



UNIVERSITE CATHOLIQUE DE LOUVAIN

LOUVAIN SCHOOL OF MANAGEMENT

**Current state of affairs of formal corporate governance in Africa
through an analysis of key corporate governance performance
indicators of Nigerian, Egyptian, Moroccan and Kenyan
companies**

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Foreword

Since the last decade, following the corporate management crisis, the importance and interest for corporate governance has considerably increased. In a nutshell, corporate governance characterizes the way a company is managed. Promoting “good” corporate governance standards inside a company can reassure the entire stakeholders and attract funds for the firm. This thesis will set up the current situation of corporate governance in Africa using data from companies in the four major countries of Africa (in terms of the size of their financial markets; excluding South Africa): Nigeria, Kenya, Morocco and Egypt. Results indicate that corporate governance in Africa is influenced mainly by the country and the free-float characterizing the company. Nigeria and Kenya seem to be more advanced than Morocco and Egypt whereas a low free-float seems to be associated with lower corporate governance standards. Further, This thesis states that African corporate governance is not as under-developed as might be portrayed in media, especially in countries under former British influence.

This thesis has been realized under the direction of Professor Robert Peirce and with the collaboration of Gaetan Herinckx, Portfolio Manager & Senior Investment Analyst at Sustainable Capital in South Africa.

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PART I. Introduction

The debate over how companies are best governed is at least as old as companies themselves (Economist, 2009). Prior to the second millennium, however, corporate governance was just a concept handled and discussed by few scholars. Scandals such as Enron-Andersen⁽¹⁾, in 2001, or WorldCom⁽²⁾, in 2002, portrayed management abuse and frauds and increased the importance of corporate governance internationally. *It is today one of the management topics most discussed* (Dewji & Miller, 2013). Corporate governance is essential in our global economy to ensure long term and sustainable economic development. Indeed, Claessens and Yurtoglu (2012) further the importance of corporate governance as: “*better corporate governance benefit firms through greater access to financing, lower cost of capital, better performance, and more favourable treatment of all stakeholders*”. In fact, ‘good’ corporate governance practices increase investors’ confidence and allow the company to have easy access to funds.

Africa, the most underdeveloped continent, has a long way to go (McKinsey global institute, 2010). *Its economy is often perceived as highly corrupted, its governments are instable and its population is the poorest in the world* (Globale Finance, 2015). It is critical that Africa have a global and long-term development. Corporate governance should be considered as part of the solution to improve the African situation. Corporate governance will inter alia facilitate investment in Africa. Asongu (2012) claims: “*Investment and finance undoubtedly remain key determinants of growth and development in the African continent.*”

The reason we find it w

as interesting to study African corporate governance was due to the current and future economic growth of Africa (as shown in table 1) and the lack of previous corporate governance studies on this part of the world. Furthermore, it will enable us to understand the real state of affairs of the African corporate governance.

Table 1. Africa growth perspectives (McKinsey global institute, 2010)

Facts	Today (2008)	Tomorrow (2020)	Growth (per year)
GDP (in trillions)	\$1,6	\$2,6	4,1%
Consumer spending (in trillions)	\$0,860	\$1,4	4,1%

⁽¹⁾ Enron management kept huge debt off the balance sheet with the collaboration of its external auditor “Arthur Andersen”.

⁽²⁾ *WorldCom engaged in a colossal fraud by improperly recording \$3.8 billion in ordinary expenses as capital expenditures* (Brickey, 2008).

Throughout our thesis, we will go about to answer the following research question:

“What is the current state of affairs of formal corporate governance in Africa?”

To answer this question, the study will be structured in different five parts. Part I will tackle the problem and aims to answer the research question. Moreover, we will define corporate governance. Part II will be dedicated to a literature review. In the literature review, we will analyse codes of corporate governance, select the fifty most frequent corporate governance indicators among these codes and finally create a corporate governance matrix of twelve indicators in order to assess our selected African companies⁽¹⁾. Part III will be the practical part with an explanation of the scoring methodology, the results of the study, and a statistical analysis. Part IV will include a qualitative discussion of the results. Moreover, we will describe the limits of the study and make suggestions for future research. Part V will conclude the study and answer the question mentioned above.

In accordance with our question, we would like to insist on the fact that the thesis analyses formal corporate governance and not practical corporate governance. ‘Formal’ means structures and processes that govern the way management, board of directors and shareholders interact. It was actually difficult to analyse corporate governance really implemented by companies. This topic could be developed in future studies.

Chapter 1. Main concerns

In this chapter, we will explain our main research question and the associated underlying question. These questions will help us to answer our problematic cited in our introduction.

Section a. Research question

This thesis will assess corporate governance in main African companies. Our research question, “What is the current state of affairs of formal corporate governance in Africa?”, is very large and has to be delimited. Indeed, it was difficult to analyse the whole concept of corporate governance on the whole African continent. Therefore, we decided to concentrate our reflexion on:

- Certain corporate governance indicators⁽²⁾, which are focused on Board of directors independence, Board of directors committees and Transparency & Disclosure.
- The four biggest stock markets in Africa (ex-South Africa), which are Nigeria, Egypt, Morocco and Kenya.

⁽¹⁾ See sample description, P.27.

⁽²⁾ An indicator assesses if a certain aspect of corporate governance is respected.

As a result, the central research question is:

Q1: What is the current state of affairs of ‘formal’ corporate governance in Nigeria, Egypt, Morocco and Kenya in terms of Board of directors independence, Board Committees and Transparency & Disclosure practices?

Nevertheless, throughout the work, we would like to keep in mind the research question, which insists on the global aspect of corporate governance in Africa. The study will only focus on certain aspects of corporate governance. Therefore, we tried to select the most important and frequent indicators. Our study could be interpreted as a survey focusing on certain questions to understand a wider situation.

Section b. Underlying question

Our second objective will be to understand which external variables influence our African companies’ score, which is included in the next question:

Q.2: Is company corporate governance score influenced by external variables?

We will study different variables characterizing a company:

- Country
- Sector
- Ownership structure
- Free float percentage

Chapter 2. Key concept: What is corporate governance?

Pr. Philippe Lambrecht (2014) states: *“there is no single, accepted definition for corporate governance. Corporate governance definition can vary widely depending on the environment where companies are located”* (Claessens & Yurtoglu, 2013). As argued by El Bouanani (2014): *“reflections need to be conducted according to country’s ownership patterns, corporate structures, power distribution within society and culture, to find out the most effective means to enforce governance standards in a country.”*

The literature mostly developed two views about corporate governance.

On the one hand, a set of definitions has been developed from the *agency theory* (Jensen & Meckling, 1976), a traditional corporate governance view focusing on the relationship between shareholders and management. *The agency theory defines the shareholder as the ‘principal’ and the management as the ‘agent’.* *The principal who owns the company will delegate day-to-day decision making to the ‘agents’* (Jensen & Meckling, 1976). This theory highlights the conflict of interest between shareholders who want to maximise their profit and

management team who want to maximize their revenue. The goal of corporate governance is to manage this conflict of interest. In doing so, this theory is based on the presence of a vigilant and independent board to mediate this relationship. This traditional view refers primarily to the financial aspect of corporate governance. Indeed, Shleifer and Vishny (1997) argue: *“corporate governance deals with the ways in which suppliers of finance to corporations assure themselves of getting a return on their investment”*.

On the other hand, stakeholder theory has recently been developed viewing corporate governance as broader than just the relationship between shareholders and management. Indeed, as long ago Ackerman (1975) already stated: *“an organization should be accountable to a wider audience than simply its shareholders”*. Basically, companies are so large and their impact on society so pervasive that they should discharge an accountability to many more sectors of society than solely their shareholders (Pr. Philippe Lambrecht, 2014). *The stakeholder theory is more than just a separation of control and ownership argued by agency theory* (Stieb, 2009). *Companies should be more proactive and involved in society, companies should feel responsible for the well-being of their stakeholders* (Tonello, 2011). Stakeholder theory is related to corporate social responsibility.

PART II. Literature review: how to assess corporate governance?

Chapter 1. Literature review methodology

The goal of this literature review is to understand how to assess formal corporate governance implemented by companies in order to set up our corporate governance indicators checklist. Before starting, we have to clarify the following notions: indicators and formal corporate governance.

First, an indicator assesses if a certain aspect of corporate governance is respected. For example: “do shareholders have a timely access to information?” is an indicator.

Secondly, formal corporate governance includes all corporate governance practices communicated by the companies. We did not have the opportunity to research the actual corporate governance practices e.g. corporate actions done in the interest of majority shareholders to the expense of minority shareholders. Assessment of ‘formal’ corporate governance is of course limited to what is publicly disclosed.

In this literature review, our chapter 2 will designate and briefly describe our references used to build our indicators checklist.

In chapter 3, we will select among these sources, the most common categories of indicators used to evaluate formal corporate governance. A category gathers indicators assessing the same area of formal corporate governance. Fifty indicators will be selected among these categories.

In chapter 4, on the basis of these categories and indicators previously selected, we will build our final indicators checklist including the most important indicators suitable for our study. This indicators checklist will be called later our “corporate governance matrix”.

Later, in the practical part, our corporate governance matrix will be used to award a featured formal corporate governance score to our selected companies.

Chapter 2. References to identify formal corporate governance indicators

Section a. “The corporate governance industry”

Unfortunately, *companies do not have a unitary set of rules or guidelines to follow in order to respect formal corporate governance* (Standard & Poor's, 2008). Indeed, as mentioned before in our introduction, corporate governance standards vary depending on the environment. Therefore, we selected in this section nine codes of corporate governance that we considered reliable to lead our study. Haskovec (2012) defines codes of corporate governance as: “*a set of ‘best practices’ recommendations with regard to the behaviour and structure of the board of directors of a firm*”.

In ‘section b’ below, we listed our selected codes classified according to “*the corporate governance industry*” (Rose, 2007), which is composed of both non-for-profit and for profit firms. Rose (2007) divides this industry in three categories:

- **Governance advisor** is an organisation trying to influence and enforce companies’ knowledge and practices in corporate governance.
- **Credit rating agencies** *such as Standard & Poor’s (S&P) and Moody’s evaluate credit risk and assign credit ratings to issues, issuers, or both* (Jung, Soderstrom, & Yang, 2013). In fact certain credit firms include now corporate governance in the companies risk assessment.
- **Proxy advisors** *provide research and voting recommendations to institutional investors on issues subject to a shareholder vote* (Larcker, McCall, & Ormazabal, 2013).

Finally, in ‘section c’, we justified and considered the limits of our selection.

Section b. Selected references

We reviewed within the corporate governance industry six codes from governance advisors, two codes from proxy advisors and one code from a rating agency.

§ 1: *Corporate governance advisors’ codes*

With the sudden importance granted to corporate governance, different organisations known as ‘Governance advisors’ were created to help, advise and guide companies towards ‘better’ corporate governance practices. Within these ‘advisors’, we noticed two kinds of organisations: governmental and non-governmental organisations.

On the governmental side, countries launched initiatives to develop corporate governance inside their economic network. For instance, in 1992, the first widely recognized national

code of corporate governance, “*The Cadbury Code*”, was issued in the United Kingdom (Haskovec, 2012). Since then, certain countries began to develop their own code of corporate governance. Furthermore, cooperation between countries led to the issuance of influential international codes such as the famous list of corporate governance principles issued by the OECD⁽¹⁾ in 1999 (Jesover & Kirkpatrick, 2005). The OECD is defined as: *a unique forum where the government of thirty democracies work together to address the economic, social and environmental challenge of globalization, in close cooperation with other economies* (Latin American Companies Circle, 2009). The next two codes selected are issued by international organisations whereas the third one by a single country.

- *Corporate Governance Scorecard* (International Finance Corporation, 2014).
 - Source: International Finance Corporation (2014). IFC is an international institution which is part of the World Bank. *IFC pursues two goals around the world: fight poverty and improve prosperity in developing countries* (International Finance Corporation, 2015). Concerning corporate governance, one of its multiple missions is to be the assessor of the OECD’s principles.
 - Date: 2014.
 - Coverage: worldwide.
 - Content: Shareholder rights, Minority shareholder protection, Stakeholder in governance, Transparency & Disclosure and the Board of directors.
- *Practical guide to corporate governance* (Latin American Companies Circle, 2009).
 - Source: Latin American Companies Circle. IFC and OECD established this circle in 2005, in order to improve and promote corporate governance into the South American continent. Latin American Companies Circle is a roundtable composed by private companies. The first goal is to share ideas and experiences about corporate governance.
 - Date: 2009.
 - Coverage: Latin America.
 - Content: Board practices, Disclosure & Transparency, Audit and Risk control, Shareholder rights and Commitment & Enforcement.

⁽¹⁾ *Organisation for Economic Co-Operation and Development.*

- *German Corporate Governance Code* (Regierungskommission, 2015b).
 - Source: Regierungskommission. This commission was introduced by the German federal minister of Justice to ensure best practices of governance for German listed companies (Regierungskommission, 2015a).
 - Date: 2015.
 - Coverage: Germany.
 - Content: Shareholder & General meeting, Management board, Supervisory board, Board committees, Transparency & Reporting.

On the non-governmental side, private sector's corporate advisors also developed codes of best practices. These organisations subsist through membership fees coming from companies, stock exchange and institutional investors.

