The Impact of Board Characteristics on the Financial Performance of Tanzanian Firms

A Thesis Submitted to the University of Gloucestershire in Accordance with the Requirement of the degree of Doctor of Philosophy in the Faculty of Applied Sciences and Businesses

Modest Paul Assenga

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ABSTRACT

This study investigates the impact of board characteristics on the financial performance of listed Tanzanian firms. The study uses two theories of corporate governance to test the hypothesised relationships between board characteristics and financial performance. These are: namely, agency theory; and resource dependence theory and are complemented through the use of a stewardship theory. The study seeks to investigate the impact of the following variables on financial performance i) independent outside directors; ii) board size; iii) CEO duality; and iv) the board diversity aspects of gender, foreign directors and board skill. The study uses a mixed methods approach and applies a convergent parallel design (Creswell & Plano Clark, 2011), collecting quantitative data from annual reports and qualitative data from semi-structured interviews with 12 key stakeholders in corporate governance. Quantitatively, the study examines the balanced panel data of 80 firm-years observations (2006-2013) from the annual reports of 10 Tanzanian listed firms.

The findings partially support agency theory since CEO duality was related with a reduction in financial performance. However, the findings do not support a relationship between the proportion of outside directors on boards and financial performance. The study provides some support for aspects of resource dependence theory, since the findings suggest that there is a positive link between gender diversity and financial performance. However, board size, board skill and foreign directors were not found to have a significant impact on financial performance. Furthermore, the interview findings provide some explanations of the relationships between board characteristics and financial performance by suggesting that the impact depends largely on the independence and proficiency of the individual directors on a firm's board.

The study contributes to the understanding of relationships between board characteristics and financial performance. The study uses, for the first time in this kind of research, Tanzanian data and the underutilised approach of mixed methods to corporate governance research. The study provides academic evidence for Tanzanian policy makers in relation to current and future governance reforms.

DECLARATION

I declare that the academic regulations for the University of Gloucestershire have been observed in the work of this thesis and it is original except where it was shown by particular reference in the text. The findings and conclusion of this thesis have not been submitted for any other academic awards.

Signature:

Printed name: **Modest Paul Assenga**

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DEDICATION

To my late father Paul Kilori John Assenga

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LIST OF ABBREVIATIONS

AfDB= African Development Bank

ASEA= African Securities Exchange Association

BRELA= Business Registration and Licensing Agency

BoT= Bank of Tanzania

CACG= Commonwealth Association of Corporate Governance

CalPERS= California Public Employees' Retirement System

CEO= Chief Executive Officer

COB= Chairperson of the Board

CA= Company Act

CMSA= Capital Market and Securities Authority

DSE= Dar es Salaam Stock Exchange Market

DTF= Distance to Frontier

DB= Doing Business

EPA= External Payments Arrears

FBN= Fox Business Network

FDI= Foreign Direct Investments

GAAP= Generally Accepted Accounting Principles

GDP= Gross Domestic Product

GNI= Gross National Income

IFRS= International Financial Reporting Standards

IODT= Institute of Directors Tanzania

IMF= International Monetary Fund

MEMARTS= Memorandum of Association and Articles of Association

PCRS= Presidential Commission on Parastatals Sector Reforms

NBAA= National Board of Accountancy and Auditors

NBS= National Bureau of Statistics

NEPAD= New Partnership and Development

Quant.= Quantitative research

Qual.= Qualitative research

SOE= State Owned Enterprises

1 CHAPTER ONE: INTRODUCTION

1.1 INTRODUCTION

The great corporate failures, which occurred in the USA and Europe (e.g. WorldCom, Enron, Parmalat, Adelphia) from 2001-02, the South East Asia financial crisis in 1997/1998, the global financial crisis in 2007-08 and many more worldwide corporate scandals resulted in colossal losses to shareholders and job losses. Tanzania was affected, also, with large failures of SOE in the 1980s and 1990s and notable financial scandals in the 2000s such as Richmond[1], External Payments Arrears (EPA)[2] and the 2014 scandal of the Tegeta escrow account[3]. Consequently, Tanzania continues to suffer from huge losses of taxpayers' money. The aforementioned scandals have driven a call for better governance in Tanzania and worldwide since the failure of corporate governance is argued to be one of the major causes of these scandals (Monks & Minow, 2011). Sound corporate governance regulatory structure could be essential in reducing or helping to avoid future corporate failures and financial scandals (Tricker, 2012). In this regard, different corporate governance standards and legislations have been introduced worldwide in order to protect shareholders' and other stakeholders' interests. Listed companies in most of the worldwide stock markets are required to observe these standards.

[1] Richmond was an energy scandal where the then Tanzanian Government irresponsibly awarded a tender of USD 179 million to Richmond, a financially incapable American energy company to supply 100w electric generators in order to reduce the acute power shortage looming in 2006. The company lacked the required expertise to do the job. The scandal led to the resignation of senior government officials, including the Prime Minister and the Energy minister (

[2] The EPA scandal happened in the financial year 2005/06. The audit firm, Ernest and Young, reported that the Tanzanian Government through its central bank, Bank of Tanzania's (BoT) External Payments Arrears (EPA) account, fraudulently paid USD133 million to 22 local companies which pretended to be the agents of foreign suppliers (More information is available at Issa, M. (2009) ' EPA scandal dominated 2008, shook Kikwete', The East African, 3 January. http://www.theeastafrican.co.ke/news/2558-509864-item-1-hxld1r/index.html (Accessed 22 January 2017)

[3] The Tegeta escrow account scandal involved, the Tanzania Electricity Supply Company (TANESCO) a Tanzanian utility company, Tanzanian Government officials and Independent Power Tanzania Limited (IPTL), owned by Pan Africa Power (PAP). It was revealed by a Parliamentary Committee, Public Accounts Committee (PAC) that TANESCO and IPTL formed a holding account of escrow in 2006, at the Bank of Tanzania (BoT). More than USD 125m was moved to offshore accounts owned by Government officials, politicians and private businesspeople. (See, for instance, Kabendera, E & Anderson, M (2014) 'Tanzanian PM under pressure to resign over alleged fraudulent payments' The Guardian, 28 February. Available at https://www.theguardian.com/global-development/2014/nov/28/tanzania-prime-minister-mizengo-pinda-alleged-fraudulent-payments-energy-contracts (Accessed 22 January 2017).

Furthermore, the scandals have attracted the attention of worldwide academics, researchers and policy makers (Tricker, 2012). Many researchers have investigated the relationship between corporate governance and corporate performance and arrived at conflicting results (Michelberger, 2016). By using mixed methods research, this study aims to achieve the following four objectives by investigating the impact of board characteristics on Tanzanian listed firms' financial performance:

i. To investigate the impact of outside directors on Tanzanian listed firms' financial performance;

ii. To ascertain the influence of board size on Tanzanian listed firms' financial performance;

iii. To investigate the relationship between the CEO duality and Tanzanian listed firms' financial performance; and

iv. To examine the link between Tanzanian listed firms' financial performance and the board diversity aspects of gender, foreign directors and board skill.

The rest of the chapter is organised as follows: section 1.2 deliberates the background of the research and the rise of corporate governance interests. Section 1.3 provides an overview of corporate governance in Tanzania. Section 1.4 highlights the research objectives. Section 1.5 discusses the motivation of the study. Section 1.6 discusses the problem statement and the importance of the research. Section 1.7 presents the research questions and the means of providing solutions. Section 1.8 discusses the importance of the study. Section 1.9 presents the research findings summary. Finally, Section 1.10 describes the structure of the thesis.

1.2 BACKGROUND OF THE RESEARCH AND THE EVOLUTION AND RISE OF CORPORATE GOVERNANCE INTERESTS

1.2.1 Background of Corporate Governance

The massive increase in the complexity of public companies in their operations and diversity of shareholders since the industrial revolution has meant that owners (shareholders) have placed their trust in agents (executives) to manage their funds. To emphasise this point, Berle and Means (1932) argue that:

> The rise of the modern corporations has brought a concentration of economic power, which can compete on equal terms with the modern state-economic power versus political power, each strong in its field. The state seeks to regulate the corporation, while corporation, steadily becoming more powerful, makes every effort to avoid such regulation… The future may see the economic organism, now typified by the corporations, not only on an equal plane with the state but, also, possibly even superseding it as the dominant form of social organization (Tricker, 2012, p. 8).

The delegation of responsibilities of managing shareholders' funds can cause agency problems or conflict of interests between owners and executives (Jensen & Meckling, 1976; Tricker, 2012). The executives tend to prioritise their own interests over the shareholders' interests due to the advantage in information asymmetry, (Jensen & Meckling, 1976; Monks & Minow, 2011).

Adam Smith foresaw this through his famous governance perspective in *The Wealth of Nations* (1776), expressing his concern about the risk facing shareholders due to the separation of ownership and control. As Smith points out:

> The directors of companies, being the managers of other people's money rather than their own, cannot well be expected to watch over it with the same anxious vigilance with which (they) watch their own (Adam Smith, 1776 as cited in Tricker, 2012, p.6)

In order to resolve agency problems, Jensen and Meckling (1976) suggested the agency theory of a firm. Following Jensen and Meckling (1976), a number of studies were done on agency costs and mechanisms to minimise it; the notable studies include Fama and Jensen (1983) and Shleifer and Vishny (1997). In their study, Shleifer and Vishny (1997) find that, due to weak corporate governance structures, agency problems are more common in developing countries than in developed countries. Boards of directors have ultimate responsibility for governance in their firms in order to protect the shareholders' interests from the effects of separation of ownership and controls (Fama & Jensen, 1983). The literature advocates that this is the premise behind corporate governance (Shleifer & Vishny, 1997).

1.2.2 Evolution and Rise of Interest in Corporate Governance

The phrase corporate governance started to be used in the 1980s but before that the concept of governance had been applied for centuries in both economics and law. It is accepted to mean enforcement of contracts and protecting of property rights and collective actions (McNutt, 2010). Governance can be traced back to the 17th and 18th centuries, when companies were registered by charter from monarchies or western European States, such as Britain, Holland, Portugal, and Spain, which dominated business operations in parts of Europe, America and Asia (Tricker, 2012). Some corporate failures, such as the collapse of the South Sea Company monopoly in 1710, which occurred in this period, were due mainly to poor governance caused by corruption and ineffectual directors and management (Tricker, 2012).

During the period of the industrial revolutions in the 19th and 20th centuries, further development of corporate governance took place. The notion of the Limited Liability Company was introduced in Britain under the jurisdiction of the British Companies Acts of 1855 and 1862. Thereafter, due to the massive expansion of trade, this was adopted worldwide in order to protect owners from debt beyond their investments and to meet the need for external capital to finance company operations (Tricker, 2012). This resulted in the separation of ownership and control (Fama & Jensen, 1983) meaning that shareholders delegated the overall responsibility of managing a company to executives.

In the 1980s, the privatisation of SOE started in the UK and spread progressively all over the world to enable companies to become profitable and to compete with market forces (Tricker, 2012). During the late 1980's and early 1990's, several cases of corporate fraud and collapses occurred such as the collapse of Rothwells Ltd in Australia and Guinness and Robert Maxwell's companies in the United Kingdom (UK). Consequently, interest in corporate governance increased and eventually research into corporate governance increased, also, and the phrase 'Corporate Governance' started to be used (Tricker, 2012). In response to these developments, corporate governance codes were introduced mostly in the 1990s in different part of the world (see Table 1.1) in order to enhance the effective controlling and monitoring of listed companies (United Nations, 1999, as cited in Mulili, 2011).

Furthermore, the UK Cadbury Report (1992) is known widely for the introduction of the first corporate governance principles (comply or explain approach) and the Report comprised the best practices of financial aspects of corporate governance in order to enhance optimal corporate governance in the UK. According to Mulili (2011, p. 17) the Cadbury report emphasised that good corporate governance should include:

i) Establishing a board of directors that has clear responsibilities and whose role of directing or governing is different from that of the firm's management.
ii) Establishing checks and balances in governance structures with no one person having unfettered power.
iii) Having a well-balanced board in directing and controlling an organisation.
iv) Ensuring the transparency and openness of the board in directing and controlling an organisation.

In the United States of America, all listed companies were required to comply with company law, stock exchange requirements and the demands of the Securities and Exchange Commissions (SEC) (Tricker, 2012). Corporate governance is legally enforceable in the USA, while the principles in the UK and most parts of the world (including Tanzania) are discretionary and utilise a ‘comply or explain approach’ (Tricker, 2012).

The main aim of corporate governance principles is to enhance the system of checks and balances in listed companies (Monks & Minow, 2011; Tricker, 2012). The Cadbury Report (1992) encouraged most other worldwide countries to develop their own codes of corporate governance (Monks & Minow, 2011). Moreover, the increase in global awareness of corporate governance has necessitated international organisations to put more initiatives into improving corporate governance globally (Tricker, 2012). In this regard, the Organisation for Economic Cooperation and Development (OECD) and the Commonwealth Association of Corporate Governance (CACG) issued in 1999 separate, but interrelated, codes of corporate governance in 1999 (Tricker, 2012). Some countries’ specific corporate governance principles, including Tanzania’s are premised on the OECD and/or CACG principles, (Tricker, 2012). Table 1.1 shows some of the worldwide-formulated principles of corporate governance.

Table 1.1: Codes of Corporate Governance Around the World

Name of the Principle	Country/Organisation	Year of Publication
Cadbury Report	UK	1992
King Report	South Africa	1994, updated 2002 and 2009
Toronto Stock Exchange Recommendations on Canadian Board Practices	Canada	1995
Netherlands Report	Netherland	1997
Hong Kong Society of Accountants	Hong Kong	1996
Vienot Report	France	1999
OECD Principles of Good Corporate Governance	Organisation for Economic Cooperation and Development (OECD)	1999, updated 2004 and 2015
CACG Principles of Good Corporate Governance	Commonwealth Association of Corporate Governance (CACG)	1999
Principles of Good Corporate governance and Best Practice	Australia	2003

Source: Modified from Tricker (2012, p.121-135).

However, reform and worldwide introduction of these principles, as exemplified in Table 1.1, did not help to prevent occurrences of some corporate failures and financial crises occurring in the late 1990s. To emphasis this point, Mulili (2011) argues that the adoption of corporate governance best practices does not necessarily keep firms either from failing or committing frauds and scandals. For example, the Southeast Asian countries, such as Thailand, Malaysia, Indonesia and South Korea, adopted best corporate governance practices perhaps from western countries. These countries suffered one of the worst financial crises in Asia (the Southeast Asian crisis); this started in Thailand in July 1997 and spread to other countries in South East Asia (   ). In this regard, the South East Asian Countries were badly hit by an economic crisis resulting from of poor corporate governance practices (Morris et al., 2011 This crisis influenced corporate governance awareness internationally.

In addition, the world experienced financial and corporate failures in the early 2000s; these could be considered to be the worst ever in corporate governance history (Monks & Minow, 2011). These failures took most corporate governance stakeholders by surprise since, in this period, most worldwide countries had adopted corporate governance best practices (Table 1.1) and there had been an increase of corporate governance awareness (Monks & Minow, 2011; Tricker, 2012). Corporate governance practices seemed to be optimal in most parts of the world (Tricker, 2012). These failures happened mostly in 2001 and 2002 when some of the big companies in Europe and the USA collapsed. Notable corporate scandals include: Enron (US); WorldCom (US); Waste management (US); Marcon; BritishRail (UK); Independent Insurance (UK); HIH Insurance (Australia); Parmalat (Italy); and Vodaphone Mannesman (Germany) (Monks & Minow, 2011; Tricker, 2012).

As a result of these scandals, hundreds of billions of dollars of investors' and taxpayers' money were lost and there were enormous job losses and a loss of confidence of investors in the financial markets (Monks & Minow, 2011; Tricker, 2012). Corporate governance literature argued that failure of corporate governance was the major cause of the scandals (Monks & Minow, 2011). It is known that these companies' boards of directors contributed to a large extent to the failure of corporate governance. Similarly, Tricker (2012) extends the blame to those companies' boards of directors. Tricker says:

> Financial transparency, governance process, and, most significantly, attitudes toward corporate governance in other companies were questioned. Confidence in the financial markets was shaken. Suddenly, from being the leaders of economic success, entrepreneurial risk taking and sound corporate governance, directors were depicted as greedy, short sighted, and more

interested in their personal wealth and share options than in creating sustainable wealth for the benefit of the shareholders (2012, p.15).

These corporate failures or scandals brought to the surface awareness of the significance of corporate governance since each part, involved in the system of checks and balances, failed at the same time. Consequently, there was a massive interest in corporate governance (Monks & Minow, 2011; Tricker, 2012). Most countries and corporate governance regulators came up with reforms to their existing corporate governance best principles along with the introduction of new regulations for the boards and directors. These included the USA Sarbanes-Oxley Act (SOX), which introduced tough laws for listed companies in the United States of America (Mulili, 2011; Monks & Minow, 2011).

Even with the tough measures taken after these corporate failures, the world still suffered from a global financial crisis in 2007. According to Monks and Minow (2011), it was the worst financial crisis ever whereby the USA's economy suffered the worst economic catastrophe since the great depression in the 1930s. Most taxpayers in the US, UK and across the world suffered the consequences of the crisis by bearing the burden of guaranteeing the financial sector after the price of valued assets fell unexpectedly (Monks & Minow, 2011). This was to such an extent that it eventually led to the collapse of many countries' economies which resulted in hundreds of billions of dollars being lost, jobs being lost and the Chief Executives Officers (CEO) being imprisoned (Monks & Minow, 2011; Ticker, 2012).

Monks and Minow (2011) argue that this financial disaster was not supposed to happen as it was just five years since the overhaul of corporate legislation, regulations and corporate governance codes after the spectacular corporate failures at Enron, Global Crossing, Adelphia, WorldCom and many more. Most of the blame for the aforementioned corporate failures and frauds and, also, the financial crisis has been attributed to the failure of corporate governance and particularly boards of directors (Monks & Minow, 2011; Tricker, 2012). This is because the directors are accountable to shareholders since they represent them when monitoring the company's management and the directors make almost every strategic decision about the company for the purposes of a sustainable increase in the wealth of the shareholders. Moreover, the system of checks and balances function is optimised when directors are effective in monitoring executives and in representing the shareholders' interests (Monks & Minow, 2011).

Globalisation of business has made corporate governance, also, an international topic since it enhances corporate management (Mulili, 2011). However, in developing countries, it is difficult to have a single model of corporate governance (Mulili, 2011; Tricker, 2012) due to the differences in culture,

1.2.3 Corporate Governance Challenges in Developing Countries

Developing countries are facing a number of corporate governance challenges in enhancing sound corporate governance. These challenges mean that, in some cases, effective corporate governance practices, adopted from developed countries are inapplicable. The challenges facing developing countries include: weak legal system, for example poor adherence of corporate governance principles, the judiciary is poorly equipped and marred by corruption and, also, poor banking practices (World Bank, 2000; Okeahalam & Akinboade, 2003; Tricker, 2012). Moreover, there are poorly developed security markets with few listed companies; low business turnovers; frequent government intervention; and liquidity problems (World Bank, 2000; Tsamenyi, Enninful-Adu, & Onumah, 2007; Mulili, 2011, Tricker, 2012). Furthermore, very little corporate governance research has been done in developing countries due to the fact that most attention has been paid to the developed world (Shleifer & Vishny, 1997; Mulili, 2011; Tricker, 2012). In general, there are weak corporate governance structures in developing countries (Mulili, 2011). Therefore, there is an urgent need to improve these structures.

Tanzania, as a developing country, shares, also, the same challenges. These include: a weak legal and regulatory system; ineffective oversight by company directors; a small and illiquid capital market with few listed companies; few studies on corporate governance; and a lack of protection of minority shareholder interests (Melyoki, 2005). Corruption is, also, a big challenge in the country due to weak corporate governance (Fulgence, 2014; Gray, 2015). Therefore, in developing countries like Tanzania, sound corporate governance of their economies can combat corruption and can attract a flow of external investment to firms (Shleifer & Vishny, 1997).

1.2.4 Overview of Corporate Governance Interests in Tanzania

A number of factors have contributed to an increasing interest about corporate governance in Tanzania. Firstly, there were the corporate failures that happened in the USA and Europe in the early 2000s, the global financial crisis in 2007 and the Tanzanian corruption scandals of Richmond, EPA, and Tageta Escrow that occurred between 2000 and 2008. Secondly, the failure of most state owned Tanzanian corporations has fuelled concerns about Corporate Governance in Tanzania (Ngowi, 2009; Fulgence, 2014). Between 1967 and 1992, the Government adopted a centrally planned economic system, which included ownership of the country's large businesses (Ngowi, 2009). During this period, Tanzania's corporate governance was related largely to SOE whereby the Government protected firms from market forces (Ngowi, 2009). Most of these corporations did not perform well and eventually collapsed. The major reasons for their downfalls were a lack of proper transparency and control and accountability (Ngowi, 2009). These weaknesses made them susceptible to embezzlement, corruption, favouritism and political influences; eventually they collapsed and left the Government with big losses and huge debts (Ngowi, 2009).

Thirdly, demands placed on Tanzania by donors, such as the IMF World Bank and Norwegian Agency for Development Co-Operation (NORAD), forced the Tanzanian Government to implement comprehensive reform programmes (Ngowi, 2009). For example, NORAD (2011), which provides aid for Tanzanian development projects, requires Tanzania to strengthen corporate governance in order to promote the wellbeing of corporate stakeholders, the country's long-term economic development and foreign direct investments (FDI) (Fulgence, 2014). Finally, the awareness and interest in Tanzania's corporate governance was facilitated, also, by Tanzanian membership of various corporate governance programs. Tanzania, as a member of the African Union (AU), implements the New Partnership and Development (NEPAD) vision (Melyoki, 2005). This promotes good corporate governance among its members in order to improve the long-term economic development of member countries through efficient allocation of resources. Tanzania is, also, a member of the British Commonwealth. Tanzania has agreed to implement the Commonwealth Association for Corporate Governance (CACG) (1999) directives (Melyoki, 2005). It is widely known that CACG recognises corporate governance as being essential to improving flows of FDI and the corporations' performance.

1.3 STUDY CONTRIBUTIONS

Based to the above background, a key aspect of this study is to investigate the board characteristics' impact on the Tanzanian listed firms' financial performance. Researchers play a large role in providing the findings and solutions to existing corporate governance challenges (Tricker, 2012). This study is expected to provide more insights on the relationship between corporate governance and performance and to provide useful contributions to knowledge and practice. Specifically, the study is expected to make the following contributions:

Firstly, most corporate governance researchers paid attention to developed countries rather than developing countries. There is dearth of corporate governance literature about Africa and, more especially, Sub Saharan Africa (Mulili, 2011; Okpara, 2011; Ntim, 2015). Corporate governance findings may not be generalised due to the differences in institutional environments and cultures (Kang, Cheng & Gray, 2007; Tricker, 2012). Consequently, Kang et al. (2007) suggested that corporate governance studies be conducted country wise. Very few corporate governance studies were carried out in the context of Tanzania's unique environment and, to the best of the researcher's knowledge, none were done on the board characteristics–performance relationship. Therefore, this study may be highly important in the context of Sub-Saharan Africa and, more particularly in respect of Tanzania, in providing new and original insights that provide further evidence of the relationship between corporate governance and financial performance.

Secondly, previous corporate governance studies argued that the relationship between corporate governance and financial performance could not be explained by one theory (Zahra & Pearce, 1989; Hillman & Dalziel, 2003; Kiel & Nicholson, 2003; Jackling & Johl; 2009). Similar to previous corporate governance studies (i.e. Ujunwa, 2012; Ntim, 2015), this study provides theoretical contributions to using theories of agency and resource dependence to investigate the impact of board characteristics on the financial performance using Tanzanian data.

Thirdly, very few corporate governance studies of developing countries applied mixed methods research (Zattoni, Douglas & Judge, 2013). This study uses mixed methods to investigate board characteristics' impact on Tanzanian listed firms' financial performance. The majority of developing countries' corporate governance studies used quantitative methods; for instance, Haniffa and Hudaib (2006), Mashayekhi and Bazaz (2008), Jackline and Johl (2009) and Ujunwa (2012). Thus, the study provides methodological contributions to the investigation of the relationship between corporate governance and financial performance.

Finally, the study makes significant practical contribution to policy makers in Tanzania. As discussed previously, Tanzania has a different environment from developed countries where most corporate governance studies were conducted. Tanzania's corporate governance structure, which was adopted mostly from developed countries, is weak (Fulgence, 2014). This is possibly because some corporate governance issues, derived from developed economies such as corporate governance regulations, may not necessarily be applicable to developing economies (Haniffa & Hudaib, 2006; Rashid, De Zoysa, Lodh & Rudkin, 2010; Tricker, 2012) since they may differ in crucial corporate governance aspects, i.e. legal systems, political stability, the reduced size of markets, the nature of corporate ownership and the type of financial systems (Vintilă & Gherghina, 2012).

Sound corporate governance can help firms to strengthen their management performance and can attract more investors and, hence, contribute to the country's economic development (Okpara, 2011). Corporate governance regulators need to ensure that firms comply with and update company law, regulations and other good practices in order to protect the investors' interests and to attract more investors. Directors need to manage and control the company in order to protect the owners' interests and to increase the return on their investments for their own benefit and that of other stakeholders. The study is expected to produce some important insights that potential and current investors, corporate governance regulators, directors and other company stakeholders can use for current and future corporate governance reforms.

1.4 MOTIVATION OF THE STUDY

In 2001-2002, corporate failures in some of the world's biggest enterprises occurred in the United States of America and Europe in companies such as WorldCom, Enron and Parmalat. Blame for these failures and the subsequent global financial crisis were extended to boards of directors and their characteristics, such as CEO duality, and the independence of outside directors (Monks & Minow, 2011; Ntim, Opong & Danbolt, 2012; Tricker, 2012;). The scandals of Richmond, EPA, Meremeta and Dowans during the 2000-2008 (Fulgence, 2014), and the failure of corporate governance attracted the interest of Tanzanian policy makers and academics (Fulgence, 2014) and across the world (Tricker, 2012). In light of this background, this study intends to investigate the impact of board characteristics on Tanzanian firms' financial performance for the following three reasons.

Firstly, Tanzania, like other developing countries, has adopted most of its corporate governance regulations and corporate laws from developed countries; for example, The Capital Markets and Securities Authority (CMSA) corporate governance guidelines (2002) and the Company Act, 2002. These guidelines and laws may not necessarily be applicable to Tanzania. These can be influenced by different factors, including political situations, poor economy, small capital market and weak financial and judiciary systems (Haniffa & Hudaib, 2006; Tricker, 2012). Consequently, these contextual differences can have substantial influences on the study of relationships between board characteristics and corporate financial performance.

Secondly, in recent decades, most worldwide blame for corporate failures, frauds and financial scandals has been directed at boards of directors (Monks & Minow, 2011; Tricker, 2012). Arguably, research on corporate governance can provide substantial contributions in preventing further occurrence of these failures and scandals. However, corporate governance research in Tanzania is still at an infancy stage because very few studies on corporate governance have been conducted there (Fulgence, 2014). The literature suggests that no mixed method research studies have been done on board characteristics' impact on Tanzanian firms' financial performance. Thus, there is a need for such a study, which is the first in Tanzania, a country with a small capital market with few listed companies in order to reduce an existing gap in the literature.

Finally, corporate governance can enhance the returns on shareholders' investments (Shleifer & Vishny, 1997) and is crucial for a country's economic development (Garg, 2007). Tanzania is one of the developing countries, which needs sound corporate governance in order to attract FDI (Shleifer & Vishny, 1997; Mwapachu, 2001; Fulgence, 2014). Corporate governance in Tanzania plays a major role in enhancing the Government and corporations' efficient allocations of scarce resources and in attracting FDI and resulting in sustainable economic development (Fulgence, 2014). Thus, this study can improve Tanzania's corporate governance through its theoretical and practical contributions.

