



# Drivers of Corporate Governance Performance in Africa: a cross-country analysis

---

*TABLE OF CONTENTS*

---

Contents	Page
<i>TABLE OF CONTENTS</i> .....	ii
<i>ABBREVIATIONS AND ACRONYMS</i> .....	iii
<i>LIST OF FIGURES</i> .....	iv
<i>LIST OF TABLES</i> .....	iv
<i>FOREWORD</i> .....	v
<i>EXECUTIVE SUMMARY</i> .....	vi
I.0 Introduction .....	1
1.1 Background and Context .....	2
1.2 Objectives .....	2
1.3 Justification. ....	3
2.0 Drivers of Corporate Governance in Africa: Some Stylized Facts .....	3
2.1 Efficacy of Corporate Boards and Protection of Minority Rights .....	4
2.3 Strength of Investor Protection as a Driver of Corporate Governance .....	5
2.4: Directors Liability Index (0-10) .....	6
2.5 Disclosure Index (0-10).....	7
3.0 Literature Review .....	8
3.1 Theoretical Foundations of Drivers of Corporate Governance.....	8
3.2 Empirical Literature .....	13
4.0 Methodology, Data and Model Specification .....	16
4.1 Construction of Corporate Governance Performance Index (CGI) .....	16
4.2 Cross -Country Panel Regression Model Specification.....	17
5.0 Presentation of Empirical Results and Analysis .....	18
5.1. Drivers of Corporate Governance Index (CGI) Construction and Analysis.....	18
5.2 Results of Cross Country Regression Analysis .....	24
5.3 Intersection between Drivers of Corporate Governance and Economic Governance. ....	26
5.4 Monitoring and Evaluation (M& E) Framework for Evaluating Corporate Governance Drivers.....	26
6.0 Discussion of Results, Conclusion and Recommendations .....	26
6.1: Discussion of Results using Mixed Methodology .....	26
6.2 Recommendations: .....	28
6.3 Conclusion .....	30

---

## *ABBREVIATIONS AND ACRONYMS*

---

APRM	African Peer Review Mechanim
AU	African Union
AFCTA	African Free Continetal Trade Agreement
ADB	African Development Bank
NEPAD	New Partnership for African Development
SDG	Sustainable Development Goals
UNDP	United Nations Development Programme
CRM	Country Review Mission
ROA	Return on Assets
WEF	World Economic Forum
ECB	Efficacy of Corporate Boards
GFC	Global Financial Crises
PRM	Protection of Minority Rights
WB	World Bank
CGI	Corporate Governance Indicator
CEO	Chief Executive Officer
BEF	Business Ethics
M&E	Monitoring and Evaluation
GAAP	Generally Accepted Accounting Principles
IASB	Internationally Accounting Standard Baord
SAR	Strenght of Auding and Reporting
WTE	World Trading Economies
OECD	Organisation of Economic Corporation and Development
GDP	Gross Domestic Product
UN	United Nations

---

*LIST OF FIGURES*

---

Fig 1: Efficacy of Corporate Boards.....	4
Fig 2: Quality of Ethical Behaviour of Firms.....	5
Fig 3: Strengh of protection of Minority Rights.....	6
Fig 4: Directors Liability Index.....	7
Fig 5: Information and Disclosure Index .....	7
Fig 6: Informal Sector and Corporate Governance in Africa .....	6
Fig 7: Result of Comparative Performance of Drivers of Corporate Governance Index (CGI).....	22

---

*LIST OF TABLES*

---

Table 1: Sample of listed Firms and Countries.....	19
Table 2: Drivers of Corporate Governance Summary Statistics.....	19
Table 3 : Drivers of Corporate Governance Scores .....	21
Table 4: Ranking of sampled Countries in Index of Corporate Governance.....	22
Table 5: Descriptive Statistics .....	24
Table 6: Results of Panel Data Regression with Tobins Q as dependent Variable....	24
Table 7: Results of Panel Data Regression with ROA as the dependent variable....	33



---

## FOREWORD

---

The APRM as a governance institution is mandated to ensure that the policies and practices of participating States conform to the agreed political, economic, and corporate governance values, codes and standards contained in the Declaration on Democracy, Political, Economic and Corporate Governance. I am proud to present this report, which provides information on current developments across the continent in Corporate Governance, which is a major thematic pillar of the APRM and explores ways to address challenges that hinder progress in African countries.

The continent has an abundance of natural and human resources, and yet continues to face enormous development challenges. Poor growth evidenced by widespread poverty and unemployment is still very much an African phenomenon. Additionally, Africa's current development challenges have been exacerbated by conflicts, terrorism, human trafficking and now the Covid -19 pandemic. In light of these issues, African countries often trail behind most countries in the World Bank Global Governance Index (WGI) and Ease of Doing Business index.

Corporate governance is key to harnessing firms for economic growth and overcoming the development challenges faced by the continent. From APRM work in various countries across the continent, a number of laudable practices have been identified in the area of corporate governance. Plethora of countries in Africa such as Kenya, Algeria, Burkina Faso and Mali, have provided enabling environments and effective regulatory frameworks for economic activities. Furthermore, other countries such as Benin, Burkina Faso, Nigeria and South Africa have made significant progress towards ensuring that enterprises act as good corporate citizens and respect human rights, as well as environmental sustainability.

After the expansion of the APRM mandate to include monitoring and evaluation, the Board of Directors of the African Development Bank approved the APRM institutional Support Project on March 28, 2018. The objective of the institutional support was to strengthen APRM's capacity and capability to deliver on its added mandate and sharpen its monitoring and evaluation toolkit through focused studies.

The purpose of this study is to build on these efforts, identify the main drivers of corporate governance in Africa and develop a home-grown index with which corporate governance in Africa can be measured and tracked. This aims to facilitate a shift from indexes developed outside the continent which reflect different developmental conditions to those that are based on African economic structures. The study offers recommendations on how this information can be best used during APRM Country Review Missions to assess performance in the thematic area. Importantly, it also identifies the prospects and challenges for improving economic performance in African countries, particularly enhancing the role of the private sector, leveraging the informal sector and improving corporate governance on the continent.

The study aims to provide a better understanding of development contexts across Africa for improved and tailored efforts. APRM will continue to contribute towards this goal for a better Africa.

**Prof. Eddy Maloka**  
CEO, APRM Continental Secretariat





---

## *EXECUTIVE SUMMARY*

---

The need to strengthen and improve on the delivery of the mandate of African Peer Review Mechanism (APRM) and broaden its activities to include enhanced elaborate monitoring and evaluation of the thematic areas of corporate and economic governance in their Country Review Missions (CRMs) warranted this study. The drivers of corporate governance in African countries which the CRM covers demand that the APRM periodically reviews the dynamics that propel the performance of the thematic areas. In the context of the foregoing, the overarching objective of the assignment was to help APRM secretariat conduct an empirical study, based on the APRM working definitions, on the factors that drive the performance of corporate and economic governance in Africa with a view to encouraging member countries to enhance their performance in the focus

thematic areas of peer review and further improve on the outcome of their country performance during review missions on a sustainable basis. The study was justified on the grounds that the global economy was in a constant state of flux in response to domestic and external shocks, therefore the APRM process, objectives and working definitions need periodic review to keep pace with evolving global economic dynamics. The study was also justified based on the fact that the expanded mandate of the APRM which includes Monitoring and Evaluation requires a framework that will guide its implementation on a sustainable basis. The ultimate impact of this report is to enhance the African countries performance in World Bank Ease of doing Business rankings that will drive sustainable growth and development of member countries of the APRM.

The Study has several objectives; (a) Conceptualise and identify key drivers of corporate governance in Africa, (b) define the relevant indicators that inform these drivers and other variables that act as influencers in driving corporate governance performance in Africa, (c) Source relevant data and develop a methodology with which to construct an index of corporate governance in Africa using a sample of African Countries, (d) empirically estimate a Cross Country Regression model to ascertain the efficacy of the constructed index and its role in driving firm performance across the sampled countries, (e) use mixed methodology to analyse and report the results and provide conclusions and recommendations.

The Report identifies key corporate governance principles that Drive Corporate governance as corporate discipline, transparency, independence, accountability, responsibility, fairness and social responsibility. These principles inform effective implementation of Corporate Governance Drivers such as (a) Boards Composition and functioning (b) Shareholders Rights and Activism, (c) Information and Disclosure, (d) Ownership and Control. Several indicators of each of these corporate governance Drivers were identified by the report and used to analyse the performance of Corporate Governance Drivers in sampled 15 countries in Africa, namely, South Africa, Nigeria, Egypt, Kenya, Ghana, Ethiopia, Rwanda, Algeria, Lesotho, Uganda, Tunisia, Senegal, Cameroon, Democratic Republic of Congo, and Malawi. Firms quoted in the Stock market of these countries were selected based on critical growth driving sectors of tourism, banking, Agriculture and Manufacturing. The Report presents three methodological approaches to execute the study, namely, (a) use of purposive sampling technique to select the sampled countries, (b) development of 17 corporate governance indicators which was built into the questionnaire for extracting information from the sampled firms, (c) Construction of Corporate Governance Index, (d) testing the constructed CGI using a Cross Country Panel Regression econometric methodology to study and analyse the performance of Corporate Governance Drivers in the sampled countries.

The results of the performance of the firms based on the drivers of corporate governance show that the strength of their board composition and functioning lies in the firm's ability to uphold board independence (55.51%), higher board sizes (51.71%), ability of the boards to provide strategic direction for the firms (64.13%) and ability of their boards to exert control on the management through separating boards Chairmanship from the CEO (66.89%). However, the number of firms that demonstrated weakness include high board membership turnover (39.98%) and keeping permanent fiscal board for too long (39.99%). On Shareholder Rights and activism covered by the APRM objective (d) which is ensuring that corporations treat all their shareholders well, the results indicate that Nigeria led the rest of the countries, while Ghana, Kenya and South Africa followed. The indicator that best captures this objective are (a) using arbitration to solve conflicts (32.06%), (b) granting shareholders additional rights more than what is provided in the company charter (26.88%), (c) Shareholders influence to call for AGM (69.99%) and tag along rights beyond what is legally provided (45.99%). Therefore, fewer companies paid attention to using arbitration to resolve conflicts and granting shareholder rights beyond what was allowed in the company charters.

In terms of ranking based on the performance using mixed approach of the aggregate scores in the index and reports from Country Review Missions, the results show that countries that adopted the OECD Codes and principles of Corporate Governance and sustained its implementation by developing domestic policies and a robust regulatory regimes to ensure compliance ranked high and were classified as “GOOD Performers”, namely South Africa, Nigeria, Ghana and Kenya. The other set of countries that were classified Good performers were countries that had sustained Growth in GDP and sustained growth in their stock markets (Ethiopia, Rwanda, and Egypt). The MEDIUM performers were countries that had adopted the Codes and principles but had not fully domesticated them through appropriate policies, institutional and legal frameworks, but have moderately robust awareness programmes, namely (Uganda, Algeria, Tunisia, Lesotho and Senegal). The countries that are ranked as FAIR Performers are countries that have not fully adopted the Codes and Principles and translated them into domestic policy instruments; have weak institutional and legal frameworks; poor performing stock markets and very slow in developing regulatory regimes, namely (Cameroun, Congo D. R and Malawi)

Specific Country and regional performance were presented in Panels A- D in page 32. In Panel A, the countries with the best performance in Board Composition and function are Nigeria, Kenya, Egypt and South Africa. The worst performers are Algeria, Lesotho, Congo D. R and Cameroon. On regional basis, East Africa leads on average performance closely followed by North Africa. Panel B presents the comparative performance of. Shareholder Rights and Activism in the sampled countries. In this index, Nigeria leads closely followed by Ghana, Kenya and Egypt in that order. The worst performance is Uganda, Malawi, Congo D. R and Cameroon. On a regional comparative basis, West Africa leads and closely followed by North Africa and the worst performers on average basis is central Africa notwithstanding that Rwanda stands out in the pack. Panel C presents comparative performance on Information and Disclosure as a driver of corporate Governance. Ethiopia leads and closely followed by Tunisia and South Africa in that order.

The Fair performers in Information and Disclosure as driver of corporate Governance are Senegal, Uganda, Lesotho and three countries of Rwanda, Congo D. R and Cameroon all in Central African Republic. On regional average basis, East Africa leads and closely followed by Southern Africa. The clear worst performer on a regional basis is Central Africa as represented by Rwanda, Congo D.R and Cameroon. Panel D presents results of the performance of countries on the ownership and control structures as a driver of corporate governance. Leading countries are South Africa, Nigeria and Egypt, while Rwanda Kenya follows closely. Worst performing countries include Algeria, Lesotho, Congo D.R and Cameroon. Overall, the results indicate that 41.17 per cent of the sampled countries have Good Corporate Governance performance, while 29.41 per cent of countries are considered of Moderate Performance and 17.64 per cent of the sampled countries showed poor performance in the drivers of corporate Governance.

The Result of the Cross-Country Panel Regression Analysis show that firm performance proxied by Tobins Q depended significantly on its lag (0.3249) drivers of Corporate Governance CGI (0.0047) \*, leverage (0.0091) \*\*\* and Size (0.0061) \*\*\* at 1%, and 10 % level of significance, and performance diverged across countries and regions. On the other hand, using Return on Asset (ROA) as a measure of Firm performance, the result show that CGI (0.0049) \* was significant at 1% but leverage (0.1491) and Size (0.4291) were not statistically significant and therefore contributed less to firm performance in the sampled countries and regions. The study reviewed Country Mission Reports of Ghana and Uganda to provide guide on how the results of the study can aid better understanding and interrogation of the indicators of the drivers of Corporate Governance in the sampled countries and how to present recommendations to address poor performance and guide reviewers during Country Review Missions (CRM) going forward.