- *ICGN global corporate governance principles: revised* (International Corporate Governance Network, 2009).
 - Source: International Corporate Governance Network ICGN. ICGN is composed by all professionals in the field of corporate governance.
 - Date: 2009.
 - Coverage: worldwide, mainly in developed countries.
 - Content: Board, Corporate's culture, Risk management, Remuneration, Audit, Transparency & Disclosure, Shareholder rights & responsibilities.
- *King Code of Governance for South Africa* (Institute of Directors Southern Africa, 2009).
 - Source: Institute of directors Southern Africa. As mentioned by Centre for Corporate Governance In Africa (2012), South Africa receives international recognition for its high standards of corporate governance.
 - Date: 2009.
 - Coverage: South Africa.
 - Content: Ethical leadership and corporate citizenship, Board, Audit, Risk, Stakeholder, Reporting & Disclosure.
- *The UK Corporate Governance code* (Financial Reporting Council, 2012).
 - Source: Financial Reporting Council. This organisation is semi-governmental. Indeed it has been created partly by government and partly by industry.

- Date: 2012.
- Coverage: United Kingdom and Ireland.
- Content: Leadership, Effectiveness, Accountability, Remuneration, Shareholders relationship.

§ 2: *Proxy advisors' codes*

One aspect of the corporation's interest for corporate governance is the increasing importance of corporate governance for institutional investors⁽¹⁾ (Barrett, Todd, & Schlaudecker, 2004). According to OECD (2011) an institutional investor is: "*a financial institution that accepts funds from third parties for investment in their own name but on such parties behalf*".

As a result, Institutional Investors are concerned with share voting and should consequently be in accordance with corporate governance policies. They subcontract this aspect to proxy advisors. Proxy advisors' job is to assess what companies should respect in terms of corporate governance and advise its customers to vote against or in favour of certain measures. At the end, they issue corporate governance codes.

- *QuickScore 3.0* (Institutional Shareholder Service, 2015).
 - Source: Institutional Shareholder Service (ISS) is the global leader in corporate governance. ISS is mainly specialized in proxy advising, however they also provide advisory services to companies.
 - Date: May 2015.
 - Coverage: worldwide.
 - Content: Board, Compensation, Shareholder rights, Takeover defences, Audit & Risk oversight.
- *Proxy paper guidelines, USA* (Glass Lewis & Co, 2015).
 - Source: Glass Lewis & Co is another player on the proxy advising's market. In contrast with ISS, Glass, Lewis & Co only provides proxy advising.
 - Date: 2015.
 - Coverage: worldwide.
 - Content: Board, Transparency, Compensation-performance, Governance structure, Shareholder franchise.

⁽¹⁾ Total institutional investors' assets in the OECD area amounted to more than US\$ 40.3 trillion in 2005, corresponding to 162.6 per cent of GDP (Eric Gonnard, 2008).

§ 3: Credit rating agency's code

Waweru (2014) points out: *“Enron’s bankruptcy as the biggest corporate governance scandal.”* According to him: *“this bankruptcy raises a myriad of questions about the effectiveness of corporate governance practices”*. Since then, J.B (2004) highlights: *“rating agencies have begun to use corporate governance as an approach to giving credit rating”*.

- Criteria: Gamma scores (Standard & Poor's, 2008).
 - Source: Standard & Poor's as defined by Barrett et al. (2004) is: *“a global provider of credit ratings and other services designed to help individuals and institutions around the world make better-informed financial decisions”*. Standard's & Poor's developed a system of corporate governance scoring called Gamma (Governance, Accountability, Management metrics and analysis) (Standard & Poor's, 2008). It reflects standards & Poor's opinion of the relative strength of a company's corporate governance. According to Standard & Poor's, absence or misappropriate corporate governance practices means a possible financial loss for the shareholder.
 - Date: 2008.
 - Coverage: worldwide.
 - Content: Ownership influence, Shareholder rights, Transparency & Audit, Board.

Section c. Codes justifications

In this section, we will answer the following question: why did we select these nine codes rather than others?

Our selection is based on two aspects: country development level and issuer features.

§ 1: Country development

Our codes were selected from organisations based in developed countries. Indeed as argued by Claessens and Yurtoglu (2012): *“developed countries have implemented better practices in corporate governance due to the level of maturity of their financial markets combined with advanced economic and political environment”*. As an example, *“developed countries have usually a stable government, less corruption, liquid stock market compare to developing countries”* (Rabelo & Vasconcelos, 2002). Furthermore, a primary goal of corporate governance is *to attract investment through investors' confidence enforcement* (Koldertsova, 2011). *Because funds are mainly coming from developed nations, developing countries need*

to respect developed countries corporate governance recommendations in order to attract foreign investors (Reed, 2002).

§ 2: Issuer features

Our codes were chosen according to the issuer of the code. We selected our issuers depending on two features: issuer type and issuer location.

- Issuer type: as argued by Haskovec (2012) : *“progress in code development stemmed from interest among four major parties: stock exchanges, government, companies and institutional investor”*. A goal of this selection was to represent its diversity of interest. Indeed, our codes were issued by three governmental organisations, two proxy advisors (representing the institutional shareholder), three private companies and one credit company. Standard & Poors doesn't fit perfectly with these actors, nevertheless it was interesting to select it as well with the increasing importance of credit rating companies.
- Issuer location: as cited above, we selected our codes from developed countries. With the plethora of corporate governance codes issued by developed countries, it was necessary to make a selection amongst them. Our selection was based on three factors: country corporate governance reputation, country relationship with Africa and code attractiveness (easy to assess and to understand).

For instance, why a South African code was selected instead of an American code?

First, as mentioned before, South Africa is one of the pioneers in corporate governance.

Secondly, South Africa as an African representative is interesting for our study.

Thirdly, it is very difficult to find a suitable code for the United States⁽¹⁾. Indeed, in the United States, the only reference is the Sarbanes-Oxley act, which is highly difficult to analyse due to its length and its numerous sections.

We picked mainly European codes due to the strong historic relationship between Europe and Africa built throughout the colonialism period. Indeed, this period strongly influenced African law, regulation, and culture. Thus, we thought that it was more appropriate to choose a German code than for example a Chinese code.

It is important to notice that this selection is probably not the perfect mix. However, we based our selection depending on our references to make the best choice possible.

⁽¹⁾ Haskovec (2012) mentions: *“two reasons for the absence of single, authoritative national code of corporate governance: general resistance to centralize regulation and the U.S history of rules-based regulation rather than a principle-based consensus.”*

Chapter 3. Reference indicators

Before selecting certain indicators for our future analysis of African companies, we developed a list of corporate governance indicators frequently met on the market based on our nine codes previously cited. The difficulty was to choose among the multiple indicators used to assess corporate governance. We decided to select fifty indicators from four different categories of indicators.

This first selection was based on the following assumptions:

- (1) First, we chose to select indicators only in our nine codes.
- (2) Secondly, the aim was to check the frequency of these indicators to understand which practices of corporate governance were the most common. Indicators with less than 30% were automatically removed. On the contrary, the frequency of the indicator ‘Board chairman independence’ represents 67%, which indicates that this indicator is present in six codes out of nine.
- (3) Finally, building a code of formal corporate governance requires structure, simplification and accuracy. To do so, we gathered indicators by category and sub-category. For example, our indicator ‘Board chairman independence’ is included in the sub-category “board composition” which is part of “board” category. Based on our codes’ review, we noticed that codes are usually separated into the same categories. We decided to structure our codes by the most common categories found in our nine sources. As shown in table 2, the most common categories are: Board, Shareholder rights, Environment control and Transparency & Disclosure.

Table 2. Corporate governance indicators' categories

Categories	Codes appearances (/9)
Board	9
Shareholder rights	9
Environment control	8
Transparency & disclosure	8

Nevertheless, it is important to insist that these categories are related to each other. For example, shareholder rights have to be implemented by the board. Moreover, environment control could exist but it will be unnecessary without information disclosure such as audit’s report to inform stakeholders about the company’s financial situation.

The following sections introduce the most common indicators found in our code classified by categories.

Section a. Board of directors' indicators

The board of directors is a body where directors are elected to represent shareholders. Acero Fraile and Alcalde Fradejas (2014) define the board's role as: *"the board of directors must be configured primarily as a tool for supervision and control, aimed at aligning the interests of those who manage the company with the interests of those who provide the resources and hold the risk"*. This definition is inspired from agency theory which determines the necessity of a separation between ownership and control to avoid conflict of interest inside a company (Jensen & Meckling, 1976). Shareholders hold ownership and elect members of the board who have to set up the management team. This management team holds control on the firm. Nevertheless, the responsibilities and functions of the board are very broad and can be interpreted differently. For instance, Latin American Companies Circle (2009) argues that: *"Board's central function is approving the company's mission and vision."* Moreover, Barton and Wiseman (2015) assure that: *"the board's core mission is to provide oversight and strategic support for management's effort to create long-term value."* *The board is at the core of governance and therefore the company's central piece* (Latin American Companies Circle, 2009). This importance has been enlightened in our literature review. Indeed, our board category includes twenty-two indicators as shown in table 3, classified in five sub-categories: board composition, board committee, board performance, executive's remuneration and board meeting.

Table 3. Board indicators and their frequency

Board indicators (22)	Frequency
Board composition	73%
1. CEO position separated from chairman role	100%
2. Board chairman independent	67%
3. Senior lead independent	67%
4. Board independence	100%
5. Board size	56%
6. Board mixity (roles)	67%
7. Time commitment	56%
Board committee	96%
8. Audit committee	100%
9. Audit independence	100%
10. Remuneration committee	89%
11. Remuneration independence	89%
12. Nomination committee	100%
13. Nomination independence	100%
Board performance	89%
14. Set objectives, strategies	78%

15. Board evaluation	100%
Compensation	44%
16. Variable compensation related to director performance	67%
17. Stock ownership among directors	44%
Board meeting	33%
18. Meeting frequency	44%
19. Meeting without executives	33%
20. With outside specialists	67%
21. Corporate secretary	78%
22. Annual meeting agenda	56%

Section b. Shareholder rights

Gompers, Ishii, and Metrick (2003) argue: “*corporations are republics*”. *The ultimate authority rests with voters (shareholders). These voters elect representatives (directors) who delegate most decisions to bureaucrats (managers).* This metaphor sheds light on the power-sharing relationship between managers and shareholders. Depending on governance rules implemented by the company, on the one hand, the republic can become a democracy or on the other hand a dictatorship. By democracy, we mean that all the power belongs to owners (shareholders) who can replace their directors very quickly. By contrast, in the dictatorship, managers handle a strong and powerful position inside the company. Gompers et al. (2003) define shareholder rights as *the balance of power between managers and shareholders*.

As mentioned by Jiraporn and Davidson (2009): “*shareholder rights are mainly present to protect shareholders and prevent or limit the ability of managers to extract the wealth from shareholders.*” Our shareholder category includes 13 indicators as shown in table 4, classified in three sub-categories: basic rights, shareholder participation, and minority shareholder protection.

Table 4. Shareholder rights indicators

Shareholder rights	Frequency
Basic rights	44%
1. One share, One vote	78%
2. Sharing corporate profit	33%
3. Possibility to sell or transfer shares	33%
Participation	64%
4. Documents availability for shareholder	67%
5. Ask question (% ownership)	67%
6. Rights to elect board members	56%
7. Proxy vote (vote in absentia)	67%

Minority shareholder protection	62%
9. Deal with Related party transactions	67%
10. Minority shareholder consideration	67%
11. Equality for each shareholder	78%
12. Takeover defences	33%
13. Shareholder agreement	67%

Section c. Environment control

Schelker (2013) argues: “*Disclosure requirements, independent review, and legal enforcement are key factors to reduce this principal-agent problem. Indeed, accurate and timely information allow shareholders, creditors to make adequate decision*”. However, it might be difficult and irrelevant to make a decision only with information provided by the company. Indeed, there is a high risk that company’s disclosed information serves only management interest. Therefore, it is *important to use an independent external system to assure credibility of your organisation to outside investors* (Fan & Wong, 2005). It is actually not sufficient to assure environment control. Indeed, Latin American Companies Circle (2009) advises: “*don’t ignore internal control system*”, which was recognized by Johnstone, Li, and Rupley (2011) *as important in ensuring high quality financial reporting*. Our environment control category includes 6 indicators as shown in table 5, classified in two sub-categories: internal control and external control.

Table 5. Environment control indicators

Environment control	Frequency
Internal control	100%
1. Internal risk management	100%
2. Board monitor the risk policy	100%
External control	53%
3. External auditor independence	33%
4. External auditor rotation	33%
5. Concerns reported by the auditor	56%
6. Non-audit fees < audit fee	89%

Section d. Transparency and disclosure

Djokić (2012) defines disclosure and transparency principles as *a tool, which could eliminate the negative effect of interest among management bodies in a firm*. Companies have an interest in disclosing information. For instance, *companies can differentiate themselves from the concurrence and earn a long-term competitive advantage in implementing corporate*

governance transparency (Subramanian, 2015). Disclosures will help companies to earn a better reputation among its stakeholders. Moreover, Madhani (2014) states: "*strong corporate governance encourages companies to publish information, documents concerning corporate governance to improve its reputation and attract investors*". Our Transparency & Disclosure category includes 10 indicators as shown in table 6, classified in two sub-categories: information disclosure and access to disclosure.

