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THE IMPACT OF BOARD CHARACTERISTICS ON THE FINANCIAL PERFORMANCE OF TANZANIAN FIRMS

Abstract

Purpose - This study investigates the impact of board characteristics on the financial performance of listed firms in Tanzania. Board characteristics, including outside directors, board size, CEO/ Chair duality, gender diversity, board skill and foreign directors are addressed in the Tanzanian context by applying two corporate governance theories: namely, agency theory; and resource dependence theory.

Design/methodology/approach - The paper uses balanced panel data regression analysis on 80 firm-years observations (2006-2013) from annual reports and semi-structured interviews were conducted with 12 key stakeholders. The study uses also a mixed methods approach and applies a convergent parallel design (Creswell, 2011) to integrate quantitative and qualitative data.

Findings - It was found that in terms of agency theory, while the findings support the separation of CEO/Chairperson roles; they do not support outside directors-financial performance linkage. With regard to resource dependence theory, the findings suggest that gender diversity has a positive impact on financial performance. Furthermore, the findings do not support an association between financial performance and board size, PhD qualification, and foreign directors.

Theoretical and Practical Implications - The study contributes to the understanding of board-performance link and provides academic evidence to policy makers in Tanzania for current and future governance reforms.

Originality/value - The findings contribute to the literature by providing new and original insights that, within a developing setting, extend current understanding of the association between corporate governance and financial performance. This is predicated, also, on the use of uncommon mixed methods approach.

Keywords Corporate Governance, Board of Directors, Board Characteristics, Firm Performance, Tanzania

Paper type Research Paper

THE IMPACT OF BOARD CHARACTERISTICS ON THE FINANCIAL PERFORMANCE OF TANZANIAN FIRMS

INTRODUCTION

Corporate governance has a significant impact on the economy since it ensures returns to investors by minimising associated investment risks and, hence, contributes to companies' performance (Shleifer and Vishny, 1997). Boards of directors play a fundamental role in strengthening corporate governance by accomplishing the important roles of monitoring and advising on the provision of resources (Tricker, 2012; Ntim, 2015).

Corporate governance has attracted a multitude of studies to examine the relationship between board characteristics and financial performance (Ntim, 2015). However, these studies relate to more widely researched developed countries and cannot be generalised to other countries due to the differences in corporate governance structures and cultures (Haniffa and Hudaib, 2006; Tricker, 2012; Arora and Sharma, 2016). In their paper, Kang et al. (2007) call for a country-specific corporate governance-performance study to be conducted. Despite this call, there is still a dearth of corporate governance literature in most emerging economies (Ntim, 2015; Darko et al., 2016).

Tanzania, as an emerging economy located in Sub-Saharan Africa, has possibly a unique corporate governance environment when compared to developed economies. For example, its stock market, the Dar es Salaam Stock Exchange (DSE), is one of the smallest capital markets in the world (Ntim, 2012). Moreover, due to socialism, the country's economy is still suffering from a considerable failure of its state-owned enterprises in the 1980s and 1990s (Fulgence, 2014). There are, also, weak legal and regulatory controls (Fulgence, 2014). Tanzania has been pursuing economic reforms since the mid-1980s. Major corporate governance-related reforms include the enactment of the Capital Markets and Securities Act (1994) and the establishment of the Capital Markets and Securities Authority (CMSA) in 1995. Also, DSE was incorporated in 1996. Moreover, in 2002, the Company Act was enacted and the CMSA's corporate governance guidelines were developed to improve Tanzania's corporate governance. Most of these corporate governance laws and guidelines were

adopted from developed economies. Since these reforms, very few corporate governance studies have been done in Tanzania (Fulgence, 2014), possibly due to the lack of interest and awareness of the country's corporate governance. Therefore, it is worthwhile to use Tanzania as a case study in examining the relationship between board characteristics and financial performance.

The study aims to provide insights to answering the following central question: do board characteristics have an impact on the financial performance of the Tanzanian firms? In order to answer this question, the study applies the mixed method approach to investigate the impact of the following board aspects: namely, outside directors, board size, CEO duality, gender diversity and foreign directors on a firm's financial performance. These aspects are believed to be essential since the board of directors plays a major role in enhancing sound corporate governance of listed firms (Ujunwa, 2012). Furthermore, CMSA's guidelines (2002) outline these aspects as being important for sound corporate governance practices in the Tanzanian context.

Since very little is known about corporate governance in Tanzania, our study contributes further to the understanding of the relationship between corporate governance and financial performance by using Tanzanian data. Also, the study addresses the endogeneity challenges by taking into account the endogenous relationships between board characteristics and financial performance. Furthermore, the application of the uncommon mixed methods approach may provide more insight into the research question (Bentahar and Cameron, 2015). The rest of the study comprises a literature review and hypotheses development, methodology, empirical findings, discussion and the conclusion.

LITERATURE REVIEW AND HYPOTHESES DEVELOPMENT

No single theory explains the general pattern of links between the characteristics of boards of directors and firm performance (Kiel and Nicholson, 2003; Jackling and Johl, 2009). The study of corporate governance and performance relationship are based on various conflicting theoretical perspectives such as agency theory, stewardship theory, resource dependence theory, institution theory and managerial theory. It is argued that these conflicting theories have resulted in inconsistent

empirical findings on the corporate governance-performance relationship (Kiel and Nicholson, 2003). Nonetheless, the previous studies on the relationship between board characteristics and financial performance based their arguments usually on agency and resource dependence theories (Jackling and Johl, 2009; Ujunwa, 2012; Ntim, 2015).

