Corporate Governance in Less Developed Countries

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Corporate Governance in Less Developed Countries

ABSTRACT

This paper argues that there is a pressing need for coherent analysis of the development and implementation of corporate governance (CG) codes in less developed countries (LDCs) in general, and Africa in particular. Africa has recently been argued to be the next focus of global economic growth and there is an urgent imperative to explore and understand the gulf between what is understood by CG in developed and less developed countries. Empirical evidence suggests that CG codes originating from Western countries may fail to operate effectively within Africa and other LDCs, raising the potential need for modification in order to be able to deliver the intended impact. This paper seeks to address this deficiency and develops a framework to guide LDCs scholars in understanding the key areas where the efficacy of Western inspired CG codes requires assessment. This framework is built upon five key CG themes emerging from an extensive review of the literature – supervision and enforcement; boards of directors; shareholder rights; stakeholder relations; transparency and disclosure – and the possible uses of this framework are explored. The paper aims to encourage conceptual coherence and enhance the comparability of research findings across a range of LDCs with heterogeneous institutional backgrounds.

INTRODUCTION

Africa has lately attracted significant interest on account of its fast growing economy with the continent appearing ready to shake off its traditional lacklustre image of a region ridden with extreme poverty and hunger (Aryeetey, 2002; Besada et al., 2008). Indeed, academics and policy makers, as well as leading market analysts agree that Africa is currently reporting the highest economic growth rates relative to other global economies, and is also anticipated to be the next frontier for global economic growth (Andreasson, 2011; The Economist, 2011; African Development Bank Group, 2013). This has made the continent an attractive target for foreign investors with resultant increase in the amount of foreign-direct investment to the region. Accordingly, the desire to retain foreign-direct investment to fuel economic growth, alongside endeavours to enhance credibility within global markets has led African economies to adopting international codes of CG (Wanyama et al., 2009; Waweru, 2014). In this regard, there have been concerns as to whether African economies have implemented these CG codes solely for legitimacy reasons, to charm foreign investors as well as appeasing international aid agencies like IMF and World Bank; without genuine intentions to match their practices with the expectations of the CG codes (Musikali, 2008; Adegbite and Nakajima, 2012) thereby presenting an area for academic interest. Simultaneously, concerns also arise regarding whether international codes of practice which have been founded in the more developed Western countries, can fit with the peculiarities of African business practices (Adu-Amoah et al., 2008; Wanyama et al., 2009; Adegbite and Nakajima, 2012). Consequently, this signifies another important area of research interest in critiquing the notion of a universal applicability of Western codes of CG within non-traditional/non-Western (African) country settings. Such information would provide understanding to scholars and policy makers alike, on whether the CG codes implemented within African countries have actually achieved effectiveness or are just for paying lip service. However, the debate on CG in Africa is still embryonic on account of scanty and sporadic nature of analysis available within the existing literature.

As this introduction makes clear, there are many areas where academic attention is required. To begin this process, however, this paper aims to develop a framework that will enable scholars, policy makers and actual CG practitioners such as corporate directors, managers and CG trainers to understand the reality of CG within LDCs. We are concerned that there appears to be an arguably erroneous assumption by bureaucrats within LDCs as well as their development partners including the World Bank and IMF; that LDCs can reform their corporate sectors by applying universalistic codes of CG which have been transplanted from the Western countries (Tsamenyi and Uddin, 2008; Uddin and Choudhury, 2008). We argue that the universal application of Anglo-American CG codes within LDCs without due regards of the distinctiveness of these economies business environments, results in tensions and occasional conflicts between the requirements of the CG codes and the situational characteristics of the LDCs. In addition, initial evidence has pointed out that despite the presence of seemingly ‘well-drafted’ CG codes in some LDCs, there still appears to be a wide gap between the (Western-inspired) assumptions underpinning those codes and the value they deliver in LDCs. We suggest that the effectiveness of the Anglo-American CG codes ends up being neutralised by the constraints prevailing in LDCs so research exploring whether country specific CG codes might be more appropriate in any given LDC is necessary.

Against this background, we believe that for codes of CG practice to be effective, they need to be aligned with the situational characteristics of an individual country. Also, there should be no blanket assumption that if an adapted CG code works relatively well in one LDC, it could be transplanted into another LDC without considering the latter’s potentially complex institutional environment. We thus argue that codes of CG practice should be developed on an individual country’s basis, and it is likely they would be products of both exogenous and endogenous factors. Our line of reasoning in this paper therefore is that the effectiveness of CG codes within LDCs can only be best understood by first looking at factors which led to the development of those codes relative to their mere existence. Such factors may originate outside a country in form of say, pressures from supranational bodies and foreign investors, whilst other factors may originate internally in form of desires to improve domestic corporate environments. In our other developing research, we are utilising the framework presented in this paper to provide a detailed explanation of how the current Kenyan (Anglo-American inspired) CG code has developed, together with how it is being implemented with a view to drawing conclusions for various audiences.

Notwithstanding, the specific contribution of this paper is to bring forward a framework allowing scholars to identify the specific factors influencing the emergence and practice of CG codes within LDCs, and establish an agenda for research in this field. This is a conceptual theory building paper which is based on an extensive review of relevant literature. Our aim is to propose a new construct which will be empirically tested and reported in future papers, and would also encourage other scholars to test as well.

This paper is divided into five sections. The first section – introduction – outlines the aims of the paper and highlights reasons why this study is imperative as well as its expected contribution. The second section – literature review methodology – explains the approach used in selecting the relevant literature discussed in this study to ensure a comprehensive and systematic review of literature. The third section – discussion of the literature – provides a detailed critique of relevant literature with a view to identifying deficiencies in research which this paper seeks to address. The fourth section – presentation of the framework – introduces the construct proposed in this study and reiterates its potential use. The fifth section – summary, conclusions and research agenda – provides a summary and conclusions from this study before describing avenues for further research.

LITERATURE REVIEW METHODOLOGY

We approached this paper's literature review process in the following manner. Firstly, this paper primarily focusses and seeks to encourage CG debate in Africa; arguably the most neglected context as far as CG researching is currently concerned. However, we decided not to search for the literature using only the terms "CG in Africa" or "CG in LDCs". Instead, based on our previous experience in researching CG, we noted that different writers have traditionally preferred alternative labels. Such labels include: "emerging markets", "emerging economies", "emerging countries", "developing markets", "developing economies", "developing countries", "least developed countries", "least developed economies", "less developed economies", and "less developed markets". These labels have also been used interchangeably within individual CG studies (e.g. Siddiqui, 2010; Waweru, 2014). Therefore, we decided to perform the literature search by combining the term 'CG' with all the twelve labels in order to ensure that we effectively identified all the relevant literature.