1.5 STATEMENT OF THE PROBLEM

Tanzania is a developing country with very little corporate governance research and it has a weak corporate governance structure (Fulgence, 2014). The reasons for the weak foundations in developing effective corporate governance may include: the underdeveloped Dar es Salaam Stock Exchange Market (DSE); poor economic performance; high levels of corruption; weak legal and regulatory controls; and inadequate investors protection (Mwapachu, 2001; Fulgence, 2014). Like most of the

African stock exchange capital markets challenges as pointed out by Ntim (2012), DSE remains underdeveloped because of its small size, weak technology which result to lack of informational efficiency and lack of liquidity. Practically, the existence of effective corporate governance is in doubt (Mwapachu, 2001; Fulgence, 2014). This situation may make Tanzania more exposed to financial crises and corporate failures. As mentioned previously, the world, including Tanzania, has been experiencing big corporate, financial and fraud scandals due to weaknesses in corporate governance structures. Boards of directors have been blamed mostly for these scandals (Monks & Minow, 2011; Tricker, 2012). This is because boards play a central role in strengthening corporate governance (Fama & Jensen, 1983; Zahra & Pearce, 1989; Jackling & Johl, 2009). As a result of these scandals, many policy makers and academics have paid attention to corporate governance (Tricker, 2012); however, this has happened to a lesser degree in Tanzania (Fulgence, 2014).

Corruption is rampant in Tanzania (Fulgence, 2014; Gray, 2015; Transparency International, 2015) and this is hampering the effectiveness of the country's corporate governance practices (Fulgence, 2014). Tanzania is ranked 117 and 116 out of 168 countries in the 2015 and 2016 respectively according to Transparency International Reports 2015 and 2016. The country is rated as a highly corrupt country, scoring 30 and 32 points in 2015 and 2016. The business sector in the country is possibly affected greatly by corruption (Gray, 2015). According to the World Bank's Doing Business (DB) Report (2015), with regard to the ease of doing business, Tanzania ranked 139th and140th out of 189 economies in 2015 and 2016 respectively. The DB report shows, also, that the Distance to Frontier (DTF) was 50.89 and 51.62 for 2015 and 2016 respectively. DTF is the World Bank index, which shows the level of regulatory performance by indicating how far distant an economy is from the best performing economy (frontier) among all economies. This means that Tanzania is 49.11% and 48.38% points away from the frontier in 2015 and 2016 respectively. The DTFs are slightly above the average and the statistics suggest the need to improve Tanzanian corporate governance in order to attract more investment.

1.6 RESEARCH QUESTIONS AND METHODOLOGY

In order to examine the board characteristics' impact on the Tanzanian listed firms' financial performance, Johnson et al. (2007) suggest the use of both qualitative and quantitative data in searching for a solution to answer a research question. The following are the study's research questions and the selected research methods.

The first question is: What impacts do outside directors have on the Tanzanian listed firms' financial performance? In order to answers this question, the study aims to investigate the impact of independent outside directors on Tanzanian listed firms' financial performance by using quantitative data obtained from these firms' annual reports. This is in line with the studies that used quantitative design (Bhagat & Black, 1999; Bhagat & Black, 2002; Haniffa & Hudaib, 2006; Ntim et al, 2012) and in line with the study of Haniffa and Hudaib (2007) and Bailey and Peck (2013), which used qualitative data obtained from semi-structured interviews. The second question is: What is the relationship between the size of the board and the Tanzanian listed firms' financial performance? In order to answers this question, the study ascertains the influence of board size on the Tanzanian listed firms' financial performance by using, also, quantitative data obtained from these firms' annual reports (Yermack, 1996; Jackling & Johl, 2009; Albassam, 2014) and qualitative data obtained from semi-structured interviews (Haniffa & Hudaib, 2007; Bailey & Peck, 2013).

The third question is: How does the CEO duality affect the financial performance of the Tanzanian listed firms? In order to find an answer to this question, the study investigates the relationship between the CEO duality and Tanzanian listed firms' financial performance by using quantitative data obtained from these firms' annual reports (Kiel & Nicholson, 2003; Jackling & Johl, 2009; Vintilă & Gherghina, 2012; Farhat, 2014) and qualitative data obtained from semi-structured interviews (Haniffa & Hudaib, 2007; Bailey & Peck, 2013). The fourth question is: How do board diversity aspects of gender, foreign directors and board skill, influence the Tanzanian listed firms' financial performance? This question aims to examine the link between Tanzanian listed firms' financial performance in Tanzania and the board diversity aspects of gender, foreign directors and board skill by using quantitative data obtained from these firms' annual reports (Carter, Simkins & Simpson; 2003; Schwartz-Ziv, 2013) and qualitative data obtained from semi-structured interviews (Haniffa & Hudaib, 2007; Bailey & Peck, 2013).

As discussed further in Chapter Four and in line with recent corporate governance mixed methods studies (e.g. Ferrer & Banderlipe, 2012; Abdullah, 2014; Albassam, 2014), this study uses a mixed methods approach that applies both quantitative and qualitative methodologies to answer the research questions. Consequently, as advocated by Creswell and Clark (2011), the study employs a mixed method design using both quantitative and qualitative data to answer the research questions. The sources of the quantitative data are the listed firms' published annual reports (Jackling & Johl, 2009) obtained from the OSIRIS database and the DSE's website. Also, the researcher collected qualitative data from semi-structured interviews with directors, regulators and other key stakeholders as research participants (Haniffa & Hudaib, 2007; Bailey & Peck, 2013). He analysed the quantitative data by using OLS and 2SLS regression analysis techniques (Bhagat & Black, 2002) and analysed the qualitative data by using thematic analysis in order to provide a deep understanding of the interviews (Bailey & Peck, 2013). The qualitative findings add to the quantitative results (Abdullah, 2014), in order to make the conclusion more realistic (Johnson & Onwuegbuzie, 2004).

1.7 SUMMARY OF THE MAIN FINDINGS

The quantitative analysis shows an insignificant relationship between board size and the firm's financial performance. This finding was in line with some of the interviewees who argued that the board's diverse expertise mattered more than its mere size. They argued that if the board have members with diverse knowledge and skills, it could be easier to make quick strategic decisions and it encouraged unity between board members. The quantitative results showed an insignificant relationship between the proportion of outside directors and firm's financial performance. This was supported by some of the interviewees who questioned the independence and competency of some directors of the Tanzanian listed companies.

The regression analysis demonstrates that there is a significant negative association between CEO duality and the firm's financial performance as measured by ROA and ROE. These results were supported by the majority of the interviewees, who contended that the roles of CEO and Chairperson should be separated. They were of the view that CEO non-duality enhanced accountability, transparency, checks and balances and the board's independence. The quantitative analysis showed that foreign directors had an insignificant relationship with the firm's financial performance. This was in line with the most of the interviewees who agreed that foreign and local directors had similar influences on Tanzanian listed firms' financial performance. They argued that the director's qualities were what mattered.

The quantitative analysis showed a weak positive link between female directors and the firm's financial performance as measured by ROA. However, the regression analysis showed a strong link between female directors and a firm's financial performance as measured by ROE. Some of the interviewees supported this by arguing that, if women board members had the same competency as men, they could have outstanding performance since they had a unique decision-making and organizational culture; brought peace and harmony to the board; were focused and determined; and they were trustworthy, straightforward and sensible decision makers.

The quantitative analysis showed that there was an insignificant relationship between board skills, proxied by board members with Doctoral qualifications, and the firm's financial performance as measured by both ROA and ROE. The majority of the interviewees did not support the quantitative findings. They argued that diverse board skill, in terms of education qualifications, professionalism, experiences, expertise etc., was likely to have a direct link with the firm's financial performance. However, some of the interviewees questioned the competency of some directors of the listed firms in Tanzania.

1.8 ORGANISATION OF THE THESIS

This thesis investigates the board characteristics' impact on Tanzanian listed firms' financial performance and, as indicated by Figure 1.1 below, consists of nine chapters. Chapter one underlines the global motivation of corporate governance and provided, also, a background and overview of corporate governance in Tanzania. It introduced the research questions and objective and the methodology on how to provide solutions to the questions and to achieve the research objectives. The chapter also, discusses the practical and theoretical contribution of the study and highlighted the organisation of the thesis. Chapter two highlights the corporate governance environment in Tanzania. In particular, it presents: Tanzania's corporate governance background; an economic overview of Tanzania; its capital market environment; its corporate governance regulatory framework; its corporate governance guidelines; its corporate governance and business environment and corporate governance and corruption in Tanzania. Chapter three reviews the theoretical and empirical literature on corporate governance. It is divided into four sections. Firstly, it reviews the key theories affecting corporate governance and, more specifically, the agency and resource dependence theories. Secondly, it discusses corporate governance mechanisms and the theoretical and empirical literature regarding the impact of board characteristics on firm financial performance. The debate of the board characteristics' impact on firm financial performance is far from over because the previous studies' findings are contradictory. Thirdly, it deliberates performance measures by discussing this study's use of ROA and ROE as the performance measures. Finally, the chapter highlights the gaps identified in the literature review.

Chapter four discusses the applied research paradigms and their philosophical assumptions; these underpin the whole study. It reviews, also, the selection of the research design used to provide solutions to the research questions. In addition, the chapter presents justifications of the use of mixed method design and the challenges of using them in this study. Chapter five demonstrates the detail of the quantitative data and the selected sample and discusses how the impact of board characteristics on firms' financial performance is investigated quantitatively by explaining the quantitative research methodology and the model used in this study. This chapter presents, also, a discussion of the quantitative findings. Chapter six discusses the theoretical framework of qualitative research and explains the qualitative design and data collection of the semi-structured interviews, together with the process of analysing the participants' views regarding the board characteristics' impact on corporate financial performance. In addition, it discusses the measures taken to avoid or to minimise bias.

Chapter seven examines the OLS Regression assumptions; provides discussions on the data analysis and interpretations; and analyses the robustness of the findings, including accounting of endogeneity. The chapter presents the quantitative findings. Chapter Eight provides discussions and analysis of the interviewees' views on board characteristics' impact on firm financial performance and discusses the integration of quantitative results and qualitative findings. Finally, Chapter Nine offers the conclusion of the study based on the objectives. The chapter discusses, also, the overall implications of the study; highlights the research limitations; and offers suggestions for future research. The next chapter discusses the corporate governance environment in Tanzania.

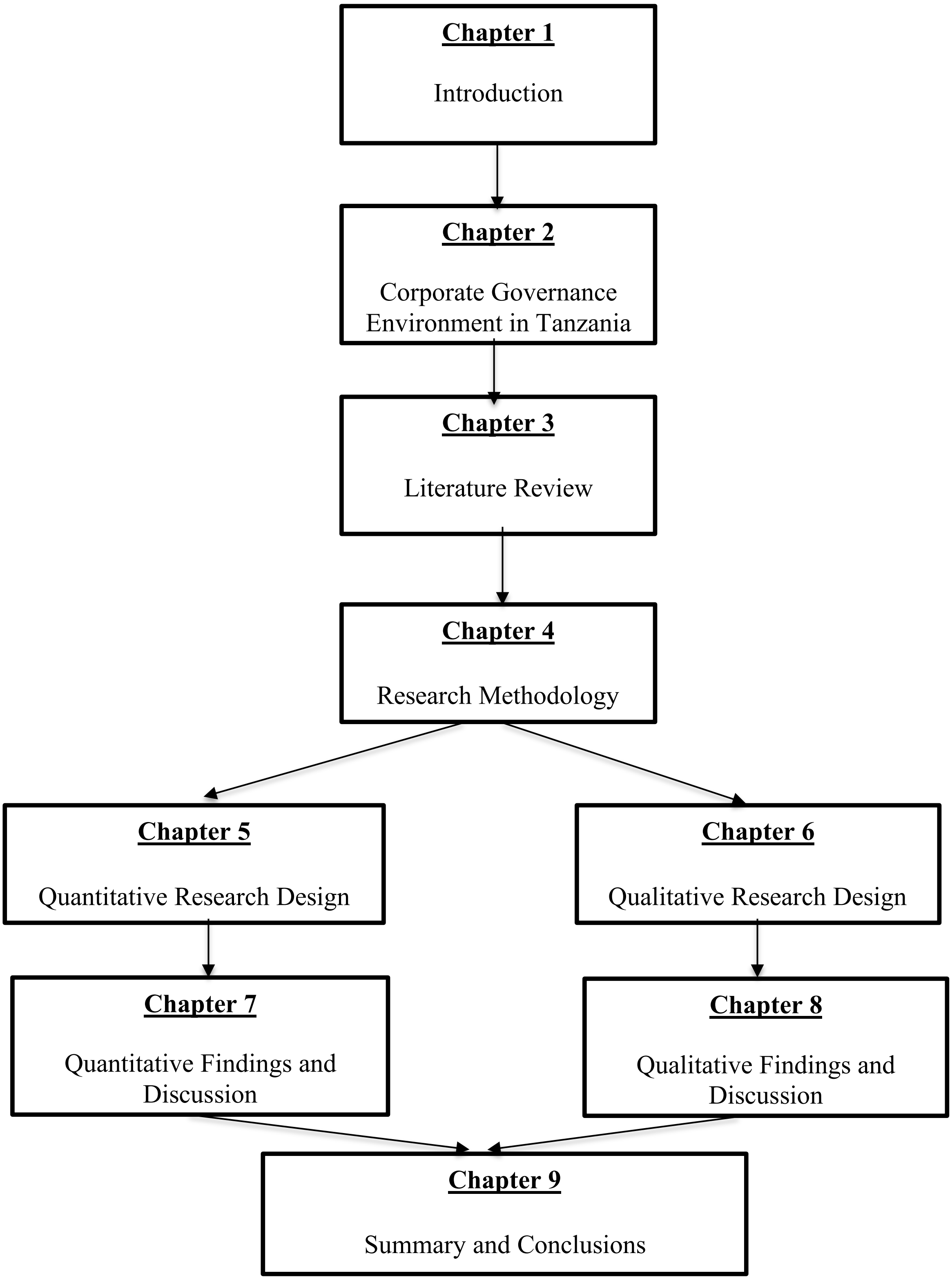


Figure 1.1 Organisation of Thesis

2 CHAPTER TWO: CORPORATE GOVERNANCE ENVIRONMENT IN TANZANIA

2.1 INTRODUCTION

Corporate governance relates to the environments within which the firms base their operations (Haniffa & Hudaib, 2006; Tsamenyi et al., 2007; Rashid et al., 2010; Mulili, 2011; Tricker, 2012). The economy, capital market and regulatory framework are the factors, mentioned most often by the literature, which can distinguish the corporate governance of one country from another. Corporate governance in most African countries is arguably weak. The major characteristics of the African economies include macro-economic instability, trade restrictions, a weak institutional environment regarding property rights, the judicial system and the high level bureaucracy on economic activities (Okehalam & Akinboade, 2003). The weak corporate governance structures in most parts of Africa made the global investors perceive the continent probably as high risk for investment and, eventually, made the continent poorer (Okehalam & Akinboade, 2003).

Tanzania has a unique corporate governance environment compared to other African countries. The country shifted from a centrally planned economy to a market economy in the mid 1980s. The Tanzanian economy is still suffering from the effects of socialism and a policy of self reliance (Ujamaa Ideology) (Ngowi, 2009). It can be argued that, to some extent, the policy caused macro-economic instability, weak regulatory framework, and high rates of corruption that affected the exchange market. The country still experiencing practices of Ujamaa like Government intervention of private businesses (Pilling and Aglionby, 2016).

Sound corporate governance is essential for the economic development of developing countries, especially African countries, so that each country has an effective economy and utilises its resources efficiently (Okehalam & Akinboade, 2003, Lawal, 2012). Therefore, sound corporate governance is also important for Tanzania's economic development. This study deals with a board of directors that is believed to be very important for sound corporate governance (Zahra & Pearce, 1989; Hermalin & Weisbach, 2001). Therefore, this chapter discusses corporate governance environment in the context of Tanzania. The remainder of this chapter is organized as follows: Section 2.2 highlights the background of corporate governance in Tanzania. Section 2.3 presents an economic overview of Tanzania. Section 2.4 discusses the capital market environment. Section 2.5 presents Tanzania's institutional corporate governance. Section 2.6 discusses Tanzania's corporate governance regulatory framework. Section 2.7 presents the relationship between corporate governance and corruption in Tanzania. Section 2.8 describes the business environment in Tanzania and, finally, Section 2.9 summarises the chapter.

2.2 CORPORATE GOVERNANCE BACKGROUND IN TANZANIA

Tanzania was colonised by Great Britain before gaining its independence in 1961. The colonial Government used a capitalist, private sector, market led economy (Ngowi, 2009). Tanzania's corporate governance history can be divided into almost two periods. Firstly, from independence to mid 1980, the post-colonial regime decided, after the first constitutional change in 1965 which made Tanzania a one party, state to change from a market-based economy, inherited from being a British colony, to a centrally planned economy (Mwapachu, 2001). In 1967, the Tanzanian Government introduced Arusha declarations in order to enhance the State owned, centrally planned and controlled economy. Consequently, the country's social, political and economic approaches were based on the ideology of socialism and self-reliance (Ujamaa policy) (Ngowi, 2009).

The Arusha declaration sanctioned the nationalisation of Tanzania's major means of production including corporations, industries, plantations, banks, mines etc. (Ngowi, 2009). In this regard, the nationalised companies became State Owned Enterprises (SOEs), under the management, ownership and control of the State. This suggests that Tanzania's significant experiences of corporate governance are related to SOEs. The SOE's main corporate governance characteristics include incompetent management, fraud and embezzlement, over employment, protection from market forces, subsidisation from the Government and being monopolistic in nature (Ngowi, 2009). These enterprises were on the verge of collapse due to the fact that they were making losses and were subsidised by the Tanzanian Government. Eventually, in the early 1980's, Tanzania suffered a devastating economic crisis; this included failures of its SOEs (Melyoki, 2005).

Secondly, from the mid 1980s to the present day as a result of this and great pressure from the International Monetary Fund (IMF), the World Bank and other donor countries, the Tanzanian Government decided to re-introduce a capitalist economy, which was market, based and private sector oriented (Ngowi, 2009). Donors' demands were the main driving forces of the economic reforms in developing countries (Kayizzi-Mugerwa, 2002). The Tanzanian Government started major economic reforms that included both liberalisation and privatisation initiatives. According to Melyoki (2005) liberalisation made the Tanzanian Government disengage fully from economic activities and begin a number of economic reforms. These included agricultural policy reforms, credit and financial sector reforms, monetary reforms, trade sector reforms, civil service reforms, social sector reforms and institutional reforms.

Moreover, in the 1990's, the Tanzanian Government decided to privatise its SOEs and, in 1993 in order to monitor its privatisation programme, established a Presidential Commission on Parastatals Sector Reforms (PCRS). Furthermore, the Government's main motives for the privatisation of the SOEs were the efficient allocation of resources and the widening of capital finance (Kayizzi-Mugerwa, 2002). The privatisation programme was successful since the Tanzanian Government relieved itself of the burden of running companies. Some of the privatised SOEs improved their profitability and, consequently, privatisation could be considered to be a potential solution for poor corporate governance in SOEs (Mwapachu, 2001). The economic reforms aimed at replacing the Tanzanian Government's financing of firms with public sources of capital finance. Consequently, the Capital Markets and Securities Act was enacted in 1994 and, then, Capital Markets and Securities Authority (CSMA) was established in 1995 in order to enhance the fair development of Tanzania's capital markets and to regulate the stock exchange and any related securities business (CMSA, 1994). The Dar es Salaam Stock Exchange (DSE) was incorporated in 1996 and started its operations in 1998. The DSE's main purpose is to mobilise funds for long term investment in its listed firms.

Furthermore, following the enactment of Government Executive Agencies Act no 30 of 1997, the Business Registration and Licensing Agency (BRELA) was established in 1999. Also, the Company Act 2002 no 12 was enacted (Company act 1929 cap 212 was amended and new provisions added) and came into force in 2006. In 2002, the CMSA developed guidelines on corporate governance (CMSA's guidelines, 2002), in accordance with the requirement of Section 10 (d) of the Capital Markets and Securities Act, 1994; this gave the CMSA the power to formulate principles for the guidance of the industry. In 2012, the Institute of Directors Tanzania (IODT), a focus group, composed of directors and senior executives, was established to enhance good corporate governance in Tanzania.

2.3 ECONOMIC OVERVIEW

Sound corporate governance is argued to be essential for economic development of emerging economies and, more especially, in Sub-Saharan Africa Countries in order to attract foreign investors (Okeahalam & Akinboade, 2003; Munisi & Randoy, 2013). The Global Financial Magazine claimed that, in 2015, most Sub-Saharan African countries are among the 25 poorest countries in the world (Tasch, 2016). As a developing Sub-Saharan African country, Tanzania was ranked 25 by the magazine with GDP per capital of USD 2054 (Tasch, 2016). However, according to the National Household Survey (2012), the rate of incidence of poverty in Tanzania declined from 34% to 28% in the period from 2007 to 2012 (Delloite, 2015).

Statistics offer good expectations for the country's economy; it can be argued that the main driver is Tanzania's on-going economic reforms. The average Gross Domestic Product (GDP) growth rate was approximately 7% for 2011-2015 (see Table 2.1) and Foreign Direct Investments (FDI) inflows to Tanzania were 3.4% and 2.8% in 2014 and 2015 respectively (see Table 2.3). Listed Tanzanian companies contribute to the GDP (Elinaza, 2016). In addition, apart from creating employment, most of

Tanzania's listed companies are among the large taxpayers (Elinaza, 2016). Therefore, good corporate governance is essential to these companies. The following sub-sections provide a brief overview of the Tanzania economy.

2.3.1 Gross Domestic Product Growth

Gross Domestic Product (GDP) and its growth are one of the strong economic indicators. The Tanzanian economy is growing and its performance is encouraging. The economy grew by a record 7.9% in 2011. In 2015, the economy continued to have good performance with a growth rate of 7% (see Table 2.1). The growth was augmented by an increase in agriculture and industrial production favoured by promising weather for agriculture, timely supplies of inputs and steady power supplies (BoT, TIC & NBS, 2013). However, the growth rate declined to 7% in 2014 and 2015 respectively. Tanzania continues to depend largely on its agriculture sector, which contributed an average of 30% of the GDP in 2013 (see Table 2.2).

However, the growth is not sufficiently broad based, with 28.2% of Tanzanians being poor, especially those living in the rural areas (AfDB, OECD & UNDP, 2015). The country's GNI per Capital (Gross National Income divided by population), calculated by the World Bank Atlas method, is below the World Bank's minimal rate of $ 1025. In 2014 and as indicated in Table 2.1, the highest Tanzanian GNI per Capital was US$ 920. This is below the standard rate and eventually makes Tanzania a low-income country; this is an indicator of the country's existing poverty. Table 2.1 shows the analysis of selected economic indicators for the period from 2006 to 2015.

Table 2.1: Tanzania Selected Economic Indicators

Description /Year	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
GDP (Current USD billion)	18.6	21.5	27.4	28.6	31.4	33.9	39.1	44.3	48.0	45.63
Growth Rate (%)	4.7	8.5	5.6	5.4	6.4	7.9	5.1	7.3	7.0	7.0
GNI per Capital-Atlas Method (current USD)	450	510	580	640	700	740	780	850	920	920
Export of Goods and services (% of GDP)	17.1	18.9	18.6	17.4	18.7	20.8	21.3	17.7	19.4	21.6
Import of Goods and services (% of GDP)	25.0	31.7	30.8	26.3	29.1	36.0	33.1	31.1	29.9	26.3
Agriculture, value added (% of GDP)	31.0	28.8	30.8	32.4	32.0	31.3	33.2	33.3	31.5	31.5
Population (millions)	40.3	41.5	42.8	44.2	45.6	47.1	48.6	50.2	51.8	53.5

Source: World Bank (2016)

The growth rate is single digit and this is likely to be caused by the poor performance of the agriculture and manufacturing sectors. Table 2.2 shows the GDP statistics by sector. Despite the fact that Tanzania depends largely on agriculture, which contributes more than 30% to its GDP and employs the majority of the country's workforce, the sector is still troubled with low productivity and poor infrastructure (AfDB, OECD & UNDP, 2015). Moreover, it is widely known that most Tanzanian agricultural activities depend largely on the weather. The country's manufacturing sector is not growing (see Table 2.2). For example, Table 2.2 shows the lowest rate of 6.4% in 2013 compared to the highest of 7.6% and 7.5%, in 2011 and 2012 respectively. In addition, the country continues to spend more on the import of capital and intermediate goods (see Table 2.1). For example, in 2014, Tanzania exported 19.5% of its GDP and imported 29.9% of its GDP (see Table 2.1), which made the current account deficit wider at approximately 10% of GDP.

Table 2.2: GDP by Sector (percentage of GDP at current prices)

Economic activity	2007	2008	2009	2010	2011	2012	2013 (r)	2014(p)
Agriculture, Forestry and Fishing	26.8	28.8	30.2	29.9	29.4	31.1	31.2	28.9
Crops	13.5	15.3	16.0	16.6	16.5	18.0	17.3	16.2
Livestock	9.4	9.3	9.7	9.1	8.7	8.5	8.2	7.4
Forestry	2.4	2.3	2.3	2.2	2.2	2.5	3.1	3.1
Fishing	1.6	1.8	2.2	2.1	2.1	2.2	2.4	2.2
Industry and Construction	20.2	20.4	18.6	20.3	22.8	21.8	22.7	23.0
Mining and quarrying	3.5	3.0	2.8	4.1	5.1	4.9	4.2	3.7
Manufacturing	7.0	7.0	6.9	6.9	7.6	7.5	6.4	5.6
Electricity supply	0.9	0.9	0.9	0.9	0.6	0.9	0.8	0.8
Water supply; sewerage, waste management	0.9	0.8	0.7	0.6	0.5	0.4	0.5	0.5
Construction	7.9	8.8	7.2	7.8	9.0	8.1	10.8	12.5
Services	47.4	45.0	45.5	44.2	42.7	41.9	41.0	41.0
Wholesale and retail trade; repairs	9.9	9.7	9.9	10.1	10.6	10.4	10.2	10.5
Transport and storage	5.9	6.0	6.2	5.4	5.8	4.4	4.2	4.3
Accommodation and food services	1.8	1.7	1.8	1.6	1.4	1.4	1.3	1.1
Information and communication	2.3	2.2	2.4	2.6	2.4	2.4	2.3	2.1
Financial and insurance activities	2.8	2.9	3.1	3.2	3.4	3.4	3.3	3.4
Real estate	6.0	5.2	5.1	4.6	4.6	4.3	3.8	3.7
Professional, scientific and technical activities	1.2	1.4	1.5	1.7	1.5	1.3	1.3	1.3
Administrative and support service activities	3.0	2.6	2.4	2.2	2.1	2.3	2.4	2.5
Public administration and defence	8.1	7.0	6.7	6.1	6.3	6.5	7.0	6.6
Education	3.2	3.1	3.2	3.1	2.8	2.6	2.7	2.7
Human health and social work activities	1.6	1.6	1.8	1.7	1.6	1.5	1.4	1.5
Arts, entertainment and recreation	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3
Other service activities	1.0	0.9	0.9	0.8	0.8	0.8	0.8	0.8

Activities of households as employers	0.3	0.3	0.3	0.3	0.2	0.2	0.2	0.2
FISIM, unallocated	-1.2	-0.9	-0.9	-0.9	-1.1	-1.0	-1.2	-1.0
All Economic Activities	93.2	93.4	93.4	93.6	93.8	937	93.7	91.9
Taxes on products	6.8	6.6	6.6	6.4	6.2	6.3	6.3	8.1
GDP at market prices	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

Source: National Bureau of Statistics

Tanzania's fiscal deficits are projected to be 5-6% of GDP in 2015/16 since the country depends on donors to finance its budget (AfDB, OECD & UNDP, 2015). However, due to delays in disbursements of budget support by donors and uncertainties over those funds, the Tanzanian Government has increased domestic and international borrowing. This has resulted in an increase in the country's national debt (AfDB, OECD & UNDP, 2015).

2.3.2 Foreign Direct Investments (FDI)

The Tanzania Investment Report (2013) and the United Nations Conference on Trade and Developments (UNCTAD) World Investment Report (2016) indicates that FDI inflows to Tanzania increased from USD 1.2 billion in 2011 to USD 1.8 billion in 2012; this was due mainly to equity and investment fund shares as well as earning reinvestments. The Report mentions, also, that gas, electricity, mining and quarrying, manufacturing and finance and insurance were the main sectors that attracted these inflows. Furthermore, the Report says that the United Kingdom, Canada, Switzerland, United States and South Africa are the top five countries that contributed to the FDI inflows. Table 2.3 shows the pattern, and ultimate increase, of the FDI inflows from 2008 to 2015. As indicated in Table 2.3, the trend of FDI's inflows is not promising. There is a decline and increase of inflows. In 2013, Tanzania recorded the highest share of African FDI inflows of 4%; however, the country's share declined to 3.4% and 2.8% in 2014 and 2015 respectively (see Table 2.3). Therefore, there is a need for sound corporate governance to protect the investors' interests and to attract more investors to come in Tanzania.