Conclusions drawn from the results show that the coefficient of the constructed index of corporate Governance (CGI) was robust and proved statistically significant as a driver of corporate



governance through their impact on firm performance in the sampled countries. In addition, the impact of CGI on firm performance varies among countries and regions due to some differences in the depth and successful implementation of the Corporate Governance reforms as demonstrated by the fixed effect result of the Cross-Country Panel regression. The identification of the differences in the sampled countries from the study presents important information on areas of focus during Country Review Missions (CRM) by APRM

**The Recommendations based on the results of the study are as follows:**

- a. Since the result of this study support the hypothesis that index of drivers of corporate governance enhance firm performance in sampled countries, to improve the status of good performing countries and encourage medium and low performing once to improve on the overall picture of the corporate governance in Africa, the following reforms are recommended, namely; adaptation and speedy application of codes and principles of corporate governance, enhanced enforcement and monitoring capacity of regulatory agencies through capacity building, strengthen financial and management transparency through enhancing the role of investigative journalism to hold firms accountable. Other recommendations include development of freedom of information (FOI) law to enhance access to company information, introduction of whistle blower policy to fight corruption and the need to strengthen enforcement strategies by strengthening such institutions as industrial and regular courts to enhance administration of justice to mitigate infractions of corporate governance principles and codes.
- b. As a driver of corporate governance, the results of Board Composition and Performance in sampled counties were mixed. For countries that performed well the study established strong relationship between Board Composition and Performance and improved levels for protection for creditors and employees to avoid loss of investments and job security respectively. However, for some countries, the performance was poor. The study therefore recommends that reforms of Board Composition and Performance in such countries should focus on enhancing Board independence by ensuring diversification of the board members experience and by separating Board Chairman from the CEO; keep the Board size within not less than 5 and not more than 9 members; ensure that board members tenures are not too short or too long to fully harness their quality and contribution to firm performance; establishment of relatively permanent fiscal boards to ensure accountability; and the need to regularly build capacity among board members to be able to provide strategic direction for the firms.
- c. On Shareholders Rights and Activism, for some countries, the study established strong relationship between Shareholders Rights and Activism with improved shareholder value which is critical in enhancing firms' access to capital in stock markets and other credit markets. On Shareholder Rights and Activism, reform in shareholder Rights and Activism should focus on using Arbitration to solve conflicts rather than prolonged and costly court processes; effort should be made to grant shareholders more security both for block majority shareholders and dispersed minority shareholders. To mitigate destructive shareholder activism, firms should grant shareholders some tag along rights beyond what is legally provided in the statutes. In the same vein, shareholders should be granted the right to call AGM meetings as this will improve trust and increase shareholder willingness to increase their investment stakes in the firm.
- d. On information and Disclosure, this study recommends that countries that performed poorly in this driver of corporate governance should focus attention on publishing their financial reports timely as this has the potential to reduce the cost of capital by attracting

more investors due to transparency. Use of international accounting standards can improve audit outcomes and enhance bottom line of firms due to transparency and reduction in leakages. Countries that performed poorly on information and disclosure should increase the number of independent members in their boards, improve gender balance in their boards and generally act to protect minority rights as this can induce higher voluntary information and disclosure. Countries that performed poorly in information and disclosure should use more international audit firms because it has the potential to enhance internal control mechanisms, linkages of information, incentives and governance between managers and investors.

- e. Corporate Governance reforms to enhance Ownership and Control Structures should focus on prioritizing the legal protection of creditors and shareholders. Specific board rules should be developed to protect the interest of both majority shareholders and non-shareholders. This suggests that controlling block shareholders that hold less than 50 per cent of the shares should be encouraged as this has shown that most firms that implement this are classified as good performers. Ensuring that controlling shareholders vote ratio is enhanced and engaging in free float of shares for both controlling shareholders and non-shareholders in the case of special share placements can encourage higher interest in the company's shares, improve investment interest by shareholders, reduce cost of capital and ultimately enhance firm performance.
  
- f. As earlier noted in the study, the high level of informality of most African Economies and the role of firms that operate informally significantly add to the economic growth of most African economies but there are no formal ways to improve their corporate governance since they are not officially captured in the data. The recommendations to improve corporate governance at the informal sector are: To encourage the informal firms to formalize through incentivising them with access to finance and low taxes. Build a data base for the informal firms so as to bring them into the loop for capacity building. Seminars and workshops can be organised with them and formalized firms to share information on how to improve their informal governance structures, improve on their record keeping and management processes and ultimately enhance their capacity to grow their values while urging them to formalize.

# I.0 Introduction

The search for policies that enhance inclusive growth and sustainable development in Africa gathered steam in recent times at various multilateral institutions and country levels. This was against the backdrop of the devastating impact of civil wars, Global Financial Crises (GFC) of 2007 to 2010, climate change and the recent resurgence of predatory scramble for modern Africa by global economic and political powers. The need for appropriate policy responses motivated the introduction of solution-driven, largely home-grown developmental programmes by the African Union and other continental bodies in the context of evolving challenges. For instance, 'Agenda 2063- The Africa We Want' was designed to achieve 'A prosperous Africa based on inclusiveness and growth (Agenda, 2063). The overarching sub-objectives of the Agenda were carefully designed to deliver a resurgent Africa with good governance, democracy, and respect for human rights, justice and Rule of Law. The African Free Trade Agreement (AFCETA) is designed to liberate Africa from the strangle hold of discriminatory trade practices perpetrated at Doha Rounds and Seattle Conventions and further open up Africa for increased domestic trade to anchor a trade- led growth and development. In addition, the United Nations Sustainable Development Goals (SDGs) has been long adopted by African countries and used as benchmark for addressing the critical issues of social and economic exclusion by targeting poverty eradication, zero hunger, good health, quality education, gender equality and above all decent work and sustainable economic growth (UN, 2011).

Consequently, a major strategic approach in addressing the problems of sustainable growth and development was the African Peer Review Mechanism (henceforth APRM). Established in 2003 by African Union (AU) as part of the New Partnership for Africa (NEPAD)<sup>1</sup> initiative, it was designed with the potential to motivate African leaders to seek domesticated solutions to their development challenges. An important characteristic of APRM is that it espouses voluntary compliance for monitoring performance in governance among member states on a sustainable basis. The primary objective of African Peer Review Mechanism is to foster the adoption of policies, values, standards and practices of political and economic governance that lead to political stability, accelerated sub regional and continental economic integration, economic growth and sustainable development.

Good corporate governance<sup>1</sup>, given its role in economic growth and development was certainly not a misplaced choice as an instrument to ensure successful implementation of the aforementioned continental programmes aimed at rapid economic and social transformation of the African continent. For instance, corporate governance catalyzes increased access to finance which indirectly lead to more investments, higher growth and greater employment opportunities. In addition, good corporate governance lowers the cost of capital and associated higher firm valuation which makes more investments attractive to investors, indirectly promoting growth, investment and increased income. The issue of appropriate resource allocation is also traceable to good corporate governance, while sustaining better relationship with all stakeholders for enhanced social and labour relationships that address issues of poverty and inequality. Therefore, understanding the drivers of corporate governance performance in Africa is a necessary condition to ensure the success of the mandate of African review mechanism in supporting the achievement of the goal of inclusive growth and sustainable development in Africa.

Therefore, the overarching objective of this study is to identify the key drivers of corporate governance in African countries, critically interrogate their major indicator influencers and use the result to construct corporate governance index with which to evaluate their performance across various countries in Africa. The results from this study will assist APRM to track the dynamics of corporate governance performance in Africa and possibly develop an African Corporate

Governance index which will play a nimble role for the new added mandate of monitoring and evaluation for the APRM.

---

<sup>1</sup>Good Corporate Governance entails the pursuit of objectives by the board and management that represent the interest of a company and its shareholders including effective monitoring and efficient use of resources

The structure of this Report is organised as follows: Section one presents the introduction, background to the study, research questions, research hypothesis and objectives of the study; Section 2 presents stylized facts, while section 3 reviews relevant literature and Section 4 presents methodology and model specification, while section 5 reports results and its analysis, section 6 presents discussions of the findings, conclusions and recommendations.

## 1.1 Background and Context

African governments have pursued political and economic reforms since the 1980s in a bid to promote economic growth, reduce poverty, and encourage democracy and good governance (Mugerwa, 2003). However, assessment of progress so far indicated that outcomes have been far from satisfactory and diverging among countries. Despite the much touted 'Africa Rising' slogan, poverty and inequality remains an African phenomenon very much. In few countries where progress have been made the question of sustainability remains a serious concern. Prominent among the reasons often adduced to explain lack of sustained progress include weak public institutions, challenging business environment, and lack of consistency in policy design and implementation.

Given the critical role the APRM was designed to play in tracking progress towards meeting regional and international development aspirations and commitments, and to adequately prepare APRM for effective implementation of the additional mandate of monitoring and evaluation, the Board of the African Development Bank approved the APRM Institutional Support Project on 28<sup>th</sup> March 2018. The project is aimed at not only strengthening the APRM and contributes to the delivery of the aforementioned additional mandate, but to sharpen its monitoring and evaluation tools and processes. Specifically, the grant from African Development Bank (ADB) will be used to only address the immediate challenges of the APRM, but will also be used to hire consultants to review and refine the APRM tools and processes. One of the major requirements of effective monitoring and evaluation is the development of indicators and criteria with which to monitor and measure progress on periodically.

## 1.2 Objectives

The broad objective of the study is to conduct an empirical analysis and assessment based on APRM working definitions on the factors that drive Corporate and Economic governance in Africa. The specific objectives are therefore

- (a) Conceptualise and Identify key drivers of corporate governance in Africa
- (b) Define the relevant indicators and variables of corporate governance in Africa
- © Gather data and construct an index of corporate governance in Africa
- (d) Empirically estimate with a cross-country econometric model the drivers of corporate governance across sample of African Countries

- (e) Use the results to analyse corporate governance performance across the sampled countries
- (f) Proffer recommendations based on the results of the study

### 1.3 Justification.

This study is justified by a number of reasons; first, given that the global economy is always in a state of flux in response to domestic and external shocks such as financial crises, oil price volatility, climate change and now pandemics, the objectives of APRM needs occasional review in the context of country policy responses to such unanticipated changes. For instance, the resurgence of corporate governance as a critical factor influencing firm performance and economic growth was warranted by the aftershocks of global financial crises of 2007 to 2010. Before then, the collapse of global super firms such as Enron and, World.com signposted the need to include objectives that address corporate ethics in the management of firms globally. In this study therefore, some new variables that are idiosyncratic to African countries such as new indicators that inform drivers of corporate governance in board composition and functioning, shareholder Rights and Activism, Information disclosure and ownership and control are tested, and depending on their robustness and relevance used to review and refine existing APRM tools and processes that address corporate governance thematic area in the APRM objectives.

Second, current APRM tools and processes need a monitoring and evaluation toolkit. The revisions of the questionnaires in the context of more relevant indicators as mentioned above will enhance the ability and functionality of the APRM new mandate for reinforcing modalities for ensuring the implementation of National Programme of Action that emerge from the reviews and tracking progress overtime through a well-articulated M and E framework. One important gap that this study will fill is to develop an M and E template that will become a guide to measuring progress in future country review missions (CRM). Finally, it has been observed that African countries lag behind in the Ease of Doing Business ranking globally. There is no gainsaying that their poor performance is linked to the efficacy of their economic reforms and effectiveness in the implementation of their corporate governance objectives, codes and principles. In our literature review and analysis, we shall highlight the individual country challenges in addressing these two critical influencers in positively impacting Ease of Doing Business in Africa. Furthermore, our adoption of mixed methodology in the discussion of our results by complementing our empirical findings with existing literature as documented in Country Review Reports will strengthen the usefulness and referential value of the output of this study.

## 2.0 Drivers of Corporate Governance in Africa: Some Stylized Facts

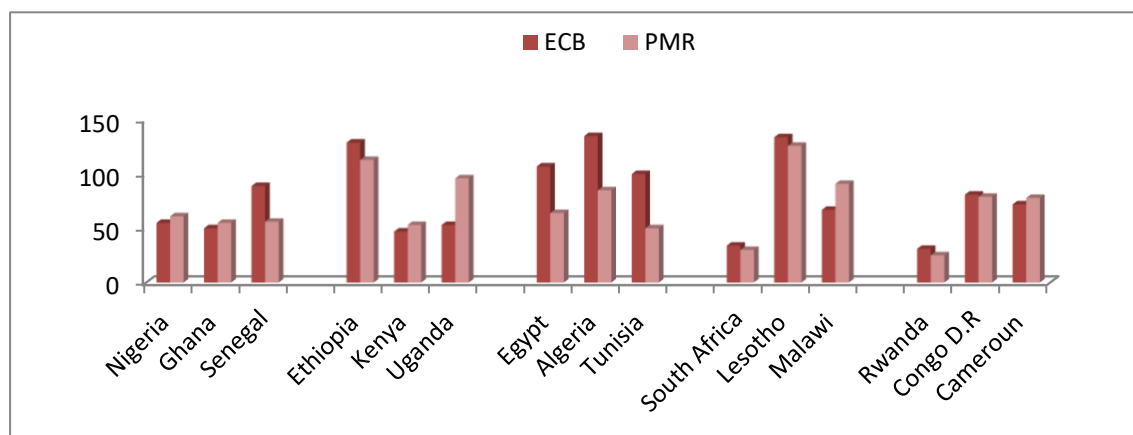
Filatotchev et al (2015) defines “key drivers of corporate governance with regard to the rights and responsibilities of company shareholders and the wealth creating and wealth protecting functions of corporate governance within that context’. These rights and responsibilities are better captured in such corporate governance mechanisms as board composition and functions, shareholder involvement, information disclosure, auditing and market for corporate control. Some institutions such as World Economic Forum and World Bank (WB) in their Global Competitiveness Index and Ease of Doing Business index respectively, have developed and published corporate governance index in their data bases. These indices capture measures of the drivers of corporate governance globally using the indicators of “good” drivers of corporate governance as identified above. As a

way of broadening our understanding of the cross country performance of drivers of corporate governance index, we gained insights and further reviewed their outcomes to enrich our literature on the construction of drivers of corporate governance Index and empirical evaluation of their performance across our sampled countries.

## 2.1 Efficacy of Corporate Boards and Protection of Minority Rights

The World Economic Forum Competitiveness index annually ranks corporate governance performance globally to showcase countries levels of corporate governance efficiency as a way of underscoring their level of global competitiveness. We present the 2018 rankings below but focusing on our sample countries for the study of drivers of corporate governance in Africa. The relevant indices employed by World Economic forum follows the taxonomy of corporate governance indices by Filatotchev et al (2015). These include efficacy of corporate boards which highlight level of board independence, diversity of human and social capital of the board composition and high engagement in board processes, while that of protection of minority shareholders rights highlights stakeholder involvement, employee participation and minority shareholders participation in decision making (WEF GCI, 2018).

**Fig 1: Efficacy of Corporate Boards ( ECB ) and Protection of Minority Rights ( PMR ).**



Source: World Economic Forum Global Competitiveness Index on Corporate Governance(2018). Note: The ranking is in ascending order ( ie the lower the rank the higher the strength)

Fig 1 above presents the scores of our study sample countries in the above mentioned two drivers of corporate governance indexes, namely, efficacy of corporate boards and strength of protection of minority shareholders rights. We observe that in the West Africa, Ghana is leading followed by Nigeria in efficacy of corporate boards, while Senegal ranked the lowest in the sub-region. On Protection of minority rights, Ghana and Senegal are at par, while Nigeria is the lowest.