Secondly, we were cognisant of the fact that the subject of CG is characteristically interdisciplinary with extant literature spanning various academic disciplines including: management, economics, culture and sociology, law and politics (Aguilera and Jackson, 2010). In this regard, limiting our literature search to subject-specific journals, say, management publications only, risked compromising the comprehensiveness of the literature reviewed. With this in mind, we decided to search for the literature from databases, which we believe offered more access to wide-ranging studies across different fields as opposed to discipline-specific journals. Accordingly, the database that we utilised was the ISI Web of Knowledge. Thirdly, additional papers were further excluded from the CG studies returned after our literature search, as they did not include a discussion about the notion of universal applicability of Western-designed CG codes within Africa or similar LDCs. During the literature search phase, we based our judgement on whether to retain a paper for review or exclude it by performing a thorough review of the papers theme and content. Lastly, the literature reviewed in this paper comprises a mix of both qualitative and quantitative studies as well as two review studies. As previously noted, the subject of CG in LDCs is a relatively under-researched area and this is reflected in the relatively limited range of papers that we found during our search for literature.

DISCUSSION OF THE LITERATURE

Following a detailed review of literature, we are convinced that there are five thematic areas which jointly offer scholars an opportunity to understand in detail how codes of CG within LDCs have emerged, as well as the potential factors which influence how those codes are practiced within LDCs settings. As this paper's argument reiterates, the application of Western-designed codes of CG within LDCs (non-Western) contexts is likely to encounter tensions which may arise from conflicting influences within each of the CG themes discussed in sub-sections 'a' to 'e' below. We argue that there are broadly two significant sources of influence within each CG theme. Firstly, there are exogenous influences comprising of pressures from supranational bodies and foreign investors, as well as other international stakeholders requiring LDCs and their firms respectively to adopt and implement international (Western) CG codes. These external influences also include the Western-based assumptions espoused within the CG codes imported into the LDCs for implementation. Secondly, we find there to be endogenous influences encompassing institutional arrangements which exist within individual countries. These internal influences include but are not limited to: the extent of effectiveness of the local supervisory and enforcement bodies, shareholding patterns and rights of minority shareholders, as well as cultural factors. Therefore, this section discusses how tensions between the two sources of influence are reported in the literature to manifest themselves when exogenous and endogenous forces come into contact. Arguably, while some degree of tension may inevitably exist between the exogenous and endogenous forces, we expect the applicability of Western-styled CG codes within LDCs to be mainly contingent upon there being a compromise between them. Also, many LDCs share similar characteristics and therefore this literature discussion includes studies conducted in non-African developing countries to compensate for the evidently negligible CG literature on Africa.

Moreover, the CG themes discussed in this literature review have been utilised in CG studies of LDCs either individually or in combination with one another; and only one study has in the past attempted to analyse all the five themes together (see Appendix 'A').

Insert Table 1 here

With respect to this, we argue that researchers seeking to gain a comprehensive understanding about the applicability of Western-designed CG codes within non-traditional settings – in this case LDCs – need to consider adopting a more integrated approach such as the framework proposed in this paper. The framework is developed with the intention to stir debate and allow researchers to move beyond the traditional CG themes of boards of directors and top management (Adegbite, 2012), which we argue as only providing a one-sided understanding of the multifaceted CG phenomena of LDCs.

a) Supervision and Enforcement

Monitoring and enforcement constitutes one of the bases of effective CG codes (Organisation for Economic Co-Operation and Development, 2004). A robust regulatory framework comprising of legal, regulatory and enforcement bodies, and where such systems work harmoniously, should ideally ensure compliance by firms with laid down CG regulations including the actions of associated CG stakeholders (Adegbite, 2012). Characteristic features of regulatory environments of firms in various countries include the capital market regulators; securities exchange commissions; companies registry; professional accounting organizations; and courts of law (Wanyama et al., 2009; Fan et al., 2011; Rashid, 2011). Nevertheless, as established in the ensuing discussion, these institutions essentially lack the capacity needed to support effective CG within the LDCs.

Judicial systems: An efficient judicial system should ideally dispense justice fairly and on a timely basis, and act as a guardian of commercial laws within its jurisdiction. In this regard, the legal protection of shareholders is argued to be a key pillar for supporting all other CG mechanisms (Shleifer and Vishny, 1997; La Porta et al., 2000; Wanyama et al., 2009).

However, research from some LDCs points to weakened judicial systems in those countries due to inefficient courts of law as a result of underfunding and lack of professionalism. For instance, Okike (2007) found the legal framework for monitoring of firms in Nigeria to be lacking due to insufficient penalties, where contraveners of certain CG codes paid fines of about ten (British) pence. As argued, this appeared as a convenient option for many culprits who disregarded CG regulations (Okike, 2007). Okpara (2011) also found that a weak legal and regulatory framework undermined the development of CG in Nigeria. Okpara (2011) concluded that judicial systems in Nigeria should be strengthened through increased resource allocation and more staff training in order to bolster the CG process. In Uganda, Wanyama *et al*. (2009) found that a shortage of judges together with corruption within the judiciary adversely affected its ability to promote a good CG environment. Wanyama et al. (2009) concluded that although Uganda had in place explicit CG regulations, their effectiveness was impaired by imperfections within the institutional environment where the judicial systems failed to play their role effectively as enforcers of CG codes in their implementation.

Regulatory bodies: The effectiveness of CG codes is also largely dependent on the efficiency with which supporting regulatory bodies discharge their mandates including: the companies' registry; capital markets regulators/securities exchange commissions, and professional organisations. These bodies mainly performing extrajudicial oversight roles in ensuring that companies abide by the requirements of the CG codes as well the provisions of the company laws (Okeahalam, 2004). The responsibilities of some of these bodies may overlap occasionally since they perform complementary roles despite being distinct organisations. Collectively, these oversight bodies constitute the regulatory framework which is important in supporting the implementation of CG codes. The lack of synergy amongst these bodies is argued as likely to compromise the quality of CG in a country (Barako et al., 2006; Waweru, 2014).