Agency theory assumes that separation of ownership and control can result in a conflict of interest between management and shareholders (Fama and Jensen, 1983; Shleifer and Vishny, 1997) since executives are self-interested and opportunist and have dissimilar objectives and risk preferences (Fama and Jensen, 1983). Agency theorists believe that a board's primary responsibility is to monitor executives in order to protect the shareholders from conflict of interests (Shleifer and Vishny, 1997). It is argued that board of directors is an essential mechanism in monitoring and controlling executives from pursuing their own interests at the expense of shareholders' wealth (Hillman and Dalziel, 2003; Darko et al., 2016). The Agency theory recommends a large number of independent outside directors on board and separation of the Chief Executive Officer (CEO) and Chairperson of the Board (COB) roles in order to enhance the board's independence and to discharge its oversight role effectively (Donaldson and Davis, 1991).

From resource dependence theory viewpoint, an organisation is not self-sustainable due to limited resources and has to link with the external environment in order to flourish (Pfeffer and Salancik, 2003). The resource dependence theory argues that the board of directors is the cornerstone to the organisation's external environment since it can tap into the essential external resources such as financial and human capital, technology and relevant information (Kiel and Nicholson, 2003). These resources can improve the effectiveness of the firm's strategic decision-making (Kiel and Nicholson, 2003; Arora and Sharma, 2016) and can increase its legitimacy (Lückerath-Rovers, 2013). Resource dependence theory favours large board size, presence of women, skilled and foreign directors on board in order to make connections with the firm's external environment (Ujunwa, 2012; Lückerath-Rovers, 2013).

This study is premised on agency and resource dependence theories. These theories argue that board characteristics may have a significant impact on the firm's financial

performance (Jackling and Johl, 2009; Ujunwa, 2012). Additionally, both agency and resource dependence theories can explain the boards' key functions of monitoring, advising and the provision of resources (Hillman and Dalziel, 2003; Ntim, 2015). The assumptions, related to agency and resource dependence theories, aim at increasing the board effectiveness and are most applicable in an environment where there is an inefficient regulatory system (Udayasankar et al., 2005). For instance, most Sub-Saharan Africa countries including Tanzania are claimed to have a weak regulatory system (Tsamenyi et al., 2007).

The literature review addresses each of this aspect of corporate governance regarding the financial performance. Furthermore, the literature review and this section's development of hypotheses is within the context of agency and resource dependence theories.

Outside Directors

Outside directors can be independent when they do not have any affiliation that affects the independence of their decision-making (Tricker, 2012). Theoretically, it is argued from agency perspectives that a large proportion of outside directors on the board enhances board independence and safeguards owners' resources from management conflicts of interest (Shleifer and Vishny, 1997). Nevertheless, different studies have provided mixed findings of the outside directors' impact on firms' financial performance. For example, Bhagat and Bolton (2013) and Malik and Makhdoom (2016) found that independent directors have a positive impact on the firm's financial performance. Conversely, Kumar and Singh (2012) and Arora and Sharma (2016) found that there were negative relationships between outside directors and firms' financial performance. However, Haniffa and Hudaib (2006), Rodriguez-Fernandez et al. (2014) and Afrifa and Taurigana (2015) did not find any relationship between outside directors and firm performance. The CMSA's guidelines (2002), stipulate that a board should comprise of at least one-third independent non-executive directors. Proponents of agency theory argue that a large proportion of outside directors can provide effective monitoring of the firm's executives (Fama and Jensen, 1983; Jackling and Johl, 2009). Henceforth, based on agency theory, the first hypothesis is:

H1: There is a positive relationship between the proportion of outside directors and Tanzanian listed firms' financial performance.

CEO Duality

CEO duality may be defined as the joint roles of the CEO and COB being carried out by one person. CEO duality has been blamed for the inefficiency of the boards of collapsed giant US companies such as Enron and WorldCom (Jackling and Johl, 2009). Agency theorists argue that CEO duality can entice the CEO to lead the board in favour of executives such as providing the board with limited information about a firm (Ujunwa, 2012). Agency theory recommends the separation of the role of the CEO and COB in order to enhance effective monitoring of the board and to avoid CEO entrenchment (Mahadeo et al., 2012)

Empirical evidence on the impact of CEO duality on the firm's financial performance reflects the on-going theoretical opposition. For instance, agency theory was supported by the following studies (e.g. Kyereboah-Coleman and Biekpe, 2006; Mahadeo et al., 2012; Ujunwa, 2012); these all found a negative relationship between CEO duality and the firm's financial performance. Conversely, other studies, for example, Donaldson and Davis (1991), found a positive relationship between CEO duality and firm performance. Kiel and Nicholson (2003), Rodriguez-Fernandez et al. (2014) and Arora and Sharma (2016), did not find any relationship between CEO duality and firm performance. The CMSA's guidelines (2002) stipulate that the role and responsibilities of COB and CEO should be separated. Consequently, this paper takes the agency theory view that CEO duality can enhance CEO entrenchment, impair board independence and, hence, make the board less effective in its monitoring role (Ujunwa, 2012). We, therefore, hypothesise that:

H2: There is a negative relationship between CEO duality and Tanzanian listed firms' financial performance.