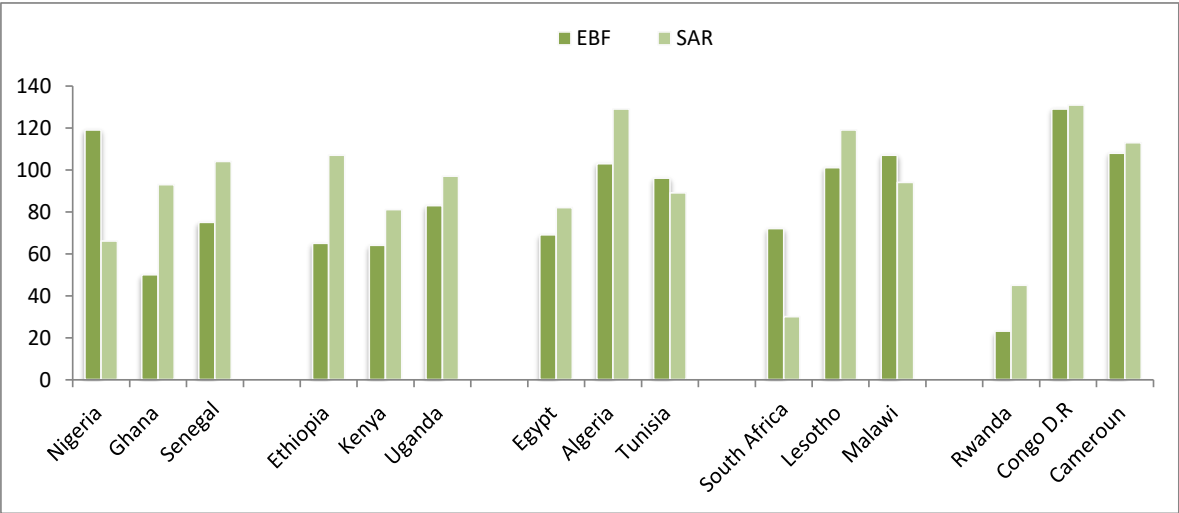
Overall, the champions in efficacy of Corporate Boards (ECB) and Protection of Minority Rights(PRM) in Africa using our sample are Rwanda, South Africa, Kenya and Ghana in that order. The worst performers are Ethiopia (East Africa), Algeria (North Africa) and Lesotho (Southern Africa). An interesting point to note is that, on the average, there seem to be correlation between efficacy of

corporate boards and strength of protection of minority shareholder’s rights. Countries where there are weak corporate boards always experience weak protection of minority shareholder rights and vice versa. On the average, West Africa performed better than other regions followed closely by Central Africa in both efficacy of corporate boards (ECB) and protection of minority Rights (PMR).

**2.2: Ethical Behavior of Firms (EBF) and Strength of Auditing and Reporting (SAR)**

The level of ethical behavior of the firms is a critical driver of corporate governance in most jurisdictions. Indeed, lack of transparency of firm operations hides important developments about firm performance and could put at risk investors stakes. On the other hand, auditing and reporting index helps to keep firms honest about their operations to the benefit of the shareholders. The audit and reporting process is often anchored on such corporate governance drivers as independence of the external audit, competence of the audit committee and presence of internal control systems.

**Fig 2: Quality of Ethical Behavior of Firms (EBF) and Strength of Auditing and Reporting ( SAR)**



Source: World Economic Forum Global Competitiveness Index on Corporate Governance (2018).

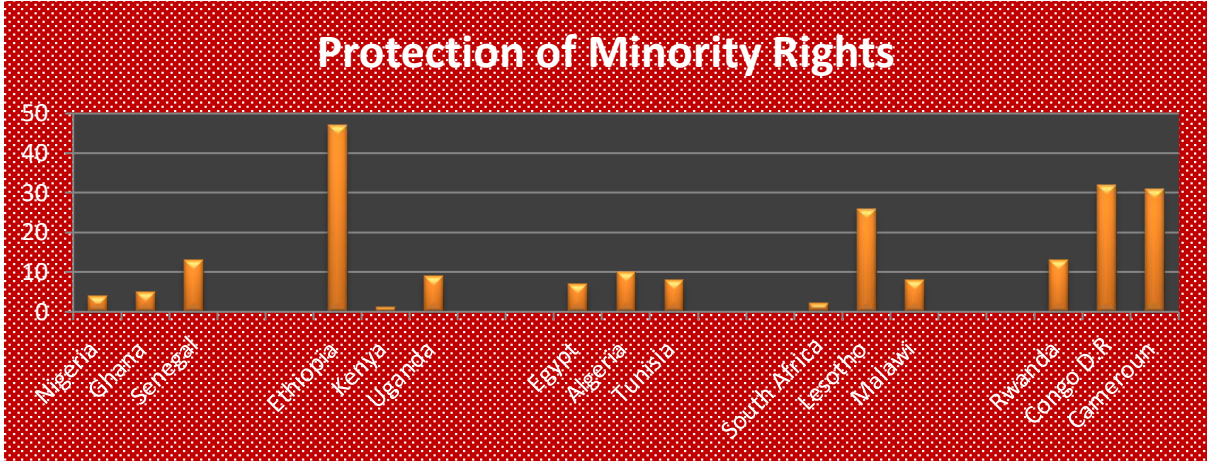
On quality of ethical behavior of firms, Rwanda and Ghana are leading in our sampled countries and closely followed by Kenya, Ethiopia, Egypt and South Africa. The Fair performers in this category are Congo D. R, Nigeria, Cameroun, Lesotho, Algeria and Tunisia. On the strength of auditing and recording, again Rwanda and South Africa are considered front leaders while Nigeria and Egypt are distant second in respectively. However, there seem to be no systemic correlation between ethical behavior of firms and strength auditing and reporting in our sample countries. Some countries that are ranked low in ethical behavior has improved ranking in strength of auditing and reporting such as Nigeria, South Africa. Notably, Congo D. R, Cameroun, Lesotho and Malawi performed poorly on both drivers of corporate governance as evidenced by their scores. On the average, there is wide spread poor performance in the ranking of the sampled countries in Africa. We also observe that no region stands out as a champion of these two important indicative elements in corporate governance in Africa in the WEF scores.

**2.3 Strength of Investor Protection as a Driver of Corporate Governance**

Strengthening investor protection is considered a driver of corporate governance given its coverage of a number of critical activities such as Directors liability, Stakeholder Suits and Disclosures.

Directors' liability index measures plaintiffs' ability to hold directors of firms liable for damages inflicted on stakeholder's investments such as equity losses and other poor investment decisions that are often taken by the board which has negative impact on investors' earnings. The Stakeholders Suits is a proxy for protection of shareholders rights and this index measures the strength of minority shareholders' protection against directors' misuse of corporate power or responsibility.

**Fig 3: Strength of Protection of Minority Rights Index**



Source: World Economic Forum Global Competitiveness Index on Corporate Governance (2018).

This index highlights stakeholder involvement, employee participation and minority shareholders' participation in decision making, and the legal right of minority shareholders to hold directors accountable on the decisions that impact their investments negatively. Lastly, extent of disclosures measures the extent to which the board and management of firms are willing to immediately disclose the public of related party transactions which could compromise board or management independence and put at risk the fortunes of the firms which they manage.

Fig 3 presents the relative rankings of our sampled countries in the protection of Minority Rights in the World Bank Ease of Doing Business index. The champions in our sampled countries include Kenya, South Africa and closely followed by Nigeria, Ghana, and Egypt, Tunisia, Algeria, Malawi and Rwanda. The worst performers in this index in our sampled countries are Ethiopia and closely followed by Congo D. R, Cameroon and Lesotho. As a region, on the average, North Africa, West Africa and Southern Africa are the champions while East Africa and Central Africa are the worst performers in the rankings in this index.

**2. 4: Directors Liability Index (0-10)**

According to the World Bank Ease of Doing Business indicators, Directors liability is defined as the ability of the plaintiffs to hold directors liable for management decisions and damages to the firm. This indicator is used to measure the level of minority rights protection in a way that leaves investors with an option to seek redress in court in the event of breach of their rights in the company. This indicator gives the shareholders the liberty to impose liability on directors for unfair related- party transactions that has the potential to compromise firms success and profitability.

**Fig 4: Directors Liability Index**





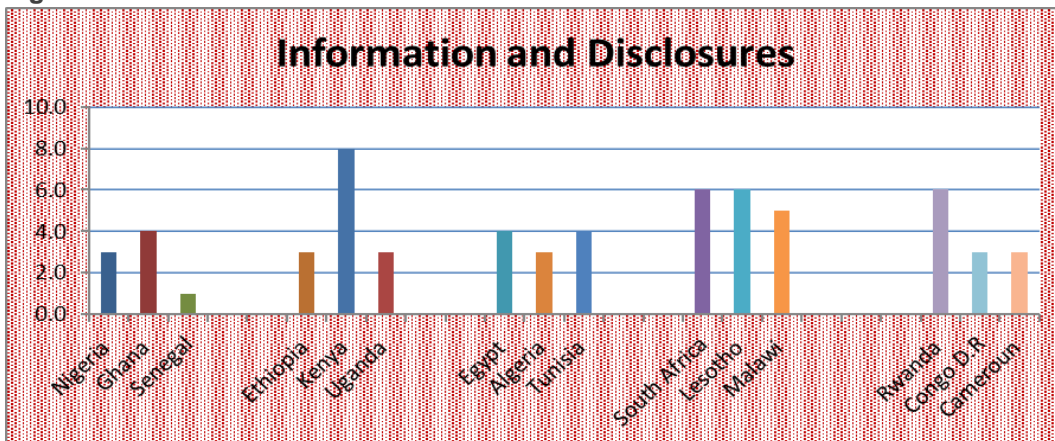
**Note:** 0-10 is the maximum rank that is considered effective in the Directors liability index

Fig 4 shows that the drivers are ranked in a descending order. That is the lower the ranking, the higher the country position in the index. In this index, Senegal, Kenya and Cameroun are the champions followed by Egypt, Ethiopia, Congo D. R and Lesotho in that order. It is important to note that most of the sampled countries came within the threshold of being ranked between (0-10) but the better performing countries are those that are below African Average of 3.6 and global average range of (0-10). South Africa, Rwanda and Nigeria are other countries that though are not champions in this index but remain within the global threshold.

## 2.5 Disclosure Index (0-10)

The Disclosure index measures the extent to which the firm is exposed to related party transactions which could accentuate the risks that such firms face in contingent liabilities. Relative performance of our sampled countries in this index reveals that Senegal, Ethiopia, Uganda, Algeria and Cameroun are champions, while Kenya, South Africa, Lesotho and Rwanda are closely following. However, following the African continent threshold ranking between (0-10) all the sampled countries are below this threshold with only Kenya ranked 8<sup>th</sup> which was the closest to 10. Regionally, West Africa and North Africa are the champions closely followed by Central Africa republic. On the other hand, Southern Africa and East Africa are comparatively the worst performers in our sampled countries.

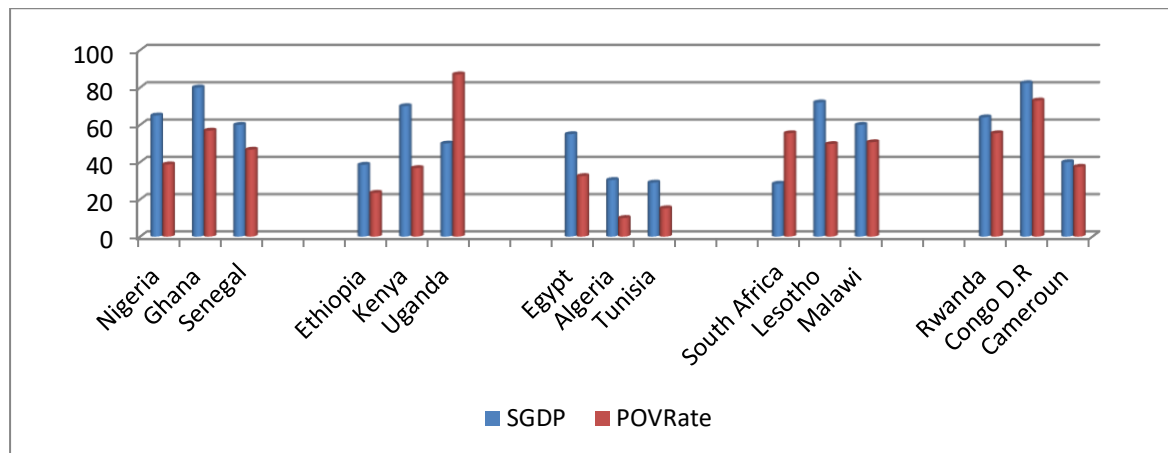
**Fig 5: Information and Disclosure Index**



## 2.6 Informal Sector and Corporate Governance in Africa.

The presence of informal sector is one of the major characteristics of developing economies. However, evidence has shown that it is not only an African phenomenon. Advance and emerging economies also have huge chunk of their economic activities in the informal sector, but the difference is that in developing economies, it is largely unaccounted for in the GDP, while other economies have a way of documenting them and classifying them as SMEs.

**Fig 6: Size of Informal Sector as a percentage of GDP and Poverty Rate**



Source: The data is taken from World Trading Economies and UNDP human development Index 2016.

Informal sectors provide employment for those that could not be absorbed by the formal sectors and therefore contributing to income growth and reduction of unemployment and poverty in Africa countries.

Fig 6 above presents the size of informal sector and its contribution to GDP in our sampled countries and the poverty rate in those countries. Egypt, Algeria and Tunisia which recorded lower contributions of informal sector to GDP have relatively low poverty rates. Other countries that exhibit linkage between the low size of the contribution of informal sector and poverty rate is Ethiopia in East Africa and Cameroon in Central Africa from our sampled countries.

The result in other regions are mixed However, no economy deliberately puts in place policies to increase the informality of their economies, no matter its positive contribution to their GDP. The conditions that keep firms in the formal sectors include excessive regulation, taxes and ownership structures; there is always a deliberate policy intervention to lure informal firms to formalize. Economic and corporate governance can be harnessed to encourage informal firms to formalize through incentives, entrepreneurial development through seminars and workshops and infrastructural development.

## 3.0 Literature Review

### 3.1 Theoretical Foundations of Drivers of Corporate Governance.

Drivers of corporate governance evolved over time through three notable theoretical development stages in literature, namely; the stage of extraction of extant theories of corporate governance from economic, social and management sciences. The second is the development of principles and codes of corporate governance from further research of, and recommendations from these extant theories which are used as standards or benchmarks by regulators and corporate decision makers

in enhancing good corporate governance (OECD, 2004). Finally, the development of drivers of corporate governance, often described as “the governance mechanism” that inform regulatory and evaluation processes of good corporate governance across many countries. Drivers of corporate governance therefore emerged from differences in corporate governance practices across many jurisdictions which tend to create gaps in outcomes. The essence of research focus on driver of corporate governance is to identify and evaluates the determinants of good corporate governance that will enhance the implementation of corporate governance codes and principles across many countries with little divergence in outcomes (Ferracane, 2017)

More generally, theories of corporate governance evolved as received epistemological insights from other fields of study which was then developed into a body of knowledge that drives the implementation and evaluation of how well a company should be run. Consequently, it turns out that the motivation to adhere to these guiding theories is that most firms that are well run stand better chance of attracting capital more than those that pay less attention to good corporate governance. It has become obvious that firms that adopt good corporate governance practices guided by the relevant theories and principles are more prepared to compete for available investment funds domestically and globally. It therefore suggests that by this development, investor’s interests are maximized and growth positively impacted. Therefore, a brief review of some of these theories is valid at this point to provide information on good drivers of corporate governance practices in the context of the objectives of our study.

#### **A. Principal- Agency Theory**

Principal - Agency Theory of Corporate Governance was developed by Alchian and Demsetz (1972) with further theoretical insights from Jensen and Mechling ( 1976). The theory argues that the principals of any company are the shareholders while the agents are the management and board. Therefore, the relationship between the two should be well understood as that master-servant to be able to enhance effective management of the firm. The principal, (shareholders) as the owners of the company should be the ones that hire agents such as the managers and boards, and therefore expects the agents to act and make decisions in the principals overall corporate interests (Clarke, 2004). However, a number of problems have been identified with this theory. For instance, Ang et al (2000) observes that there is possibility of conflict of interest between the principal and agents given that agent, as represented by Managers and Board members may be more focused on advancing their own interest as against that of the principal.