Conversely, Okeahalam (2004) revealed that the companies registry of Kenya lacked the capacity to support good CG owing to lack of basic resources including absence of technology and inadequate capacity of its staff (Gatamah, 2001, cited in Okeahalam, 2004). This made it practically impossible to manually oversee the compliance of more than 20,000 companies with the basic companies Act (Chapter 486, laws of Kenya), thus leaving room for poor CG practices to thrive (Okeahalam, 2004).

Similarly, stock exchange authorities and professional accounting organizations have been argued to play a central role in the development of CG within LDCs. Besides the former acting as issuers of CG codes to be implemented by firms, they are also charged with responsibilities of overseeing the implementation of CG by all the listed firms. Professional accounting bodies on the other hand promote good CG through setting standards which their members are expected to comply with, whilst simultaneously penalising them for deviance. For instance, key CG actors such as auditors or audit committee chairs are required to be members of professional bodies. This way, their involvement in corporate irregularities is likely to attract punishment such as expulsion from the organization which would subsequently result in job loss hence assisting to instil good CG behaviour (Siddiqui, 2010; Okpara, 2011).

Siddiqui (2010) examined the development of CG in Bangladesh with a view to understand the suitability of the Anglo-American governance model adopted in the country. This author observed that the Bangladesh Securities Exchange Commission (BSEC) acted as the primary stock market regulator on behalf of the government, and was responsible for issuing the CG codes as well as regulating their application. The author nonetheless found BSEC to be an ineffective regulator due to the following factors. Political interference was rife as four of its board members including the chairman were political appointees. Political interference was further exacerbated by the fact that BSEC relied on the government in funding its operations. Next, Siddiqui (2010) noted that BSEC also lacked the capacity expected of a regulator because it suffered from shortage of staff, with the available workforce also lacking appropriate skills. It was therefore concluded that Bangladesh's CG codes might be fulfilling legitimacy desires as opposed to efficiency causes, that is, firms appeared to comply with the requirements of CG codes to avoid reprimand from the government rather than to boost their CG practices.

Okpara (2011) also established that Nigeria's Securities and Exchange Commission (NSEC) may have contributed to poor CG environment in the country. This author reported that NSEC never took any actions when listed firms failed to comply with CG guidelines, nor instituted investigations despite complaints about managerial misconduct and minority shareholders abuse. Okpara (2011) further concluded that auditors knowingly endorsed manipulated financial accounts, which was detrimental to the consumers of those reports, and consequently the standards of CG. This lack of professionalism was attributed to moribund professional accounting bodies, which the author notes as lacking control over the auditing profession.

Summary

We can see from review of this theme – supervision and enforcement – that authors are suggesting that of CG practices within surveyed countries are either very poor, or not as effective as they might be expected in others. For instance, we have seen how the Securities and Exchange Commission of Nigeria is reported to have failed to take action when listed firms flouted CG provisions (Okpara, 2011). Also, Kenya's companies' registry was observed to lack basic technology which limited its ability to provide effective oversight (Gatamah, 2001, cited in Okeahalam, 2004), while weak judicial systems alongside corruption are noted to be the main problems failing effective CG oversight in Uganda (Wanyama et al., 2009). Lastly, staff shortages and political interferences inhibited Bangladesh Securities Exchange Commission from performing its regulatory roles (Siddiqui, 2010). In view of this, we formulate the following questions which the framework we propose in the next section may help to address: (i) Does weak regulatory oversight imply that CG codes within LDCs will possibly remain ineffective? (ii) Would the adoption of more stringent method to CG implementation such as the adoption of 'rules-based' approach instead of 'principles-based' approach, enhance the effectiveness of CG codes within LDCs?

b) Shareholders Rights

Shareholders have a duty to appoint well qualified directors to serve as their trustees, and also function as a focal point between the firm and the external environment. Also, shareholders should attend an AGM[1] at least once annually, which is convened by the board of directors. Shareholders are thus expected to use this opportunity to review firm performance, ask

[1] AGM is short form for Annual General Meeting.

questions where necessary, and dismiss any director(s) deemed to be underperforming (Uddin and Choudhury, 2008; Siddiqui, 2010). Ideally, shareholders are also argued to play a significant role in promoting the CG mechanism of disclosure and transparency, since as users of financial statements they are expected to demand high quality annual reports, consequently resulting in improved firm transparency (Barako et al., 2006). Moreover, the Anglo-American model of CG assumes that shareholders are widely dispersed, and can use the *market for corporate control* to punish poorly performing managers, by readily selling their stakes through takeover processes (Dalton et al., 2007; Ehikioya, 2009). However, we find that shareholders' within LDCs are not always able to perform their CG duties effectively due to various factors as discussed below.

Large vs minority shareholders: Barako et al. (2006) investigated among other factors how ownership structures influenced voluntary disclosure by listed firms in Kenya. The author found disclosure as decreasing with an increase in the number of shares owned by the top shareholders. This finding suggests that the presence of excessively large shareholders coupled with concentrated ownership structures within firms in Kenya may be detrimental to good CG practices and perhaps also severe to minority shareholders rights. It also contradicts with Shleifer and Vishny (1997) seminal work which argues that large shareholders can help to reduce agency costs through increased monitoring of management actions. Ehikioya (2009) equally found that firms in Nigeria also assumed a concentrated shareholding structure where majority shares were held by few families. This finding is consistent with La Porta et al. (1999) classical work that ownership structures in developing countries tend to exhibit concentrated rather than dispersed ownership. However, Ehikioya (2009) surprisingly reported that concentrated ownership was positively associated with firm performance and increased market valuation. This was attributed to the benefit of increased monitoring associated with large shareholders (see Shleifer and Vishny, 1997). Ehikioya (2009) nonetheless cautioned that the presence of more than one family member sitting on a board ended up diminishing the benefits derived from the concentrated ownership as it impacted negatively on firm performance. Nevertheless, despite the interesting findings, it is not clear from Ehikioya (2009) how the rights of minority shareholders prevail in a CG environment dominated by familial-ownership of firms. The likelihood of principal-principal problems, that is, conflicts between controlling and minority shareholders thus becomes a significant issue in such a concentrated ownership structure. This is also consistent with prior studies which found the CG environments of LDCs to exhibit a concentrated ownership structure, where principal-principal conflicts also tend to be very common (La Porta et al., 1999; Young et al., 2008).