Table 2.3: FDI Inflows

	2008	2009	2010	2011	2012	2013	2014	2015
Global (Billions of USD)	1816.3	1,216.5	1408.5	1,651.5	1510.9	1427.2	1277	1762.2
Africa (Billions of USD)	58.9	52.9	43.6	47.6	55.2	52.2	58.3	54.1
Tanzania (Billions of USD)	1.3	0.9	1.8	1.2	1.8	2.1	2.0	1.5
Tanzania's share in Africa (%)	2.2	1.7	4.1	2.5	3.3	4	3.4	2.8

Source: Tanzania Investment Report (2013) and @UNCTAD World Investment Report (2016)

From the above discussion, it could be argued that corporate governance can have major influence on Tanzania's economy and that, following regulatory reforms, the Government's on-going economic reforms are having a positive impact on the country economic development. The aforementioned statistics on GDP, FDI and other economic indicators reflect the economic progress in Tanzania.

2.4 STOCK MARKETS

The corporate governance literature argues that stock markets are an important mechanism for economic growth because they can enhance long-term savings, inflows of FDI, liquidity and, ultimately, the efficient allocation of limited resources (Ntim, 2012). There is one stock market in Tanzania, namely the Dar es Salaam Stock Exchange (DSE). The Capital Markets and Securities Authority (CMSA) regulate Tanzanian capital markets under the Capital Markets and Securities Act (1994). The following subsection discusses the DSE's performance.

2.4.1 Dar es Salaam Stock Exchange (DSE)

The DSE was incorporated in 1996 and started its operations in 1998. The DSE's main function is to accelerate the raising of funds to finance investments in long-term assets.

Table 2.4: Analyses of DSE Market Capitalisation and Price Index

Particular	2011	2012	2013	2014	2015
Market Capitalisation (TZS billion)	5,926	12,773	14,058	18,092	23,721.49
Value of Shares Traded (TZS billion)	48.25	44.45	73.00	273	879.22
Tanzania Share Index (TSI) Points	1051.92	1,206.99	1840.11	3561.62	4684.09
Total Listed Companies	15	17	17	18	23

Source: DSE Annual Reports (2011-2015)

As at 30th June 2016, the DSE had 23 listed members. Table 2.4 indicates a substantial performance for the year ending 30^{th} June 2015. For example, the total market capitalization increased by 25 percent from TZS 18,092 billion to TZS 23,721.49 billion. In the period the value of traded shares traded increased in 2014 from TZS 273 billion to TZS 879.22 billion. In addition, Table 2.5 shows DSE's increasing market capitalisation as a percentage of GDP. This is according to the African Securities Exchange Association (ASEA) end of year statistics; DSE is a member of ASEA. The statistics show, also, good performance in terms of market capitalisation as a percentage of GDP and total value traded (see Table 2.5).

The statistics indicate that the DSE has been performing well. According to BoT (2015), political stability, strategic initiatives, a public awareness campaign and Tanzania's general economic trend are among the factors that contributed to this highly successful performance. However, DSE total turnover has gone down by nearly 50% form TZS 230 billion (Sept, 2015) to TZS 123 billion due to normalization of market (March, 2016) (BOT, 2016).

Table 2.5: DSE Performance Report

	2007	2008	2009	2010	2011	2012
Market Capitalisation as % of GDP	15.06	21.69	17.93	14.6	30.2	33.4
Market Capitalisation (USD '000')	2,790,000	3,800,000	3,830,330	3,367,960	7,389, 640	8,397,286
Total Value Traded (USD '000')	26,220	25,730	38,358.2	25,486.5	32,854.2	278,680.8
Total Volume Traded	30,270	26,980	123,224.026	185,565,822	133,403,198	83,069, 599

Source: ASEA website (2016)

Foreign investors own the majority of the DSE's equity business. The Bank of Tanzania (BoT) (2015) Report indicates that foreign investors contribute around 90% of the DSE's business. However, beside the good market progress, there are some challenges facing the DSE. These include the following: there are few market participants; and the trend is not encouraging. According to DSE website, the recent records (June 2016) show that only 23 companies were listed (Table 2.5). Moreover, DSE has a low level of liquidity and, in fact, its turnover to total capitalization was 1.0% (BoT, 2015). Possible causes include slow circulation of shares from sellers to the buyers; and the continuing lack of public awareness about the capital markets and DSE market (Massele, Darroux, Jonathan, & Fengju, 2013).

Furthermore, DSE's challenges are likely to be similar to other African countries (excluding South Africa) since it is argued that most African stock markets lack ideal performance due to inadequate operational efficiency (Ntim, 2012). Consequently, in terms of size (value of stock and capitalisation/GDP), African stock markets (excluding South Africa) may be the smaller stock exchanges among other emerging economies and developed countries (Ntim, 2012). According to the World Federations of Exchanges (2012) statistics at the end of 2011, the stock value of African countries excepting South Africa was 0.94% of world stock market capitalisation and comprised of only 2.14% of the total stock value of emerging markets (Ntim, 2012). Ntim (2012) categorised Tanzania in the fourth tier of the five-tier classification of Africa equity markets. Fox Business Network (FBN) reported, also the DSE as being as one of the smallest stock exchange markets in the world (FBN, 2015).

2.5 INSTITUTIONAL FRAMEWORK OF CORPORATE GOVERNANCE IN TANZANIA

Institutions make vital contributions in shaping corporate governance. The main Tanzanian institutions, which play a role in corporate governance are: Dar es Salaam Stock Exchange (DSE); Capital Markets and Securities Authority (CMSA); Business Registration and Licensing Agency (BRELA); Tanzania Investment Centre (TIC); Bank of Tanzania (BoT); National Board of Accountancy and Auditors (NBAA) and Institute of Directors Tanzania (IODT).

2.5.1 Dar es Salaam Stock Exchange (DSE)

The DSE was established in 1996 under the Capital Markets and Security Act, 1994. The DSE's basic function is to enhance the raising of funds for investment in long-term assets. Other relevant functions, according to the DSE (2011, p.16), include monitoring flight of capital; separating shareholders' capital from directors' capital; facilitating higher standards of accounting, resource management, and public disclosure; better access to finance for small or new companies; and promoting public floatation of private companies.

2.5.2 Capital Markets and Securities Authority (CMSA)

The CMSA was established in 1995, under the Capital Markets and Securities Act, 1994, with the aim of encouraging and regulating the business of securities in Tanzania. In the early 1990's, comprehensive financial reforms, which were intended to develop Tanzania's capital markets, resulted in the CSMA's establishment in the 1995/1996. According to Section 10 (1) of the CMSA Act, its functions, duties and powers include: encouraging efficient, sustainable and equitable capital markets and securities businesses in Tanzania; guiding the industry in protecting investors' interests and the integrity of the securities market against any unfair dealings; licensing and regulating stock exchanges and related businesses; and advising the Government on securities industry policies.

2.5.3 Business Registration and Licensing Agency (BRELA)

BRELA is an executive agency established under the Government Executive Agencies Act No. 30 of 1997 and started its operations on 3rd December 1999. According to its website, the BRELA's (2016) functions are to oversee companies and business names by registering business names and companies who want to do business in Tanzania; regulating companies by administering business and industrial licensing laws; enhancing and promoting local and foreign investments; and promoting the innovative use of technology and encouraging technology transfer within companies.

2.5.4 Tanzania Investment Centre (TIC)

The TIC is an agency established in 1997 by the Tanzania Investments Act. The TIC aims to coordinate, encourage, promote and facilitate investments in Tanzania and to advise the Government on investment policy and related matters. The agency deals with enterprises that have a minimum capital of 500,000 USD if foreign owned and 100,000 USD if owned locally. According to its website (2016), the TIC's main function is to nurture an environment conducive to private sector investments. Other functions include: an advisory role towards the Government; encouraging both local and foreign investments; enabling local and foreign investors; supporting the development of Entrepreneurship and Tanzanian SMEs; disclosing relevant and current information regarding investment opportunities and incentives available to investors; and monitoring FDI growth.

2.5.5 Bank of Tanzania (BoT)

The Bank of Tanzania (BoT) was established under the Bank of Tanzania Act, 1965 and began its operations in 1966. The BoT's main aim is to formulate, define and implement monetary policy, directed to the economic objective of maintaining domestic price stability and conducive to a balanced and sustainable growth of the Tanzanian economy. The BoT's functions include: monitoring and regulating other banks and financial institutions; advising the Government on financial and economic matters; overseeing the country's international reserves; and stimulating financial development.

2.5.6 National Board of Accountants and Auditors (NBAA)

The NBAA is a professional board established under the Auditors and Accountants (Registration) Act No. 33 of 1972 as amended by Act 2 of 1995. The NBAA came into operation in 1973. According to its website (2016), the NBAA's functions are: registration of new members; monitoring the practices of members and firms; career development within the accounting profession; and provision of standards and guidelines that include compliance with international standards.

2.5.7 Institute of Directors Tanzania (IODT)

The IODT is a focus group, composed of directors and senior executives, which was established in 2012. According to its website (2016), the IODT's main objectives are to propagate, promote and enhance corporate governance in Tanzania. Its functions are to work with other Tanzanian corporate governance institutions to ensure that codes and principles are duly drafted, promulgated and complied with. It serves, also, to arrange and coordinate directors' forums and conferences in order to update members on world corporate governance developments and best practices, and to encourage corporate governance research and consultancy in order to promote effective directorship in Tanzania.

2.6 REGULATORY ENVIRONMENT

Different regulations have been enacted in Tanzania to protect the interests of owners and, consequently, strengthen Tanzania's governance since the legal protection of investors is an essential mechanism of effective corporate governance (Shleifer & Vishny, 1997). The main legislation, dealing with Tanzanian corporate governance, includes the 1994 Capital Markets and Securities Act, and the 2002 Companies Act (CA), which came into force on March 1, 2006. The CA and the 1992 Public Corporations Act both provide the corporate governance regulatory framework for corporations, private and public companies. The key component regulatory framework comprises incorporation and governance of corporations. This has a United Kingdom (UK) background because it was introduced to the country when it was a British Colony and, consequently, the framework is basically premised on the British legal system. Moreover, Tanzania has adopted, also, from the UK a unitary board structure comprising of a balance of inside directors (executive) and outside directors (non-executive) (Fulgence, 2014).

2.6.1 The Companies Act, 2002

Tanzania enacted a new 2002 Companies Act (CA), No. 12; this came into force in March 2006 after some provisions of the previous 1929 Company Ordinance (Cap 212) were amended and new provisions added. The 2002 CA defines the operational boundaries of both private and public companies with respect to incorporation, governance, structures, responsibilities and accountabilities and transparency. Chapter one of the 2002 CA explains the Memorandum of Association and Articles of Association (MEMARTS). The Memorandum of Association governs the company's external relationships while the Articles of Association govern its internal affairs. The MEMARTS were introduced to enhance effective relationships between shareholders, directors and management.

The 2002 CA stipulates the management of the company. Among these, the directors' provisions, provided by the CA, include: firstly, that subject to the CA and shareholders' resolutions, the directors are granted the necessary powers to effectively manage and monitor all the company's operations in good faith and in the shareholders' best interests. Consequently, the directors have to adhere to a duty of care, skill and diligence. Secondly, the CA limits the minimum number of directors to two. Thirdly, the CA states that directors should be appointed at the Annual General Meeting (AGM) and that they have to consent to their appointments being recorded in the Companies Registry. Fourthly, the CA provides that the directors' duties are stipulated in the company's Articles and appointment letter. Also the CA provides that the directors have a legal duty to disclose remuneration or any other interest within the company. Fifthly, the company's memorandum stipulates the director's liability; however, the CA states that the directors should be liable in the event of a breach of their duty of care or negligence and default. Sixthly, the company's Articles provide the shareholders' powers of shareholders; however, the CA gives minority shareholders powers to go to court whenever they feel that their interests are being abused or their interests are under threat. Seventhly, the CA sets a minimum age of twenty-one years for appointment to a company's board of directors and maximum age of seventy years for retirement. CA specifies the appointment of directors, qualifications of directors, age of a director and removal of directors and, finally, the CA stipulates that, subject to the Company's Articles and any agreement, a director can be removed from the board by ordinary resolution.

2.6.2 Capital Markets and Securities Act, 1994

This Act establishes the Capital Markets and Securities Authority (CMSA) to enhance fair development of Tanzania's capital markets and make provisions in respect of the stock exchange and any related securities business (CMSA, 1994). In particular, these include: Capital Market and Securities Authority; stock exchanges; licenses; Registrar of interests and Securities; conducts of securities business; accounts and audit; trading in securities and interim stock trading facilities.

2.6.3 Tanzania Corporate Governance Guidelines

Tanzania's two main corporate governance guidelines are the Steering Committee on Corporate Governance 2000 and the Capital Markets and Securities (CMSA) Guidelines 2002. These guidelines are discussed as follows.

2.6.3.1 The Steering Committee on Corporate Governance 2000

These guidelines provide corporate governance regulations to Tanzania's SOE and privately owned companies. Through protection of their social and economic interests, the regulations aim to enhance the economic wellbeing of corporation stakeholders such as employees, creditors and customers/clients (Nyaki, 2013). This study's premise is based on the CMSA' guidelines since they are more concerned with corporate governance in listed companies.

2.6.3.2 Capital Markets and Securities (CMSA) Guidelines 2002

In 2002, the CMSA developed guidelines on corporate governance (CMSA's guidelines, 2002), in accordance with the requirement of section 10 (d) of the Capital Markets and Securities Act, 1994; this gave the CMSA the power to issue corporate governance principles for the guidance of the industry. These guidelines were developed to underpin corporate governance in public listed companies in order to maximize owners' wealth and came into operation in 2002 (CMSA's guidelines, 2002).

The CMSA's guidelines (2002) comprise of the following four sections: i) Introductions; ii) Definitions; iii) Principle of good corporate governance; and iv) Recommended best practice in corporate governance by public listed companies. The first section introduces the guidelines including the objectives; the nature and source of the guidelines and the extent of compliance; the obligation of the listed companies; and the applicability of the guidelines. The CMSA developed guidelines, which are recommended as the best principles in corporate governance in Tanzania. Their motivation was to enhance sound corporate governance in Tanzania which, in turn, might protect the interests of shareholders and other stakeholders; increase the listed companies' performance; and, eventually, Tanzania's long term economic development (CMSA's guidelines, 2002). These guidelines were adapted, to a large extent, from other jurisdictions including the United Kingdom, South Africa, the Commonwealth Association of Corporate Governance (CACG) and OECD Principles of Corporate Governance. This was done in order to ensure that Tanzania's corporate governance satisfied international standards (CMSA's guidelines, 2002). The recommendations are mostly non-prescriptive and offer flexibility and opportunities for innovations to enhance sound corporate governance practices in the country's listed companies (CMSA's guidelines, 2002). In this regard, the guidelines require the listed companies to disclose, in their annual reports, the extent of their compliance and non-compliance with the guidelines. In cases of non-compliance, the companies are required to provide explanations. The guidelines were developed in particular for all firms listed on the DSE including the issuers of securities such as bonds. Private companies are encouraged, also, to comply with the guidelines (CMSA's guidelines, 2002).

The guidelines' second section provides some definitions of corporate governance terms like executive directors, non-executive directors and independent directors. The guidelines define a non–executive independent director as a person who does not have any affiliations to the company or its management, while an executive director is defined as a person who is affiliated to a company and, in particular, is involved in its daily operations. This section provides the definitions of majority shareholders and substantial shareholders. The guidelines categorise a person, who owns more than 50% shareholding as a majority shareholder, and a person, who owns 15% or more, as a substantial shareholder.

The third section presents principles of good corporate governance practices. Sub-section 3.1 indicates the overall responsibility of a board of directors, including the effective discharge of its functions in terms of oversight, advisory and resource provision and being accountable to its shareholders. Sub-section 3.1.1 concerns board committees. It articulates that the board of directors can establish applicable board committees particularly an audit and nominating committee and, if necessary, those committees should be given certain authorities. Sub-section 3.1.2 presents issues relating to directors' remuneration, which recommends that remuneration should be attractive to, and sufficient for directors. Moreover, remuneration for non-executive and executive directors' should be in line with that of other directors of competitor companies, where remuneration for executive directors should be related to performance. The sub-section indicates further that all matters related to directors' remuneration should be transparent and the shareholders should endorse the directors' remuneration.

Sub-section 3.1.3 emphasises the supply and disclosure of information. Sub-section 3.1.3 (i) indicates that management should supply the board with relevant, timely and accurate information necessary to discharge its duty effectively and efficiently. Sub-section 3.1.3 (iia) displays the responsibilities of the board to disclose, in the firm's annual report, its policy for remuneration regarding incentives for directors and senior management and, in particular, the fees and emoluments of executive and non-executive directors. Other information, required to be disclosed in the firm's annual report, includes a list of the firm's 10 major shareholders (sub-section 3.1.3 (iib); share options; any other executive compensation made during the year (sub-section 3.1.3 (iic); and directors' loans (sub-section 3.1.3 (iid). In order to enhance the balance of the board's membership, sub-section 3.1.4 emphasises that the board of directors should be composed of executive and non-executive directors with diverse skills and proficiencies. The minimum number of non-executive directors should not be lower than one third of all board members in order to ensure the board's independence.

In order to enhance a proper and transparent appointment process to the board of directors, sub-section 3.1.5 stresses that the candidate, seeking a director's appointment, is required to disclose any conflict of interest or potential conflict of interest. Moreover, the board of directors has to ensure that directors with conflicting interests disclose the nature and extent of their interests, and this is recorded in the company's interest register (3.1.5 (iia). The issue of directors' conflicting interests should be discussed at any board meeting and directors with conflicting interests should be given notice of the meeting (3.1.5 (iib). Sub-sections 3.1.5 (iic and iid) asserts that the director with the conflicting interest should not attend a meeting discussing the issue of conflict, where directors with continuing substantial conflicts of interest should consider resigning from the post. Sub-section 3.1.6 restricts a person from holding more than three directorships in any public listed firm; the exception is the Treasury Registrar by virtue of this office being the custodian of the Government stakes in listed firms.

Sub-section 3.1.6 stresses the re-election of directors. This sub-section suggests that existing directors should submit themselves for re-election at least every three years or at regular intervals (Sub-section 3.1.6a). Executive directors should have a fixed period of office of no more than five years and they can renew their terms of office subject to regular performance appraisal and shareholders' approval (Sub-section 3.1.6b). The board should disclose at the Annual General Meeting (AGM) and in the firm's annual reports all the directors approaching their sixtieth birthday in that respective year (Sub-section 3.1.6c). This sub-section emphasises the importance of disclosing in the firm's annual report, any director's resignation and the circumstances that led to the resignation. In order to enhance a balance of power of authority and to provide for checks and balances, sub-section 3.2.1 restricts any person from holding both positions of Chief Executive Officer (CEO) and Chairperson of the Board (COB). However, sub-section 3.2.1 does allow the positions to be combined but justification needs to be given to support this duality. Sub-section 3.2.2 limits a person to holding more than two board chairmanships in any listed company at any one time.

For approval of major decisions by the shareholders, section 3.3.1 recommends that the firm's shareholders should be involved and participate in any major decisions. Furthermore, the board should supply shareholders with relevant information concerning the firm. These include, but are not limited to, mergers, acquisitions or reorganisations, restructuring, takeovers or major disposal of company assets. Sub-section 3.3.2 (i) stresses the importance of informing shareholders about all relevant issues related to the AGM. In particular, the board of directors, in a timely manner, should supply shareholders, with necessary information about the AGM including the date, location, venue, and the agenda of the meeting (sub-section 3.3.2(i). The board should consider the affordability to the shareholders before making decisions concerning the venue of the meeting (sub-section 3.3.2(ii). In order to enhance the effective participation of shareholders at the AGM, subsection 3.3.2 (iii) stresses the shareholders' right to be given sufficient time for their effective participation at the meeting.

Sub-section 3.4 emphasises the board's accountability. A board of directors should present the firm's annual report in line with the relevant financial reporting standards (sub-section 3.4.1). In order to protect the shareholders' interests, sub-section 3.4.2 indicates that the board is responsible for maintaining a strong system of internal control. In order to enhance the auditors' independence, sub-section 3.4.3 asserts that the board of directors should establish a formal and transparent process of appointing independent auditors. Sub-section 3.4.4 recommends that the board should sustain their relationship with the auditors by establishing recognised and clear arrangements for continuing professional interactions with them. Section 4 relates to corporate governance recommended best practices by public listed companies. This section argues that the implementation of international corporate governance best practices or standards, as highlighted in the introduction section, is very important for listed firms in order to maximise the shareholders' wealth. Therefore, the section argues that the country's listed companies should strive to comply with the standards.

Sub-section 4.1 stresses the best practices relating to the board of directors. Sub-section 4.1.1 indicates the role and responsibilities of the board of directors in ensuring the firm's going concern, in line with their fiduciary responsibilities to the shareholders and equitable treatment of shareholders. Generally, the sub-section illustrates the directors' roles of monitoring, resource provision and providing advice. In order to enhance a balanced and effective board, sub-section 4.1.2 emphasises that a board be composed of a balanced number of independent non-executive directors and executive directors. The sub-section recommends at least one-third representation of non-executive directors and that the composition should represent the company's shareholding structure including minority shareholders. The sub-section requires the board, also, to disclose (in the firm's annual report), if the number of non-executive directors is at least one-third and is representative of minority interests. Sub-sections 4.1.2 considers, also, the board size and suggests that the size of the board should not be too large to undermine healthy discussion or too small to deter inclusion of wider expertise and skilled members. The sub-section recommends, also, that the board should monitor and manage all the potential conflicts of interests within a firm.

Sub-section 4.1.3 is concerned with the appointment and qualifications of directors. It requires the board to appoint a nominations committee that encompasses a large proportion of non-executive directors. The sub-section further requires that the committee be responsible for proposing new nominees for appointment to the board and in assessing the performance and effectiveness of directors with respect to discharging their roles. In order to protect the shareholders' interests, the sub-section 4.1.3 requires the nominating committee to consider, also, candidates' expertise in making independent decisions and in discharging their roles. Moreover, it requires the nominating committee to consider the names suggested by the CEO and to review annually the relevant mix of board skills and the effectiveness of the board as a whole and its committees. Sub-section 4.1.3 recommends that the process of directors' appointment should be sensitive to gender representation and gives the shareholders the responsibilities of appointing directors recommended by the nominating committee. In order to improve effective remuneration of directors, further to what is suggested by section 3.1.2, sub-section 4.1.4 advocates that the board either should appoint a remuneration committee or give mandate to the nominating committee (if it has a large enough number of independent, non-executive directors), to recommend to the board the remuneration of executive directors and the structure of their remuneration. It also suggests, also, that the whole board should be involved in determining the remuneration of non-executive directors.

Sub-section 4.2 considers best practice relating to the position of CEO and COB. Further to what is explained in sub-section 3.2, sub-section 4.2 indicates that a non-executive director should hold the position of COB. Moreover, the sub-section recommends a clear succession plan for the COB. The sub-section further recommends that the CEO should be responsible for implementing board corporate decisions and in ensuring that there is a clear flow of all relevant information to the board for decision-making. Moreover, the COB is responsible for organising this information so that the directors can receive it on time. Sub-section 4.3 highlights the shareholders' rights which include: i) the equitable treatment of minority shareholders; ii) the right to receive relevant and timely information; iii) the right to transfer ownership; iv) the right to participate and vote at the AGM; v) the right to ask questions and seek further explanations relating to the firm's operations; vi) the right to receive dividends and other relevant returns in the ratio of its shareholding in the firm's share capital; and vii) the board should maintain an effective communication policy for the benefit of management, the board, shareholders and other stakeholders and the general public. The sub-section requires shareholders to exercise their rights in a respective manner and with consideration to the firm's interests.

Sub-section 4.4 stresses best practice regarding the conduct of general meetings which include the importance of shareholders receiving the following: i) sufficient information on voting rules and procedures; ii) opportunity to question management; iii) opportunity to place items on the agenda at AGMs; iv) opportunity to vote in absentia; and v) opportunity to consider the pros and cons of their votes. Sub- section 4.5 provides recommendations regarding best practice relating to accountability and the role of audit committees. This sub-section proposes the board should have at least three members who are independent non-executive directors and that the board be chaired by an independent non-executive director. The board is responsible for reporting that these recommendations have been complied with. Sub-section 4.5.2 suggests that the required attributes of the audit committee members include independence and relevant knowledge and skills such as accounting and financial management. In order to enhance its effective performance, sub-section 4.5.3 argues that the audit committee should have adequate resources and authority. According to sub-section 4.5.3, the responsibilities of the audit committee members include: i) monitoring and controlling the financial reporting process and internal controls; ii) reviewing and recommending compliance with regard to the code of conduct; iii) reviewing the appointment, resignation or dismissal of the external auditor and the audit fee. In addition, the subsection stresses the responsibility of the audit committee in relation to maintaining a working relationship with the external and internal auditors in order to ensure that their performance is effective and efficient.

2.7 CORPORATE GOVERNANCE AND CORRUPTION IN TANZANIA

Rose-Ackerman (1978) defined corruption as mishandling of public resources for individual benefit (Wu, 2005). Weak corporate governance, such as lack of transparency, independency, accountability and fairness, can be argued to be among the causes of increases in corruption. Wu (2005) argues that corruption could reach high levels in a country where the corporates boards do not truly protect the shareholders' interests and failed to prevent accounting irregularities. This can be the case in Tanzania due to the country's aforementioned weak corporate governance structures. The country has been affected by huge corruption scandals that have cost the taxpayers millions of dollars. These scandals involved senior government officials, senior politicians and local and foreign companies in different sectors mostly involved with natural resources, land and the business sector as a whole (Gray, 2015). The recent transparent international reports in 2015 and 2016 show that Tanzania is ranked 116 and 117 respectively out of 168 countries. These reports reflect a marginal improvement of one position (Transparent International 2015 & 2016).

The corruption situation is still not good and remains rampant among Tanzanian private and public institutions and their employees. The 2016 Transparent International Report indicates that 75% of the companies operating in emerging countries are not transparent and, consequently, there are enhanced levels of corruption in those countries' companies. It is argued that, by using data from Transparency International, that the Tanzanian Government lost substantial amount of its income to corruption (Okeahalam & Akinboade, 2003). Corruption has had a huge effect on the private sector because it has weakened the Tanzanian system of corporate governance (Fulgence, 2014).

The previously mentioned huge corruption scandals of EPA, Richmond and Tegeta Escrow highlighted in chapter one, occurred between the end 1990s and 2014 after being exposed by the media, opposition parties and the parliament (Gray, 2015). These scandals reflect the involvement of firms' top managements, senior politicians and government officials in corrupt deals for their own personal benefits. Gray (2015) contended that these scandals suggested a correlation between private medium and large business owners and senior politicians and Tanzanian government officials. This relationship is argued to be among of the sources of corruption within the country (Mwapachu, 2001). This relationship is caused possibly by the market forces on the privatised SOEs and multinational companies which made them engage in corrupt deals in developing countries in order to survive competitive markets and the challenges of globalization (Wu, 2005). Sound corporate governance is an essential weapon to combating corruption in developing countries that have higher rates than in developed countries (Shleifer and Vishny, 1997; Transparent International 2015 & 2016). Thus, improving corporate governance in countries with high levels of corruption like Tanzania is vital in the fight against corruption and to encourage business growth.

2.8 CORPORATE GOVERNANCE AND BUSINESS ENVIRONMENT IN TANZANIA

The current relationship between the Tanzania Government and business can be traced back to the mid-1980s when the Government owned the major means of production including corporations (SOEs) (Ngowi, 2009). As highlighted in section 2.1.1, the Government decided to privatize its corporations after adopting a free market economy (Bagachwa, 2000; Ngowi, 2009). According to the CEO of the

DSE, up to 3 July 2016, out of more than 400 hundred SOEs only seven privatized SOE were listed the DSE (Elinaza, 2016). Among the privatized companies listed on the DSE were Tanzania Breweries Ltd (TBL), Tanzania Cigarette Company Ltd (TCC), Tanzania Oxygen Ltd (TOL), Tanga Cement Ltd, Tanzania Portland Cement Company Ltd (TPCC), CRDB Bank and National Microfinance Bank (NMB) (Elinaza, 2016). Most of these companies perform well in the market and are among the major contributors to the country's revenue (Elinaza, 2016).