Therefore, the struggle for maximization of interest by both agents and principals has the potential to misalign interests that could generate conflict in the management of the firm. Panda and Leepsa ( 2017) further observed that some of these conflicts of interests and its associated agency costs arise due to the separation of ownership from control which the shareholders and Management represent respectively. The separation of ownership and control could lead to different risks preferences, information asymmetry between the principals, and the agents and moral hazard. They therefore recommended that solution to these conflicts could be addressed by putting in place strong ownership control through managerial ownership, independent board membership and the use of professionally led different board committees in running the company.

#### **B. Stewardship Theory**

Stewardship Theory of corporate governance was an anti-thesis to the Principal-Agency Theory and derived from psychology and sociology fields of study. The theory is defined by Davis, Schoorman and Donaldson ( 1997) who posited that management remains the steward that serves and protects the interest of the shareholders. Therefore, as the steward protects and maximizes shareholders’ wealth through improved firm performance, the steward increases and maximizes

his or her utility function. On the surface, the stewardship theory seems to highlight the same master-servant relationship as theorized in principal-agency theory. However, Mark and Kusnadi (2005) highlights the difference between the two when he observed that while the former emphasized individualism in the pursuit of firm maximization of shareholders investments, the latter is focused on the collective role of top management as stewards continually integrate their collective interests as part of the goal of the organization overall improvement strategy. The key element in Stewardship theory is that the management is trusted to protect the interest of the shareholders at all times, while the stewards use that trust to advance their own interests most often.

However, some of the shortfalls of the theory was highlighted by Gupta (1999) who notes that unquestioned blind trust of the stewards by the shareholders could be a misplaced strategy for designing corporate governance policy because not always are trusted persons advance the interest of their trustees. Indeed, a trusting person may actually be cheated. In the same vein, McEvily et al (2003) further supports Gupta's view when he argued that if a relationship is entirely based on trust, goal alignment, cooperation and cohesion may become so strong among the stewards (agents) and the principals (shareholders) that it may prevent warranted criticism of management action by the principal. Therefore, information supplied to the Board by management may not be challenged even when it is sub-optimal. In addition, Janus, (1972) further argues that extreme cohesion between the steward and principals may indeed lead to 'herding' behavior which he termed 'Group Thinking' Phenomenon'. Therefore, such "Group Thinking" behavior has the potential to forge strong cohesion among the agents and principals that may be detrimental to the company. When strong unanimity of purpose persist in the company due to prolonged trust, it may produce decisions that may not be questioned by either and therefore may produce unanimity of opinions could undermine the pursuit of realistic alternatives for effective management of the firm.

### **C. Stakeholders Theory**

Stakeholder theory was developed by Freeman (1984). The Theory basically argues that a stakeholder is "any group of individuals who can or is affected by the organizations achievements'. The broad outline of the stakeholder theory is that companies should take into consideration the needs, interests, and influences of peoples and groups who either impact on them or may be impacted by its policies and operations (Frederick et al, 1992). Furthermore, Clarkson (1995) identified three fundamental factors that shape the stakeholder theory, namely; the organization, the other actors and nature of the company-actor relationship. The basic assumption of the Stakeholder Theory is that management or stakeholders have some value they bring by leveraging on their networks of relationships to serve the key elements of the business. However, Jones (1999) argues that one of the major criticisms of the Stakeholder theory is that definition of who is a stakeholder is not only vague but lacks causal link between the activities of the stakeholders and that of management of the firm. In another development, Voss et al (2005) further notes that lack of theoretical clarity between the roles of stakeholders and managers, given that they are likely to pursue multiple objectives that serve their interests could lead to conflicts in the discharge of their functions in the firm.

### **D. The Resource Dependency Theory**

The Resource Dependency Theory was a broader adaptation of the Stakeholder Theory. It was developed by Pfiffer and Salanck (1978) to explain how the resources of the organization affect the organization. Indeed, resource dependency theory forcefully argues that the procurement of external resources is an important element of both the strategic and practical management of the firm. Resource dependency theory led to the adoption of firm management approaches such as

board recruitment which was meant that the role of board members should be to maximize resources access of the firm; optimal divisional structure, employees, production strategies, contract structure and external organization link. Davis and Cobb (2010), and Hillman et al (2009) explained that the importance of Resource Dependency Theory can be useful in understanding the actions of organizations in forming interlocks, alliances, joint ventures, and mergers and acquisitions (M& A). These organisational behaviors motivated by Resources Dependency theory is aimed at overcoming dependency and improving organizational autonomy and legitimacy. However, critics of the theory explain that it does not explain an organizations performance in relation to its strengths.

## **E. Principles and Codes of Corporate Governance**

Following from the insights provided by some of these theories, the Cadbury Report (1991) defines corporate governance as 'a system by which businesses are directed and controlled'. Therefore, good corporate governance is a critical factor that defines the integrity and efficiency of any given company. On the other hand, poor corporate governance can weaken a company's potential which can lead to financial difficulties and ultimately cause damage to company's reputation and survival. To ensure that firms are well positioned to bring value to investors, they have to be guided by some principles. Some of these principles have been identified in the OECD principles of corporate governance as Fairness, accountability, responsibility and transparency (OECD, 2012).

### **i. Fairness**

Specifically, fairness refers to equal treatment of all stakeholders such as shareholders, employees, communities and public officials. It has been theorized that the fairer a firm appears to stakeholders, the more likely it can survive the pressure of interested parties ( Pearse Trust, 2018)

### **ii. Accountability**

Accountability principle addresses issues around obligations and responsibilities of management and board to give explanation or reason for the company's actions and conduct. This connotes that the board at all times must present a balanced and understandable assessment of the company's position and prospects to the stakeholders. The board must demonstrate ability to determine the nature and extent of the significant risks it is willing to take. In addition, the board should communicate with stakeholders at regular intervals, a fair, balanced and understandable assessment of how the company is achieving its business purpose.

### **iii. Responsibility**

The Responsibility principle suggests that the Board of Directors are given the authority to act on behalf of the company. They should therefore accept full responsibility for the powers that it is given and the authority that it exercises. The Board of directors is responsible for overseeing the management of the business, affairs of the company, appointing the chief executives and monitoring the performance of the company. In doing so it is required to act in the best interest of the company.it is important to note that accountability goes hand in hand with responsibility. The Board of directors should be made accountable to the shareholders following the principal Agent theory for the way in which the company has carried out its responsibilities.

#### iv. Transparency

The principle of Transparency connotes that shareholders must be informed about the company's activities, what it plans to do in the future and any risks involved in its business. Transparency means openness, a willingness of the company to provide clear information to shareholders and other stakeholders. Specifically, transparency refers to the willingness to disclose financial performance figures which are truthful and accurate. Disclosures of material matters concerning the organizations performance and activities should be timely and accurate to ensure that all investors have access to clear, factual information which accurately reflects that financial, social and environmental position of the organization. Organizations should clarify and make publicly known the roles and responsibilities of the board and management to provide shareholders with a level of accountability. Transparency shows that stakeholders can have confidence in the decision-making and management process of a company.

The need for effective regulatory initiatives in enhancing good corporate governance underpinned the development of drivers of corporate governance from the basic principles outlined in OECD principles and codes of corporate governance first published in 1999. These drivers are identified as by Filatotchev et al (2015) as Boards composition and functioning, Shareholders Rights and activism, information disclosure and ownership and control structures among others. On Boards Composition and functioning, Jensen and Mechling (1976) argues Board composition and functioning as a main driver of corporate governance has its roots in Principal- Agency Theory.

#### **F. The nexus between Theory, Principles and Drivers of Corporate Governance.**

Three fundamental behavioral assumptions about agents and principles inform the role of the boards in firms. These are (a) both agents and principals are assumed to be rational, (b) self-interested and (c) the agents are more risk- averse than the principals. Therefore, if conflict of interest occurs between the agents and the principals, Fama (1980) argues that the former will elect to engage in self- serving actions at the expense of the latter. The implication is that shareholders and managers goals are likely to diverge and therefore there is need to mitigate manager's self-serving behavior through effective board composition and performance (Shliefer and Vishny 1999). Other remedies considered effective in mitigating conflict of interest between the shareholders and boards is Board Independence through which board members are mandated to monitor managers on behalf of shareholders ( Lynial et 2003). In order words, Board of directors is given the authority to ratify management initiatives, to evaluate managerial performance and to allocate rewards and penalties to management on the basis of criteria that reflect shareholders' interests. In this regard, independent directors are believed to be more effective in protecting shareholders' interests resulting in higher firm performance (Baysinger and Buttler 1995; Baysinger and Hoskisson 1990)

Farracone (2020) argues that theoretically, the most contested and controversial Driver of corporate governance practices is shareholders rights. In theory, it has been argued that shareholders rights and activism are controversial because of the link between the pattern and amount of stock ownership with managerial behavior, which has direct implication for corporate behavior (Dalton, 2003; Short 1994). Alchian and Demsetz (1972), and Tihany et al ( 2003) both argue that concentration of ownership may be an effective approach to controlling the agency problems cause by the separation of risk-bearing and decision functions in firms. Protection of shareholders rights and activism is anchored on the fact that large stock outside owners may be a counterbalance to managerial opportunism because they may have the incentives and the means to restrain self-serving behavior of managers (see Mauge, 1978). On the other hand, McConnell and Serves (1990) argues that there is a positive relationship between institutional share ownership and Tobin Q. In recent years, there has been a general move over expanding shareholders rights

in the USA that permit shareholders to take certain actions that are in their best interest. The notable theoretical considerations of shareholders rights and company performance can be found in the studies by Filatotchev and Toms (2003) which reports that there is a link between the activities of institutional equity –holders and firms’ performance in the UK textile industry. Further studies that corroborated their findings are those of Hill and Snell (1980) that suggests a positive relationship between ownership concentration and productivity for their sample of 122 Fortune 500 firms.

Information disclosure has been theorized as a fundamental prerequisites, cornerstone, or major driver of corporate governance in many jurisdictions. Disclosing appropriate information timely and in the right context of corporate governance directly or indirectly suggests that the informational environment of the firm has impact on the efficacy of strategy and level of firm performance. Several studies have documented the fact that information asymmetry ( Akerloff, 1980) and ‘information impactedness’ have perverse impact on firm performance ( see Williamson 1985). Information has been classified into various categories in the context of corporate governance. There are financial information (profit and loss etc), operating information (strategy, performance against objectives etc), and governance information (board composition, executive remuneration etc). Information may be horizontal or vertical; it may also be backward or forward looking with the later usually adjudged to come with a premium. It is important to note that firms adopting international accounting standards must meet a number of requirements that make them disclose more information and be more transparent in their business transactions. The basic idea that underpins the need for disclosures in firms is that greater disclosures leads to more firm value (see Klapper and Love 2004). Some of the relevant information required to drive corporate governance are timely presentation of annual reports, effective use of international accounting standards such as IASB or GAAP and the use of independent and professional auditing firms to periodically assess the books of the firms.

The Theoretical foundations of Ownership and Control structure as a driver of corporate governance are also rooted in the Principal Agency Theory. The corporate struggle for power between the management and shareholders about who should control the firm is an issue central to several researches in corporate governance. For instance, Shliefer and Vishny, (1997), La Porte (1998, 1999) suggested that concentrated ownership through voting rights and separation of voting from cash flow rights have a negative effect on firm valuation because of the potential of expropriation of minority shareholders rights. Consequently, such companies are unattractive to small shareholders and their shares have lower valuation. However, markets for corporate control through takeovers and mergers may also lead to opportunistic behavior that could induce ‘breach of trust’ through asset stripping and the elimination of healthy competitors (Filatotchev et al, 2014)

### **3.2 Empirical Literature**

Over the years, several empirical studies have been undertaken on the drivers of corporate governance in advanced, emerging and developing economies. Many of such studies posted differences in results which featured variations in their recommendations. The observed variations in the findings of these studies are mainly explained by differences in the levels of developments and reforms of their financial markets, institutional structures such as legal framework and regulatory regimes. Some of the critical drivers of corporate governance covered by these studies range from board composition and functionality, shareholder Rights and activism, information Disclosure and ownership and control structure. For instance, on board composition and functionality, most empirical studies covered issues relating to board size, independence, diversity and relationship with the management. The impact of these variables on firm performance was extensively investigated and the results reflect differences in both economic development and system of corporate governance adopted and implemented by the studied countries.

For instance, Bhajat and Black (2001) investigated the claim that 'monitoring boards' composed entirely of independent directors is an important component of good corporate governance in the United States. The study used two methodologies, namely Spearman's correlation coefficient and multiple Regression analysis to investigate the non-correlation between board independence and long term firm performance between 1991 and 1995 in some publicly quoted companies. The results of the study show that low profitability companies increase the independence of the boards of their directors but there is no evidence that the more independent boards are the better the long term performance of their firms. The result of the study supports efforts by firms to experiment with board structures that depart from conventional monitoring board's arrangement prevalent in advanced economies corporate governance systems. However, the results of this study cannot be considered generic given differences in corporate governance structures in both emerging and developing economies.

In their contribution to the empirical debate on the impact of board compositions and functioning on firm performance, Boone et al (2007) used a Panel Regression analysis to investigate whether board size and independence increases as firms grow and diversify over time in the US. The study specifically ascertained whether (a) Board size rather than board independence reflects more a trade-off between firm specific benefits and costs, (b) Or that board independence negatively related to managers influence and positively related to constraints on that influence. The results show that economic considerations such as specific nature of firms competitive environment and managerial team explain better cross sectional variations in corporate board size and composition. However, the study did not explain the impact of differences in board structure perhaps due to the idiosyncratic nature of the data used for the study.

Martin and Herrerro (2018) studied the effect of board's composition and their effects on firm performance in Spain using GMM (General Method of Moments) Methodology. This method became relevant in order to account for endogeneity problems associated with idiosyncratic nature of the data used. The study empirically investigated the impact of board size, independence and diversity on firm performance of selected quoted firms in Spain stock markets. The results confirm that while there was high degree of compliance of corporate governance codes and principles in Spain, there was negative and significant relationship between independence of the board and firm performance. However, in the variable used to capture board diversity an index which integrated not only the gender of board members but also their age and nationality. However, the study had very limited variables which were considered insufficient to capture all the dependent variables that the study intended to investigate.

Sanda et al (2011) examined the relationship between board independence and firm financial performance in Nigeria using Descriptive Statistical Analysis with data from the Nigerian stock exchange from 1996 to 2004. The results show that share ownership was highly concentrated and this influenced board structures with strong family affiliations which led to breach in corporate governance rules. Consequently, most CEOs were active members of the board audit committees. The study further found that while family affiliations of board members was found to support growth, members of audit committee actually hurt firm financial performance. However, given the need to be certain about the impact of board independence on firm performance, a more robust econometric methodology would have been more appropriate for the study.

Muchemwa et al (2016) tested the efficacy of the Agency Theory and Resource Dependence Theory as well as other corporate governance literature using data from South African Johannesburg stock Exchange from 2006 to 2012. The study specifically investigated the form of empirical relationship that existed between board composition and size with firm performance using Multiple Regression Analysis. The results show that board composition measured as the ratio of



non-executive to executive board members and the number of directors of firms' board can be positively related to firm performance. The study sought to validate the Agency theory that relates these variables in the context of a developing economy such as South Africa. While the study proved the Agency and resource dependency theory right, it did not establish whether firm performance is sensitive to any given optimal given number of board members at a given time.