Missing shareholder sophistication: Investors are assumed to be sophisticated in terms of being knowledgeable enough to draft efficient contracts, as well as able to use the financial markets to their advantage. This level of sophistication is also argued as an effective supplementary mechanism to the legal protection (La Porta et al., 2000). However, Angaye and Gwilliam (2009) investigating the development of CG in Nigeria found that absence of shareholder sophistication hampered CG progress. They noted that investors are typically passive and do not raise a voice when their rights are abused, nor seemed aware of those rights. The writers suggested that it was likely most shareholders lack a basic understanding about the way in which financial markets operate. Accordingly, Angaye and Gwilliam (2009) revelation may be taken to imply that such shareholders are potentially unable to demand more transparency in firm affairs, or even confront underperforming directors during AGMs. Furthermore, Tauringana et al. (2008) observed that Kenyan listed firms are mandated to allocate 25% of their IPO offers to local investors. However, noting that the majority of Kenya’s population is rural-based and modestly educated, the writers argued that this may have contributed to the low levels of shareholder sophistication. Consequently, the authors recommend firms to publish their annual reports in two languages – English and Swahili[2] – in order to enable the local shareholders to benefit from published corporate information (Tauringana et al., 2008).

Summary

This theme's discussion, shareholders rights, suggests that the applicability of Western CG codes within LDCs is may be significantly hampered if shareholders are unable to play their supporting role in the CG process. Barako et al. (2006) and Ehikioya (2009) noted that Kenyan and Nigerian firms respectively tend to exhibit concentrated ownership structures, with few shareholders owning excessively large blocks of shares. Such type of shareholding may compromise the rights of minority shareholders, as they lack a voice in firm decisions due to their negligible voting power compared to the large investors. Tauringana et al. (2008) noted that majority of domestic investors in Kenya tend to have modest levels of education which impedes their ability to comprehend the information contained in company annual reports published in English. Similarly, Angaye and Gwilliam (2009) found that majority shareholders in Nigeria seemed unaware of their rights, since they failed to ask for explanations or fire underperforming directors who acted contrary to their expectations. This perhaps may be caused by modest levels of investors' literacy and/or experience in the operations of capital markets, which are probably still in their infancy within many LDCs.

Based on this, we pose the following questions: (i) would conducting investor education to enlighten shareholders about their rights help to make CG codes more effective within LDCs? (ii) Can LDCs domestic shareholders be empowered to play their CG roles effectively by encouraging firms to adopt dual language reporting where firms publish their information in both their country's main dialect and the official language?

[2]Swahili is Kenya's lingua franca, a common dialect used for communication amongst people from diverse ethnic groups which have their own district tribal languages.

c) Boards of Directors

Boards of directors are considered to be a core mechanism of CG because of the significance of responsibilities performed by them. As appointees of the shareholders, boards oversee the actions of management in performing their executive duties in order to minimize conflicts of interest. In addition, boards are expected to update the shareholders about the progress of their firm both through providing audited financial statements, and also by calling for an AGM at least once annually. Boards also perform control duties by instituting effective audit functions to promote quality financial reporting as a way of reassuring the shareholders. In addition, boards provide strategic direction to a firm, where they make major financial decisions such as acquisition of new equipment and property, or other fixed assets. As such, the effectiveness with which boards perform these functions impacts greatly, positively or otherwise, on firm performance (Eisenhardt, 1989; Zahra and Pearce Ii, 1989). Achieving the optimal board effectiveness is argued to be a product of four features: board *composition*, *characteristics*, *structure*, and *process* (Zahra and Pearce Ii, 1989). Well constituted boards ought to include both inside/executive and outside/independent directors, with diverse set of skills and adequate professional experience. The structure of such boards involves sub-committees such as audit, nomination and remuneration committees; which focus on specific areas of firm operations to enhance efficiency. Other factors such as how regularly a board meets or ability to self-appraise its performance are argued to be significant in enhancing the effectiveness of boards (Zahra and Pearce Ii, 1989). Conversely, the evidence as critiqued below appears to suggest that boards in LDCs are likely to be ineffective owing to various factors which lead to imbalances in the four board features discussed above, thereby compromising their contribution in the CG process.

In Ghana, Adu-Amoah et al. (2008) noted that board processes were deeply-rooted in the local cultural context which undermined the effectiveness of CG. For instance, while CG codes required board chairs to possess relevant skills and experience, the Ghanaian culture has utmost 'respect for age' which meant that only the eldest member of the board would assume board chairmanship, irrespective of there being other more qualified individuals (Adu-Amoah et al., 2008, p.323). Also, in this multi-ethnic country, the writers noted that shareholders were unlikely to elect directors who did not come from their community notwithstanding their suitability to serve in the board. Subsequently, boards ended-up having directors who neither understood their duties nor how to interpret financial statements. Accordingly, Adu-Amoah et al. (2008) questioned the relevance of Anglo-American CG model in Ghana, arguing that this model is unlikely to achieve practicality until such time when it is adapted to deal with such country idiosyncrasies.

Wanyama et al. (2009) examined the quality of CG in Uganda where they found that poor CG practices prevailed despite the adoption of Western CG codes. One source of the misfit as they argued was that directors neither understood their roles nor the need for good CG. They noted that poor remuneration demotivated company boards, making them vulnerable to corruption as managers would bribe them to rubber stamp executive decisions, thus compromising board's capacity to perform their fiduciary duties effectively. They also found that in the Ugandan culture, poor people look up to the more successful members of society for assistance. As such, directors would feel under pressure to have their kin employed in the firms they served, in spite of such people sometimes being unqualified. As Wanyama et al. (2009) further argued, such actions may be interpreted as nepotism from a CG viewpoint, while in the Ugandan culture that denoted a good gesture of giving back to ones' community.

Okpara (2011) also established that in spite of most firms having in place board features such as those required under CG guidelines, good CG was still lacking in Nigeria. The writer observed that directors failed to either supervise management or provide strategic direction to their firms. Additional evidence showed that minority shareholders were denied an opportunity to speak during AGMs for fear they might criticize board decisions. The boards also imposed auditors on the firms and engaged in insider trading. Interestingly, most boards were found to have met a number of CG requirements including being independent. Okpara (2011) attributed the poor quality of boards to unqualified individuals serving as directors, political interference which affected board independence, and also ineffective regulatory systems which failed to vet directors and reprimand the rogue directors.

