Governance in the Asian Countries." *Afr. J. Bus. Manage* 4(10): 1964-1971.

Black, B. (2001). "The Corporate Governance Behavior and Market Value of Russian Firms." *Emerging Markets Review* **2**(2): 89-108.

Black, B., Jang, H., and Kim, W. (2006). Does corporate governance predict firms' market values? Evidence from Korea. Journal of Law, Economics, and Organization, 22, 366-413.

Bob Tricker, Robert Ian Tricker, (2009). *Corporate Governance: Principles, Policies, and Practices*. UK: Oxford University Press

Brown, L. D. and M. L. Caylor (2004). "Corporate Governance Study: The Correlation between Corporate Governance and Company Performance." *Corporate Governance Study, Institutional Shareholder Services*.

Byrnes, N et al. (2003). "Reform: Who's Making the Grade; a Performance Review for Ceos, Boards, Analysts, and Others." *Business Week*(3850): 80.

Cheung, Y et al. (2008). "Does Corporate Governance Matter in China." *China Economic Review journal* 19: 460-479

Coarse, Ronald H (1937) *The nature of the firm*. New York: Economica N.S.4. (Reprinted in Stigler, G.I, and K.E, Boulding (eds) (1952) *Reading in Price Theory*. Homewood, IL:Irwin.

Dar es Salaam Stock Exchange Handbook, June 2007 pp. 6-26

Durnev, A., and Kim, E. H. (2005). To steal or not to steal: Firm attributes, legal environment, and valuation. Journal of Finance, 60, 1461-1493.

Freeman Edward R., (2010). *Strategic management: A stakeholder approach*, UK, Cambridge university press.

Friedman, Milton. "The Social Responsibility of Business Is to Increase Its Profits." *New York Times Magazine*, 13 September 197

Gathinji, N. 2002. *The role of ECSAFA in promoting corporate governance in member countries.* Paper presented at the International Seminar on: Corporate Governance and Development of Appropriate National Codes Programme, Dar es Salaam.

Goergen, Marc, *International Corporate Governance*, Prentice Hall, Harlow, January, 2012, p. 6, ISBN 978-0-273-75125-0

Gompers, P., J. Ishii, et al. (2003). "Corporate Governance and Equity Prices." *The Quarterly Journal of Economics* **118**(1): 107-156.

Hermalin, B. E., and Weisbach, M. S. (2003). Boards of directors as an endogenously determined institution: A survey of the economic literature. Economic Policy Review, 9, 7-26.

Himmelberg, C. P., Hubbard, R. G., and Palia, D. (1999). Understanding the determinants of managerial ownership and the link between ownership and performance. Journal of Financial Economics, 53, 353-384.

Kihiyo, H. 2002. *Corporate governance and corruption- the case of Tanzania, governance and corruption in parastatals*. Paper presented at the International Seminar on: Corporate Governance and Development of Appropriate National Codes Programme, Dar es Salaam.

Kiure, N. J. 2002. *Corporate governance practices in Tanzania: An exploratory study.* MBA dissertation, University of Dar es Salaam.

Klapper, F., and Love, I. (2003). Corporate governance, investor protection, and performance in emerging markets. Journal of Corporate Finance, 195, 1-26.

Kothari, C. R. (2008). *Research Methodology, Methods and Techniques* (2nd Revised Ed). New Delhi: New Age International Publishers

Kothari, C. R. (2005). *Research Methodology, Methods and Techniques* (2nd Ed). New Delhi: New Age International Publishers

La Porta, R., F. Lopez-de-Silanes, et al. (2000). "Investor Protection and Corporate Governance." *Journal of financial economics* **58**(1): 3-27.

La Porta, R., F. Lopez-de-Silanes, et al. (2002). "Investor Protection and Corporate Valuation." *Journal of finance* 1147-1170.

La Porta, R., F. Lopez-de-Silanes, et al. (2002). "Investor Protection and Corporate Valuation." *Journal of finance* 1147-1170.

Madhok, A. (2002). Re-assessing the fundamentals and beyond : Ronald Coase, the Transaction Cost and resource-based theories of the firm and the institutional structure of production. In: *Strategic Management Journal*, 23(5). Pp. 35- 550

Melyoki, L. L. (2005). Determinants of Effective Corporate Governance in Tanzania. Phd, University of Twente.

Melyoki, L. L. (2013). "3 Corporate Governance Practices." *Management in Africa: Macro and Micro Perspectives* **53**: 48.