Under shareholder Rights and activism, several studies have been undertaken to ascertain the impact it has on overall firm performance. For instance, Gerard (2001) studied the strategic alignment of specific minority shareholder dissident coalitions and how they influence the decision making process by comparing the practice in UK with that of France. They used comparative statistical analysis to study 79 French quoted companies from 1989 to 2000 and 57 British quoted firms from 1992 to 2000. The study identified the characteristics of French and British shareholder activities and reported that dissident shareholder activism is driven by investment policy permits and provided by the agency theory.

Musongo (2011) in a published MSc Thesis questioned the traditional models of shareholder activism which is mainly to use their voting rights against board directors involved in misdemeanors against the laid down rules of the company Act in Kenya. The study reports that although shareholder's intervention and activism has the potential to improve the welfare of shareholders such intervention is more likely to achieve optimal results in public rather than private companies. The study further reports that the legal and regulatory framework in corporate governance in Kenya has long been in favor of restrictions and limitations of shareholder influence or power. The implication of this development is that in Kenya corporate policy and decision making are exclusively by directors and managers excluding minority shareholders input. Based on this finding, the study therefore recommended that directors and senior managers should not be allowed to make major decisions on major corporate policy without the involvement of investors or shareholders. The gap with this study is that it could not be applied generically in other countries because of the limited nature of its data and basic assumptions.

Arig Ali (2019) in a well-researched Article titled ' Shareholders Rights and Shareholder Activism in Egypt' published in Chambers and Performers website, forcefully argued that the Egyptian Company law has always included standard minority protection rights in line with international best practices such as right to information, or attendance of the general assembly meetings. However, proportional representation on the board of directors and regulation of exit rights were not fully addressed in Egyptian Company Act. Therefore, minority shareholder activists who wish to regulate such rights had no alternative other than include them in the shareholders' agreement which is not binding on the target company itself nor to the shareholders who are not party to it.

Tsamenyi et al (2012) examines the extent to which factors such as ownership structure, dispersion of shareholding firm size and leverage influence corporate information disclosure practices in Ghana with data from 22 listed firms on the Ghana Stock Exchange. The study finds that the level of corporate disclosure in Ghana is quite low. In addition, the study reports that ownership structure, dispersion of shareholdings and firm size (measured as total assets and market capitalization) all have significant effect on corporate disclosure. However, the correlation between disclosure and leverage was insignificant. The research was limited by its sole focus on only companies listed in the Ghana stock exchange (GSE), therefore the result may not be a correct representation of all companies operating in Ghana.

Isukuh and Chizea (2017) used the unweighted index construction technique to examine corporate governance disclosure in Nigeria and South Africa banks. The study provided a cross sectional examination of corporate governance disclosure practices in the annual Reports of listed banks in Nigeria and South Africa. The result suggests that Nigeria and South Africa banks have a high level

of corporate governance disclosure. However, the study further notes that Nigeria and South Africa have low level of voluntary disclosure practices. While Nigerian Banks appear to be collating information with no link to the overall business strategy of the organization, South Africa banks have a more robust approach to voluntary corporate governance disclosure as they apply international guidelines such as global Reporting initiative in their disclosure practices.

Eng and Teen Mak (2003) examine the impact of ownership structure on voluntary disclosure of listed firms in Singapore stock exchange. In the study ownership structure is characterized by management ownership, block holder ownership and government ownership, while board composition is measured by the percentage of independent directors. Voluntary disclosure is proxied by an aggregated disclosure of non-mandatory strategic non-financial and financial information. Results show that ownership structure and board composition affect disclosure practices. Furthermore, the study indicates that lower managerial ownership and significant government ownership are associated with increased disclosure. However, block holder ownership is not related to disclosure. The research specifically noted that an increase in outside directorship reduces corporate disclosure and that larger firm with lower debt had greater disclosure.

El Mendi (2007) examines corporate governance and disclosure in Tunisia, North Africa by analyzing the board, the ownership structure and financial markets by using Panel Regression Analysis and Data from 24 listed companies on the Tunisia Stock Exchange for the period 2000 to 2005. The results show that corporate governance in Tunisia is characterized by strong block holders (often including families). Furthermore, the study reports that Tunisia corporate governance is weak although the study provided strong evidence of link between corporate governance and corporate performance.

Nwika (2012) examines how vital it is to have good corporate governance Codes and implementation mechanisms (Drivers of corporate governance) in Rwanda in the light of the introduction and development of capital markets, and the growing number of institutional investors. The results show that Rwanda's amended company Law is strong on investment Protection but there is non-existent corporate governance code which leaves room for managers to exploit minority shareholders and stakeholders. The study further established a positive relationship between 'good' corporate governance and company growth, but negative relationship between bad corporate governance and firm performance, profitability and sustainability.

## **4.0 Methodology, Data and Model Specification**

Our empirical model in studying drivers of corporate Governance performance in Africa followed two main methodologies. The first is to construct a driver of corporate governance index ( CGI) and the second is to use the index to empirically evaluate performance of drivers of corporate governance in the sampled countries.

### **4.1 Construction of Corporate Governance Performance Index (CGI)**

This approach follows previous studies such as Black et al (2003) and Klapper and Love (2004) who used survey-based approach to extract information firm level data with which a corporate governance index was constructed. However, we adopted Silver and Leal (2005) who rather than rely on firm level survey because of constraints associated with such as survey in terms of

resources and coverage relied on information extracted from published firm information on corporate governance in annual reports, firm charter documents and stock market reports.

We model our approach thus:

$$H_{it} = \sum_{t-1}^{1=2} X_{it} \quad (1)$$

Where H represents individual firms selected from each countries i at time t and X represents a summation of information gathered from annual reports, firm charter documents and stock market reports on the performance of identified indicators of corporate governance in each firm and from each of the sampled countries. The collation of information of the performance of each indicator can then be transformed into the following drivers of corporate governance notations:

$$CGI_{it} = \sum_{i-t}^{i-2} X_{it} = \sum_{i-t}^{1-2} (Q_{it}) + \sum_{1-t}^{1-2} (W_{it}) + \sum_{1-t}^{1-2} (M_{it}) + \sum_{1-t}^{1-2} (K_{it}) \quad (2)$$

Equation 2 specifies that Corporate Governance index (CGI) is a summation of the corporate governance indicators X broken down into the summation of the indicators that make up the drivers of corporate Governance Index with Q representing Boards Composition and Function, W representing Shareholders Rights and Activism, M representing Information and Disclosure and K representing Ownership and Control Structure, and A representing African idiosyncratic Indicators ( indicators unique to African Countries).

## 4.2 Cross -Country Panel Regression Model Specification

In order to analyse the relationship between the quality and corporate governance practices and, measured by the CGI, and its impact on firm valuation and performance, the following Panel Regression empirical equation were specified thus:

$$y_{it} = \alpha_i + \varphi_i + y_{-1}\beta_i X_{-1} + \beta_2 X_{-1} + \ell_t \quad (3)$$

Where  $y_t$  is the dependent variable, X is a vector of explanatory variables in lags,  $\beta$  and  $\alpha$  are coefficients and  $e$  is the error term.

Equation 1 can then be further explained as:

$$\text{Tobin's } Q_{it} = \alpha_i + \text{TobinsQ} \cdot 1 + \beta_1 \text{CGI}_{it} + \beta_2 \text{Leverage} + \beta_3 \text{Leverage}_{-1} + \beta_4 \text{Size} + \beta_5 \text{Size}_{-1} + \beta_6 \ln \text{SG} + \beta_7 \text{SG} + \beta_8 \text{FO} + \beta_9 \text{GDP} + \varepsilon_{it} \quad (4)$$

Where

- Tobins Q**= defined as the Total market value of the firm/ by the total value asset value of the firm with a lag. It is often used as a good measure of the firm performance in many studies.
- CGI**= Drivers of Corporate Governance Performance Index
- Leverage** = Firm leverage is use of borrowed funds to amplify returns and calculated as Total Debt/ Total Asset ratio with a lag

- d. **GDP** is the Gross Domestic Product
- e. **InSG** is informal Sector as a percentage of GDP
- f. **SG** is the Sales Growth of firms
- g. **FO** is the Foreign Ownership calculated by the dominance of foreigners in the board
- h. **Size**= defined as the volume of operations turned out by a single firm and measure as the natural log of total assets with a lag
- i. **Et is the error term.**

Following Silva and Leal (2005) the firm effect  $\alpha_i$  is taken to be constant over time  $t$  and specific to the firm cross sectional unit  $i$ . There are two basic frameworks used to generalise this model. The random effect approach specifies that  $\alpha_i$  is a firm specific disturbance that can also be randomized even with a lag. The lagged values indicate that the impact of previous firm performance indicators may also be relevant in influencing the behaviour of current and future values. We then run the Hausman (1978) test in order to check the more efficient model between fixed and random effects.

To be able to differentiate the effects of the model on our sampled countries we introduced country dummies to the equation as follows

$$\text{Tobin's } Q_{it} = \alpha_i + \text{Tobin's } Q_{i,t-1} + \beta_1 \text{CGI}_{it} + \beta_2 \text{Leverage} + \beta_3 \text{Leverage}_{-1} + \beta_4 \text{Size} + \beta_5 \text{Size}_{-1} + \beta_6 \text{InSG} + \beta_7 \text{SG} + \beta_8 \text{FO} + \beta_9 \text{GDP} + \text{Country Dummy } D_1 + \text{Country Dummy } 2 \dots \text{Country dummy } N + \epsilon_{it} \quad (5)$$

The country dummies are included in the Panel regression model to account for different countries in our samples so as to furnish comparison of the equation across the countries used as the sample. The idea behind the country dummies is that each country may be at a different stage of development and, growth and present some peculiarities that determine firm valuation and performance based on the overall robustness of the index used for the model.

## 5.0 Presentation of Empirical Results and Analysis

### 5.1. Drivers of Corporate Governance Index (CGI) Construction and Analysis.

**Table 1** shows countries and listed firms selected and used for the construction of the drivers of corporate governance performance index (CGI). The information is gotten from Annual reports, firm charters, stock market reports and reports from institute of directors. Altogether 58 firms were used for the study while Cameroon only has 2 firms listed in their exchange from available record in the internet.

**Table 1: Sampled countries and listed Firms in Stock Exchanges and focal Sectors.**

Countries	No of Firms	Agriculture	Manufacturing	Tourism and Leisure	Financial Services ( Banking)
Nigeria	4	Livestock Feeds Plc	Nestle Nig. Plc	Transcorp Hotels	Zenith Bank PIC
Ghana	4	Benso Oil Palm Plantation	PZ Cussons	Hords	Ghana Commercial Bank
Senegal	4	BOABF	UNXC	CABC	BOBA
Ethiopia	4	Hara Breweries	Ambessa	Ethiopian Airlines	National Bank of Ethiopia
Kenya	4	Williamson Tea Kenya	Bamburi Cement	Kenya Airways	Diamond Trust Bank
Uganda	4	Vision Group	Bat Uganda	Cipla Quality	Bank of Baruda
Egypt	4	Egypt for Poultry	Egyptian Starch	Egyptian Tourism Resort	Egyptian Gulf Bank
Algeria	4	Cervital	Sonel Gas	Air Algeria	Hamoud Bouslem
Tunisia	4	Cerealis ( Creal)	Sortemail ( Sotem)	Telnet Holding	Amen Bank
South Africa	4	Alt Vest Limited	Reuneit Limited	Taste Holdings Limited	ABSA Bank
Lesotho	4	Basuto land	Malubi Sky	Lesotho Airways	Telcome Lesotho
Malawi	4	Ilovo Sugar	Nico Holdings	Sun bird Tourism	NBS Bank PLC
Rwanda	4	Bralirwa limited	Udumi Supermarket	Crystal Telecom	B.K Group
Congo D. R	4	Kinserve	MCK	Geca Mines	Tremelt limited
Cameroon	2	SEMC	SAFACAM	-	-

Source: Companies are taken from Stock Exchanges of sample countries and tabulated by the Author. Cameroon have only two firms listed in their Exchange

In Table 2 below we present the summary statistics and percentage distribution of questions and answers that were extracted from the 58 firms surveyed using answers from annual reports, firm charters, stock markets reports, institute of Directors reports and empirical studies. For instance, indicators such as Board independence (55.51), ability of boards to provide strategic direction, using and separating the chairman of the board from CEO (66.89), Board support for Corporate social responsibility (65.82), Board's ability to provide strategic direction for management (64.13), and board size between 5 and 9 all showed above average performance in the indicator survey of Board composition and functioning. However, continuity of board membership (39.98), permanent fiscal boards (39.99), and Gender balance in board appointments (30.53) indicated below average performance in the indicator trends of surveyed firms in sampled countries.

**Table 2: Drivers of Corporate Governance Indicators Summary Statistics**

Drivers of Corporate Governance	Indicators	2013	2014	2015	2016	2017	Average
Boards Composition and Functioning	Board Independence	43.10	51.72	55.17	58.62	68.96	55.51
	Board members serve consecutive one year term	41.37	43.10	37.93	43.10	34.4	39.98
	Permanent Fiscal Board	31.03	41.37	50.00	44.82	32.75	39.99
	Board size between 5 and 9	41.37	62.06	48.27	65.51	41.37	51.71
	Gender balance in Board composition	30.25	25.32	42.10	28.12	26.19	30.53
	Board provides strategic direction for the Firm	37.93	55.17	67.24	70.68	89.65	64.13
	Board interest in Corporate Social Responsibility	58.12	46.89	68.56	73.23	82.34	65.82

	Different Board Chairman and CEO	50.00	63.79	67.24	70.68	82.75	66.89
<b>Shareholder Rights and Activism</b>	Using Arbitration to solve conflicts	25.86	24.13	17.24	44.82	48.27	32.06
	Additional Rights beyond what is legally provided	36.20	31.03	24.13	22.41	20.68	26.88
	Shareholders influence call for AGM	48.27	55.17	75.86	82.75	87.93	69.99
	Tag along rights beyond what is legally required	20.68	18.96	37.93	36.20	24.13	45.99
	Protection of Minority Rights	32.15	28.49	40.15	52.15	38.57	38.30
<b>Information and Disclosure</b>	Financial reports published by the required date	62.06	72.41	84.48	75.86	87.93	76.54
	Use of international accounting standards	56.89	72.41	75.86	89.65	96.55	75.51
	Use of globally recognized audit firms	48.27	72.41	75.86	77.58	86.20	76.54
	Observance of Risk Management Practices	69.23	87.34	73.12	67.87	79.56	75.42
<b>Ownership and Control Structure</b>	Controlling Shareholders hold <50% of votes	53.44	75.86	48.27	46.55	41.37	53.09
	Controlling shareholders cash flow/ vote ratio >1	56.89	72.41	65.51	65.51	70.68	66.20
	Free float greater than or equal to 25%	65.51	77.58	82.75	70.68	89.65	77.23
	% voting capital in real capital > 80%	46.55	44.82	72.41	81.03	82.75	65.51

**Note:** The distribution and response to questions on each indicator among firms over the period 2013-2017.

Under Shareholder Rights and Activism, indicators that were above average performance showed steady improvement among the firms surveyed. These include using ability of shareholders to influence call for AGM (69.99), while using arbitration to resolve conflicts (32.06), additional Rights beyond what is legally provided (26.88), Tag along rights (45.99) and protection of minority rights (38.30) all were below average performance in the trend analysis of the surveyed firms.