Summary

From the discussion above, we can see that even in the presence of well constituted company boards within LDCs, their functioning may be constrained by powerful socio-cultural factors. In Ghana, Adu-Amoah et al. (2008) found board leadership was pegged on age of an individual as opposed to their professional background or education. Also, shareholders preferred voting only for individuals who came from their ethnic tribe. Similarly, Wanyama et al. (2009) revealed that directors in Uganda were poorly remunerated resulting in corporate corruption and bribery, where managers take advantage and bribe directors to cover their poor decisions. Wanyama et al. (2009) further link poor CG practices in Uganda to poverty as directors and senior executives support their disadvantaged kin by ways which contravene CG guidelines.

In conclusion to this theme, we pose the following question: is there a way to harmonise the expectations Western CG codes regarding the role of the board of directors, with the potentially problematic and enduring cultural reality of each LDCs context? Through this question, we aim to stir debate on what might be some of the ways of enhancing the effectiveness of boards of directors within LDCs seemingly dynamic socio-cultural environments.

d) Stakeholder Relations

Various non-shareholding constituencies have been found to side-track firm operations in their own favour despite such actions being at variance with shareholders expectations. Depending on their influence on firms' processes, such stakeholders may compel companies to try and build relations with them in an attempt to gain legitimacy and guarantee firm survival. Arguably, this behaviour is more pronounced LDCs, which due to their unstable markets have 'uncertain and complex' environments, thereby making it difficult for firms to play by CG guidelines for fear of falling out with influential stakeholders (Crittenden and Crittenden, 2012, p.568).

Emerging evidence has painted a picture about the manner in which a range of firms' stakeholders may have contributed to the impediment of Western CG codes within LDCs. To begin with, African societies are argued to be largely communitarian where their values are also discordant with the traditions of Western civilisations; which define the assumptions of the Western CG codes (West, 2006). Using the context of South Africa, considered to be one of the most successful countries in designing its own and more practical CG code (Vaughn and Ryan, 2006), West (2006, p. 439) stated that South African society identifies more with "the rights and interests of community" as opposed to those of individuals. This is espoused in the *ubuntu*[3] philosophy which serves as a moral basis guiding individual interaction in South African traditions. The writer further observes that the South African corporate structures resemble those postulated in the Anglo-American CG model, including one-layer board and a market-oriented financial system. However, compared to the generally stakeholder-based model of governance implemented in South Africa, a purely Anglo-

[3] *Ubuntu* is a south African philosophy emphasizing on sharing and sense of community as moral principles to guide individual interaction on all levels (West, 2006). Its English translation means "I am because you are" (Mbiti, 1989 cited in West, 2006, p. 439).

American model as argued would have achieved little success for lacking practicality with the socio-economic situation prevailing in this country (West, 2006).

West (2006) further noted that measures taken to address social inequalities in Africa also conflict with Western CG codes such as the Anglo-American governance. For example, similar to South Africa's Employment Equity Act, Kenyan capital market laws require listed firms to appoint no more than two-thirds of any gender, largely to promote affirmative action for women (Lumumba, 2012). Likewise, the Black Empowerment Act of South Africa requires the inclusion of native black South Africans in all public jobs which have implications in many firms (West, 2006).

Moreover, the value attached to communal entitlement of property by African societies is likely to result in occasional conflicts with the requirements of Western CG codes founded on shareholder primacy. For instance, the *harambee*[4] issue is still a big challenge to Western inspired CG practices as non-shareholding communities in some parts of Kenya have been reported to eject duly appointed firm managers, who they deem as potentially lacking loyalty because they do not come from the same ethnic tribe as the local community. This way, communities interfere with CG development when they interrupt firm processes through protests, and also demand (sometimes violently) a share of company's resources, and a voice in its control Ntv Kenya (2012); K24 Tv (2014).

Siddiqui (2010) also argued that some LDCs socio-economic contexts might be incompatible with a shareholder-oriented governance model. Using the case of Bangladesh, the writer established that Anglo-American CG is forced on corporations by government and donor-funded regulators, which results in firms adopting CG for legitimacy purposes rather than for efficiency reasons. This writer further pointed out that Bangladesh exhibits poorly developed

[4] *Harambee*, a Swahili word appearing on the Kenyan coat of arms, is the official motto of Kenya and implies "all pull together".

markets, poor labour conditions, and influential multilateral organisations within the corporate sector, as well as reliance on bank credit which poses a threat on the financial system due to a default culture. As such, representation of banks on company boards in Bangladesh was noted as particularly imperative in order to avert an arguably imminent risk of financial crisis from soaring debts; in a corporate sector which relies heavily on bank financing (Siddiqui, 2010). Similarly and due to the shallowness of the capital markets in Kenya, the banking industry dominates the financial markets as the main source of capital for firms (Ngugi et al., 2009). This therefore raises the question of whether a country as Kenya with seemingly little shareholder activity (see section *b* above), would benefit from active involvement of stakeholders such as banks in the CG process.

Summary

On reflection, we have seen how the actions of some of these stakeholder groups firms from implementing the requirements of CG codes. For example, firms in Kenya are observed as having to contend with powerful local communities which expect to be involved in the staffing decisions firms. The local communities eject duly appointed officials who don't come from their ethnic community as they deem them to lack tribal loyalty. Also, deprived communities adjacent to public listed firms have also sometimes demand a share of firms' resources even when they do not own any shares within those firms (Ntv Kenya, 2012; K24 Tv, 2014). Therefore, we call for more research to try and understand whether the representation other stakeholder groups in the management of firms within LDCs, including the local communities, can help to control the disruptions caused on firm operations when such groups feel aggrieved.

