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Corporate Governance in Africa: Comparative Study Master's

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Sanni Markkanen
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Abstract

This thesis is a comparative study focusing on African national corporate governance codes and guidelines, with special attention given to comparing the African corporate governance codes to European colonizers' equivalent codes. The study focuses on those African countries which were under European colonial rule during the colonial period from 1881 to 1914, as during that time most of Africa was under European rule.

The study addresses whether the African countries, which currently have a corporate governance code in place, have acknowledged their specific context and environment in developing their own corporate governance codes. According to many researchers, there are no universal laws in corporate governance and the efficiency of specific corporate governance practices can vary in different contexts. Therefore, the same governance mechanisms would not work as well in less developed African countries than they would in more developed countries in Europe. For example, financial market development, legal enforcement, and ownership structures can have an effect on what corporate governance mechanisms are useful. However, the colonial history of a country can largely affect the development of institutions and legal environment in said country. Thus, it is possible that African countries would have mimicked the governance codes of their former colonizers, rather than developed codes that would suit their environment and market conditions better. In addition to the emerging market environment and colonial heritage, the study addresses whether religion, legal origin, and corruption level of a country, or the mortality rate of settlers during colonialism have an effect on the development of corporate governance codes.

We have used archival research techniques to analyse the national corporate governance codes of each country. This has enabled an analysis of multiple countries simultaneously, and also a comparative analysis of older and newer codes of the same country.

Our findings conclude that African corporate governance codes have not merely been mimicked from their colonizer's code, but rather African countries have in their codes addressed issues which are relevant for their environment, such as strong communal values and corruption. However, the codes still have room for improvement in relation to minority rights protection and in the encouragement of institutional investor participation for example. Also we find that those African countries which have a corporate governance code in place are on average less corrupt than the countries which do not have such code in place at the moment.

Keywords corporate governance, contingency theory, path dependency, colonialism, Africa

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Tämä tutkielma on vertaileva tutkimus koskien Afrikan valtioiden corporate governance –koodistoja ja ohjeistoja, ja siinä on kiinnitetty erityistä huomiota afrikkalaisten koodistojen ja eurooppalaisten siirtomaavaltojen vastaaviin koodistoihin. Tutkimus keskittyy niihin Afrikan maihin, jotka olivat eurooppalaisen vallan alla kolonialismin aikana vuosien 1881 ja 1914 välillä, sillä tuolloin lähes koko Afrikka oli Euroopan vallan alaisena.

Tutkimus selvittää, ovatko ne Afrikan maat, joilla tällä hetkellä on corporate governance –koodisto, huomioineet oman kontekstinsa ja ympäristönsä kehittäessään näitä koodistoja. Tutkimusten mukaan ei ole olemassa yleisiä periaatteita, kuinka hallinnointi tulisi järjestää kaikissa tapauksissa ja yksittäisten corporate governance –käytäntöjen tehokkuus voi vaihdella kontekstista riippuen. Sen vuoksi samat hallinnointikäytännöt eivät toimi samalla tavalla vähemmän kehittyneissä Afrikan valtioissa ja kehittyneemmissä Euroopan maissa. Esimerkiksi rahoitusmarkkinoiden kehittyneisyys, lakien täytäntöönpano ja omistusrakenteet voivat vaikuttaa siihen, millaiset corporate governance –mekanismit ovat toimivia. Kuitenkin maiden siirtomaahistoria on voinut vaikuttaa instituutioiden ja oikeusjärjestelmien kehitykseen. Täten on mahdollista, että Afrikan valtiot olisivat vain kopioineet valloittajamaansa suositukset omiin ohjeistoihinsa, eivätkä kehittäneet suosituksia omaan ympäristöönsä ja markkinaolosuhteisiinsa sopiviksi. Lisäksi tutkimus käsittelee, kuinka uskonto, oikeusjärjestelmä ja valtion korruptoituneisuus, tai siirtomaavalloittajien kuolleisuus ovat vaikuttaneet corporate governance –ohjeistojen kehitykseen.

Tutkimuksessa on käytetty arkistotutkimusmenetelmiä eri maiden koodistojen arviointiin. Tämä on mahdollistanut useiden eri maiden samanaikaisen analysoinnin, sekä vertailun tietyn maan aikaisempien ja uusimman koodiston välillä.

Tutkimuksen perusteella Afrikan valtiot eivät ole vain kopioineet siirtomaavalloittajiensa suosituksia omiin corporate governance –ohjeistoihinsa. Sen sijaan afrikkalaisissa ohjeistoissa on huomioitu maiden kontekstin kannalta olennaisia tekijöitä, kuten vahvat yhteisölliset arvot tai maan korruption taso. Kuitenkin parannettavaa mailla on vähemmistöoikeuksien suojelussa sekä institutionaalisten sijoittajien osallistumisen edistämisessä. Lisäksi toteamme, että ne Afrikan maat, joilla on corporate governance –koodisto, ovat keskimääräisesti vähemmän korruptoituneita kuin sellaiset maat, joilla ei vastaavaa ohjeistoa ole tällä hetkellä olemassa.

Avainsanat corporate governance, kontingenssiteoria, polkuriippuvuus, kolonialismi, Afrikka

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1 Introduction

There is a growing consensus that corporate governance has a positive relationship with national growth and development of economy. The financial crisis and the following collapses of major institutions have brought more attention to the need for effective and good governance methods both in developed and in developing markets. This study aims to compare the differences and similarities between African countries' national corporate governance codes with European national codes.

The major part of the study is a comparative analysis between the various African country codes and their historical colonising powers. The objective of this part of the study is to find out, how similar the codes are overall, and how much have the African countries mimicked their colonizers' examples. Also, and more importantly perhaps, do African codes have some characteristics that are contradictory to their colonizers and specific to their own environment? The codes are also evaluated both against their colonizers' codes but also with respect to how well the African countries' codes have been adopted to fit the emerging market environment compared to the developed market environment of their former colonizers. We shall also address, whether the countries religious or legal origin as well as mortality rate of the settlers are somehow visible in the investor rights protection and governance today.

A central theme for corporate governance research is to what extent good corporate governance practices can be universal, i.e. is there a one size fits all strategy for corporate governance, or are good practices instead country, culture or firm dependent. There is much evidence that there are no universal laws in corporate governance and that optimal governance differs, for example, between developed and developing markets (Bebchuk & Hamdani, 2009) and between emerging markets (Durnev & Fauver, 2007). Thus, also the corporate governance codes in different countries should be different and reflect the for example surrounding environment's history, economic development and culture.

This study will concentrate on African corporate governance for several reasons. The surge of corporate governance reform is evident also in Africa, as it can be seen in the amount of national corporate governance reports which have already been published. It is also the second largest continent in the world with a population over a billion, and in addition to this, many of the raw materials used in familiar western products come from Africa. Therefore, continent's economic

development, which is majorly dependent also on the corporate governance development of each country and company, has an impact on a large scale not only in Africa itself but also in other parts of the world. Despite all of this, there still is a large shortage of research which studies African corporate governance. For example, McNulty, Zattoni and Douglas (2013) find that out of 78 qualitative research papers on corporate governance that they investigated in their review of previous studies, only one's setting is in Africa, while for example they found 37 studies focusing on United Kingdom alone. Thus, the importance of Africa as a research subject in corporate governance field has been somewhat neglected in research previously, while some other markets have been excessively studied. Therefore, much of the research on best practices in corporate governance are related to already developed markets and their specific problems.

Africa is the poorest continent in the world by far. Much of the poverty is caused by Africa's history as a target of European colonial policy. The European colonial period of new imperialism lasted from circa 1870s to 1960s, and the European expansion's target was primarily Africa. In 1914 at the peak of African colonisation, only Abyssinia (now Ethiopia) and Liberia remained independent from the imperialism of the Europeans. The major colonizers were the United Kingdom, France, and Germany, but also other European countries conquered areas for themselves during the 19th and 20th century. Therefore, as nearly all of the continent was under European power, European corporate governance can be seen as a major influence on African governance practices and development, and even overpowering their own cultural heritage (Marjomaa, 2011). Thus, we have selected also this path dependence based perspective to our study, as opposed to simply agency theory which has dominated much of the corporate governance research previously.

Sophisticated and sound corporate governance practices can be helpful in obtaining new and much-needed investments to Africa, as good quality corporate governance is especially important for investors. In 2003, Africa received only 3 % of the world's foreign investments (Vaughn & Verstegen Ryan, 2006). Stulz (1999) finds that investors will reward those companies, which are well-governed, which will in turn lead to higher valuation. Surveys have shown that investors are willing to pay a price premium (over 20%) for companies with good governance, and this price premium is even higher in countries with weak legal protection (Chen, Chen & Wei, 2009). Also good governance lowers the cost of capital for firms by mitigating agency problems (Chen et al., 2009). In addition, good quality governance reduces the cost of monitoring for outside investors, which in turn can further lower the cost of capital for companies (Lombardo & Pagano, 2002). International norms and standards in governance can be used as a base for developing practices and regulations in problematic

markets and countries. This would then help investors to trust the corporate sector better and thus make these countries internationally more competitive in the capital markets. This way Africa could follow the path of BRIC-countries which are now becoming more important all the time in the global economy. Developing even the basic corporate governance practices, such as reporting, transparency, protection of minority rights, and independent auditing, can improve the economy on a long-term basis.

Besides reaching investors and higher market valuation, corporate governance and governance codes have various other practical purposes as well. For example, they can be used as a reference point in other decision making, in managing risks by reducing the probability of misconducts, and the codes can help people from different backgrounds work more efficiently together (Paine, Deshpandé, Margolis & Bettcher 2005). This study addresses the issue whether the governance codes are in the path of developing into more sophisticated guidelines, in order to utilise the full potential of effective corporate governance. Therefore, we do not believe that the benefits of adopting better quality and suitable governance codes would be limited only to investor attraction, although much of the existing literature focuses on the effects of corporate governance on investors' views and market valuation.

For these reasons Africa is an important research subject, as we hope that with quality governance Africa could improve its reputation among investors, and through economic development improve the life of its population. Also for example former Unites States president Bill Clinton has recognised the investment potential of Nigeria, but declared that the government first needs to "put its house in order", if they want to reach their full investment potential (Okike, 2007).

Therefore, as has been presented above, improving the corporate governance codes in each country could therefore help to improve the performance of the companies and help them to obtain funds from new investors that would not have been willing to invest in them before. However, the actual implementation of corporate governance practices and mechanisms might become costly to companies in countries with traditionally weak legal rules and lower governance level (Doidge, Karolyi & Stulz, 2007), no matter what the corporate governance codes on paper might say. Having a corporate governance code in place in a country does not guarantee better or suitable governance. Therefore, we suggest that countries should not develop governance codes for purely exogenous reasons, but the need and content of a governance code should be more endogenously driven.

This study contributes to field of corporate governance research and literature for the following

reasons. First of all, it contributes to the literature on African corporate governance which is still quite limited. There are not many studies describing multiple countries, but previous literature has mainly focused on the existing corporate governance practices in individual countries, or the effect of governance on performance. Also, much of the existing research has focused on a limited selection of countries, such as South Africa or Nigeria, leaving the majority of countries overlooked, even though there is a growing number of governance codes in place in Africa as well. Also comparisons on Africa and Europe have mainly focused on individual or specific issues, such as institutional development or legal origins. Governance guidelines have not been compared in previous research to each other in this way before.

In addition to the research on African governance, this study contributes to the field of comparative research on corporate governance from the perspective of path dependency. Much of the previous comparative research has focused on for example comparing bank and market-based governance systems (see for example Bebchuk & Hamdani, 2009). This study approaches the comparative analysis from another perspective, as it tries to explain, if countries have designed their governance codes based on their relatively recent history. Thirdly, contribution will be made in the field of combining corporate governance codes and corruption. Although corporate governance and corruption have been researched in previous literature (see for example Dass et al. 2014), this research is done in a national governance code level against the national corruption level, instead of for example addressing whether good quality governance can improve firm value in corrupt environments.

The paper proceeds as follows. First we will describe the basic background and premise for Africa as a scene for corporate governance development, which entails both its colonial history and economic and financial development. The next section will discuss the most relevant theories for corporate governance research, as well as previous research on corporate governance mechanisms in different contexts, such as legal protection and market development, and in relation to corruption. After this, the paper describes the methodology and the data collection of the study. After these parts, we will describe the results of the study, and then we shall discuss and analyse important findings. Conclusions, possible limitations of the study, and further research opportunities will conclude the paper.

2 African economy

2.1 Colonial history

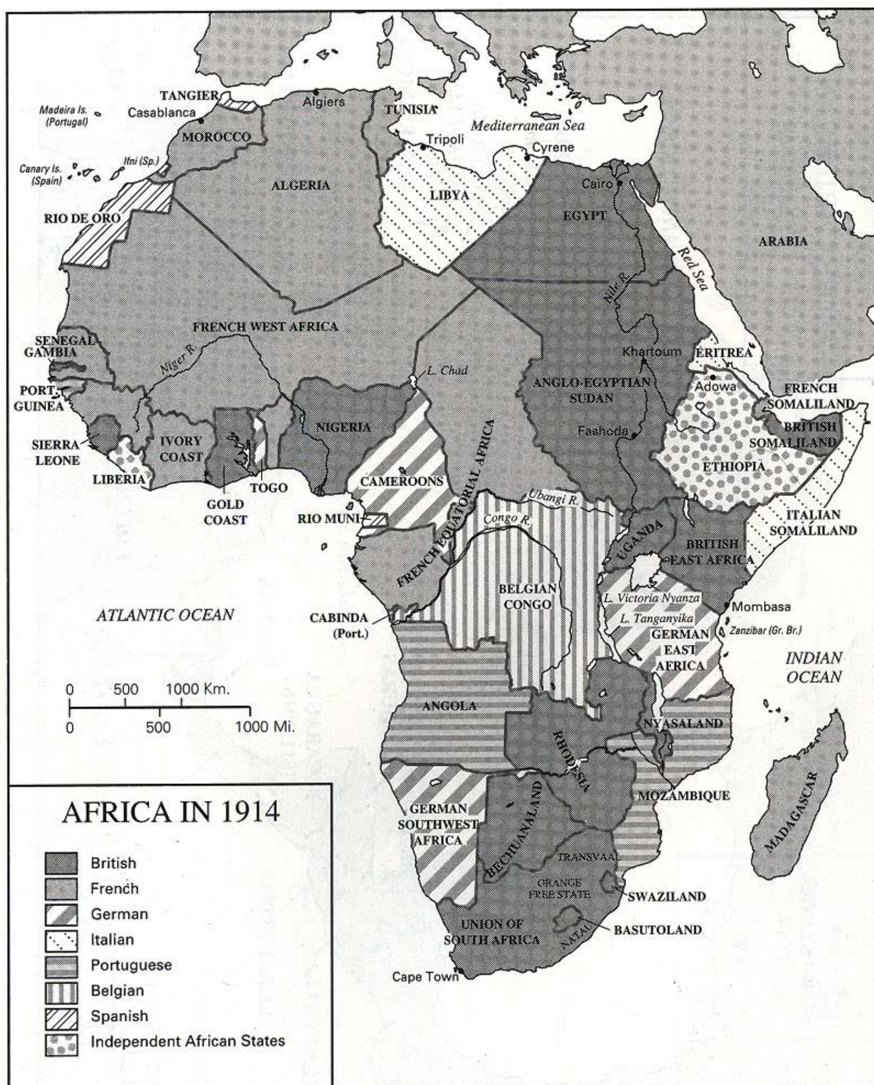
Europeans did not really conquer areas in Africa during the slave trades between the 17th century and 18th century. The Portuguese had seized small areas near Angola and Mozambique, and some Dutch migrants settled in the southern tip of Africa during this time. In the north Muslims ruled over the areas around the Nile, the Red Sea and the Swahili coast. Therefore, much of the continent was still in the hands of Africans themselves, as outsiders did not have enough power or interest to make permanent conquests there. (Marjomaa, 2011, p. 82)

The change to this became when the industrialisation increased in the Western Europe during the 19th century. As the British ruled much of the world trade at the time, the French decided to acquire colonies to break the British domination. This started the scramble for colonialism, as in the 1880s the British decided that they needed to respond to the growing competition by acquiring their own colonies, and many other European countries then followed. Africa was a major target for the colonialism, as their population's ability to defend themselves against Europeans was weak. New type of weaponry, railways and effective medicines eased Europeans victory even against large numbers of opponents. There was also a lack of resistance, as many African leaders thought that by submission they would get to keep their autonomy against the colonizers, but the conquerors widely destroyed the traditional governments and administrative systems and replaced them with their own equivalents. (Marjomaa, 2011, p. 83)

Picture 1 shows the colonial situation in 1914 in Africa, when only Liberia and Abyssinia (Now Ethiopia) were independent.

Colonising powers often also affected the religion of different countries. Although the roots Christianity go back even to the 1st century, the major growth for Christianity for example came in the 20th century. Many Africans adopted Christianity through their European colonizers' influence, and therefore much of the Sub-Saharan Africa is now Christian. The division of Catholic church and Protestants is not clearly cut, but for example in Central Africa Catholicism is more dominant than Protestants, while the Southern Africa is more Protestant. Nigeria is one of the examples of where large amounts of people have converted to Christianity. However, some of the countries chose Islam as a protest to the European imperialism. Islam is now the dominant religion in Northern Africa, as

the Arab conquest in late 7th century spread Islam into Africa and the many of the Muslim countries under French rule did not adopt new religions. (Marjomaa, 2011)



Picture 1 African colonialism and colonizers in 1914. Source: Contrary Magazine Blog

Not all European countries used or accomplished using their colonial policy in the same way, and this has led to differences in the embedding of European institutions, culture, and market systems in Africa. Acemoglu, Johnson and Robinson (2001) have described different premises for institutional differences between African countries which were subjects of European colonisation, which would explain many of reasons for differences. They argue that not only did the colonial origin affect the institutions, but they emphasise the importance of the conditions, such as disease environment, in the colonies, and how well colonizers could settle in the area. Where their settlement could not be carried out well, they created worse institutions. Therefore, Acemoglu et al. argue that when the settlers' mortality rate was higher, colonizers would not try to build proper institutions in the colony but rather only to try to exploit the resources. In addition, some countries', such as Belgium's, initial strategy was the exploitation of the colony already from the start without even an attempt to build functioning institutions in the colony (Acemoglu et al.). This would have therefore resulted in even weaker institutions from the start.

Both the First and Second World Wars reduced the power of the European colonizers in Africa, and after the wars the attitudes towards imperialism grew more negative especially in United States and Soviet Union, and partly in Europe too. Independence movements arose soon after, and in the 1960s many African countries became independent fast after strikes, riots and independence wars. However, African countries have remained reliant on their former colonizers. Also the country borders have followed the borders of the colonies, and thus the nations do not represent any clear national or cultural characteristics, but many ethnic groups are divided between numerous nations. (Marjomaa, 2009, p.89)

2.2 Economy characteristics

Many of the African countries have underdeveloped markets and financial institutions. However, there are some geographical differences in the development level, as some areas are more developed than others. For example, some countries, such as South Africa, Egypt and Nigeria are more developed and richer than the poorest countries, such as Congo, Liberia, and Eritrea (International Money Fund, 2014). Therefore, Africa as a whole cannot be characterised with one single market type. However, it cannot be denied that some of the poorest and most underdeveloped countries in the world are in Africa, and typically many of the countries have similar flaws and problems in their markets and community.

According to financial ratios, such as the liquid liabilities to GDP, countries is the Sub-Saharan region have significantly less developed markets compared to other emerging markets: in Sub-Saharan Africa the ratio was 29.7 % and for example in South Asia 55.1 % in 2007 (Allen, Carletti, Cull, Qian & Senbet, 2010). Therefore, Africa seems to be much behind other emerging markets in this regard, although some progress has been seen. However, the persistent view still is that much of the continent's markets have problems of corruption, and weak legal systems and regulation, and ineffective law enforcement (Munisi, Hermes & Randøy, 2014). Acemoglu et al. (2001) find that the reason for Africa's poverty, when compared to other markets, is not so much cultural or geographical, but is a result of worse institutions.

Other characteristics that are dominant in African economy are the predominance of closely-held family owned businesses, high level of government ownership, and the informal nature in many businesses (Okeahalam, 2004). All these alternatives in ownership structure bring their own issues

for governance. For example, family-ownership brings to question issues related to growth and transition to more diffused ownership, and in countries with high state-ownership questions related to privatisation and commercialisation arise in corporate governance (Claessens & Yurtoglu, 2013). Many of the companies operate outside of the jurisdiction of stock exchanges, or even company laws, as a significant part of the enterprises are informal, with the exception of South Africa, where state-ownership is less common and the stock markets are active (Rossouw, 2005). Therefore, all of these ownership related issues sets challenges to building governance codes that would reach wide range of businesses, as only stock exchange listing requirements would bind a small number of individual businesses and they would not be effective or practical in small and medium sized firms. Therefore, relying on stock exchange regulation and focusing on issues that are only targeted at large companies is not the answer to the corporate governance problems in Africa on a larger scale.

In free market systems, governments let markets themselves set prices through market supply and demand allocate resources most efficiently. However, governments intervene with markets if they do not work efficiently in these aspects, but governments may also intervene to promote their own agendas. These agendas can be either beneficial, but often it is also possible that intervention is related to for example corruption. In many African countries the level of government intervention has traditionally been high, and much of the interfering has been directed at the financial systems, which has led to overall capital markets' underdevelopment (Munisi et al., 2014). The development of markets have also been behind many other emerging markets, as many of the countries in Africa started to liberalise their markets only in 1990s, when many other markets started their liberalisation at least a decade earlier (Hermes & Lensink, 2013).

One area that cannot be left unlooked in discussing African economy is corruption. Africa is widely considered as one of the most corrupt markets in the world, and of the ten most corrupt countries in the world five are from Africa according to Transparency International's Perception Index from 2014. According to this index, Somalia is considered to be the most corrupt country in the world, with Sudan, Libya and Eritrea not far behind. Corruption in Africa ranges from high level public corruption to local corruption of bribery to ordinary bureaucratic procedures (Lawal, 2007). Another major problem when it comes to corporate governance for any developing market is the lack of efficient corporate governance mechanisms. For example, high quality external auditors, financial institutions and legal systems, and market for corporate control are either absent or undeveloped (Mishra, 2011).

3 Literary review of corporate governance

3.1 Definitions

Corporate governance can be defined in a number of ways. However, although having numerous descriptions and covering issues such as accountability for performance, corporate governance should not be confused with management or corporate responsibility, although in some areas they are related to each other.

Nominally investors and shareholders own the corporations, but in reality they can have very little to do with the business. According to Shleifer and Vishny (1997), corporate governance deals with how investors and suppliers of finance try to assure themselves to get return on their investments to companies. Therefore, according to this description, the objective of corporate governance is to make sure that managers do not just run off with the money of investors. La Porta, Lopez-de-Silanes, Shleifer and Vishny (2000) also describe corporate governance as mechanisms which help investors to protect themselves against expropriation of insiders, i.e. managers and controlling shareholders. The narrow understanding of corporate governance would therefore mean the function and structure of the board of directors, representing investors, and its relation to the management of the company (Wymeersch, 2006).

In an ideal market, market competition would force companies to minimise costs and as a part to that, adopt corporate governance rules that investors impose on them. Therefore, in the long run, we should not try to reform governance through political processes, as the market would reform corporate governance on its own. However, many researcher disagree with this point of view to let markets alone deal with governance issues. For example, Shleifer and Vishny (1997) argue that solving governance problems requires other forces besides markets too, to which corporate governance would be the answer.

Also the corporate governance codes compared in this study articulate some definition for corporate governance. One of the simplest and most often quoted definition is stated in the United Kingdom's Cadbury Report: "Corporate governance is the system by which businesses are directed and controlled." The narrow definition of corporate governance, the relationship between only board of directors and management, would not necessarily meet this criterion. A broader definition expands governance to mean all the internal relationships the company faces, including for example

relationships with financial markets and attending to issues raised by the conduct of shareholders. (Wymeersch, 2006)

These definitions approach the question of governance from a theoretical perspective. From a practical perspective, corporate governance concerns, how managers can take stakeholders' welfare into account in their actions of managing companies' day-to-day activities. On the other hand board of directors is responsible for governing the firms in terms of hiring and firing executives, deciding on compensation policies and approving management's actions. Effective corporate governance consists of transparency and disclosure of relevant information, protection of the rights of shareholders, and of independent directors who are able to make effective and successful decisions.

As this study addresses the substance of different corporate governance codes, the broader definition of corporate governance with inclusion of other stakeholders besides shareholders is followed in this study. Thus, we can consider each country's own definition of corporate governance and not limit areas of corporate governance codes from the start. However, we should take into account in our analysis the different understandings of corporate governance and its overlapping with for example corporate social responsibility.