On information and Disclosure driver of corporate governance all the indicators, namely, financial reports published at the required date (76.54), use of international accounting standards (75.51), Use of globally recognized audit firms (76.54) and observance of risk management practices (75.42) posted above average performance within the years under study. This suggest that in Africa, there is remarkable and growing improvement in information and Disclosure.

In Ownership and Control driver of corporate governance, Controlling shareholders vote is below 50 percent (53.09), Controlling shareholders cash flow vote ratio is less than 1 or 100 (66.20), free float of shares greater than or equal to 25% (77.23) and percentage voting capital in real

capital is above 80% ( 65.51). However, the increasing control of the firm by shareholders explains the poor performance of protection of minority rights as evidenced by the survey result.

In Table 3, we used the constructed Drivers of Corporate Governance Index (CGI) to rank all the firms and collated the scores of each firm in each country to build a rank for the countries. Countries between the Index 10 to 16 were ranked as having Good Corporate governance performance. Medium corporate governance performances are those that ranked between 9 to 5 and others that ranked between 4 to 1 are ranked 'Challenged' in the performance of drivers of corporate governance.

In Table 4, we present the ranking of the sampled countries according to their performance in drivers of Corporate Governance indicators (CGI). Board Composition and functioning has (7) indicator questions, while shareholder rights and activism has 4 questions. Information and Disclosure and Ownership and Control has 4 questions each. The scores of the firms and their relative percentages in all the countries were then tabulated and used to assess each of the countries on the same scale.

**Table 3: Corporate Governance Scores (2013 to 2017)**

PERFORMANCE RATING	CGI	2013	2014	2015	2016	2017
'Good' Performance of Drivers of Corporate Governance	17	0.00	0.00	0.00	0.00	0.00
	16	1.50	0.00	0.57	0.72	0.00
	15	0.67	0.79	2.68	4.12	0.00
	14	0.00	2.46	0.00	0.00	0.73
	13	0.00	1.89	1.69	6.13	2.80
	12	1.32	0.00	4.72	2.50	6.25
	11	0.78	3.25	3.12	4.24	1.46
	10	0.81	5.30	4.12	4.34	0.57
		<b>5.08</b>	<b>13.69</b>	<b>16.90</b>	<b>22.05</b>	<b>11.81</b>
'Medium' Performance of Drivers of Corporate Governance	9	13.45	19.65	14.13	14.34	20.09
	8	17.65	14.69	16.12	13.10	17.95
	7	11.43	12.58	14.11	13.12	20.25
	6	16.73	15.45	19.10	11.67	11.67
	5	18.76	12.12	10.12	12.29	13.33
		<b>78.02</b>	<b>74.49</b>	<b>73.58</b>	<b>64.52</b>	<b>83.29</b>
'Fair' Performance of Drivers of Corporate Governance	4	6.48	4.09	4.11	2.91	1.56
	3	5.31	4.08	2.31	5.18	2.33
	2	5.11	3.65	3.10	5.34	1.01
	1	0.00	0.00	0.00	0.00	0.00
	0	0.00	0.00	0.00	0.00	0.00
		<b>16.90</b>	<b>11.82</b>	<b>9.52</b>	<b>13.34</b>	<b>4.90</b>

In the collated scores, South Africa was number 1, Nigeria ranked (2) and Egypt and Kenya were ranked 3th and 4<sup>th</sup> respectively. In the bottom 3 are Cameroon, Congo DR and Malawi in that order. We note that the ranking is done within the sampled countries and perhaps if all the countries in Africa were included in this research, there is no doubt that the results may be different. Since this study is a methodology and empirical one, assumptions were made to reflect the context of the objectives that the study was intended to achieve. This is a major bias in this study, but the results

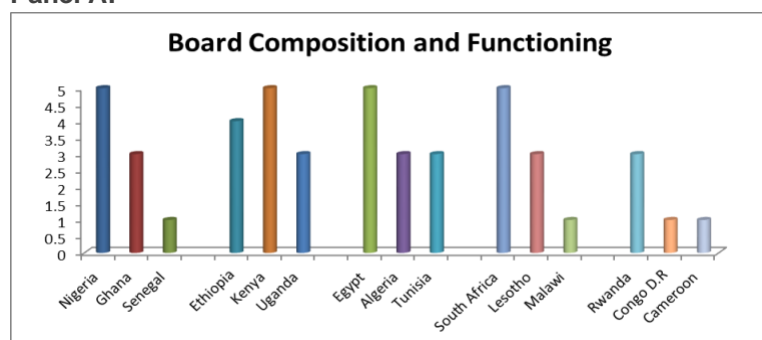
reflect the reality of the position of the firms surveyed in their corporate governance performances in the years under study.

**Table 4 : Ranking of Sampled Countries in Drivers of Corporate Governance Index (CGI)**

Sample Countries	Ranking	CGI	Performance Rating	2013	2014	2015	2016	2017
South Africa	1	16	<b>'GOOD'</b> Performance	1.50	0.00	0.57	0.72	0.00
Nigeria	2	15		0.67	0.79	2.68	4.12	0.00
Egypt	3	14		0.00	2.46	0.00	0.00	0.73
Kenya	4	13		0.00	1.89	1.69	6.13	2.80
Ghana	5	12		1.32	0.00	4.72	2.50	6.25
Ethiopia	6	11		0.78	3.25	3.12	4.24	1.46
Rwanda	7	10		0.81	5.30	4.12	4.34	0.57
				<b>5.08</b>	<b>13.69</b>	<b>16.90</b>	<b>22.05</b>	<b>11.81</b>
Algeria	8	9	<b>'MEDIUM'</b> Performance	13.45	19.65	14.13	14.34	20.09
Lesotho	9	8		17.65	14.69	16.12	13.10	17.95
Uganda	10	7		11.43	12.58	14.11	13.12	20.25
Tunisia	11	6		16.73	15.45	19.10	11.67	11.67
Senegal	12	5		18.76	12.12	10.12	12.29	13.33
				<b>78.02</b>	<b>74.49</b>	<b>73.58</b>	<b>64.52</b>	<b>83.29</b>
Cameroon	13	4	<b>'FAIR'</b> Performance	6.48	4.09	4.11	2.91	1.56
Congo D. R	14	3		5.31	4.08	2.31	5.18	2.33
Malawi	15	1		5.11	3.65	3.10	5.34	1.01
				<b>16.90</b>	<b>11.82</b>	<b>9.52</b>	<b>13.34</b>	<b>4.90</b>

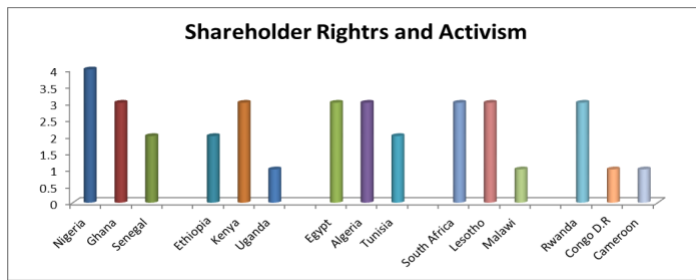
**Fig 7: Results of Comparative Performance of Drivers of Corporate Governance Index ( CGI)**

**Panel A:**

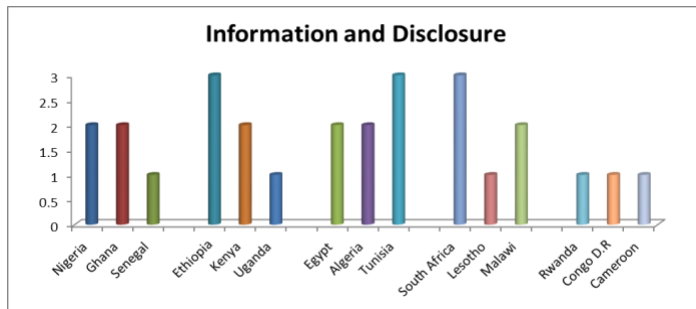


**Panel B:**

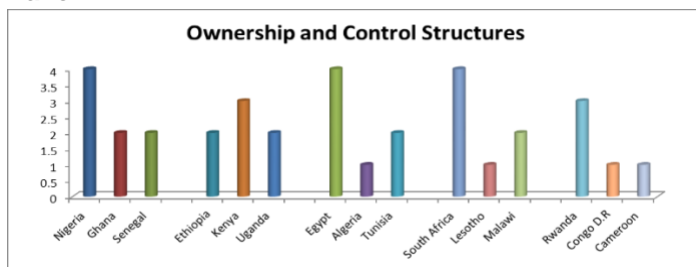




Panel C:



Panel D:



In Panel A, the countries with the best performance in Board Composition and function are Nigeria, Kenya, Egypt and South Africa. The worst performers are Algeria, Lesotho, Congo D. R and Cameroon. On regional basis, East Africa leads on average performance closely followed by North Africa. Panel B presents the comparative performance of Shareholder Rights and Activism in the sampled countries. In this index, Nigeria leads closely followed by Ghana, Kenya and Egypt in that order. The worst performance is Uganda, Malawi, Congo D. R and Cameroon. On a regional comparative basis, West Africa leads and closely followed by North Africa and the worst performers on average basis is central Africa notwithstanding that Rwanda stands out in the pack

Panel C presents comparative performance on Information and Disclosure as a driver of corporate Governance. Ethiopia leads and closely followed by Tunisia and South Africa in that order. The worst performers in this driver of corporate Governance are Senegal, Uganda, Lesotho and three countries of Rwanda, Congo D. R and Cameroon all in Central African Republic. On regional average basis, East Africa leads and closely followed by Southern Africa. The clear worst performer on a regional basis is Central Africa as represented by Rwanda, Congo D.R and Cameroon.

Panel D presents results of the performance of countries on the ownership and control structures as a driver of corporate governance. Leading countries are South Africa, Nigeria and Egypt, while Rwanda Kenya follows closely. Worst performing countries include, Algeria, Lesotho, Congo D.R and Cameroon.

## 5.2 Results of Cross Country Regression Analysis

In this section we present the results of the Cross Country Panel Regression Analysis to be able to test our hypothesis whether the constructed CGI has empirical relationship with firm performance in the sampled countries.

### 5.2.1. Descriptive Statistics

**Table 5: Descriptive Statistics**

Variable	CGI	GDP	TQ	InSG	SG	LEV	FO	SIZE
Mean	9.86	6.34	1.18	5.87	3.52	0.70	2.81	5.08
Median	10.02	7.32	1.06	4.35	5.72	0.56	3.21	5.07
Maximum	14.12	4.67	3.10	6.46	4.12	2.34	6.24	9.06
Minimum	4.03	2.76	0.11	3.65	4.62	0.11	5.12	2.06
Std. Deviation	2.08	1.34	0.73	3.24	5.34	0.50	6.26	1.61

The mean of the variables, their median statistics and standard deviations from the central tendencies are presented in Table 9 above. The results show that the mean value of firm level CGI is 9.86 per cent, while that of the ROA is 7.53 per cent. The standard deviations from the central averages were also presented.

### 5.2.2 Results of Cross- Country Regression Model

**Table 6. Results of Panel Regression Analysis with Tobin's Q as the dependent variable**

Variable	Dependent Variable		
	Tobin's Q		
	Fixed Effect	Random Effect	Pooled Regression
Constant	-	0.2896 (0.4252)	0.3455 (0.7952)
CGI	0.0056** (1.5742)	0.4920 (0.0392)	0.0459 (0.9436)
Tobins Q <sub>-1</sub>	0.3249 (0.1030)	0.9241 (0.4672)	0.7321 (0.0057)
GDP	0.0071** (1.4521)	0.6214 (0.1762)	0.5312 (0.0932)
Literacy Level	0.4389 (0.0048)	0.6278 (0.0418)	0.4314 (0.0349)
Leverage	(0.0091)** (1.5672)	0.8958 (0.0224)	0.0468 (0.9836)
Leverage <sub>-1</sub>	0.0048* (2.13472)	0.0931 (0.0495)	0.0972 (0.0053)
In SG	0.7345 (0.0381)	0.4901 (2.0)	0.6521 (0.9632)
SG	0.3025 (0.0056)	0.6521 (0.0045)	0.8624 (0.5432)
FO	0.5893 (0.0024)	0.0429 (0.8421)	0.8428 (0.3271)

<b>Size-1</b>	0.0082*** (1.0438)	0.0052** (0.6098)	0.4329 (0.0357)
<b>Size</b>	0.3323 (0.1435)	0.0640 (0.1645)	0.0741 (0.1544)
<b>Country Dummies</b>	Yes	Yes	Yes
<b>Hausmann Test</b>	0.0029 (6.2434)	-	-
<b>WALD 8Test</b>	0.0035 (11.032)	-	-
<b>Adj. R<sup>2</sup></b>	0.72	0.65	0.62

The results of the Panel Regression Model is presented in Table 6 above. The results indicate that the Constructed CGI is significant at 5 % in Fixed Effects Panel Regression Model with Probability value of (0.0056), and coefficient value of (1.5742). The interpretation of this result is that CGI across the sampled countries reflect heterogeneity of the performance of drivers of corporate governance indicators. This is a significant result in the sense that it proves that our CGI construction reflects differences in the performance of the corporate governance indicators across the sampled firms and the countries. A lag of Tobin's Q was not significant indicating that performance of firms in sampled countries in the previous period does not guarantee its performance in the current period or future period. Gross Domestic Product GDP was introduced into the model to show how sampled countries corporate governance has improved economic growth. The result indicate that GDP is significant at 10 percent with probability value of (0.0071) and coefficient value of (1.4521).

Leverage which measures the ability of firms to use borrowed funds to grow their business was significant at 5 % with probability value of ( 0.0048) and coefficient value of (1.5672), which indicates that most of the firms that embrace good corporate governance practices deployed borrowed funds effectively. More importantly, a lag of leverage was highly significant at 10 percent with a probability value of (0.0068) and coefficient value of (2.3472) indicating that efficient use of borrowed funds in previous period contributes to current and future performance of the firm. The contribution of informal Sector ( InSG) to firm performance in the presence of improved corporate governance was actually not significant with a probability value of ( 0.7345) and coefficient value of ( 0.7345) and coefficient value of ( 0.0381). The result shows that despite the huge level of informal activities, its contribution to firm performance in the presence of corporate governance was uncertain. Sales Growth (SG) was not significant indicating that the impact of sales growth could have been subsumed in the Tobin Q variable. The impact of Foreign Ownership (FO) was not significant indicating that corporate governance follows universal principles and does not differentiate between ownership structure of sampled firms.

Size, as an explanatory variable of firm performance in the presence of corporate governance was significant at 10 percent with a probability value of (0.0082) and coefficient value of (1.0439) which indicates that big corporates are more likely to observe corporate governance principles and benefit from its contribution to their growth than smaller firms. However, lagged Size was not significant showing that Size of firms in the previous period does not reduce or improve its performance in the presence of corporate governance. Overall our result supports the hypothesis that firms with better corporate governance have significantly better performance with the inclusion of control variables.