Also, it appears potentially helpful to encourage LDCs firms to have their various financiers represented within their boards to ensure that those firms are run in the best interests of all the suppliers of capital. This may also help to avoid a situation where representatives of shareholders, who arguably supply very little capital to firms within LDCs relative to banks as we observed, are left with unfettered powers to do as they choose with money whose bulk of it has been supplied by non-shareholding stakeholders including banks. The framework proposed in this paper is thus designed to permit scholars to be able to understand from a variety of possible sources of influence, which stakeholder entities besides the shareholders impact greatly the applicability of CG codes within LDCs. Finally, we propose the following question as a call to future researchers to expand on this discussion: would a shareholder-oriented or stakeholder-based model be the most suitable approach to CG practice within LDCs?

e) Transparency and Disclosure

Transparency and disclosure is an important CG mechanism which helps firm owners to minimize the problem of information asymmetry. This mechanism allows shareholders to keep track of executives' actions, through receiving material information regarding the decisions made by management in the course of running the firm. The resulting accountability helps to safeguard shareholder wealth since executives have little room for shirking their duties, or misappropriating firm resources (La Porta et al., 2000; Okike, 2007; Okpara, 2011). Also, accountability allows firms within emerging markets to access low cost foreign capital (Claessens and Yurtoglu, 2013), while in Africa, increased transparency has been further recommended as an appropriate measure for combating widespread corporate corruption (Okeahalam, 2004; Adegbite, 2012). However, despite the significance of disclosure and the associated favourable implication in CG of firms, the situation in some LDCs suggest that this CG mechanism may be constrained owing to various contextual factors as discussed below.

In Kenya, Barako et al. (2006) examined the factors influencing the voluntary disclosure of publicly listed companies. They established that the presence of audit committee together with institutional investors and foreign shareholders were positively associated with level of voluntary disclosure. Interestingly though, they found the presence of non-executive directors to be negatively associated with disclosure. They further noted that listed companies in Kenya disclosed information whose level was still lower than that of many developed countries. The regulatory body supervising CG implementation, the Capital Markets Authority of Kenya (CMA), also observed *disclosure* as the most breached CG provision in the country since the implementation of Western CG codes (Capital Markets Authority, 2012).

Tsamenyi et al. (2007) also examining disclosure practices of Ghanaian firms found disclosure levels to be very low despite the country's implementation of Western CG codes. The writers argued that the concentrated ownership structure of the firms constrained information disclosure. The writers further established that most of the listed companies are small-sized, which potentially explained the low disclosure, noting that large firms tend to disclose more information than small firms. Also, Tsamenyi et al. (2007) associated the low disclosure levels to the fact that majority firms had high debt capital compared to shareholder funds. For this reason, they argued that debt financiers have less impetus to demand increased disclosure since their investments were protected under insolvency laws, and thus firms have less pressure to disclose more information (Tsamenyi et al., 2007).

Uddin and Choudhury (2008) also examined disclosure in Bangladesh and established that culture was a significant cause for non-compliance with CG regulations. The researchers found that majority of listed companies had family members sitting on boards, and due to the close-knit nature of family setups, they were less transparent for fear that family information would get to the public domain. Also, some board members of family-controlled firms would tunnel firm resources to privately held companies under the veil of the secrecy shrouding such firms. Surprisingly, Uddin and Choudhury (2008) found that many families would dominate the boards of various companies despite such families sometimes owning minority shares.

Samaha et al. (2012) examined CG disclosure of top Egyptian listed firms and found disclosure levels to be fairly low, with companies only meeting the minimum requirements stipulated by stock market body. Samaha et al. (2012) associated the low levels of disclosure to laxity by the regulatory body and recommended increased oversight. They also linked their findings with the socioeconomic developments in Egypt, including a volatile political climate and social strife, rampant corruption, and disregard of the rule of law which passes unpunished. Samaha et al. (2012) findings reinforce the need to consider the implications of the each LDC local conditions before the implementation of Western CG codes.

Summary

The above review on transparency of CG processes within LDCs suggests that CG disclosure still poor within surveyed countries relative to the standards expected by Western CG codes, as well as the disclosure levels of the more developed countries. Barako et al. (2006) shows the presence of non-executive directors in Kenyan firms to have negative implications on CG disclosure. We assume that such non-executive directors may be lacking the independence required of them to be able to bring objectivity into Kenyan boardrooms. Also, having noted that majority LDCs tend to have concentrated ownership structures dominated by few families, we assume that it is likely such non-executive directors may be kin of the controlling shareholders. Furthermore, a regulatory report finds disclosure to be the most flouted CG provision in Kenya suggesting that the Western CG code applied in the country may have not realise the intended practicality (Capital Markets Authority, 2012). Similarly, we saw disclosure levels in Ghana to be poor notwithstanding the existence of a transplanted Western CG code (Tsamenyi et al., 2007). Some of the reasons attributed to the poor disclosure include the fact that many Ghanaian listed firms tend to have high debt capital compared to equity, and that debt financiers potentially lack an impetus to demanding a lot of information since they are protected by insolvency laws. Also, many Ghanaian listed firms are small in size, and tend to disclose little information compared to the few large firms. Our assumption for this variation in information disclosures between the small and large firms is that the small firms might be controlled by boards dominated by familial directors who may try to keep their actions away from the public. This appears consistent with Uddin and Choudhury (2008) who linked the poor disclosure levels in Bangladesh to family-dominated boards. They note that most listed firms are controlled by a few families who prefer to disclose little information for fear that additional information might put private family information in the public domain. Lastly, Samaha et al. (2012) suggests that disclosure levels in Egypt have deteriorated in the wake of social and political unrests witnessed in the country after the occurrence of the Arab spring. The writers note that disclosure levels of listed Egyptian firms continue to get poor as disregard of the rule of law continues to go unpunished, coupled with a moribund regulatory oversight.

Upon reflection on this theme – transparency and disclosure – we conclude by asking the following questions: Firstly, can Western-based CG codes founded on the assumption that they will operate in stable markets really deliver good CG practices within potentially volatile environments of LDCs which witness occasional social strife and unstable political climates? Secondly, how may CG disclosure be improved within LDCs firms given the evidently concentrated ownership structure dominated by few families?

A summary of the preceding literature discussion, sections *'a'* to *'e'* above, is provided in Appendix B.

Insert Table 2 here

PRESENTATION OF THE FRAMEWORK

This section builds upon the discussion of the literature provided in the previous section, from which we develop the illustrative framework provided in *figure 1* below. This framework is an integrated construct intended to show our readers how Western CG codes within LDCs are embedded and operate within what we believe are potentially problematic local institutional environments. We have framed the five CG themes critiqued in the literature discussion – (i) supervision and enforcement, (ii) boards of directors, (iii) shareholders rights, (iv) stakeholder relations, (v) transparency and disclosure – within our framework, which is enclosed by two powerful sources of conflicting influences. The discussion below provides an explanation of how frictions between the two forces – exogenous and endogenous forces – generates tensions which we assume to have a neutralising impact on the effectiveness of Western CG codes applied within LDCs.