The term *corruption* is ambiguous amongst different institutions. For example, World Bank and IMF both define corruption vaguely meaning the misuse (or abuse) of public office for private ends (or gains) (IMF, 2005; World Bank, 1997), and there are even broader definitions, such as ”the abuse of entrusted power for private gain” (Transparency International, 2004). However, the Association of Certified Fraud Examiners (ACFE) has defined corruption in a more precise way as “a scheme that involves the employee's use of his or her influence in business transactions in a way that violates his or her duty to the employer for the purpose of obtaining a benefit for him- or herself or someone else” (Kimbro, 2011). As we shall use the Transparency International index in our study as a reference point and data in our analysis, it is appropriate that we shall therefore use the broader definitions of corruption, as they have also done.

3.2 Theories

For example the survey study of Shleifer and Vishny's (1997) approach corporate governance from the agency theory perspective. Agency theory certainly has been the major theory and basis for

empirical literature to understand corporate governance (Aguilera, Filatotchev, Gospel & Jackson 2008). Therefore, much of the corporate governance literature and recommendations have focused on alleviating the possible principal-agent problems. Agency theory refers to the agency relationship between the principal, who delegates their work and power to the agent, who then performs the work on behalf of the principal (Eisenhardt, 1989). However, conflicts may arise when the desired goals of the principal and the agent are in conflict, and if the principal cannot check and make sure that the agent is working really in the interests of the principal. Agents can choose to hide information from the principals, expropriate funds or make decisions that only benefit themselves at the expense of the principal (Lubatkin, Lane, Collin & Very, 2007). Therefore, principals want to invest in monitoring and alignment of agents' interests with their own with incentives, to protect themselves against the opportunistic behaviour of the management (Lubatkin et al, 2007).

The prevalent management systems are many times guided by the assumption that self-interest is the most important and ultimate determinant for one's behaviour, and therefore their interests are maximised when they earn as much as possible with minimal effort (Mangaliso, 2001). Also, agency theory considers efficiency and effectivity of governance mostly from the perspective of investors, and that the major objective of corporate governance is to assure investors that get return on their investment (Shleifer & Vishny, 1997). However, for example in the case of Africa, this is not always the case, as the African value system is based on the commitment to consensus and coexistence with the community (Rossouw, 2005), meaning that other groups besides shareholders can also be considered in the decision making. Therefore, the assumption of agents only trying to maximise their own self-interests at the sake of the principal is not as accurate in every context. Therefore, we cannot consider agency theory to be the only relevant theory that applies in corporate governance.

The agency theory is concerned about the principal-agent conflicts which may arise when there is enough of diffused ownership, and owners do not then have enough control over management directly. However, in markets with concentrated ownership the traditional agency problems may not be as severe, but instead principal-principal conflicts may arise as different owners have different interests and different levels of control and power over the company. This approach has become known as the principal-principal model of corporate governance (Young, Peng, Ahlstrom, Bruton & Jiang, 2008). Therefore, as we are focusing on a market where concentrated ownership is common, we shall take into account this principal-principal perspective when describing the problems and recommendations of African corporate governance.

According to many studies by now, there is much evidence that there are no universal laws in corporate governance and in management accounting in general. The underlying theory is the contingency theory (Otley, 1980). It suggests that the appropriate accounting system, including corporate governance practices, will depend on the particular circumstances that the individual organisation faces. Contingency theory seeks to identify specific aspects related to specific circumstances, and then demonstrate an appropriate matching of the two. When for example Aguilera et al. (2008) have criticised agency theory for relying on a closed system approach to governance, their own approach suggests a more open system perspective. They suggest that the effectiveness of corporate governance practices is dependent on three factors: costs, contingencies and complementarities. All of these factors are related to the specific context of individual countries, which means that the underlying culture and especially country's history affect, what kind of complementary combinations of governance practices would work best in each context for each individual organisation. Therefore, not only is the regional history and culture important, but also for example organisation's industry, size and maturity matter in the selection of most appropriate governance mechanisms.

Path dependence can explain much of the differences of corporate governance mechanisms in different contexts. This means that reasons for different kinds of governance mechanisms arise from each country's or market's own and specific conditions from where they started to build their governance basis (Bebchuk & Roe, 1999). Both country's ownership structure and corporate rules can affect each county's own governance systems and their development. The efficient ownership structure in a country can depend on earlier structures, and previous structures can persist because of authorities who enjoy their benefits have the possibility to impede changes. National corporate rules, for example rules that make acquiring large holdings costly or difficult for investors, can also affect ownership structures, which in turn will then affect suitable governance mechanisms. For example, anti-takeover rules can encourage diffused ownership, or countries which already have diffused ownership can have many interest groups which would lobby for such rules to be introduced. These rules persist, even though different policies would be introduced in different markets. For example, local institutions and structures have already adapted their mechanisms to respond to problems that may arise under these rules, and therefore their mechanisms and rules are complementarities to each other. Therefore, new and different mechanisms can be unnecessary for them, if the ownership structure does not change for other reasons first. (Bebchuk & Roe, 1999)

Although it could be assumed that countries would not want to impose undesirable laws onto their

companies and that it would be already known which rules are favourable, corporate rules still are very different even between highly developed markets, such as United States and Germany. Although the overall tone and principles of two systems might be the same, many times the details and implementation differ greatly, making therefore the optimal governance policies differ too (Bebchuk & Roe, 1999). Therefore, no clear definition of good or bad corporate rules from governance perspective can be given.

Bebchuk and Roe (1999) also argue that when countries are on significantly different levels on economic development, there most probably are other reasons than path dependence for different mechanisms. However, in the case of Africa and Europe, although clearly the two markets have had a significant gap between their development levels, path dependence can still be a major explanatory perspective for African corporate governance development, as the continents' histories are so greatly confined.

At first it could be assumed that developed markets would have developed the most effective governance mechanisms, which should be adopted everywhere else too. However, corporate governance is not as simple as technological innovations for example in this regard. Therefore, according to these theories and approaches presented above, good and effective governance is more context-specific than only the basic agency theory would suggest. The most beneficial governance mechanism can therefore vary between different markets and even between different companies inside a single market according to company size, life cycle or complexity.

3.3 Corporate governance codes

The rules for corporate governance in different countries can be scattered in many different sources. Basic governance rules can be listed in statutory instruments, such as company laws, while more complex topics, such as takeover bids, can be referred in legislation or be promoted in listing requirements for stock exchanges. Companies can also have internal rules, for example, for board of directors that contain governance provisions, and informal traditions can also have an impact on governance. Corporate governance "codes" have been developed to coordinate these decentralised recommendations into consolidated governance codes. (Wymeersch, 2006). Thus, in markets, where the institutional setting might be failing to provide good-quality investor protection and rights, governance codes can be seen as a response to remedy these problems (Munisi et al., 2014). By complying with these codes, companies in such countries can signal investors that their governance

quality is higher than the average country level would suggest otherwise. Here we shall describe the basic premise for corporate governance code development.

The breakthrough of European corporate governance was the Cadbury Report in 1992, as it was developed as a response to the various outrageous business scandals in the 1980s, including apparently undeserved increments in executive salaries and auditors' failure to perceive large bankruptcies, in the United Kingdom (Boyd, 1996). Because of these scandals, the City of London appointed a special committee, called the Cadbury Committee after its chairman Sir Adrian Cadbury, to examine the financial aspects of corporate governance and raise its standards, by illustrating the responsibilities of each party involved in governance (Fernando, 2009). The report gave guidelines for board of directors, non-executive directors, reporting, and control. The Cadbury Report became the world leader in corporate governance codes, although in the United States similar codes, such as the Treadway Commission Report, had been developed earlier in 1987 (Vinten, 2001), and many of the recommendations of the Cadbury Report (for example the definition of corporate governance), have been incorporated into the OECD Principles of Corporate Governance in 1999 and into other national codes (Jones & Pollitt, 2004). Nowadays the OECD governance codes are considered to be the reference point for many countries developing their own national corporate governance codes.

Governance policy systems can be divided into either hard law or soft law approaches (see for example Aguilera et al., 2008). Hard law systems refer to regulation, such as Sarbanes-Oxley Act, which regulates bindingly all of the companies that operate under its jurisdiction and defines the minimum standards for governance. However, the soft law approach is usually based on the comply-or-explain model.

The Cadbury Report introduced the comply-or-explain model, which has since then formed the standard for many other corporate governance codes. The recommendations of the Cadbury Report were not mandatory in nature, but the companies listed in London Stock Exchange had to explain their reasons for non-compliance if they did not follow the code (Fernando, 2009). This flexibility encourages companies to adopt at least the spirit of the code that mandatory systems, such as the Sarbanes-Oxley Act and other hard law systems do not (Arcot, Bruno & Faure-Grimaud, 2010). According to Arcot et al. the comply-or-explain model should lead to better governance because of this, as following a mandatory system to the letter fails to take into account the differences of companies and their special characteristics. Therefore, it should be in line with the contingency theory approach that one size does not fit all in corporate governance (see for example Black, Gledson de

Carvalho & Gorga, 2012), as has been discussed earlier. Codes that have originated more as private initiatives, such as from academics (like the first German code Frankfurt Initiative), serve more as moral value guidance and can be better described as "voluntary" than with the comply-or-explain model (Wymeersch, 2006).

However, although the comply-or-explain model should in theory ultimately lead to better governance by giving companies more discretion and flexibility over their own governance to make suit their environment, it seems to work better in fostering command compliance rather than in explaining non-compliance (Arcot et al., 2010). Arcot et al. suggest that the major problem with the approach is that the explanations for non-compliance are not sufficient, and companies frequently use standard explanations rather than profound and true reasons for not complying with the codes. Also MacNeil and Li (2006) point out that investors are tolerating the non-compliance and vague explanations from the company, if the financial performance of the firm is sufficient. Therefore, it could be assumed that shareholder pressure is mainly targeted on compliance only, rather than explaining reasons for different practices. This could mean that shareholders do not truly understand and value the benefits of tailored and firm specific governance practices as much as they should. This is rather prejudiced, as high quality explanations for not complying with the corporate governance code are connected to higher corporate performance (Arcot & Bruno, 2006).

In addition to this, MacNeil and Li (2006) have criticised the comply-or-explain model for offering the shareholders a weaker role than the board of directors in governing the company, as they only get to review compliance *ex post* as opposed to the board. This appears ironic as the target of the codes is to reduce principal-agent problems. They argue that the comply-or-explain model does not really offer any better results than what could be achieved with default rules in company laws. Thus, although comply-or-explain model seems to be the prevalent and most distinguished approach on which to base corporate governance codes, it is not without its problems.

3.4 Different markets

Countries differ in many ways, for example in legal traditions and rules, culture, language, location and religion. This chapter will describe the findings of effective governance practices in different contexts, but mostly we shall focus on research concerning developing markets and institutions or markets with concentrated ownership, as they are relevant approaches for examining African

corporate governance. We shall take a look at corporate governance and its important determinants from to different perspectives: First through the context of market characteristics in general, and then specifically though the investor protection perspective.

3.4.1 Market and institutional based systems

The most common way to classify different corporate governance systems is to divide them between the market-based system (Anglo-Saxon) and the institutionally-based system (German) (Prowse, 1994). However, many of the governance systems around the world do not fit into either one of these perfectly, as there are many hybrid systems, and some of them have their own specific details. Therefore for example Weimer and Pape (1999) have classified four different governance systems around the world, which are Anglo-Saxon, Germanic, and Latin countries, and Japan.

The market based system, or the Anglo-Saxon model, is characterised by widely dispersed ownership, one-tier boards, less close relationships between shareholders and managers, and greater demand for market for corporate control (Rwegasira, 2000). In these markets, the principal-agent conflicts may arise and therefore much of the mechanisms are directed at aligning the interests of managers and shareholders. On the other hand institutionally-based Germanic system suggests a close relation between large shareholders and managers as well as between managers and employees, recommends a two-tier board system which clearly separates management of the company and supervision, and is characterised by banks having high stakeholder influence (Weimer & Pape, 1999). Today most of German companies for example may be nominally owned by many shareholders but in reality are controlled by large banks via proxies (Morck & Steier, 2005). Generally there is a weak market for corporate control, as large shareholders can control and monitor management through boards and other mechanisms by themselves. Also the two-tier board system, which is a major characteristic of German corporate governance, was developed and written into German Company Law already in 1870 (Morck & Steier). Performance based compensation policies have traditionally been more limited in Germanic countries than in Anglo-Saxon countries (Weimer & Pape, 1999), although there has been a rise in the performance based compensations also in Germanic countries.

The Latin group is between the two systems previously described, but somewhat closer to Germanic system. The majority of the countries in this system have one-tier boards like in the Anglo-Saxon system and shareholder power is greater than in Germanic countries in general. However, with the company president (especially in France), families and governments, and gross-holdings having

much power, the one vote-one share –principle does not usually apply, like in the Anglo-Saxon model. Also the market for corporate control is limited (Weimer & Pape, 1999). It has been argued that France for example fell behind the United Kingdom in corporate governance development due to the dominance of family ownerships and legislation that made for example the bequest of businesses to other than own children almost impossible, which in turn made the governance more conservative (Morck & Steier, 2005).

In paper, the first three groups are relevant when explaining how African corporate governance codes would have been developed. Great Britain belongs in the Anglo-Saxon group, and it had numerous colonies in Africa, Germany belongs in Germanic group and also had many colonies, and in the Latin group belong France, Belgium, Italy, Portugal, and Spain, with France having the majority of the colonies in this group. Therefore, in theory, the Anglo-Saxon governance should dominate much of the corporate governance codes, and the French system should prevail too. After the First World War German colonies were divided to Great Britain, Belgium and France, so therefore the influence of Germany could be visible in the codes of countries that now would be categorised as British or French colonies.

It has been found that optimal governance differs between emerging and developed markets (Bebchuk & Hamdani, 2009), and even between emerging markets (Durnev & Fauver, 2007). Based on the corporate governance bundle idea, the context of the country and the specific context of an individual company determines what corporate governance mechanisms should be most suitable for that given environment and that company. Thus, no one universal law can be used to determine the best governance code. However, Shleifer and Vishny (1997) have argued that good corporate governance system needs some form of concentrated ownership, as large owners can force managers to distribute profits to shareholders and not only to their own empire building or other agendas. Also a functional governance systems requires legal protection of investors, so that shareholders have power over management. All the successful corporate governance systems, Anglo-Saxon, Germanic and Japanese have some combination of ownership and legal protection of investors: if the ownership concentration is lower, then there is a need for higher legal protection of investors, and vice versa.

As it is not possible to address a single corporate governance methodology that would apply to all companies in all countries, Bebchuk and Hamdani (2009) suggest that there should be two different models of governance based on whether or not companies have a controlling shareholder or not, and therefore the development level of a country itself does not define what kind of corporate governance

mechanisms should be applied. Companies that do not have controlling shareholders should put significant emphasis on developing mechanisms that govern hostile takeovers and proxy-fights and give shareholders the possibility to influence through confidential voting (proxy voting, vote by mail). In companies that have controlling shareholders, the emphasis should be on developing mechanism such as minority's right to block certain transactions and activities or cumulative voting, and to take into account the degree to which cash flow and voting rights are separated. This perspective is further described in the upcoming section in relation to legal protection of investors. (Bebchuk & Hamdani, 2009)

3.4.2 Country characteristics

Many of the previous studies of corporate governance have focused either on already developed economies' and markets' governance issues, or on corporate governance in emerging markets, focusing mainly on BRIC/BRIK countries (e.g. Black et al., 2012). Literature on corporate governance in less developed markets has mostly emerged in the last decade. In the survey of Shleifer and Vishny (1997), they stated that the corporate governance mechanisms in less developed countries are almost non-existent. However, now after nearly two decades since the Shleifer and Vishny's paper, there is a growing number of studies examining corporate governance mechanisms in multiple countries, also in developing countries as well as in developed markets, which suggest that there has been improvements in the field of governance as well.

As this study will describe corporate governance on a country level, we should address why countries matter so much for corporate governance. According to Doidge et al. (2007), countries significantly influence the costs firms encounter if they want to bond themselves to good governance. The country characteristics mentioned refer to such characteristics as the financial and economic development of the country, and the openness of country's markets to global financial markets. It is not surprising that companies score higher in corporate governance indexes in countries, which are more developed financially and economically. Also higher governance is related to countries with lower corruption, better property rights, competitive markets, better bureaucracy, and autocratic state authorities (Durnev & Fauver, 2007). These attributes are generally connected to advanced economies too.

As mentioned, one of the major benefits of good-quality corporate governance is that firms can access capital markets on better terms. However, in countries with less developed financial markets, companies gain less benefits from investments in better governance as the companies cannot obtain

as much capital from undeveloped financial markets (Doidge et al., 2007). Firm and industry characteristics are not as important determinant for differences in governance and transparency in such markets. As building a credible financial market system takes a long time to develop, many times bank-centred governance systems (such as German governance system) are considered to be more suitable for developing countries (Rwegasira, 2000). Equity finance is less common in developing markets, while particularly shot-term debt is the main source of funding. This serves not only as a source of finance, but also as a monitoring mechanism for the creditors over the companies (Durnev & Fauver, 2007). Therefore, institutionally-based governance systems could cover more than one aspect of governance and benefit both companies and investors simultaneously with different mechanisms.

If accessing global markets is difficult or impossible for some reason, ownership concentration should theoretically be an efficient governance mechanism (Shleifer & Vishny, 1997). If the institutions, also including banks, in a country are underdeveloped, centrally controlled owner groups can substitute for the lack of institutions (Khanna & Yafeh, 2007). Also employee ownership has been found to be related to better performance (Boubakri, Cosset & Guadhami, 2005), so also employee inclusion could also be a possible governance mechanism in developing markets. However, although concentrated ownership exists in Africa, the problems of governance still persist due to crony capitalism, as close relationships to governments and businesses are vital to business success, and large block holders can exploit their power through rent extraction the same way as managers might (Ayogu, 2001).

Therefore building an institutionally based governance system in developing markets is not straightforward either, as it is based on functioning formal institutions such as banks and creditor rights' enforcement. Lack of formal institutions such as enforcement of laws, regulations and governance codes means that informal institutions such as personal relationships, government contracts and family ties to become important elements in the development of corporate governance systems (Young et al., 2008). The institutional development and context of a country therefore affects development of suitable and effective corporate governance bundle at the firm level. Thus, individual countries need to develop their own path in developing a suitable governance code and mechanisms that suit their institutions and support the institutional development further.

According to Doidge et al. (2007), a ”better governance reduces a firm's cost of funds only to the extent that investors expect the firm to be well-governed after the funds have been raised”. Thus,

governance needs to truly convince investors, and credible corporate governance in developing countries can be costly. Higher costs for better quality governance can for example occur when a company wants to hire an external auditor of high reputation. Not only does said auditor charge more than previous auditors, it will also take time for management to find and hire the auditor. Also the mechanisms for obtaining credible governance could even be unavailable due to lack of appropriate infrastructure. Therefore, in countries with weak investor protection and poor economic development, the costs of committing themselves to high-quality governance might become excessive for firms in practice (Doidge et al.), even if in paper governance codes would recommend sophisticated governance mechanisms. Therefore, the underlying problem for improving governance is not so much the availability of suitable recommendations for each country, but the issue is many times relates to the practical implementation of the recommendations.

Firms own decision on governance and firm-level actions become more important in less developed countries with lower expectations on governance, as there is a lack of efficient peer pressure for better corporate governance. For example, Doidge et al. (2007) find evidence that firm characteristics, such as size or industry of the company, can explain the differences in governance also in less developed countries, if companies still have access to international markets. Therefore, if firms have characteristics that attract investors, investors are more willing to see beyond the weak country characteristics. Klapper and Love (2004) have also found that firms that are traded in the United States have higher governance rankings and especially so if the countries of the firms have weak legal systems. Firm-level governance can therefore substitute for country's legal protection, and of course vice versa (Chen et al., 2009), but companies must be able to get financing from developed financial markets to be able to benefit more from investments in governance.

As in developing economies the external governance mechanism are many times underdeveloped (Mishra, 2011), the problems need to be addressed using mainly internal governance mechanisms, such as through effective board of directors (Jensen, 1993). However, optimal internal governance practices and their effects can differ even between these markets, although the reasons for this are not always clear. For example, in Korea board independence has been found to be related to higher market value for firms (Black, Jang & Kim, 2006), whereas in Brazil it has been found to have a significant negative affect on firm's market value (Black et al., 2012). There is not clear evidence for why independent board would affect market value negatively, but as usually guidelines and rules instruct to elect only one or two members to be independent, it is possible that only a few independent directors do not have the power to influence board decisions significantly (Black et al.). Also Ararat,

Orbay and Yurtoglu (2011) (see Claessens & Yurtoglu, 2013) find that for example in Turkey, where the governance codes recommend arbitrary low levels of independent board members, boards are ineffective and harmful for minority shareholders. Therefore, it could be that there is a certain threshold for independent board members for them to be truly effective for firm. Thus, we would suggest that African countries should take this into consideration and should recommend sufficient amount of independent and non-executive board members for them to be truly effective and beneficial.

3.4.3 Legal protection of investors

Many times corporate governance research has been done from the financing perspective, comparing bank financed systems, such as German system, to market-based systems, such as that of United States (see for example Allen & Gale, 2000). However, this point of view does not work as well when trying to compare systems that are a combination of the two, as many countries at the moment are. This notion has generated different perspectives for looking into governance systems, and one of the most famous perspectives is the legal protection of investors in different markets. This means the protection of rights of both creditors and shareholders from expropriation conducted by both management and large shareholders. Expropriation can happen in a variety of ways: selling and buying assets to their own companies above or below market prices, overpaying management, targeted dividends, or even simply stealing the profits of the company. The legal protection refers both to the laws that are in place and to their enforcement in the country. (La Porta et al., 2000)

The extent of legal protection of investors varies greatly around the world, as in for example United States, Japan and in Western Europe the law protects the rights of investors relatively well, and courts are willing and able to enforce these laws. However, in most of the less developed markets, the legal system is too weak to offer true legal protection of investors (Shleifer & Vishny, 1997). This then affects also the governance level of companies in such countries, as for example Klapper and Love's (2004) find that the quality of governance is lower in countries with weak legal protection. However, good corporate governance through for example soft law codes could improve the protection of investors' rights even if the legal environment in general would not provide much protection. Klapper and Love have also found that firm-level corporate governance is especially important in countries with weak legal protection for investors, as good governance is positively associated with operating performance and market value. This correlation is even stronger in countries with weak legal systems. It is also possible that the legal system and its level matters less for firms that are already well-

governed, and therefore they do not need to rely on the legal system as much (Klapper & Love). However, as has been described earlier, good corporate governance improves investors' opinion of the company and helps companies to obtain financing for their investments. Investors are willing to pay a price premium (even over 20%) for companies with good governance, and this price premium is even higher in countries with weak legal protection (Chen et al., 2009). Hence, we suggest that companies which are in weak legal environment should strive for good quality governance even if the overall environment would not be encouraging.

Also the recent financial crisis and possible future scandals might have a stronger impact in developed countries such as United States, where the governance level should be of higher level in general rather than for example in African countries. Investors already consider emerging markets' legal environment and governance policies so weak that major scandals, which might affect the trust of investors in more developed markets with already sophisticated guidelines and rules, probably do not affect investors cost of capital requirements as much in emerging markets. (Chen et al., 2009)

Mechanisms for protection

As Bebchuk and Hamdani (2009) suggest, the classification between controlling shareholders and diffused ownership can be used to develop governance methodologies for different companies. Here we shall discuss the possible violations of investor protection in both cases but mainly focusing on the concentrated ownership companies, as they are more relevant in the case of Africa. Shleifer and Vishny (1997) state that shareholder voting rights are violated more boldly in countries with low legal protection than elsewhere. For instance, management can neglect to inform shareholders about annual meetings, and prevent shareholders with dissenting views from voting based on technicalities**.** These kinds of violations relate to investor's rights against the management of the company. In these instances corporate governance mechanisms should focus on assuring shareholders' voting rights, such as proxy and mail voting, as well as governing hostile takeover mechanisms (Bebchuk & Hamdani). These principal-agency problems have been widely present in the research of developed markets (Young et al., 2008), as the agency-theory has dominated the research field and diffused ownership is common especially in United States and United Kingdom, which have also been the subjects for many researches in past.

In addition to the problems described above, the protection of investors' rights many times refers also to the minority shareholders' rights against the large shareholder. These principal-principal problems

are as especially problematic for emerging and developing economies, where concentrated ownership is many times used as a substitute for market based governance and control systems (Young et al., 2008). The problem is that once large shareholders have "nearly full control of the company, they prefer to generate private benefits of control that are not shared by minority shareholders" (Shleifer & Vishny, 1997). In these situations, governance codes should address especially the ways in which minority shareholders can protect themselves against the expropriation of large shareholders. For example, superior voting rights and significant departures from the one-share-one-vote practice can enable large owners to abuse their power over other shareholders (Shleifer & Vishny). Through this kind of means, owners can for example use their power to pay themselves extra dividends or issue targeted share repurchases to benefit themselves. Also controlling shareholder can only elect those directors that run their own causes rather than those of all shareholders. As in Africa ownership concentration is common, the appropriation of large owners could be a significant problem, and therefore they should focus their corporate governance recommendations to address this issue.