Board Size

Resource dependence perspectives favour a large board since it can enhance connections between a firm and external environment (Pfeffer and Salancik, 2003; Guest, 2009; Tricker, 2012; Lückérath-Rovers, 2013). However, from a decision-

making perspective, small boards are suggested since they can enhance effective decision-making (Yermack, 1996). There has been some empirical evidence, which supports the argument that an increase in board size has a positive impact on firm financial performance (Kiel and Nicholson, 2003; Kyereboah-Coleman and Biekpe, 2006; Jackling and Johl, 2009). In contrast, other studies found that there is a negative relationship between board size and firm performance (Yermack, 1996; Guest, 2009; Afrifa and Tauringana, 2015; Arora and Sharma, 2016; Malik and Makhdoom, 2016). Some studies, such as those by Ferrer and Bandelipe (2012) and Garba and Abubakar (2014), did not find any link between board size and firm financial performance. The CMSA's guidelines (2002) recommend that boards should provide wider expertise and skills to improve their effectiveness. Based on resource dependence theory view that large board size can provide a firm with greater access to resources, such as expertise and capital from the external environment (Kiel and Nicholson, 2003). The following hypothesis is therefore proposed:

H3: There is a positive relationship between board size and Tanzanian listed firms' financial performance.

Gender Diversity

It is common to see none or very few women on boards (tokenism) in developing countries (Mahadeo et al., 2012; Abdullah et al., 2016). Theoretically, from resource dependence theory, it is claimed that women on a board can reassure stakeholders of the firm's diversity; increase its legitimacy; and the connection with its external environment (Lückerath-Rovers, 2013). Furthermore, agency theory proponents argue that female directors can play a big role in minimising agency costs since they can bring new insights to boards and make complex decisions (Carter et al., 2003).

There is mixed empirical evidence on the female directors' impact on firm financial performance. For example, Mahadeo et al. (2012), Lückerath-Rovers (2013), Ntim (2015) and Abdullah et al. (2016) found a positive relationship between the proportion of women on boards and firm performance. Conversely, Ahern and Dittmar (2012) found a negative relationship, and Marimuthu and Kolandaisamy (2009) did not find any link between the ratio of women on boards and firm performance. The CMSA's guidelines (2002) recommend that the process of

directors' appointment should be sensitive to gender representation. Based on the resource dependence theories view that women on boards can enhance the firm's legitimacy and can provide more connections with the external environment (Carter et al., 2003). Accordingly the following hypothesis is proposed:

H4: Women on boards improve Tanzanian listed firms' financial performance

Board Skill

Knowledge and skills can enhance directors' critical thinking that is essential in discharging their main roles of monitoring, advisory and providing important resources (Tricker, 2012). Resource dependence theory argues that a board of director's linkage with the external environment can bring diverse skills and knowledge to the firm (Francis et al., 2015)

Some corporate governance studies, such as by Ujunwa (2012) and Francis et al. (2015), found that board skill could have a positive influence on firm performance. In contrast, Van-Ness et al. (2010) found a negative relationship between board skill and firm performance, while Kim and Rasheed (2014) did not find any board skill-performance linkage. The CMSA's guidelines (2002) encourage the board members with appropriate skills for discharging their roles. Therefore, based on the resource dependence theory argument that directors bring expertise to the board (Francis et al., 2015), the following hypothesis is proposed:

H5: The number of directors with doctoral qualifications is positively associated with Tanzanian listed firms' financial performance.

Foreign Directors

Foreign investors are likely to hire foreign directors to protect their interests abroad (Oxelheim and Randoy, 2003). Resource dependence theory proponents assert that foreign directors can bring a range of experiences, cultural differences, and skills from other countries to a board and, hence, can bring new outlooks and problem-solving capabilities (Ujunwa, 2012).

There is, also, mixed empirical evidence on the foreign directors' impact on firm financial performance. Ujunwa (2012) found that foreign directors could have a positive influence on performance. Other studies, such as those by Jhunjhunwala and Mishra (2012), found an insignificant positive relationship. Therefore, based on the argument of proponents of resource dependence theory that foreign directors can provide the board with connections to foreign networks and capital (Ujunwa, 2012), we hypothesise that:

H6: Foreign directors are positively associated with Tanzanian listed firms' financial performance.

METHODOLOGY

In order to achieve the research objectives, the study applied the uncommon mixed methods approach in the form of a convergent parallel design (Creswell, 2011). Mixed methods approach is a research methodology that includes the collection, analysis and mixing of quantitative and qualitative data (Creswell, 2011). This approach enriches the validity and reliability of the study's findings (Bentahar and Cameron, 2015). Furthermore, it provides a broader insight to answering the research question (Johnson et al., 2007). Finally, the use of semi-structured interviews can provide practical based solutions to answering the research question (Bryman, 2016).

In line with previous studies, such as Ferrer and Banderlipe (2012), this study gives more priority to the quantitative findings since the quantitative approach is argued to be more appropriate in determining the cause and effect relationship (Bryman, 2016). Numerous corporate governance studies, such as Jackling and Johl (2009) and Ujunwa (2012), used the quantitative approach to examine the relationship between aspects of board characteristics and financial performance. We used qualitative findings to complement the quantitative findings and to increase the study's validity and substantiate the findings (Johnson et al., 2007; Ferrer and Banderlipe, 2012). In line with Ferrer and Banderlipe (2012), the quantitative and qualitative findings are brought together in this study's results and discussion sub-section in order to provide a broader insight (Creswell, 2011).