2.8.1 Doing Business in Tanzania

African economies have high levels of bureaucracy in terms of regulations involving business operations, from starting the business to the operating level (Okehalam & Akinboade, 2003). As one of these economies, Tanzania has some business regulations that are claimed to hamper the country's business operations and provide insufficient protection to investors (Doing Business (DB) Report, 2015 & 2016). Table 2.6 indicates Tanzania's ranking of on business regulations.

Table 2.6: Doing Business Tanzanian Report

	DB 2016 Rank	DB 2017 Rank (p)	DTF 2016 (% points Ranks)	DTF 2017 (% points Ranks)
Overall	144	132	50.59	54.48
Starting business	127	135	78.89	79.14
Registering a Property	133	132	51.37	51.37
Paying Taxes	146	154	56.27	54.13
Protecting Minority Investors	145	145	40	40
Getting Electricity	83	87	70.29	70.52
Dealing with Construction Permits	139	136	61.19	61.69
Getting Credit	152	44	25	65
Trading across Borders	180	180	20.21	20.21
Enforcing Contracts	60	59	61.66	61.66
Resolving Insolvency	98	100	41.41	41.04

Source: World Bank, 2017

Table 2.6 shows that it can be difficult to do business in Tanzania due to its regulatory environment. Distance to Frontier (DTF) statistics released in October, 2016 show that, between 2016 and 2017, the regulatory environment improved slightly improved by 3.89%. This improvement from DB and DTF rankings of 144 and 50.59% in 2016 to DB and DTF rankings of 132 and 54.48% in 2017 was likely to be influenced greatly by the improvement in the time and procedures for obtaining loan finance. There is, also a slight improvement (by 0.21% from 2016 to 2017) in the procedures required for starting a business in Tanzania.

However, Tanzania is not improving in protecting minority investment, the rankings are the same for 2016 and 2017 in doing business (145,145) and DTF (40%, 40%) respectively. The situation is, also, the same in registration of a property in 2016 and 2017, in doing business (132,133) and DTF (51.37%, 51.37%) respectively. The time taken to comply with tax regulations increased, also, from 2016 to 2017 with DB ranking 146 to 154 and DTF rankings 54.13% and 56.27% respectively. These statistics indicate that the Tanzanian business regulatory environment is still a challenge for local and foreign investors and there is a need for further improvement.

2.8.2 Government Intervention

The aim of privatisation and liberalisation was for the Tanzanian Government to disengage itself from economic activities and remain as the regulator (Ngowi, 2009). However, there are claims that the Government is still meddling in the listed companies and other private enterprises (Pilling & Aglionby, 2016). The Government itself or its institutions have some stakes in its former enterprises listed on the DSE. For example, the Government owns 6.35% of TOL shares (TOL, 2015) and 31.8% of NMB shares (NMB, 2015). Another example is the Government pension funds of the National Social Securities Fund and Parastatal Pension Fund, which own 5% and 4% of the TCC respectively (TCC, 2015). Moreover, some politicians are even board members of these firms. For instance, the boards of Tanga Cement Ltd and TBL are chaired by former senior government ministers (Tanga Cement, 2015; TBL, 2015). These gives the Government influence in those firms.

Furthermore, the Government is planning to come up with regulations, which will force some former SOEs to list on the DSE (Elinaza, 2016). The Government argues that this move can enhance good corporate governance; help its citizens to benefit economically by owning shares in former SOEs; and can increase the efficiency and effectiveness of tax collection (Elinaza, 2016). The Government have, also, come up with the amended new finance bill that requires the Tanzanian telecoms firms to float at least 25% of their shares (Pilling and Aglionby, 2016). The telecoms companies contributed around 11% of the tax revenue and 3.8 % of Tanzania's GDP in 2013/14 (Pilling and Aglionby, 2016).

In addition, the Government has been in an argument about tax issues with the listed companies, some of which are among the country's larger contributors of tax revenue. A notable example is the tax conflict between the Government and the mining company, Acacia ltd. Tanzania Revenue Appeals Tribunal ordered Acacia Ltd to pay around USD 42 millions as a settlement of its tax bill (Mirondo, 2016). The Tanzania government has accused some local and foreign companies in Tanzania of avoiding taxes by declaring losses and repatriating income abroad (Pilling and Aglionby, 2016).

2.8.3 Corporate Social Responsibility

Corporate Social Responsibility (CSR) includes different recommended ways in which a firm can act in social responsible ways, such as promoting the best interests of all the firm's stakeholders according to the required standards (Campbell, 2007). Following major economic reforms, Tanzania has enacted several regulations such as the Company Act (2002), Environment Management Act (2004), Employment and Labour Relation Act (2004), Labour Institution Act (2004), Occupation Health and Safety Act (2003) and Workers Compensation Act (2008) (Fulgence, 2015). Campbell (2007) argued that CSR regulations could make companies become socially responsible in industrial health and safety and by providing a good working environment for employees and environmental protection.

However, these regulations have so far been ineffective (Fulgence, 2015). It is argued that poor corporate financial performance and an uncertain economy have reduced the extent to which firms act in a social responsible ways (Campbell, 2007). This situation resulted in probably most Tanzanian listed companies limiting their CSR to community support subject to their good financial performance, (Fulgence, 2015). However, a strong State and other private institutional regulations can have a positive impact on making a firm act in a socially responsible way (Campbell, 2007).

2.9 CHAPTER SUMMARY

This chapter presented an outline of the corporate governance environment in Tanzania. The chapter started by highlighting the background of corporate governance in Tanzania, which related mostly to the country's SOEs. Corporate governance is an essential part of a country's economic development especially through increasing foreign and local investments. The recent statistics indicated that the country's economy is getting better possibly due to the economic reforms which, to some extent, improved Tanzania's corporate governance structure. However, the manufacturing and financial and insurance activities sectors contributed less than 10% and 5% to the economy respectively. In addition, the DSE market was making progress but the market faced the challenges of having little liquidity; having few market participants; and a lack of public awareness about the capital markets benefits. The chapter discussed the Tanzania's institutional framework of corporate governance. It featured some of the organisations along with their activities that promoted corporate governance in one-way or another.

The chapter highlighted, also, Tanzania's main corporate governance regulations, which included the Company Acts 2002 and 1994 Capital Markets and Securities Act. Also, the chapter discussed the corporate governance guidelines, which the CMSA issued in 2002. The chapter presented, also, the challenges of a weak corporate governance regulatory framework that included: ineffectual directors; high levels of corruption; and a weak judiciary and law enforcement system. The prevalence of corruption in Tanzania was discussed, also. The recent statistics rank Tanzania as a highly corrupt country. The chapter indicated that good corporate governance could be used in the fight against corruption. The statistics showed, also, that Tanzania's business environment was still not conducive since some of the country's regulations were bureaucratic and ineffective. Furthermore, to some extent, the Government is continued to interfere in the country's private businesses. The next chapter reviews the literature.

3 CHAPTER THREE: LITERATURE REVIEW AND HYPOTHESES DEVELOPMENT

3.1 INTRODUCTION

This chapter aims to review the literature relevant to the study. In order to investigate the board characteristics' impact on Tanzanian listed firms' financial performance, a detailed review of existing literature on this subject needs to be conducted. The debate on whether or not board characteristics have an impact on the firm's performance is not settled because there are mixed findings (Zahra & Pearce, 1989; Dalton, Daily, Johnson & Ellistrand, 1999; Shukeri, Ong Wei & Shaari, 2012). For instance, Jackling and Johl (2009) find that there is a positive relationship between outside independent directors on a board and the firm's financial performance, while Mahadeo, Soobaroyen and Hanuman (2012) find an inverse relationship between outside independent directors and the firm's performance. Moreover, Haniffa and Hudaib (2006) find no links between outside independent directors and a firm's financial performance.

The board of directors plays a vital role in enhancing sound corporate governance and is believed to be the most important internal governance mechanism (Daily, Dalton, & Cannella, 2003). Consequently, this study examines principally the board characteristics' impact (outside directors, size, CEO/COB duality, gender diversity, foreign directors and board skills) on the firm's financial performance (represented by Return on Assets (ROA) and Return on Equity (ROE)) and based on mixed methods methodology. Also, the study is based mainly on the agency and resource dependence perspectives (Jensen & Meckling, 1976; Fama & Jensen, 1983). This research may be highly significant in the context of emerging economies, particularly Tanzania, because of that country's different economic conditions, political situation, legal system and the relatively small size of the stock market.

The rest of the chapter is organised as follows: Section 3.2 provides a definition of corporate governance. Section 3.3 discusses the theories related to the study. Section 3.4 goes on to emphasise corporate governance models. Section 3.5 highlights the board of directors' overview. Section 3.6 provides a detailed discussion on the relationship between board characteristics and a firm's financial performance and, finally, Section 3.7 concludes the chapter.

3.2 DEFINITION OF CORPORATE GOVERNANCE

The existing literature does not contain a single, specific definition of corporate governance (Rashid et al., 2010). However, there is a range of definitions of corporate governance (Tricker, 2012). Tricker says:

> Corporate governance is about the way power is exercised over corporate entities. It covers the activities of the board and its relationships with the shareholders or members, and with those managing the enterprise, as well as with the external auditors, regulators and other legitimate stakeholders (2012, p.4).

However, any definition of corporate governance reflects an alternative perspective of the subject, be it operational, stakeholder, or financial/economic (Tricker, 2012). From the stakeholders' viewpoint, corporate governance is the structure that provides adequate checks and balances that protect their interests (Monks & Minow, 2011). Sir Adrian Cadbury's Report on the Financial Aspect of Corporate Governance (1992) took the operational position by defining corporate governance as a system through which companies are directed and controlled. With respect to relationship positions, the OECD (2004, p.11) defines it thus:

> Corporate governance involves a set of relationships between a company's management, its board, its shareholders and other stakeholders. Corporate governance also provides the structure through which the objectives of the company are set, and the means of attaining those objectives and monitoring performance are determined.

From the financial or economic point of view, "corporate governance deals with the ways in which the suppliers of finance to corporations assure themselves of getting a return on their investments" (Shleifer & Vishny, 1997, p.737). Tricker (2012, p. 31) states that Sir Adrian Cadbury's (2000) corporate governance definition was based on the societal position that "[it] is concerned with holding the balance between economic and social goals". Namely, corporate governance is aimed at connecting the interests of society, individuals, and businesses.

Corporate governance can benefit a firm in many ways. It deals with the agency problems arising from separation of management and finance in order to ensure that the shareholders are receiving returns from their investments in a firm (Shleifer & Vishny, 1997). Furthermore, it can enhance a firm's performance by minimising agency problems through corporate boards' integrity, ethical responsibility, honesty and accountability (Ferrer & Banderlipe, 2012). Agency problems can be minimised through corporate governance mechanisms: "these are economic and legal institutions that can be altered through political process-sometimes for the better" (Shleifer & Vishny, 1997, p.738). Internal governance is essential in improving the investors' wealth in underdeveloped markets when external governance, such as the legal system, is weak (Young et al., 2008 as cited in Nuryanah and Islam, 2011). However, in their study, Coşkun and Sayilir (2012) did not find a significant relationship between corporate governance and the firm's financial performance. They point out that good corporate governance may not be linked with firm financial performance.

3.3 CORPORATE GOVERNANCE THEORIES

Corporate Governance theories provide opposing views on the board characteristics' impact on corporate financial performance. This has provided the basis for many corporate governance studies because there is inconclusive empirical evidence on the board characteristics-performance relationship (Uadiale, 2010). Differences in theoretical perspective have complicated the studies about the board characteristics' impact on the firm's financial performance (Kiel & Nicholson, 2003). This is likely to have been caused by conflicting arguments in corporate governance theories on the directors' roles (Johnson, Daily & Ellistrand, 1996).

It is argued that no single theory explains the general pattern of links between the boards of directors' characteristics and a firm's performance (Hillman & Dalziel; 2003, Nicholson & Kiel; 2004, Kiel & Nicholson, 2007; Jackling & Johl, 2009; Lawal, 2012). Furthermore, previous studies on this subject have used different theories (agency theory, resource dependence theory, stewardship theory or a combination of these). However, Lawal (2012) posits that the application of only one theory to board characteristics and financial performance can lead to weak findings. This study is within the context of both agency and resource dependence theories and, in particular, tests the hypothetical relationships between board characteristics and financial performance. In addition, this study applies stewardship theory as a complimentary concept.

The study has chosen these theories because, firstly, this is in response to suggestions from previous corporate governance literature (Eisenhardt, 1989; Nicholson & Kiel, 2004; Lawal, 2012) about using more than one theory in corporate governance studies. Furthermore, agency and resource dependence theories can be explained through boards' key roles of control, service and strategy making (Zahra & Pearce, 1989). Thus, the objective of corporate governance theories, such as agency, stewardship and resource dependence theory, is to postulate a connection between various board characteristics and a firm's performance and, hence, to help to come up with solutions to research questions (Kiel & Nicholson, 2003).

3.3.1 Agency Theory

Due to its financial and economic importance, agency theory has been used widely in corporate governance studies to investigate the relationship between board characteristics and firm performance (Eisenhardt, 1989; Zahra and Pearce, 1989; Davis et al., 1997). Jensen and Meckling (1976), Fama and Jensen (1983) and Eisenhardt (1989) are among the notable studies which have contributed to the development of this theory. Agency theory involves contractual governance relationships between shareholders and managers (Tricker, 2012). Agency theory is defined as "a contract under which one or more persons (the principal(s)) engage another person (the agent) to perform some service on their behalf which involves delegating some decision making authority to the agent" (Jensen and Meckling (1976, p.5). Zajac and Westphal (2002 as cited in and Bryant & Davis, 2012) posit agency theory assumptions which include: i) Wealth maximisation that aims to align the interests of management and shareholders; this depends largely on whether or not they have the same goals; ii) A board of directors controls the agency costs resulting in separation of ownership and control; iii) Management and board actions and interactions can be determined by economic forces; and iv) The board of directors acts as a single distinct actor. Table 3.1 shows an overview of agency theory.

Table 3.1: Overview of Agency Theory

Key Idea	Principal-agent relationship should reflect efficient organisation of information and risk bearing costs
Unit of analysis	Contract between principal and agent
Human assumptions	Self-interested, bounded rationality and risk aversion
Organisational assumptions	Partial goal conflicts among participants Efficiency as the effectiveness criterion Information asymmetry between principal and agent
Information assumption	Information as a purchasable commodity
Board role	The main role is to monitor actions of agents (executives) to ensure their efficiency and to protect principals (owners) interests.
Theoretical origins	Economic and Finance
Company performance criteria	• Survival • Low operating costs • Profitability
Operation definition of boards' role	• Maximising shareholders 'wealth • Reducing agency cost • Selecting and rewarding CEO • Evaluating CEO and company performance • Strategic decision making and control
Contracting problems	• Agency (moral hazards and adverse selection) • Risk sharing
Problem domain	Relationships in which the principal and agent have partly differing goals, and risk preferences (e.g., compensations, regulation, leadership, impression management, whistle-blowing, vertical integration and transfer pricing).
Variable of interest	• Characteristics • Process • Strategic contribution

Source: Eisenhardt (1989, p.58) and Zahra and Pearce (1989, p.293)

These assumptions are based on the fact that the separation of ownership and control creates a conflict of interest between the agent (management) and owners (shareholders). The board of directors oversees managers who are likely to be self-interested and opportunist from pursuing their own interests at the expense of the company's profits (Muth & Donaldson, 1998).

The separation of ownership and control can create agency problems between managers and owners (stockholders) (Fama and Jensen, 1983) when the interests of both the shareholders and management do not concur (Davis et al, 1997). Agency problems have been a challenging corporate governance issue since the 18th century, as underlined by Smith (1776) who stated: "the directors of companies, being managers of other people's money, cannot be expected to watch over it with the same vigilance with which they watch over their own" (Smith, 1776 as cited in Tricker, 2012, p.58). Agency problems or conflicts of interest or dilemmas arise whenever the owner of the wealth (the principal) entrusts and delegates his or her responsibilities to managers (the agents) to manage that wealth and make strategic decisions. In this context, they are required to deliver the required outcome and the responsibility for the business' activities and assets are delegated to them by the owners (Tricker, 2012). Despite the information asymmetries this produces, owners delegate strategic decision-making responsibilities to managers for the reasons of their expertise (Shleifer and Vishny, 1997). To emphasise this, Bryant and Davis provide more explanation of agency theory:

> Agency theory broadly states, given that the agents of an organisation are responsible for conducting business in the interest of the organisation, and given that an agent's own self-interests will never align completely with the interests of the organisation, agents of an organisation will sometimes experience conflict of interests when conducting business on behalf of the organization…agents are more likely to act in the interests of the organisation when their own interests are aligned with those of the organisation or when their behaviour is monitored or controlled against self-interested behaviour (2012, p.3).

The agency problem denotes challenges, which the owners face after hiring managers, as to whether or not they will receive the return on their investments in the firm (Shleifer and Vishny, 1997) because it is likely that the firm's investment decision will favour the management due to the moral hazards (Shleifer & Vishny, 1997). Accordingly, there is a great challenge to ensure that the agent acts solely in the principal's interests (Tricker, 2012) or both the agent and the principal are utility maximisers (Jensen & Meckling, 1976).

Agency theory can be an important theory to the firm since it provides acumens on incentives, outcome uncertainty, risks and information systems for resolving agency problems (Eisenhardt, 1989). Additionally, it provides insights on how to deal with the agency problems caused by conflicting goals and information asymmetry, which results in moral hazards and adverse selection (Eisenhardt, 1989). Moreover, agency theory has suggested several measures in order to minimise agency problems. These measures are categorised as external and internal corporate governance mechanisms (Weir, Laing, & McKnight, 2002). External mechanisms govern the firm's behaviour and performance and the internal incentives define the relationship among key players, include board structure (Weir et al., 2002). Particularly, these mechanisms include, firstly, there is the using of debt finance (Shleifer & Vishny, 1997; Weir et al., 2002; Desoky & Mousa, 2012). Secondly, there is the application of market corporate controls measures (Shleifer and Vishny, 1997; Weir et al., 2002). Finally, there is the granting of long-term incentive contracts to managers, legal protections to investors and the involvement of large investors (Shleifer & Vishny, 1997).

There are a number of internal corporate governance mechanisms that can be applied to reduce agency problems. Firstly, a board of directors can be used to monitor and control management sin order to limit the power of individual managers to expropriate the owners' interests (Fama & Jensen, 1983, Bryant & Davis, 2012). Boards of directors are the fundamental internal mechanism for firm control; their members oversee top firm management in order to reduce agency costs and, ultimately, to maximise a firm's value (Jensen & Meckling, 1976; Zahra & Pearce, 1989; Hillman & Dalziel, 2003). Secondly, agency theory recommends that the board should consist of a higher number of outside, independent directors than internal directors and that the COB and CEO should have separate roles and responsibilities (Weir et al., 2002; Kiel and Nicholson, 2003). Thirdly, managerial incentives can be used, such as managerial ownership (Donaldson & Davis, 1991; Shleifer & Vishny, 1997; Weir et al., 2002; Desoky & Mousa, 2012).

Proponents of agency theory argue that, apart from monitoring and control which is the main role, the board performs, also, other roles of service and strategy (Zahra & Pearce, 1989). Agency theory provides a powerful approach to corporate governance theory by building reliable data on the relationship between corporate governance and company performance that can be accessed simply in the form of publicly available annual reports. In addition, it offers a statistically rigorous knowledge into corporate governance (Zahra & Pearce, 1989; Tricker, 2012). Therefore, this study investigates a fundamental mechanism of a board of directors-board characteristics relationship. This study investigates the board of directors' characteristics, which is the main mechanism of corporate governance. This study is premised primarily on the agency and resource dependence theories. The stewardship theory is applied in this study as a complimentary theory. This is in line with the argument that one single theory may not support the relationship between board characteristics and a firm's financial performance (Kiel & Nicholson, 2003; Jackling & Johl, 2009).

Nevertheless, agency theory has been criticised for its limitations. For instance, stewardship theorists (discussed in the following sub-section) claim that its assumptions are based on the inherent conflict between management and owners (Tricker, 2012). Moreover, the assumption that management is susceptible to moral hazards (Zahra & Pearce, 1989) has come under attack. Additionally, the theory may not be fully reliable because these assumptions are inapplicable to the whole management and they ignore organisational, cultural and social issues (Davis et al., 1997; Bryant & Davis, 2012). Finally, the corporate governance empirical evidence on the performance of the board of directors' strategic and monitoring roles does not support fully the agency theory (Bryant & Davis, 2012).

3.3.2 Resource dependence

Resource dependence theory has been used to investigate whether there is a link between the board of directors as a provider of resources and a firm's financial performance (Zahra & Pearce, 1989; Kiel & Nicholson, 2007 and Jackling & Johl, 2009). Pfeffer and Sallancik's (1978) work provides the theoretical foundations of resource dependence theory. Pfeffer and Sallancik argue "when an organization appoints an individual to a board, it expects the individual will come to support the organization, will concern himself with its problems, will variably present it to others, and will try to aid it" (1978, cited in Hillman & Dalziel, 2003, p. 163). Resource dependence theory is based on the perception that no organisation is self-sufficient and, therefore, it suggests that, in order for the organisation to flourish, it has to network with its external environment (Pfeffer & Sallancik, 2003) and obtain and manage resources from it (Ruigrok, Peck & Tacheva, 2007).

Resource dependence theory is centred on the notion that the board is the linchpin to the firm's external environment and, consequently, it can influence a firm's performance since it can tap into external resources such as strategic information and physical resources (Dalton et al., 1999; Lawali, 2012). In addition, Tricker (2012) points out that the directors are viewed from a resource dependence perspective as boundary–spanning nodes of networks that are able to connect the business with other stakeholders. In this context, Zahra and Pearce (1989) argue that directors' networks with experts and the public are a valuable resource; this makes right, relevant and timely information available to a company for decision making. Table 3.2 highlights some of the resource dependence theory's features.

Table 3.2: Resource Dependence Theory Outline

Board role	• Boards are a co optative mechanism to extract resources vital to company performance • Boards serve a boundary-spanning role • Boards enhance organisational legitimacy
Operational definition of boards' role	• Scanning the environment • Representing the firm in the community • Securing valuable resources
Theoretical Origins	Organisational Theory and Sociology
Company performance criteria	• Growth in resources • Goal achievement • Relative market position
Variable of interests	• Composition • Characteristics

Source: Zahra and Pearce (1989, p.293)

Additionally, the board of directors can help a firm to achieve its objectives by providing access to capital and other sources of finance, potential customers, competitors and technology (Tricker, 2012). The capital includes board capital such as human capital (reputation, experience and expertise) and relation capital including network of ties to other firms and external contingencies (Hillman & Dalziel, 2003, p.382). From a resource dependence viewpoint, directors enhance beneficial inter-firm transactions, fair deals with other organisations and inflows of relevant information. These can help to minimise the external environment risk and, consequently, can enhance a firm's performance (Zahra & Pearce, 1989). Therefore, directors can enhance firm performance and firm status by acting decently, transparently, and proficiently and providing connections with outside resources.

Suitable planning and caution is essential during the selection of directors in order to obtain a diverse range of proficient directors (Jhunjhunwala & Mishra, 2012). Nevertheless, directors' influence depends on the nature and conditions of the external environment (uncertainty, whether it is sound and favourable, availability of capital and technology), company's age and size, and the business objectives (Zahra & Pearce, 1989).

However, resource dependence theory suffers from certain limitations. The theory has failed to clarify the directors' strategies formulation process in linking the firm with its environment. It has failed to notice the dynamic of board composition pertinent to its external environment and the approach has failed to explain the influence of board attributes and corporate social performance (Zahra & Pearce, 1989). Also, "empirical findings can sometimes be interpreted according to the perspective of the researcher" (Kiel & Nicholson, 2003, p.190).

3.3.3 Stewardship Theory

The works of Silverman (1970), Donaldson (1990) and Barney (1990) led to the development of stewardship theory viewing that executives' interests are aligned with the company's goals (Donaldson & Davis, 1991). Stewardship theorists have taken a contrasting view to agency theorists; they believe that the executives (stewards) can be trusted with owners (agents)' resources and stress the importance of small board size, a larger proportion of executive directors and CEO-chair duality in order to protect the owners' resources (Daily et al., 2003; Lawali, 2012). Stewardship theory emphasises facilitating and empowering executives to achieve the company's goals rather than monitoring and controlling them (Davis et al., 1997). The managers are motivated to perform well so that they can be good stewards of the company's assets (Donaldson & Davis, 1991). Stewardship theory replicates the legal view of the company that the executives can be trusted. Accordingly, they are appointed and bestowed with a fiduciary duty by the shareholders to act as stewards of their resources (Tricker, 2012), and have been used to determine the link between corporate governance and firm financial performance.

Davis et al. (1997, p.24) argue "Stewardship theorists assume a strong relationship between the success of the organisation and the principal's satisfactions. A steward protects and maximises shareholders' wealth through firm performance, because by so doing, the steward utility's functions are maximized". Namely, stewards have the goal of ensuring that they enhance a firm's performance. Under stewardship theory, the board's main role is strategy formulation rather than monitoring and controlling (Lawali, 2012). Stewardship theorists trust inside directors, who can formulate effective strategies and act with integrity and independence to protect the owners' interests (Tricker, 2012). Furthermore, it is argued that a large percentage of outside directors cannot enhance quality and optimal decision making because of their information asymmetry (Rashid et al., 2010). Additionally, inside directors are linked strongly with a firm's financial performance because they can be effective and efficient in utilising the resources entrusted to them to maximise the firm's value (Kiel & Nicholson, 2003).

However, stewardship theory has been criticised. The concept of company's shareholders appointing directors is barely applicable in complex corporations that might have institutional investor(s) who can have major control of the company (Tricker, 2012). Furthermore, due to the fact that the theory originates in laws, which do not provide room for flexibility, it might not be analytical and can make it difficult to explain the relationship between governance aspects and a firm's performance (Tricker, 2012). Lastly, the trust, associated with executive directors under the stewardship theory, has been challenged by the major failures of large corporations in the late 20th and early 21st centuries (Tricker, 2012).

3.3.4 Firm Financial Performance and the Perspectives of Agency, Stewardship and Resource dependence theory

The board of directors has three main functions in the firm. These are: to monitor and control management on behalf of shareholders (agency theory) (Hillman & Dalziel, 2003; Masulis, Wang, & Xie, 2012); to provide access to external resources (resource dependence theory) (Hillman & Dalziel, 2003); and to have a strategic role in decision management (agency, stewardship and resource dependence theories)

(Nicholson & Kiel, 2004; Ovidiu-Niculae, Lucian & Cristiana 2012; Masulis et al., 2012). Nicholson and Kiel (2004) contend that a firm's performance may be increased if a board carries out all of these functions effectively. One theory cannot explain the relationship between board characteristics and financial performance (Kiel & Nicholson, 2003; Jackling & Johl, 2009). This is probably because of the relationship between corporate governance theory and board function.

Moreover, Hillman and Dalziel (2003) and Ameer, Ramli and Zakaria (2010) support the views of agency and resource dependence theories by suggesting that outside independent directors can influence a firm's financial performance by minimising agency problems and influencing the inflow of external resources. Ameer et al. (2010) claim, also, from an agency perspective that the executive directors provide valuable information to the outside directors for monitoring, evaluating and directing the CEO and top management in order to reduce agency problems. However, Stewardship theorists argue that outside directors can perform poorly due to their limited access to the firm's information (Rashid et al., 2010). Consequently, they suggest a board should comprise of a significant number of inside directors (Kiel & Nicholson, 2003). Therefore, this study's use of the three theories is essential to identify whether or not there is a link between board characteristics and a firm's financial performance. This is supported by Kiel and Nicholson (2003) and Jackling and Johl (2009) who argue that the relationship between the board of directors and firm performance is more varied and complex and cannot be explained by a single theory. Moreover, Kiel and Nicholson (2007) claim that there is no general theory that explains the relationships between board characteristics and a firm's financial performance.

The board characteristics' impact on the firm's financial performance is likely to be linked indirectly through the board's roles (Zahra & Pearce, 1989). Most of the board functions are explained mainly by agency and resource dependence theories, and corporate governance should take into account the recommendations of both theories (Nicholson & Kiel, 2004). Therefore, in order to be consistent with Nicholson and Kiel (2004) and Kiel and Nicholson (2007) and on the basis of board functions of monitoring, strategic monitoring and external resources provision (Zahra & Pearce, 1989), this study uses the agency and resource dependence theories to examine the board characteristics' impact on a firm's performance.