Ways of addressing the minority shareholder rights are for example recommending the one-share-one-vote practice, common shares without voting rights and ownership ceilings (Caprasse, Clerc, & Becht, 2007). Linking cash-flow and voting rights together can therefore at least guarantee minority shareholders the dividend pay-outs, and a possibility to vote on issues that concern their interests, even if the decisions made by controlling shareholders would not otherwise please them. However, these mechanisms may also have problems. Nothing guarantees that the one-share-one-vote practice for example would prevent large shareholders from ignoring the wishes and interests of minority shareholders, and therefore it does not guarantee that minorities would have their voices acknowledged in decision making (Rosser, s.a.). However, although the one-share-one vote practice has its flaws, it is still in literature the dominant view of how voting and cash flow rights should be arranged (Adams & Ferreira, 2007). Ownership ceilings on the other hand can result in large shareholder aversions (Caprasse et al.). If large powerful investors would be absent, the owners monitoring power over management would be reduced significantly in those markets, where the market for corporate control is limited. Voting right restrictions and ownership ceilings can therefore at the same time reduce principal-principal problems to some extent, but at the same time increase principal-agent problems. It could be expected that many African companies in countries with undeveloped external financial markets, with weak or non-existent external market control mechanisms, could not cope if ownership ceilings would be forced to them as then the main control mechanism over management, large and powerful investors, would be weakened. Therefore, efforts to improve the institutions of the country should come first before such recommendations for diffused

ownership. However, one-share-one-vote principle or other voting right practices could be used as a governance mechanism in these markets as well. Also for example the OECD Principles of Corporate Governance (2004) propose that in countries, where the enforcement of the legal framework is weak, strengthening the *ex-ante* rights of shareholders, such as encouraging low thresholds for placing items and resolutions on the general meeting's agenda, should be desirable. Mechanisms that allow minorities to block certain company transactions or cumulative voting, which can enable minorities to elect a director even against controlling shareholder's wishes, are other possible governance mechanisms to empower minorities (Bebchuk & Hamdani, 2009).

Although large shareholders can reduce the costs of monitoring the management, the total costs of monitoring might be higher in emerging economies with wide concentrated ownership (Young et al., 2008). Ambiguous ownership structures, such as pyramid structures or complicated cross-holdings, can increase the costs of monitoring and the costs of assuring creditors and minority shareholders of their protection. Large shareholders and high family ownership have been found to be especially damaging in pyramidal groups, but they can be more beneficial in freestanding companies (Adams & Ferreira, 2007). Therefore, concentrated ownership as such is not a bad basis for developing governance mechanism, but it can be more damaging to minorities in some forms. Therefore, high quality disclosure on these complex structures should be encouraged, at least to try to minimise the possible problems and reduce the higher monitoring costs. In conclusion we can say that concentrated ownership can cause problems for company's competitiveness and credibility in the eyes of investors, and some practices associated with concentrated ownership can also lower firm value. Especially separation of voting rights and cash flow rights, such as dual-class shares, cross holdings and pyramiding, have been found to be associated with lower market value (Claessens, Djankov, Fan, & Lang, 1999). Claessens et al. study was conducted in the developing markets of East Asia and therefore these results can be extended to apply also the developing markets in Africa, which struggle with similar issues. Companies may try to alleviate these problems by following the recommendations of governance codes which acknowledge and emphasise minority rights, for example in recommending linking cash flow and voting rights and hindering pyramiding.

As these horizontal problems between owners can be especially important for emerging markets, this also means that traditional principal-agent conflicts are less of a problem at least in relation to principal-principal conflicts. Therefore, governance mechanisms that are designed to alleviate principal-agent problems, although important, might be less urgent and needed in African governance codes. Governance mechanisms, such as anti-takeover mechanisms are therefore many times

irrelevant for developing countries where concentrated ownership is the norm (Bebchuk & Hamdani, 2009). The violations against creditors are also possible in emerging markets, as the underdeveloped institutions cannot always guarantee creditors' rights to be acknowledged properly. Other sorts of violations can relate also to the ease and ability of creditors to realise collaterals in corporate defaults and protection against management or large shareholder expropriation (La Porta, Lopez-de-Silanes, Shleifer & Vishny, 1998).

Escaping weak legal environment

La Porta et al. (1998) argue that the extent of investor rights' protection and the extent to which those laws are enforced, are the major determinants for corporate governance evolvement and development in a specific country. If the investor protection is therefore so important determinant for governance, what can companies do in countries with weak legal protection? First of all as the markets become more open, the importance of country characteristics, such as investor protection and legal enforcement, are reduced by financial globalisation (Doidge et al., 2007). Doidge et al. argue that if firms can access foreign capital markets, then they are less dependent upon national economic development and can shield themselves partly from weak national protection. Companies can avoid some of the disadvantages of their own country's governance if list their shares in foreign stock exchanges, and investors can file claims better on international courts if for example investor rights have been violated. Famous foreign stock exchanges have higher requirements for firm's governance, such as transparency and disclosure standards, than many national codes would require (especially in emerging markets) and thus companies can borrow the governance of more developed markets by listing in them.

Although legal environment is one of the most important determinants of governance overall, Klapper and Love (2004) argue that the variance in the level of governance between companies is still not systematically related to countries legal environments**. Thus,** there can be well governed firms in countries with weak legal protection and vice versa. However, the average quality of corporate governance is higher in countries with strong legal protection. Therefore, according to Klapper and Love, improving national legal rules should lead to higher average level of firm-level governance. However, although many of the findings above state that the legal environment, particularly investor protection is an important, or even the most important, determinant for firm's governance, Doidge et al. (2007) remind that economic and financial development and the openness of county's markets are important determinants too.

Origin of legal protection

Why does investor protection then differ between countries? La Porta et al. (1998) state that the legal origin of a country explains partly the degree of investor protection, and common law countries have better investor right protection than civil law countries. Therefore, countries with Anglo-Saxon traditions or English colonies should have better investor rights, and thus also the former British colonies in Africa should have higher investor protection than for example French or German countries. However, the importance of country's legal origin in this issue is not entirely agreed upon. Stulz and Williamson (2003) argue that culture should not be ignored in this discussion. They argue that country's dominant religion predicts investor right's better than for example language, or even better than country's openness to international trade and the origin of its legal system. Also Bebchuk and Roe (1999) remind that corporate rules and regulations that will be chosen and persist over time in any country are dependent on the strength of relevant interest groups. Thus, although for example the religious base of a country might have changed over time, the same rules can persist anyhow, if there are strong enough authorities who are able to impede any changes on regulation that this kind of change could have caused in other markets.

As mentioned, Stulz and Williamson (2003) argue that religion can predict legal environment. They find that countries with Catholic or other religion background protect their investor rights less than Protestant countries. Therefore, those African countries, which were under either British or German rule during the colonial period should have better investor protection than for example former French or Spanish colonies. Although Stulz and Williamson and La Porta et al. (1998) have disagreed on the best determinant for level of legal protection, both premises suggest that countries with British origin would have better legal protection. When it comes to legal enforcement, Stulz and Williamson (2003) find that Protestant countries also have stronger enforcement of rights than Catholic countries, and overall Christian countries have better enforcement than others.

3.5 African corporate governance

Here we will present literature that has addressed corporate governance especially in Africa, and lay the ground for addressing especially the possible governance recommendations that could reflect African economy and culture. Therefore, we shall describe examples on how governance codes have been developed previously and what has been the driving force for changes in them.

3.5.1 Efficient governance practices

As mentioned, Africa has had much less attention in many research areas, including corporate governance. In this section we will present relevant research that has been done about the corporate governance particularly in Africa. Much of the research suggests that African countries have promoted corporate governance practices similar to those prevalent in developed countries (see for example Munisi et al., 2014), of which one example is the introduction of corporate governance codes.

The general view is that different corporate governance mechanism can be used as a substitute for each other (Munisi et al., 2014). Ownership concentration should theoretically be an efficient governance mechanism in many places in Africa, where the access to global financial markets is difficult (Shleifer & Vishny, 1997), as large shareholders can monitor the management better than many scattered small shareholders could. However, Tsegba and Ezi-Herbert (2011) have found that ownership structures such as concentrated ownership or dominant shareholders do not have significant effect on firm performance in Nigeria, and therefore their use as corporate governance mechanisms to improve performance should be reconsidered. This ineffectiveness may be partly due to crony capitalism, and to large block holders who can extract rents the same way as managers might (Ayogu, 2001). Therefore, it is still possible that concentrated ownership and its mechanisms, when applied in markets with less corruption and with better minority shareholder protection, could be the answer to what governance practices should be adopted. However, the findings of Tsegba and Ezi-Herbert show that the effectiveness of concentrated ownership as a governance mechanism on performance is debatable, especially in corrupt markets.

If we take the view that in markets where external governance mechanisms and external financial markets are undeveloped companies should rely more on internal governance mechanisms, then particularly the board of directors and its characteristics become important governance mechanisms (Munisi et al., 2014). Generally larger boards are considered to be less effective in decision making, and increasing board size has been found to be negatively correlated with firm performance (Hermalin & Weisbach, 2001). Nonetheless, there have also been findings that would suggest that actually larger boards would enhance corporate performance and shareholder value in Ghana, Kenya, Nigeria and South Africa (Kyereboah-Coleman, 2007), and therefore at least in African context larger boards could actually be effective. Although legislation may allow very different board sizes, the trend in public companies in developed markets seems to be developing into Anglo-Saxon norm of smaller

boards between 9 and 12 directors, rather than German norm with large boards of over 20 people on average (see Kraakman, Armour, Davies, Enriques, Hansmann, Hertig, & Hopt, 2009, p. 70). Munisi et al. state that differently structured boards have an effect on ownership structures as well. They find that increasing board size is negatively associated with concentrated, insider or state-ownership in Sub-Saharan Africa. This means that for example powerful large owners already have mechanisms other than boards for monitoring or inside owners do not need the advisory role of large and diversified boards. However, Tsegba and Ezi-Herbert (2011) have found that insider ownership is negatively correlated with firm performance in Nigeria. Therefore, there are contradictory findings on the effectiveness of insider ownership as a governance mechanism. Shareholder monitoring over insider ownership should be encouraged as it may lower firm performance, but at the same time insider ownership seems to encourage smaller boards, which are considered more effective. Thus, the effectiveness of insider ownership as a governance mechanism is debatable.

Also Munisi et al. (2014) find that state-ownership is positively associated with the proportion of outside directors and negatively associated with board size in Africa. Government ownership can therefore encourage effective governance practices, such as smaller boards. However, state-ownership is usually seen as a poor example of good corporate governance, as these boards might lack independence, expertise or pursue different agendas than firm's strategy would be (Rossouw, 2005). Therefore, the positive correlation with outsider ownership does not necessarily mean more independence, although the directors would be non-executives and technically independent, as the directors can pursue agendas that are especially important to the national economy and political environment rather than financial performance and shareholder value. However, the findings of Munisi et al. are somewhat contradictory to the view that government ownership would be an ineffective governance mechanism, as they do seem to correlate with smaller boards in large parts of Africa. These findings are also contradictory to expectations and general view of board effectiveness described earlier. Thus, it is possible that even though state-ownership would decrease board size and therefore ostensibly make boards more effective, larger board sizes would actually be more suitable for firms in African environment as only large owners and state would not get represented in the board to pursue their own interests.

Separation of the board of directors and management is a debatable subject, as inside directors can have knowledge and expertise to make decisions that would enhance firm value, but at the same time the supervision of management would not be as effective (Fama & Jensen, 1983). Also management can pursue other interests and spend resources on empire building more easily, if they also a long

term board member. This can also be seen in Africa, where a study of four countries show that when the CEO of the company is also a chairman of the board, the shareholders' value is affected negatively (Kyereboah-Coleman, 2007). Although the sample size of Kyereboah-Coleman's study is small, it is consistent with previous research on CEOs and board of directors, and the findings are therefore more credible. Therefore, as also in Africa CEO as a chairman seems to affect negatively firm value for shareholders, the governance codes should address this issue by recommending the separation of the CEO position and Chairman of the board.

Compensation has remained as an important and controversial topic especially in developed markets, as the recent financial crises and scandals have brought these issues to the attention of the public again. However, there is relatively little evidence of executive remuneration mechanisms in emerging markets (Claessens & Yurtoglu, 2013). However, remuneration is also an issue in developing markets, where the gap between rich and poor is large (Scholtz & Smit, 2012), and where the underlying information asymmetry in the society is large and corporate governance is traditionally weak (Theeravanich, 2013). Performance related compensation schemes are considered an answer to the agency-problems which arise due to diffused ownership in Anglo-Saxon countries by aligning the interests of managers and small shareholders, as otherwise managers could control their own payments at the expense of shareholders (Luo, 2013). Due to differences in ownership structure and market features, the same compensation methods and principles might not work as well in emerging markets, as the causes and backgrounds for problems are different. For example, in closely held companies problems may arise as owners may compensate managers for pursuing their personal interests rather than overall long-term shareholder value (Theeravanich). Also the managerial markets in developing countries are many times underdeveloped, as top executives are often selected from government officials or family members (Luo). Therefore, the same compensation principles that apply in Anglo-Saxon countries, with highly developed and competitive managerial markets and diffused ownership for example, would not work as well in emerging markets.

The findings on emerging markets suggest that agency-based compensation methods are used in companies with strong governance, while weaker governance would lead to entrenchment-based profit skimming (negotiating) mechanisms (Luo, 2013). Luo also suggests that in family and state-owned companies the compensation mechanisms are often based on relationships and fixed payments rather than performance. Therefore, especially in the case of high state or family-ownership, extensive information disclosure and criteria for executive payments should be encouraged both in emerging and developed markets to assure shareholders that their interests are being pursued. Also having

shareholders approving the remuneration policies of directors and managers and appointing remuneration committees should increase the accountability of executives to shareholders (Scholtz & Smit, 2012).

There has also been a comparative evaluation of the level of corporate governance in numerous countries by La Porta et al. (1998). This study included also four African countries: Nigeria, Kenya, South Africa and Zimbabwe. The research showed that in terms of credit rights African countries in the sample scored higher than average, expect for South Africa. However, South Africa scored higher than average and significantly higher than other African countries in the sample on shareholder rights. However, in rule-of-law category, all of the African countries scored lower than the average for the English origin group, with Nigeria and Zimbabwe having significantly lower level of governance in terms law enforcement. Therefore, the weak legal environment is significant aspect of good quality corporate governance, and there are major differences between African countries as well in this aspect. The enforcement of the governance codes should therefore be addressed with more emphasis if the benefits of governance should be achieved. However, not even South Africa can score highest of all of the African countries on all aspects, so therefore there is no clear result on which country would have the best quality governance overall. However, on many aspects South Africa seems to have a sophisticated and well-developed governance system in place, as the shareholder rights and stakeholder engagement seem to have had more attention than elsewhere. Historically South Africa has not been a model example of sophisticated and developed country, and for example the crime rates have been significantly high and the foreign investments have not been easy to obtain for example because of the instability of its neighbouring countries and its own apartheid past (Vaughn & Verstegen Ryan, 2006). Thus, the reforms and positive results of South Africa could be replicated in time in other countries in Africa as well. However, it is clear that the legal enforcement is a major problem in all of the countries in this sample, and as the countries in the sample of La Porta el al. (1998) are amongst the richest countries in the continent, it could be assumed that the problem lies even bigger in the poorer countries of Africa.

3.5.2 African governance codes

A specific characteristic that differs from Western cultures is the African value system called *Ubuntu*, which signifies a broad understanding of coexistence, consensus, and consultation (Rossouw, 2005). Mangaliso (2001) describes *Ubuntu* as humanness, spirit of caring and community, and as responsiveness. As the basis for the value system of the culture is broader than it might be in some

European countries traditionally, making only the interests of shareholders and accountability to them the objective of corporate governance should be impossible in Africa. Although still, it is possible that countries have followed, so to speak, too closely the example of their colonizers in understanding of whose interests matter. However, at the moment as there is a constantly growing interest on corporate responsibility and accountability in developed markets too, we should not take for granted the general views on what and who matter in business in each market.

There is still a shortage of collective corporate governance code analysis on African countries. One of the few studies that refer to corporate governance codes or recommendations in Africa collectively is by G.J. Rossouw, whose research in 2005 examined different governance reports and codes of eleven African countries. Rossouw (2005) identifies general patterns in the institutionalisation of corporate governance and describes how relationship between corporate governance and business ethics is understood. The role and responsibility of board is a major similarity in many of the African corporate governance recommendations. Also Rossouw finds that all of the countries in his sample except Nigeria have adopted an inclusive model of governance of some extent and stated a need for regular stakeholder engagement. Board of directors is not only accountable to shareholders but to all stakeholders of the company in all other countries, except in Nigeria which did not commit explicitly to this inclusive model of corporate governance. Especially local communities and the society have been set apart from other stakeholders.

Therefore it would be assumed that *ubuntu* can be seen as a relevant influence for governance codes in majority of the countries in this study's sample as well, but as we have increased the sample size from Rossouw's (2005) research and for example Nigeria has updated its previous code since Rossouw's research, it is not known how many and to what extent countries have now adopted and recommended this inclusive model of corporate governance. It is also possible that the new governance codes would have followed the example of a more traditional shareholder centred view in their recommendations, or focused on issues such as executive remuneration, which has been a prevailing and discussed topic in developed countries' corporate governance since the financial crisis. Thus, focusing on such issues is possible if their driver for corporate governance code development in African countries has been exogenous, and if the codes are merely a result of copying their former colonizer's code and their issues.

Governance, institutions and regulation of African countries may have their roots in country's colonial past, and they can affect how governance and markets have since then developed. Following a suitable

colonizer may have had positive effects on today's markets. For example, La Porta et al. (1998) emphasise the significance of the colonial origin on development, and have found that former British colonies with common-law background have better property rights and financial markets than other colonies. However, based on the contingency theory, there can be problems in mirroring too closely the colonising power's legislation and codes.

The South African King Report (King I, 1994) was revolutionary for the development of African corporate governance (Okike, 2007). It is remarkable that it introduced a corporate governance model which was much wider than the ground-breaking Cadbury Report only a few years earlier. The purpose of the King Report was to advocate for the highest standards of corporate governance in the interests of a wide range of stakeholders, and that companies need to "recognise that they no longer act independently from the societies and the environment" (King Report, 1994). Since then the code has been revised twice and it emphasises the importance of the triple bottom line with economic, ecological and social aspects (Okike). This is a clear evidence that the government and the committee that was commissioned to conduct the report took into account their environment's culture, value systems and African worldview. Therefore, the South African example of developing the corporate governance code can be viewed as more of an endogenously driven, as it has not merely mirrored the recommendations of previous codes or even its colonizer's code. It has also been argued that revisions to the King Reports will attempt to steer even further from the "Eurocentric" approach to corporate governance but at the same time issue even stricter demands for governance in international investment communities (Rossouw, Watt & Malan, 2002).

One good example of a less successful development of corporate governance practices is from Nigeria, which has been described by Okike (2007). Mimicking the United Kingdom's Company's Act in Nigeria initially lead to the overlooking of Nigeria's peculiar social and political environment. While becoming independent Nigeria, like many other colonies, inherited many rules and regulations from their former colonizer Great Britain. During the colonial period Nigeria was introduced with the British company law and thus Nigeria's laws as well as corporate governance practices reflected the British system and practices. After gaining independence, Nigeria had to replace their old British company law by their own in 1968. However, this law also mirrored the British Company Act of 1948 very closely, as many British people still controlled much of the business activities in the country. Therefore, in the case of Nigeria the development of governance was highly exogenous. However, the corporate governance instructions of this act did not suit the environment of Nigeria, with tribal conflicts, corruption and rapid economic development. Although Great Britain has had its own

corruption problems, they are mostly intangible and involve mainly marginal groups, and therefore the Company Act of United Kingdom do not address these issues enough to be appropriate and effective for Nigerian environment. Even strong governance codes and recommendations are not effective when supportive macro-economic and political and social institutions are not in place (Ahunwan, 2002), and therefore the recommendations of UK did not suit Nigeria. It has been widely agreed that the recent corporate failures of Nigeria have been a result of weak corporate governance (Nigerian Code of Corporate Governance, 2011). Therefore, after the previous problems, Nigeria finally developed its own corporate governance code in 2003, and although the timing can be viewed to be in the front line of African codes, it can be argued that the code became much too late in the fight of corruption in Nigeria. Also it is suspicious that this Nigerian Code did not identify corruption as an issue for the country (Okike), and thus it could be assumed that this first code still mimicked too closely the example of Great Britain and lacked context specific recommendations to be truly credible and effective.

Although Okike (2007) found that although Nigeria has improved their corporate governance system and changed their recommendations from the original copy of the UK Company's Act, Okike still doubted that the governance mechanisms in place were effective, as for example the penalties for not-compliance were weak. In addition to Okike, Ahunwan (2002) has found that even though Nigeria has made some progress in its corporate governance reforms, such as reforms in the capital markets which have increased the activity in the stock markets and privatisation of state-owned companies, the reform efforts and formal laws, are not likely to be truly successful if the underlying problems in Nigerian society (e.g. poverty or tribal tensions) are not addressed first.

Okike (2007) suggests that rather than developing Nigerian corporate governance practices and codes by following the example of more advanced economies, such as Great Britain, the country should rather follow the path given by South Africa, as it has developed a broader understanding of what governance should entail and the overall contexts are more similar in Nigeria and South Africa. Nigeria has since the publishing of its first official corporate governance code issued a revised code in 2011. Hence, it would be desirable that in this revised code issues such as corruption would be acknowledged. Besides differences in economic and institutional development, more advanced countries generally have lower levels of corruption, and therefore their codes and guidelines are not perfectly suitable for countries such as Nigeria. This view can be extended to apply to other African countries besides Nigeria as well, so therefore it can be suggested that following the codes of the more advanced former colonizer is not the most suitable path for developing a governance

recommendations that would be helpful in fighting corruption in the most problematic countries. Therefore, if the codes of the African countries mirror closely the codes of their former colonizer, but the country is for example on the bottom of the list in the corruption index, this would mean that the governance codes are not best suited for the situation in that country at the moment.

Many of the studies related to corporate governance are focusing on the relationship between corporate governance and their effect on performance. However, Akinkoye and Olansamni (2014) have tried to inspect the level of compliance in Nigeria on their 2003 issued code of best practices in corporate governance. In their study, they found that on average the sample's companies follow the recommendations on disclosure and financial transparency with a nearly 98 % level of compliance, but less than half of the companies in the sample follow the recommendations on compensation disclosure. Therefore, possibly problems of corruption and high power distance are reasons for not disclosing the compensations policies as profoundly as they would on other issues, and there might be more suspicion over the compensation policies of the companies. Although Nigeria is one of the richest countries in Africa, and its GDP has grown in recent years remarkably, the increasing poverty of its population also suggests indicates a highly skewed distribution of the wealth in the country. Therefore, it is possible that to avoid more public outrage and due to lack of pressure from corrupt state officials, compensation policies are left undisclosed.

Developing and issuing a corporate governance code for each country is not enough however. The challenges of the African market, such as weak legal protection and corruption can still prevail, even though more countries would issue their own governance codes. Before, African corporate governance codes have not offered enough guidance on how business ethics should be implemented into corporate culture in practice (Rossouw, 2005). Only Kenya, Mauritius, and South Africa previously have explained at least partly what the ethical governing consists of besides issuing a governance code, with South Africa having the most comprehensive recommendations. Therefore, adopting the spirit of the codes in practice becomes a major issue for African corporate governance to succeed.

In conclusion, based on the literature on African corporate governance thus far, there are research studies on successful adoption and development of corporate governance practices and mechanisms (e.g. South Africa) and more negative examples (e.g. Nigeria) (Okike, 2007). However, there is limited amount of literature on collective assessment of governance codes in Africa, and as new codes have emerged in recent years, it is important to update the literature from this perspective. Also as

much of the research focuses on individual examples, this study aims to collectively explain the governance recommendations of the continent

3.6 Accounting and corruption

3.6.1 Corruption

Although major corporate governance literature is concerned about agency theory and reducing management expropriation, states, governments and public officials can also expropriate funds from companies through means of corruption. Transparency International (2004) has defined corruption as the abuse of entrusted power for private gain, and therefore we cannot limit the term only to concern public affairs. Corruption can be divided into public corruption (paying bribes to obtain goods that are monopolised by the government) and private-to-private corruption. Even in countries with relatively low levels of corruption, local corruption can feed the overall culture of corruption, which can in turn reinforce private and public corruption in the nation level (Dass, Nanda and Xiao, 2014). Therefore, the overall environment of the market can affect companies negatively, even though the companies would not submit to corruption themselves.