### **5.3 Intersection between Drivers of Corporate Governance and Economic Governance.**

The intersection between corporate Governance and Economic governance can better be understood in the context of the relationship between microeconomics and macroeconomics. While Microeconomics focuses on policies that will enhance the performance of economic units such as firms, households and governments, macroeconomics addresses aggregate issues in the whole economy. Therefore, it is important to note that the aggregate economy such as aggregate demand and supply, inflation, economic growth and exchange rates and other variables can only be strong if their micro foundations are strong. For instance, corporate governance catalyses increased access to finance which indirectly lead to more investments, higher growth and greater employment opportunities. In addition, good corporate governance lowers the cost of capital and associated higher firm valuation which makes investments attractive to investors, indirectly promoting growth, investment and increased income. The issue of appropriate resource allocation is also traceable to good corporate governance, while sustaining better relationship with all stakeholders for enhanced social and labour relationships that address issues of poverty and inequality. Specifically, predictable rules in the implementation of Corporate Governance attract long term private domestic and foreign investment. Private investment in turn supports employment generation, spurring economic growth, and the reduction of poverty which are all indicators of good economic governance. Corporate governance enhances capital flow and technology transfer through financial globalisation channels. In Appendix 1 we present a table to illustrate the linkages between each of the studied drivers of corporate governance and their relationship with Economic governance objectives.

### **5.4 Monitoring and Evaluation (M& E) Framework for Evaluating Corporate Governance Drivers**

In order to enhance the adaptation of drivers of corporate governance, an M& E framework was developed for the application of the results of this study in enhancing the objectives, goals, outcomes and outputs of corporate governance indicators in enhancing the mandate of Country Review Missions. The framework highlights how to track the indicators, its definition in terms of how it is calculated, the baseline and target levels to achieve and data sources in terms of where the corporate governance indicators data could be sourced. The M& E framework also presented frequency which highlighted the period of assessment, responsibility which identified who should be responsible for enforcing corporate governance and lastly where the performance indicators of corporate governance in a county can be reported and made available to the public. The framework will assist evaluators to construct their questions and also use same to monitor and evaluate the performance of corporate governance in each country periodically. We present a tabular illustration of the application of the M & E framework in (Appendix 2).

## **6.0 Discussion of Results, Conclusion and Recommendations**

### **6.1: Discussion of Results using Mixed Methodology**

This section presents a discussion of the results using mixed analysis methodology. A meaningful analysis and discussion of the results begins by contextualising the results within three dimensions where the results will be of value. The first is to identify the country and regional specific performance of the drivers of corporate governance which we have done in the previous section. The second is to benchmark the results against the objectives of APRM; while the third is to

describe how the results could be used in Country Review Mission on corporate governance thematic areas (This is summarized in **Appendix 3- Report of Ghana Country Review Mission**).

The essence of benchmarking the outcomes of drivers of corporate governance in the context of APRM objectives is to identify performance of the indicators of strength and weakness of the country in focus. The result of the analysis will provide guidance to Country Review Mission teams to focus attention in the assessment of the identified indicators of the drivers of Corporate Governance of the countries in question during Country Review Mechanism.

The Key objectives of Corporate Governance of APRM are (a) Providing an enabling environment and an effective regulatory framework for economic activities; (b) Ensuring that corporations act as good corporate citizens with regard to human rights, social responsibility and environmental sustainability; (c) Promoting the adoption of codes of good business ethics in achieving the objectives of the organisation; (d) Ensuring that corporations treat all their stakeholders (shareholders, employees, communities, suppliers and customers). ***The relationship between APRM objectives and the indicators used for the study can be understood from the perspective that the indicators provide measurable performance indices that can be used to analysis the performance of the objectives in the sampled countries. For instance, ensuring that corporations acts as good corporate citizens can be measured with the way they treat their shareholders, the value they grow for the shareholders and how they manage accountability, corporate social responsibility and transparency in their firms. APRM Objective (c) which addresses issues of adoption of Codes and good business ethics are captured in the indicators that address***

The contributing indicators in the construction of drivers of corporate governance that cover the APRM objectives in our study are Board composition and function which covers issues that relate to the objective of providing an enabling environment and an effective regulatory framework for economic activity. On Board Composition and Performance, our results indicate that Nigeria, Ethiopia, Egypt and South Africa lead the rest of the countries in performance in this category ( Fig 7 Panel A). For instance, the strength of their board composition lies in the firm's ability to uphold board independence ( 55.51%), higher board sizes ( 51.71%), ability of the boards to provide strategic direction for the firms ( 64.13%) and ability of their boards to exert control on the management through separating boards Chairmanship from the CEO( 66.89%). However, the number firms that demonstrated indicators of weakness include high board membership turnover (39.98%) and keeping permanent fiscal board for long ( 39.99%).

On Shareholder Rights and activism which is covered by the APRM objective (d) which is ensuring that corporations treat all their shareholders well, the results indicate that Nigeria lead the rest of the countries, while Ghana, Kenya and South Africa follow. The indicator that best captures this objective are (a) Using arbitration to solve conflicts( 32.06%), (b) granting shareholders additional rights more than what is provided in the company charter ( 26.88%), (c) Shareholders influence to call for AGM ( 69.99%) and tag along rights beyond what is legally provided ( 45.99%). Therefore, fewer companies paid attention to using arbitration to resolve conflicts and granting shareholder rights beyond what is allowed in the company charters.

Information and Disclosure addresses the APRM objectives of promoting the adoption of codes of good business ethics in achieving the objectives of the firms. In this driver of corporate governance, Ethiopia, Tunisia and South Africa lead other countries. For instance, financial reports are published by the required date (76.54%) of the sampled firms observed this importation information sharing requirement. On use of international accounting standards (75.51%) of the sampled firms observe this requirement. The use of globally recognized audit firms in the audit of their firma (76.54%).The worst performing countries in this driver include Senegal, Uganda, Lesotho, Rwanda, Congo D.R and Cameroon.

Ownership and Control structure addresses the requirements of objective (b) which is ensuring that firms act as good corporate citizens. South Africa, Nigeria, Egypt lead other countries in this driver, while Rwanda and Kenya follow suits in that order. The indicators of importance include ensuring that controlling shareholders hold less than 50% of the voting rights ( 53.09%), Controlling shareholders cash flow/vote ratio is greater than 1 or 100 ( 66.20%), Free float of shareholding is equal to 25% ( 77.23%) and the percentage of voting capital in real capital is over 80%( 65.51%). The worst performing countries in this driver are Algeria, Lesotho, Congo D.R and Cameroon.

The Panel Regression Results indicated that Firms performance in the presence of corporate governance as measured by Tobins Q and CGI indicated that there is heterogeneity of the impact of drivers of corporate governance in the sampled countries. Specifically, the introduction of explanatory and interactive variables posted mixed results. While CGI was significant, Lagged Tobins Q was not. GDP was significant indicating that there is contribution of improved corporate environment to GDP performance in the sampled countries. However, literacy level, lagged leverage, informal sector, sales growth and foreign ownership of firms as explanatory variables to firm performance in the presence of corporate governance was found not be significant. On the other hand, Size was found to be significant but lagged size was not. Both the Hausman Test and Wald Test were found to be significant in the panel regression model.

Appendix 3 below presents a review of the Country Mission Report of Ghana, which clearly shows how these results can be used in country review of the sampled countries. In 2005, Ghana was reviewed by the APRM and the results shows which areas Ghana has strengths and weaknesses. The report also indicated required policy responses to address arrears of weakness and based on the findings recommendations were made for the improvement of corporate Governance in Ghana.

## 6.2 Recommendations:

The result from the study which indicates that only 41.17 per cent of the sampled counties emerged as GOOD Performers in Africa in Corporate Governance is not quite encouraging. There are still huge gaps to be covered in enhancing corporate governance performance in Africa which the following recommendations can help to improve.

### 1. General Recommendations

Given that the result of this study support the hypothesis that index of drivers of corporate governance enhance firm performance in most sampled countries, to improve the status of good performing countries and encourage medium and low performing once to improve on the overall picture of the corporate governance in Africa, the following recommendations are made from the study results:

- a. Adoption, speedy adaptation and mainstreaming of the OECD Codes and Principles of corporate governance in countries with medium and low performance in the efficacy of Drivers of Corporate Governance
- b. Enhance the enforcement and monitoring capacity of regulatory agencies through capacity building to fully strengthen the impact of drivers of corporate governance on accountability and transparency of both public and private institutions
- c. Improved corporate governance drivers can effectively impact utilisation of borrowed funds, improved GDP growth and mergers and acquisitions in African countries
- d. Strengthen the role of investigative journalism through the passage of Freedom of information (FOI) laws to enhance access to company information and hold firms accountable
- e. Introduction of Whistle blower policy to fight corruption and the need to strengthen enforcement strategies by strengthening such institutions as industrial and regular

courts to enhance administration of justice to mitigate infractions of corporate governance principles and codes.

## **2. Specific Recommendations**

### **a. Board Composition and Performance**

As a driver of corporate governance, the results of Board Composition and Performance in sampled countries were mixed. For countries that performed well the study established strong relationship between Board Composition and Performance and firm improved levels for protection for creditors and employees to avoid loss of investments and job security respectively. However, for some countries, the performance was poor.

- i. Board Composition and Performance in such countries should focus on enhancing Board independence by ensuring diversification of the board members experience and by separating Board Chairman from the CEO
- ii. Keep the Board size within not less than 5 and not more than 9 members; ensure that board members tenures are not too short or too long to fully harness their quality and contribution to firm performance;
- iii. Board Composition should be more gender sensitive to give women opportunity to contribute their skills in improving corporate governance practices especially in Africa
- iv. Establishment of relatively permanent fiscal boards to ensure accountability; and the need to regularly build capacity among board members to be able to provide strategic direction for the firms.

### **b. Shareholder Rights and Activism:**

On Shareholders Rights and Activism, for some countries, the study established strong relationship between Shareholders Rights and Activism with improved shareholder value which is critical in enhancing firms' access to capital in stock markets and other credit markets. On Shareholder Rights and Activism, reform in shareholder Rights and Activism should focus on:

- i. Using Arbitration to solve conflicts rather than prolonged and costly court processes;
- ii. Effort should be made to grant shareholders more security both for block majority shareholders and dispersed minority shareholders.
- iii. To mitigate destructive shareholder activism, firms should grant shareholders some tag along rights beyond what is legally provided in the statutes. In the same vein, shareholders should be granted the right to call AGM meetings as this will improve trust and increase shareholder willingness to increase their investment stakes in the firm.

### **c. Information and Disclosure**

On information and Disclosure, this study recommends that countries that performed poorly in this driver of corporate governance should focus attention on

- Publishing their financial reports timely as this has the potential to reduce the cost of capital by building confidence in the firm and attracting more investors due to transparency.

- Use of international accounting standards should be encouraging among countries that performed poorly in this in indicator. This can improve audit outcomes and enhance bottom line of firms due to transparency and reduction in leakages.
- Countries that performed poorly on information and disclosure should increase the number of independent members in their boards as this can induce higher voluntary information and disclosure.
- Countries that performed poorly in information and disclosure should use more international audit firms because it has the potential to enhance internal control mechanisms, linkages of information, incentives and governance between managers and investors.

**d. Ownership and Control Structures**

- i. Corporate Governance reforms to enhance Ownership and Control Structures should focus on a. prioritizing the legal protection of creditors and shareholders. Specific board rules should be developed to protect the interest of both majority shareholders and non-shareholders. This suggests that controlling block shareholders that hold less than 50 per cent of the shares should be encouraged as this has shown that most firms that implement this are classified as good performers.
- ii. Ensuring that controlling shareholders vote ratio is enhanced and engaging in free float of shares for both controlling shareholders and minority shareholders in the case of special share placements can encourage higher interest in the company's shares, improve investment interest by shareholders, reduce cost of capital and ultimately enhance firm performance.

**e. Informal Sector and Corporate Governance**

As earlier noted in the study, the high level of informality of most African Economies and the role of firms that operate informally significantly add to the economic growth of most African economies, but there are no formal ways to improve their corporate governance since they are not officially captured in the data. The recommendations to improve corporate governance at the informal sector are:

- i. To encourage the informal firms to formalize through incentivising them with access to finance and low taxes.
- ii. Build a data base for the informal firms so as to bring them into the loop for capacity building. Seminars and workshops can be organised for them and formalized firms to share information and experiences on how to improve their informal governance structures of informal firms
- iii. Conduct a focused study on the impact of corporate governance practices on improving informal sector contribution to the growth of African economies.
- iv. Improve on their book keeping and management processes and ultimately enhance their capacity to grow their values while urging them to formalize. .

### 6.3 Conclusion

The objective of this study is to develop an index of good corporate governance with which to study the performance of drivers in influence firm performance across selected countries in Africa and to test the robustness of the index with an cross country panel econometric model.



Our Index of corporate governance (CGI) was constructed with some indicators that are considered broad measures of firm specific corporate governance quality and reflects different corporate governance attributes, some of which may not be legally required but considered necessary for the execution of good corporate governance.

To test whether the CGI has any robust relationship with firm performance, we interacted with the measure of firm performance such as Tobins Q in a Cross Country Panel Regression model. Explanatory variables such as firm size, leverage, GDP, informal Sector, foreign ownership, Sales growth and lagged Tobins Q, leverage and size were interacted with the other explanatory variables and country dummies were introduced into the model to see how their impact differs across countries included in the sample.

Our results indicate that the Constructed CGI is robust as it proved significant when used as an explanatory variable to test firm performance. The result of the fixed effect also proved that the CGI has different levels of impact across the sampled countries. The implication of the result is that there are different levels of implementation of corporate governance codes across different countries in Africa. The importance of these results in the context of the APRM Country Review Mission is that it will guide the designing of questionnaires to review specific countries based on their individual strengths and weaknesses. The study foregrounds the possibility that African Continent Index of Corporate Governance can be constructed with which to periodically evaluate how African member countries of APRM.