Firstly, agency theory is used to investigate the impact of CEO duality, and outside independent directors on Tanzanian listed firms' financial performance. Secondly, the study employs resources dependence theory to examine whether or not Board size adds value to Tanzanian listed firms' financial performance and to examine the association between Tanzanian listed firms' financial performance and board diversity (i.e., board skill, presence of foreign directors and gender diversity). A board is argued to be having mostly, an indirect impact on a firm's financial performance through practicing its control and service roles; these can improve the effectiveness of the strategy formulation (Zahra & Pearce, 1989).

3.4 CORPORATE GOVERNANCE MODELS

Corporate governance practices can vary due to two major factors of context and culture (Tricker, 2012). Regarding the context, corporate governance practices in certain country (ies) can be affected by a pattern of ownership, markets for corporate control and financing corporate entities (Tricker, 2012). The pattern of ownership includes concentrated and dispersed ownerships. The board of directors may have more freedom in decision making in dispersed ownerships where there is a wide spread of shareholders, as opposed to concentrated ownership where the major stake of the company is owned by either a single or block of investors (Tricker, 2012). The market for corporate control is strong in countries which have large numbers of external investors and where activities such as a board's loss of control and hostile takeovers are very common. In contrast, the market for corporate control is weak in countries where there are small numbers of external investors and merger and acquisitions are not very common (Tricker, 2012). The mode of financing a listed company can have some influence on the decisions made by a company's board. In countries, where there is a large equity market with high liquidity and substantial turnovers, the ownership is likely to be spread widely (Tricker, 2012). On the other hand, if a stock market is illiquid and small, the companies may depend on loans rather than equity to finance their operations. This can result in the financier having more say than the board (Tricker, 2012). Regarding culture, it can have a significant influence on corporate governance practices (Tricker, 2012). For example, the influence of religious beliefs and some traditions may affect the participation of women on a board (McKinsey, 2007; McKinsey, 2012).

There are different models of corporate governance. The common ones are Anglo-American (or Anglo- Saxon) and continental European models. The distinctive features of these models include the following. Firstly, the structure of the board of directors is a one-tier board (unitary board) in the Anglo-American model and a two tier board in the continental European model (Ferdinando, 2009; Tricker, 2012). A unitary board is a single governing board, while a two-tier board has a management board and supervisory board (Tricker, 2012). Secondly, the Anglo-American model is commonplace in the USA, the UK, Canada, Australia and in commonwealth countries including Tanzania, while the continental European model is practiced mostly in Germany, Holland and, to a certain degree, in France (Ferdinando, 2009; Tricker, 2012). Thirdly, to a certain extent, the individual and institutional shareholders in Anglo-American countries own the majority of the company and they can influence the board’s decisions like the appointment of directors. Moreover, the ownership is dispersed (Ferdinando, 2009; Tricker, 2012). In contrast, the continental European model is considered to be more focused on the stakeholders, where the stake of the company is more likely to be owned by individuals, institutional investors, foreign investors, banks and Governments. Furthermore, shareholders, employees and labour unions can appoint the supervisory board (Ferdinando, 2009; Tricker, 2012).

Fourthly, there is often clear separation of control and more frequent agency problems in Anglo-Saxon countries. On the other hand, there is slight separation of ownership and control in the European model and agency problems are infrequent (Ferdinando, 2009; Tricker, 2012). Finally, Anglo-Saxon countries have strong investor protections and a high proportion of external investors (stronger market control); this makes the board more vulnerable to acquisition and loss of control. However, in countries like Germany, the Netherlands and Japan, there is weak investor protection and external investors have little influence (weaker market control) and mergers and acquisitions seldom occur. However, due to significant differences between the USA rules and the UK/ Commonwealth principles, Tricker (2012) suggests that a separation of Anglo-American model to The American rules-based model and the UK/ Commonwealth principle based model, is essential due to significant differences. Table 3.3 highlights the differences between these models.

Table 3.3: Differences between the American rules-based and UK/Commonwealth principle based models

	American rules-based model	UK/Commonwealth principles-based model
Model Practices	The USA and other countries are influenced by the US	The UK, Australia, New Zealand, Canada, India, Malaysia, Singapore, South Africa and other Commonwealth countries are influenced by the UK
Corporate governance	Prescriptive rules-based legal approach to governance. Mandatory governance determined by regulations and laws	Non-prescriptive, principle based, more self-regulatory approach. Discretionary approach to corporate governance principles
Board responsibilities	Determined by rule of law	Determined by Code of corporate governance or good practice. Companies are required to disclose whether they have complied to governance principles or explain why they have not complied ('comply or explain' approach)
CEO duality	One person holds both the role of CEO and Chairperson is regularly	Different persons hold the role of the CEO and Chairperson
Accounting Standards	Generally Accepted Accounting Principles (GAAP) in the US requires compliance with the rules	Mostly applicable International Financial Reporting Standards (IFRS) stress compliance with the principles
Shareholders Influence	Minority shareholders can have a little influence on company decisions such as voting on strategic decisions or the removal of a director	Shareholders with 10% of the voting rights in a listed company can force an extraordinary meeting, or vote for strategic decisions or the removal of a director

Source: Tricker (2012, p.153-157)

Corporate governance models are important to the corporate governance study since it is difficult to bring together corporate governance practices. This is due to the factors that can cause differences such as legal and regulations, stock market differences and culture and ownership differences (Tricker, 2012). However, Tricker

(2012, p.165) suggests that institutions are essential for sound corporate governance. These include: i) a strong and reliable legal system; ii) a good performing stock market in terms of liquidity and capitalisation; iii) well performing financial institutions; iv) effective regulatory authorities; v) companies regulations which promote transparency, openness and accountability; vi) educational and consultancy organisations which offer corporate governance education, training and advice; vii) accounting and legal profession organs for regulation firms and members and developing accounting; and viii) legal professions and audit firms which provide reliable, advanced, effective and independent audit services to its clients.

Tanzanian corporate governance has adopted, to a larger extent, the Anglo-Saxon UK/Commonwealth principles-based model (discretionary approach). This is probably due to the influence that the UK has on Tanzania, since the country was previously a British colony. Nonetheless, it is widely known that Tanzania has weak shareholders' activism since institutional shareholders and external investors own the majority of the stakes (concentrated ownership) in Tanzanian listed companies. The Tanzanian context corporate governance model can be important in discussing the board characteristics' impact on a firm's financial performance.

3.5 BOARD OF DIRECTORS

The board of directors plays a central role in strengthening corporate governance (Jackling & Johl, 2009). The separation of ownership and control gives a board of directors' overall responsibility and accountability to protect the owners' interests in respect of the resources entrusted to the firm's management. In this context, the previous corporate governance literature likened the board of directors to the backbone or cornerstone of corporate governance (Jensen & Meckling, 1976; Zahra & Pearce, 1989; Kim & Rasheed, 2014). Since the board of directors is an internal corporate governance mechanism, it plays a major role in safeguarding the owners' interests by effectively monitoring and controlling the firm (Zahra & Pearce, 1989; Garg, 2007). This includes the responsibility to monitor and control the behaviour and decision quality of executives (Ruigrok et al., 2007) and, ultimately, to ensure that the company is run efficiently and effectively in order to protect the owners' interests (Cadbury 1992; Tricker, 2012). Moreover, Tricker (2012, p.4) contends that, "Directors are so called directors because they are responsible for setting the organisation's direction, formulating strategy and policy making. Moreover, the directors have two main duties which are a duty of care and duty of loyalty". Directors have to be loyal to shareholders and act with due diligence while discharging their board responsibilities (Monks & Minow, 2011). Thus, the board of directors is responsible for the firm's decisions and its performance.

The board's main roles include: monitoring (oversight and control); advising management (council, advice, link to external environment) (Hillman & Dalziel, 2003; Pfeffer & Salancik, 1978 as cited in Bryant & Davis, 2012); and strategy formulation (Tricker, 2012). The board's major function is the oversight and control of the firm's management and to manage the risk of the management pursuing their own interests at the expense of the shareholders' interests (Bryant & Davis, 2012). Also, the board is responsible for improving the firm performance while managing the risk (Tricker, 2012). Moreover, previous literature stresses the importance of the board being more effective in its advisory role in order to improve the company's strategic management (Kim & Rasheed, 2014). Other roles include coordinating, maintenance and support roles (Forbes & Milliken, 1999). Furthermore, Tricker (2012) argues that the board's roles include: strategy formulation; policy making; monitoring of management; and accountability to shareholders and others. The board may impact on the firm's financial performance due to the fact that, by effective practicing, their control, service and strategy roles can improve performance (Zahra & Pearce, 1989).

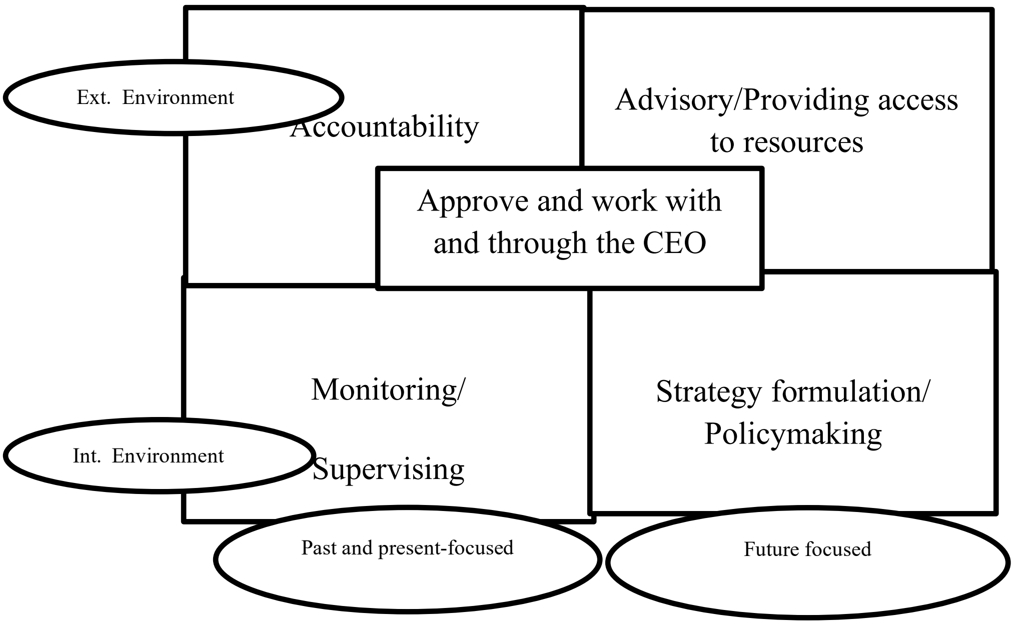


Figure 3.1 Board activities

Source: Modified from Tricker (2012, p.45).

Figure 3.1 summarises board activities, as modified from Tricker (2012). According to Tricker (2012), the board has to consider the company's internal and external environment in order to achieve effective strategy formulation. This includes the company's Strengths, Weaknesses, Opportunities and Threats (SWOT analysis). Furthermore, the board works with top management to formulate strategy and policy making with consideration of the firm's past, present and future positions. Moreover, in strategy formulation and policy making, the board's main role is to advise/counsel the management including the use of board members' expertise and external networks. The board has to ensure, also, that the management performs its role efficiently and effectively during the implementation of policies and that it conforms to the required standards through discharge of accountability and monitoring functions (known as conformance roles). However, Tricker (2012) suggests that these roles are the weakness of a unitary board and this is "like the directors marking their own paper" (Lord Caldecote, as cited in Tricker, 2012). This can affect the board's performance. The board is responsible, also, for advisory/strategic formulation and policy-making roles (see Figure 3.1) or known as performance roles.

Moreover, the board of directors plays a major role in monitoring management to ensure that they comply with relevant laws, regulations and risk management procedures in order to meet the firm's goal (Nicholson & Kiel, 2004). Nevertheless, most of the blame for the failure of the large corporations such as Enron, WorldCom and Parmalat and deterioration in owners' wealth has been directed at their boards of directors (Uadiale, 2010; Monks & Minow, 2011). Consequently, most countries have paid greater attention to corporate governance due to its importance in respect of the economic growth of corporations and the nation's economy generally (Garg, 2007).

3.6 BOARD CHARACTERISTICS AND FIRM FINANCIAL PERFORMANCE

The debate over whether board characteristics have an impact on a firm's performance is not settled because there is both empirical support and opposition (Zahra & Pearce, 1989; Dalton et al., 1999; Shukeri et al., 2012; Vintilă & Gherghina, 2012). Thus, governance researchers and practitioners are likely to extend their understanding on board characteristics if they consider: firstly, that board characteristics do vary across nations, industries and companies; and, secondly, that the interrelationship is likely to exist between board characteristic and their influence on each other (Elsayed, 2011).

Garg (2007) claims that the link between board characteristics and financial performance is still not substantiated. Factors, which might affect the findings, include: political factors; economic conditions (Tricker, 2012); differences in the theoretical bases of investigation (Kiel & Nicholson, 2003; Jackling & Johl, 2009); incompatible roles achieved by directors (Johnson et al., 1996); legal systems; political stability; the reduced size of markets; the nature of corporate ownership and the financial systems (Vintilă & Gherghina, 2012; Helen, Mandy, & Sidney 2007, as cited in Rhode & Packel, 2014); sample size unevenness (Tarak & Apu, 2013); the nature of the country's predominant governance structure (Fauzi & Locke, 2012; Tarak & Apu, 2013); and types of methodology (Tarak & Apu, 2013; Rhode & Packel, 2014). Furthermore, Rhode and Packel (2014) point out that the conflicting findings of the board characteristics' impact on a firm's financial performance reflect the different firms' natures, economic situations, time periods and the measures of board characteristics and financial performance.

The study has identified from the literature, six board characteristics (outside directors, CEO duality, board size, and board diversity aspect of foreign directors, gender diversity and board skill) as possibly having an impact on Tanzanian listed firms' financial performance. This is in line with Brennan's claim (2006, as cited in Uadiale, 2010) that board effectiveness is impacted by some board aspects, for instance, outside directors, board size, CEO/Chairman duality, board diversity, information balances and board culture, and that, consequently, these affect the board's functions.

3.6.1 Outside Directors and Firm Financial Performance

Tricker (2012, p.97) defines independent outside directors as "a director with no affiliation or other relationship with the company, other than the directorship, that could affect, or be seen to affect, the exercise of objective, independent judgement". Independence of outside directors is essential for the board's effective and efficient monitoring function (Carter et al., 2003). However, Monks and Minow's argument (2011) argue that the absence of recognisable directors' affiliations or connections to the company as required by regulations does not always guarantee that the directors are independent. It can be argued that, due to the complexity of human nature, it is very difficult to identify fully the independence of one person. Furthermore, the issue of directors' independence is challenging since it is difficult to identify independence of mind from the company's information (Monks & Minow, 2011). Arguably, the information, disclosed by the companies and especially in developing countries, is sometimes insufficient to show important information about an outside director (such as their independence). Weir et al. (2002) point out one of the possible consequential impacts, is that inadequate information about outside directors' independence and professionalism can lead to the appointment of directors who are not independent and potentially, this can create problems such as ineffective monitoring of management. This study's assumption is in line with Tricker's argument (2012) that, if there is no evidence to the contrary, the outside directors of the Tanzanian listed companies are perceived to be independent.

The issue of the impact of the proportion of outside directors on a firm's performance has captured the interest of many scholars of corporate governance. Most worldwide rules and codes on corporate governance require boards to have a combination of inside and outside directors (Jackling & Johl, 2009). Agency theory proponents support the idea of having a higher proportion of outside directors on the board. For instance, Ameer et al. (2010) consider that outside directors are likely to benefit firms due to their effective monitoring of the management's actions and decisions. However, there have been opposing views, especially from stewardship theorists, on the impact of outside directors (Daily et al., 2003). For instance, there is an argument on whether or not outside directors may have a significant impact on a firm's financial performance.

The theoretical association between outside directors and financial performance

Agency theorists argue that outside directors have the monitoring responsibilities to protect the shareholders' interests (Zahra & Pearce, 1989; Hillman & Dalziel, 2003). Furthermore, they prefer a large proportion of independent outside directors on the board in order to safeguard owners' resources from management conflicts of interest (Fama & Jensen, 1983; Dalton, Daily, Ellstrand & Johnson, 1998). The corporate governance literature provides the rationales for agency theory's suggestion of a larger number of outside directors. Firstly, outside directors are performance oriented since they are motivated to perform their duties efficiently in order to ensure that the shareholders' interests are protected and that they can resolve disagreements among executive directors (Fama & Jensen, 1983; Finkelstein & D'aveni, 1994). Secondly, outside directors have the incentive of promoting their reputation as expert monitors (Finkelstein & D'aveni, 1994; Carter et al., 2003).

Consequently, they may be more independent and unlikely to conspire with directors to subvert the owners' interests (Carter et al., 2003; Ameer et al., 2010). Thirdly, outside independent directors are more capable of supervising and controlling management than inside directors who are more vulnerable to CEO influences and may be ineffective in aligning their interests with the owners' interests (Finkelstein & D'aveni, 1994; Dalton et al., 1999; Van-Ness, Miesing & Kang, 2010). Independent outside directors can easily take action against underachieving CEOs and make decisions on takeovers (Baghat & Black, 1999). It can be seen that independence enhances the outside directors' role of monitoring. However, the outside directors' independence alone cannot guarantee the firm's performance (Bhagat & Black, 2002). There are other factors affecting the outside directors' performance such as their information asymmetry disadvantages compared to inside directors. This means that, despite their independence, they may have insufficient information to enable them to make quality decisions (Dalton et al., 1998; Bhagat & Black, 1999; Bhagat & Black, 2002). In addition to being independent, outside directors need, also, to have the expertise to make effective strategic and complex board decisions (Murray, 1989; Daily et al., 2003; Tricker, 2012).

In contrast to the agency theory's claims of opportunistic management, the stewardship theory suggests that there is no inherent conflict of interests between management (executives) and shareholders since management are good stewards of shareholders' assets (Muth & Donaldson, 1998). The theory contends that executives are motivated to increase the shareholders' wealth in order to improve their reputations (Daily et al., 2003; Kiel & Nicholson, 2003). The evidence from the literature argues that both executive and non-executive directors are motivated to enhance their status through improving company strategy formulation (Daily et al., 2003). From a stewardship theory perspective, the presence of executives on the board is important in improving the firm's financial performance (Kiel & Nicholson, 2003). However, the executive directors' credibility was put into question during a period of major corporate scandals (as discussed in chapter 1), which occurred, in the last decade (Tricker, 2012). This suggests that the non executive directors' roles as company overseers can be important too since executives are not always motivated by mutual interests between themselves and the shareholders, but rather, in some cases, by self-interest.

Resource dependence theorists, on the other hand, argue that the greatest advantages of outside directors include, firstly, bringing their expertise to the company in discharging their monitoring and providing access to essential resources (Hillman & Dalziel, 2003). Secondly, the outside directors offer the firm a network of external resources (Pearce & Zahra, 1992; Daily et al, 2003). Furthermore, boards, with a larger number of outside directors, can create a strong link with the society (Zahra & Pearce, 1989; Pearce & Zahra, 1992) and can provide, also, consultancy to management and raise financial capital for the firm (Zahra & Pearce, 1989). It can be concluded that all three theories (agency, stewardship and resources dependence) are important in determining the link between outside directors and the firm's financial performance (Daily et al., 2003; Kiel & Nicholson, 2003).

The empirical association between outside directors and financial performance in developed countries

Some studies found a positive relationship between outside directors and a firm's financial performance; some found a negative relationship; and some found no link at all. Among those, which discovered a positive link, were Schellenger, Wood, and Tashakori (1989) who investigated 526 listed firms in the USA. The outside independent directors' impact was measured by the proportion of outside directors to the total number of directors and the financial performance was measured by Return on Asset (ROA), Return on Equity (ROE), Shareholders' Annualised Total Market Return on Investment and Risk-adjusted Shareholders' Annualised Total Market Return on Investment. They found that outside directors had a positive influence on the firm's financial performance as measured by ROA and Risk adjusted market return. However, Schellenger et al. did not establish the mechanism of the relationship; according to them, one possible explanation of the results is that the large number of outside directors minimises unsystematic risks.

Furthermore, Bhagat and Bolton (2013) conducted a study of unbalanced panel of 1000-1400 firms a year (13,000) year-observations, covering a 10 year-periods (1998-2007) in order to investigate the 2002 Sarbanes-Oxley Act's impact on the relationship between outside directors and the firm's financial performance proxied by ROA, Tobin's Q and Stock Return. They were of the same view as agency theorists; they found that, after 2002, there was a positive association between board independence and a firm's financial performance. They argued that their findings were determined by a surge in independent directors on the board due to compliance with the guidelines. Bhagat and Bolton (2013) contend that most companies, which comply with corporate governance best practice (such as Sarbanes-Oxley Act, or SOX), find that their stock price is likely to increase since these regulations impose more responsibilities and accountabilities on companies' independent directors and make them more active in protecting the owners' interests. Moreover, Chang-Jui (2011) found that outside independent directors impacted positively on Tobin's Q and Weir et al. (2002) found a positive relationship between outside directors and Tobin's Q.

However, a number of studies, which support the stewardship theory, argue that a larger number of outside independent directors on the board can have negative influences on the firm's financial performance. For example, Agrawal and Knober (1996), by using a different measure of Tobin's Q, found that outside directors had a negative influence on a firm's financial performance. They suggested that politics might have a simultaneous impact on both the number of outside directors and the firm's financial performance; however, they failed to explain this negative relationship. Furthermore, Kiel and Nicholson (2003) examined the influence of outside directors by using data from 348 Australian listed firms. They used ROA and Tobin's Q as performance measures and found that outside directors had a negative influence on Tobin's Q. Kiel and Nicholson argue that the board performs well when there is a small number of outside directors.

Some studies did not find any link between outside independent directors and a firm's financial performance. Bhagat and Black (2002) used data from large

American firms (1988-1991) to examine the relationship between outside independent directors and the firms' financial performance as measured by Sales to Asset Ratio, Tobin's Q, ROA and Market Adjusted Stock Price Returns. Bhagat and Black found no link between board independence and a firm's financial performance. They point out the possible causes on the lack of outside directors' significant performance including lack of motivation, independency, inadequate expertise and information asymmetry disadvantages which may result in poor decision making. Similarly, Vintila and Gherghina (2012) found no relationship between outside directors and Tobin's Q. However, in their meta-analysis, Johnson et al., (1996) conclude that, in the long term, independent directors can affect the firm's financial performance.

The empirical association between outside directors and financial performance in developing countries

The findings from empirical studies on the outside independent directors' impacts on firms' financial performance in developing countries are, also, contradictory. Some of the studies support the agency theory view of having a large number of independent outside directors. For example, in their study, Mashayekhi and Bazaz (2008) examined the relationship between board independence and a firm's financial performance by using data from 240 Iranian listed firms. They used the proportion of independent directors on the board as a proxy for board independence while they used Earning Per Share, ROE and ROA as performance measures. They found a positive relationship between outside independent directors and a firm's financial performance. Also, Jackling and Johl (2009) examined the relationship between outside independent directors and the performance of 180 Indian listed firms. Their findings indicate that, as measured by Tobin Q, there was a positive association in these firms between a greater number of outside directors and improved performance. In line with Meshayekhi and Bazaz (2008), they concluded that a greater number of outside directors could improve a firm's performance.

Moreover, Zubaidah et al., (2009) and Ameer et al. (2010) and Bozcuk (2011) found a significant and positive relationship between the proportion of independent directors on the board and a firm's financial performance. Nuryanah and Islam (2011) found, also, positive relationships as measured by Tobin's Q. In addition, Khan and Awan (2012) found a positive association as measured by ROA, ROE and Tobin's Q. They suggest that independent directors are the key factor for an effective board. The appropriate number of outside directors is likely to be determined by a firm's size. Ameer et al., (2010) advocate that, in larger firms, boards with more outside independent directors may minimise conflicts of interest between shareholders and management. However, Bozcuk (2011) argues that, when the number of outside directors goes beyond an optimal level, it can lead to poor financial performance. However, Bozcuk did not suggest what this optimal level might be.

The agency theory suggestion of having a large proportion of outside directors on a board has been supported by a number of studies carried out in developing countries. These argue that it is likely to have an enormous benefit for several reasons. Firstly, independent outside directors provide an adequate monitoring mechanism to protect shareholders from the management's self-interests, which in turn, might lead to performance improvement (Jackling & Johl, 2009). Secondly, agency problems can be minimised and the firm's value increased if there is a higher number of outside directors on the board who can oversee management opportunistic behaviours (Nuryanah & Islam, 2011). Thirdly, Kumar and Singh (2012) claim that firms with higher numbers of outside independent directors have high reputations and are prized by investors.

However, some studies, conducted in developing countries, contradicted the agency theory argument that there should be a larger number of outside directors on the board. By using data from 300 Indonesian firms, Shukeri et al. (2012) investigated in 2011 the impact of board independence on the firms' financial performance. They measured board independence by using the ratio of outside directors to the total number of directors and used ROA to measure the firm's financial performance. They found a negative relationship between the proportion of outside directors and the firm's financial performance. Chugh, Meador and Kumar (2011) found, also, a negative relationship between the proportion of independent outside directors and ROA. Likewise, Kumar and Singh (2012) and Tarak and Apu (2013) found a negative relationship between non-executive non-independent directors and a firm's financial performance.

Some studies, however, did not find any empirical evidence of a link between outside directors and a firm's financial performance. Rashid et al. (2010) examined the impact of outside directors on firms' financial performance by using data from 90 listed companies in Bangladesh (2005-2009). They found that there was no link between outside directors and either ROA or Tobin's Q. Information asymmetry between inside directors and outside independent directors might be among the factors detrimental to outside directors being able to perform their roles effectively in overseeing the management and the provision of resources to a firm (Rashid et al., 2010). Likewise, Santiago-Castro and Baek (2003), Haniffa and Hudaib (2006) and Ferrer and Banderlipe (2012) found no relationship between outside directors and a firm's financial performance.

The empirical association between outside directors and financial performance in Sub-Saharan Africa

Most of the reviewed Sub-Saharan studies indicated that a large number of outside directors on the board, as recommended by agency theory, did not have a positive impact on financial performance. For instance, after investigating 122 Nigerian listed companies, Ujunwa (2012) found that board size was linked negatively with ROA. Mahadeo et al. (2012), Mangena, Tauringana and Chamisa (2012) and Garba and Abubakar (2014) found, also, that outside independent directors had a negative influence on corporate performance. Conversely, Wanyama and Olweny (2013) found that the proportion of outside directors had a positive influence on financial performance whereas Tornyeva and Wereko (2012) found that there was an insignificant relationship between outside directors and ROA or ROE.

The reviewed literature does not provide the optimal number of outside directors who can influence performance. However, some of the studies were of the view that the firm's performance determined, also, the number of outside directors. Hermalin and Weisbach (2001) found that the number of outside directors and the firm's financial performance were determined simultaneously. They found that the firm's poor financial performance might result in an increased number of outside directors and a smaller number of inside directors. Baghat and Black (1999) were of the same view as Hermalin and Weisbach, arguing that slow growth and non-profitable firms tend to have more outside directors.

Other studies, which considered the issue of a simultaneous relationship, include Baghat and Black (2002) and Jackling and Johl (2009). With the exception of Jackling and Johl's (2009) study, all these studies were conducted in the developed world. The reviewed literature suggests that outside directors may influence the firm's financial performance but the direction of the causality is inconclusive. The results of the reviewed studies, conducted in both developing and developed countries, show that the findings are still inconclusive. Furthermore, according to the reviewed literature, the statistical performance measures of Tobin's Q, ROA and ROE may have brought different results in developed and developing countries. The use of statistical measures indicates, also, that the majority of corporate governance studies, reviewed in both developing and developed countries, used the same quantitative methodology (Molina Azorin & Cameron, 2010). It can be argued that these factors may affect the findings.

In addition, a number of studies highlighted various challenges facing the performance of outside directors in developing countries. Outside independent directors can be imprudent sometimes in strategy development due to a lack of expertise and appropriate and relevant information for proper decision making (Van den Berghe & Levrau, 2004; Tarak & Apu, 2013). Similarly, Garg (2007) argues that there are inadequate numbers of skilled and qualified people for the independent outside director posts in developing countries. In turn, this leads to both poor performances within the post and the same person being an independent director on the boards of numerous firms. Moreover, many outside independent directors from developing economies are likely to be ineffective in monitoring the owners' resources (Tarak & Apu, 2013) since they may be selected on the basis of political, personal or individual reasons rather than on their proficiency (Haniffa &Hudaib, 2006).