Table 6. Transparency and disclosure indicators

Transparency & Disclosure	Frequency
Information disclosure	70%
1. Financial report	67%
2. IFRS accounting standard requirement	56%
3. Ownership structure	78%
4. Disclosure of related party transaction	56%
5. Compensation policies	100%
6. Corporate governance & good practices	89%
7. Information board members	44%
Access to disclosure	41%
8. Timely information	67%
9. Disclosures in English	11%
10. External audit	44%

Chapter 4. Selection indicators: matrix

From all the indicators mentioned above, we chose certain indicators to assess corporate governance of African companies. Although all fifty indicators are interesting, we decided for practical and time constraints purposes to narrow them down to twelve indicators that we considered to be the most feasible and relevant aspects applicable to corporate governance situation of African companies. In this chapter, we will first cite our selected indicators, as shown in table 7, justify their selection among our fifty indicators and finally describe their interest and how they can assess formal corporate governance of a company.

Section a. Selected indicators

Table 7. Selected indicators

Selected Indicators
Transparency & Disclosure
1. Are financial statements published under IFRS?
2. Do shareholders have a timely access to information ?
3. Are board directors' compensation fees disclosed ?
Board
Board independence
4. What is the proportion of independent directors in the board?
5. Are the roles of chairman and CEO separated?
6. May the chairman be perceived as independent?
Board Committees
7. Does the audit committee exist?
8. Does the remuneration committee exist?
9. Does the nomination committee exist?
10. What is the independent directors composition of the audit committee?
11. What is the independent directors composition of the compensation committee?
12. What is the independent directors composition of the nomination committee?

Section b. Indicators justification

Why did we choose these indicators rather than others? We will first justify the categories present in our matrix and their importance. After, we will warrant the indicators included in these categories.

§ 1: Category selection

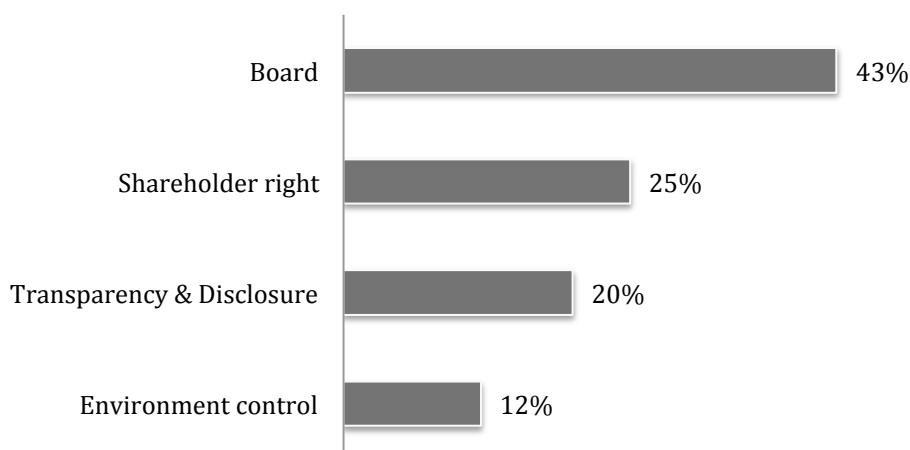
Two categories are present in our selection: Transparency & Disclosure and Board of directors. Transparency & Disclosure category includes three indicators out of twelve

compared to the nine Board of directors indicators. Why such a high proportionality of Board of directors indicators?

This choice was motivated by three reasons:

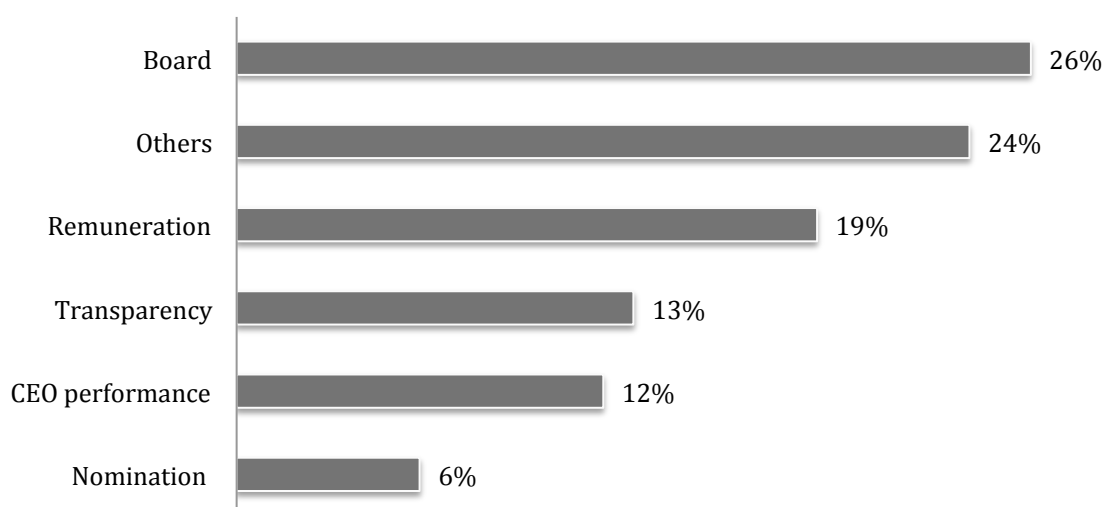
- We noticed in our references indicators selection (chapter II), that the most common indicators in the code are assessing the board activities. Indeed, as shown in figure 1, 43% of the indicators concern the board.

Figure 1. Indicators percentage by categories



- A survey⁽¹⁾ lead by Institutional Shareholder Service (2015) sheds light on the corporate governance issues nowadays. As shown in figure 2, Board structure/composition/ and independence are ranked highest. Although other topics are also of importance, this survey highlights that boards applying ‘good’ corporate governance practices will positively influence other topics of corporate governance within the company. The second highest rated topic ‘executive compensation’ will be discussed when addressing the remuneration committee. And the third issue of importance to be considered according to this survey is Transparency & Disclosure.

⁽¹⁾ This survey included three hundred different institutional shareholders around the world.

Figure 2. Most important corporate governance issues (ISS)

- A board who complies with corporate governance guidelines will usually follow ‘best’ corporate governance practices across all categories. Furthermore, we assume that the presence of ‘independent’ board committees will enhance environment control and facilitate respect of shareholders rights. Therefore, we chose to remove environment control and shareholder rights categories.

Based on our readings, we believe that independence tends to be one of the most critical criteria to ensure an appropriate behaviour of a board of directors. As confirmed by Ertimur, Ferri, and Oesch (2013): “*independent directors are often regarded as a key element of the governance system to control management behaviour*”. Moreover, Institutional Shareholder Service (2015) mentions: “*proportion of independent directors on a board is viewed by many as critical to firm performance*”. Accordingly, our board indicators will incorporate this criterion. Indeed, six out of our nine board indicators are addressing board’s independence.

Why did we choose to give weight to Transparency & Disclosure category? First, a lack of Transparency & Disclosure from a company may prevent a thorough assessment of its corporate governance policy due to the absence of reliable documents. Secondly, as shown above in figure 2, Transparency & Disclosure is considered as a critical corporate governance topic nowadays.

§ 2: Indicators' selection

What are the elements which helped us to emphasize certain indicators?

- The frequency rate reached during our references review helped us to understand the higher importance of certain indicators. For example, we noticed that, in our selected codes, indicators concerning board committees were present in each code⁽¹⁾. In doing so, we decided that these indicators needed to be represented in our matrix.
- In our indicators selection, a constraint was to find enough reliable data. This constraint becomes particularly difficult in a weak economic environment such as in certain African countries. In fact, certain interesting indicators were difficult to assess due to the lack of information. For instance, it was problematic to draw reliable conclusions about related party transactions⁽²⁾. Indeed, this information was missing or badly represented in African annual reports issued by companies.

Section c. Indicators' description

§ 1: Disclosures

(1) Are financial statements published under IFRS?

To understand which kind of information is recommended, it is interesting to put ourselves on the shareholder side in order to know which kind of disclosure will encourage confidence.

As shareholder, if we want to invest, we would be interested in comparing financial results of a company to those of another company of the same sector. To do so, it is necessary that both companies adopt the same accounting standards. *"In 2005, the European Union made International Financial Reporting Standards (IFRS) mandatory for European listed firms with the aim of improving the quality and comparability of financial reporting"* (Verriest, Gaeremynck, & Thornton, 2013). According to Pownall and Schipper (1999), financial statements possess three attributes: *"namely, transparency, full disclosure and comparability, statements are regarded as being of high quality"*. The goal of IFRS is to bring worldwide accounting measures to a certain unity to allow better financial statement assessment. IFRS measures are mandatory and companies have to disclose certain data to comply with them. For instance, companies under IFRS have to disclose related party

⁽¹⁾ Frequency rate of 100%.

⁽²⁾ *Directors and officers of corporations are charged with the duty of entering into contracts that maximize shareholder wealth. On occasion, management enters into contracts with related parties, that is, officers and directors of the firm and their relatives, large shareholders, or other parties affiliated with these individuals. Such contracts are commonly referred to as related party transactions (Ryngaert & Thomas, 2012).*

transactions (IAS 24), which might be a source of conflict of interest between management, majority shareholders and minority shareholders.

(2) Do shareholders have timely access to information ?

As investors, we would consider companies' financial results and profitability. Therefore, how the information is disclosed is highly important. Information should be available on time and easily accessible to shareholders. We will consequently verify if 2014 annual reports are available on companies' websites. Companies often offer the option to mail annual reports and related information. However, we consider more appropriate that companies provide a direct and simple access to information through a website for shareholders.

(3) Are board of directors' compensation fees disclosed ?

One way to align shareholders and managers interests is to implement a well-designed compensation policy that is linked to specific targets (Latin American Companies Circle, 2009). This indicator will only examine the publication or not of the board directors' compensation fees. Indeed, board directors should have their compensation based on their attendance at board meetings. This compensation should not be exaggerated to avoid conflict of interest and preserve directors' independence. We didn't consider executive management compensation because this information is highly difficult to obtain for African companies.

§ 2: Board independence

(4) What is the proportion of independent directors in the board?

On the basis of our resource review, we consider board independence as highly critical to assess corporate governance developed in a company. Indeed, Standard & Poor's (2008) argues: *“a sufficient degree of board independence helps to ensure fair protection of all shareholders' interests”*. Moreover, OECD (2011) mentions: *“directors should be able to exercise objective independent judgment on corporate affairs”*. Further, *“objective judgement means in the best interests of the corporation free of any external influence on any individual director or the board as a whole”* (International Corporate Governance Network, 2009).

To define independence, we need to delineate the role of an independent director. An independent board is composed of a certain percentage of independent directors. International Finance Corporation (2014) finds two different ways to define independent directors depending on the company's ownership structure.

On the one hand, in markets dominated by dispersed ownership, where managers are very

powerful, *independence is mostly defined in relation to the presence of non-executive directors*. As explained by the Cadbury Committee (1992): “*non-executive directors should bring an independent judgement to bear on issues of strategy, performance, resources, including key appointments, and standards of conduct* ».

On the other hand, when ownership is more concentrated, International Finance Corporation (2014) finds that *independence shifts according to the relationship with the controlling shareholders*. A director who knows controlling shareholders might be less objective. To take into account this possible impact on directors, Glass Lewis & Co (2015) defines an independent director as: “*a director who has no material, financial, familial or other current relationships with the company* ». *Certain companies go further and assign directors representing minority shareholders as independent directors* (Latin American Companies Circle, 2009).

Following the same logic, Crespí-Cladera and Pascual-Fuster (2014) summarize the role of independent director in dispersed ownership as “*key members of the board whose aim is to avoid managerial misappropriation* » and in concentrated ownership as « *key member whose aim is to limit the extraction of private benefits by the controlling large shareholders, who usually appoint the remaining members of the board of directors* ».

In our matrix, we will assess directors’ independence based on two main requirements. To be independent, a director has to be non-executive and have no link with executive members or with shareholders.

Nevertheless, others features will determine if boards of directors are really independent. In fact, we noticed in our study that directors were considered as independent, even though it was not the case. This fact is confirmed by Crespí-Cladera and Pascual-Fuster (2014) in their analysis of Spanish firms board independence: “*firms often declare directors as independent, although the directors are not strictly independent.*” We will define a director as independent if he respects the following points:

- **Conflict of interest:** according to United States securities and exchange commission (2002), in the Sarbanes-Oxley act, *the independent director must have no more than one hundred thousand dollars for the past three years in business with the firm. That includes compensation, dividend or even related party agreement.*
- **Family relationship:** independent director must have no executive or family relationship within the company.

- **Length of stay in the company:** according to Crespí-Cladera and Pascual-Fuster (2014) *a tenure as independent director for more than twelve years will raise concern about his independence.*
- **Past executive:** according to the Sarbanes-Oxley act, *director being previously employed by the company as executive in the past three years will be considered as non-independent.*

The previous points are one among the multiple ways to assess directors' independence. However, according to our readings, it seems to be a good appreciation.