---

## *References*

---

- Alchian A. A. and Demsetz, H. 1972. "Production Information costs and economic organisation". *American Economic Review*, 62: 777-795
- Akerloff, G. 1980' The market for 'Lemons ': qualitative uncertainty and the Market Mechanism'. *Quarterly Journal of Economics*, 84(3): 488-500
- Ang, J., Cole, R., and Lin, J. 2000 'Agency Costs and Ownership structure". *Journal of Finance*, 55: 81-106
- Arig Ali, 2019. 'Shareholder Rights and Shareholder Activism in Egypt'. Chambers and Partners Legal practitioners Website, July 23.
- Avianyar C, Isukuh John and J Chizea 2017 ' Corporate Governance disclosure in Developing Countries: A Comparative Analysis in Nigeria and South African Banks' African Economic Research Consortium Occasional Papers, Nairobi
- Bhagat, S. and Black, B. 2001 " The uncertain relationship between board Composition and firm Performance". *Business Lawyer*. 54: 921-963
- Boone, A, L Caseres Field, Jonathan Karloff and Gharu Rahejah 2007 Corporate Board Size and Composition: An Empirical Analysis, *Journal of Financial Economics* 85(1) 321-356
- Cadbury , A. 1991 Report of the Committee on financial aspects of Corporate Governance ( Cadbury Committee Report) London, Gee Publishing.
- Clarke, R. N., Conyon, M. J., and Peck, S.I., 1998 Corporate Governance and Directors Remuneration : Views from the Top' . *Business Strategy Review*. 9(4) 21-30
- Eng L, L and Yuen Teen Mark 2003 'Corporate Governance and Voluntary Disclosures' *Journal of Accounting and Public Policy* 22(4) 325-345.
- El Mendi, Imen Khanchi 2007 ' Empirical Evidence of Corporate Governance and Corporate Performance in Tunisia, *Corporate Governance International Review* 15(6) 1429-1441.
- Fama, E. F. 1980'Agency Problems and the Theory of the Firm' *Journal of Political Economy* 88 ( 8): 288-307
- Filatovchev, I , Gregory J, Howard G. Deborah A. Key Drivers of 'Good 'Corporate Governance and Appropriateness of UK Policy Response" University of London, United Kingdom.
- Freeman, R. E .1984 Strategic Management: A Stakeholders Approach. Boston Pitman
- Garcia , J C. and Begona Herrero 2018 Boards of directors Composition and effects on the Performance of the firm' *Journal of Economic Research*, 37 (3) 1015-1041
- Gupta, J. N., Beckerra M. 1999 'Are Managers Agents or Stewards' *Indian Journal of Corporate Governance*, 58(3); 283-3324
- Hillman, A., Cannella Jr. A. A., and Paetzold, R. L (2009) The Resource dependence Role of Corporate Directors: Strategic Adaptation of Board composition in response to environmental change, *Journal of Management Studies*: 37: 235-255.
- Hoskisson, R. E., Johnson, R. A., & Moesel, D. D., 1994. 'Corporate divestiture intensity in restructuring firms: Effects of governance, strategy, and performance'. *Academy of Management journal*, 37(5), 1207-1251.

Jenson, M. & Mechling, W. (1976) Theory of the Firm: Managerial Behaviour, agency costs, and ownership structure, *Journal of Financial Economics*, 11: 5-50.

Jones, T. M 1999 Instrumental Stakeholder Theory: a Synthesis of ethics of outside Directors and economics., *Academy of Management Review*, 20: 305-360.

Klapper, L. & Love, I. 2004. 'Corporate governance, Investors protection, and performance in emerging markets'. *Journal of Corporate Finance*, 10: 703-728.

La Porta, R. Lopez da Salinas, F. Shliefer, A, & Vishny R 1998. 'Corporate Ownership around the World' *Journal of Finance* 54: 471-518.

Lepsa, M.N., Brathmader, Panda, 2017 Contractual Relationships, Conflicts of interest, agency issues and agency costs' *Indian Journal of Corporate Governance*, Vol 4: 234-321, June 2.

Lynal, M. D., Gordon, B. R., and Hillman, A.J 2003. Board Composition from adolescence to maturity : a multitheoretic View . *Academy of Management Review* . 28,(3): 416-431.

Mauge, E., 1998. Large Shareholders as monitors: Is there a trade-off between Liquidity and control ? *Journal of Finance*. 53- 65-92.

Musungu C 2011 Shareholders Protection and Shareholders Intervention in Kenya: A Study on Shareholder Activism. Published MSc Thesis, University of Nairobi

Niripa P, Mumiradadzi R, M and Callaghan W 2012 ' Board Composition, Board Size and Financial Performance of Johannesburg Stock Exchange Companies' *South African Journal of Economic and Management Sciences*. 19(4) Pretoria

Nirika J M 2012 Is it vital to have Corporate Governance Codes for Institutional Investors and Capital Markets: A case study of Rwanda 'Published Msc. May

OECD Principles of Corporate Governance 1999.

Pfeiffer, J., and Salanck. 1978. The external Control Organisation: A resource dependence perspectives. New York: Harper & Row

Serves, H. 1991. 'Tobins Q and the gains from takeovers' *Journal of Finance*, 46: 409-419.

Shliefer, R. A., & Vishny, R., 1999. 'A Survey of Corporate Governance' *Journal of Finance*, 53: 737-783.

Tsamanyi M, Ebit Enuful Adu, Onumah J., 2012. Disclosure and Corporate Governance in developing Countries: Evidence from Ghana, *Managerial Audit Journal*. ISSN 0268-0902

Turkur Garba and Aminu S Mikailu 2011' Board Independence and Firm Financial Performance: Evidence from Nigeria' AERC Research Paper 213

## APPENDIXES

### Appendix 1: The Intersection between Drivers of Corporate Governance and Economic Governance

Drivers of Corporate Governance	Relevant policies to improve Corporate Governance Performance indicators	Link to indicators that drive Economic Governance Performance
<b>Boards Composition and Functioning</b>	Developing and implementing Corporate Governance policies to improve Boards composition, tenure and performance to enhance monitoring and effective control of the Management, conflict of interest and independence through the use of Company Acts and other statutes	While boards monitoring of management improves firm financial performance by ensuring that critical decisions are taken and implemented positively impact stock markets growth, improved dividends and growth both individual and national income needed for investment and Economic growth
<b>Shareholder Rights and Activism</b>	Protecting shareholders through the use of arbitration and offering them additional rights beyond what is provided in the charter, granting them the authority to Call for AGM meetings keep the board and management in check to ensure that board and management powers are not abused which could undermine firm performance	Effective monitoring and involvement of shareholders in providing checks and balances for board and management of the firm will reduce management opportunism and provides an important driver to deliver on efficiency gains that will attract investors and increase access to finance to generate will generate employment and reduce poverty which are economic governance goals
<b>Information and Disclosure</b>	Enforcing rules that require firms to keep accurate and timely financial records and adopt international standards in Accounting and use of globally recognised firms in Auditing improve strategy and performance, reduces transaction costs and offers investors better choices in deciding investment options to grow the firm	Information disclosure reduces the cost of credit to firms improves its ability to attract investors that will improve output of goods and services to impact economic growth which is a goal of economic governance
<b>Ownership and Control Structure</b>	Rules to allow firms have block ownership of between 50 -100 per cent of shareholding guarantees internal control lead to better firm performance than diffused ownership. Large stock ownership and control mitigates against poor strategy such as diversification or even acquisition and mergers and restrains managerial appetite for excess risks that destroy value of the firm	Ownership and control that enhances strategic decisions contributes to firm performance that could reduce failure and create unemployment, income decline and taxes paid to the government that guarantee budget success in economic governance

**Appendix:2 Monitoring and Evaluation ( M& E) Framework for Assessing and Improving Corporate Governance Review for Countries**













	INDICATOR	DEFINITION (HOW IS IT CALCULATED)	BASELINE-WHAT IS THE CURRENT LEVEL	TARGET-WHAT IS THE EXPECTED LEVEL	DATA SOURCE	FREQUENCY	RESPONSIBILITY	REPORTING
<b>GOAL</b>	Percentage of indicators of Drivers of Corporate Governance that a country successfully implements on annual basis	No. of Indicators of Corporate Governance that gets started and concluded by Firms in the next year as compared with the previous year	40 %	60%	Institute of Directors (IODs reports), Statistical agencies or CG regulatory bodies	Annual	Program Managers and regulatory bodies such as The Financial Reporting Council FRC ( for Nigeria) or any other regulatory institution for corporate governance	FRC Annual Report or Institute of Directors Annual Report
<b>OUTCOMES</b>	Improved Firm Performance through Growth in Stock market and Improved Ease of Doing Business environment	Growth of All Share Index ( ASI) of Stock Market and Rankings in World Bank Ease of Doing Business	Average score of 10 % in ASI and above 100 in World Bank Ease of Doing Business Ranking	Average Score of 20% in ASI and not below 70 in Ease of doing Business Ranking	Stock Market Reports and World Bank Ease of Doing Business website	Every 12 months	Boards and CEO of Firms	Annual Reports of Rims and Statistical Agencies reports
<b>OUTPUTS</b>	No of firms that have improved on their bottom lines in a year	No. of firms that are registered with the Nigerian Stock Market	0	500	Firms annual Reports, Stock Exchange Annual Reports	End of the year	Boards and Management of Firms	Annual Reports of Firms
	No of foreign investments attracted into the country in a year	The total amount of foreign direct investments as percentage of GDP	0	30%	Economic Reports of Government	End of every year	Central Banks and statistical Agencies	Government Economic Reports

### Appendix 3: Ghana Country Review Mission Analysis

Objectives	Strengths	Challenges (Findings)	Recommendation
(1) Promote an enabling environment and effective Regulatory Framework for Economic Activity	Adopted International codes and standards through Companies code ( 1063)	Very low level of application of Codes and principles	Develop holistic corporate governance guidelines and ensure continuous updating according global trends
	Adopted key regulatory instruments such as Security and Industry Act 2001 etc	Limited Awareness of Corporate Governance and Corporate Social Responsibility	Develop a capacity building programme for entities and personalities charged with corporate governance
	Auditing is provided by KPMG, PWC and Ernest Young	Weak enforcement and monitoring capacity of Institute of Chartered Accountants	Review the national Accounting Standards and train more accountants
(2) Ensure that corporations act as good corporate citizens with regard to human rights, social responsibility and environmental sustainability	Rights of workers reinforced by the 1967 Constitution and enshrined in the labour Act 2003	The issue of Cooperate social Responsibility seem not to be well understood in Ghana	Enhance the capacity of the labour department to handle compliance with labour standards
	Creation of Environmental Protection Agency Act 1994	High unemployment rate and poor terms of service for workers	Create a tribunal to handle complaints about labour matters
	Corporate Social Responsibility is enforced by Ghana Anti-corruption Coalition	High level of child labour and child workers are rampant in Ghana	Tackle with greater vigour the problem of child labour
(3) Promote Adoption of Codes of Business Ethics on Achieving the objectives of the corporation	Ghana signed several international instruments governing terrorism financing	Corruption and rent seeking is still a major problem in Ghana	Enact the Anti-Money Laundry Bill and the Whistle blowers Bill
	The state Enterprises Commission, SEC and Ghana Stock market have gazetted Corporate Governance Codes for firms	Lack of resources and Capacity limits the effectiveness of corporate governance codes in Ghana	Enhance the human and institutional capacity of institutions for supervision and enforcement of Codes in firms

	Government promotes codes of company ethics through policy directives and relevant guidelines	Weak financial and investigative journalism still hampers the enforcement of good business ethics in Ghana	Train Journalists in order to enhance their investigative and financial reporting abilities to serve public interest better in this regard
(4) Ensure that Corporations treat all their stakeholders ( Shareholders, employees etc) in a fair and just manner	The 1963 Companies Act recognise all categories of Shareholders and no distinction is made between foreign shareholders and domestic ones	Shareholders rights are generally observed but in case of infractions legal redress is often very expensive that most whose rights were infringed upon abandon the case	Educate shareholders and stakeholders about their rights.
	Institute of Directors Code of Ethics cover certain stakeholders ethics and the Bodies corporate ( official liquidation Act( 1963 provides the insolvency regime	There is limited access to company information	Improve mechanism for providing information to shareholders and stakeholder
	Protection against Unfair competition Act (2000) ensures that principles of fair competition are maintained	Levels of awareness of shareholders rights are extremely low among communities, though higher among large firms.	Establish special courts and complaints office dealing with competition
(5) Provide for Accountability of corporations, directors and offices	The company Code allows for board committees such as audit committees to be set up	Boards are reported to be captive to controlling shareholders and ineffective in managing corporate governance practices or monitoring conflicts of interest	Company Codes and relevant laws be amended to take into account global corporate governance developments
	The process for appointing directors of SOE is specified in the enabling Act	Recruitment processes in most firms are marred by nepotism often resulting to incompetence of personnel	The institute for Directors and SEC Consider undertaking certified training programmes for Directors
	Structures and process are in place to ensure suitable accounting policies and standards are set and any deviations are disclosed	There is poor record keeping in SMEs and this has the tendency to mar accountability	Supervisory Authorities to enhance the monitoring of disclosure and enforcement for breaches

**Appendix4: Mapping Agenda 2063 to APRM Corporate Objectives to APRM Base Questionnaires to Drivers of Corporate Governance**

Agenda 2063 Goals and Priority Areas		APRM Corporate Governance Objectives		APRM Corporate Governance Base Questionnaires	Some Drivers of Corporate Governance in our Study
<b>An Africa of Good governance, Democracy, Respect for Human Rights, Justice and Rule of Law</b>		Corporate Governance as 'leadership, sustainability and corporate citizenship'		APRM Standards and Codes have been approved by African countries with regard to how they govern themselves	 Achievement of outcome based indicators( Drivers of Corporate Governance)
<b>(a) Democratic values, practices, universal principles of human rights, justice and rule of law entrenched</b>		(a) Promoting enabling environment and effective regulatory framework for business organisations and other entities (b) Ensuring that organisations treat stakeholders fairly and equitably		(a) To what extent has your country taken measures to adopt sign/ enact and implement the standards and codes of corporate governance	 (a)Does the company use an international accounting standard ( IASB, or US GAAP
<b>(b) Capable institutions and transformative leadership in place</b>		(c) Ensuring effective leadership ship and Accountability within organisation (d) Ensuring Ethical conduct within Organisations		(c) Has your country introduced any corporate governance if so they in tandem with the above referred (d) What categories of institutions do you have in your country	 b) Are the Chairman of the Board and CEO not the same person
<b>( c) Africa takes full responsibility for financing her development</b>		(e)ensuring that organisations act as good corporate citizens		( c) What is your countries approach to corporate governance.	 ©Does the company use one of the leading global auditing firms



## Appendix 5: Mapping APRM Objectives to Indicators of Corporate Governance in Sampled Countries

APRM OBJECTIVES ON CORPORATE GOVERNANCE	Indicators of Drivers of Corporate Governance Performance			
	BOARD COMPOSITION & FUNCTIONING	SHAREHOLDER RIGHTS AND ACTIVISM	INFORMATION AND DISCLOSURE	OWNERSHIP AND CONTROL STRUCTURE
1. Promote an Enabling Environment and effective Regulatory Framework for Economic Activity			Adoption of International Accounting Standards	
			Use of a globally recognised audit firms	
			Adoption of Key regulatory instruments such as mandatory periodic financial reporting	
2. Ensure that Corporations Act as good corporate citizens with regard to human rights, social responsibility and environmental sustainability		Company charter has arbitration clause		
		Grant other rights beyond legal requirements		
		Corporate Social responsibility is enforced with the firm		
3. Promote Adoption of Codes of Business Ethics on achieving the objectives of the corporation	There is a permanent fiscal board			
	Board size is between 5 and 9 members			
	Separate the Chairman of the Board from the CEO			
4. Ensure that corporations treat all their shareholders ( shareholders, employees etc) in a fair and just manner				Controlling shareholder hold above 50 % of the company shares
				% of voting shares is more than 50%
				Free float shares is greater than 25%





African Peer Review Mechanism (APRM)  
230 15<sup>th</sup> Road, Randjespark  
Midrand, South Africa  
Tel: +27 (0) 11 256 3401



[www.aprm-au.org](http://www.aprm-au.org)