Qualitatively and consistent with Haniffa and Hudaib's (2007) research, we employed the semi-structured interviews method. This method is argued to be more flexible and compatible with other methods of data analysis (Bryman, 2016). Semi-structured interviews were conducted with 12 key stakeholders in corporate governance. In line with Haniffa and Hudaib (2007), we targeted members of the boards of Tanzanian listed companies, regulators and other stakeholders as this study's participants because of their rich knowledge and experience of corporate governance. This enhanced their effective participation in the interviews. The selection of participants was based on judgmental and snowball sampling. Judgemental sampling increases the quality of the data by selecting intentionally the knowledgeable and skilled participants (Haniffa and Hudaib, 2007). Snowball sampling helps us to gain more participants who are connected with initially selected participants (Bryman, 2016). The selected participants were nine board members (B1, B2, B3, B4, B5, B6, B7, B8 and B9) from nine different Tanzanian listed firms, Regulators (senior officers) from CMSA and DSE (R1, R2), and a senior officer from Institute of Directors (R3). In conducting interviews, the study took account of ethical procedures in order to safeguard the interests, privacy, and dignity of the participants (Bryman, 2016).

We developed an interview guide framework based on the research questions (Bryman and Bell, 2015) (see Appendix 1). Similar to previous studies on corporate governance (for example, Haniffa and Hudaib, 2007) and in order to make sense of collected data, this study applied a thematic analysis approach (Boyatzis, 1998). The thematic analysis identifies, analyses, and reports patterns (themes) within data (Braun and Clarke, 2006). The approach can be applied to different theoretical perspectives and is a useful research tool that, potentially, can provide a rich and detailed account of data (Braun and Clarke, 2006). In this study, 7 themes were developed based on the previous studies on corporate governance literature and the research questions (Boyatzis, 1998). These were board size, outside directors, CEO duality, foreign directors, gender diversity, board skill and board effectiveness.

Quantitatively, data were collected from the OSIRIS financial database and from the annual reports of firms listed on the DSE. This study used the census approach and, thus, the sampling frame consisted of all 18 firms listed on the DSE at the end of

2013. Six firms, which belonged to the financial services industry, were excluded from the population due to the special regulatory environment in which they operated (Jackling and Johl, 2009).

Moreover, to balance a panel, five other firms were excluded from the sample because they did not have complete records of all data needed to measure the study's variables within the period 2006-2013. The use of balanced panel data minimises the risk of endogeneity and multicollinearity (Bhagat and Black, 2002; Darko et al., 2016).

Consequently, the final sample consisted of the remaining 10 Tanzanian firms listed on the DSE from 2006 to 2013 and produced a total sample of 80 observations over the period. This study's sample size is comparatively larger than some other corporate governance studies in developing countries (e.g. Tsamenyi et al., 2007; Weekes-Marshall, 2014). We chose to start in 2006 since the Tanzania Company Act 2002 came into force officially in 2006 and, from this time, Tanzanian listed firms started to comply effectively with the Act's requirements. Furthermore, it is believed that already in 2006 most Tanzanian listed firms had implemented the IFRSs effectively after they were introduced officially to Tanzania in 2004. Since the data were collected between January and March 2015, the sample ends in 2013 because this is the most recent year for which data were available.

Table 1 describes variables that are applied in this study. We use the following model to analyse the relationship between board characteristics and firm's financial performance (Guest, 2009; Ujunwa, 2012; Mouselli and Hussainey, 2014):

$$Y_{it} = \alpha + \beta_1 BSIZE_{it} + \beta_2 OUTSIDE_{it} + \beta_3 CEOD_{it} + \beta_4 FODIR_{it} + \beta_5 EDIV_{it} + \beta_6 FEMDIR_{it} + \beta_7 FDEBT_{it} + \beta_8 FMSIZE_{it} + \beta_9 FMAGE_{it} + \varepsilon_{it}$$

Where

- Y_{it} is alternatively ROA_{it} and ROE_{it} for i_{th} firm at time t .
- α is the intercept, β_i is the regression coefficient of i_{th} firm and ε_{it} is the composite error term.

Table 1: Data variables

Variable	Acronym	Description
Independent Variables:		
Outside directors	BOUTSIDE	The number of outside non-executive directors as a percentage or a proportion of the total number of directors on the board.
Board size	BSIZE	The number of members who comprise the board of directors at the end of a financial year.
CEO duality	CEOD	The practice, whereby a single individual is serving as both Chief Executive Officer (CEO) and board chair. It is measured by assigning 1 if CEO is not the chair and 0 if CEO is also the chair.
Gender diversity	FEMDIR	The numbers of female directors as a percentage of the total number of directors on the board.
Board skill	BSKILL	Competency and capabilities of the board members measured as the proportion of directors with a doctoral qualification to the total number of directors.
Foreign Directors	FODIR	The proportion of foreign directors to the total number of directors
Dependent Variables:		
Return on assets	ROA	Net income divided by total assets.
Return on equity	ROE	Net Income divided by shareholders' equity.