§ 3: *Chairman independence indicators*

(5) Are the roles of chairman and CEO separated?

The position of chairman deserves a lot of attention. Saunders (2014) argues: *“that leading the board is an increasingly important role”*. According to him, the chairman has significant influence on two aspects. First, he can influence the hiring and firing of executives and decide pretty much who sits beside him on the board. The second crucial point is he can control, in the board meeting, what will be discussed and for how long.

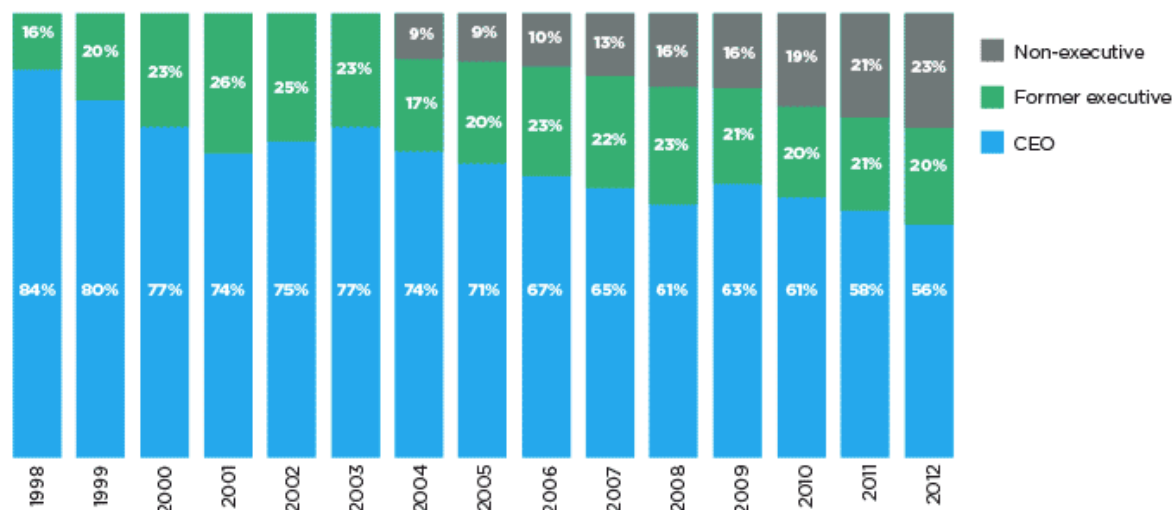
Board independence could not be limited to our fourth indicator concerning board independence. Board independence depends as well on the chairman independence. *“Chairman independence is critical because they can better oversee executives and set a pro-shareholder agenda without the management conflicts that a CEO and other executive insiders often face”* (Glass Lewis & Co, 2015).

Which indicators determine chairman independence? First, by essence, an independent chairman cannot be at the same time the CEO of the company. Thus, an indicator will assess if chairman and CEO roles are separated. Indeed, Latin American Companies Circle (2009) states: *“many corporate governance codes and principles recommend that the roles of the chairperson of the board and the chief executive officer be exercised by different people »*. Glass Lewis & Co (2015) highlights the reason of such a separation: *“It can become difficult for a board to fulfil its role of overseer and policy setter when a CEO/chairman controls the agenda and the boardroom discussion »*. Such control can allow a CEO to have an entrenched position. In fact, mixing these two positions could lead to a conflict of interest.

However, all companies do not consider CEO and chairman position separation as critical for

the company success. Indeed in United States, S&P 500⁽¹⁾ companies often combine the role of CEO with the chairman of the Board. As shown in Figure 3, even though American companies have begun to split these roles, the shift remains slow.

Figure 3. Who is the chairman? S&P 500 1998-2012 (Korn Ferry Institute, 2014)



(6) May the chairman be perceived as independent?

A chairman will be perceived as independent if he fulfils all the requirements stated in our fourth indicator. In fact, separation of the roles of chairman and CEO does not always ensure independence. As explained by Coles and Hesterly (2000): *“two individuals occupying these roles does not necessarily imply that these individuals are independent”*. For example a chairman may have served as CEO in the past or be the company founder. Coles and Hesterly (2000) argue: *“a retired CEO should be considered as an inside director because of his or her close involvement with the company’s past success and culture”*.

Section d. Board committees

Board committees are implemented to release work pressure on the Board of directors. Each board committee takes responsibility in a certain field such as compensation, nomination and audit. Latin American Companies Circle (2009) defines board committee role as the way for *board to handle a greater number of complex issues in a more efficient manner, by allowing specialists to focus on specific issues and provide detailed analysis back to the board*. Kaczmarek, Kimino, and Pye (2012) argue: *“Board audit, remuneration, and nomination sub-committees have been recommended consistently in corporate governance codes across many countries for at least the last two decades”*. In fact, these three committees were present

⁽¹⁾ Index of 500 widely held common stock that measures the general performance of the market (U.S.A) (Nasdaq, 2015).

in all our codes of best practices resources⁽¹⁾. As a result, they seem to be crucial in corporate governance assessment. The usefulness of others committees such as risk or governance committees have often been debated in other companies or codes. However, it seems that the three more common committees to assess formal corporate governance remain the three cited above. Furthermore, figure 3⁽¹⁾ shows that board committees are useless without a certain level of independence. Indeed, another aim pursued by these committees is to widen the objectives and promote independent judgement of the board regarding the specific topics that often lead to high potential conflict of interest.

In our African companies selection, we will assess the presence or not of these committees by the following three indicators (7), (8), (9). The following paragraphs will introduce these committees one by one and the fourth paragraph will discuss their independence criteria with three additional indicators.

§ 1: *Audit committee*

(7) Does the audit committee exist?

Zabihollah, Kingsley, and George (2003) depict audit committee's function as an *oversight function of corporate governance, financial reporting process, internal control structure, and audit function*. Moreover, International Corporate Governance Network (2009) argues that *it should provide an independent and objective opinion that the financial statements fairly represent the financial position and performance of the company in all material respect*. This opinion should be disclosed in a dedicated report. Developing this report demands the collaboration between audit committee and external auditors. In fact, another duty of the audit committee is to ensure external auditors objectivity and independence. External auditors' role is to generate confidence for company's stakeholders. Nevertheless, we will not assess this aspect of corporate governance and assume that it is respected if an audit committee exists. Audit committee members need financial and audit skill to accomplish accurately their mission.

§ 2: *Compensation committee*

(8) Does the compensation committee exist?

Hermanson, Tompkins, Veliyath, and Ye (2012) refer to the difficult role played by the compensation committee. Indeed, they argue: *"compensation committee has a balanced perspective between on the one hand shareholders and on the other hand management"*.

⁽¹⁾ Board indicators and their frequency, P.13.

Compensation committee's mission is to attract the best candidates possible for management position. To do so, it should provide in exchange an honest and fair salary. To point out the conflict between shareholders and management, shareholders will usually view the CEO salary as too high whereas executive directors would like to earn more. The compensation committee should arbitrate with fairness and objectivity these contradictory opinions.

§ 3: *Nomination committee*

(9) Does the nomination committee exist?

In contrast with the two previous committees, nomination committee has only recently been identified as important in corporate governance practices (Huse, Hoskisson, Zattoni, & Viganò, 2011). Clune, Hermanson, Tompkins, and Ye (2014) describe the nomination committee as the place where: *“the characteristics of the board are established”*. These characteristics are created in order to know exactly what the needs of the board are in term of skills, knowledge and diversity. With this sample of features, the nomination committee has to find suitable candidates for board vacancy position. Indeed, Kaczmarek et al. (2012) argue: *“nomination committee are responsible for the process for board appointments and making recommendations about director selection to the board”*.

§ 4: *Committee independence*

(10) What is the percentage of audit committee's independence?

(11) What is the percentage of compensation committee's independence?

(12) What is the percentage of nomination committee's independence?

Institute of Directors Southern Africa (2009) argues: *“The internal audit committee should be independent and objective.”* Clune et al. (2014) declare about nomination committee: *“it is an independent process, we purposely kept the CEO distant from identifying potential candidates”*. Indeed, our academic review confirms that independence is fundamental to ensure objectivity in committee's work. However, an important question is which level of independence is recommended? It will be discussed in our practical part.

PART III. Practical part

Chapter 1. Scoring methodology

In this part, our aim is to score companies on their corporate governance practices. To do so, we will first explain the companies' sample chosen to study corporate governance in Africa. Secondly, our scoring methodology will be described. Finally, we will review our explanatory variables and set hypothesis about their impact on our scoring approach.

Section a. Sample description

§ 1: *Countries selection*

For this thesis, as it was too intricate to carry out a corporate governance analysis of all African countries, we decided to concentrate our work on the four biggest African financial markets except South Africa. This criterion framed our work.

Table 8. African countries stock market in 2015 (Bloomberg, 2015)

Stock market size (in billion)	
South Africa	\$613
Egypt	\$57
Nigeria	\$53
Morocco	\$48
Kenya	\$20
Tunisia	\$9
Ivory Coast	\$8

We chose to exclude South Africa because its stock market is unrepresentative of the remaining African situation. Indeed, as shown in table 8, South African stock market is worth \$613 billion which is ten times bigger than the following one, Egypt with \$57 billion. Moreover, Mangena and Chamisa (2008) described this country as: “*one of the most advanced in term of world corporate governance*”. In corporate governance, it should be more suitable to compare South Africa with European or North-American countries.

Therefore, we selected Egypt, Nigeria, Morocco and Kenya. To give an idea in term of scale, Belgium stock market's size is worth \$300 billion (Bloomberg, 2015), which is more than the four selected African countries together.

§ 2: *Companies selection*

After having selected countries, we had to choose a certain number of companies per country. The aim was to list enough companies in order to elaborate a sample that would be sufficient to be able to achieve our statistical study and draw suitable conclusions. Nevertheless,

collecting information about African companies is not an easy task due to the lack of documents provided by companies. A good compromise is to pick the ten biggest companies in term of free-float market capitalization per country. Indeed, we assumed that ten companies are enough to have a global view of corporate governance practices implemented in a country. However, as shown in table 9, these companies represent only a part of the country total market capitalization, especially for Egypt and Morocco with respectively 32% and 56%. There will consequently be a margin of error that we will discuss later in this thesis, in our chapter on limits.

Table 9. Stock market's fact per country (Bloomberg, 2015)

Country	Sum of the ten biggest Market capitalization	% of total country Market Capitalization	Listed companies in the country
Egypt	\$17.972.097.248,00	32%	256
Nigeria	\$37.774.913.216,00	71%	199
Morocco	\$26.993.529.024,00	56%	74
Kenya	\$16.926.718.976,00	85%	63

§ 3: *Data collection*

As already mentioned, it was challenging to find information about corporate governance practices of our selected companies. The aim was to find annual reports from the year 2014 for these companies. As described by our second indicator: “do shareholders have access to information?”, it was not always possible to have access to this requirement. Indeed, as shown on appendix 2 (indicators scoring average), only 55% of 2014 reports were available on companies' websites. To solve this problem, when possible, we used reports from the year 2013. The year of issue was not a critical point to analyse corporate governance practices as long as a corporate governance section was included in the report. In fact, corporate governance practices do not radically change every year. We also used annual reports available on Bloomberg.

Bloomberg database provided us all companies' features such as free float market capitalization⁽¹⁾, free float and sector. Companies' free float market capitalization figures were essential to select the ten biggest companies per country. We decided to use free float market capitalization instead of the real market capitalization because we assumed that a company with a bigger free float market capitalization will usually implement better corporate

⁽¹⁾ MSCI defines the free float of a security as the proportion of shares outstanding that are deemed available for purchase in the public equity markets by investors. In practice, limitations on free float available to investors include strategic and other shareholdings not considered part of available free float (MSCI, 2011).

governance practices to govern the company. Bloomberg database was available thanks to the help of Sustainable Capital, an African investment specialist.

Section b. Scoring and weighting

§ 1: Scoring and weighting process

This section will review how we scored companies in our database. The score describes how companies comply with our corporate governance indicators. The high scorers will be companies that respect our indicators while the low scorer will have to further work on some specific corporate governance policies. To illustrate how we built this score, we used the table 10 below, representing the scoring process of Sodiq's company (Six of October), a real estate company from Egypt. This table includes our indicators selected previously.

The score allocation, as shown, will be justified in the next paragraph.

Table 10. Example SODIC scoring process

Selected Indicators	Answer	Score & weighting
1. Are financial statements published under IFRS?	yes/no	0/1
2. Do shareholders have timely access to information?	yes/no	1/1
3. Are board directors' compensation fees disclosed?	yes/no	1/1
Disclosure total		2/3
4. What is the proportion of independent directors in the board?	0%	0/3
	0% < X < 33%	1/3
	33% < X < 50%	2/3
	50% < X	3/3
5. Are the roles of chairman and CEO separated?	yes/no	1/1
6. May the chairman be perceived as independent?	yes/no	1/1
Board Independence total		3/5
7. Does the audit committee exist?	yes/no	1/1
8. Does the compensation committee exist?	yes/no	0/1
9. Does the nomination committee exist?	yes/no	1/1
10. What is the independent director composition of the audit committee?	50% < X	0,5/0,5
11. What is the independent director composition of the compensation committee?	50% < X	0/0,5
12. What is the independent director composition of the nomination committee?	50% < X	0/0,5
Board committee total		2,5/4,5
Indicators Total		7,5/12,5

§ 2: *Scoring and weighting justification*

In our scoring process, we have quantitative and qualitative indicators. On the one hand, certain indicators measure a quantity such as our board independence percentage indicator, meaning that they belong to the quantitative category. On the other hand, the majority of our indicators are qualitative. This kind of indicators is characterized by the fact that they have no natural sense of ordering, they can just be classified by category. For instance, for a sample of houses, a qualitative variable will be the location of the houses whereas a quantitative variable will be the price of the houses. In our study, categories used in our qualitative indicators will be a “yes” or “no” answer.