Most of the researchers agree that corruption is a burden to the economy as it distorts decision making and can lead to suboptimal allocation of resources, as less productive or efficient practices get resources while more efficient alternatives will not (Shleifer & Vishny, 1993). The negative effects of corruption can easily multiply: it causes cynicism as people start to regard corruption as the norm of doing business and weakens social values as people find corruption as an easier path than legitimate transactions (Lawal, 2007). Besides the misallocation of resources, the secrecy of bribery also makes it more costly to the economy than tax payments, which can be viewed as a sister-concept for corruption (Shleifer & Vishny, 1993). Also in developed markets with less corruption *de jure,* Dass et al. (2014) found that companies located in the more corrupt parts of United States have lower firm value than companies in less corrupt environments.

Shleifer and Vishny (1993) have identified three different implications of how corrupt actions can work in different surroundings. Firstly, in many developed countries government goods can be obtained without paying bribes, thus resulting in corrupt acts would be unnecessary. Secondly in some areas, such as in Korea, if someone bribes a government official, they can be sure that they receive the permit of good for that and do not need to resort to anymore bribery in future. Dass et al. (2014)

also argue that companies dependent on the public sector are less affected by the negative effects of corruption in such circumstances. Thirdly, like in many African countries still today, even bribing numerous government officials will not necessarily guarantee that anymore bribes did not need to be paid later too. Therefore, resulting in corruption might only enhance the corrupt environment further, and worsen the situation of the companies in future. However, corruption policies affect companies inside specific countries differently too. Smaller firms may suffer of corruptive environment more than larger and more profitable firms, as smaller firms have less resources and funds to spend on bribes to shield themselves from state expropriation or to build political connections necessary in crony capitalistic markets (Durnev & Fauver, 2007).

Although Stulz and Williamson (2003) suggest that Catholic and other religion (such as Islam) dominated countries have significantly higher levels of corruption than Protestant countries, Kimbro (2011) suggests that the relationships of being a highly corrupt country and poverty, low power distance and Catholicism or Islam are more indirect than could be assumed. Therefore, making such direct interpretations between religion and corruption should be cautious. Kimbro argues that rather than purely poverty, religion, values or culture, higher corruption on a country level is better explained through the lack of institutional development. Although it is not totally agreed on what makes a country more corrupt, it is commonly acknowledged that history affects corruption levels as corruption persists over time (Dass et al., 2014). Therefore, changing quickly from corrupt country to less corrupt with any accounting or other policies is not easy. Gabbioneta, Greenwood, Mazzola and Minoja (2013) expand the understanding of the importance of context in illegal corporate actions and support Kimbro's argument that poor institutional development can explain high levels of corruption. Gabbioneta et al. state that institutional arrangements can encourage illegal actions through institutional endorsement and through providing ways for concealing illegality, for example, through regulatory loopholes. Also for example Okike (2007) states that having weak penalties for non-compliance, as in Nigeria, can in fact encourage non-compliance. As Nigeria is considered to be a highly corrupt country (Transparency International, 2014), it seems plausible that the institutional practices and legal enforcement would not condemn Nigerian companies enough for corruption.

3.6.2 Governance in corrupt environments

There is not clear evidence on how accounting procedures, such as corporate governance, affect processes of corruption. It is evident that accountants often have a good possibility to observe and discover wrongdoings in organisations because of their close connection to organisations' control and

auditing processes (Kimbro, 2011). Ideally therefore their role should be to prevent and discourage financial frauds and malpractices. However, Neu, Everett, Rahaman and Martinez (2013) suggest that accounting at the same time can limit but also enable and facilitate corruption, as a ”skilful” use of accounting methods and social interactions together can enable corruption even in developed markets.

Therefore one of the major problems for corporate governance in relation to corruption is, whether companies in more corrupt countries can overcome the problems caused by corruption with stronger governance. This question has not had a unanimous answer among researchers. If companies operate in an environment where bribes are expected of them to achieve or attract business and corruption would affect all companies (i.e. companies are victims), then investments in better governance would be unnecessary. However, if the companies themselves feed and participate in the culture of corruption by rent-seeking, earnings management etc. then stronger governance mechanisms become more important as companies can improve their image and signal their better quality to investors through governance and overcome some of the harmful effects of corruption (Dass et al. 2014). Stronger internal governance thus assures that the control as well as cash flow rights of investors are protected, even if the external governance would be weak. Dass et al. Therefore, argue that higher quality corporate governance would be specially important and valuable to companies which operate in areas with higher local corruption, and overcome at least partly the corruption problems caused by weak institutions. However, for example Durnev and Fauver (2007) argue that the positive effect of higher quality governance is weaker or even non-existent in more predatory states where corruption is evident. As has been mentioned, good quality corporate governance can improve firm-value, and thus benefit owners financially. Therefore, firms which operate in areas of more predatory states would have less reasons to practice good corporate governance, because even though the firm value would increase that would mean that there would also be more money available for outside expropriation (Durnev & Fauver). Therefore, the efforts of improved corporate governance would be made in vain.

One of the basic governance practices that should reduce corruption is the transparency of business and information disclosure. Corrupt environments encourage less transparency and companies in such environments are more opaque (Dass et al., 2014). Companies may want do this, as they want to conceal their corrupt activities from investors or because they want to protect their wealth from outside expropriation. Thus, it has been found that firms in more corrupt areas disclose less information and have weaker governance overall (Durnev & Fauver, 2007). Therefore, wider information disclosure recommendations would be one of the governance practices that could in

theory reduce corruption. However, as corruption tends to persist and if the level of corruption is high enough, even those who would not want to engage in corrupt activities might not have any other practical solution (Dass et al.). In a culture of corruption companies might not feel enough pressure to adhere to these rules, thus making stronger legal enforcement increasingly more important but also the passing of time becomes important as corruption is very persistent. In this regard the comply-or-explain model might not be the most adequate enforcement mechanism, and thus much of the information disclosure requirements should be expressed in binding regulation. Thus, encouraging disclosure that goes beyond than mandatory information disclosure in the governance codes is considered as a mean of fighting and minimising corrupt acts.

Intense competition in the industry can be viewed as a substitute for weak internal corporate governance if the prevailing environment is more corrupt (Dass et al. 2014). This means that both competition and internal governance mechanisms may be used together in corrupt markets, but no remarkable impact of competition has been found in less corrupt environments. This means that lack of competition and improvements in internal governance mechanism can be especially harmful in corrupt environments.

In paper many of the laws and regulations, which should reduce and hinder corruption and other violations, already exist in many African countries' legislation, but their effectiveness in practice is not evident (Ayogu, 2001). It has been suggested for example in South Africa that rather than building corporate governance on the light regulatory touch of comply-or-explain model, corporate governance standards should be based on stronger approaches, such as the US hard law Sarbanes-Oxley Act (King III, 2009). However, as it is pointed out in the King III report, United States was the major source for the recent financial crisis, and therefore following this line of standards would not necessarily reduce the risk of systemic financial and economic crises in Africa. However, Dass et al. (2014) suggest that all firms can benefit from exogenous shocks to corporate governance (such as Sarbanes Oxley Act in United States) but even more so if they are in corrupt environments. Therefore, in theory adopting a more hard law based corporate governance standards (such as minimum standards) even in a corrupt country should increase the benefits of good governance for companies, such as higher valuation.

3.7 Comparative governance code research

There have been some collective corporate governance guideline comparisons done in the past, which

describe which areas of corporate governance are addressed in national codes, both in developed and in emerging markets. Here we shall describe two reports by law firm Weil, Gotshal & Manges LLP from 2000. The markets in the report include for example such countries as USA, United Kingdom, Belgium, and the Netherlands, and from emerging markets Brazil, Mexico, Thailand and South Africa and so forth. According to these comparisons, at the time of the study, much of the same issues are not covered comprehensively in guidelines in either markets. For example, the separation of the chairman and CEO, and the formal evaluation of CEO have not been addressed in many of the guidelines in emerging markets nor in some of the developed markets. Also such themes as shareholder voting powers and voting practices have not been covered at all in many of the developed countries, and nearly in none of the developing countries. However, the role of board of directors as well as the mix of inside and outside directors have been well-addressed in both markets' guidelines already by 2000, and also the definition of independence has been covered in all of the countries at least somehow.

Evidently however, some issues are much better covered in the guidelines of developed markets, such as guidelines on executive compensation. Although not all developed countries listed in the study address this issue in their codes either, in emerging markets relatively more countries have not covered the topic at all in their guidelines. Somewhat more surprisingly all of the emerging countries in the comparison define guidelines or at least covers partly the subject of board interaction with institutional investors, press, customers etc., while some of the developed markets, most notably USA, have not addressed this issue at all at the time. However, it is notable that for example in the South African King I from 1994 it is stated officially that "It [is] better to keep a link forged with all stakeholders rather than one or two institutions." This is in line with the African value system, which has been discussed earlier, which highlights the importance of society and other stakeholders, rather than just shareholders. Therefore, this in line also with our expectation of inclusion of other stakeholders' interests in the codes. Thus, from previous research of governance codes we can see aspects that relate specifically to the country characteristics other than market sophistication or development, but rather to society, culture and values.

However, as these comparisons of different codes were conducted over a decade ago, there most probably has been some improvements or changes in these issues when codes have been revised and updated. However, these reports point out that issues such as board independence and transparency of compensation policies, which have been much talked about after and during different financial scandals and crises, have been truly lagging in the governance codes in emerging markets as well.

There has also been a comparative study on European Union member states governance codes, commissioned in 2002. In this study the codes are described as having remarkable similarities especially in terms of supervisory body's role and responsibility recommendations. Both in unitary and two-tier systems the boards have both supervisory and managerial duties, although in the two-tier system these functions have been formally separated. The greatest difference in the codes is related to the role of employees in corporate governance, for example in the right of electing members to supervisory bodies. However, as they point out in the report, this difference is many times embedded in law rather than just in corporate governance codes. Relevant to our study is the fact that in Germany the employees have said right, in France companies may provide such rights, but in all other member states, such as Great Britain or Spain, shareholders alone have the right to elect all members of supervisory body. All codes emphasise the need for a supervisory body that is separate and distinct from management; however, other codes recommend a unitary board structure and others a two-tier system. This is the second big difference in the codes inside European Union. In Germany and Netherlands for example the two-tier system is dominant, but in the majority of EU the unitary board structure is prevailing.

3.8 Summary

This section has described the literature that is relevant for this research. Based on these findings, we can conclude that context and environment can form the limits and opportunities for an organisation to build and develop effective corporate governance mechanisms. For example, Klapper and Love (2004) have argued that companies have only limited possibilities and flexibility to develop their own governance, as country characteristics, such as economic development and legal protection, affect the level of governance. Good corporate governance can be especially beneficial in environments which suffer from corruption or weak legal protection, as investors are willing to pay high price premiums for better governance in these areas (Chen et al. 2009).

The literature suggests that issuing an effective national corporate governance code in African countries should not only be a copy of their colonial power's example, but the codes should take into account the cultural and socio-economic situation in said country. Especially internal governance mechanisms, such as effective board of directors, should be well addressed in the governance codes. As the external financial markets are less developed in most of the continent, it could be assumed that the codes would not focus on external governance mechanisms in detail, and therefore for example

anti-takeover mechanisms would not be addressed profoundly in the codes. These governance codes should also address issues that are relevant problems to the county's economy, such as corruption, for the code to be credible and efficient in practice. If such issues are left unaddressed, investors might not regard the governance code to be credible enough for higher premiums, and therefore the benefits of adopting a corporate governance code for firms are reduced. Next section will now describe the methodology of the research, as well as the data criteria, selection and collection.

4 Research design

4.1 Methodology

The objectives of this study are addressed using archival research techniques, with using public information of different countries' policies and recommendations on corporate governance. Archival research refers to conducting a study using data that the researcher has not collected themselves, but the researcher selects the data to be analysed from already available and existing data (McBurney & White, 2009 p. 228). The data that is already available is suitable for the objectives of this study, as the aim is not to find out if the companies are actually following the guidelines in practice, but to compare the already existing governance codes against each other. These national corporate governance codes are public information and available on the Internet. Therefore, archival research is an appropriate method for this study.

This method was also chosen because it allows the possibility of examining multiple countries at the same time, as one of the objectives of the study is to collectively analyse the corporate governance codes of Africa. This method also enables comparing both African and European guidelines together. In addition, according to McBurney and White (2009) archival research allows a flexible and inductive theory development in the research. The data and theory can be revisited multiple times during the research period, without compromising the objectivity of the data due to subjective reasons. The data therefore is not subjected to limitations or problems such as wrongly chosen interviewees, incorrectly and vaguely constructed interview or survey questions, or rushed and misunderstood answers to said questions. The objective of this study is not to address, whether these codes are actually used or not in the majority of companies operating in the countries; hence, additional empirical research methods, such as surveys and questionnaires, are not used.

The comparison of different countries will be made based on selected areas of corporate governance.

Therefore, the research may leave out some specific areas that are not relevant or do not exist in all of the governance codes. The areas selected represent the most significant parts of corporate governance in many countries, and therefore should be addressed in most of the codes at least partly. As one of the advantages of the archival research is the possibility to revisit data multiple of times, we have been able to include issues that were initially thought to be self-evident or not as important for our research, but which appeared to be recommended differently in many codes, and thus, were finally included in the study. Also, we have elected areas such as governing business ethics and stakeholder inclusion that should be relevant and interesting aspects of corporate governance especially in the case of Africa. The areas of governance are divided as follows: board of directors, remuneration of board members and top management, shareholder rights, other stakeholders' inclusion, disclosure, enforcement of the provisions and corruption. Also the origin of the code is addressed. We have also used the mortality rate estimates from Acemoglu et al. (2001) to address, whether the mortality rates between countries with or without corporate governance codes are of significantly different levels.

Last section, which is related to corruption, will both explain, how problems of corruption and illegal acts have been addressed and identified in the codes, and how they relate to their position in the corruption index of Transparency International, the Corruption Perception Index from 2014. This index has been chosen for this study as it is the leading global index for corruption on a national level, and therefore it is both credible and reliable, as well as suitable for national level corruption assessment. The index ranks countries based on their perceived levels of corruption, which have been defined by opinion surveys and expert assessments (Transparency International, 2014).

The Transparency International's Corruption Perception Index (CPI) used is from the year 2014, so that the results would be most topical. We have also used various other years to represent those years before every code in the study was issued to determine, if there is a difference between the corruption level of each county before and after the newest code. The CPI from 2014 lists 175 countries and territories which are the most and least corrupt countries in the world. The method of this section is to compare this index to the governance policies of different countries. Firstly it will be addressed, whether the countries that are considered to be more corrupt have in place any kind of national corporate governance codes or policies or not. This will be useful way of addressing the question whether more corrupt countries have even recognised the need for a governance code. Next step is to assess, does the corruption rate show in the actual policies defined in the national codes. For example, identifying corruption as a major issue in country's governance in the codes is assessed, as well as

the information disclosure requirements' scope and the enforcement of the code. Thirdly it is addressed, whether the African countries that have a corporate governance code in place have higher average scores in the CPI than African countries in general.

The comparative and corruption analyses will be both qualitative and quantitative. This way we can best address, whether the codes are relevant and suitable for the African environment, but also address through the quantitative analysis, whether the codes have an effect on corruption levels of countries. As the definitions of governance and understandings of what corporate governance code should include differ between the countries of our sample, we have used qualitative methods to analyse the codes. Thus, we have minimised the problems, which might occur if we focused only on issues present in European codes, as this way we can ensure that we focus on the spirit of the code and recommendations as a whole, rather than only look for identical recommendations between colonies and colonizers.

First, the issues chosen for the comparative study, such as board of directors' characteristics or structure recommendations, from each European country will be listed. Then the recommendations on the same issue from the codes of African countries, which used to be that European country's former colonies, are listed and compared against it. Here we will both compare the African codes to the European one, i.e. what are the similarities or are they different to each other, but also next to each other. Also the codes will be compared against the OECD Principles for Corporate Governance, as it is considered to be the international benchmark for developing corporate governance codes. Each code is analysed qualitatively to determine the profoundly the meaning of the guideline and its appropriateness to the emerging market environment. The same wordings were not required for guideline to be qualified as similar to that of the other country, but rather the actual meaning and intention of the guideline was considered.

As research of the comparison will be qualitative, and it will not address any points on either "good" or "bad" practices to countries, the countries will not be ranked against each other officially. As there has been no consensus on the most efficient practices for example in relation to board of directors' structure, making strict rankings not be as beneficial as qualitative analysis. However, we do address whether these countries have recognised their own situation when developing these codes, for example have they identified their own problematic issues for quality governance, such as corruption, or have they adopted such governance practice recommendations that according to theory should be more suitable for emerging economies. Therefore, issues such as the functioning and independence

of the board of directors, remuneration, and separation of management and board of directors are addressed. This way we do address which countries have developed codes that would we suitable for their environment, for example in relation to corruption, values or minority rights. Also it is addressed, have countries mimicked the governance recommendations of more developed countries even though they would not be the most suitable or practical for their own environment.

Before the colonisation Africa was not divided into clearly bordered nation states, and thus the colonies can be partly divided between two colonizers. Therefore, for example in the case of Morocco both Spanish and French governance codes will be compared against the Moroccan code. Also as German lost its colonies after the First World War to other European countries, both German codes and the new colonizer's codes have been taken into account in the comparison. Thus, these countries, Ghana and Nigeria are compared especially against both German and British corporate governance recommendations. In the tables these countries are placed next to Germany for practical reasons.

We should also point out that the results described in tables are not direct quotes from the corporate governance codes, but have been abbreviated and/or summarised, so that the basic idea of the code would fit in the table format better. However, they have not been altered so much that the underlying idea of the recommendation would be altered in any way.

Also it is important to point out the differences in major terminology. In English, the word director is used to describe the members of the unitary board, whether or not they are also managers, while in French the equivalent word is used only for managers or executives. The members of the board are called *administrateur*. In the Spanish code, the executive and non-executive directors are called internal (executive) and external or (non-executive or independent) directors. Also non-executive directors who are shareholder representatives are called proprietary directors, excluding them this way from independent non-executive directors. In this study, the word director will be used to describe a member of the unitary board, and for two-tier systems the terms supervisory board member and managerial board member are used. Also terms non-executive and executive directors are used instead of external and internal directors.

4.2 Data collection

As data, we are using readily available data and information found from the Internet. No additional data was used, such as interviews or surveys. The data has been collected manually from different

corporate governance codes and from the Transparency International Corruption Perception Index of 2014 during February and March in 2015.

In the first part of the study, where the objective is to compare different national codes together, we are using corporate governance recommendations called for example codes, manuals, guidelines or principles as the material. This has been done so that any meaningful guideline would not be overlooked in the sample just because of different wordings. In the second part of the study, we are using the same governance codes as well as the corruption index as data.

There is a lot of material concerning the corporate governance for many of the countries that are studied here. In some countries there are numerous direct laws and regulations, or listing requirements for stock exchanges. To assess, which governance recommendations would classify as corporate governance codes to be used, we use a criteria introduced in the study on behalf of the European Commission in 2002, which is described below:

- a systematically arranged set of principles, standards, best practices and/or recommendations
- precatory in nature;
- that is neither legally nor contractually binding;
- relating to the internal governance of corporations; and
- issued by a collective body.

This criteria will therefore leave out for example firm-specific governance codes or books on corporate governance. Although these might be influential to other companies in the area as well, the scale of the study would become too large if such documents would be included. General governance codes for public firms are included in the data, as well as general best practice guidelines. Under this definition, national regulation does not fit into the criteria due to its legal validity. However, they may be used as a reference point if needed, but are not included in the main comparison.

The sample is limited to those European countries, which had colonial dominions in Africa at some point between years 1881 and 1914. This period was chosen because it marks the period often called as the Scramble of Africa, when approximately 90 % of the continent was under European control. The African countries included in the sample are those countries, which were under some European county's control during this period. Only Liberia and Ethiopia are therefore excluded from the study

due to this criteria. As this time period is the most notorious invasion period in African history, the sample therefore will be the most comprehensive from both European and African perspective.

The data collection has been done using the Internet search engines. Governance codes for each individual country have been found using the English name of each country. European Corporate Governance Institute's (ECGI) website has an index for codes available for different countries, and has many of the African codes on its website. Many of the codes, both European and African, have been selected through this archive. As the index does not list all of the African national codes currently in place, some of the codes have been found through different channels, mainly through Google search. These countries include Botswana, Nigeria (newest update not available on ECGI website), Uganda, and Zimbabwe. All other countries' codes have been taken from the ECGI website.

Also only codes written in either English or French are included in the study for practical reasons, and to minimize any possibilities for misinterpretations and mistranslations. If the codes are available both in French and English, the English version has been used if the versions are similar. Although the French version is described as being the official one for Tunisia and Morocco, we have used the English version for final data collection after we have first examined that both versions are equal both in size and substance. The Algerian code is the only code that was available only in French. Also the newest Egyptian code was only available in Arabic, so we have used the previous version which was available both in French and English too.

For each country, the newest official version of codes have been used if possible. Therefore, intended updates or drafts to codes have not been used as a primary source of data. Therefore, for example the Kenyan draft from 2014 has not been the source of data for the actual results, as it is possible that due to comments received some of the changes to previous code recommendations will not make through to the official update. Many of the European countries also have more than one governance code in place, so we have used the newest general or combined corporate governance code update to find comparative and comprehensive information for each country. Many times updates to codes only relate to a specific part of the corporate governance practices, for example to a specific sector, such as the financial and banking sector. Therefore, these specific codes have not been used, as they do not serve the purpose of this study, as they do not address the country's governance recommendations on a general level. However, the previous codes have been examined to make a more profound assessment of the development of the codes and to have the possibility to compare, what has been changed from the previous code in relation to important issues that will be discussed in chapter 6.

However, if there is no mention of specific issues on the official codes, national laws and regulations have been used as a material and source of data, if some information would actually be in the jurisdiction of binding regulation. This is done to minimise the possible misinterpretations that would occur if information otherwise considered e.g. basic knowledge would be found in the legislation rather than in the country's governance code. Therefore, we have looked for national company laws when there has been no mention of some issue in the governance code itself. If the results in the tables come from legislation, it has been marked in the results table with *. However, the primary data is the governance codes of each country, and therefore some of the recommendations and guidelines taken from the corporate governance codes might also be in the legislation, such as recommendations for board structure of unitary or dual board system. Therefore, if the data has been taken from the governance code, but the same information might also be found in country's corporate legislation, the results have not been marked with *. This has been done as the primary objective of this research is to compare the voluntary or comply-or-explain based governance codes together, as they represent better the sophistication and best practice level of governance because of their flexibility and contingency approach.

These African countries currently have a suitable governance code that meets the criteria in place: Algeria, Botswana, Egypt, Ghana, Kenya, Malawi, Mauritius, Morocco, Nigeria, South Africa, Tunisia, Uganda, and Zimbabwe. The European codes which would be suitable for the study are those of United Kingdom, France, Spain, Portugal, Germany, Italy, Russia, and Belgium, as those are the countries that had African colonies during the chosen time period. However, Belgium, Russia, Italy and Portugal, have to be excluded as none of their former colonies have a governance code in place at the moment. Also Tanzania and Zambia are mentioned having a corporate governance code in Rossouw's (2005) research paper, but we were not able to find such codes or they did not qualify with our code criteria.

In addition to these, the OECD Principles of Corporate Governance (2004) will be used in the study as an overall comparative guideline. The OECD principles' objective is to improve corporate performance, competitiveness and access to capital on an international level, and it is considered to be one of the most internationally important guideline for governance, and thus it is important to compare guidelines to it collectively as well. We are using the official version from 2004 instead of any newer versions for several reasons. First of all, the 2014 overall corporate governance principles are in a draft stage, and therefore are not yet official. Also, as many of the corporate governance codes

of our study sample are older ones, it is more plausible that if they have used the OECD guidelines as a reference point or a model for their own codes, they probably would have used the 2004 guidelines as the newer one was not even drafted during their code development. Lastly, many of the newer guidelines are directed at specific company structures, and as we have excluded such codes from our sample on a country level, it is appropriate that we do not include them in the OECD guidelines either.

Therefore, in total 13 African corporate governance codes or guidelines and four European governance codes will be used in this study. Also we shall take the international OECD corporate governance guideline as a reference point to the study. The majority of the guidelines describe the recommendations for corporations listed in stock exchanges, but many of the codes also indicate that the given recommendations can also be used by private companies and state-owned companies.

The result are divided into categories eight different categories: origin of the code, board of directors, remuneration, shareholder rights, stakeholder rights, disclosure, enforcement, and corruption. The main comparative elements have been described in each table, and the tables have been divided to represent the different colonizers so that the comparisons are easier to see and analyse next to each other. The first table of each category is always of United Kingdom and its former African colonies, and the next one of France and Spain together, and lastly Germany and its former colonies as well as the OECD Principles. Ghana and Nigeria, which are both former German and British colonies, have been placed next to Germany for two reasons, both because they were initially German colonies and because of practical table size reasons. The Spanish and French codes and their colonies are in the same table, as Morocco was partly under both of their colonial rule and therefore the comparison is easier to make when both of the European countries are in the same table.