Control variables:		
Firm debt	FDEBT	Financial leverage (total debt divided by total equity)
Firm size	FMSIZE	Natural logarithm of total assets
Firm age	FIMAGE	Natural logarithm of the number of years which the firm has been listed on the Dar es Salaam Stock Exchange (DSE)

ANALYSIS AND DISCUSSION

Descriptive Statistics

Table 2 presents a descriptive statistics summary of board characteristics, firm characteristics, and financial performance. The average number of outside directors in the sample is 82%. This demonstrates the high rate of compliance with CMSA guidelines (2002) and suggests that a board should comprise of at least one-third of outside directors. The board size is between 5 and 12 and the mean value is 8; this is consistent with Ujunwa's (2012) findings. The maximum, minimum and mean values of CEO duality are 0, 100% and 90% respectively. This denotes that 90% of the sampled listed companies comply with the CMSA guidelines (2002) to separate the role of the CEO and COB. Table 2 shows that the board members with doctorate qualifications and female directors both average 9% of each firm's board of directors.

In terms of foreign directors, the average number of foreign directors of the sampled firms is 61%. The average firm size and age in natural log of assets is 7.42 and 0.74 respectively. The total firm leverage ranges between 0.23 and 6.6 of total assets, and the average of the sampled firms is 1.55. This indicates that most Tanzanian listed firms are by far financed by debt than equity financing. Table 2 demonstrates, also, that the listed firms are financially steady, as measured by ROA (mean 17%) and ROE (mean 31%). The widespread use of financial performance measures and other variables, as indicated in Table 2, shows that the sampled firms achieved a reasonable variation (Ntim, 2013).

In line with Field's (2014) findings, this study addresses significant linear regressions assumptions; these relate to fitting a linear model to the data. These are multicollinearity, normality, linearity, homogeneity, and autocorrelation and, by using tests of Pearson correlations, histograms and normal probability plots of standardised residuals and plots of standardised residuals against standardised predicted values, Durbin-Watson of the variables. These results (available upon request) indicate that the assumptions have been reasonably met.

Table 2: Descriptive statistics of model variables for all (80) firm years

	No. of observation	Min	Max	Mean	Std. Deviation
Firm Debt (FDEBT)	80	0.23	6.60	1.55	1.66
Firm Size (ln) (FMSIZE)	80	5.22	8.47	7.42	0.78
Firm Age (ln) (FMAGE)	80	0.00	1.18	0.74	0.33
Return on Asset (%) (ROA)	80	-8	47	17	14
Return on Equity (%) (ROE)	80	-47	95	31	25
Board Size (BSIZE)	80	5	12	7.71	2.26
Outside Directors (BOUTSIDE) (%)	80	38	100	82	17
CEO Duality (CEOD)	80	0	1	0.90	0.30
Foreign Directors (FODIR) (%)	80	0	100	61	29
Board Skill (BSKILL) (%)	80	0	29	9	9
Gender Diversity (FEMDIR) (%)	80	0	36	9	10

Correlation Results

Table 3 presents correlation matrixes for the variables under investigation. ROA is negatively correlated with CEO duality and firm debt and is positively correlated with gender diversity. ROE is positively correlated with gender diversity and board skill and marginally negatively correlated with CEO duality. CEO duality is correlated positively with outside directors and board skill. The possible explanation for this finding is that there is a reduction in financial performance when there is CEO duality (Ujunwa, 2012). It can be interpreted that the number of women on the board tends to mitigate the risk caused by debt. In line with Mahadeo et al.'s (2012) findings, gender

diversity is associated, also, significantly and positively with numbers of directors with doctoral qualifications. There is a significant and positive correlation with Foreign Directors. This is in line with Ujunwa's (2012) findings and indicates that an increase in board size results, also, in an increase in the proportion of foreign directors. This is due to the fact that foreign investors own most Tanzanian listed firms. Table 3 shows, also, that the Variance Inflation Factor (VIF) values are below 10. Multicollinearity can be detected by VIF and a value of 10 or above indicates multicollinearity problem (Field, 2014).

Table 3: Correlation Matrix of the Variables for all (80) Firm Years

	1	2	3	4	5	6	7	8	9	10	11	VIF
1 FDEBT	1											1.368
2 FMSIZE	-0.043	1										1.959
	0.702											
3 FMAGE	0.012	-0.195	1									2.208
	0.919	0.083										
4 ROA	-.524**	-0.012	-0.133	1								
	0.000	0.914	0.240									
5 ROE	-0.078	-0.098	-0.111	.821**	1							
	0.490	0.386	0.325	0.000								
6 BSIZE	.262*	-0.196	-0.012	-0.169	0.053	1						2.038
	0.019	0.081	0.916	0.134	0.642							
7 BOUTSIDE	.307**	-.314**	-.304**	-0.185	-0.028	0.058	1					3.887
	0.006	0.005	0.006	0.100	0.803	0.607						
8 CEOD	0.218	-.318**	-.222*	-.337**	-0.205	0.106	.774**	1				2.640
	0.052	0.004	0.047	0.002	0.069	0.351	0.000					
9 FODIR	.224*	.424**	-.544**	-0.016	0.078	.463**	-0.016	0.006	1			4.100
	0.046	0.000	0.000	0.885	0.490	0.000	0.891	0.959				
10 BSKILL	0.108	0.169	-.264*	0.168	.262*	0.148	.388**	.254*	.384**	1		2.246
	0.340	0.134	0.018	0.137	0.019	0.191	0.000	0.023	0.000			
11 FEMDIR	-0.202	-0.077	0.105	.383**	.409**	0.031	-0.125	-0.182	0.120	.342**	1	1.586
	0.073	0.497	0.354	0.000	0.000	0.787	0.270	0.105	0.290	0.002		

- Significant at the 5% level (2 tailed). ** Significant at the 1% level (2-tailed)

Regression Results and Discussion

Table 4 below summarises the estimation results for OLS when using ROA and ROE as the dependent variables. As Table 4 indicates, CEOD, BSIZE, FSIZE, FDEBT and FMAGE exhibited negative coefficients, while other variables exhibited positive coefficients.