(1) Quantitative indicators are complex to score. We will allocate them categories and transform them in qualitative indicators to enable the scoring.

Our first quantitative indicator is: “what is the proportion of independent directors in the board? ”. As mentioned before, board independence was defined as a keystone for this thesis. Therefore, we will allocate a weight of three to this indicator. Indeed, the importance of board director independence perceived throughout our readings convinced us to increase the weight of this indicator.

We decided to allocate four score levels for this indicator depending on the independence percentage. To set up these categories, we relied on some references that we identified in the first part. As shown in table 11, independence percentage respecting good corporate governance practices seems to exceed 50%. According to these sources, we found acceptable, to define the following thresholds:

- Optimal independence level represents a percentage superior to 50%. Therefore, these companies will get a score of 3 out of 3.
- Companies reaching a board’s independence percentage between 33% and 50% will get a score of 2 out of 3.
- Below 33%, companies will get a score of 1 out of 3 because it shows that they only slightly consider the importance of board independence.
- A percentage of 0% for a company will lead to a score of 0 out of 3.

Table 11. Independence criteria of the board

Source	Independence criteria	Remarks
Glass- Lewis & co	> 66%	
Latin American Circle	> 20%	In an high ownership concentration
UK CODE	> 50%	Excluding the chairman
ISS	> 50%	Lower % accepted
ICGN	> 50%	

Our second quantitative indicator is: “what is the proportion of independent director in the audit, compensation and nomination committees?”. In fact, we gathered the three quantitative indicators about board committee independence into one indicator to simplify the investigation.

To define our criteria of committees’ independence, we reviewed our references⁽¹⁾. As shown in table 12, we selected three sources to study this concern.

Table 12. Committee independence

ICGN Code	South Africa’s King code	Glass-Lewis
« <i>The members of these key board committees should be solely non-executive directors, and in the case of the audit and remuneration committees, solely independent directors.</i> »	« <i>The board should delegate certain functions to well-structured committees. Committees should comprise a majority of non-executive directors of which the majority should be independent.</i> »	« <i>We believe that only independent directors should serve on a companies audit, compensation, nominating, and governance committee.</i> »

Considering the above, we understand that, to be effective, these committees have to be mostly composed by independent directors. Knowing the African situation, we will limit our requirement to a sole compliance behaviour. Accordingly, in our study, audit, compensation and nomination committees will need to have at least fifty per cent of independent directors in their committee to be considered as independent.

(2) Qualitative indicators are easier to score. Indeed, a “yes” will be associated to a 1 out of 1 whereas a “no” will be associated to a 0 out of 1. For example, as shown on figure 12, the answer to the indicator “are board directors’ compensation fees disclosed?” is “yes” and therefore, the score will be 1 out of 1.

⁽¹⁾ See Part I: references to identify formal corporate governance indicator.

We consider our method of scoring the best possible for our African companies assessment according to our readings and our discussion with corporate African governance specialists. However, this scoring method provides a base approach which could be further enhanced.

Chapter 2. Study results

In this chapter, we will first compare the governance scoring results of our sample of African corporates with “western” companies. In addition, we will try to highlight the links which might be drawn between our different categories: Transparency & Disclosure, Board Independence and Board Committees. Finally, we will present our explanatory variables that will lead our statistical study. For each variable, we will review their scoring results. According to these results, we will try to understand which variables influence corporate governance in Africa.

Section a. Example comparison

First, as we know, we considered forty African companies. The average scoring of our selection is about 48%. If more information is needed, appendix 1 provides all our companies scores.

To test our matrix and the reliability of our results, we found interesting to assess companies from outside our countries selection. Our choice was directed towards countries with high corporate governance standards. With this in mind, we selected “Fresnillo” from United Kingdom, “Standard Bank” from South Africa and “Umicore” from Belgium.

Table 13. Example of companies known as corporate governance leaders

Country	Companies	Sector	Ownership	Freefloat	Score
UK	Fresnillo	materials	Subsidiary	75%	84%
South Africa	Standard bank	Financials	dispersed	94%	92%
Belgium	Umicore	Chemical	dispersed	100%	92%

As shown in table 13, it seems that these companies respect our matrix rather well with an average of eighty-nine per cent. This result confirms the fact that our matrix correctly assesses the respect of formal corporate governance.

Section b. Scoring per categories

It is interesting to try and find out whether one of our categories has a stronger influence on the company score.

Thanks to table 14, we first see how similar Board Independence category and Board Committee category are. Indeed, their respective scores vary only slightly. Therefore, we can assume that they are strongly related. These similarities are explained by the fact that usually directors sitting on the board are the same as those in the committees. This relationship increases the weight of the board indicators in our scoring process. In fact, as mentioned before, it just proves that our scoring process analyses more specifically board aspect and not the whole concept of corporate governance. In this respect, it is important to remind the weight of our categories⁽¹⁾: Disclosures represent 24%, Board independence 40% and Committee 36%. Consequently, our board indicators will represent 76% of our scoring process, which confirms our assumption.

Table 14. Scoring per corporate governance categories

Countries	Disclosures	Board independence	Committee
Egypt	37%	38%	34%
Morocco	30%	10%	12%
Nigeria	80%	56%	57%
Kenya	90%	70%	71%

Secondly, table 14 shows the difference between Egypt and Morocco on the one hand and Nigeria and Kenya on the other hand in terms of scoring.

Finally, it is interesting to mention how really consistent Egypt is in its different categories.

Section c. Independent variables

Four independent variables have been selected to study our database: country, ownership structure, sector and free float. Our goal will be to determine if they influence our companies' score and how? After each section, we will pose a question that we will use for our statistical analysis.

§ 1: Country

Our country variable is composed of four values: Egypt, Nigeria, Morocco and Kenya. This variable "country" will probably influence our scoring. Indeed, aspects such as culture, regulations and type of government will affect the corporate governance development of a country. It seems that corporate governance may have different perspectives according to countries. As shown in table 15, our companies' results confirm this assumption. Indeed, our scores vary depending on the country. Morocco with 16% of average score has a rather poor

⁽¹⁾ Figure 12, P.29.

formal corporate governance implemented compared to Kenya with 77% of average. The score of Kenya is more similar to our companies' examples as seen in table 13.

Table 15. Countries facts

Country	N°companies	Average scoring
Morocco	10	16%
Egypt	10	36%
Nigeria	10	62%
Kenya	10	77%

This situation is interesting and raises certain questions about how corporate governance is developed in African countries:

- Why such a difference in corporate governance scoring between these African countries?
- Which factors explain this difference?
- Can we group countries according to their similarities? Is it possible to compare Morocco and Egypt to Kenya and Nigeria?

Even though country variable seems to influence our scoring, we need to prove it with a statistical study. To do so, we will answer the next question in chapter 3 on “statistical analysis”:

- Does the country influence the corporate governance score?

§ 2: *Ownership structure*

Ownership structure defines the composition of the shareholders. As explained by Dewji and Miller (2013) : “*ownership structure is a key component of corporate governance. Indeed, as an example higher ownership concentration allows owners to have more direct control over management's actions and possibly extract personal benefit.*”

We classified companies' ownership structure in three categories:

- **Dispersed:** dispersed ownership is characterized by the presence of many different shareholders. We decided to assign a company to this category when there is no majority shareholder⁽¹⁾.
- **Family owned:** a majority shareholder or different shareholders belonging to the same family dominate this kind of shareholding. The family should own more than 50% to be included in this category. For instance, Dangote family holds more than 90% of the shares of Dangote cement in Nigeria (through Dangote Industries Ltd).

⁽¹⁾ A majority shareholder owns more than fifty per cent of the total share.

- **Subsidiary:** a subsidiary is a company owned or controlled by another company. Many listed African companies are majority owned by international companies. For instance, we will study two subsidiaries held by Lafarge Group, one in Nigeria (Lafarge Africa) and another one in Morocco (Lafarge cement).

Figure 18 depicts our companies' dispersion among this ownership structure. Our database is mainly dominated by dispersed ownership and subsidiary. The strong presence of subsidiary highlights the international influence on African economy. As shown in table 16, with 33%, family ownership seems to have a lower scoring average than dispersed and subsidiary ownership. This situation raises certain questions:

- Is ownership structure significant enough to conclude that family-owned companies poorly implemented corporate governance compared to other ownership structures?

We will use this last question to lead our statistical test.

Table 16. Ownership structure facts

Ownership structure	N°companies	Average scoring
Dispersed	17	54%
Family-owned	6	33%
Subsidiary	17	47%

§ 3: Sectors

This variable is composed by five different categories:

- **Consumption :** this category is composed by companies coming from consumer staples⁽¹⁾ and consumer discretionary⁽²⁾ sectors. These sectors are direct beneficiaries of consumer spending patterns. We chose to merge both categories because of their similarities and the fact that only one Egyptian consumer discretionary company, Eastern Tobacco, was represented in our sample.
- **Materials :** materials sector generally includes cement, building materials and construction companies. In the context of our sample, companies included in the material sector are 100% cement companies.
- **Energy :** only three companies are part of this category: two oil companies from Nigeria and Elsewedy electric from Egypt. Elsewedy was initially ranked in the industrial sector.

⁽¹⁾ *The Consumer Staples Sector comprises companies whose businesses are less sensitive to economic cycles. It includes manufacturers and distributors of food, beverages and tobacco and producers of non-durable household goods and personal products (MSCI, 2015).*

⁽²⁾ *The Consumer Discretionary Sector encompasses those businesses that tend to be the most sensitive to economic cycles. Its manufacturing segment includes automotive, household durable goods, leisure equipment and textiles & apparel (MSCI, 2015).*

However, since our aim is to reduce categories, we decided that an electric company may be included in the Energy sector.

- **Finance** : as shown in table 17, Finance is the biggest sector with nineteen companies present. All these companies are banks.
- **Telecommunication** : only three companies build-up this category.

Table 17. Sector fact

Sector	N°companies	Average scoring
Finance	19	51%
Consumption	9	43%
Energy	3	53%
Materials	6	36%
Telecommunications	3	50%

As table 17 shows, averages by categories are approximately the same. So it is difficult to state that sectors influence companies' scores. Moreover, we need to statistically prove it.

- Does a company's sector influence its corporate score?

We will use this question to lead our statistical test.

§ 4: *Free float*

Financial Times (2015) defines the free float of a company as: "*The portion of its shares that can be publicly traded*". Indeed, companies often have only a part of their shares available for investors. To calculate the free-float, shares from strategic investors are excluded such as family shareholders, governmental shareholders and majority shareholders.

A small free float raises concern about the control over a company. For example Dangote cement in Nigeria, with 90% of the shares held by the family, has only a free float of 10%. This kind of free float often puts into brackets shareholder equality. This explanatory variable would usually be linked with ownership structure. For instance, dispersed ownership would usually be correlated with high free-float whereas subsidiary and family-owned companies will have a lower level of free float. As we can see in table 18, Nigeria's free float is the highest due to its number of companies with dispersed ownership.

Table 18. *Free float versus ownership*

Country	Free-float average	Dispersed companies
Egypt	54%	3
Maroc	26%	3
Nigeria	71%	6
Kenya	49%	3

Our variable “free-float” is not categorical but continuous. To ease our future statistical analysis, we will transform free float in a categorical variable. To do so:

- “Low” free-float will be associated to the range between 0% and 25%.
- “Average” free-float will be associated to the range between 26% and 50%.
- “High” free-float will be associated to the range between 51% and 75%.
- “Top” free-float will be associated to the range between 76% and 100%.

Table 19: Free float facts

Free-float	N°companies	Average scoring
Low	10	33%
Average	16	43%
High	5	60%
Top	9	64%

As shown in table 19, our average scoring seems to increase according to the free float percentage. As argued before, a low free float raises concern about company corporate governance. Fraud and corruption seem to be more frequent in concentrated ownership. Therefore, it could appear logical that our free float rate influences our companies’ score. Nevertheless, we have to prove it.

- Does company’s free-float percentage influence its corporate score?

We will use this question to lead our statistical test.

Chapter 3. Statistical analysis

In this part, the objective is to understand if our independent variables are significant to explain our dependent variable “corporate governance score”. In our independent variables, we have two variables dependent on each other. Indeed, ownership structure and free-float are clearly related. For example, if a company has 75% of free-float, it will be characterized by a “dispersed” ownership structure due to the absence of key strategic shareholders such as family and parent companies. We have to select the variable which explains our dependent variable in a better way.