Mertzanis, V.H. (2001), ‘‘Principles of corporate governance in Greece’’, Corporate Governance, Vol. 9 No. 2, pp. 89-100.

Miles, Samantha (2012). "Stakeholders: essentially contested or just confused?”. *Journal of Business Ethics* **108** (3): 285–298

Morck, R., Shleifer, A., and Vishny, R. W. (1988). Management ownership and market valuation: An empirical analysis. Journal of Financial Economics, 20, 293-315.

OECD (2004). Principles of corporate governance: Organization of Economic Cooperation and Development.

OECD (2004). The OECD policy brief: The OECD Principles of corporate governance: Organization of Economic Cooperation and Development.

Skaife, H., D. Collins, et al.(2004). "Corporate Governance and the Cost of Equity Capital". *Available at SSRN 639681*

Stiles, P. and B. Taylor (2001) Boards at work: How Directors View their Roles and Responsibilities. Oxford: Oxford University Press.

Tage Skjoett-Larsen, (1999) "Supply Chain Management: A New Challenge for Researchers and Managers in Logistics", International Journal of Logistics Management, The, Vol. 10 Iss: 2, pp, 41-53

Themistokles Lazarides and Evaggelos Drimpetas, (2009); Evaluating corporate governance and identifying its formulating factors: the case of Greece, OL.11 NO. 2 2011, pp. 136-148, Q Emerald Group Publishing Limited, ISSN 1472-0701

Williamson, Oliver E. (1996). *The Mechanisms of Governance*. UK: Oxford University Press.

APPENDIX

Table 10: Theories of Corporate Governance

THEORY	Assumptions	Board member role	Main board function	Key issues
Agency Theory	Owners interest may differ from managers interests	Supervisor (chosen to represent owners interests and be independent of managers)	Conformance: - Safeguard owners resources and interests - Supervise management/staff	Emphasis on control may stifle innovation and risk taking, and reduce staff motivation
Stewardship theory	Owners and managers have similar interests	Partner (Chosen for expertise)	Improve performance: - Add value to top decisions/strategy - Partner management	Management proposals and system may not be given adequate scrutiny.
Stakeholder theory	Different stakeholders have legitimate but different interest in the organization	Represent different stakeholder view	Political - Represent and balance different stakeholder interests - Make policy - Control executives	Board members may promote stakeholders interests rather than the organizations. May be difficult to agree objectives
Resource dependency theory	Organization survival depends on maintaining coalition of support to obtain resources and legitimacy	Supporter (Chosen for influence or resources they may bring	External influence - Secure resources - Improve stakeholder relations - Bring external perspective	External focus of board members may mean that internal supervision is neglected. Board members may lack expertise
Managerial hegemony theory	Owners and managers have different interests, but managers control main levers of power	symbolic	Legitimacy - Reality decisions - Support management - Give legitimacy	Management may pursue own interests at expense of owners': managers gain little of value from board
Transaction cost economics	Decision-making and rationality of	Governance (Make decisions that	Decision making - Cost effective	Costs and difficulties

	individuals in relation to transactions is limited by the information they have, the cognitive limitations of their minds, and the finite amount of time they have to make a decision	are cost effective)	decisions - Support management - Give legitimacy	associated with market transactions sometimes favor hierarchies (or in-house production) and sometimes markets as an economic governance structure. Buy when transaction costs are lower than production costs

Source: Adapted from skjoett-Larsen (1999, p.46) and Madhok (2002, p. 540)

CORPORATE GOVERNANCE INDEX

Section A — Rights of shareholders

Question number	Survey Question
A.1	Does the company offer other ownership rights beyond voting?
A.2	Is the decision on the remuneration of board members or executives approved by the shareholders annually?
A.3	Quality of Notice to call a Shareholders Meeting in the past one year.
	(i) Appointment of directors, providing their names and background.
	(ii) Appointment of auditors, providing their names and fees.
	(iii) Dividend policy, providing the amount and explanation.
A.4	Does the company hold an annual general shareholders meeting?
A.5	Is a name list of board attendance available?

A.6	Do AGM minutes record that there was an opportunity for shareholders to ask questions/raise issues in the past one year?
	(i) Is there a record of answers and questions?
	(ii) Is any resolution being solved?
A.7	Do shareholders receive relevant information on the company’s performance through distribution of regular annual reports and accounts
A.8	Does the company provide contact details for a specific investor relations person?