Table 4: OLS Regression Results

	ROA			ROE			
	B	T	Sign	B	T	Sign	VIF
(Constant)	0.733	3.282	0.002***	1.101	2.326	0.023**	
BSIZE	-0.012	-1.590	0.116	-0.007	-0.442	0.660	2.038
BOUTSIDE	0.139	1.005	0.319	0.202	0.690	0.492	3.887
CEOD	-0.225	-3.533	0.001***	-0.348	-2.581	0.012**	2.640
FODIR	0.095	1.149	0.254	0.112	0.638	0.526	4.100
BSKILL	0.286	1.520	0.133	0.516	1.291	0.201	2.246
FEMDIR	0.256	1.688	0.096	0.737	2.293	0.025**	1.586
FDEBT	-0.039	-4.741	0.000***	-0.002	-0.128	0.899	1.368
FSIZE	-0.053	-2.496	0.015**	-0.094	-2.091	0.040**	1.959
FMAGE	-0.045	-0.859	0.393	-0.097	-0.875	0.384	2.208
R ²		51.70%			30.10%		
Adjusted R ²		45.50%			21.20%		
F-Statistics		8.332***			3.356***		
No. Of Observations		80			80		

*** Significant at the 1% level (2-tailed). ** Significant at the 5% level (2-tailed).

Outside directors

As indicated in Table 4, the findings show an insignificant relationship and, hence, the first hypothesis H1 is rejected. The findings are similar with those of prior findings of Bhagat and Black (2002), Haniffa and Hudaib (2006), Ferrer and Banderlipe (2012), and Afrifa and Tauringana (2015). However, the findings are inconsistent with CMSA's guidelines (2002) and Bhagat and Bolton's (2013) and Malik and Makhdoom's (2016) previous studies. The findings do not support the argument of the agency theory that a large proportion of independent outside directors is essential for the board to either monitor or oversee the firm's management in order to minimize agency costs (Fama and Jensen 1983; Jackling and Johl 2009).

The results are in line with the argument of Interviewees B2, B6, B9, R1 and R3 that, if they are independent and competent, the outside directors can have a positive impact on the firm's financial performance. Lack of independence may contribute to the outside directors' insignificant performance since they may be ineffective in monitoring the management (Haniffa and Hudaib, 2006; Ferrer and Banderlipe, (2012). Consistent with Fulgence (2014), interviewees B2, B3 and R3 argued that in Tanzania, some of the directors might not be independent because the directors' appointment process is not fully transparent.

CEO duality

The findings (Tables 4) show that there is a significantly negative relationship between ROA and ROE and CEO duality. Therefore, hypothesis H2 is accepted. The findings are in line with the requirements of CMSA's guidelines (2002) and the findings of previous studies such as Haniffa and Hudaib (2006), Kyereboah-Coleman and Biekpe (2006), Ujunwa (2012), and Shrivastav and Kalsie (2016). However, the results are inconsistent with the earlier work of Donaldson and Davis (1991). The findings, support, also, the agency theory recommendations that the roles of CEO and COB should be separated since the duality impairs board independence by enhancing CEO entrenchment and, hence, reducing financial performance (Fama and Jensen, 1983, Shleifer and Vishny, 1997; Ujunwa, 2012). Similarly, a majority of the interviewees (B1, B2, B3, B4, B6, B7, R1, R2 and R3) were of the same view that, in order to enhance the effectiveness of the board, the roles of CEO and COB

should be separated in order to enhance board independence, accountability and transparency.

For instance interview B2 argued claimed,

When you have CEO duality I think you loose an important control, because it is like being the prosecutor and being the judge in your own case. Which of course we know is unacceptable, even if one acts equitably it is difficult to convince people that there is an element of fairness.

(Interviewee B2)

Board size

Hypothesis H3 suggests a positive relationship between board size and a firm's financial performance. Firstly, board size shows an insignificant relationship with financial performance (see Table 4). Therefore, hypothesis H3 is rejected. The findings support previous findings of Ferrer and Banderlipe (2012) and Garba and Abubakar (2014). Moreover, the theories of resource dependence, and agency, which favour large boards, are not supported (Garba and Abubakar, 2014). However, the findings are inconsistent with earlier works of Yermack (1996) and Jackling and Johl (2009). The results are consistent with the interviewees' views that board size itself cannot guarantee financial performance (B2, B5, B9, R1 and R2). In line with Kim and Rasheed (2014); they argued that a diversity of members with different expertise matters more. The results suggest that lack of mixed skills of expertise may render a board to be ineffective.