In the last part of the results, we describe the results from the Transparency International Corruption Perception Index (CPI). The main data for all countries is from the year 2014, but we shall also present the results of the CPI also from the year before the issuing of the code to analyse the possible effects of the governance code. The results of the CPI used are both the ranks of the country in the index as well as the scores received. The score indicates the perceived level of corruption and the scale ranges from 0 (highly corrupt) to 100 (very clean). In previous years the CPI ranged from 0 to 10, and these results have been scaled to the same range by multiplying the result with 10.

Now that data collection and methodology have been described, we will move on to the results.

5 Results

5.1 Origin of code

Table 1 summarises the list of European colonizer countries and their African colonies, and it only includes those African countries (and hence their colonizers) which have currently a corporate governance code in place. African countries are listed in the table in their current official name rather than the names of the countries or areas at the time of the colonialism. The table also shows the major religions of the country as well as the legal system divided into common, civil, and religious law.

Out of the total 49 African countries that were under European colonialism, 13 countries currently have a corporate governance code in place that meets the criteria used in this study. Although in Rossouw's (2005) study also Tanzania and Zambia are mentioned as having a corporate governance code, neither of these codes could be found for our study. This means that still the majority of African countries have not issued a governance code thus far. Some countries have also issued industry specific codes directed at banks and financial institutions, such as Mauritius. Some of the African countries have issued revised and updates codes, and therefore the previous codes' years of publish have been marked in brackets.

Table 1 shows that the majority of the codes are from former British colonies, as eight of the countries or ten if you include Ghana and Nigeria, where under British rule during the colonial period. Therefore, only three countries, Algeria, Morocco, and Tunisia, of totally other origin have issued their own governance code.

Of the 13 African countries in our sample, five are purely common law systems, one civil law system, and three are mix of the two systems. In addition to these basic legal systems, five of the countries are partly religion or more exactly sharia law based systems, as they are all Muslim countries. There is no major religion that would dominate in the sample, as there are equal amount of Protestant and Muslim countries, if we exclude the countries that are only categorised as Christian as there was no clear dominating group of Christianity in these countries. However, Catholic African countries are in a minority in the sample of countries that have a governance code. Median for the main mortality rate estimate (see Acemoglu et al. 2001) is 111,6 per 1000 and the mean mortality rate estimate is 354, 47. The majority of the countries are from the Eastern region of Africa, but the Northern African countries are also significant group, while Southern and Western countries are in a minority, and there

are no countries from the Central region of Africa.

Colonizer	Colony	Code	Published	Religion	Legal system	Mortality estimate	Region
Great Britain		Yes	2014	Protestant	Common		
	Botswana	Yes	2008	Protestant	Civil/common		Southern
	Egypt	Yes	2006	Muslim	Religious/Civil	67,8	Northern
	Ghana **	Yes	2010 (2000)	Christian	Common	668	Western
	Kenya	Yes	2002	Protestant	Common	145	Eastern
	Malawi	Yes	2011 (2001)	Catholic	Common		Eastern
	Mauritius	Yes	2012 (2003)	Hindu	Civil		Eastern
	Nigeria **	Yes	2011 (2003)	Protestant/Muslim	Common/Religious	2004	Western
	South Africa	Yes	2009 (2002, 1994)	Protestant	Civil/Common	15,5	Southern
	Tanzania ***	Yes *	2000	Christian	Common	145	Eastern
	Uganda	Yes	2003	Catholic	Common	280	Eastern
	Zambia	Yes *	2000	Christian	Common		Eastern
	Zimbabwe	Yes	n.d.	Protestant	Civil/Common		Eastern
Germany		Yes	2014	Protestant	Civil		
	Ghana	Yes	2010 (2000)	Christian	Common	668	Western
	Nigeria	Yes	2011 (2003)	Protestant/Muslim	Common/Religious	2004	Western
France		Yes	2011	Catholic	Civil		
	Algeria	Yes	2009	Muslim	Civil/Religious	78,2	Northern
	Morocco ***	Yes	2008	Muslim	Civil/Religious	78,2	Northern
	Tunisia	Yes	2008	Muslim	Civil/Religious	63	Northern
Spain		Yes	2015 (2006)	Catholic	Civil		
	Morocco***	Yes	2008	Muslim	Civil/Religious	78,2	Northern
Total		13					

Note: Mortality rate estimate per 1000 per mean strength per year
* Code not found: These countries are mentioned in Rossouw's (2005) research to have a code
** Formerly German colonies
*** Divided between different colonizers
Source: The World FactBook, and Acemoglu et al. (2001)

Table 1 List of African codes, major religions and legal systems

Table 2 describes those African countries which currently do not have a corporate governance code in place. Median of the mortality rate estimate of the countries without a corporate governance code is 400 per 1000, and the mean mortality rate estimate is 617 per mean strength per year. Therefore, the average mortality rate estimates for the settler in the countries, which currently do not have a corporate governance code in place are higher than in the countries that do have a corporate governance code in place. Although the sample of countries that do have a governance code also include Nigeria and Ghana with high mortality rates, overall the scores are significantly lower in the countries with the codes in general.

Compared to the countries in Table 1, Table 2 consists of significantly more countries of French colonial heritage, meaning that significantly lower number of French colonies have started to make their own corporate governance codes when compared to the British colonies. Although France and Great Britain both had approximately the same number of colonies in Africa, only three of the French colonies now have a corporate governance code in place, while the equivalent number for Great

Britain is ten as mentioned before. When comparing the mortality rates between each colonizer, the median mortality rate in French colonies is higher than in British colonies (280 and 212,5 respectively), and the means are 517,59 and 536,65 respectively. Therefore, although the levels between these colonizers are not immensely different, it would seem that without the few exceptions, such as Nigeria and Mali, the mortality rate in French colonies is higher than in British colonies.

Portugal, Belgium, Italy, and Russia are all colonizers which former colonies have not issued any corporate governance code thus far. The major similarity for these countries is the fact that many of them are of civil law origin, and many of them are either Muslim or Catholic countries.

Colonizer	Colony	Religion	Legal system	Mortality estimate	Region
Great Britain		Protestant	Common		
	Gambia	Muslim	Common/Religious	1470	Western
	Lesotho	Christian	Common		Southern
	Namibia *	Christian	Civil		Southern
	Sierra Leone	Muslim	Common	483	Western
	Somalia *	Muslim	Civil/Religious		Eastern
	Sudan	Muslim	Civil/Religious	88,2	Northern
	Swaziland	Christian	Civil/Common		Southern
Germany		Protestant	Civil		
	Cameroon	Christian	Common/Civil	280	Central
	Namibia*	Christian	Civil		Southern
	Burundi**	Christian	Civil		Eastern
	Rwanda**	Christian	Civil		Eastern
	Togo	Christian/Folk	Customary	668	Western
France		Catholic	Civil		
	Benin	Christian/Muslim	Civil		Western
	Burkina Faso	Muslim	Civil	280	Western
	Central African Rebublic	Protestant	Civil		Central
	Chad	Muslim	Civil		Central
	Comoros	Muslim	Civil/Religious		Eastern
	Gabon	Christian	Civil	280	Central
	Guinea	Muslim	Civil	483	Western
	Ivory Coast	Christian/Muslim	Civil	668	Western
	Madagascar	Christian/Folk	Civil	536,04	Eastern
	Mali	Muslim	Civil	2940	Western
	Mauritania	Muslim	Civil/Religious		Western
	Niger	Muslim	Civil/Religious	400	Western
	Rebublic of the Congo	Catholic/Folk	Civil	240	Central
	Senegal	Muslim	Civil	164,66	Western
Portugal		Catholic	Civil		
	Angola	Catholic	Civil	280	Central
	Cape Verde Islands	Catholic	Civil		Western
	Guinea-Bissau	Muslim/Folk	Civil		Western
	Mozambique	Catholic	Civil		Eastern
Belgium		Catholic	Civil		
	Burundi **	Catholic	Civil		Eastern
	Democratic Rebublic of the Congo	Catholic	Civil		Central
	Rwanda **	Catholic	Civil		Eastern
Italy		Catholic	Civil		
	Eritrea	Christian/Muslim	Civil/Religious		Eastern
	Libya	Muslim	N/A		Northern
	Somalia *	Muslim	Civil/Religious		Eastern
Spain		Catholic	Civil		
	Equatorial Guinea	Christian	Civil		Central
Russia		Orthodox	Civil		
	Djibouti	Muslim	Civil/Religious		Eastern

Note: Mortality estimate per 1000 mean strength per year
* Divided between different colonizers
** German colonies lost after WW2
Source: The World FactBook, and Acemoglu et al. (2001)

Table 2 African countries without a corporate governance code

Table 3 summarises tables 1 and 2 by showing the number of colonies of each European colonizer, as well as dividing the total number into countries which do and do not have a corporate governance code in place, as well as the relation between the two. The numbers for United Kingdom and France have been calculated both with the number of divided colonies (Ghana, Morocco, and Nigeria) as well as without them, and therefore there are two ratios for both countries. The table shows that although United Kingdom and France have had approximately the same amount of colonies, the ratio for countries with code is significantly higher in United Kingdom than in France.

	United Kingdom	France	Germany	Spain	Italy	Russia	Portugal	Belgium
Nr. of colonies								
Code	8 / 10	2 / 3	2	1	0	0	0	0
No code	7	14	5	1	3	1	4	3
Total	15 / 17	16 / 17	7	2	3	1	4	3
Relation	0,53 / 0,59 ; 0,47 / 0,41	0,13 / 0,18 ; 0,88 / 0,82	0,29 ; 0,71	0,5 ; 0,5	0 ; 1	0 ; 1	0 ; 1	0 ; 1

Table 3 Relation of countries with and without a code divided between colonizers

5.2 Board of Directors

Table 4 describes the recommendations for board of directors in United Kingdom and its former colonies, expect Ghana and Nigeria which have been placed in table 6. Table 5 describes same recommendations for France, Spain and their colonies and table 6 describes recommendations aimed at boards in Germany and its colonies as well as the general OECD Principles for corporate governance. This same division and order of tables will be used in the following sections.

In all of the codes, regardless of whether countries were colonizers or colonies themselves, the main roles and responsibilities of the board of directors is basically the same, as boards should offer leadership and decide on the strategy and mission of the company, as well as elect, supervise and compensate the management. Some of the codes list also more specific duties than others, for example Zimbabwe states that it is the responsibility of the board to ensure that the company is not build with unnecessary and over complex structures. All in all, all of the codes are very similar in this regard.

All of the countries which are former British colonies recommend the unitary board structure, even Ghana and Nigeria which were first German colonies, whilst in Germany the dual board is mandated by the regulation. The French code states that both structures are acceptable while the Spanish code again recommends the unitary board. Only African countries which do not primarily recommend either structure are Algeria and Tunisia, which are both former French colonies, while Morocco

mentions that both structures are acceptable but the unitary board is preferable. Therefore, it seems that British and most of French colonies have mimicked their colonizers' recommendation on the board structure, while former German colonies have not followed Germanic governance in this regard, but have rather followed their other colonizer Great Britain.

The diversity and balance of the board is a more diverse topic in the codes. The UK code only states that there should be balance between executives, non-executives and independent directors, and some of its former colonies, such as Botswana, and Kenya, have adopted the same basic recommendations. However, other countries, such as Malawi and Uganda, have recommended a much wider diversity in relation to especially gender or social and economic background. It is notable that South Africa does not mention any diversity requirements in King Report III, although it is considered the forerunner in African economy. The French and Spanish codes both recommend a wider diversity for the board, as they recommend diversity in gender, knowledge and expertise as well as background and nationality (French). Their former colonies also recommend wider diversity, and Morocco and Tunisia even recommend age diversity. Also notable is that Morocco, whilst being a highly Muslim country, recommends gender diversity on boards. Again Ghana and Nigeria are not following directly German route, which requires employee representation on boards. Ghana has again followed UK code's recommendations of balance between executives and non-executives, while Nigeria has the most profound requirements for diversity on boards, with gender, age and range diversity, as well as limitations on the amount of family-members on boards. Therefore, Nigeria does not seem to follow either of its former colonizers, but has rather developed its own recommendations.

Not many codes specifically recommend a particular size for the boards, and many of the specific size recommendations are in fact from the countries' legislation rather than from governance codes. UK and German codes only recommend that boards should be of sufficient size to have enough expertise on the board but at the same time not so large as to be unwieldy, and Uganda has opted for the same recommendation while many former British colonies do not address the issue at all. Of the British and German colonies, Egyptian and South African laws state the minimum number. Only Malawi and Ghana of African countries recommend a specific range in their codes, and Spain makes an exception also by recommending a clear size between five and fifteen in its code. Again in the case of France and its colonies, the instructions for the board size come from legislation, with colonies recommending sizes between three and twelve. Therefore, there is no clear pattern between European and African countries when it comes to board size, but African countries in general do seem to encourage smaller boards rather than larger boards, as the maximum size mentioned in the African

codes is 16 (Ghana). This is smaller than, for example, in the French legislation, which has stated that the maximum is board size 18 directors.

Amount of non-executive and independent directors do not seem to follow any clear pattern either. While the UK code only has a recommendation considering the amount of independent directors, many of the African countries have recommendations for both non-executives and independent directors' amounts, or only for non-executives' amounts. Kenya seems to have the most insufficient recommendations, as it only recommends 1/3 of the board to be non-directors and makes no mention of the number independent directors, while South Africa has the highest quality recommendations in the African sample. It is notable that both of these are former British colonies, so there is no clear pattern between colonies and colonizers in this issue. In addition, nearly all of the countries have identified what makes a director to be independent, with exceptions of Algeria, Zimbabwe and Morocco (as non-executive director is not necessarily the same thing as independent). The criteria for independent director is similar in many countries, regardless of whether the countries are European or African. Therefore, the African code criteria is not significantly lower or broader compared to the more developed markets with larger labour markets. Separation of the positions of CEO and chairman of the board is very consistent throughout the sample regardless of the colonial heritage, as nearly all of the European and African countries recommend or demand the separation of the positions. One major exception is Spain, which states that it takes no position on the matter, and thus does not recommend for the positions to be separated. Also, Algeria does not clearly recommend either separating or combining the positions, but the legislation does not demand for the separation.

Multiple directorship limitation recommendations do not seem to follow any specific pattern either, as for example France and Germany both limit the number of directorships to two and three respectively, while their former colonies allow much more directorships or do not limit them at all. While the UK code does not limit the number of directorships, many of its former colonies do list specific limitations, which are also relatively high (for example in Kenya maximum of 10, Tunisia of 5, and Morocco of 8 directorships). Therefore, the codes generally seem to allow more directorships in Africa than in Europe, when such recommendations are given.

In the case of board committees, all countries except Algeria recommend or require the appointment of audit committee, and nearly all of them require at least some of the members to be independent. Egyptian code also states that if there is not enough non-executive directors to be found inside the board for the committee to be independent, then outside members may be appointed. However, it has

to be noted that in the professional criteria of audit committee members, some countries do not require as much expertise from its members, as for example the Nigerian or Malawian codes require members to be financially literate and have basic knowledge of accounting, while for example Egypt requires at least one member to be a professional in the areas of finance and accounting. In addition to audit committee, many countries, both African and European, recommend the appointment of remuneration or remuneration and nomination committee. In addition to these regular committees, Mauritius, Nigeria, and South Africa recommend the appointment of a risk management committee, while Mauritius and Spain recommend a specialised corporate governance committee.

	United Kingdom	Botswana	Egypt	Kenya	Malawi	Mauritius	South Africa	Uganda	Zimbabwe
Role	Long-term success, leadership, strategy, review management performance, and ensure necessary resources, dialogue with shareholders	Lead and control the company, ensure compliance with legal and ethical standards, and ensure competent management of company	CEO and chairman appointment, supervision, risk management	Leadership, determine purpose, values and strategy	Ensure that complies with legislation, exercise leadership , determine mission, vision and values and ensure that dialogue exists between owners and board	Leadership and control over the company, strategy, compliance with laws	Ethical leadership, strategy, promote stakeholder-inclusive approach, ensure that values are adhered to, IT governance, hiring and supervision of management	Strategic guidance, leadership and control, remuneration of executives, ensuring shareholder communication policy	Ensure company survival, monitor relationship between management and stakeholders, provide ethical leadership, ensure ethical corporate citizenship
Board structure	Unitary board	Unitary board	Unitary board	Unitary board	Unitary board.	Unitary board	Unitary board	Unitary board	Unitary board
Diversity	Balance of executives, non-executives and independent members	Balance of executive and non-executive directors	Proportionally represents shareholders according to capital distribution. He/she	Balance of executive and non-executive (including independent) directors	Balanced mix of experience and skills, diversity of gender, social and economic background	Knowledge, skill, experience and objectivity, he/she	N/A, He/she	Gender	N/A
Size	Sufficient size, not so large to be unwieldy	N/A	N/A, law min 3 members *	N/A	6-12 in listed companies	Smaller boards encouraged	Min 3 members in listed companies *	Not too small or large	N/A
Amount of non-executive directors	N/A	Minimum 1/3	Majority	Minimum 1/3	Majority in listed companies	N/A	Majority	See below	Majority
Amount of independent directors	Majority	Majority of non-executive directors	N/A	N/A	At least 1 in listed companies	At least two	Majority of non-executive directors	Independent and non-executive directors together minimum 1/3	N/A
Independence criteria	Not a significant shareholder or employee, holder of cross-directorships or family ties, or a member of board for more than 9 years	Not an employee, professional adviser, family member, significant customer, supplier or shareholder	Not a family-member, major shareholder, employee, or representative of companies with significant dealings with the company *	Independent from management and free from business or other relationship	Not an employee, consultant, immediate family-member, customer, supplier or shareholder	Not a family-member of significant shareholder, employee, professional adviser, significant supplier, creditor or partner	Absense of undue influence and bias	Not an employee, adviser, significant customer or supplier, no personal service contract, a member of immediate family	N/A
Separation of CEO and Chairman	Preferably separated	Separated	Preferably separated	Preferably separated	Preferably separated	Separated	Preferably separated	Preferably separated	Preferably separated
Multiple directorships	N/A	Disclosed	Max 3 for listed companies *	Executives: max 2 non-executive posts, non-executives: max 10	N/A	N/A	N/A	Max 5 in listed companies, max 2 chairmanships	Max 7
Audit committee	Yes	Yes	Yes	Yes	Yes, in listed companies	Yes	Yes	Yes	Yes
Composition of audit committee	At least three, or in small companies two, independent directors	All non-executives and majority of them independent	At least three non-executive directors, or from outside the company if necessary	Independent non-executive directors	Non-executive directors	Non-executives, majority independent	Majority of non-executive directors, majority of whom independent	Majority of independent or non-executive directors	Independent non-executive directors
Audit committee professional criteria	At least one member has recent and relevant financial experience	N/A	One should be a financial and accounting expert	N/A	Financially literate	N/A	Collectively sufficiently qualified and experienced	Broad business knowledge, familiarity with basic accounting principles.	Suitably skilled and experienced
Other committees	Remuneration	Remuneration, nomination	Remuneration	Remuneration, nomination	Nomination and other needed committees	Corporate governance, nomination, risk	Remuneration, nomination, risk	Remuneration, nomination	N/A

Table 4 Board of directors: UK and its colonies

	France	Algeria	Tunisia	Morocco	Spain
Role	Supervision of management, ensure high standard information disclosure, strategy	Strategy, hiring of executives, remuneration of executive team and board members themselves	Compliance with law, strategy, hiring of managers, assuring the quality of financial information	Strategy, supervision of management, ensuring the observance of laws, improving corporate govenrance	Staregy, control of management, avoid artificial and overly complex structures or tax havens
Structure	Unitary or dual board	Unitary or dual board *	Unitary or dual board	Primarily unitary board	Unitary board
Diversity	Educational background, nationality, gender	Experience and competence, executives and non executives	Age (1/3 < 40 and 1/3 > 60), experience, profile and expertise	Training, professional experience, male-female balance, age, nationality	Knowledge, gender (at least 30% women) and experience
Size	Max 18 *	Min 3 max 12 *	Min 3 max 12 *	N/A	Min 5 max 15
Amount of non-executive directors	N/A	Particularly SMEs should have	N/A	Majority	Large majority
Amount of independent directors	Minimum 1/3	N/A	Minimum 1/3	N/A	At least half, in smaller companies 1/3
Independence criteria	Not an employee, employee of significant financial partner, auditor, or board member more than 12 years	N/A	Not an employee or relative, no ties with significant financial partner, no other remuneration	Non-executives or outside members	Not a past employee, partner, cross-director, significant business partner, shareholder, family-member
Separation of CEO and Chairman	Either by dual structure or separation of positions	No *	Preferably separated	Either by dual structure or separation of positions	No position
Multiple directorships	Max 2 executive directorships	Max 5 *	Max 8 *	Avoid holding several directorships	N/A
Audit committee	Yes	N/A	Yes	Yes	Yes
Composition of audit committee	At least 1/3 independent, managers and employees may not be members	N/A	At lest one independent member	Majority of non executive or outside members	Majority of independent directors
Professional criteria of audit committee members	N/A	N/A	N/A	All members should have solid knowledge of accounting and financial details	All members should have knowledge and background in accounting, auditing and risk management
Other committees	Remuneration, nomination	Remuneration,nomination and other needed committees	Remuneration, nomination, strategy	Nomination and remuneration	Remuneration, nomination, governance, executive and supervisory

Table 5 Board of directors: France and Spain and their colonies

	Germany	Ghana	Nigeria	OECD
Role	Management board (MB): management and providing information to SB. Supervisory board (SB): appointment, supervision and advising members of management board	Strategy, compensating and monitoring executives, ensuring compliance with law and integrity of reporting systems	Affairs of the company, strategy, supervision of management, risk management, communication, ensuring that ethical standards are maintained	Strategy, risk, monitor management and governance, align intersts of shareholders and executives, monitor conflicts of interest, communication
Structure	Dual board	Unitary board	Unitary board	Unitary or dual board
Diversity	Employees represented in SBs MB: aim for appropriate consideration of women	Balance of executives and non-executives, "he"	Skills and experience, age, range and gender diversity, with upright personal characteristics, competencies, entrepreneurial spirit and a record of tangiable achievement, max. two family-members	N/A
Size	MB: several persons SB: sufficient amount	Between 8 and 16	Minimum 5	No position
Amount of non-executive directors	SB: No more than two former members of MB	Sufficient number	Majority	N/A
Amount of independent directors	SB: Adequate number	At least 1/3, minimum two in any event	At least one	Sufficient number
Independence criteria	No personal or business relations with company, executives, controlling shareholder	Not a substantial shareholder, employee, professional adviser, supplier, customer and free from relationships with corporate body	Not a substantial shareholder, representative of a significant shareholder, employee, family-member, adviser, supplier or partner of audit firm	Not an employee, or closely related to the company through economic, family or other ties
Separation of CEO and Chairman	Separated by the dual structure	Preferably separated	Separated	Preferably separated
Multiple directorships	MB: max 3 SB directorships	No limitations	No limitations, not members of boards of companies in the same industry	Disclosure
Audit committee	Yes	Yes	Yes	Yes
Composition of audit committee	At least one independent member *	At least 3 directors, majority non-executive	N/A	N/A
Professional criteria of audit committee members	At least one member has to have expertise knowledge of accounting and annual auditing *	Adequate financial, accounting and juristic knowledge	At least one board member should be financially literate and have knowledge of accounting	N/A
Other committees	Nomination	Remuneration	Remuneration, risk management	Nomination, remuneration, ethics

Table 6 Board of directors: Germany and its colonies and OECD Principles

5.3 Remuneration

Tables 7, 8, and 9 show the results of the remuneration recommendations of executive and non-executive directors in each country and the OECD Principles.

All of the countries in the sample recommend executive directors payments to be linked to performance at least to some extent, with some countries recommending specifically individual performance related elements. This is another one of the main similarities between the countries of our study. However, the differences come in whether non-executive directors should be allowed to have performance related elements in their payment schemes: UK and Spain would not allow non-executive directors remuneration to be linked to performance, while Germany and France would. The African countries that explicitly would not allow performance related payments for non-executives are of either British or German/British origin, and these are Mauritius, South Africa, Egypt, Nigeria, and Ghana. As only three countries explicitly state that the non-executive directors' remuneration should somehow be linked to performance, and many countries leave this issue unaddressed, it can be said that the majority of the recommendations are therefore aiming that non-executive remuneration should not be variable. It should also be remarked that Malawi is the only code that states that non-executives could possibly work pro-bono for the companies.

There is also some variation in the decider of the remuneration policies. Mostly it is the board of directors that decides on the remuneration of the executives. However, the say on pay policy, which will be addressed also in the next section with shareholder rights, is recommended in some of the African countries as well as in Europe. It is also notable that in Egypt and Spain the remuneration of executives should be decided with negotiations with the CEO and directors, even though there should be an independent remuneration committee. However, mainly the governance codes, regardless of the origin, recommend that individuals should not decide on their own remuneration and therefore recommend self-exclusion. In this regard, Spain and Egypt are very different to the rest of the sample.