Hypothesis development

CMSA's guidelines (2002) (section 3:4:1) stipulate that the board should comprise of at least one-third independent non-executive directors to ensure that no individual or small group can dominate the board decision-making process. This section is in line with the recommendations of agency theory. However, these guidelines may not achieve effective compliance because of Tanzania's weak legal and regulatory frameworks (Melyoki, 2005).

This study has highlighted conflicting views regarding the impact of outside independent directors on a firm's financial performance and the question surrounding the optimal number of directors on the board remains unanswered. However, proponents of agency theory argue that a board's effective monitoring function can improve the firm's performance and that this process is assisted by having a greater proportion of outside directors (Fama & Jensen, 1983; Hillman & Dalziel, 2003; Jackling & Johl, 2009). Moreover, some studies (Meshayekhi & Bazaz (2008, Jackling & Johl, 2009; Nuryanah & Islam, 2011; Chang-Jui, 2011; Fauzi & Locke, 2012) found a positive relationship between outside directors and a firm's financial performance. Henceforth, on this basis, the first hypothesis is proposed as follows:

H1: The proportion of outside independent directors has a positive impact on Tanzanian listed firms' financial performance as measured with ROA and ROE.

Table 3.4 provide a summary of the studies that investigated the board characteristics' impact on financial performance. The summary includes: the investigated variables; sample period and place where data was collected; and the main findings of the studies discussed in this study.

Table 3.4: Previous Studies of the Relationship between Board Characteristics and Firm Financial Performance

Author(s) year	Independent Variable (s)	Dependent Variable(s)	Sample (n, country, years)	Main Findings
Abudallah et al. (2016)	Gender diversity	Tobin's Q and ROA	841 listed Malaysian Firms (2008)	Positive link (ROA), Negative link (Tobin's Q)
Francis, Hasan and Wu (2015)	Academic directors	Tobin's Q and Return on Assets (ROA)	1341 US firms (1998 – 2011)	Positive link (Tobin's Q and ROA)
Bhagat and Bolton (2013)	Outside directors and CEO duality	Primary measure-ROA Suppl. tests-Tobin's Q and stock return	1000-1400 big US Firms per year (1998-2007)	Positive link - Pro 2002 (Outside directors-ROA). Negative link - Pre 2002 (Outside directors and CEO duality – ROA)
Wellalage and Locke (2013)	Gender diversity	Tobin's Q	88 listed Sri Lankan Companies (2006-2010)	Negative link (Tobin's Q)
Joecks et al. (2013)	Gender diversity	ROE	151 listed Germany Firms (2002-2005)	Positive relation (Critical Mass 30% of women or (3+))
Lückerath-Rovers (2013)	Gender diversity	Return on Sales (ROS), Return on Invested capital (ROIC), ROE, Stock Price Growth and Total Shareholders Return (TSR)	99 Listed Dutch Companies (2005-2007)	Positive link (ROE), No link (ROS, ROIC, Stock Price Growth) and Negative link (TSR)
Mahadeo et al. (2012)	Gender diversity, Outside directors, Age diversity and educational background	ROA	371 directors of 39 listed Firms in Mauritius (2007)	Positive link (Gender diversity) negative link (Outside directors, age diversity and educational background
Ahern and Dittmar (2012)	Gender diversity	Tobin's Q	248 Norwegian Firms (2001-2009)	Negative link

Ujunwa (2012)	Board size, board skill, board nationality, board gender, board ethnicity and CEO duality	ROA	122 listed Nigerian Companies (1991-2008)	Negative link (Board size, CEO duality and gender diversity to performance) Positive link (Board nationality, board ethnicity and number of board members with a PhD qualification)
Masulis et al. (2012)	Foreign directors	ROA and Tobin's Q	1271 listed firms in the USA 1998-2006	Negative relationship (ROA and Tobin's Q)
Ferrer and Bandelipe (2012)	Board size, outside directors and CEO duality	Share Price (SHP) and ROE	29 Listed firms in Philippines (2009)	No relationship
Shukeri et al. (2012)	Outside directors, board size, CEO duality and gender diversity	Return on Equity (ROE)	300 listed firms in Malaysia (2011)	Positive relationship (Board size). Negative relationship (Outside directors). No relationship (Gender diversity and CEO duality)
Jhunjhunwala and Mishra (2012).	Gender, nationality and educational background	Earning per Share (EPS)	30 listed firms in India (2011)	No relationship
Vintila and Gherghina (2012)	Outside directors, board size and CEO duality	Tobin's Q, Price to Book Value (PBV), ROA, ROE and Price Earnings Ratio (PER)	155b listed firms in the USA (ISS) (2011)	Positive relationship- (board size-ROA). Negative relationship (board size-Tobin's Q). No relationship (Outside directors, CEO duality)
Coskun and Sayilir (2012)	Corporate governance	Tobin's Q, ROA and ROE	31 listed firms in Turkey (2006-2010)	No relationship
Nuryanah and Islam (2011)	Outside directors and board size	Tobin's Q	46 listed firms in Indonesia (2002-2004)	Positive relationship (Outside directors). Negative relationship (CEO duality). No relationship (Board size)
Torchia et al. (2011)	Gender diversity	Self Reported	317 Norwegian Companies (2005/06)	Critical Mass (3+) is positively related to organisation innovation

Chang-Jui (2011)	Outside directors, board size and CEO duality	ROE, ROA and Tobin's Q	2,067 firm- year observations of listed firms in Taiwan (2007-2009)	Positive relationship (Outside directors-Tobin's Q, ROA and ROE). Negative relationship (CEO duality-ROA and ROA; Board size- ROA and ROE). No relationship (CEO duality- Tobin's Q and Board size- Tobin's Q)
Rashid et al. (2011)	Outside directors	ROA and Tobin's Q	90 listed firms in Bangladesh (2005 – 2009)	No relationship
Uadiale (2010)	Outside directors, board size and CEO duality	ROE and ROCE	30 listed companies in Nigeria (2007)	Positive relationship (Board size-ROE; CEO duality- ROCE). Negative relationship (CEO duality- ROE). No relationship (Outside directors-ROE and ROCE; Board size-ROCE)
Darmadi (2010)	Gender diversity	ROA, Tobin's Q	354 listed Indonesian Companies (2007)	Negative link (ROA and Tobin's Q)
Jackling and Johl (2009)	Outside directors, board size and CEO duality	ROA and Tobin Q	180 listed Indian Firms (2006)	Positive relationship (Board size-ROA and Tobin's Q; Outside directors-Tobin's Q (marginal)). No relationship (Outside directors-ROA; CEO duality-ROA and Tobin's Q).
Marimuthu and Kolandaisamy (2009)	Gender diversity	ROA and ROE	100 listed firms in Malaysian (2000-2006)	No significant relationship with ROA and ROE.
Mashayekhi and Bazaz (2008)	Board size, outside directors and CEO duality	EPS, ROA and ROE	240 listed firms in Iran (2005-2006)	Positive relationship (Outside directors-ROA, ROE, and EPS). Negative relationship (Board size-ROA, ROE and EPS). No relationship – CEO duality-ROA, ROE and EPS)
Ponnu (2008)	Educational diversity	EPS, Profit Margin, ROA and ROE	30 listed Malaysian companies (2001-2005)	No relationship
Haniffa and Hudaib (2006)	Outside directors, CEO duality and Board size	ROA and Tobin's Q	347 listed Malaysian companies (1996-2000)	Positive relationship (Board size – ROA). Negative relationship (Board size – Tobin's Q; CEO duality-ROA). No relationship (Outside directors, CEO duality- Tobin's Q)
Randøy et al. (2006)	Gender diversity	ROA, Stock Market Performance	459 listed Scandinavian Firms (2005). Norwegian (144), Danish (154) and Swedish (161)	No Link

Oxelheim and Randoy (2003)	Foreign directors	Tobin’s Q	650 Firm- years observation of listed firms in Norway and Sweden	Positive link
Kiel and Nicholson (2003)	Board size, CEO duality and Outside directors.	ROA and Tobin's Q	348 listed firms in Australia (1996)	Positive relation (Board size - Tobin’s Q), Negative relationship (outside directors-Tobin’s Q). No relationship (Board size-ROA and CEO duality)
Carter et al. (2003)	Gender diversity	ROA, Tobin's Q	797 (Fortune) 1000 Firms (1997)	Positive link (Tobin's Q and ROA)
Bhagat and Black (2002)	Outside directors and board size.	ROA, Tobin’s Q, ROS, Market return.	US firms (1988-1991)	No relationship (Outside independent directors). Negative relationship (board size)
Weir et al. (2002)	Outside directors and CEO duality	Tobin's Q	311 listed UK firms (1994 - 1996)	Positive relationship (Outside directors). No relationship (CEO duality)
Agrawal and Knober (1996)	Outside directors and board size	Tobin's Q	264 US (Forbes) manufacturing firms (1987)	Negative relationship (Outside directors and Board size)
Yermack (1996)	Board size	Tobin's Q	452 large US Corporations (1984 - 1991)	Negative relationship
Schellenger et al. (1989)	Outside directors	ROA and ROE,	526 listed companies in USA (1986)	Positive relationship (ROA) and No relationship (ROE)
Boyd (1985)	CEO duality	ROI	192 US firms (1980-1984)	Positive relationship

Source: Compiled by the researcher

3.6.2 Board size and firm financial performance

The board size represents the number of members comprising the board of directors. Different arguments persist in corporate governance literature on whether or not board size has an impact on firm performance. Furthermore, there is no consensus amongst the studies as to what constitutes optimum board size (Lawal, 2012).

The theoretical association between board size and financial performance

From the perspective of agency theory, a large board is favoured as one of the mechanisms to control agency problems. A large board with a higher proportion of outside independent directors can resolve agency problems since the board has an increased ability to oversee the management's actions (Zahra & Pearce, 1989; Kiel & Nicholson, 2003). In addition, a large board can guarantee strong oversight; discipline the management; and align the management's interests with those of the shareholders; in turn, these improve a firm's performance (Pearce & Zahra, 1992; Shukeri et al., 2012). Moreover, a large board may enhance quality decision–making; in turn; this can improve, also, a firm's financial performance (Dalton et al., 1999; Kiel & Nicholson, 2003).

A large board is favoured, also, from a resource dependence perspective because it can enhance the firm's performance by networking with external capital and competitive environments (Pfeffer & Salancik, 2003). It could be argued from the corporate governance literature that a large board could benefit the firm. This is because a larger number of directors on the board can bring more resources to a firm through the links that they have with the external environment and improve, also, the effectiveness of strategic decision making and implementation (Pearce & Zahra, 1992; Kiel & Nicholson, 2003). Furthermore, larger boards may be a source of providing the CEO with effective counsel from different perspectives (Dalton et al., 1999). Moreover, a large board size is likely to enhance the firm's performance by generating superior prospects; it creates synergies and additional resources (Chugh et al., 2011). An appropriate large sized board can increase or bring to the firm human and social capital from an external environment (Guest 2009; Tricker, 2012).

Additionally, a higher number of board members may bring different perspectives, philosophies, experiences and abilities to the board (Pearce & Zahra, 1992; Zubaidah et al., 2009). In contrast, it is argued in the corporate governance literature that a large board may result in difficulties in coordination, unmotivated members, social loafing, faction groups and free riders (Van den Berghe & Levrau, 2004). This may hamper effective board communication and sound decision-making and make the board ineffective (Dalton et al., 1999; Guest, 2009). Moreover, small boards can be more effective in decision-making and in enhancing management discipline and incentives (Yermack, 1996). From a stewardship perspective, where management are the stewards and loyal to the owners, small boards with larger proportion of executive directors are preferable to large boards dominated by non-executive directors (Daily et al., 2003).

The empirical association between board size and financial performance in developed countries

There is mixed empirical evidence from developed countries about whether or not board size has an impact on a firm's financial performance. For example, Yermack (1996), who conducted one of the most notable studies in board size, used data from 452 large industrial corporations between 1984 and 1991 in order to investigate the relationship between board size and a firm's financial performance. Yermack argues that the stock market possibly favours firms with small boards. Yermack carried out a proxy of board size by using the number of members on the board and Tobin's Q as a measure of firm size. He found that board size was inversely proportional to a firm's financial performance. In line with Yermack, Guest (2009) investigated a sample of 2,746 UK listed companies (1981-2002) and found a strong negative relationship between board size and a firm financial performance measured by Tobin's Q and Share returns. The impact was proportionately greater on large firms due to the fact that they had larger boards than small firms (Guest, 2009). According to Guest, one possible explanation for the result is that large boards take a long time to reach their optimal size. This results in poor performance due to communication problems and lack of sound decision-making among the members (Guest, 2009).

Conversely, Kiel and Nicholson (2003) found a positive link between board size and a firm's financial performance measured by Tobin's Q after using data from 348 Australian listed companies to investigate the impact of board size. In their meta-analysis of 54 empirical studies with 159 usable samples, Dalton et al. (1999) found a positive relationship between board size and the firms' financial performance. Similarly, Pearce and Zahra (1992) found a positive relationship between board size and a firm's financial performance. Other studies obtained mixed results in their findings. For instance, Chang-Jui (2011) found that board size was related positively with Tobin's Q and related negatively with ROA and ROE. On the other hand, Vintilă and Gherghina (2012) found that board size was related positively with ROA and related negatively with Tobin's Q.

The empirical association between board size and financial performance in developing countries

As in developed countries, there is mixed empirical evidence in developing countries about whether or not board size has an impact on a firm's financial performance. Some studies support the dependence theory argument that a larger board size is beneficial to a firm's financial performance. For example, Jackling and Johl (2009) studied 180 Indian listed companies and found that board size related positively with a firm's financial performance as measured by Tobin's Q and ROA. Hence, they support the view that directors' greater acquaintance with the external environment can acquire resources for the firm's prosperity. Also, Shukeri et al.'s (2012) study found positive effects for a larger board size on financial performance as measured by ROE. Zubaidah et al. (2009), Chugh et al. (2011), Tarak and Apu (2013) report that there is a positive relationship between board size and the firm's financial performance. Haniffa and Hudaib (2006) attained mixed results. They found that board size related positively with ROA and related negatively with Tobin's Q.

However, some of the empirical evidence is inconsistent with resource dependence theory, since it indicates a negative relationship between a larger board size and financial performance. For instance, Mashayekhi and Bazaz (2008) examined the influence of board size by using data from 240 Iranian listed firms. They used the total number of directors on the board as a proxy for board size and the financial performance measures of EPS, ROA and ROE. They found that board size was related negatively with a firm's financial performance. Garg (2007) found a negative relationship between board size and a firm's financial performance among some Indian listed firms. The negative findings can be seen as supporting the following argument from the corporate governance literature: small boards can reduce agency costs through effective monitoring of the CEO and top management and, hence, improve the firm's financial performance (Yermack, 1996). Furthermore, shareholders are likely to respond positively when the board size reduces and negatively when the size increases and, consequently, the CEO's reward is more likely to reflect the firm's performance (Yermack, 1996). Likewise, small boards are more efficient than large boards since large boards may inhibit members from full participation and contributing to quality decision-making (Garg, 2007). Moreover, large boards can create separate groups within the board and are prone to the CEO's influence (Cadbury, 2002). Furthermore, information asymmetry between inside and outside directors is likely to affect the quality of a large sized board's decision-making (Chang-Jui, 2011).

It was found also, that board size was unrelated to financial performance. Ferrer and Bandelipe (2012) found no relationship between board size and Return on Equity. They used data from 29 listed property companies and found that there was no direct relationship between board size and the firm's financial performance. Similarly, Nuryanah and Islam (2011) did not find any link between board size and the firm's financial performance.

The empirical association between board size and financial performance in Sub-Saharan Africa

Like developed and other developing countries, the Sub-Saharan African empirical evidence from about the relationship between board size and financial performance was inconclusive. Wanyama and Olweny (2013) investigated the impact of board size on the financial performance of Kenyan listed insurance firms, as measured by ROA and ROE. They found a negative relationship between board size and firm financial performance. Similarily, Ujunwa (2012) found a negative relationship between board size and financial performance. Conversely, after using a sample of 16 Ghanaian listed companies over the period 1990 to 2001, Kyereboah-Coleman and Biekpe (2006) found a positive relationship between board size and Tobin's Q and ROA. Similarly, Uadiale (2010) and Tornyeva and Wereko (2012) found a positive relationship between board size and financial performance. Mangena et al.

(2012) argued that large boards could increase the firms' performance during a period of political and economic uncertainty. However, Garba and Abubakar (2014) did not find any significant relationship between board size and financial performance.

The corporate governance literature reveals that the relationship between board size and a firm's financial performance may be driven by other factors such as CEO duality and firm size. For example, Elsayed (2011) investigated 92 Egyptian listed companies between 2000 and 2004. He found that the relationship between board size and firms' financial performance was more likely to be impacted by the leadership structure rather than by the size of the board. Moreover, there was found to be a positive association between board size and the firm's financial performance when CEO non-duality existed and there was a negative relationship when CEO duality existed (Elsayed, 2011). Furthermore, it is argued that most large firms are likely to have a large board. On the other hand, Dalton et al. (1999) argue that small firms are more likely to benefit from a small board size with regard to the firm's financial performance.

Board size should be limited to a certain number in order to make the board more effective (Tricker, 2012). However, corporate governance literature has failed to conclude the right size for a board and there is much debate surrounding this topic (Lawal, 2012). Guest (2009) argues that the optimal size of a board differs by performance measures; however, Guest's suggestion is that the number should be less than ten. In addition, Chang-Jui (2011) suggest a board size of eight or less on the basis that the board discussions can improve the firm's performance and decision-making may become more effective when board members are few in number (Chang-Jui, 2011). Lipton and Lorch's recommendation (as cited in Lawali, 2012) are for a board size of not less than seven and not more than nine members. While Garg (2007) suggests less than six members however, there does not appear to be adequate justification for any of these recommended choices of the number of directors on the board.

Hypothesis development

There are mixed arguments within the corporate governance literature about the board size's impact on corporate financial performance. Section 4.1.2 of the CMSA's guidelines (2002) recommend imprecisely that the board's size should not be so large that it undermines interactive discussions during a board meeting or so small that the inclusion of wider expertise and skills to improve the board's effectiveness is compromised.

Resource dependence theory asserts that a larger board size is likely to improve the firm's performance by providing it with more access to numerous resources from the outside environment (Pearce & Zahra, 1992; Jackling & Johl, 2009). Furthermore, larger boards are more likely to have an abundance of expertise that could result in sound strategic-decision making and, hence, improve the firm's financial performance (Forbes & Milliken, 1999; Van den Berghe & Levrau, 2004). Therefore, in accordance with resource dependence theory (Pfeffer & Sallancik, 1978 as cited in Hillman & Dalziel, 2003) and the studied findings of a positive relationship between board size and firm performance (such as Dalton et al., 1999; Kiel & Nicholson, 2003; Jackling & Johl, 2009). Therefore, the second hypothesis is proposed as follows:

H2: There is a positive relationship between increased board size and Tanzanian listed firms' financial performance as measured with ROA and ROE.

3.6.3 CEO/Chairman duality and firm financial performance

CEO duality may be defined as the joint roles of the CEO and board chairman (Dey, Engel, & Liu, 2011); normally one person takes on both roles. The question of which of the two board's leadership structures (a combination or separation of Chief Executive Officer, or CEO and Chairperson of the Board, or COB) leading to an improvement in the firm's performance is still far from being answered. The collapse of big corporations, like WorldCom and Enron, has led to massive pressures to separate the roles and responsibilities of the COB and CEO in order to ensure that the board monitors and controls effectively the CEO and Management (Jackling & Johl, 2009). This is to ensure that the shareholders and other stakeholders' interests are protected. On the other hand, the practice is commonplace in the USA where most of the Federal and State bank regulators still accept it (Carty & Weiss, 2012). Some American studies, for example, Van-Ness et al. (2010) and Carty and Weiss (2012) support the combination of the CEO and COB roles. Van-Ness et al. (2010) claim that CEO duality improves the board's decision making and streamlines the firm's operations since CEO duality reduces the information asymmetry disadvantages of the COB.

The theoretical association between CEO duality and financial performance

Conflicts of interest between the owners (shareholders) and management often happen and result in agency problems (Jensen & Meckling, 1976, Davis et al., 1997). From an agency theory perspective, and for most investors, the separation of COB and CEO roles (CEO non-duality) is preferable to a combination of these roles (Nuryanah & Islam, 2011). Firstly, it is challenging for the board to perform its monitoring function when a CEO is, also, a COB since this could impair board independence and enhance CEO entrenchment (Fama & Jensen, 1983; Donaldson & Davis, 1991; Finkelstein & D'aveni, 1994). Secondly, CEO duality tempts the CEO to lead the board in favour of the management and this may result, also, in agency problems (Donaldson & Davis, 1991). Finally, there is a risk of the CEO dominating the board's decision-making process and, in particular, either through the formulation and the evaluation of strategic decisions or being biased towards management evaluation and punishment (Finkelstein & D'aveni, 1994). Similarly, resource dependence theory favours the separation of the CEO and COB roles in order to improve the board's access to external resources (Zahra & Pearce, 1989; Pfeffer & Salancik, 2003). It can be argued that a non-executive COB can bring access to external resources such as human and capital resources.

In contrast, the stewardship theory argues in favour of CEO duality since this enhances the firm's unity of command and the effectiveness of its strategies. The

CEO is rich in organisational information and, consequently, duality can improve strategic decision-making (Donaldson & Davis, 1991; Finkelstein & D'aveni, 1994). Moreover, Davis et al. (1997) contend that the combination of the CEO and COB roles enhances the effective running of the firm and reduces the challenges and conflicts, which may arise during strategic decision making, when the CEO and COB are different individuals. Furthermore, Van-Ness et al. (2010) point out that executives have vast experience and knowledge of efficient firm management.

The empirical association between CEO duality and financial performance in developed countries

Corporate governance studies carried out in developed countries have revealed conflicting observations regarding whether the roles of the COB and CEO should be separated or combined. There is some support for the stewardship theory argument that the roles and responsibilities of CEO and board chair should be combined in order to enhance the firm's performance. For instance, after investigating 321 US corporations during the period 1985-1987, Donaldson and Davis (1991) found that CEO duality had a positive impact on ROE. By using data from 760 USA firms (2001-2009), Dey et al. (2011) examined, also, the relationship between CEO duality and the firms' financial performance using data of 2,665 US firm-year observations. The financial performance was measured by ROA. They found that CEO non-duality was likely to have a negative impact on the firm's financial performance, especially when economic factors remained constant. Dey et al. suggest that the decision to split CEO and COB roles should consider the pros and cons of alternative structures based on their business and economic environments. They argue further that investors are more likely to react negatively when a larger firm announces a switch from CEO combined roles to a separate role structure.

Boyd (1995) investigated the influence of CEO duality by using 192 US firms. He found that CEO duality had a positive impact on Return on Investment (ROI). Boyd argues that duality can benefit a firm in a resource limited and high complex situation. Other studies, including Van-Ness et al. (2010), found that CEO duality was beneficial. Brickley, Coles and Jarrell (1997) argue that there are potential costs and benefits to the role of CEO and Chairperson but, overall, the benefits of CEO duality outweigh the disadvantages. Moreover, they found that, when informal CEO power and financial performance are low, a board with a higher number of independent directors is likely to prioritise the unity of command rather than avoid entrenchment. In light of these findings, it can be argued that CEO duality can be useful in some American companies since most American corporate governance regulations (e.g. SOX, 2002) do not discourage it (Dey et al., 2011; Jermias & Gani, 2014).

On the other hand, a number of studies support the agency theory argument for separating the role of the CEO and the COB. For instance, by applying Tobin's Q, Jermias and Gani (2014) used a sample of 237 American firm or 1332 firm-year observations (1997-2004) to investigate the link between CEO duality and the firms' financial performance. They found a negative relationship between CEO Duality and Tobin's Q. In addition, by using Tobin's Q as a performance measure, Jermias (2007) examined 547 firm-year observations from 274 Canadian firms. Jermias found that CEO duality had a negative influence on the relationship between firm performance and innovation.

Further, Chang-Jui (2011) found that CEO duality had a negative influence on ROA and ROE. Chang-Jui (2011) argues that, when the CEO is, also, a COB, it is difficult for the board to observe and direct a CEO successfully to make decisions in favour of the owners. Similarly, Finkelstein and D'aven (1994) and Bhagat and Bolton (2013) found a negative relationship between CEO duality and ROA. Moreover, Nuryanah and Islam (2011) found that investors reacted negatively when the roles of CEO and COB are combined. Vo (2010) argues that most of the theoretical and empirical evidence favours a non-duality structure since this offers governance mechanism to ensure that management does not pursue their own interest at the shareholders; expense. This can improve the firm's performance. Vo (2010) concludes that splitting the roles of CEO and COB is likely to create opportunities for accomplishing effective governance and increasing shareholder value. Nevertheless, Vo warns that CEO non-duality does not guarantee effective oversight and financial performance for all firms.

On the other hand, some corporate governance literature suggests that there is no relationship between CEO duality and firms' financial performance. Kiel and Nicholson (2003) examined the impact of CEO duality on firms' financial performance by using 348 Australian listed firms. They found that CEO duality did not have a significant impact on Tobin's Q and the ROA. In line with Kiel and Nicholson (2003), Abels and Martelli (2012) found no relationship between CEO duality and firms' financial performance as measured by ROA. Moreover, in their meta-analysis of 31 empirical studies and 69 samples, Dalton et al. (1998) found that there was an insignificant relationship between CEO duality and the firm's financial duality.

The empirical association between CEO duality and financial performance in developing countries

Overall, as applies to developed countries, there is ambiguity in the literature about CEO duality's impact on firms' financial performance in developing countries. There is mixed evidence from the empirical studies, where some studies support the recommendations of agency theory, of splitting the role of CEO and COB. For example, by using data from 39 companies listed on the Bahrain Bourse and as measured by ROA, Amba (2014) examined the relationship between CEO duality and firms' financial performance. Amba found that there was a negative relationship between CEO duality and financial performance. Amba (2014) argued that CEO duality could result in firms incurring more agency costs and that, in turn, reduced financial performance.

Also, after investigating the influence of CEO duality on the financial performance of 46 Indonesian listed firms', Nuryanah and Islam (2011) obtained the same results as Amba (2014). Similarly, Haniffa and Hudaib (2006) found that CEO duality had a negative influence on ROA. Tarak and Apu (2013) argue that non-executive chairpersons are likely to be risk averse and, thus, sometimes make negative decisions to protect the firm's interests. Chugh et al., (2011) found, also, that CEO duality had a negative impact on the firm's financial performance.

Some literature from developing countries (Zubaidah et al., 2009; Ferrer & Banderlipe, 2012 and Shukeri et al., 2012) found no relationship between CEO duality and firms' financial performance. By using a sample of 180 Indian listed firms, Jackling and Johl (2009) investigated the link between CEO duality and their financial performance. They found no link between CEO duality and ROA and Tobin's Q measures of financial performance.

The empirical association between CEO duality and financial performance in Sub-Saharan Africa

A number of Sub-Saharan African studies supported the recommendation of using agency theory to separate the roles of CEO and COB. For example, by using data of 122 Nigerian listed firms (1991-2008), Ujunwa (2012) investigated the CEO duality's impact on firms' financial performance. He found that there was a negative relationship between CEO duality and the firms' financial performance. Ujunwa (2012) pointed out that, from an agency theory perspective, CEO duality made the CEO more powerful since it impaired the outside directors' independence in disciplining and monitoring the CEO and, hence, weakened the firm's performance. Similarily, Wanyama and Olweny (2013) demonstrated that there was a negative relationship between CEO duality and financial performance. From his study about the relationship between CEO duality and Nigerian firms' financial performance, Uadiale (2010) found, also, a negative relationship between CEO duality and ROE. On the other hand, Uadiale (2010) found a positive relationship between CEO duality and financial performance as measured by ROCE.

Hypothesis development

Section 3:2:1 of the CMSA's guidelines (2002) stipulates that the role and responsibilities of the COB and the CEO should be separated in order to ensure the balance of power and authority, and to provide for checks and balances. Furthermore, the section stipulates, also, that, whenever the role is combined, a rationale for the same should be disclosed and approved by the shareholders. Tanzania, like most other developing countries, has adopted corporate governance practices from developed countries. Nevertheless, Dey et al., (2011) suggest that the choice of separating or combining the CEO and the COB roles is likely to be influenced by the respective country's business and economic environment rather than by only fully adopting corporate governance practices from elsewhere.