Gender diversity

As indicated in Table 4, the findings show a significant positive relationship between gender diversity and ROE and a marginally significant one with ROA. Thus, the first hypothesis H4 is accepted. The findings support prior studies of Mahadeo et al. (2012) Lückerath-Rovers (2013), Ntim (2015), and Abdullah et al. (2016) which also indicate that gender diversity is positively related with firm performance. Nevertheless, the results are inconsistent with Marimuthu and Kolandaisamy's (2009) and Ahern and Dittmar's (2012) earlier works. Theoretically, the findings support the resource dependence theory argument that women on boards can enhance

a firm's connections with the outside environment (Pfeffer and Salancik, 2003; Carter et al, 2003). Also, it supports the agency theory that women on boards are argued to be more risk-averse than men (Levi et al., 2013), especially when making investment decisions such as mergers and acquisitions (Mahadeo et al., 2012; Levi et al., 2013). The firms with women on the boards have lower liabilities (risks) (Huang and Kisgen, 2013). This could be one of the possible explanations on why they have a higher ROE.

Furthermore, the interviewees' insights reflected, also, the different findings. Some of the interviewees (B1, R3, B5 and R2) supported the presence of women on boards by arguing that women had different decision-making skills; were trustworthy; and were committed to the organisation. Interviewees B2, B6, R1, B7, B9 B4, B3 argued that the quality and output of the board members were most likely to be linked to a firm's financial performance. Interviewee R2 said,

If women have the relevant qualifications, experiences, and competencies, I do believe that they can do wonders, even more than men... Most of the time they can make hard decisions, when they understand something and their conscience tells them it is the right thing they are doing, they are able to pursue it.

(Interviewee R2).

Board Skill

There is an insignificant relationship between the proportion of directors with doctoral qualifications and financial performance (see Table 4). Consequently, hypothesis H5, which predicts a positive relationship between board skill and financial performance, is rejected. The results are in line with the previous findings of Jhunhunwala and Mishra (2012) and Kim and Rasheed (2014) and not consistent with those of Ujunwa (2012) and Francis et al. (2015). The findings do not support the argument from resource dependence that directors can bring to the board knowledge and skills that are essential for monitoring, advising and decision-making (Jhunhunwala and Mishra, 2012; Kim and Rasheed, 2014). In this regard, interviewee B3 argued,

The appointment of directors is not being done transparently; people are not being appointed the board on their respective merit. A director should be appointed to a board knowing that there is a certain contribution that he/she is required to make.

(Interviewee B3)

Some of the interviewees asserted that some Tanzanian firms appointed academic directors, such as professors, to their boards in order to increase status (B4, B5 and B6). This might result in ineffective highly educated directors.

Foreign directors

Hypothesis H6 predicts a positive relationship between foreign directors and financial performance. However, the findings (see Table 4) indicate that there is no link between the proportion of foreign directors and the firm's financial performance. Consequently, the hypothesis is rejected. The insignificant of foreign directors variable, although not consistent with Oxelheim and Randoy (2003) and Masulis (2012), is consistent with prior findings of Jhunjhunwala and Mishra (2012). Inconsistent with resource dependence and agency theories, the findings do not support Ujunwa's (2012) argument that foreign directors minimise agency problems and provide access to foreign capital, contacts, networks and expertise. The results are in line with some interviewees' views that a director's nationality does not have a significant influence on financial performance. Interviewees B2, B3, B4, B7, B8 and R2 claimed that competency mattered more than the directors' nationalities since some of their appointments were based on the influence of the foreign owners. Consequently, some of the foreign directors may not have an appropriate expertise.

Robustness Analysis

This subsection addresses the potential endogeneity problems such as non-monotonic relationships; these may lead to possibly misleading OLS findings. Endogeneity occurs when there is a correlation between independent variables and an error term in a statistical model (Larcker and Rusticus, 2010; Ntim et al., 2012). Simultaneity and omitted variables are among the common causes of endogeneity problems in corporate governance research (Ntim et al., 2012). Previous studies argued that a

board structure was to be determined endogenously (e.g. Bhagat and Black; 2002; Jackling and Juhl, 2009; Ntim, 2015). Similar with Guest (2009) and Ntim (2013). Therefore, we used fixed effect regression analysis (see Table 5), to address the likely impact on an unobserved firm's related heterogeneities, such as culture, on both board characteristics and financial performance variable.

In order to address the issue of omitted variables, this study, in line with previous studies, adopted the approaches of instrumental variables through 2SLS (Bhagat and Black, 2002; Ntim et al., 2012; Ntim, 2015) and fixed effects regression (Ntim, 2015).

Table 5: Fixed Effect Regression Results

	ROA			ROE		
	B	T	Sig.	B	T	Sig.
Constant	0.660	3.042	0.003***	1.030	2.159	0.034**
Outside directors	0.174	1.292	0.201	0.265	0.898	0.372
Board size	-0.010	-1.455	0.150	-0.006	-0.388	0.699
CEO duality	-0.224	-3.654	0.001***	-0.356	-2.649	0.010**
Gender diversity	0.254	1.741	0.086	0.726	2.260	0.027**
Foreign directors	0.117	1.460	0.149	0.140	0.791	0.431
Board skill	0.225	1.235	0.221	0.478	1.190	0.238
Firm Debt	-0.044	-5.331	0.000***	-0.012	-0.678	0.500
Firm age	-0.035	-0.691	0.492	-0.078	-0.697	0.488
Firm size	-0.050	-2.416	0.018**	-0.093	-2.066	0.043**
R2		0.549			0.306	
Adjusted R2		0.491			0.217	
F statistics		9.476***			3.433***	
N		80			80	