	United Kingdom	Botswana	Egypt	Kenya	Malawi	Mauritius	South Africa	Uganda	Zimbabwe
Executive directors	Performance-related, with ability to reduce, withhold and recover payments and balanced with fixed payments	Performance related, should include bonus payment and share option schemes, but no discounts to employee share options	Performance related payments should form the largest portion, and be related to medium and long-term success	Corporate and individual performance related	Linked to long-time sustainability	Basic salary, share options, severance pay and bonuses	Linked to individual performance	Performance related	Fair and responsible compensation, aligned with risk taking and symmetric with risk outcomes
Decider	Remuneration committee, long-term option schemes by shareholders	Board	Committee, but negotiation with directors and CEO	Board	Board, shareholders' approval in listed companies	Remuneration committee	Board and shareholders advisory vote	Board	Board, shareholders' approval
Non-executive directors	Should not include performance related elements	Should include bonus payment and share option schemes	Preferably fixed and same for all	N/A	Reflect time invested, commitment, performance and responsibilities, possibly pro-bono	Attendance fee	Base and attendance fee	N/A	Fair and responsible compensation
Benchmarking	Should be judged relative to other companies, but with caution to avoid ratcheting and paying more than necessary, should not be excessive and be especially sensitive in relation to other employees	N/A	Sufficient to attract and retain quality and calibre of needed individuals	Sufficient to attract and retain quality and calibre of directors needed	N/A	N/A	Disclosure of use of benchmarks	N/A	N/A

Table 7 Remuneration: UK and its colonies

	France	Algeria	Tunisia	Morocco	Spain
Executive directors	Linked to medium and long-term performance, consistent with average employee compensation	Long-term, generally the same basic remuneration for all, plus performance related, dividends etc	Balance of short-term and long-term incentives, based on company and individual performance and objectives	Performance related, exhaustive, consistent and simple, sitting allowances	Performance related elements, with non-financial criteria, include possibility to recover sums paid, large amount deferred for a long time to ensure true performance
Decider	Board or supervisory board	Board	Board, managers should not be present in discussions regarding their compensation	Board	Board, shareholders' advisory vote, committee should negotiate with CEO
Non-executive	Variable compensation allowed, with particular attention to them	Long-term, generally the same basic remuneration for all	N/A	Sitting allowances, variable portion possible	No company or individual performance-related elements
Benchmarking	Standards and practices prevailing in the location country, sector etc, but better to avoid bidding wars	Sufficiently raised to attract, retain and motivate managers	Motivate, hire and keep the most qualified and experimented staff, level within industry and other managers	Consistent with market practices	Sufficient to attract and retain right people
Upper limit	Yes, on severance pay: not exceed twice the fixed and variable annual pay (exc. options)	N/A	N/A	N/A	Yes, on severance pay: not exceed twice the fixed and variable annual pay (exc. options)

Table 8 Remuneration: France, Spain and their colonies

	Germany	Ghana	Nigeria	OECD
Executive directors	Fixed as well as personal and company performance related, taking into consideration payments by group companies	Reflect experience and responsibility, linked as far as possible to corporate and individual performance	Component related to long-term performance, may include options and bonuses	Long-term
Decider	Supervisory Board or shareholders	Board on committee proposal	Non-executive directors	N/A
Non-executive	Performance-related allowed	Fixed	Fixed sitting allowances or director's fees	Long-term
Benchmarking	Compensation level should take into account peer companies and other staff	Competitive taking into account industry practices, focus on pertaining management	Sufficient to attract, motivate and retain skilled persons, periodic "peer review" to ensure competitive remuneration	N/A
Upper limit	Yes, both overall and individual	N/A	Yes, for share options	N/A

Table 9 Remuneration: Germany and its colonies and OECD Principles

Major difference between compensation policies between African countries and European colonizers is the comparison and benchmarking recommendations of compensation policies. Some of European countries are now encouraging companies not to place too much emphasis on comparing their remuneration policies against other companies. For example, France clearly recommends companies to avoid bidding wars that would result from too much emphasis on comparisons, and the UK code advices to avoid ratcheting while still judging against other companies' remuneration. However, Germany and Spain still recommend benchmarking without mentioning problems of ratcheting for example, as Spain for example has removed their previous code's (2006) recommendation of not using the average remuneration of peer companies as a benchmark from their newer code. African countries either leave these issue unaddressed or state that remuneration policies and compensation levels should be on such a level that they would attract and retain managers. Nigeria for example recommends a periodical "peer review" for remuneration levels, and Ghana, Tunisia and Morocco encourage to take into account the industry practices and remuneration levels. The countries that do not address the issue are all former British colonies. None of the countries, even the newer codes of Nigeria or South Africa, have not recommended to abstain or cut down from over competing in management compensation levels. All of the European countries have recommended that some sort of upper limit should be set on remuneration, with France and Spain having clear upper limits only for severance payments, while nearly none of the African countries have recommended anything of the sort, except for Nigeria which has recommended a limit to be set on yearly share options of directors.

5.4 Shareholder rights

Tables 10, 11, and 12 describe the shareholder rights and recommendations relating to them in each country and the OECD Principles.

There is no clear pattern in how the one-share-one-vote practice is recommended in the codes. Although the one-share-one-vote practice may be allowed in the legislation of many countries, such as United Kingdom, Spain, or many African countries, the clear recommendations for it is absent in the codes. However, Germany and France explicitly state to be in favour of it, and for example France states that it is against limitations on voting rights, preferred shares and other special share categories. Also some former British colonies (Egypt and Kenya) as well as former French colonies Algeria, Tunisia and Morocco clearly recommend it. All in all numerous codes tend to support the principle in general, but still allow flexibility on the issue, by stating that all shareholders of the same class should be treated equally. It is notable that the Nigerian legislation requires all voting at general meetings to be decided on a show of hands, meaning essentially a one-shareholder-one-vote practice, while the UK code allows it too.

Many of the countries address explicitly that the shareholders should have possibility to vote separately on each resolution rather than voting on bundled resolutions, but there is variation in every colonial division. Proxy and voting by mail seem to be becoming the norm in all countries, but the right to propose resolutions and put issues on the agenda of the general meeting is more varied. Again this issue seems to be mostly embedded in the legislation rather than in the codes, with variation in the share capital requirements. Malawi, Zimbabwe, and to some extent Botswana are exceptional in this section as they do not really address the issues related to shareholder rights in their codes. However, countries such as Egypt, Morocco, and Tunisia seem to recommend many of the specific issues we have selected for this section, and Egypt is the only country that especially recommends cumulative voting in election of directors.

Anti-takeover measures and market for corporate control are not addressed in the African codes with the exception of Kenya and Ghana. Therefore, clear majority of the countries in Africa do not mention external governance mechanisms directly. Also only France and Spain clearly state that they are against anti-takeover mechanisms. However, for example United Kingdom, which is the best example of an Anglo-Saxon country in our sample, does not mention them either anymore in its code.

	United Kingdom	Botswana	Egypt	Kenya	Malawi	Mauritius	South Africa	Uganda	Zimbabwe
One share one vote	N/A	N/A	Yes *	Yes	N/A	N/A	N/A	N/A	N/A
Proxy voting	Yes	Yes	Yes	Yes	N/A	Yes	Yes *	Yes	Yes *
Voting by mail	Yes	N/A	Yes, with electronic	Yes	N/A	N/A	Yes *	Yes	N/A
Put issues on agenda /propose resolutions	N/A	N/A	Yes, with 5 % share capital	Yes	N/A	Yes, with limitations	Yes *	Yes	N/A
Cumulative voting	N/A	N/A	Yes	N/A	N/A	N/A	N/A	N/A	N/A
Separate resolutions	Yes	Yes	Yes *	N/A	N/A	Board appointment	N/A	N/A	N/A
Say on pay	Yes, advisory vote	N/A	No *	N/A	Yes, listed companies	Yes, on discounted share options	Yes, advisory vote	N/A	Yes
Anti-takeover measures	N/A	N/A	N/A	Should not be used	N/A	N/A	N/A	N/A	N/A
Other	One shareholder one vote allowed			Board makes sure that market for corporate control is efficient		Encouragement of institutional investor participation		Encouragement of institutional investor participation	

Table 10 Shareholder rights: UK and its colonies

	France	Algeria	Tunisia	Morocco	Spain
One share one vote	Yes	Yes *	Yes	Yes	N/A
Proxy voting	Yes	Yes	Yes	Yes	Yes
Voting by mail	Yes and electronic voting	No	Yes	Yes	Yes
Put issues on agenda	Yes, with 5 % share capital	Yes	Yes, with 2,5 % share capital *	Yes, with 5 % share capital *	Yes, with 3 % share capital
Cumulative voting	N/A	N/A	N/A	N/A	N/A
Separate resolutions	Yes	No *	No *	Yes *	Yes
Say on pay	Calls for regulatory change for SoP to be allowed	No	No	Partly, only for total compensation of the board *	Yes, advisory vote
Anti-takeover measures	Should be avoided	N/A	N/A	N/A	Should be avoided
Other	AFG against preferred shares, limitations on voting rights etc			Website	Active market for corporate control encouraged

Table 11 Shareholder rights: France, Spain and their colonies

	Germany	Ghana	Nigeria	OECD
One share one vote	Yes	Yes, unless otherwise specified	No, one shareholder-one vote *	No position
Proxy voting	Yes	Yes	Yes *	Yes
Voting by mail	Yes	Yes	N/A	Yes
Put issues on agenda	Yes	Yes, with reasonable limitations	N/A	Yes
Cumulative voting	N/A	N/A	N/A	No position
Separate resolutions	N/A	Yes	Yes	N/A
Say on pay	Possibility *	No	No	Yes, on equity based
Anti-takeover measures	N/A	N/A	N/A	Should not be used
Other		Institutional investors are encouraged to influence due to lack of sophistication of domestic individual investors, ensure functioning market for corporate control	Institutional investors are encouraged to influence and demand compliance with governance codes	Markets for corporate control should be allowed to function in an efficient manner

Table 12 Shareholder rights: Germany and its colonies and OECD Principles

The shareholders' right to vote on the remuneration of executives (not non-executive directors), or say on pay, is advised at least to some extent in all of the European countries in this sample, either as an advisory or binding vote. Only four African countries have recommended the say on pay policy: Malawi, Mauritius (partly), South Africa, Zimbabwe, and Morocco call for shareholder approval on the total compensation of the board. Therefore, the countries recommending the say on pay policy are former British colonies, with the exception of Morocco, and they are in a clear minority in the sample.

African countries such as Mauritius, Uganda, Ghana, and Nigeria especially encourage and recommend especially institutional investors to engage in company actions and Ghana even explicitly states that they should be encouraged to do this due to "lack of sophistication of domestic individual investors". However, these countries are in a minority, as many of the African countries do not mention institutional investors at all in their codes.

5.5 Other stakeholder inclusion

Tables 13, 14, and 15 show the results of other stakeholder inclusion in the governance codes in each country and the OECD Principles.

The codes of United Kingdom or France do not particularly mention other stakeholders or their inclusion in their codes. These codes do not mention clearly any stakeholder groups, other than shareholders, and their stakeholder policies are not specific. However, Spain and Germany mention employees and customers as stakeholders, but none of the European countries mention environment or society as a whole as major stakeholders. Only African countries that do not specifically mention different stakeholders are Botswana, Uganda, and Ghana, which all have British colonial heritage at least partly. Most African countries, regardless of the colonizer, define environment, society, customers and suppliers as stakeholders, and Algeria and Nigeria mention state explicitly as a major stakeholder or promotion of national interests as a major policy.

Malawi and South Africa are the countries that specifically mention *ubuntu* or *umunthu*, while other African countries explain the same concept at least partly through other means. For example, many African countries mention society or host communities as major stakeholders, or by stating the stakeholder rights have to be taken into account in decision making and promote different stakeholders interests. The furthest in their codes in expressing stakeholder and societal issues go Nigeria and Tunisia, which mention issues such as human rights, child labour, or AIDS and malaria, and even linguistic heritage in their codes as issues that should be acknowledged in business. Therefore, the inclusive model of corporate governance has been incorporate into the codes in nearly all African countries. Of African countries Botswana and Uganda have the least amount of recommendations regarding stakeholders and sustainability, and they do not specifically address any issues related to sustainability which would need special attention. It is notable that these are both former British colonies, as United Kingdom has not made any real recommendations related to sustainability issues either. Spain has the most comprehensive recommendations relating to stakeholder and sustainability issues of the European countries, while United Kingdom seems to have the least demanding and explicit recommendations for such issues.

	United Kingdom	Botswana	Egypt	Kenya	Malawi	Mauritius	South Africa	Uganda	Zimbabwe
Stakeholders mentioned	N/A	N/A	Customers, employees, environment, suppliers, community	Employees, environment, gender, children, host communities	Environment and society as a whole	Environment, employees, customers, suppliers	Environment, society	N/A	Society and environment
Stakeholder policy	Special attention to social and environmental factors, give them the same level of consideration	Obligations to all shareholders and other stakeholders	Optimum balance between shareholders and stakeholders.	Rights of stakeholders (whether established by law or custom) are protected	Board should take into consideration wider societal interests, allow African umunthu values to thrive within the ethical framework	Account the expectations of shareholders for reasonable capital growth and responsibility towards other stakeholders	Appropriate balance between various stakeholders, not compromising the natural environment, ubuntu	Take into consideration the stakeholders in decision making	Appropriate balance between needs of different stakeholders
Sustainability	N/A	N/A	At least annual disclosure of environmental, social, safety and heatlh policies to shareholders, customers and employees, including recruitment, training and social welfare programmes	Policy for creating wealth, jobs and sustainability in a financially sound corporation, while meeting environmental and societal needs	Conduct operations in a manner that meets existing needs without compromising the ability of future generations to meet their needs, sustainability includes supply chain	Company should act responsibly towards stakeholders, at least annual integrated sustainability reporting on environment, health and safety, and social issues	Consider impacts on economy, society and environment, and invest in wellbeing of economy, society and environment, with measurable corporate citizenship programmes	N/A	Appreciate that strategy, risk, performance and sustainability are inseparable

Table 13 Other stakeholder inclusion: UK and its colonies

	France	Algeria	Tunisia	Morocco	Spain
Stakeholders mentioned	N/A	State, financial institutions, supplier, customers, employees	Employees, customers and environment	Employees, customers, creditors, administration	Employees, suppliers, creditors, customers
Stakeholder policy	Boards are encouraged to pay specific attention to environmental and social issues	Respect of the law especially in labour and tax legislation and environmental protection	Balance: take into account the interests of all stakeholders, fight against any discrimination, child labour, respect human rights and encourage employment of disabled	Genuine mutual interests to stakeholders (people), take every possible step to treat them equally, implementation of employee participation practices	Concrete practices in matters relating to stakeholders and the environment, diversity, fiscal responsibility, respect for human rights and the prevention of illegal
Sustainability	Strategy and actions recommendedly in line with sustainable development of the company	Sustainable collaboration with supplier and banks, and ethical behaviour towards competitors, and take into consideration its human capital	Strategy should target profitability and performance regarding economic, social and environmental issues, take part in preserving cultural, historical, linguistic and artistic heritage	Communicate whatever company can about its social, environmental and its ethical rules, especially human resource policy	Deploy an appropriate corporate social responsibility policy, and report transparently and in sufficient detail with internationally accepted

Table 14 Other stakeholder inclusion: France, Spain and their colonies

	Germany	Ghana	Nigeria	OECD
Stakeholders mentioned	Customers, employees, public	N/A	Employees, host community, customers, public	Employees, creditors, customers, suppliers, local communities, environment
Stakeholder policy	Managing taking into account shareholders, employees and other stakeholders	Interests of others are relevant as a derivative of the duty to shareholders, not aimed at benefiting stakeholders at the expense of shareholders	Adequate attention to the interest of stakeholders, sensitivity to social and cultural diversity, and promote as much as possible the national interests, ethos and values, accidents, fatalities, strategy on addressing AIDS/malaria, employment and	Board should apply high ethical standards and take into account the interests of stakeholders, and rights that are established by law are to be respected
Sustainability	Objective of sustainable value	Encouraged disclosure on e.g. employment, environmental matters, social responsibility, and matters of customer and supplier interest	Extent of social, ethical, safety, health and environmental policies	N/A

Table 15 Other stakeholder inclusion: Germany and its colonies and OECD Principles

5.6 Disclosure

Tables 16, 17, and 18 show the results of information disclosure and transparency policy recommendations and the OECD Principles.

The UK code states that companies should disclose a fair, balanced and understandable assessment that extends also to the interim and price-sensitive information. Almost these exact same wordings and requirements can be found in the codes of Botswana and Kenya. However, mostly the recommendations of the former British colonies are not similar, as some former British colonies have made their own recommendations to extend to for example integrated sustainability reporting (Malawi, Mauritius, South Africa, and Zimbabwe), and Malawian code also recommends companies to disclose reasons for decisions that may appear compromised due to conflict of interest. Also the regularity of information disclosure is not uniform either, as for example the code of Mauritius only recommends annual disclosure, Kenyan code a half-year disclosure and Ugandan code quarterly results to shareholders. However, for example Nigerian code recommends and encourages companies to disclose any unethical or illegal actions that might occur, and some countries, such as South Africa, Zimbabwe, and Mauritius, recommend sustainability reporting to be integrated with the basic financial reporting. European countries, such as United Kingdom and France make no recommendations of this kind on sustainability issues. Therefore, some African countries have clearly and explicitly encouraged wider and more profound information disclosure than their colonizers have in the corporate governance code, although similar disclosure requirements might be included in GRI reporting or other reporting initiatives.

	United Kingdom	Botswana	Egypt	Kenya	Malawi	Mauritius	South Africa	Uganda	Zimbabwe
Information	Fair, balanced and understandable assessment extends also to interim and price-sensitive information	Balanced and understandable assessment extends to interim and other price-sensitive public reports	Overview of operations and financial status, affiliates' activities, capital changes, vision and compliance with Corporate Governance Principles in annual report	Balanced and understandable assessment of the company's position at least annually and preferably every six months	Integrated sustainability reporting, consider making regular, accurate and truthful reporting and disclosure of reasons for making decisions which may appear compromised due to conflict of interest	Annual financial reporting, corporate governance report and integrated sustainability reporting	Complete, timely, relevant, accurate, honest and accessible information, whilst having regard to legal and strategic considerations. Integrated sustainability reporting with financial reporting	Regular investor briefings, with annual, half-yearly and quarterly results	Timely and accurate disclosure is made on all material matters, including financial situation, performance, ownership, and governance, integrated and independently assured sustainability reporting

Table 16 Disclosure: UK and its colonies

	France	Algeria	Tunisia	Morocco	Spain
Information	Summary and full financial reports	Annual disclosure of financial state, as well as voluntary or contract based information for suppliers, customers, employees, associates and financial institutions. Clear decision on which information is public and which is to be conceiled	Shareholdings and existing agreements with shareholders, board, and managers, define accounting choises that meet as much as possible the assigned qualitative characteristics	Legal or moral obligation to report especially issues that call into question the equitable treatment of shareholders, especially financial information has to be in strict compliance with international standards and possibly scores of international financial rating agencies, CG, management, internal control reports	Annual publishing of corporate governance report, disclosure on mechanisms to resolve conflicts of interest and related-party transactions

Table 17 Disclosure: France, Spain and their colonies

	Germany	Ghana	Nigeria	OECD
Information	Annual Corporate Governance Report, Group management report, Financial statements, with information on stock option programmes, third party companies and related party shareholders	Any deviations from accounting standards should be disclosed. Financial, ownership, governance, business ethics, environment information	Increased disclosure beyond the statutory requirements, reports on governance, code of conduct and ethics, sustainability and human resource policies, and related party transactions. Reporting of unethical/unlawful activities is encouraged	Financial and operational results according to high quality standards, objectives, major share ownership and voting rights (pyramids etc), remuneration policy, related party transactions, risks, employee and stakeholder issues, and governance policies

Table 18 Disclosure: Germany and its colonies and OECD Principles

5.7 Enforcement

Tables 19, 20, and 21 show the results related to the enforcement of the code in each country and in the OECD Principles.

United Kingdom, Spain and Germany all have made their corporate governance codes on the comply-or-explain basis, while the French code is states that it only gives recommendations on corporate governance. Of the former British colonies, only one code (Botswana) are based on the comply-or-explain basis only, while two codes (Mauritius and Uganda) are partly mandatory and partly on a comply-or-explain basis. However, South Africa makes an exception by clearly stating that rather than the comply-or-explain model, it follows the apply-or-explain model. Although Malawi, Uganda and United Kingdom express that their codes follow the comply-or-explain model, they still states that some of its principles are mandatory in nature, and therefore they do not truly fulfil the requirements of comply-or-explain model. While the French code only gives recommendations, its former colonies Tunisia and Morocco have rather adopted the comply-or-explain model. The former German and British colonies Nigeria and Ghana have not followed either of their colonizers' example, as Ghana only lists recommendations and Nigeria lists the minimum standards for corporate governance in the country. However, Nigeria, while listing minimum requirements for listed companies, also requires companies to disclose the level of compliance with the code, and thus it would seem to follow also the comply-or-explain model.

The application of the code varies between countries as well. While the UK code is aimed at all organisations, other European codes are primarily aimed at listed companies. Of the former British colonies five countries have aimed their codes also at all organisations, and also former French and Spanish colonies are aimed at all organisations. Thus, the majority of the African codes are aimed at all organisations rather than only listed companies. Also some countries, such as Morocco and Tunisia, have either issued special codes or specified section in their official general code aimed at family-owned companies. Only Botswana and Uganda have aimed their codes only at listed companies in the country.

	United Kingdom	Botswana	Egypt	Kenya	Malawi	Mauritius	South Africa	Uganda	Zimbabwe
Enforcement	Comply or explain	Comply or explain	Recommendations	Recommendations	Comply or explain	Comply or explain/mandatory	Apply or explain	Minimum standards/ Comply or explain	Recommendations
Obligatory	Main principles	N/A	N/A	N/A	Main principles	Listed companies	N/A	Prescriptive standards	N/A
Voluntary	Supporting principles	N/A	N/A	N/A	N/A	N/A	N/A	Non-prescriptive standards	N/A
Application	All organisations	Listed companies	All organisations, primarily listed and closed or family-held joint stock companies	All organisations	All organisations, listed companies own additional standards	Listed, financial, state-owned, and large public and private companies	All organisations	Listed companies	All organisations

Table 19 Enforcement: UK and its colonies

	France	Algeria	Tunisia	Morocco	Spain
Enforcement	Recommendations	Recommendations	Comply or explain	Comply or explain	Comply or explain
Obligatory	N/A	N/A	N/A	N/A	N/A
Voluntary	N/A	N/A	N/A	N/A	N/A
Application	Listed companies, SMEs encouraged	All organisations	All organisations, special family-companies section	All companies, targeted codes for SMEs, family-companies, credit institutions	Listed companies

Table 20 Enforcement: France, Spain and their colonies

	Germany	Ghana	Nigeria	OECD
Enforcement	Comply or explain	Recommendations	Minimum standards	Not-binding, no aim at detailed prescriptions
Obligatory	"Shall" recommendations need explanations	N/A	Listed companies minimum compliance	N/A
Voluntary	"Should" recommendations can be deviated without disclosure	N/A	Fund raisers sufficient compliance	N/A
Application	Listed companies	Listed companies, investment advisers, mutual funds and issuers of publicly traded securities	Listed companies and companies seeking to raise funds from capital markets	Listed companies, non-traded encouraged

Table 21 Enforcement: Germany and its colonies and OECD Principles

5.8 Corruption

In this section we describe how different codes have addressed illegal and problematic issues, such as corruption, conflict of interest, and risk management. Table 22 shows information that addresses issues such as illegal actions and corruption in each country's code, and table 23 shows the ranks and scores of each African country and European countries in our study.

Countries that explicitly mention corruption in their codes are Kenya, Morocco, Nigeria, South Africa, Tunisia, and Zimbabwe. Of these countries, Kenya and Nigeria make the most profound and numerous mentions to illegal actions, corruption and tolerance to these issues. However, some African countries do not have any specific recommendations for preventing illegal actions, but rather just encourage companies to adopt code of conducts that should be used to minimise conflicts of interests. Algeria, Egypt, and Mauritius are examples of countries that only identify these conflicts of interests as major problems that should be avoided with better governance, but make no mention of corruption as a major issue in the country.

Also the German corporate governance code addresses the problems that may relate to corruption by stating that managers or employees shall not demand or accept payments or other advantages from third parties in their work. However, other European countries do not address corruption related problems in their codes, but rather describe the risks and other issues that may be problematic in the eyes of the public. Therefore, European codes in general are not so concerned about the possible corruption in their country, but rather emphasise issues that relate to risk management in general. British code is mostly concerned of risk management issues and especially financial risks and solvency issues. However, the Spanish code requires that transactions and shares created for tax havens or similar tax minimising schemes should be disclosed. French code only refers to prevention of any conflicts of interest. In conclusion, European countries do not address corruption specifically as an issue in their country, but many of African countries in our sample do.