Section B—Equitable treatment of shareholders

Question number	Survey Question
B.1	Does the company offer one-share, one-vote?
B.2	Is there any mechanism to allow minority shareholders to influence board composition?
B.3	Have there been any cases of insider trading involving company directors and management in the past two years?
B.4	Does the company provide rationales/explanations for related-party transactions affecting the corporation?
B.5	Have there been any non-compliance cases regarding related-party transactions in the past one year?
B.6	Does the company facilitate voting by proxy?
B.7	(i) Does the notice to shareholders specify the documents required to give proxy?
	(ii) Is there any requirement for a proxy appointment to be notarized?
B.8	Does the company send out the notice of general shareholder meetings in not less than 21days?
B.9	Does the company disclose a dividend policy

Section C—The role of stakeholders in corporate governance

Question number	Survey Question
C.1	Does the company explicitly mention the safety and welfare of its employees?
C.2	Does the company explicitly mention the role of key stakeholders such as customers or the community at large (or creditors or suppliers)?
C.3	Does the company explicitly mention environmental issues in its public communications?
C.4	Does the company provide an ESOP (employee share option program), or other long-term employee incentive plan linked to shareholder value creation, to employees?

Section D—Disclosure and transparency

Question number	Survey Question
D.1	Does the company have a transparent ownership structure?
	(i) Breakdown of shareholdings.
	(ii) Is it easy to identify beneficial ownership?
	(iii) Are director shareholdings disclosed?
	(iv) Is management shareholding disclosed?
D.2	Assess the quality of the annual report. In particular, the following: (i) Financial performance/ statements (ii) Business operations (iii) Board member background (iv) Basis of the board remuneration (v) Operating risks (vi) Press releases
D.3	Does the company use an internationally recognized accounting standard?
D.4	(i) Does the company have an internal audit operation established as a separate unit in the company?

	(ii) Does an internal audit function, report only to the audit committee?
D.5	Does the company perform an annual audit using independent and reputable auditors?
D.6	Does the company offer multiple channels of access to information? (i) Annual report (ii) Company website (iv) Press conference/press briefing
D.7	Is the financial report disclosed in a timely manner?
D.8	Does the company have a website,
	Does the website disclose up-to-date information relating to; (i) Business operation (ii) Financial statement (iii) Press release (iv) Shareholding structure (v) Organizational structure (vi) Corporate group structure (vii) Annual report downloadable (viii) Provided in both kiswahili and English
D.9	Does the board disclose annually (in its annual report); (i) its policies for remuneration including incentives for the board and senior management
	(ii) Share options and other forms of executive compensation that have to be made or have been made during the course of the financial year
	(iii) A list of ten major shareholders of the company;

Section E—Quality and Responsibilities of the board

Question number	Survey Question
E.1.1	Does the company have its own written corporate governance rules?
E.1.2	Does the board of directors provide a code of ethics or statement of business conduct for all directors and employees?
E.1.3	Does the company have a corporate vision/mission?
E.1.4	Does the board participate in defining
	(i) the company's mission,

		(ii) its strategy, goals, risk policy, plans and objectives
		(iii) approval of its annual budgets;
E.2		Assess the quality and content of the Audit Committee Report in the annual report.
		(i) Attendance include
	a)	the head of internal audit (where such a function exists) and
	b)	a representative of the external auditors
		(ii) Internal control
		(iii) Management control
		(iv) Proposed auditors
		(v) Financial report review
		(vi) Legal compliance
		(vii) Conclusions or opinions
E.3		Have board members participated in the Tanzania Securities Regulation Committee (or equivalent) training on corporate governance?
E.4		How many times in a year are the board meetings held?
E.5		(i) Is the chairman an independent director?
		(ii) Is the chairman also the CEO?
E.6		Does the company have an option scheme with incentives for top management?
E.7		Does the board appoint independent committees with independent members to carry out various critical responsibilities such as: audit, compensation and director nomination? (i) Audit (ii) Compensation/remuneration (iii) Director nomination committee
E.8		Are at least one third of board members non-executive directors?
E.9		Does the company state in its annual report the definition of 'independence'?
E.10		Does the company have a board of director's report?

E.11	Does the company disclose how much they paid the independent non-executive directors?
E.12	Does the company provide training to directors (including executive and non-executive directors)?
E.13	Does the composition of the board provide a mechanism for representation of the minority shareholders without undermining the collective responsibility of the directors?