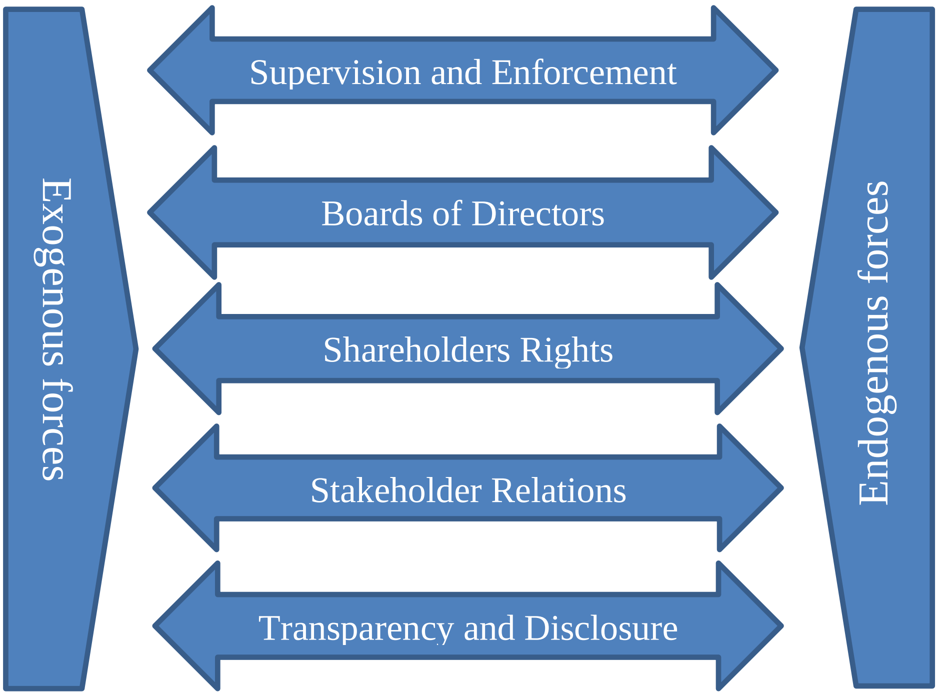

Figure 1: Illustration of sources of tensions between exogenous forces and endogenous influences in the adoption of Western CG codes within LDCs

In the figure above, there are two main sources of influence on CG practices within LDCs – the exogenous forces (indicated on the left of the diagram) and the endogenous forces (shown to the right). The double-sided arrows in the middle of the diagram represent the five CG themes which we are convinced from our review of literature to be the basis upon which Western codes of CG are implemented within LDCs. We are suggesting that the process of implementing Western codes of CG within LDCs appears to be on a collision path between the two powerful forces which are in constant motion thus generating tension. We further believe that the presence of this tension is what neutralises the effectiveness of western CG codes within LDCs.

The tensions we identify arise out of conflicting expectations between the design of the Western CG codes and the institutional backgrounds of the LDCs within which they are practiced. Tensions associated with *supervision and enforcement* emerges where the Western CG codes are transferred into LDCs with the assumption that there is an effective regulatory framework to oversee the process of CG implementation. However, our discussion under the CG theme of supervision and enforcement established that despite the presence of regulatory bodies within LDCs, they are unable to provide effective regulatory oversight due to weaknesses arising from multiple sources including: (i) shortage of personnel and poorly trained staff; (ii) lack of resources such as technology and funding; (iii) political interference and (iv) corrupt officials. We therefore strongly believe that it would unrealistic to expect the CG codes transplanted into the LDCs, to achieve their intended purposes in the absence of a robust regulatory oversight to support their implementation. Tensions around the theme of *board of directors* emanate from the inability of directors to fulfil their fiduciary duties as assumed within the codes of CG. Whilst boards of directors in LDCs firms appear to resemble those proposed within the CG codes including their composition, such boards appear to be still ineffective. Literature suggests that the functioning of company boards within many LDCs is significantly weakened by the presence of inexperienced and/or unqualified directors. Such individuals lack the necessary skills in required to lead a company, thereby neutralising the effectiveness of the CG codes adopted within LDCs. Other boards also meet the CG code's requirements such as having non-executive directors, but lack the necessary independence thus compromising on their ability to provide objective advice to their board. We argue that these factors adversely affect the capacity of boards in LDCs firms from fulfilling their part in the delivery of CG, thereby compromising the effectiveness of CG codes. Tensions associated with *shareholders rights* are evident where the ownership structure of LDCs firms assumes a concentrated structure in contrast to Western CG models like the Anglo-American governance, which expect shareholders to be widely dispersed. This phenomenon within many LDCs introduces another CG challenge, the principal-principal problem, which we assume was not envisaged during the design of the CG codes. Another explanation to this tension is that most domestic investors appear to have limited understanding about the way financial markets operate, as well as the rights they are provided in the CG code. Consequently, such shareholders are not aware of recourses available to them when their rights are infringed upon, or even how to perform their duties effectively in supporting the process of CG within their firms. Tensions also arise when LDCs firms interact with their *stakeholders*. The expectation of the Western-based CG codes and more specifically the Anglo-American governance is that the overriding objective of a business enterprise would be to create wealth for its owners. However, evidence suggests that majority of the LDCs within which the Anglo-American CG model has been applied, have a heritage of socialist traditions where the whole society expects a share of the wealth created by firms. Therefore, firms face a lot of pressure from various stakeholder groups wanting to get a share of the firms' resources despite lacking any investments with that firm. This clash of expectations between the CG codes and the unique way of life of people within LDCs puts strain on firms' relations with their stakeholders. In such situations, firms are compelled to walk a tight rope between operating within the requirements of the CG codes which might strain their relations with crucial stakeholders, or disregard the CG codes to satisfy the wishes of their stakeholders thereby guaranteeing their survival. Lastly, the strain on CG *disclosure* arises from the underdeveloped nature of capital markets within LDCs. We saw from our review of literature that LDCs tend to have underdeveloped financial markets, which leaves banks as the main providers of capital due to missing or inadequate capital markets. This therefore means that most LDCs firms have more debt financing compared to equity financing. We expect banks therefore, to put pressure to firms to disclose more information because as debt providers they are protected under insolvency laws. In addition, we found LDCs firms to have a concentrated shareholding structure dominated by few families, a factor which makes it difficult to have a transparent CG regime as assumed by the CG codes.