Algeria	Botswana	Egypt	Ghana	Kenya
Anticipate any conflicts of interest in board.	Directors Report should declare that the company has not engaged in any activities which contrive laws and regulations. If there is no internal audit function in a company, then company should from time to time review the need for one.	Define regulations and procedures to avoid conflict of interest, and also code of conduct should be established. Especially family-held companies and closed joint stock companies are encouraged to adopt these principles.	The annual report should contain a statement from the board as to the degree of compliance of the corporate body with any regulatory and other legal requirements governing its operations and the extent to which statutory payments have been met in respect of the period under review	It is neither in long-term interest of the enterprise or society to short -- to engage in corrupt acts. Directors shall disclose any gifts, monies, commissions, benefits and other favours -- received from whatsoever party in relation to any business dealings with the company. Every year disclosed that no person of authority commited any offence under the Prevention of Corruption Act.
Malawi	**Mauritius**	**Morocco**	**Nigeria**	**South Africa**
Related party transactions should be identified, managed and disclosed: board members and key management personnel, significant influence, family member, joint control organisations. Purchases and sales of assets, services, leases and loans and equity contributions. Owners should be informed of all these that may affect significantly their position.	Code of conduct for dealing with potential conflicts of interest, disclosure on related party transactions	Thanking of members of the Anticorruption Commission of the CGEM, members finding to be in a situation of conflict of interest should abstain from participation in discussions and decision-making. Information disclosure on the securities transactions of their principle key executives and directors who directly or indirectly hold more than 5% of the capital	Directors should not be members of boards of companies in the same industry to avoid conflict of interests. Not more than two members of same family on board simultaneously. Cross-memberships discouraged. Companies should recognise corruption as a major threat, and have zero tolerance of corruption. Directors code of ethics states that they should not take advantage of company property for personal gain.	Internal audit function should provide a source of information as appropriate, regarding instances of fraud, corruption, unethical behaviour and irregularities.
Tunisia	**Uganda**	**Zimbabwe**	**OECD**	
Prevent any conflict of interest, strong stance against corruption, bribery and extortion, prohibit offering or accepting to pay public officials any fraction of a contract payment, and companies should avoid tax evasion	Any departure from IFRS should be explained in annual report. Audit committee should consider and identify any related party transactions thay may occur.	There must be will-power to fight corruption from the top leadership of a country which should cascade down the leadership ladder, which must filter through to the board of directors and management of corporations	Stakeholders, including individual employees, should be able to freely communicate their concerns about illegal or unethicalpractices to the board and their rights should not be compromised for doing this, companies should establish procedures and safe-harbours for complaints by employees	
German	**France**	**Spain**	**United Kingdom**	
Management and employees may not demand nor accept from third parties payments or other advantages nor grant third parties unlawful advantages.	Encouraged to produce an internal rules and procedures document, which must state in how the board is organised, notably in relation to the prevention and management of conflicts of interest as well as give details of the ethical rules its members intend to use as their guidelines.	Disclosure by audit committee of creation of shares in special purpose vehicles or territories considered tax havens, and related-party transactions. The moment a director is indicted or tried for any of the offences, the board of directors should open an investigation and decide whether or not he or she should be called on to resign.	Confirmation by the directors that they have carried out a robust assessment of the principal risks facing the company, including those that would threaten its business model, future performance, solvency or liquidity.	

Table 22 Corruption and risk management

Next we shall present the Transparency International's Corruption Perception Index from 2014. We shall present the placements of the countries of our sample, as well as the remaining African countries, which currently do not have a corporate governance code in place. The index, total 175 countries, has been divided into quarters of equal size in relation to the total amount of countries, to represent the most, second most, second least, and least corrupt countries in the world. We have also included a reference score from CPI from the year before the corporate governance code was published.

Country	Rank	Score (2014)	Year before	Score (X)
Germany	12	79	2013	78
United Kingdom	14	78	2013	76
Belgium	15	76	2008	73
France	26	69	2010	68
Botswana	31	63	2007	54
Portugal	31	63	2013	62
Spain	37	60	2014	60
Cape Verde	42	57		
Seychelles	43	55		
Mauritius	47	54	2011	51
Lesotho	55	49		
Namibia	55	49		
Rwanda	55	49		
Ghana	61	48	2009	39
South Africa	67	44	2008	49
Italy	69	43	2013	43
Senegal	69	43		
Swaziland	69	43		
Sao Tome and Principe	76	42		
Tunisia	79	40	2007	42
Benin	80	39		
Morocco	80	39	2007	35
Burkina Faso	85	38		
Zambia	85	38		
Egypt	94	37	2005	34
Gabon	94	37		
Liberia	94	37		
Algeria	100	36	2008	32
Niger	103	35		
Djibouti	107	34		
Ethiopia	110	33		
Malawi	110	33	2010	34
Ivory Coast	115	32		
Mali	115	32		
Mozambique	119	31		
Sierra Leone	119	31		
Tanzania	119	31		
Mauritania	124	30		
Gambia	126	29		
Togo	126	29		
Madagascar	133	28		
Timor-Leste	133	28		
Russia	136	27	2013	28
Cameroon	136	27		
Nigeria	136	27	2010	24
Uganda	142	26	2002	21
Guinea	145	25		
Kenya	145	25	2002	19
Papua New Guinea	145	25		
Central African Republic	150	24		
Republic of Congo	152	23		
Chad	154	22		
Democratic Republic of Congo	154	22		
Zimbabwe	156	21		
Burundi	159	20		
Angola	161	19		
Guinea-Bissau	161	19		
Eritrea	166	18		
Libya	166	18		
Somalia	174	8		

Table 23 Transparency International CPI ranks and scores of colonies and colonizers

All of the European countries of our sample are in the least corrupt quarter, and each colonizer places higher on the index than its former colonies. Also two African countries place in the least corrupt quarter of the index, Cape Verde and Botswana. However, if for example Russia would have qualified in the comparison of our study with its colony Djibouti, Russia (136th) would have placed significantly lower than its former colony Djibouti (107th). Therefore, although in our sample it seems that the European colonizer is always ahead of its former colonies, this is only true because of our sample selection. Spain also places lower than one of African country, Botswana. Therefore, although European countries in general are less corrupt according to the index, all of the European countries are not above all of the African countries.

An expected result is that countries with highest corruption levels do not have a corporate governance guideline at all in place at the moment. Most of the countries in Africa that already have a corporate governance code in place are in the second least corrupt quarter, with five countries of our sample being in this category. The second highest concentration of our sample countries is in the most corrupt quarter (four countries), then in the second most corrupt (three countries), and lastly, the lowest concentration of African countries, which have a governance code in place is in the least corrupt quarter. Therefore, in all of quarters there are African countries that have a corporate governance code in place.

Mean score of total 175 countries	43,2
Median score of total 175 countries	38
Mean score of African countries	33,5
Median score of African countries	33
Mean African countries with code	37,9
Median African countries with code	37
Mean score of African countries without code	31,8
Median score of African countries without code	31

Table 24 Statistical results of corruption

Table 24 shows the means and median scores of African countries divided from the CPI from 2014. The mean and median scores of those African countries, which have a corporate governance code in place at the moment are higher than African countries in general, and therefore higher than African countries without a code. Countries without a code have approximately 6 points lower scores than countries with corporate a governance code on average compared both with mean and medium scores in the data. However, the mean and median scores of the total 175 of countries in the index is higher than the averages of even those African countries that have a corporate governance code in place.

6 Discussion

6.1 Fitting with the emerging market environment

6.1.1 Internal governance mechanisms

According to theory, when external governance mechanisms and external financial markets are insufficient and undeveloped, companies should rely more on internal governance mechanisms (Munisi et al., 2014). Therefore, particularly the board of directors is an important governance mechanism in emerging markets. This seems to be very well understood in all of African codes, as they all address and emphasise the recommendations related to board of directors. All of the codes address at least the board of director in their codes, and even the most basic codes define board's role and responsibilities, and give at least some guidelines on the structure and diversity of the board. Some of the codes, such as Malawi, only address issues that relate to board of directors, while leaving out, for example, recommendations related to shareholder rights or other major stakeholders. Therefore, it would seem that even though the development of the code would still be lacking in sophistication or detail of more developed countries, even those African countries that would be behind in the development of corporate governance are in fact focusing their recommendations on the right and most efficient governance mechanism for their environment.

However, the size and diversity recommendations of the board differ among countries. As there have been mixed findings on the effectiveness of larger boards (Kyereboah-Coleman, 2007; Hermalin & Weisbach, 2001), it is not surprising that majority of the codes do not recommend a clear size or especially the maximum amount of directors. However, when minimum and maximum sizes are mentioned, many times the amounts come from hard law legislation, which is quite surprising, as there have been mixed views on the optimal size, and that making any strict rules in hard law could limit companies and their flexibility too much. Also it is noteworthy that even though larger boards have been found to enhance firm value in Africa (Kyereboah-Coleman), the maximum sizes that are recommended are significantly lower than, for example, the average size boards in Germany with large boards, and that they rather follow Anglo-Saxon norm of smaller boards (see Kraakman et al., 2009). It is possible that larger boards in Africa would be more effective in Africa as is would allow more independent directors on board. However, the smallness of the market (Luo, 2013) means that finding truly independent as well as qualified directors is hard, and therefore the recommendations rather suggest smaller boards so that the recommended amount and relation of independent directors

can be achieved. Although we realise that finding the appropriate amount of truly independent and professional directors can be even harder in some countries than in others, we still argue that all codes should recommend the amount of independent directors and demand that such directors should be appointed. Especially in Kenya, which is the second most corrupt country of our sample, recommending only the amount of non-executive directors can be considered inadequate. Recommending the inclusion of independent directors might not be enough either. The current recommendations of countries such as Nigeria, Malawi, and Uganda, which require that only one member should be independent, might not be enough as it is possible that only a few independent directors do not have the power to influence board decisions significantly (Black et al., 2012) and that arbitrary low levels of independent directors can be ineffective (see Claessens & Yurtoglu, 2013). However, South African recommendation that majority of the board should be non-executives, and of them the majority should be independent, might be unobtainable for many countries due to the smallness of the market, although it might be otherwise very effective governance mechanism.

Hence we suggest that the countries should strive for increasing the amount of independent directors in their codes when the market conditions allow it, and at the same time adjust the limitations on the amount of multiple directorships and audit committee members for example. For example, in Kenya the maximum amount is 10 directorships, as the experienced directors are needed in multiple boards and therefore the recommendations may be appropriate for the context at the moment. However, as the managerial and director markets expand, the limitations should be moved closer to the level of European countries with stricter limitations. Also, allowing people outside the board to be members of the audit committee (such as in Egypt) can be considered appropriate to increase the amount of independence of auditing before sufficient sized markets of full-time directors have been developed. In addition, we suggest that clearly separating non-executive and independent directors by criteria should be present in all of the codes, as for example Nigeria has done since its first code which did not have such recommendation, as this can help to improve the credibility of said code in the eyes of investors and other stakeholders. The independence criteria in African codes are already close to the same recommendations of Europe although the market sizes differ. However, we do not suggest that the criteria in general should be changed or lowered so that more directors could be on paper considered "independent", as in reality their independence would still be compromised.

One of the biggest convergences in both European and African governance codes is also the separation of the positions of chief executive officer's and chairman of the board. Having all except one African countries recommend the separation can be seen as a development from the previous

comparative corporate governance code report by Weil, Gotshal & Manges LLP from 2000, as before only a small amount of emerging markets made any recommendations on the separation of the two positions. Although the sample is not the same, as South Africa is the only country of our sample that was included in their comparison, we can conclude that the awareness that combining the positions might affect firm value negatively has grown also in less developed markets and progress has been made in this regard. Although the labour markets are smaller in Africa as has been mentioned (Luo, 2013) and therefore expertise on the board may be harder to achieve, it has still been found that even in Africa that combining positions of CEO and chairman affects shareholder value negatively (Kyereboah-Coleman, 2007). Therefore, having countries recommend the separation is important as African markets have many problems related to corruption and overly concentrated power and ownership which can expropriate investors, and therefore entrusting too much power for only one person could increase these problems even further. In this regard African countries seem to be very well fitted to their environment. Although it has been argued that combining the positions could increase the company and industry expertise of the board (Fama & Jensen, 1983), we do not agree with the Spanish code which takes no position on the matter, but rather suggest that African countries which currently are developing their codes should recommend the positions of to be separated too. However, as it is true that the business expertise of the board might be lower if the CEO is not a board member and the amount of executive directors would be limited too much, and especially in some countries in Africa where finding qualified people for the board might be hard, we suggest that recommendations could state that managers could be heard at meetings even though they would not have voting rights.

Many times institutionally and bank-based governance systems are considered to be more suitable for developing countries without highly developed and functioning financial markets (Rwegasira, 2000). Therefore also the codes of African countries, especially those which are less developed and have small amounts of listed companies, should strive for encouraging institutional investors to use their control right over the management as a substitute for market for corporate control (Young et al., 2008). Only few codes have addressed this issue by stating that institutional investors are especially encouraged to influence companies and demand compliance with corporate governance codes due to "lack of sophistication of domestic individual investors" (Corporate Governance Guidelines on Best Practices – Ghana, 2010). However, principal-principal problems can be especially problematic when concentrated ownership is used as a substitute for market based governance and control systems (Young et al.). Bebchuk and Hamdani (2009) suggest that mechanisms such as one-share-one-vote and cumulative voting can be used as minority rights protection mechanisms, but only five African

countries recommend the one-share-one-vote practice explicitly. Quite surprisingly Egypt, which is both Muslim and religious law based country, recommends both of these mechanism, although its background has been found to be associated with lower investor right protection (La Porta et al., 1998; Stulz & Williamson, 2003). As more developed countries, such as United Kingdom especially, do allow these practices in legislation but does not give clear recommendations on the issue, and without a clear recommendation from the OECD Principles either, African countries may feel that recommending or requiring such practice explicitly would be too bold for them as other countries do not give them either. Therefore, African codes may result to be more conservative than their environment would demand. We also point out that while other voting right restrictions, such as the one-shareholder-one-vote practice in Nigeria, can improve the rights of minority shareholders, they can also be harmful as the expertise of minority shareholders might be lower in these markets. Thus, it is important that recommendations for inclusion of institutional investors are in place too. Therefore, codes should strive for a balance between minority rights and institutional investor inclusion and address both stakeholders' rights and encourage both to participate. However, at the moment many codes seem to be lacking at least in one or the other aspect.

6.1.2 Remuneration

Recommending performance related compensation on executive directors is one of the biggest convergences in our sample between colonies and colonizers. Many of the African corporate governance codes have followed the example of developed countries by recommending performance related remuneration of directors and executive directors. However, for example Luo (2013) has criticised the use of Anglo-Saxon performance related compensation mechanisms in emerging markets, as the economic situation and market features are not similar, such as the development and size of managerial labour markets, and ownership structures. In addition, as the remuneration is an issue in developing markets, as the payment gap between rich and poor is large (Scholtz & Smit, 2012), it might not be advisable to excessively use performance related compensation that could even further increase the gap. Also, having shareholders approving the remuneration policies of directors, say-on-pay, should increase the accountability of executives to shareholders (Scholtz & Smit, 2012). Therefore, if African countries do recommend extensive performance related payments, they could also recommend the say-on-pay policy to minimise some of the risks related to it. However, although all African countries in our sample recommend performance related executive remuneration, only Malawi, Mauritius, South Africa, Zimbabwe, and Morocco recommend that say-on pay-policy should be used. Although the African countries in our sample have partly adopted different remuneration

schemes, for example by recommending that non-executives should be compensated by attendance fees only, the compensation policies do not seem to be significantly in line with theory, which suggests that performance related remuneration of the Anglo-Saxon model should not be used. It can be argued that as performance related remuneration is many times considered the norm in developed markets and the basic answer to principal-agency problems (Luo), African countries have just mimicked the prevailing method without considering that these problems are not as relevant for them as the prevailing problems are more related to principal-principal relationships (Young et al., 2008). Also as the general OECD Principles state that compensation should be long-term based, it can be seen that this means that compensation should be based on performance related mechanisms, such as share options only.

One major divergence between the corporate governance recommendations of European colonizers and former African colonies is the benchmarking of remuneration policies and levels with other companies. While African countries have started to recommend comparing and benchmarking compensation to peer companies, European countries in their recommendations have started to take steps to the opposite direction. For example, the previous Combined Code on Corporate Governance in the United Kingdom from 2008 still began its remuneration recommendation by stating that the remuneration should be “sufficient to attract, retain and motivate directors”, but in the revised code from 2014 this line is no longer used anywhere in the recommendations. However, some of the former British colonies, Kenya, Egypt, and Nigeria, have this recommendation in their codes, so it could be that they have mimicked the code of their colonizer before the UK code was updated. However, for example South African code has been issued after the financial crisis, and even though it is many times considered the supreme country of the continent in corporate governance, King III makes no recommendation that the benchmarking should be even partly limited. However, the Nigerian code has also been issued after the financial crisis and it at least recommends upper limits on the share options. The newest update to the UK Combined Code also has emphasised that the compensations should be linked to long-term performance, while their previous code did not mention in any way that the remuneration should be specifically linked to long-term performance, but only be aligned with shareholder interests. The trend of reacting to the discussion of executive compensation can be seen in European countries in recommending setting upper limits, avoiding ratcheting, and schemes that allow companies to recover already paid sums or withhold payments. Although the trend therefore in Europe would seem to be to recommend moderation and caution especially in avoiding ratcheting, at the same time Spain has removed from its code earlier recommendations that the compensation should not be based on averages of peer companies and recommends that compensation should be

negotiated with the CEO. Therefore, although some changes have been made to the remuneration recommendations, the shift has not yet been extensive in whole Europe, and it is unclear why especially Spain would have adopted this opposite route, as Spanish economy especially has had severe problems since the financial crisis.

It seems evident that the criticism directed at companies after the financial crises of recent years, for allowing and supporting excessive bonus schemes and share option schemes for example, have made developed countries more cautious in their compensation recommendations. However, African codes are not as cautious in restraining remuneration and limiting ratcheting and excessive benchmarking, as Nigeria is the only country that recommends upper limits on at least a part of the payments. This would be in line with the suggestion that financial crises are not as significant in emerging markets as they are in already developed markets (Chen et al., 2009), and therefore the discussion on the compensation of executives would not have affected African governance as much. However, many of the developed countries have updated their codes more frequently in the past and have a relevant history and resources for continuously updating their codes, and therefore they have had to update their code because reaction to criticism is practically mandated from them by the investors. However, many of the codes made by African countries have been published prior to the recent financial crisis, and as the countries' image in the eyes of the investors may not have been as severely damaged, the countries have not seen the need to update their codes just to address issues that have been up to debate in more developed markets. Also the increased disclosure requirements of European Commission, on for example the payment ratios between average employees and top executives of public companies have probably affected the stricter guidelines in Europe. In addition, the increasing attention given in the French code for example to encourage and allow shareholders to decide on executive directors' compensation policies, say-on-pay, is a sign of responding to the criticism on excessive compensation policies and empowering shareholders more and increase accountability (Scholtz & Smit, 2012). Therefore, the divergence between European colonizers and African colonies is most likely due to legislative changes in the European Union level, and the financial crisis and its aftermath in the media which have made countries more cautious in their remuneration policy recommendations in Europe, while the same effects have not at least yet been seen in African codes.

6.1.3 Inclusive model of corporate governance

From the data of this study, it becomes clear that many of the African countries have adopted to promote the wider inclusive model of corporate governance, which takes into account society and

community values and expectations more profoundly than the traditional governance perspective of just owners and managers. This is in line with the *ubuntu* value system prevalent in Africa (Rossouw, 2005). Especially the difference can be seen between the Anglo-Saxon United Kingdom code and its former colonies. While other European countries in our sample have included other stakeholders and addressed sustainability issues at least partly in their codes, United Kingdom does not address any other stakeholders directly, and only briefly mentions that social issues should be considered. However, nearly all of its former colonies address these issues very profoundly, with Botswana being the major exception in the whole sample. Even Nigeria, which Rossouw (2005) found to be the only country in Africa which did not commit to this inclusive model of corporate governance, has now one of the most profound recommendations for stakeholder inclusion and social responsibility. Also the *ubuntu* value system (Mangaliso, 2001) is for example mentioned explicitly in two of the codes, and other codes express indirectly that local communities, environment and other stakeholders should be taken into account in business decisions.

It seems that African codes are ahead of European countries in the inclusion other stakeholders' interests into corporate governance codes and recommendations. However, changes have been seen also in European codes. While in the previous guideline from 2006, Spain stated that their corporate governance report should not to be confused with corporate social responsibility and therefore the governance code did not address other stakeholders almost at all, now in their updated code from 2015 these issues are included in the code. However, we should not immediately think that the corporate governance codes would be the only ones to consider when considering the inclusion of stakeholders' interests. GRI-reporting on companies' corporate social responsibility for example is becoming mandatory for listed companies in many countries in near future in Europe. Therefore, even though it would seem that the rights and wishes of other stakeholders are not as well considered in developed economies' and colonising countries' codes, these wishes have probably been incorporated into the sustainability reporting requirements in these countries. However, for example the GRI-guidelines are still for many companies voluntary in nature and the scope of reporting differs between companies according to materiality of issues. Therefore, incorporating other stakeholder interests at least partly to the corporate governance codes, especially to those that are aimed at all organisations, could improve corporate responsibility more indirectly, which in turn could lead to same benefits that improved traditional corporate governance would. Therefore, although we do realise that corporate governance and corporate responsibility are different issues, they can have the same benefits of improving shareholder value and attracting certain investor types, and therefore their guidelines could be more combined and streamlined to achieve these benefits better.

Separate guidelines can improve both governance and responsibility issues by being more detailed and demanding in their own guidelines. This said, the case of Africa, we suggest that it can be more beneficial to have the corporate governance codes address other stakeholders specifically rather than issuing separate guidelines for corporate governance and corporate responsibility at this state. First of all, as many of the emerging countries are only just developing more sophisticated procedures in their business life, through basic annual financial reporting for example, excessive amount of separate reporting requirements could easily become excessive for firms. If issues such as employee rights, health issues, and host community inclusion would be only left for another voluntary guideline, such as GRI, then the likelihood of firms adopting and considering these recommendations would be lower. After all, committing to good corporate governance may be the primer step that companies may want or have to take, for example while listing to stock exchanges, and prioritisation has to be made.

To conclude this part of the discussion, we argue that the recommendations are not sufficiently directed at mitigating the principal-principal problems which are the major problems in emerging markets with concentrated ownership (Young et al, 2008). The recommendations related to protection of minority shareholders in many codes seem to be vague and in name only, and clear recommendations, for example relating to voting rights, are not yet prevalent enough in Africa. Instead, codes address issues related the principal-agency problems, for example with their performance related remuneration recommendations, rather than empowering minority shareholders with, for example, say on pay policies or cumulative voting practices.

6.2 Corruption

One of the major questions for corporate governance in relation to corruption is, whether companies in more corrupt countries can overcome the problems caused by corruption with stronger governance. Dass et al. (2014) argue that higher quality corporate governance would be specially important and valuable to companies which operate in areas with higher local corruption, and could help companies to overcome at least partly the corruption problems caused by weak institutions. However, for example Durnev and Fauver (2007) argue that the positive effect of higher quality governance is weaker or even non-existent in more predatory states where corruption is evident. An expected result is that countries with highest corruption levels do not have a corporate governance guideline at all in place at the moment in Africa. Our study findings, which show that both the mean and median of those African countries which have a corporate governance code are higher than of those African

countries which do not currently have a code, thus support the argument that problems of corruption can be fought with stronger corporate governance. Also, as the mean and medians are approximately the same inside each group of countries, the statistics are not significantly skewed to either end of the index, therefore making this suggestion more plausible.

Countries that explicitly mention corruption in their codes are not only limited to those countries that are in the most corrupt quarter of the CPI, but the majority of the countries in the bottom of the CPI (Kenya, Nigeria, and Zimbabwe) do mention corruption in their codes explicitly. For example, Okike (2003) criticised Nigerian code from 2003 for not mentioning corruption as an issue in the country and stated that it was suspicious, so therefore in this regard it seems that their code has become more credible in building good governance practices in the country by addressing those issues that are important to said country in particular, rather than merely copying codes from other countries. Kenya and Nigeria make the most profound and numerous mentions to illegal actions, corruption and tolerance to these issues of the whole sample, which means that at least in these countries corruption has been identified as a major problem and the codes have been built to fight this issue.

It has been found that firms in more corrupt areas disclose less information (Durnev & Fauver, 2007). This can be seen partly in the information disclosure recommendations, as the most corrupt countries according to the CPI, Kenya and Uganda, recommend only financial disclosure and Kenya states that even half-yearly disclosure is only a recommendation, but for example Nigeria, which is also in the group of most corrupt countries, recommends companies to publish many different reports related to finance, governance, social issues, and especially encourages companies to report any unethical or illegal activities that may occur. At the same time some of the least corrupt countries in our sample, United Kingdom, France, and Botswana, do not explicitly recommend multiple reports on specific issues, but rather encourage regular financial reporting. It can be that as these countries are in fact already in the top of the CPI, there is no specific need to encourage companies for more reporting as the requirements by law are already extensive and powerful enough. Also in developed markets listing on stock exchanges may already contain the reporting requirements for governance and responsibility for example, and therefore specific recommendations are not as needed in these markets.