We will first assess our explanatory variables depicted in the previous section with an ANOVA⁽¹⁾ (comparison of means). Next, we will select our variables for our multiple linear regressions and finally we will make a clustering analysis to conclude this statistical part.

⁽¹⁾ Analysis of variance.

Section a. The analysis of variance: ANOVA

In this part, we will answer the questions mentioned in the previous chapter. Our goal is to understand which variables influence our scoring. We will analyse if our data presents sufficient evidences to indicate a difference of means in our explanatory variables. For instance, if our companies scoring average for Kenya is significantly different from Nigeria, Morocco and Egypt, our variable “country” will be significant. To do so, we will use the ANOVA method. A requirement for the ANOVA is to have a continue dependent variable to explain (corporate governance score) with independent categorical variables.

§ 1: ANOVA Theory

Before to define ANOVA, we need to recap the concept of variance. *The variance of a sample of measurements $y_1, y_2, \dots, y_n$ is the sum of the square of the differences between the measurements and their mean, divided by $n - 1$. Symbolically, the sample variance is* (Wackerly, Mendenhall, & Scheaffer, 2008):

$$(1) S^2 = \frac{1}{n-1} \sum_{i=1}^n (y_i - \bar{y})^2$$

ANOVA analyses the variance of a dependent variable depending on our independent variables. Wackerly et al. (2008) define ANOVA as: “*the procedure which attempts to analyse the variation in a set of responses and assigns portions of this variation to each variable in a set of independent variable*”, as shown in figure 4.

In our case, the response variation will be our scoring variation and we will try to assign it to our independent variables (country, sector, ownership and free float).

Figure 4. ANOVA's Procedure

FIGURE 13.1
Partitioning of the
total sum of squares
of deviations

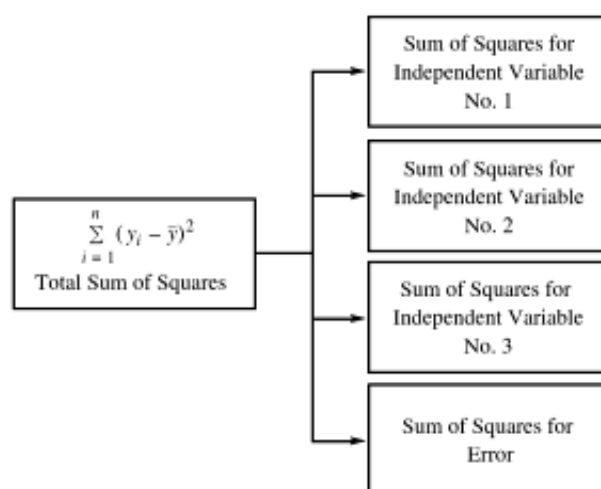


Figure 4 brings forward that the Total Sum of Squares (SS), in other words the total variance of the response variable, is equivalent to the sum of squares for independent variables (SST) plus the Sum of Squares for Error (SSE).

$$(2) SS = SST + SSE$$

The objectives of the ANOVA is to identify important independent variables and determine how they can affect the response (Wackerly et al., 2008). When a variable is highly related to the response, its portion of the total sum of squares will be inflated. This condition can be detected by comparing the sum of squares for that variable “SST” with the sum of squares for error “SSE”.

$$(3) SST = n_1 \sum_{i=1}^n (\bar{Y}_i - \bar{Y})^2$$

$$(4) SSE = \sum_{i=1}^n \sum_{j=1}^{n_1} (Y_{ij} - \bar{Y}_i)^2$$

The test will be based on a statistic that possesses a Fisher distribution and specifies that the hypothesis of no effect for the independent variable should be rejected if the value of F is high. The null hypothesis to test is:

$$(5) H_0: \mu_1 = \mu_2 = \mu_3 = \mu_4$$

Let us consider the means between categories. If the means between categories within a variable represented by a “ μ ”, are different, the dependent variability explained by the independent variable will be high and consequently the Fisher statistic will be high. As a result, the null hypothesis will be rejected and the independent variable will be significant to explain our dependent variable.

§ 2: ANOVA realisation

Our analysis has been done with the program SPSS⁽¹⁾. We have only shown figure 5 coming from SPSS, representing the one-way ANOVA for our variable country. A one-way ANOVA assesses only the importance of one independent variable on the variability of the dependent variable. Please refer to appendix 4, to find the other figures. For our test we chose an alpha level of 0,05, which is commonly used. *The alpha level or significant level is the probability of making the wrong decision when the null hypothesis is true* (Pigeon & Segers, 2011).

○ Country

As shown in figure 5, the Fisher test result is high with 25,75. Therefore, we can reject our null hypothesis and our variable is significant, as shown in the column “significant” figure

⁽¹⁾ Statistical package for social science.

5 with the value 0.000. This value “significant” should be inferior to our alpha level 0,05, which is the case.

Figure 5. Country’s ANOVA

	Sum of Squares	Degree of freedom	Mean Square	F	Significant
Between Groups	2,193	3	0,731	25,769	0,000
Within Groups	1,021	36	0,028		
Total	3,214	39			

As a result, we answered positively to our question asked in the previous chapter: “does the country influence the corporate governance score?”. Therefore, our variable country should be selected and kept for our analysis.

- Sector

The significant value for our variable ‘sector’ is 0,791 (see appendix 4). This value is superior to our alpha level. Therefore, we answered negatively to our question asked in the previous chapter: “does a company’s sector influence its corporate score?” ‘Sector’ variable should be consequently rejected.

- Ownership structure

The significant value for our variable ‘ownership structure’ is 0,317 (see appendix 4). This value is superior to our alpha level. Therefore, we answered negatively to our question asked in the previous chapter: “is ownership structure significant enough to conclude that family-owned companies poorly implemented corporate governance compared to other ownership structures?”. ‘Ownership structure’ variable should be consequently rejected.

- Free float

The significant value for our variable ‘free float’ is 0,068 (see appendix 4). This value is superior to our alpha level and should be consequently rejected. However, this value is slightly different from the reject level and can be discussed. Therefore, it is difficult to answer to our question asked in the previous chapter: “does company’s free-float percentage influence its corporate score?”. This variable will be kept aside.

Section b. Multiple linear regression

According to Wackerly et al. (2008), *a multiple linear regression is a statistical model relating a random response Y to a set of independent variables $x_1, x_2, \dots, x_k$ is of the form:*

$$(1) Y = \beta_0 + \beta_1 x_1 + \beta_2 x_2 + \dots + \beta_k x_k + \varepsilon$$

The physical interpretation of the linear model Y. Y is equal to an expected value, $\beta_0 + \beta_1 x_1 + \beta_2 x_2 + \dots + \beta_k x_k$, plus a random error ε .

The random term ε allows us to take into account that the total variability of the dependant variable Y cannot just be explained by the independent variables.

To draw this model and estimate our parameters $\beta_0, \beta_1, \dots, \beta_k$, we will use our program SPSS. As explained previously, ownership structure and free float are two dependent variables. As shown on section a (ANOVA section), free float is the most significant. Therefore, we will choose it instead of ownership structure.

Our ANOVA method rejected our variable "sector". As shown in figure 6, this rejection is confirmed by the regression with significant value of 0,440. By contrast, our variable free-float was kept aside due to the little difference with the alpha level. In fact, as shown in figure 6 with a significant value of 0,007, free float is a pertinent variable for our model. Thus, our free float variable explains partly our companies scoring. Finally, our constant term β_0 is non-significant with significant value of 0,223.

Figure 6. Regression coefficients

Model	Unstandardized Coefficients		Standardized Coefficients	t (student)	Significant
	B	Standard Error	Beta		
1 (Constant)	-0,173	0,139		-1,241	0,223
Country	0,146	0,029	0,589	5,053	0,000
Free float	0,093	0,032	0,361	2,861	0,007
Sector	0,023	0,030	0,098	0,780	0,440

As a result, variables selected for our model which influence our variable response are country (x_1) and free float (x_2) as shown on the next model:

$$(2) Y (\text{score}) = 0,146 x_1 + 0,361 x_2 + \varepsilon$$

Last step is to assess if the regression is globally significant. We are going to test all the parameters together.

$$H_0: \beta_0 = \beta_1 = \beta_2 = \dots = \beta_k = 0$$

$$H_1: \text{at least one } b_j \neq 0$$

As shown in figure 7, we used the Fisher distribution to test our model. The model is significant with a significant value of 0,000.

Figure 7. Regression model signification

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Change Statistics				
					R Square Change	F Change	df1	df2	Sig. F Change
1	0,733	0,538	0,499	0,19888	0,538	13,967	3	36	0,000

a. Predictors: (Constant), Sector, Country, Free float

b. Dependent Variable: Scoring

Section c. Clustering

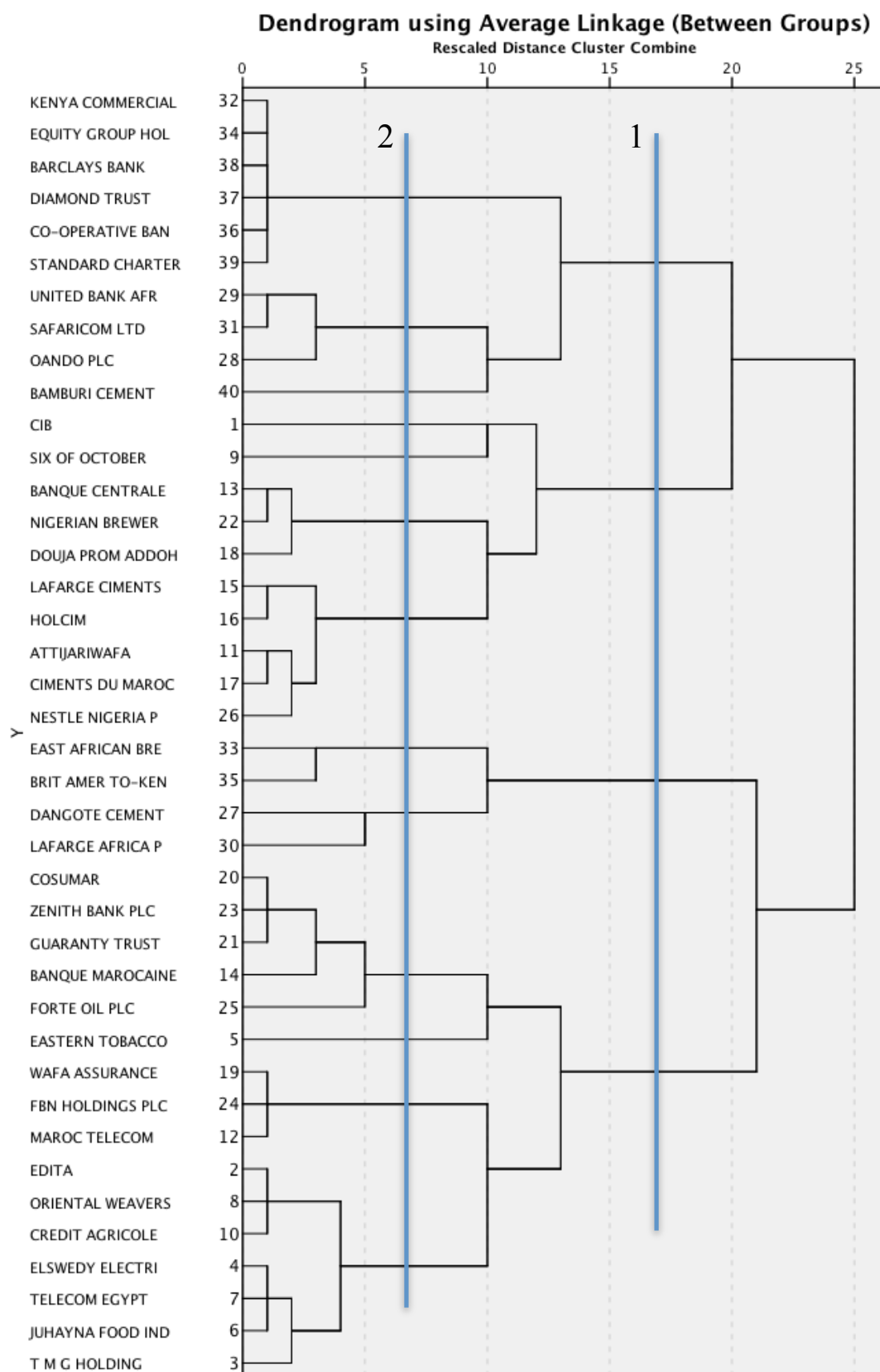
To finish our statistical study, we will use a method of clustering to analyse our different companies. The method used is the agglomerative hierarchical method. This method begins with the presence of a multitude of groups, usually each observation will be considered as a group or a cluster. Step by step, the aim will be to merge clusters, which are the most similar (Pigeon & Segers, 2011).

To analyse this similarity, we will use the average linkage as shown with the equation (3). It will analyse the proximity between two groups (A and B here) and merge the closest. The distance measure used is the Euclidian distance as shown on equation (4).

$$(3) \delta(A, B) = \frac{1}{\eta_A \eta_B} \sum_{a_i \in A} \sum_{b_j \in B} (d^2(a_i, b_j))$$

$$(4) d^2(x, y) = (x_1 - y_1)^2 + (x_2 - y_2)^2$$

As shown on figure 8 below, companies have been grouped into clusters according to their similarities. As a reminder, we only chose two variables: country and free float. We can decide, depending on the distance depicted in abscise, to raise or decrease the sharpness of our selection.