SUMMARY, CONCLUSIONS AND RESEARCH AGENDA

This paper reviews extant empirical and theoretical literature on CG within LDCs in an attempt to provide a conceptual understanding about the applicability of Western-based CG codes within LDCs. Firstly, we have identified that the amount of work done on CG in LDCs is limited and focuses on a few countries, while existing output on Africa is even more negligible. Secondly, upon review of existing literature, we were convinced that there are five areas along which CG is practiced within LDCs and therefore systematically structured our literature review discussion into five themes, namely: (a) supervision and enforcement, (b) boards of directors, (c) shareholders rights, (d) stakeholder relations, (e) transparency and disclosure. We established that the Western-based CG codes in use within LDCs are founded along these five CG themes as pillars for their effectiveness. With this understanding, we developed a framework integrating the five themes together in an attempt to gain further understanding on how Western CG codes are implemented within LDCs. This framework provided us with a two-way view about the practice of Western CG codes within LDCs contexts. On one hand, the framework shows that there are *exogenous forces* perpetuated by external factors comprising of pressures from supranational bodies including the World Bank and IMF, which push LDCs to adopt Western-based codes of CG. The framework also captures additional exogenous forces on LDCs, which is wielded by foreign investors and international business partners who require firms in LDCs to adopt the Western CG codes. On the other hand, the framework shows *endogenous forces* to which appear to be on a collision path with the exogenous forces discussed above. These endogenous forces emanate from what we argue as a robust local environment which prevails within the LDCs. These internal influences comprise of peculiarities of the LDCs socio-economic environment including: poverty and lack of resources, low literacy levels and poor training, and strong cultures and traditions. Tensions are therefore generated when the two conflicting forces put pressures on the CG processes within LDCs, which we believe to be the cause of ineffectiveness of the Western codes of CG adopted in those countries.

We hope that the framework proposed in this paper will allow other CG scholars within LDCs to investigate how CG is practiced in their own countries. To achieve this, we encourage them to test our construct in understanding the extent to which local country conditions are likely to play a role in neutralising the effectiveness of Western-based CG codes. The framework will permit scholars and policymakers to move beyond the determination of whether a CG code works effectively or not, as it can be further used to keep audit of the significant sources of weakness for a CG code. We are applying this framework in another developing paper focussing on Kenya. Our background reading informed that the country has a fragmented ethnic background with diverse and strong traditions and culture. On the other hand, the country has adopted a Western CG code and set up necessary institutions to support CG development and which resemble those in the Western countries, thus offering an interesting avenue to test our framework.

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APPENDIX A

Table 1: Corporate Governance Themes discussed by selected writers

	CG themes				
Study & Year	**Supervision and Enforcement**	**Shareholders Rights**	**Boards of Directors**	**Stakeholder Relations**	**Transparency and Disclosure**
Barako et al. (2006)		√	√		√
West (2006)				√	
Tsamenyi et al. (2007)	√	√	√		√
Tauringana et al. (2008)			√		√
Wanyama et al. (2009)	√	√	√	√	√

Siddiqui (2010)	√	√	√	√	
Rashid (2011)	√	√	√		√
Adegbite and Nakajima (2012)	√	√			
Adegbite (2012)	√			√	
Samaha et al. (2012)	√	√	√		√

APPENDIX B

Table 2: Summary of key CG studies from LDCs

Study & Country	Major findings
Tsamenyi et al. (2007) *Ghana*	a) Disclosure levels were found to be very low due to widespread concentrated ownership structure, which affected CG disclosure. b) Notwithstanding, large firms disclose more information than small firms.
Adu-Amoah et al. (2008) *Ghana*	a) The process of board appointments is influenced by the local culture, subsequently affecting board independence and overall CG implementation.
Tauringana et al. (2008) *Kenya*	a) It took an average of 74.5 and 76.47 days to release annual reports for listed firms, in years 2005 and 2006 respectively. b) Proportion of finance experts on audit committee, and frequency of board meetings were found to be negatively associated with time taken to release annual reports. c) Firms that report in both English and Swahili languages were timelier in releasing their annual reports compared to those reporting only in English language.

Uddin and Choudhury (2008) *Bangladesh*	a) Despite families being minority shareholders in most companies, they wholly control all company affairs including dividend policies and AGMs through their representative directors. b) Other hindrances to CG development were found to include: political interference and powerful cultural traditions.
Angaye and Gwilliam (2009) *Nigeria*	a) Poor CG practices and ineffective regulatory framework continue to hamper CG progress in Nigeria.
Okpara (2011) *Nigeria*	a) Implementation of CG is hindered by institutional constraints including: • weak or non-existent law enforcement mechanisms • abuse of shareholders' rights • lack of commitment by boards of directors • weak enforcement and monitoring systems, and • poor of transparency and disclosure.
Wanyama et al. (2009) *Uganda*	a) Despite adoption of good CG codes in Uganda, their effectiveness has been severely hampered by contextual factors including corruption, inadequate regulatory institutions, and overwhelming traditional culture.

Adegbite and Nakajima (2012) *Nigeria*	a) National codes of CG are embedded on the institutional environment. b) Challenges the notion of universal codes of CG due to idiosyncrasies of individual countries institutional arrangements
Adegbite (2012) *Nigeria*	a) Codes of CG are influenced by individual country's institutional arrangements. b) Institutional arrangements are inseparable constituents of every country.
Samaha et al. (2012) *Egypt*	a) CG disclosure was lower for companies with: (i) CEO-chair duality, and (ii) high ownership concentration. b) On the other hand, CG disclosure increased with: (i) proportion of independent directors on the board, and (ii) firm size.
Adegbite et al. (2013) *Nigeria*	a) CG is a contested subject where different CG players attach varied meanings to CG practices. b) Nigeria's peculiar institutional environment including corruption and weak regulation renders the shareholder model unworkable, thereby leaving the stakeholder model as the next best alternative.
Waweru (2014) *Kenya and South Africa*	a) Audit quality and firm performance were reported as the main factors influencing the quality of CG in both countries.