According to Agency Theory (upon which this study is based) CEO duality is detrimental to a firm's financial performance and, therefore, the roles of COB and CEO should be separated (Fama & Jensen, 1983; Finkelstein & D'aveni, 1994). Although the literature on CEO duality is contradictory, this study is consistent with those studies (such as Haniffa & Hudaib, 2006; Ujunwa, 2012; Bhagat & Bolton, 2013; Jermias & Gani, 2014) that found a negative relationship between CEO duality and a firm's financial performance. Therefore, the third hypothesis is proposed as follows:

H3. There is a negative relationship between CEO duality and Tanzanian listed firms' financial performance as measured by ROA and ROE.

3.6.4 Board diversity and firm performance

3.6.4.1 Introduction

Board diversity is a composition of board members with heterogeneous characters; these include different perspectives such as expertise, gender, race, education and national origin (Erhardt, Werbel & Shrader 2003; Rhode & Packel, 2014). The corporate governance literature suggests two categories of diversity (observable demographic, for example gender and race) and non-observable (cognitive, for example education) (Erhardt et al., 2003). Corporate boards of directors can affect the wellbeing of the firm's many stakeholders and, therefore, there are concerns to have a diversity of board members (Rhode & Packel, 2014).

Board diversity has attracted the attention of corporate governance researchers and the corporate governance literature from both the agency and resource dependence theory viewpoints supports the idea that board diversity is highly beneficial to the firm (Lückerath-Rovers, 2013; Kim & Rasheed, 2014; Ntim, 2015). It can increase the effectiveness of the board's decision-making by bringing different perspectives on the board (Tricker, 2012). From an agency theoretical perspective, Carter et al. (2003) and Erhardt et al. (2003), argue that board diversity can improve board independence and minimise agency problems since members' diverse backgrounds (such as their skills, attitudes, perspectives and abilities) allow for a more proficient overseer. Likewise, diversity can improve directors' independence. However, most corporate governance codes do not put much emphasis on the diversity characteristics of the appointment of new board members (Lückerath-Rovers, 2009). For example, the CMSA's guidelines (2002) recommend a diverse board but do not specific exactly which diversity characteristics can minimise agency problems in Tanzania.

From a research dependence theory perspective, board members with diverse characters, know-how and attitudes can improve appropriate strategies; the quality of the board's strategic decision-making process (Jhunjhunwala & Mishra, 2012; Fauzi & Locke, 2012; Kim & Rasheed, 2014); and promote further talents (Fauzi & Locke, 2012). The board of directors is a linchpin between the firm and external and competitive environments (Pfeffer & Salancik, 2003); in turn, this offers legitimacy about the firm's worth on diversity to the society (Lückerath-Rovers, 2009). Board members with a multiplicity of expertise and knowledge can provide the firm with essential business networks, creativity and access to external environments (Pechersky, 2016) and, hence, make the firm favourable to the market (Ntim, 2015). Moreover, firm performance is likely to be improved when board diversity advances the board's strategic decision making and taps into limited resources (human and social capital) from the external environment (Lückerath-Rovers, 2013; Kim & Rasheed, 2014), through the effective blending of different directors' professionalism, experiences and cognitions (Kim & Rasheed, 2014).

However, when there is poor communication due to lack of coordination, information asymmetry disadvantages and proper mix of diversity characteristics; board diversity may not be beneficial to a firm (Kim & Rasheed, 2014). Further, the impact of board diversity on the firm's financial performance may not be seen in the short term since it can take time to achieve coherence on the board (Murray, 1989). In emphasis of this point, it can be argued that, due to different expertise, there may be clashes due to different personalities, characters and perspectives. Moreover, board diversity can have a negative impact when the board concentrates on internal rather than external matters (Mahadeo et al., 2012). This study investigates whether or not board diversity aspects of gender, board skill and foreign directors have an impact on the firm's financial performance.

3.6.4.2 Gender diversity and firm financial performance

With respect to this study, gender diversity represents the proportion of male or female directors of the total number of directors on the board (Carter et al., 2003). This study examines the female directors' impact on a board. Female board directors reflect the interests of the stakeholders and the public since there is a perceived gender balance (Zahra and Pearce, 1989). The number of women represented on Tanzanian boards is still very small; men greatly dominate most Tanzanian boards. In their study, Mori and Olomi (2012) claim that gender balance in Tanzania remains a concern. In support of this view, Wellalage and Locke (2013) argue that women's representation on boards in developing countries is not encouraging. Likewise, Darmadi (2013) points out that the ratio of women on boards of directors is very low and the environment for them to sit on boards is unfriendly, especially in developing countries. Some developed countries, such as Spain, France and Norway, have imposed quotas to enhance gender balance on boards (Ahern & Dittmar, 2012). However, women's representation on boards can be considered either as tokenism or a critical mass. According to Torchia, Calabrò and Huse (2011), tokenism refers to a situation when there is one female director or a small minority of female directors on a board simply to convince the public that the board is gender balanced. The term critical mass refers to the minimum number of female directors that can have a significant impact on the firm's performance (Torchia et al., 2011).

The theoretical association between gender diversity and financial performance

Carter et al. (2003) argue from an agency theory viewpoint that an increase in the number of women can be advantageous to the financial performance of firms that have weak external governance. More women board members may reduce agency costs since women are likely to be more independent, management overseers and better decision makers (Carter et al., 2003; Tricker, 2012, Ntim, 2015).

There are arguments from a resource dependence theory point of view. A larger proportion of women on boards of directors may provide a linchpin to the external environment by increasing the available network of relationships; in turn, this provides access to vital resources (Terjesen, Sealy, & Singh; 2009; Ntim, 2015). Moreover, the presence of women on boards is likely to offer legitimacy about perceptions of the company's value to diversity within a society (Lückerath-Rovers, 2009). Overall, the presence of women on a board can increase the image of the firm's products, creativity and innovation, quality of decision-making, company management and worldwide connections (Carter et al, 2003). According to stewardship theory, women on boards are believed to be the stewards of the firm's assets because they make sensible and quick decisions for the firm's benefit and, hence, maximise the shareholders' wealth (Davis et al., 2007).

The empirical association between gender diversity and financial performance in developed countries

Empirical studies on the effect of gender diversity show conflicting results. Lückerath-Rovers (2013) found that the proportion of women on boards had a positive influence on ROE. Similarly, Erhardt et al. (2003) found that gender diversity has a positive association with a firm's performance as measured by ROA and ROI. Francoeur, Labelle and Sinclair-Desgagne (2008) found, also, that firms with a higher representation of women on their boards could increase their ROE to shareholders. In their study of a sample of 317 Norwegian firms (2005/2006), Torchia et al. (2011) investigated the relationship between the number of women on boards and innovation. They found that a critical mass of at least three women on a board had a positive influence on the firm's innovations and, hence, might improve the firm's financial performance. Torchia et al. concluded that a heterogeneous board was more effective than a homogeneous board since women could bring to the board new ways of solving problems (Torchia et al., 2011).

Lückerath-Rovers (2013) found that, compared to firms that did not have women directors, there was a significant and positive relationship between women directors and ROE. In line with resource dependence theory, they argue that firms may be more likely to appoint women board members in order to increase their acceptance within society. Carter et al. (2003) investigated the relationship between board diversity and firm value of 797 American firms measured by Tobin's Q and ROA. Their findings indicate that females on boards had a significant and positive impact on the firms' financial performances. They found, also, that gender diversity had a positive relationship with the firm's size.

Schwartz-Ziv (2013) studied, also, gender balance's impact on the boards of directors' performance in 34 Israeli listed companies. Schwartz-Ziv examined panel data of those companies for the years 1997-2009. He found that gender balanced boards had positive relationships with the firms' financial performance as measured by ROE and net profit margins. He suggested that at least three women on a board influenced the board's vitality and, hence, improved the firm's effectiveness and financial performance. Catalyst's (2004) American study found, also, that female directors on the board related positively with ROE and Total Return to Shareholders (TRS). Joecks, Pull, and Vetter (2013) investigated, also, the female directors' impact by examining 151 German listed firms during the period from 2002 to 2005. They used ROE to measure financial performance. They found that women had a positive impact when their number (critical mass) was at least three.

Ahern and Dittmar (2012) used a sample of 249 Norwegian firms (2001-2009) to investigate the impact of compulsory female ratios on boards and firms' financial performance as measured by Tobin's Q. They found a negative relationship between the ratio of women on boards and firms' financial performance. Adams and Ferreira (2009) investigated, also, the relationship between firm performance and governance by using data from 1939 American firms (1996-2003). They found a negative relationship between gender diversity and the firms' performance as measured by ROA and Tobin's Q. Nevertheless, Randøy et al. (2006) examined 459 listed Scandinavian (Norway, Denmark and Sweden) firms and found no link between gender diversity and the firm's financial performance, proxied by ROA and Stock Market performance. Rose (2007) found, also, no relationship between gender diversity and firms' financial performance measured by Tobin's Q.

The empirical association between gender diversity and financial performance in developing countries

Abdullah, Ismail and Nachum (2016) investigated the impact of women's participation on boards on the performance of 841 Malaysian listed companies. They found that the number of women on boards had a positive association with ROA. They concluded that an economic value was generated by an increased number of female board members. However, despite evidence of a positive contribution by female board members, corporate governance researchers in developing countries have probably not yet identified the appropriate or optimal number of females on a board that affects a firm's financial performance. It depends on the particular research context and differs from one country to another (Abdullah et al., 2016).

On the other hand, some studies found negative relationships between gender diversity and the firm's financial performance. For example, Darmadi (2013) investigated the relationship between gender diversity and Indonesian listed firms' financial performance measured by ROA and Tobin's Q. He conducted cross-sectional regression analysis based on a sample of 92.4 percent of public companies listed on the Indonesia Stock Exchange (IDX). He found that female representation on boards had a negative association with ROA and Tobin's Q. Likewise, Wellalage and Locke (2013) explored the link between women directors and the Sri Lankan listed firms' financial performance proxied by Tobin's Q. They used a sample of 88 non-financial firms listed on the Colombo Stock Exchange between 2006 and 2010 for a panel data analysis. They found a significant negative impact of women on boards as measured by Tobin's Q.

Fauzi and Locke (2012) also found a similar negative relationship between gender diversity and the firms' financial performance. The likely reason for these negative results in developing economies is that some females find it difficult to be board members (Darmadi, 2013). This is due to a patriarchal system, which causes some women to lack confidence, skills and proficiency (Wellalage and Locke, 2013). Some of the studies did not find any significant relationship. Shukeri et al. (2012) examined the link between gender diversity and firms' financial performance. They used descriptive, correlation and multivariate analysis and ROE to measure the financial performance of 300 Malaysian listed companies. Shukeri et al. (2012) found that gender diversity had no significant impact on financial performance. Moreover, Jhunjhunwala and Mishra (2012) found that, in India, female board members were not related to firms' financial performance. Thus, the differences in the findings on the impact of gender diversity on firms' financial performance is likely to be influenced by the measure of financial performance used; type and nature of firm; culture; and board composition (Abdullah et al., 2016).

There has been much pressure from society, international organisations and the Governments to increase the number of women decision-makers in developing economies (MDG, 2014). There are many factors contributing to the non-representation or underrepresentation of women on boards. Firstly, the low levels of female representation on boards, may be due to a lack of expertise required to be a director which, itself, may be caused by a lack of flexible working hours and education and training of women in management (Wellalage & Locke, 2013). Secondly, male directors (a majority on many boards) are likely to favour male candidates because of gender stereotyping during the selection process (Rhode & Packel, 2014).

Thirdly, Rhode and Packel (2014) argue that it is commonplace for a sole female director to experience marginalization and ill treatment from board members, particularly if she has been recruited as a result of tokenism. Then, her output to the board may be insignificant. They argue further that a critical mass of female directors is essential for these women to have a significant influence of the firm's financial performance. In an attempt to counter some of these issues, Rhode and Packel have suggested the following measures. Firstly, individual efforts need to be made through training, mentoring and education in order to increase the number of qualified women. In addition, laws need to be introduced which can protect women on boards, with transparent disclosure of women candidates seeking a board position. Lastly, institutions, including boards, should strengthen their efforts to increase the number of female board members (Rhode & Packel, 2014).

The empirical association between gender diversity and financial performance in Sub-Saharan Africa

The United Nations Development Project (UNDP) Report (2015) shows that Sub Saharan Africa had the worst level of gender inequality. The report indicates that, in 2014, the region had a Gender Inequality Index of 0.575 which was greater than Arab States (0.537), South Asia (0.536), Latin America and Caribbean (0.415), East Asia and Pacific (0.328) and Europe and Central Asia (0.300). These statistics reflect that this region had the highest levels of discrimination against women. In Africa, gender inequality is based more on unwritten and dominant social norms (informal institutions), which are possibly biased against women (Oduro & Staveren, 2015). The African cultural norms and practices and some laws consider women are of lower class in society and whose responsibilities are limited to taking care of the children and doing household activities (Oduro & Staveren, 2015). Similar to Oduro and Staveren's (2015) findings, other studies from developed economies (for example, McKinsey, 2007; McKinsey, 2012; Carrasco et al., 2015) argued that culture is related to the representation of women on the boards.

However, the empirical evidence is not in line with the discriminative cultural and social norms since women on boards are having a positive impact on financial performance. By using a sample of 379 directors of 39 listed companies in Mauritius and ROA as a measure of performance, Mahadeo et al. (2012) investigated the female directors' impact on financial performance. They found that female directors had a positive influence on firms' financial performance. Similarly, Garba and Abubakar (2014) found a positive relationship between gender diversity and financial performance as measured by ROA and ROE. Ntim (2015) found, also, a positive relationship between gender diversity and Tobin's Q. On the other hand, Ujunwa (2012) found a negative relationship between gender diversity and the firms' financial performance.

Hypothesis development

There are still conflicting views on female board members' impact on firms' financial performance. CMSA's guidelines (2002, sub-section 4.1.3) advocates that the process of directors' appointment should be sensitive to gender representation. However, from the resource dependence theory perspective, women on boards enhance companies' connections with relevant stakeholders at all levels (Lückerath-Rovers, 2013). A greater number of women on a board improves board decision-making and its problem solving skills; a firm's image in its society; and, hence, increases a firm's competitive advantage (Carter et al., 2003). Therefore, the fourth hypothesis is formulated as follows:

H4: Female directors on boards improve Tanzanian listed firms' financial performance as measured with ROA and ROE.

3.6.4.2 Board skills and firm financial performance

Board skill refers to expertise needed by the board to discharge effectively its main roles of monitoring, services and strategic making (Forbes & Milliken, 1999; Ruigrok et al., 2007). Forbes and Milliken (1999, p.495) grouped the knowledge and skills appropriate to the board according to functional area (such as accounting, finance, marketing and law) and firm specific (detailed information about the firm and intimate understanding of its operations and internal management issues).

There are skills that directors are required to demonstrate when discharging their main roles; these include the ability to think critically and to analyse financial information (Tricker, 2012). There is, also, an essential need for sound strategic decision-making. This includes interpersonal, networking, negotiation and communication skills (Tricker, 2012). Finally, directors must have relevant knowledge of the firm's external and internal environment functions including relevant laws and regulations, mission and vision, organisation structure and operations (Tricker, 2012). These skills can help directors to be more expert in running the business effectively and efficiently and include identifying areas where the firm is exposed to risks and making appropriate decisions to mitigate such risks (Tricker, 2012). A basic financial knowledge is essential for directors since it can help them to read and interpret financial information and evaluate the checks and balances and investments appraisal (Tricker, 2012). Furthermore, in discharging the board's responsibilities effectively, a director is expected to possess the essential attributes of integrity, intellect, character and personality (Tricker, 2012). Lastly, Van-Ness et al. (2010) contend that diverse occupational backgrounds on the board enhance the directors' monitoring, strategic and advising capabilities.

Directors are expected to bring to the board knowledge and skills essential for effective monitoring and valuable advisory functions (Murray, 1989; Francis, Hasan & Wu, 2015). This is particularly true of academic directors, most of whom are likely to have at least a doctoral qualification. There is a dearth of studies regarding directors with doctoral qualifications or academicians (White et al., 2014; Francis et al, 2015). Francis et al. (2015) point out the benefits of academic directors on boards. Firstly, academic directors are likely to be ranked highly by society and considered to be trustworthy and independent. Further, they are able to bring resources from outside the firm. They may have, also, greater knowledge and skills in their function areas, like finance, accountancy, marketing or law. Moreover, academic directors may have a unique approach to problem solving through forming different standpoints from non-academic directors. Finally, academic directors increase board diversity since they bring different skills to the board. However, Francis et al. (2015, p.548) contend that academic directors may not be effective monitors and/or valuable advisors because they may waste their limited time in concentrating on issues less important to the firm. Furthermore, they may have limited rational decision making skills, due to possibly lack of technical knowhow on the firm's different issues and, finally, they may lack independent due to various direct and indirect connections to the executives.

The theoretical association between board skill and financial performance

From a resources dependence theory viewpoint, directors can link the firm with the external environment. This is an important link to external resources since directors can bring diverse skills and knowledge to the firm (Bryant & Davis, 2012). Moreover, Kiel and Nicholson (2003) point out that from agency and resource dependence theory perspectives, a firm can reduce agency costs not only with a larger board but, also, by the integration of the firm's objectives with its members' mix of skills and knowledge which can be tapped into from the board or from the outside environment (Forbes & Milliken, 1999). From a stewardship theory perspective, skills and knowledge are essential for the executives to achieve the firm's main objective of maximising the shareholders' wealth (Davis et al., 1997).

The empirical association between board skill and financial performance in developed countries

There is mixed empirical evidence in developed countries as to whether or not the directors' skills are related to the firm's financial performance. For example, Francis et al. (2015) utilised a sample of 2703 American listed companies (1998-2011) to examine the impact of Professors on firms' financial performance using Tobin's Q as a measure of performance. They found that academic directors had a positive impact on the firms' financial performance. They argued that firms with academic directors could benefit from their esteemed advisory and effective monitoring skills. On the other hand, Van-Ness et al. (2010) found that there was a negative relationship between the proportion of academic directors and revenue growth. This might be caused by a lack of knowledge of the business, which was likely to limit their monitoring, strategic decision-making and advising functions.

Kim and Rasheed (2014), however, found that there was no significant relationship between the board members' education levels and backgrounds and the firms' financial performance. This finding was based on a sample of American 313 firms in which, using ROA as the performance measure, they investigated the relationship between board heterogeneity, corporate diversification and firm performance.

The empirical association between board skill and financial performance in developing countries

In the same way as developed countries, there is conflicting empirical evidence regarding the influence of board skill on performance in developing countries. For example, Ponnu (2008) found that, while directors with different educational backgrounds, experiences and expertise could influence the quality of information produced by the board and, hence, improve its transparency, compliance etc., academic qualifications of directors had no impact on the firm's performance. Ponnu argues that it is often difficult for the board members in developing countries to be appointed on the basis of competence because it is highly probable that most members are appointed on the basis of their shareholding and influence. Likewise, Jhunjhunwala and Mishra (2012) found that a multidisciplinary board consisting of members with different expertise had no significant impact on the firm's financial performance.

The empirical association between board skill and financial performance in Sub-Saharan Africa

There is conflicting empirical evidence regarding the influence of board skill on financial performance in Sub-Saharan African countries. Ujunwa (2012) used a sample of 122 Nigerian listed firms to investigate the impact of board skill on financial performance. He used the number of board members with PhD qualifications as a proxy for board skills and ROA as a measure of the firms' financial performance. He found that there was a positive association between the number of directors with PhD qualifications and the firms' financial performance. Ujunwa (2012) pointed out that the directors with PhD qualifications could enhance the firm's performance since they might be likely to be more knowledgeable and proficient than less-qualified directors. Tornyeva and Wereko (2012) found, also, that there was a positive relationship between board skill and financial performance.

Hypothesis development

There is conflicting empirical evidence as to whether or not board skill is related to the firm's financial performance. Section 3:1:4 of the CMSA's guidelines (2002) require the board of directors to have diverse expertise in order to avoid one group dominating the decision making process. However, from the research dependence theory perspective, Kiel and Nicholson (2003) argue that, if a board of directors is composed of members with different expertise and skills, this can bring huge benefits to a firm. This is in line with other studies that found a positive relationship between board skills and financial performance (Ujunwa, 2012; Francis et al., 2015). Further, academic directors bring skills and knowledge resources to a firm (Murray, 1989; Ujunwa, 2012); this helps with effective monitoring and provides valuable advice to management in minimising agency costs and increasing the firm's financial performance (Francis et al., 2015). In light of the above, the fifth hypothesis is formulated as follows:

H5: The proportion of directors with doctoral qualifications is positively associated with Tanzanian listed firms' financial performance as measured by ROA and ROE.

3.6.4.4 Foreign directors and firm financial performance

The need for firms to have foreign investments has probably fuelled the need to hire foreign directors to protect their interests abroad (Oxelheim & Randoy, 2003). Foreign directors generally have a permanent home or establishment in a different country to the firm that they have been appointed as a director (Masulis et al., 2012). The presence of foreign directors can be either beneficial or costly to the firm. On the one hand, foreign directors can use their foreign knowledge, experiences and exposures to improve the board functions of monitoring, advice and strategy formulations (Oxelheim & Randoy, 2003). Moreover, working in a foreign environment, directors can enhance board advisory skills and can provide direct knowledge of foreign markets and networks of foreign contacts (Masulis et al., 2012). On the other hand, the geographical location of the foreign directors may have an unfavourable impact on the firm's financial performance (Masulis et al., 2012). This is because of difficulties and inconveniences involving international travel from the country of residence to the country in which the head office is based. Moreover, this is likely to limit the flow of valuable firm information to foreign directors and can make them ineffective in their monitoring and advisory roles (Masulis et al., 2012).

The theoretical association between foreign directors and financial performance

Ameer et al. (2010) contend that from an agency theory perspective, foreign directors can be useful in controlling the firm's agency costs since they may lack affiliation with the firm's management. Also, from a resource dependence theory perspective, foreign directors may benefit the firm since they bring to the board experiences, viewpoints, cultural differences and skills from other countries. These serve to make the board more effective (Jhunjhunwala & Mishra, 2012). Furthermore, globalisation boosts the need for foreign directors since they can provide the firm with foreign networks and contacts (Ruigroik et al., 2007).

The empirical association between foreign directors and financial performance in developed countries

In their study, Oxelheim and Randoy (2003) used a sample of 650 firm-year observations to examine the influence of foreign directors on the firma' financial performance as measured by Tobin's Q. They found that firms with foreign board members showed a significant increase in performance. They argue, also, that the foreign board members can improve a firm's strategic initiatives and shareholders' confidence. Moreover, they assert that foreign independent directors can enrich a firm with global networks and proficiencies that are vital to the firm's strategic decision making (Masulis et al., 2012). In contrast, Masulis et al. (2012) found that the presence of foreign independent directors had a negative influence on the firm's financial performance. They came to this conclusion after investigating the influence of foreign independent board members by using data of 1319 US firm-year observations (1998-2006) and ROA and Tobin's Q as the measure of financial performance. They argue that the geographical distance, from a director's place of domicile to the country where a firm's head office is based, creates an information barrier and, hence, limits such directors' performance. However, they argue directors, who have business in the country of the directorship, could have a positive influence on the firm's financial performance (Masulis et al., 2012).

The empirical association between foreign directors and financial performance in developing countries

Ameer et al. (2010) used a sample of 277 Malaysian listed companies over the period 2002 to 2007 to investigate the relationship between foreign directors and the firms' financial performance as measured by Tobin's Q. They found that foreign directors had a positive influence on the firms' financial performance. On the other hand, Jhunjhunwala and Mishra (2012) found an insignificant and positive association between outside foreign directors and firms' performance. A possible explanation is that some foreign directors may struggle to cope with the business environment and culture of the country of the directorship.

The empirical association between foreign directors and financial performance in Sub-Saharan Africa

As with developing countries, there is limited empirical evidence about the impact of foreign directors on Sub-Saharan African firms' financial performance in. However, in their study of 12 listed Nigerian insurance companies over the period from 2004 to 2009, Garba and Abubakar (2014) investigated the impact of foreign directors on firms' financial performance. They found a positive relationship between foreign directors and financial performance. Ujunwa (2012) found, also, that there was a positive association between a board with a large proportion of foreign directors and corporate financial performance.

Hypothesis development

The CMSA's guidelines (2002) provide no recommendations regarding foreign directors. Foreign directors have better access to foreign capital and cross-border information and are more likely to minimise the conflicts of interest between owners and management (Ujunwa, 2012). Hence, from agency and resource dependence viewpoints, foreign directors enhance the advisory and monitoring roles of directors in minimising agency costs (Oxelheim & Randoy, 2003). Further, in line with the corporate governance studies (Oxelheim & Randoy, 2003; Ameer et al., 2010; Ujunwa, 2012), which found a positive link between foreign directors and the firm's financial performance, the sixth hypothesis is developed as follows:

H6. Foreign directors are positively associated with Tanzanian listed firms' financial performance in Tanzania as measured with ROA and ROE.

3.7 CONCLUSION

The separation of ownership and control can create a conflict of interest between the owners or shareholders and management (agency problem). The agency theory has suggested several mechanisms to reduce the conflicts between shareholders and management such as markets control, debt finance, legal protection of investors, companies' laws and regulations and the board of directors. Board of directors is the fundamental mechanism that balances the relationship between shareholders and management. In particular, it aligns the interests of management and shareholders by protecting the shareholders' interests through monitoring, advisory and strategy functions. It can be argued that the board should be effective in discharging its responsibilities in order to reduce agency problems and to increase the firm's financial performance. Therefore, this thesis examines the board characteristics (outside directors, board size, CEO duality, gender diversity, foreign directors and board skills)' impact on the firm's financial performance.

The reviewed body of literature indicate mixed relationships between board characteristics and firms' financial performance in both developed and developing countries' corporate governance studies. Hence, there is evidence of continuing contentious theoretical and empirical debates on the board characteristics (outside directors, board size, CEO duality, gender diversity, board skill and foreign directors) impact on firms' performance. The reviewed literature showed that most corporate governance studies were conducted in developed countries. Fewer corporate governance studies were done in developing countries, especially Africa.

Furthermore, there were some factors that might influence the findings of corporate governance research. These included the variables for proxy corporate governance and financial performance and the countries' different corporate governance institutions (Pintea & Fulop, 2015). For example, most of the developing countries suffered from weak legal systems; political instability; the reduced size of markets; the nature of corporate ownership; and poor financial systems (Kiel & Nicholson, 2003; Jackling & Johl, 2009; Vintilă & Gherghina, 2012). These could lead to dissimilarities in theoretical bases of investigation. Furthermore, according to the reviewed literature, the absence of the standard measure of statistical performance may have brought inconsistent results (Keil & Nicholson, 2003). The use of statistical measures indicates, also that the majority of corporate governance studies, reviewed in both developing and developed countries, used the same quantitative methodology (Molina Azorin & Cameron, 2010). It can be argued that these factors may affect the corporate governance research findings.