Dass et al. (2014) also suggest that all firms can benefit from exogenous shocks to corporate governance (such as Sarbanes Oxley Act) but even more so if they are in corrupt environments. Therefore, in theory adopting a more hard law based corporate governance standards should increase the benefits of governance to companies especially in more corrupt countries. In this regard the

comply-or-explain model might not be the most powerful enforcement mechanism, especially as it has been found that many times the explanations are standard responses rather than a result of actual analysis and justified reasons (Arcot et al., 2010). As only four countries make their corporate governance code mandatory at least partly (Mauritius, Nigeria, Uganda, and United Kingdom), the countries that have adopted this mandatory approach are in a minority. Of these countries Uganda and Nigeria are considered to be highly corrupt, so therefore these codes should be especially beneficial for fighting corruption. Although both of these countries have received higher scores in 2014 on the CPI than before the newest code was introduced, also Kenya, which is also highly corrupt but has only given voluntary recommendations for governance, has increased its score approximately the same amount yearly. Mauritius on the other hand is in the second least corrupt group, but has also improved its score approximately at a similar pace as, for example, Nigeria. However, Botswana (comply-or-explain) and Ghana (recommendations), which are considered significantly less corrupt countries, have increased their score relatively more since the publishing of their codes, without strict mandatory requirements. Although there are multiple reasons for improving the score on the index, it is clear that corruption can be fought and scores on the CPI can be improved with soft-law based systems as well. As it has been argued that voluntary codes serve more as moral value guidance (Wymeersch, 2006), it is possible that such an embedded value guidance can be equally beneficial in African environment. As the culture already is very much based on communal values (Rossouw, 2005), the moral guidance of voluntary corporate governance recommendations would not be built on a shaky ground, and thus voluntary guidelines would be more beneficial than in countries where such a strong value system would not be present. It is also noteworthy that the principles which come from legislation, are not related to corruption, but rather on board size and shareholder rights. This could be as the culture of corruption has persisted despite of company laws for years, corporate governance codes have been considered to be the next possible step in fighting the problem.

For the codes to be especially effective in relation to corruption, application of the codes could be extended to reach all organisations. The amount of listed companies is limited in the African market, as the majority of the companies are still informal, family-owned and only a small amount of the companies are listed in stock exchanges (Okeahalam, 2004). Hence, making corporate governance codes explicitly state that they are targeted for listed companies can give the wrong message to the larger corporate market that good corporate governance is only relevant for a limited amount of companies. Therefore, African countries should follow more the example of South Africa and Kenya for example, which have aimed their codes at all organisations, or make their specific recommendations for family-owned businesses, as for example, Tunisia has made. However, also the

enforcement of the code should be considered when issuing the code. It is confusing that even United Kingdom has made its code's enforcement difficult to understand by stating that the code on the one hand describes minimum standards, but on the other hand it states clearly that the code is comply-or-explain based. Also, some African countries have these confusing enforcement guidelines; for example, Uganda. For United Kingdom, which is less corrupt and more developed in terms of economy and governance practices, this is less confusing probably, but for companies and directors in countries with less developed and long history with governance matters confusing enforcement might be more harmful. These kind of enforcement guidelines might decrease the potential benefits of applying codes flexibly and by altering them to fit companies own context (Aguilera et al., 2008), as companies would try to comply with all the guidelines in such a situation, even though the code would actually be comply-or-explain based. Therefore, countries should give special attention in developing their codes that no such confusing enforcement mechanism would be given in the codes.

Mauritius, Nigeria, and South Africa also recommend the appointment of a specialised Risk committee. While usually risk management can be seen as a traditional part of the whole board, and that specific committee would be excessive, inefficient or unnecessary, we argue differently. In the case of Nigeria especially, when the country is in the bottom of the CPI, having a specific committee devoted to risk management and compliance with regulation and laws does not seem excessive at this phase of the Nigerian economy development and similar approach could also be adopted in other countries as well. Although the smallness of the labour markets (Luo, 2013) restrict much of the more sophisticated independence and professional criteria of audit committee members for example, the recommendations of having only one person on the committee who is "financially literate" and has only basic knowledge of accounting is not enough for Nigeria for example, as it can enable a more manipulation of the figures and increase corruption (Neu et al., 2013).

6.3 Origins

Preliminary assumption is that African countries would have followed their colonial power countries' example in designing and defining their own national codes because of path dependency (Bebchuk & Roe, 1999). Therefore, it could be assumed that there would be a lot of similarities with for British corporate governance, as Great Britain has been the major colonizer compared to, for example, Spain. However, as the examples from Nigeria (Okike, 2007: Ahunwan, 2002) would suggest, mimicking a corporate governance system from another country is not very effective if the environment does not

support it, and therefore it could be assumed that the corporate governance codes in Africa should be more like hybrids. The contingency theory (Otley, 1980) and studies on developed and emerging markets (for example Bebchuk & Hamdani, 2009) support this argument. In addition, African countries may have wanted to follow the internationally recognised corporate governance standards of OECD rather than their colonizers', if they wanted to adopt principles that would be considered to be applicable to a wide range of countries. However, as the Cadbury Report has been the basis for developing the OECD Principles of international governance standards (Jones & Pollitt, 2004), this probably has increased the impact of Anglo-Saxon governance models indirectly. Therefore, not only the countries that would due to their colonial heritage have stronger linkage to Anglo-Saxon corporate governance (such as Botswana, South Africa, or Zimbabwe), but also other Latin or German origin countries may have stronger resemblance to the Anglo-Saxon governance rather than on their own colonizers' governance. For example, Morocco, Latin origin country, is an example of a country that has clearly taken inspiration from the OECD Principles, as it expresses that their code has been "widely inspired by the OECD corporate governance principles".

Looking at the sheer and absolute number of the corporate governance codes issued by former British colonies it is clear that African corporate governance is dominated at the moment by countries with British colonial origin. The newer corporate governance codes, which have been developed in Africa since Rossouw's (2005) study, are from Egypt, Botswana, and Morocco. As Egypt and Botswana are both former British colonies, this means that the relative proportion of Anglo-Saxon or British model of corporate governance has grown even more in theory. Therefore, it is evident that in this regard African corporate governance in general should be a more Anglo-Saxon rather than, for example, Latin or Germanic (Weimer & Pape, 1999).

Corporate governance mechanisms, which have been especially linked to the Anglo-Saxon governance are markets for corporate control and performance related payments (Weimer & Pape, 1999). Our initial assumption was that as concentrated ownership is the main ownership structure in most of Africa and only a small amount of companies are listed (Rossouw, 2005), there would not be many recommendations relating to the market for corporate control, such as the use of anti-takeover measures, as they should be mainly unnecessary. This is mostly true, as only former British colonies Kenya and Ghana mention that the board should ensure that there is a functioning market for corporate control, and any specific recommendations (for example a position for or against anti-takeover measures) are absent in the African codes. Thus, in this way the codes do not seem to follow a very Anglo-Saxon approach to governance, but the codes rather have adopted the codes to fit their

environment and needs. However, in the case of performance related remuneration, all of the countries recommend that the remuneration of at least executive directors should be linked to company or individual performance. In this case the countries seem to have followed the Anglo-Saxon governance regardless of their actual colonial heritage

As clear separation of management and supervision is one of the major characteristic and foundation of German corporate governance, the fact that its former colonies have not adopted the same structure, even though the OECD principles do not recommend solely the unitary board either, implies that Germany has not had that large of an influence over its colonies' governance. Also, the dual board system was not a new invention, as it was already written into legislation in 1870, during the colonial period (Morck & Steier, 2005), so therefore the lack of two tier board system in German colonies cannot be explained through a lack of legislative and formal, or even informal, model and example for developing such a system at the time also in Africa. Thus, it would seem that Germany has had a lower impact on the Ghanaian and Nigerian corporate governance than their other colonizer United Kingdom. There are a few possible major explanations for this. First of all, United Kingdom was the more recent colonizer for both of the countries, so as the corporate culture, governance, privatisation and economy of Africa has developed mainly in the last century, and concepts such as corporate governance have emerged only in last decades in Africa, it is presumable that more recent colonizer's example has been the major influence and example. Also, United Kingdom has been the major example and many times forerunner in corporate governance institutions and mechanisms, for example in the introduction of the Cadbury Code (Jones & Pollitt, 2004). Thus, it would be presumable that Nigeria and Ghana, which have had two different example colonizers for corporate governance and company law to follow and no original history of their own for modern business practices, would have wanted to follow the more renounced and common way of building corporate governance. Lastly the smallness of the emerging countries' managerial labour markets (Luo, 2013) (although Ghana and Nigeria both are considered to be in the richer group of African countries and therefore would probably have larger than average size market in African perspective) could mean that there might not be enough qualified people for building a truly functioning dual board system. For example, in Germany the board sizes are usually very large, especially due to the dual board system (see Kraakman et al., 2009) and therefore the managerial and independent director labour market could be too small to offer enough qualified managers and supervisory directors for both bodies.

Therefore the effect an influence of Germanic corporate governance system (Weimer & Pape, 1999)

on former German colonies does not seem evident, and as another major Germanic practice of naming employees as a major stakeholder is not limited in our sample to former German colonies, it can be said that all in all the influence of Germanic governance system does not seem to be significant in African codes. Also, as former French and Spanish colonies all permit both board structures, as the Latin governance system does (Weimer & Pape, 1999), and therefore seem to have followed especially the French governance model, it is not the case that the dual board system would not be a totally unique even in African context. From these results we therefore conclude that in situations, where a country has had two colonizers, African countries have rather followed the internationally renounced OECD guidelines or British guidelines of same origin, than their Germanic governance model.

Major divergence also between the colonizers and colonies is between the enforcement levels of the codes. There does not seem to be a clear pattern related to colonial heritage on this issue, as even though the colonizer would have a comply-or-explain basis for example, some of its former colonies have issued codes with the same basis, some are minimum standards and therefore mandatory, or purely voluntary recommendations. Therefore, the reasons for different enforcement levels of African codes do not seem to rely on the colonial heritage of the countries. The reasons might rather lie in inadequate and insufficient enforcement of the previous code; for example, the previous Nigerian code was only voluntary in nature, which is one the reasons that it was insufficient for the corrupt and challenging environment (Okike, 2007). Therefore, the enforcement has been tightened to mandatory minimum requirements to better fit the environment, rather than just mirroring the example of United Kingdom. Also Nigeria and other countries that have adopted minimum standard approach might fit better in their environment as Dass et al. (2014) suggest that mandatory requirements can be especially beneficial in corrupt environments. Also, rather than copying the comply-or-explain model of the colonizer, countries such as Kenya and Zimbabwe can encourage more companies to at least embed the spirit of good governance into a wider range of businesses by only giving recommendations.

There are also some African codes that have been clearly mimicked from the corporate governance codes of their former colonizer. Much of the Ghanaian code reflects the British governance model, as it emphasises that improving corporate governance is a market led initiative and even advocates for functioning market for corporate control, even though traditionally emerging markets have weaker market for corporate control and it is not commonly used in emerging markets as a control mechanism (Mishra, 2011). In addition, some wordings of both Botswanan and Kenyan codes are almost exact

copies of the UK code, such as the requirements for information disclosure. However, it seems that these exact same recommendations and wordings of the colonizer's code are not the norm in African countries, and the countries in our sample have developed at least partly some recommendation that are a result of their own reflections on the issues of governance. There are also no codes that would have all or even nearly all of the same recommendations as their colonizer, so therefore it seems clear that African countries have not merely mirrored their colonizers' codes, although some countries such Botswana are closer to the UK code than for example Malawi or South Africa. Issues that show that the codes are not merely replicates of former colonizers are, for example, the mentions of corruption, inclusive model of corporate governance, and in some codes the encouragement of institutional investors to directly influence the company and board. In addition, the mentions of specific problems such as AIDS/HIV, malaria, and child labour are significant, as they clearly represent many of the problems that are more relevant for African context. One very unique statement is also from the code of Malawi which suggests that non-executive directors may be so committed to the mission of the company that they may want to work pro bono. As there is no mention of such issues in any European codes, it is clear that countries have identified at least in some aspects some guidelines especially for them.

Stulz and Williamson (2003) have argued that Protestant countries protect investor rights and enforce these rights better than countries with other major religions. Christian countries in general should also have better investor rights protection than Muslim or Catholic countries according to Stulz and Williamson. However, our study sample gives somewhat mixed results on this issue. Although the countries, which do not have a corporate governance code in place are majorly either Muslim or Catholic countries, as Stulz and Williamson would suggest, there are major exceptions too. For example, Egypt, which is a Muslim country, is the only country in the whole sample which advises companies to adopt cumulative voting, which can be considered a major minority empowerment mechanism. Also, the one-share-one-vote practice is recommended in all of the Muslim countries of the sample while, for example, in United Kingdom (Protestant) or Spain (Catholic) codes there are no recommendations of its use. What is interesting also is that Morocco and Egypt, both highly Muslim countries, encourage and allow female board members as well, which can be somewhat related to minority right protection. All in all the Protestant countries of our sample do not seem to be more developed than countries of other religions, when we compare the actual code and the countries that have a code in place. We have used many of the same measurements that Stulz and Williamson have in their study, so therefore the results are also comparable. The reasons for these differences between our study and Stulz and Williamson are not very clear. However, we can

speculate that as for example in the OECD Principles or in the UK code there are no clear and specific recommendations many of the investor right protection issues, many of the African countries have no clear route to follow and have therefore taken inspiration from different places, such as from neighbouring countries in the case of Algeria, Morocco, Egypt and Tunisia for example. As there is also no clear consensus yet in more developed economies of these issues (see, for example, Rosser (s.a.) for the critique of the one-share-one-vote practice), this lack of clear influence or model can also explain why so many African countries of even Protestant background have not clearly recommended these mechanisms.

When it comes to legal origin, La Porta et al. (1998) have stated that common law countries have better investor rights protection than civil law countries. In our sample, there is also a third group (excluding hybrids) of legal origin, which is religious or many times specifically sharia law based legal system. Therefore, according to theory countries with Anglo-Saxon traditions or English colonies should have better investor rights, and thus also the former British colonies in Africa should have higher investor protection than French, Spanish, or German colonies. Again for the countries that currently do not have a corporate governance code, this is mostly true as many of the countries are in fact civil law or civil and religious law combination countries. However, as we have discussed above, for example the Muslim countries in our sample that do have a code seem to recommend (or oblige in their legislation) many of the specific mechanisms and rights that are associated with stronger investor right protection. These Muslim countries are all hybrid legal systems with religious and civil law origin. Therefore, again it would seem that the suggestions of the previous literature would not totally be similar to our findings. For example, Malawi is a country with a common law legal system, but still does not recommend clearly nearly any of the mechanisms that would protect shareholders' rights better. However, Malawi is also mainly a Catholic country, which can have an opposite effect on the investor right protection as Stulz and Williamson (2003) suggest. However, we do not suggest that the Catholic religion alone should have that large of an effect on the issue and have the sole power to overrule the positive effects of the common law system. This is because our previous findings in the case of the Muslim countries do not wholly support the arguments of Stulz and Williamson, and therefore in our sample there must be other reasons that can be used to explain the differences. However, for example Zimbabwe, which is also a Protestant country with both civil and common law legal system, does not suggest many of the shareholder right mechanisms either. When we look at Kenya, which in theory should have highest investor protection with both Protestant and common law background, it does recommend many of the mechanisms which should be present for better investor protection.

All in all it would seem that findings of La Porta et al. (1998) which suggest that former British colonies with common-law background have better property rights and financial markets than other colonies, are not as entirely visible in the corporate governance codes of our sample. In our sample it would seem that many of the French and Spanish origin countries have recommended many specific governance mechanisms that are can be considered as good governance mechanism especially when shareholder rights are considered. Therefore, as either Stulz and Williamson (2003) or La Porta et al. cannot explain the variation in the investor right recommendations completely, we extend the argument of colonial heritage and argue that similarities between the colonizer and colonies' economies would make less developed colonies more likely to adopt their colonizer's governance practices. France and Spain are both considered Latin countries in Weimer and Pape's (1999) taxonomy, where traditionally families and states have been important stakeholders as they are also in Africa, thus making the context in many African countries more suitable for following these colonizers' examples. Therefore, as we have acknowledged earlier that at least in some countries and aspects the context has been considered in the development of the codes, we assume that the developers in, for example, French colonies have considered their context to at least partly be comparable to the environment in France. Also, we argue that making clear and direct recommendations in developed countries' codes, rather than vague or open-ended recommendations that are visible in OECD Principles and partly in the UK code for example, have an effect on colonies' codes as well. French code clearly states that it is in favour of for example the one-share-one-vote practice, putting issues on the agenda, say-on-pay policy and that it is against preferred shares and other such mechanisms, and its former colonies recommend many of the same mechanisms as well. Therefore, clear recommendation and examples of the colonizer may well be significant enough to overrule many of the problems related to religion, and religious or civil law systems in corporate governance. We suggest that in the case where there are clear instructions and recommendations on issues, such as shareholder right protection in the colonizer's code, the former colonies have a clearer path to follow regardless of their religious or legal origin, and therefore are able to escape or minimise the hindrances caused by the country's religious background for example.

In addition to the suggestions above, we suggest that the mortality rates of the settlers have indeed affected the corporate governance code development in Africa as Acemoglu et al. (2001) would suggest. Our analysis shows that the majority of former French colonies compared to the British colonies have not developed their own code, and as former French colonies in general have higher mortality estimates for settlers than British colonies, it can be argued that these differences in

mortality rates have affected whether the countries have been able to build necessary institutions for development of corporate governance codes. This argument is further supported by the result that the former French colonies which do have a code in place have also lower settler mortality rates than other French colonies. This can also be seen in the overall mortality rate results, which show that the mortality rates are significantly lower in countries which have issued a corporate governance code. In addition, for example the Belgian extractive state colonialization strategy (Acemoglu et al.) probably has had an effect on the fact that its former colonies have not issued corporate governance codes, as their colonialization strategy did not build the foundation for the institutions needed for sophisticated governance development. This can also explain the higher corruption levels in these countries, as Kimbro (2011) suggests that weak institutional development can lead to higher corruption. Therefore, we do emphasise the importance of colonial heritage in the development of corporate governance code, but not directly through mirroring colonizer's code but rather the importance of the colonial heritage is more indirect through institutional development and colonialization strategy. Also, we argue that especially in the case of Russia and partly also with Italy too, the corruption levels and culture of corruption of the colonizer may have affected the economy and business practices of the colony in such a way that the overall culture is not as welcoming and familiar with corporate governance as it could be with less corrupt country as a colonizer.

Lastly, Rwegasira (2000) suggests that African countries should follow the example of institutionally-based corporate governance, and Okike (2007) has argued that rather than following the example of developed markets, Nigeria should follow the example of South Africa in its corporate governance system and code development. As the King II adopted the inclusive model of corporate governance as opposed to its colonizer United Kingdom's shareholder exclusive model, and Nigeria has now included wide stakeholder recognition in its code compared to Rossouw's (2005) study, it can be said that Okike's recommendation has been acknowledged in Nigeria. Although South Africa is still an exception in African markets with its developed financial markets (Rossouw), we still support Okike's argument that African countries could follow the example of South Africa especially with wider stakeholder inclusion and risk management (for example on corruption and unethical behaviour) recommendations.

7 Conclusions and further remarks

7.1 Conclusions

The objective of this study has been to address whether corporate governance codes in Africa are adequate for African environment, and have the codes been adapted to fit their environment. Although the continent is not similar in every aspect, African context can in general be described with high amount of informal businesses, concentrated ownership, problems with weak legal institutions and high levels of corruption. All these issues have an effect on what kind of corporate governance mechanisms can be useful and effective. Therefore, following too closely the recommendations and guidelines of country's former colonizer might not be effective, as their codes are developed to fit their own context with more developed financial markets and stronger institutions.

Major finding for this research has been that African countries have rather followed the route of Anglo-Saxon corporate governance as opposed to the Germanic governance recommendations, even though the countries would have had both Germany and Great Britain as its colonizer. This can be especially seen with the unitary board recommendations over the dual board system. However, there is variation in the level of how much countries have mirrored especially other colonizers' codes as well, and the major similarities between colonizers with shareholder right recommendations in general. Also the performance related remuneration is a major similarity between the colonies and colonizers, although it might not be as effective mechanism in Africa as it can be in other markets. It seems that the corporate governance framework in Africa in relation to European colonizers is twofold: on one other hand African countries seem to be leading Europeans and encourage wider stakeholder inclusion, but on the other hand some countries seem to be lagging in especially independence guidelines.

Although there are similarities between the colonizers and colonies' codes, there are still some issues that show that the African codes are not merely mimicked from the colonizers' codes. Issues that show that the codes are not directly replicated from former colonizers' codes are, for example, the acknowledgment of corruption as an issue in many countries, the inclusive model of corporate governance, and the encouragement of institutional investors to directly influence the company and board due to the lack of expertise of the individual domestic shareholders. The European codes on the other hand have started to focus more on recommendations relating to compensation policies of executives and limiting short-term remuneration. However, as principal-principal problems are more

of an issue in Africa than traditional principal-agency problems, due to the prevailing ownership structure, the codes recommendations should be even more directed at mitigating these problems than they are now.

Also the smallness of African labour market and the small amount of listed companies compared against informal businesses and family- and state owned companies has to be acknowledged in addressing suitability of the codes to the context. Encouraging only listed companies to adopt the recommendations of the codes in such context might not be enough to attract investors, lift the overall level of governance and truly embed good governance to the business practices in African context. The major issue for Africa is that investors do not trust the legal enforcement of their rights, and therefore the problem for investors and creditors is not limited only to listed companies and therefore recommending only them to improve their governance might not be enough for investors.

Corruption is still a major issue for many a countries in Africa, which makes the commitment to more ethical business behind the scenes harder. Corruption level of the country can be seen in some of the codes, as some highly corrupt countries do address problems of corruption more profoundly than other countries. In addition, mentions of corruption in the African codes is a sign that countries have not just mimicked the codes of their former colonizers but have rather developed guidelines that are more in line with their specific context and its problems and issues. This can also be seen in the updates of previous codes, as for example Nigeria has taken into account specific problems and criticism directed at their previous code and improved their revised code to better fit with their context. Also, the colonizers' mortality rates are lower in those African countries which have issued a corporate governance code, implying that the institutional development has been higher in these countries, which has resulted in better developed corporate governance as well. Therefore, we emphasise the importance of colonial heritage in the development of corporate governance codes in Africa. However, our results show that countries have not merely mirrored their colonizers' codes directly, but rather the importance of the colonial heritage is more indirect through institutional development and colonialization strategy.

Although the code sample does not include all African colonies or European colonizers, we have addressed these countries without a code as well in our study. Also some countries, such as Tanzania, have previously been found to have made reports or guidelines that have been qualified as corporate governance codes, and therefore, we can draw conclusions that similar interest in developing good quality corporate governance in Africa is not limited only to the countries of our sample. Therefore,

we can generalise our findings of environmentally and contextually adjusted corporate governance principles across a wider range of African countries as well. Thus, we suggest that in future new corporate governance codes on the continent will most likely also acknowledge their specific context in developing these codes.

7.2 Possible limitations

The main limitation of this study is that the study is merely a comparative take on the subject of corporate governance codes in Africa, based on public information available at the moment. Thus, this study does not address, if the companies in these countries are actually following the guidelines to the point, or have they adopted some of the guidelines in practise and overlooked others. Also, it is possible that in reality the principles would not be used at all in some companies. Therefore, although it might seem that some countries have better corporate governance code recommendations than theory would suggest, for example, due to their religious background, this does not mean that companies in said countries would actually follow the recommendations. Also the data may be partly limited due to different understandings and definitions of what corporate governance entails and consists in each country, and therefore some areas and issues of governance that are present in some of the codes are not included in others for different definitions. However, we have tried to minimise this problem by examining also national legislation on specific issues, when mentions of such issues have not been found in the codes themselves, for the results to be comprehensive and comparable. The corporate governance codes have primarily been designed to complement and accompany this binding legislation in countries. Therefore, we do acknowledge that the codes, which have been the main data for our study, are first and foremost recommendations from which companies can deviate, if they so choose. Thus, in practice the quality of governance can still be higher in countries, where the codes would not be the most sophisticated according to the theoretical sophistication level of recommendations.

7.3 Further research

For further research, we would suggest studying, whether these guidelines described in the various codes mentioned are actually being used in the countries in question. Further research should, therefore, be made on how much weight these guidelines actually have in practise or are they merely a result of public and outside pressure to publish a code to give the image that governance has been

improved in the country. Another research opportunity is to study, what kind of measures there are to continuously improve the governance codes and guidelines in the countries, which are already making these guidelines, and what kind of measures countries, which have not yet issued them, are making in the area of developing their own guidelines.

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Pictures:

Picture 1: Colonizers in Africa 1914
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