Figure 8. Clustering dendrogram⁽¹⁾

⁽¹⁾ Companies between 1-10 belong to Egypt, between 11-20 belong to Morocco, between 21-30 belong to Nigeria, between 31-40 belong to Kenya.

- As shown on figure 8, line one confines our selection to only four clusters. As we can see, the first group includes mainly companies from Kenya⁽¹⁾ (40, 28, 31, 29, 39, 36, 37, 38, 34, 32). The second group is mainly composed by Moroccan companies, the third by two Nigerian and two Kenyan whereas the fourth, the biggest, is composed by a mix of Nigerian, Moroccan and Egyptian companies.
- If we reduce the distance and consequently increase the number of clusters, as we can see with the line two in figure 8, it shows that companies are usually classified by countries. This result confirms our previous conclusions. However, this result is not consistent in every cluster. Indeed, free float variable is also taken into account. Therefore, certain clusters are composed by companies from different countries.

Section d. Statistical conclusion

Our statistical tests have confirmed our assumptions set in our study results. Indeed, our two significant variables are countries and free float. By contrast, there is not enough evidence to affirm that our dependent variable “scoring” is influenced by our variables sector and ownership structure.

⁽¹⁾ Companies between 1-10 belong to Egypt, between 11-20 belong to Morocco, between 21-30 belong to Nigeria, between 31-40 belong to Kenya.

PART IV. Discussion, limits and suggestions

Chapter 1. Results discussions

Why country and free float are more influential in determining the quality of corporate governance than sector and ownership structure? In fact, as developed in our readings, we think that corporate governance standards are strongly correlated with the location of the companies. Indeed, as stated by Claessens and Yurtoglu (2012) : *“Because corporate governance is essentially about decision making, it is inevitable that social norms and structure play a role”*. In our study, the location was represented by countries.

First, we will illustrate how countries consider corporate governance in order to detect differences and similarities between countries. In doing so, we decided to summarize country codes.

Secondly, we will discuss our variables free-float and ownership structure, which are dependent on each other.

Furthermore, we will try to understand the reasons for such differences between companies' scoring in interpreting our significant variables: country and free-float.

Finally, we will summarize the global situation of corporate governance in Africa.

Section a. Country codes

The Code's summaries, see details in appendix 3, based on our indicators, give us an interesting idea about how corporate governance is considered in these countries. Our objective is to shed light on countries which tend to allow greater importance to corporate governance measures. We collected the main ideas of our summaries in table 20.

Table 20. Countries views on our selected categories

Country	Disclosure	Board independence	board committe
Egypt	Ifrs asbence compensation problem	No independence definiton	In compliance
Morocco	No information on compensation	Wrong definition on independence	In compliance
Nigeria	Detailed information	Highly detailed	In compliance
Kenya	Detailed information	Should also represent shareholder structure	In compliance

As shown in figure 9, it seems that Kenyan and Nigerian codes are a step further than the two other countries. Indeed, they focus more on independence and have better disclosure recommendations. By contrast, each country recommends the implementation of the three

main committees (remuneration, nomination and audit). However, to be effective, a committee must be able to have independent opinions. The Egyptian and Moroccan codes are quite unclear concerning board definition. For example, the Moroccan code mentions: “*each board director should have an independent opinion*”(Commission nationale gouvernance d'entreprise, 2008). This view seems out of date because we know that it is impossible for executive or family shareholder directors to have independent opinions.

Section b. Free float and ownership structure

Why is free float more significant than ownership structure even though they are clearly related?

First, the fact that the free float variable is a percentage, brings more accuracy to this variable than ownership structure. Indeed, our variable ownership structure is interesting but it does not reflect perfectly our company's shareholder organisation. For instance, there is a difference between a family owned company holding fifty-one per cent and a family owned company holding about ninety per cent of the shares.

Moreover, family owned and subsidiary categories often have the same objective which is to influence board decisions. As a result, if a high percentage of directors are related to the company owners, scores of board independence are consequently reduced. Free float variable does not consider the kind of ownership but only takes into account the percentage held by key shareholders. Free-float tends to inform us better about board independence.

Finally, one of the goals of corporate governance is to ensure equality between shareholders and the board must respect this aspect. The variable free float also shows the impact of majority shareholders on minority shareholders. Companies with low free-float will not really take into consideration the minority interests. Indeed, as confirmed by our results in table 19⁽¹⁾, a low free float correlates with a low scoring.

Section c. How is companies' scoring difference explained?

§ 1: Country variable

How can we explain the difference in terms of corporate governance scores between these countries? This question is so broad that it could be the topic of a thesis but we will try to shed light on this issue.

El Bouanani (2014) mentions: “*In simple words, it means that corporate governance systems in a given country are the results of specific historical, political and institutional events*”.

⁽¹⁾ P. 37.

We will base our reflexion on countries' history and especially on influence of colonialism. Indeed, we think that colonial influence is still present in the countries' identity and could explain such differences in corporate governance practices.

- Colonial origin

As argued by Agbor, Fedderke, and Viegi (2011): *“the fact that different colonial strategies were pursued by different colonisers in various territories suggests possible ramifications for current development paths.”*

As mentioned by Wesseling (1991): *“The sharing of Africa between European nations has really begun in 1880”*. Two nations or rather two Empires have taken the biggest part of the cake: the French Empire and the British Empire⁽¹⁾. Within our four countries, three were part of the British Empire: Egypt, Nigeria and Kenya, while Morocco was part of the French Empire. It is important to take a small walk through colonial history:

- The crown colony of Kenya⁽²⁾: from 1895 to 1963 (BBC, 2015b).
- The colony and protectorate of Nigeria: from 1861 to 1960 (BBC, 2015d)
- The Egyptian protectorate: from 1882 to 1922, although British influence remained strong until mid-1950 (BBC, 2015a)
- The Moroccan protectorate: from 1912 to 1956 (BBC, 2015c).

In Africa nowadays, former British colonies appear to do better in terms of economic growth performances (Asongu, 2014). What are the possible reasons of this economic strength?

- (1) Education: according to Klerman, Mahoney, Spamann, and Weinstein (2008)⁽³⁾ : *“educational policy is the main reason why British colonies perform better than French colonies”*. It was known that the French education objective was mainly to train staff for colonial bureaucracy when the British Empire developed a more thorough educational process⁽⁴⁾ (Agbor et al., 2011).
- (2) Trade: as argued by Agbor et al. (2011): *“Britain was the only imperial power that was committed to free trade, whilst other European powers, notably France were still building up their rival industries through protectionism”*. As a result, former British

⁽¹⁾ See in appendix 6: to find a map representing the attribution of African countries to European countries.

⁽²⁾ East African protectorate from 1895 to 1920.

⁽³⁾ Using a sample of 49 former colonies around the world during 1960-2003.

⁽⁴⁾ Duignan and Gann (1975) depicts British education as: *“mission teachers in British Africa not only taught their pupils how to read and write, but also taught them how to try their hands at many different jobs because the teachers themselves, besides giving lessons, were also engaged in such diverse activities as constructing their own buildings, cultivating their own crops, experimenting in agriculture and building roads.”*

colonies were opened to world trade whereas French colonial economies only traded with France.

- (3) The origin of legal tradition: common law⁽¹⁾ versus civil law⁽²⁾. France as many European countries adopted civil law whereas Great Britain refers to common law. As mentioned by Asongu (2014): *“these broad strategies and ideas were incorporated into specific legal rules, but also into the organization of the legal system, as well as the human beliefs and capital of its participants”*. These ideas were also transplanted to colonies and have consequently strongly influenced regulation systems and institutions. La Porta, Lopez-De-Silanes, Shleifer, and Vishny (1997) mention: *“English common law countries have better prospects for financial development as their French civil counterparts”*. *Common law countries provide stronger legal protection to creditors and shareholders, better institutions with less corrupted governments and more informative accounting standards* (La Porta et al., 1997).

- Egypt’s dual position

Egypt has a strange position in Africa. France and England have both influenced this country. Even though Egypt was a British protectorate for more than 80 years, Egypt has still French roots in its culture. This French influence comes from the invasion of Napoleon in 1798 (Kelly, 2015). Although French occupation was short, we find French regime characteristics in Egypt: for instance, *its legal system is ruled by civil law* (University of California at Bekerley, 2010) and the language spoken by the upper class was French until Nasser.

- Morocco’s weaknesses

Morocco is weaker in terms of corporate governance. In fact, a reason could be a strong protectionism inherited in part from the long French occupation. The actual situation in Morocco is characterized by the omnipresence of the king in the economy. For instance, our Moroccan code was the only source which refers to head of the country as the ‘highness’ king Mohammed VI. As explained by Graciet and Laurent (2012): *“ the King holds control on all*

⁽¹⁾ Common law is generally uncodified. This means that there is no comprehensive compilation of legal rules and statutes. While common law does rely on some scattered statutes, which are legislative decisions, it is largely based on precedent, meaning the judicial decisions that have already been made in similar cases (University of California at Bekerley, 2010).

⁽²⁾ Civil Law, in contrast, is codified. Countries with civil law systems have comprehensive, continuously updated legal codes that specify all matters capable of being brought before a court, the applicable procedure, and the appropriate punishment for each offense (University of California at Bekerley, 2010).

key economic sectors of his country”⁽¹⁾. The state and king’s omnipresence in the economy comes from a famous French doctrine “the Colbertism”⁽²⁾.

Moreover, Morocco is characterized by a more concentrated ownership than in the other countries studied. Indeed, as shown in table 18⁽³⁾, the Moroccan free float is by far the lowest with 26%. As explained here above, our free-float variable positively correlated⁽⁴⁾ with our scores. As a result, it is logical that Morocco with its low free-float is associated with a low score.

These reasons explain partly the differences in corporate governance scores between the selected countries. Thereby, one could pretend that Kenya and Nigeria good corporate governance scores are, at least partly, founded under British influence.

Colonial influence seems obvious but countries can go ahead and start building a new system of corporate governance which would really benefit their economy.

§ 2: Free float

The fact that corporate governance scores are influenced by our variable free-float shows that “good” corporate governance is better implemented on free market where companies’ shares are easily available for the investor. Therefore, we assume that markets dominated by free exchanges will be characterized by the presence of highly developed corporate governance codes. This assumption is confirmed by our table 19⁽⁵⁾ for Egypt, Morocco and Nigeria. However, Kenya which has the best scoring (77%), remains at a low level in terms of free float (49%).

Section d. Africa as a whole

As shown below in table 21, Africa’s leading corporate governance companies’ scoring of formal corporate governance is about 48% which is far below the selected examples reaching 89% of scoring average. Therefore, we understand that Africa has a long way to go in terms of corporate governance to reach international standards. However, we notice that Nigeria reaches 62% and Kenya 77%.

⁽¹⁾ The king Hassan II argued: “*I own my country*”.

⁽²⁾ *Economic system from Colbert (minister of Louis XIV) based on a strict control by the State and the monarch on the country economic system. It is characterized by a strong protectionism* (centre national de ressources textuelles et lexicales, 2015).

⁽³⁾ Page 36.

⁽⁴⁾ If free-float percentage increases, scores increase.

⁽⁵⁾ Page 37.

Table 21. Africa's average scoring

Companies	Average scoring
Western exemples	89%
African companies	48%

Is this scoring representative of what is happening on the field? Nothing seems less likely. We will debate about this issue in our next chapter on 'Limits'.

Chapter 2. Limits

Even though the results of this thesis seem to be in accordance with the actual corporate governance situation in these countries⁽¹⁾, they have to be considered. We listed below some limits that we met along our study.

Section a. Study focus

To carry out our study effectively, we had to focus on certain points of corporate governance and therefore limit our analysis. Indeed, it was not possible to conduct a study of the whole concept of corporate governance for entire Africa.

§ 1: Indicator number

Our selection of indicators had to be limited. Indeed, our indicator selection is focused only on board of directors and disclosures although there are many more categories. For instance, we had no indicators analysing shareholder rights or environment control. However, we consider that our selection ensures appropriate representation of the corporate governance situation in the given countries.

§ 2: Companies selection and country capitalization

As shown in table 9⁽²⁾, our selected companies only represent a part of the countries' stock market. Kenya and Nigeria's selection are searching a fair share of these countries stock market with respectively 85% and 71%. Morocco's selection represents 56% of the total quoted companies whereas Egypt's selection only represents 32%. This percentage will automatically introduce a certain share of error in our country results.

⁽¹⁾ According to our readings and our discussions with Gaetan Herinckx (senior investment specialist for Sustainable Capital In South Africa).

⁽²⁾ Page 28.

§ 3: *Western concept*

Our indicator selection is based mainly on codes born in developed countries. As mentioned by Claessens and Yurtoglu (2012): “*Western concept may not be transferable to emerging countries* ». Indeed, countries’ organisation, institutions and culture are very different in Africa compared to developed countries. We can raise the question about the objectivity of this indicator selection. Do they effectively represent the way good corporate governance is perceived by Africans?