** At 5% level of significance and *** at 1% level of significance respectively

Similar with Jackling and Johl (2009), this study applied lagged values of explanatory variables (LAGBOUOUTSIDE, LAGBSIZE, LAGCEOD, LAGFEMDIR, LAGBSKILL, LAGFODIR, LAGFEDEBT, LAGFMSIZE, LAGFMAGE) and controls variables of FDEBT, FMAGE and FMSIZE. In order to ensure the appropriateness of the 2SLS, these variables were tested to check whether they correlated with the error term in the model. The findings (Appendix 2) show that there is no association between the IV and error term. The uses of lagged values as IV are consistent with Jackling and Johl's (2009) previous corporate governance studies).

Table 6: 2SLS Regression Results

	ROA			ROE		
	B	T	Sig.	B	T	Sig.
(Constant)	0.518	1.686	0.096	0.61	0.929	0.356
Firm Debt	-0.038	-3.802	0.000**	-0.002	-0.089	0.929
Firm Size	-0.032	-1.284	0.204	-0.054	-1.028	0.308
Firm Age	-0.064	-0.941	0.350	-0.121	-0.83	0.409
Board Size	-0.008	-0.849	0.399	0.001	0.049	0.961
Outside Directors	0.285	1.118	0.268	0.576	1.054	0.296
CEO duality	-0.275	-2.734	0.008**	-0.467	-2.172	0.033*
Foreign Directors	0.062	0.493	0.624	0.08	0.297	0.768
Board Skill	0.009	0.023	0.982	-0.153	-0.184	0.854
Gender Diversity	0.35	1.203	0.233	1.017	1.635	0.107
R2		48.40%			25.50%	
Adjusted R2		41.70%			15.80%	
		7.197*				
F Sign		*			2.623*	
No. Of Observations		78			78	

** At 5% level of significance and *** at 1% level of significance respectively

Tables 5 and 6 indicate the results of the fixed effect regressions and 2SLS regressions. These results are similar to the OLS results. For example, CEO duality and Firm debt relate negatively to financial performance. However, while unrelated to

ROA the 2SLS results indicate a positive weak link between gender diversity and ROE. Since magnitude and direction of both sets of coefficients appear similar, OLS regression results are reasonably robust to the endogeneity tests results.

CONCLUSIONS AND RECOMMENDATIONS

A board of directors is argued to be a backbone of corporate governance since an effective board enhances sound corporate governance. Most of the key corporate failures and financial scandals have resulted from agency problems due to ineffective boards (Tricker, 2012). Agency theory, the key corporate governance theory argues that an effective board of directors is the essential mechanism to minimise agency problems. Corporate governance reforms, such as codes of corporate governance, guidelines, and regulations, aim to enhance the board's effectiveness (Ujunwa, 2012). Most of the corporate governance studies provide insights about the board and financial performance relationship in developed countries whilst there are very few insights regarding board characteristics and financial performance relationship in developing countries and, especially, in Sub-Saharan Africa (Tsamenyi et al, 2007). In order to respond to Kang et al.'s (2007) recommendation, this study examined the impact of board characteristics on the Tanzanian listed firms' financial performance by using agency and resource dependence theories. A single theory cannot explain the linkage between the firm's board characteristics and financial performance (Jackling and Johl, 2009).

The agency theory is partially supported by the finding that CEO duality has a negative impact. The findings support, also, resource dependence theory by arguing that gender diversity has a positive impact on the financial performance. Moreover, other board characteristics of outside directors, board size, foreign directors and board skills have no relationship with the firm's financial performance. It could be argued that lack of independence and the right expertise might be among of the reasons for this insignificant relationship.

The findings contribute to the understanding of the relationship between corporate governance and financial performance by using, for the first time, Tanzanian data that offers new empirical evidence in an emerging country. Furthermore, the study was

premised on the use of mixed methods methodology, which is the uncommon approach in corporate governance research to provide appropriate responses to the research questions. By using agency and resource dependence theories, this study explains, also, how the integrative multi-theory approach works using Tanzanian data.

In terms of practical implications, the study offers essential contributions to policymakers. Our findings are in line with those of Kang et al. (2007) and provide evidence to Tanzanian policymakers that not all developed countries' corporate governance practices are applicable to developing countries. The firms should adopt corporate governance practices that have a significant influence on their financial performance. Therefore, in order to improve Tanzania's corporate governance, it is recommended that the country develop corporate governance practices that reflect its specific business environment. Moreover, Tanzanian corporate governance institutions should improve the openness and transparency of their directors' appointment processes and they should conduct more capacity building training among directors. The findings can be used, also, by corporate governance institutions to raise awareness of the advantages of the Tanzanian listed firms separating the roles of CEO and COB. The findings may suggest, also, a need for Tanzanian corporate governance institutions and boards of directors to recognise the importance of a gender-balanced board.

This study faced the limitations of its quantitative data sample size, although we tried to collect data as fully and accurately as possible. Thus, this study's findings of this study may not be applicable to either non-listed and state-owned enterprises or organisations outside Tanzania. As mentioned above, the sample size is a challenge in many developing countries (Weekes-Marshall, 2014). For further studies, non-listed companies and state-owned enterprises should be included in order to increase the sample size.

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