Section b. Formal corporate governance rather than practical corporate governance

Our analysis is based on formal corporate governance, which means that we take into account only what companies publish on their corporate governance practices. To have a better idea on corporate governance in Africa, we should have analysed what it is really implemented on the ground, but that information is difficult to obtain. To do so, we should have had interactions with companies and interviews with directors of the board. But unfortunately, this was beyond the limits of our analysis.

Section c. Information access

Indicators were limited by lack of information access. For instance, analysis of related party transactions or directors compensations would have widened our horizon to the ‘practical’ side of corporate governance but data about these topics was unclear or absent.

Section d. Regulatory approach

The codes of corporate governance that we selected follow the rules “comply or explain”. Indeed, *recommendations taken by these groups are non-binding* (Rose, 2007) and *usually follow the “comply or explain” practices* (Linklaters, 2011). This regulatory approach has its disadvantages.

El Bouanani (2014) argues: “*when there is no legal obligation, companies have different understandings of governance concepts and different priorities*”. Moreover, Linklaters (2011) explains: “*the ‘comply or explain’ approach allows easily companies to escape from their corporate governance obligations*”. In fact, the problem is not really the regulatory approach which allows freedom to the company but the component “explain” which is often inadequately described. Improving this component would improve this regulatory approach and consequently enforce better corporate governance practices.

Chapter 3. Improvement suggestions

Due to the unavoidable limits of our study, we realize that the following improvements could be made to widen our perspectives:

- Analyse more indicators across the entire corporate governance categories.
- Analyse more companies to improve our statistical results.
- Go into the field (Africa) and discuss with the main actors of corporate governance: governments, companies, and corporate governance code issuers.
- Choose three companies with a good score and analyse what is really implemented in terms of corporate governance in the company. It could inform us about the margin of error that we have between formal corporate governance and the way corporate governance is actually applied.

All these suggestions could be interesting for a further development of our thesis.

PART V. Conclusion

Chapter 1. Current state of affairs

The goal of this thesis was to analyse formal corporate governance in Africa. To do so, we selected a list of 12 corporate governance indicators in order to assess formal corporate governance of 40 companies from Nigeria, Kenya, Egypt and Morocco. Our thesis has been guided by the following question:

“What is the current state of affairs in Nigeria, Egypt, Morocco and Kenya in terms of board of directors independence, board committees and disclosure & transparency practices?”

According to our study, it seems that the concept of formal corporate governance was developed quite differently according to the country. Indeed, following our scoring matrix, the average score on formal corporate governance varies strongly depending on the country where companies are located. Our study points out similarities in corporate governance scoring between on the one part Kenya (77%) and Nigeria (62%) and on the other part Morocco (16%) and Egypt (36%).

In our discussions, we tried to understand how to explain these similarities and differences. It seems that colonial influence, French or British, plays a significant role in the formal corporate governance development. In fact, British Empire had in mind to develop in depth the economic situation and free-trade of its colonies or protectorates whereas French Empire with its ‘Colbertism’ policy enabled the ruling class to take up interests in every economic strategic position and to promote a strong economic protectionism. Kenya and Nigeria were under British influence, Morocco was under French influence whereas Egypt had a dual position being a British protectorate but ruled by ‘civil law’ which is typically coming from French tradition. Moreover, the regulation system which is usually associated to colonial influence⁽¹⁾, affects formal corporate governance. Indeed, Nigeria and Kenya, following ‘Common law’ principles, have a better scoring than their peers.

By contrast, our study shows that it is difficult to draw conclusions about global African corporate situation. Indeed, lack of available information and critical situations in certain countries made the task difficult. Nevertheless, our study allows a better understanding of the main African economies concerning formal corporate governance situations.

⁽¹⁾ French influence implies Civil law whereas British influence implies Common law.

Chapter 2. African formal corporate governance drivers

The underlying question of our study was:

Is company corporate governance score influenced by external variables?

The aim of this question was to understand which are the drivers of formal corporate governance in Africa. We statistically tested four independent variables: Country, Sector, Free-float and Ownership structure from the database we created. It appeared that the variables Country and Free-float were considered as significant. This result meets our assumptions developed in our chapter “study results”⁽¹⁾.

First, these results confirm the fact that formal corporate governance is influenced by the environment where companies are located. For instance, regulation system, cultures, tradition and general corruption will influence formal corporate governance standards.

Secondly, these results confirm that “good” corporate governance seems to be associated with a free market where diversified companies are the main actors. Indeed, our companies’ scorings increase when companies free-float percentage increases.

Chapter 3. Further areas of debate

This study leads us to other paths of reflection.

First, we wonder if our formal corporate governance results will be the same in the field. Knowing the African economic situation, we believe that our corporate governance indicators will be applied in a lesser extent in the real economic world. To prove this hypothesis, we could have picked the three best companies in terms of formal corporate governance and assess if they, in practice, implement good corporate governance e.g. fair transfer pricing with related parties.

Secondly, another interesting topic would have been to analyse the real impact of the stewardship theory on corporate governance standards. Does a free market implement better codes of corporate governance? According to our results, it seems that the answer is “yes” but it would be interesting to measure it.

Finally, the colonial influence on African countries and their economies seems to play a massive role in the economic situation of our countries studied. This topic would deserve a further in depth analysis.

⁽¹⁾ Page 32.

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Appendixes

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Appendix 1. Companies scoring

Country	Companies	Sector	Ownership	Freefloat	Score%
Example	Fresnillo	materials	Subsidiary	75%	84%
Example	Standard bank	Financials	Dispersed	94%	92%
Example	Umicore	Chemical	Dispersed	100%	92%
Egypt	CIB	Financials	Dispersed	95%	64%
Egypt	EDITA	Consumer Staples	Dispersed	98%	36%
Egypt	T M G HOLDING	Financials	Family-owned	50%	68%
Egypt	ELSWEDY ELECTRI	Industrials	Family-owned	27%	32%
Egypt	EASTERN TOBACCO	Consumer Staples	Subsidiary	39%	28%
Egypt	JUHAYNA FOOD IND	Consumer Staples	Family-owned	49%	24%
Egypt	TELECOM EGYPT	Telecommunication Services	Governmental	20%	44%
Egypt	ORIENTAL WEAVERS	Consumer Discretionary	Family-owned	43%	8%
Egypt	SIX OF OCTOBER	Financials	Dispersed	65%	60%
Egypt	CREDIT AGRICOLE	Financials	Subsidiary	30%	0%
Morocco	ATTIJARIWafa	Financials	Dispersed	24%	36%
Morocco	MAROC TELECOM	Telecommunication Services	Subsidiary	17%	40%
Morocco	BANQUE CENTRALE	Financials	Dispersed	25%	48%
Morocco	BANQUE MAROCAINE	Financials	Dispersed	20%	8%
Morocco	LAFARGE CEMENTS	Materials	Subsidiary	21%	16%

Morocco	HOLCIM	Materials	Subsidiary	49%	0%
Morocco	CIMENTS DU MAROC	Materials	Subsidiary	21%	8%
Morocco	DOUJA PROM ADDOH	Financials	Family-owned	37%	0%
Morocco	WAFIA ASSURANCE	Financials	Subsidiary	18%	0%
Morocco	COSUMAR	Consumer Staples	Dispersed	28%	0%
Nigeria	GUARANTY TRUST	Financials	Dispersed	100%	64%
Nigeria	NIGERIAN BREWER	Consumer Staples	Subsidiary	48%	64%
Nigeria	ZENITH BANK PLC	Financials	Dispersed	90%	68%
Nigeria	FBN HOLDINGS PLC	Financials	Dispersed	98%	68%
Nigeria	FORTE OIL PLC	Energy	Dispersed	100%	72%
Nigeria	NESTLE NIGERIA P	Consumer Staples	Subsidiary	37%	48%
Nigeria	DANGOTE CEMENT	Materials	Family-owned	7%	64%
Nigeria	OANDO PLC	Energy	Dispersed	100%	56%
Nigeria	UNITED BANK AFR	Financials	Dispersed	99%	60%
Nigeria	LAFARGE AFRICA P	Materials	Subsidiary	30%	56%
Kenya	SAFARICOM LTD	Telecommunication Services	Dispersed	25%	68%
Kenya	KENYA COMMERCIAL	Financials	Dispersed	73%	72%
Kenya	EAST AFRICAN BRE	Consumer Staples	Subsidiary	50%	92%
Kenya	EQUITY GROUP HOL	Financials	Subsidiary	53%	92%
Kenya	BRIT AMER TO-KEN	Consumer Staples	Subsidiary	40%	84%
Kenya	CO-OPERATIVE BAN	Financials	Subsidiary	32%	56%
Kenya	DIAMOND TRUST	Financials	Dispersed	61%	68%
Kenya	BARCLAYS BANK	Financials	Subsidiary	31%	64%
Kenya	STANDARD CHARTER	Financials	Subsidiary	26%	80%
Kenya	BAMBURI CEMENT	Materials	Subsidiary	34%	76%

Appendix 2. Indicators scoring average

Indicators	Scoring
IFRS	68%
Time & Access	55%
RemDisc	55%
Disclosure	59%
Director Independence	43%
CEO/Chairman	63%
Chairman independence	28%
Board independence	45%
Remuneration committee	40%
Remuneration independence	18%
Nomination committee	42%
Nomination independence	23%
Audit committee	72%
Audit independence	43%
Board committee	40%

Appendix 3. Codes of corporate governance

Nigeria's code of corporate governance

Country	Codes Features	indicator
Nigeria	- Name: code of corporate governance in Nigeria. - Companies aimed: public companies. -Date: 2011. -Issuer: SEC (Securities & Exchange commission). -Basis: minimum standards. -Term of Application: companies should comply or explain.	Board independence: - Majority of non executive - One independent director (at least) - no more than two family members
		Chairman: - Separation Chairman and CEO - Should be an non-executive
		Independence director: - Shareholding could not exceed 0,1% - Non-executive should serve for a reasonable period
		Board committee - Audit committee - Nomination/remuneration committee (composed by only non executive director) - Only directors should be member

		Disclosure: -Recommend and support IFRS -Annual report should be disclosed on-time - RPT amount have to be disclosed
		Remuneration - Fees & allowances could not compromise independence -Should be published in annual report (non executive fee)

Kenya's code of corporate governance

Kenya⁽¹⁾	- Name: the capital market act. - Companies aimed: public listed companies in Kenya. - Date: 2002. - Issuer: capital market authority. - Basis: guidelines. - Term of Application: comply or explain. - Others code: a private sector initiative.	Board Independence: - At least one third of independent and non executive directors - Board should also represent shareholder structure
		Chairman: - Separation Chairman and CEO - Chairman should be independent
		Independence director: - Has no relationship (family, shareholder representation) with any affiliate of the company
		Board committee - Audit committee (at least three independent members) - Nomination committee (composed by a majority of independent and non-executives) - Remuneration committee (composed by a majority of independent and non-executives).
		Disclosure: -Nothing on IFRS -Annual report should be disclosed on time - RPT amount have to be disclosed
		Remuneration - Should be in line with the sector - Should be published in annual report - Total fees for non-executive

⁽¹⁾ Source: Capital market authority (2002).

Morocco's code of corporate governance

Morocco⁽¹⁾	- Name: Moroccan code of corporate governance best practises. - Companies aimed: all kinds. - Date: 2008. - Issuer: Corporate Governance National Commission. - Basis: / - Term of Application: Comply or explain (but only recommendation).	Board independence: - Each board member should have an independent opinion
		Chairman: - Recommend separation Chairman and CEO
		Board committee - Audit committee (composed by a majority of independent members) - Nomination/remuneration committee
		Disclosure: -Recommend IFRS -Annual report should be disclosed on-time
		Compensation -Shareholders should be informed

Egypt's code of corporate governance

Egypt	- Name: guide to corporate governance in Egypt. - Companies aimed: Egyptian Institute of directors. - Date: / - Issuer: Cairo and Alexandria stock exchange. - Basis: Optimum guidelines - Term of Application: for information. - Other codes: other codes in Arabic.	Board Independence: - Majority of non-executive - Board should also represent shareholder structure
		Chairman: - Separation Chairman and CEO
		Board committee - Audit committee (at least three non executive members) - Nomination committee (composed by a majority of independents and non-executives) - Remuneration committee (majority of non-executives)
		Disclosure: -Nothing on IFRS -Annual report should be disclosed on time
		Compensation - Executive remuneration should be published in annual report

⁽¹⁾ Source: Commission nationale gouvernance d'entreprise (2008).

Appendix 4. Variables One-Way ANOVA**Sector ANOVA**

Scoring

	Sum of Squares	Df	Mean Square	F	Sig.
Between Groups	0,148	4	0,037	0,422	0,791
Within Groups	3,066	35	0,088		
Total	3,214	39			

Ownership structure ANOVA

Scoring

	Sum of Squares	Df	Mean Square	F	Sig.
Between Groups	0,193	2	0,097	1,185	0,317
Within Groups	3,021	37	0,082		
Total	3,214	39			

Free float ANOVA

Scoring

	Sum of Squares	Df	Mean Square	F	Sig.
Between Groups	0,547	3	0,182	2,589	0,068
Within Groups	2,534	36	0,070		
Total	3,081	39			

Appendix 5. Colonialism map of Africa in 1914 (peace & collaborative development network, 2015).