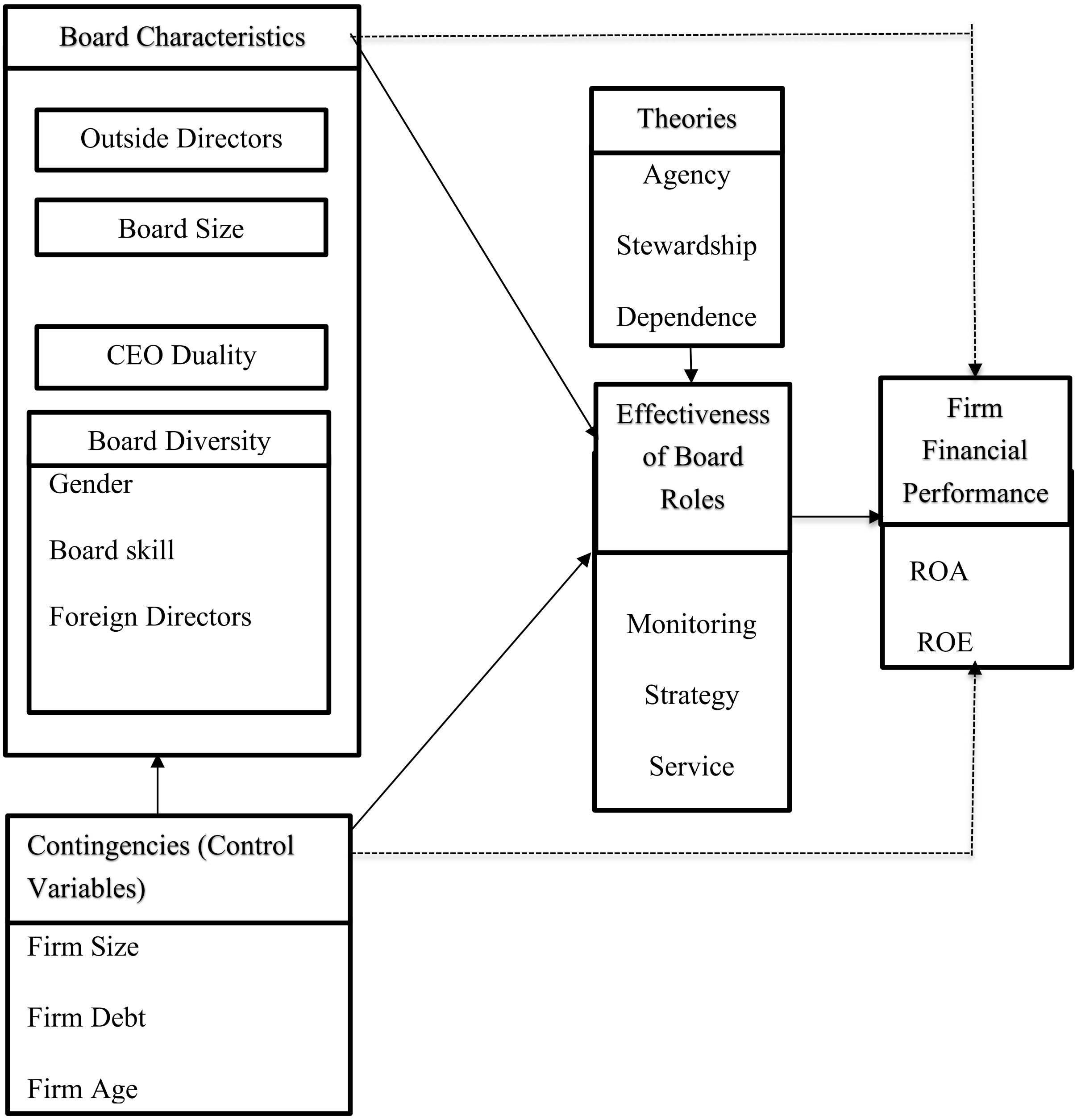


Figure 3.2 Conceptual Framework

Source: literature review

There was mixed evidence as to whether or not there was a link between board characteristics and the firm's performance (Zahra & Pearce, 1989; Daily et al., 1999; Vintilă & Gherghina, 2012; Tricker, 2012). The evidence from the literature review suggested that there was possibly a direct (dotted line) or indirect impact (straight line) between board characteristics and the firm's financial performance (Figure 3.2). However, the literature reviewed indicate mostly the indirect influence through the effective performance of the board's main roles of control, service and strategy management as recommended by agency, stewardship and resource dependence theories (Kiel & Nicholson, 2003; Nicholson & Kiel, 2004). In line with Zahra and Pearce (1989), the researcher found that the performance of these roles was influenced greatly by contingencies such as firm size, firm age, firm debt, relevant rules and regulations, and other external and internal environment factors.

According to the reviewed corporate governance literature, the relationship between board characteristics and firm financial performance cannot be explained by one theory. The framework indicates that the three corporate governance theories of agency, resource dependence and stewardship can be important in explaining the link between the board and the firm's performance. The reviewed corporate governance studies used consistently firm size, firm debt and firm age as control variables (Figure 3.2). Therefore, the proposed conceptual framework explains the key hypothesised relationship between the board and the firm's financial performance. This study uses Tanzania as a case because it can add value to the country's efforts to improve corporate governance while contributing, also, to the literature on the relationship between board characteristics and the firm's financial performance within a unique corporate governance environment.

Gaps in Literature

Developing countries lag behind developed countries in terms of corporate governance studies (Haniffa & Hudaib, 2006). Lawali (2012) suggests that there is an urgent need for an impetus in developing and emerging economies and, especially in Africa, which has currently the lowest number of corporate governance studies. Klapper and Love (2002, as cited in Lawali, 2012) assert that firm level studies from developing countries, especially those with weak legal environments, may be highly important in this field. Okeahalam and Akinboade (2003) argue that mismanagement and corruption in the business environment have been affecting the economies of emerging countries and, especially, in Africa. Effective corporate governance can create transparency; safeguard against these threats; promote foreign direct investment; and, ultimately, economic development in Africa. Therefore, there is a huge gap for corporate governance research to fill in developing countries, where, compared to developed countries, there is a different corporate governance environment about which little research has been done.

To the best of the researcher's knowledge, no mixed methods research has been done in Tanzania regarding the board characteristics' impact on the listed firms' financial performance. Compared to developed countries, Tanzania, as a developing country with a weak economy, has a different economic, political, legal, and regulatory environment (Melyoki, 2005). Tanzania, like most of the developing economies, has adopted the most of its corporate governance practices from developed countries. However, some of the practices may be inappropriate for developing economies (Pintea & Fulop, 2015). In the context of Tanzania, there have been very few corporate governance studies (Melyoki, 2005; Fulgence, 2014; Fulgence, 2015). Melyoki cited notable studies of corporate governance in Tanzania such as Melyoki (2004), Kihiyo (2002), and Kiure (2002) and Fulgence (2013 cited in Fulgence, 2014) wrote, also, on this subject. Melyoki (2005) and Fulgence (2014) call for more corporate governance studies in Tanzania as one way of contributing to the development of country's corporate governance. This study aims to reduce this gap by investigating, in particular, whether boards of directors' characteristics have an impact on the Tanzanian listed firms' financial performance.

4 CHAPTER FOUR: RESEARCH METHODOLOGY

4.1 INTRODUCTION

The methodology is an important part of the research since it provides the design and methods for collecting and analysing the research data. The selection of an appropriate research method is significant if the research objectives are to be achieved (Bryman, 2016). This chapter discusses in detail the mixed research methodology based on the research questions applied in this study. Specifically, it justifies the use of mixed methods research and highlights its limitations. Increasingly, mixed methods have been applied in the fields of social sciences, education and health science (Molina-Azorin & Cameron, 2010). However, the approach has been used little in business and management studies (Cameron, 2011; Bazely, 2015). Understanding and using mixed methods research is important because of the increasing changes in disciplines, research complexities and the dynamics of research. Accordingly, a mixed methods approach can provide broad insights to these changes (Johnson & Onwuegbuzie, 2004). Moreover, the gaps, identified in the literature, can be bridged by the application of mixed methods research in this study. Consequently, it applies mixed methods research in order to provide broader perspectives on the research questions. The researcher's moderate philosophical position favours the combination of both quantitative and qualitative approaches.

This chapter aims to achieve the following objectives: Firstly, the chapter discusses the philosophical assumptions of the research paradigm that provide the foundations of the study. Secondly, in addition to presenting the challenges to this study in using a mixed research approach, it shows the appropriateness of the research design in providing answers to the research questions. The remainder of the chapter is organised as follows: Section 4.2 discusses the applied research paradigms and their philosophical assumptions. Section 4.3 discusses the selection of the research design and Section 4.4 shows a chapter summary.

4.2 PHILOSOPHICAL ASSUMPTIONS UNDERLYING THE RESEARCH WORLDVIEW

The research worldview (paradigm) relates to beliefs, perceptions, insights and understanding of researchers in conducting a research project (Easterby-Smith et al., 2012). Similarly, a paradigm means “a set of basic beliefs (or metaphysics) that deals with ultimate or first principles” (Guba & Lincoln, 1994, p.107). Furthermore, Guba and Lincoln define a paradigm as a worldview that guides a study. Similarly, Collis and Husey (2009, p.55) define a research worldview as “a framework that guides how research should be conducted, based on people’s philosophies and their assumptions about the world and the nature of knowledge”. The research worldview is a very important part of the research process since it provides directions on how to conduct the research (Cohen, Manion and Morrison, 2011). In addition, it helps the researcher to have broad views about how the research questions are going to be answered (Krauss, 2005). Also, it clarifies the research design and makes it feasible (Easterby-Smith et al., 2012). Therefore, it is worthwhile to the researcher to understanding philosophical assumptions.

Post-positivism, Constructivism, Participatory and Pragmatism are the most commonly applied worldviews suggested by mixed methods researchers; these can be used to clarify mixed methods research (Creswell & Plano Clark, 2011). These research worldviews contrast according to their ontology, epistemology, axiology, methodology and rhetoric (Creswell & Plano Clark, 2011). Table 4.1 outlines the features of these paradigms. Worldviews can either be combined or used separately in providing a general focus to mixed method research (Creswell & Plano Clark, 2011). The following subsections present the detail of each paradigm.

4.2.1 Post positivist Paradigm

Post-positivism his based upon the positivist paradigm, which has its foundations in natural sciences. A post positivist paradigm emerged after World War II from researchers who did not agree with the assumptions of positivism (Ramlo &

Newman, 2011; Mertens, 2015). These assumptions include the positivist assumption that reality is singular and objective and there is no relationship between the researcher and what is being investigated (Collis & Husey, 2009). Furthermore, positivism is based on the belief that the social world exists externally (physical) and the object under investigation should be measured and observed (Brand & Slater, 2003; Easterby-Smith et al., 2012). Positivists believe, also, that the social world can be studied objectively in the same way as natural science in order to explain a causal relationship (Ramlo & Newman, 2011; Mertens, 2015). However, the positivists came under attack from social science researchers and, particularly on the claims that social world can be investigated in an absolutely independent manner and based on the researcher's ability to come up with generalised findings on human behaviour (Mertens, 2015).

Table 4.1: Features of Four Worldviews Used in Research

Post positivist Worldview	Constructivist Worldview	Participatory Worldview	Pragmatist Worldview
Determination or cause and effect thinking	Understanding	Political	Consequences and actions
Reductionism	Multiple participant meanings	Empowerment and issue oriented	Problem centered
Empirical observation and measurement	Social and historical construction	Collaborative	Pluralistic
Theory verification	Theory generation	Change oriented	Real-world practice oriented

Source: Creswell (2009 as cited in Creswell and Plano Clark 2011, p.40)

A post positivist paradigm emerged after World War II from researchers who did not agree with the assumptions of positivism (Ramlo & Newman, 2011; Mertens, 2015). A post-positivist researcher believes that scientific reasoning is similar to common sense reasoning and, when modified objectivity, is an as intrinsic social phenomenon (Guba & Lincoln, 1994). Furthermore, post positivist researchers believe that observation is fallible and that this can distort the realities (Guba & Lincoln, 1994; Mackenzie & Knipe, 2006). In this regard, post positivism is identified as a critical realism. According to Guba and Lincoln (1994, p.110), the main reason to label post positivist ontology as critical realism is "…reality must be subjected to the widest possible critical examination to facilitate apprehending reality as closely as possible (but never perfectly)". Furthermore, Guba and Lincoln (1994) and O'leary (2004 as cited in in Mackenzie & Knipe, 2006) consider that post positivist researchers believe that no one is perfect and, consequently, objectivity is not determined by individual researchers, but by multiple research stakeholders (critical multiplism). Mackenzie and Knipe (2006) suggest that O'Leary's argument (2004) somehow aligns post positivism to a constructivist paradigm and qualitative methodology. In addition, Johnson and Gray (2010 as cited in Ramlo & Newman, 2011) support the view that post positivism and positivism are aligned commonly with quantitative methodology (Mackenzie & Knipe, 2006).

4.2.2 Constructivist Paradigm

Mackenzie and Knipe (2006) suggest that interpretivism or constructivism is the same paradigm. The constructivist paradigm originated from the criticisms of positivism. It is based on the concept of subjectivity through which understanding of the phenomena is obtained through people who have rich information about it (Krauss, 2005; Collis & Hussey, 2009). Moreover, the subjective view revolves around the assumption that the meanings and understandings are constructed through the researcher's interactions with people's experiences and actions (Saunders, Lewis & Thornhill, 2007). Constructivism is an epistemology that advocates the necessity for the researcher to understand the differences between humans in our roles as social actors. This emphasises the difference between conducting research among people rather than objects (Saunders et al., 2007, p. 106).

In constructivism, there are multiple realities attached to people and through, interaction with the researcher, interpretive understanding can generate rich insights from people (Krauss, 2005; Collis & Hussey, 2009). Creswell and Plano Clark (2011, p.40) defines constructivism as, "The understanding or meaning of phenomena, formed through participants and their subjective views, make up this worldview. When participants provide their understandings, they speak from meanings shaped by social interaction with others and from their own personal histories". It is argued that constructivists' researchers rely mostly on qualitative methodology (Mackenzie & Knipe, 2006; Creswell & Plano Clark, 2011)

4.2.3 Pragmatism

A pragmatist paradigm does not have its background in either philosophy or reality (Mackenzie & Knipe (2006). In supporting this view, Creswell and Plano Clark, (2011, p.41) contend that: "The focus is on the consequence of the research, on the primary importance of the question asked rather than the methods, and on the use of multiple methods of data collection to inform the problem under study". Tashakkori and Teddlie (2003) point out some social science researchers argue that pragmatism can be the best paradigm to link with mixed methods research. In order to emphasise this point, (Tashakkori & Teddlie, 1998 as cited in Tashakkori & Teddlie, 2003, p.21) came up with the following opinions, which were supported, also, by Creswell and Plano Clark (2011):

- The particular study can accommodate both quantitative and qualitative research.
- Pragmatist researchers are more grounded on questions than either the method or philosophical perspective of the study.
- Pragmatists rebuff the forced choice dichotomy of post-positivism and constructivism.
- Pragmatists suggest deserting the use of metaphysical concepts (i.e., truth and reality).
- Pragmatists suggest that methodological decisions should be based on a practical and applied research philosophy.

4.2.4 Transformative / Participatory Paradigm

Transformative paradigm was developed due to the dissatisfactions that the dominant paradigms were based on the studies that marginalised disadvantaged or oppressed groups in society (Marten, 2005 as cited in Mackenzie & Knipe, 2006). This paradigm aims to empower marginalised people in society. In this regard, Creswell and Plano Clark (2011, p.41) argue: "The need to improve our society and those in it characterised these views. Issues such as empowerment, marginalisation, hegemony, patriarchy and other issues which affect marginalised people need to be addressed". They posit on the importance of involving marginalised people in transforming their lives due to political concerns. Although it can be used for mixed methods research, it is argued that this viewpoint is based more on qualitative than quantitative studies, (Creswell & Plano Clark, 2011).

4.2.5 Paradigm and application to the study

Table 4.2 shows five main philosophical assumptions of the post-positivism, constructivism, pragmatism and participatory paradigms. These assumptions are: i) Ontological; ii) Epistemological; iii) Axiological; iv) Rhetorical; and v) Methodological. Firstly, Saunders et al. (2007) describe ontology as the nature of reality; from the ontological perspectives and because these research findings cannot be perfect and comprehensible, they should be supported by multiple forms of evidence (critical multiplism) (Guba & Lincoln, 1994; Ramlo & Newman, 2011; Mertens, 2015). This study is premised in quantitative methodology in order to investigate the board characteristics' impact on Tanzanian listed firms' financial performance. The collected quantitative data is subjected to different hypotheses and other statistical tests. As an emerging country, Tanzania has a distinct corporate context situated within different environments; these include distinct political and cultural situations, also distinct economic, financial and legal conditions. The environment comprises of a range of governance stakeholders like Shareholders, Directors, Regulators, and Management etc. On the other hand, in order to add to the quantitative findings, this study uses the qualitative approach to make sense of the perceptions of directors and other corporate governance stakeholders who experience multiple realities. Thus, this study explores multiple forms of evidence provided by the research participants.

Secondly, epistemology is the theory of knowledge, explaining how it can be captured (Willig, 2008). Epistemology concerns a researcher's position in relation to what is investigated or explored. A post-positivist critical realist researcher (see Table 4.2) takes a modified objective approach through believing that, the findings can be improved by obtaining multiple evidences from existing theories and relevant communities (Guba & Lincoln, 1994), objectivity cannot be accomplished perfectly, Thus, the researcher reduces bias in the quantitative part of the study by collecting data from financial reports and by applying standardised data collection methods and statistical methods in data analysis. In addition, the researcher applies a qualitative approach by interviewing Directors and Regulators and interacting with them in order to gain their rich insights about the board characteristics' impact on firms' financial performance.

Table 4.2: The differences of worldviews

Worldview Element	Post positivism	Constructivism	Participatory	Pragmatism
Ontology (What is the nature of knowledge)	Singular reality (e.g., researcher reject of fail to reject hypothesis). Reality is not perfect because of human limitations	Multiple realities (e.g., researchers provide quotes to illustrate different perspectives)	Political reality (e.g., findings are negotiated with participants)	Singular and multiple realities (e.g., researchers test hypothesis and provide multiple perspectives)
Epistemology (What is the relationship between the researcher and that being researched?)	Distance and Impartiality (e.g., researcher objectively collect data on instruments)	Closeness (e.g., researchers visit participants at their sites to collect data)	Collaboration (e.g., researchers actively involve participants as collaborators)	Practicality (e.g., researchers collect data by "what works" to address the research questions)
Axiology (What is the role of values?)	Unbiased (e.g., researcher uses checks to eliminate bias)	Biased (e.g., researchers actively talk about their biases and interpretations)	Negotiated (e.g., researchers negotiate their biases with participants)	Multiple stances (e.g., researcher includes both biased and unbiased perspectives
Methodology (What is the	Deductive (e.g., the	Inductive (e.g., researchers start	Participatory (e.g.,	Combining (e.g.,

process of research?)	researchers test a prior theory)	with participants' views and build "up" to patterns, theories, and generalisations)	researcher involves participants in all stages of the research and engage in cyclical review of results)	researcher collects both quantitative and qualitative data and mix them
Rhetoric (What is the language of research?)	Formal style (e.g., researcher use agreed-on definitions for variables)	Informal style (e.g., researchers write in a literary, informal style)	Advocacy and change (e.g., researcher uses language that will help bring about change and advocate for participants)	Formal and informal (e.g., researchers may employ both formal and informal styles of writing)

Source: Creswell and Plano Clark (2011, p.42)

Thirdly, axiology is the study of nature and judgment of values, which enrich the credibility of a study (Saunders et al., 2007). A researcher demonstrates axiological skills by consider the ethics of the research and by treating the research participants with respect and maintaining their integrity (Mertens, 2015). The quantitative part of this study deals with standardised methods and processes of data collection from financial reports and data analysis based on statistical methods. In contrast, the qualitative part is not free from bias and the participants exhibit their values during the research process (Saunders et al., 2007) that they make known to their readers. Thus, in this study, the researcher interacts with board members and regulators to explore their views on the board characteristics' impact on the firm's financial performance and take different measures, as discussed in chapter 6, to protect their rights. Fourthly, according to Table 4.2, rhetoric involves the communication style used by a researcher to convey a message to a reader. Post-positivist researchers use a formal style in the research language that is characterised by the use of the passive voice. Consequently, the quantitative part of this study uses a formal style of research language with emphasis on the passive voice and the qualitative part uses an informal language style in order to persuade participants to give their views.

Table 4.3: Matching paradigms and methods

Paradigm	Method (primarily)	Data collection tools (examples)
Post positivist	Quantitative. “Although qualitative methods can be used within this paradigm, quantitative methods tend to be predominant…” (Mertens, 2005, p. 12)	Experiments Quasi-experiments Tests Scales
Constructivist	Qualitative methods predominate although quantitative methods may also be utilised	Interviews, Documents reviews, Visual data analysis
Transformative	Qualitative methods with quantitative and mixed methods. Contextual and historical factors described, especially as they relate to oppression (Mertens, 2005, p.9)	Divergence range of tools-particular need to avoid discrimination such as racism, sexism and homophobia
Pragmatic	Qualitative and/or quantitative methods may be employed. Methods are matched to the specific questions and purpose of research	May include tools from both positivist and constructivist paradigm such as interviews and experiments

Source: Mackenzie & Knipe (2006, p.5)

Fifthly, the methodological stance is a philosophical assumption on the general process of data collection and analysis in order to achieve the research objectives (Willig, 2008). The post-positivist approach can use QUANT (as a majority) + Qual (as a minority) approach (Mertens, 2015). This study uses both quantitative and qualitative methods to collect data (see Table 4.3) and uses two main strategies. These are deductive and inductive. Deductive is a strategy whereby the independent positivist researcher tests hypotheses and uses structured methods of data collection and statistical methods to analyse quantitative data in order to generalise their findings on the causal relationship between variables (Saunders et al., 2007). The post-positivist worldview supports both quantitative and qualitative methods. Therefore, this study uses both quantitative and qualitative designs. The quantitative part applies a deductive strategy to investigate board characteristics' impact on Tanzanian listed firms' financial performance. It includes the development of hypotheses based on agency and resource dependence theories and corporate governance literature and uses, also, regression methods to test the hypotheses. In contrast, inductive strategy employs flexible and unstructured methods to collect data from a particular context to make sense of collected data through data analysis (Saunders et al., 2007). Therefore, the qualitative part applies semi-structured interviews to obtain the interviewees' rich insights about the board characteristics' impact on Tanzanian listed firms' financial performance.

4.2.6 Choice of Appropriate Worldview

There is a contrasting and on-going debate among researchers about which is the best worldview to inform mixed methods research, which is still on-going among researchers (Creswell & Plano Clark, 2011; Hall, 2013). In this regard, researchers have not reached a consensus about whether philosophical worldviews have to align with research methods (paradigm-method fit) (Migiro & Magangi, 2011). Creswell and Plano Clark (2011) suggest four approaches for paradigm choice; these are pragmatism, transformation, constructivism and post-positivism (Creswell & Plano Clark, 2011). These approaches are based on single best worldview for mixed methods or multiple worldviews in mixed methods; worldviews related to the type of mixed methods design; and worldviews depending on the scholarly community. It is argued that the single worldview is the most justifiable approach to mixed methods research (Hall, 2013).

However, the paradigms have been criticised for their limitations. For example, social science researchers are critical of pragmatism and transformation. To underline this point of view, Hall (2013) argues that pragmatism assumes that the importance of the methodology can be determined at the beginning of research instead of at the end. He argues further that pragmatism does not consider decisions on the use of mixed methods. Hall (2013) concludes that the paradigm fails to justify its methodological application for all mixed research. In addition, transformative paradigm limits its application to the less advantaged people in society; this covers a small range of social scientific research (Hall, 2013). He concluded that the paradigm is not appropriate for mixed research. However, as suggested by the literature, Bisman (2010) claims that post-positivism critical realist philosophy has its own limitations such as not being critical enough and providing an insufficient explanation between researcher-object relationships. Furthermore, Bisman claims that even positivists and constructivist have their inherent limitations.

Hall (2013) contends that a post positivist critical realism approach is recommended as an alternative single worldview. Furthermore, Bisman (2010) suggests the need to recognise an application of critical realism as an appropriate and valuable philosophy when investigating the research questions in mixed methods research. In this study, the researcher takes the position of a post positivist critical realist philosopher and uses a quantitative design as the predominant approach and a qualitative design as a complimentary approach. The rationales in choosing post positivist critical realism are, firstly, that the approach has been adapted to a greater extent for social science research (Hall, 2013). Secondly, critical realists disagree with the positivist ideology of incommensurability standpoints and, hence, support and authorise some key features of both quantitative and qualitative methods and, thereby, overcome the challenges of integrated evidence from both methods (Bisman, 2010; Creswell & Plano Clark, 2011; Hall, 2013). Thirdly, critical realism does not experience the same limitations as the pragmatist and transformation paradigms since it enhances the links between ontology, epistemology and methodology (Guba & Lincoln, 1994; Bisman, 2010; Hall, 2013). Finally, critical realism provides flexibility for further development of a more ‘best fit paradigm’ for mixed methods research (Hall, 2013).

4.3 RESEARCH DESIGN

This section discusses the concept of mixed-methods, the aspects of mixed-methods of quantitative and qualitative methods, and the rationale of this study using mixed methods. The research design is the general plan about how the research questions will be answered (Saunders, Lewis & Thornhill, 2012).

4.3.1 Mixed Methods Research Design

The recent history of mixed research can be traced back to around 1960 when it originates from the belief of social science researchers that quantitative and qualitative methodologies were worthwhile in providing answers to research questions (Johnson, Onwuegbuzie & Turner, 2007). They state that there is an on-going debate between quantitative researchers and qualitative researchers about viewing the world between quantitative researchers versus qualitative researchers, versus those who believe in both quantitative and qualitative approaches (mixed methods researchers) which started at that time. Johnson et al. (2007) claim that Campbell and Fiske (1959) formalized the use of mixed methods. They claim further that Webb, Campbell, Schwartz, and Sechrest (1966) and in (1978) are credited with their remarkable contribution to the triangulation in mixed methods.

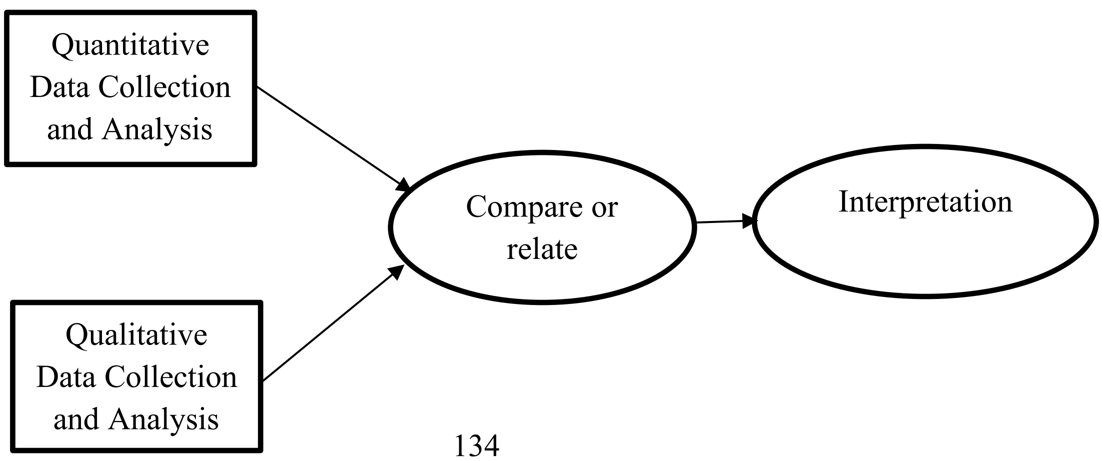
Mixed methods are an application of theories and practices in acquiring knowledge about the social world; this includes theoretical worldviews in collecting, analysing and mixing qualitative and quantitative data (Johnson et al., 2007; Creswell & Plano Clark, 2011). It involves, also, triangulation in the combination of quantitative and qualitative research in one study (Bryman, 2012). Denzin (1978 as cited by Johnson et al., 2007) defined triangulation as a combination of methodologies in the study of the same phenomena. Jick (1979 as cited in Johnson et al., 2007, p. 115) provides five advantages of triangulation. Firstly, it allows researchers to be more confident about their results. Secondly, it stimulates the development of creative ways of collecting data. Thirdly, it can lead to the synthesis or integration of theories. Fourthly, it can uncover contradictions and, finally, by virtue of being comprehensive, it may serve as the litmus test for competing theories. Thus, this study brings together and corroborates the quantitative and qualitative results (Johnson et al., 2007). Creswell and Plano Clark point out the core characteristics that describe mixed method are as follow:

> Mixed methods integrate the two forms of data concurrently, while rigorously analysing both qualitative and quantitative data by combining them sequentially giving priority to one or both forms of data. It also frames these procedures within philosophical worldviews and combines the procedures into specific research designs that direct the plan for conducting the study (2011, p.5).

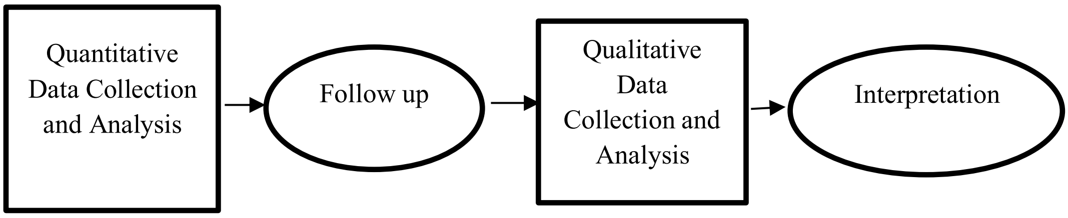
4.3.2 Designing Mixed Methods

There are a number of decision points that help the researcher to make decisions and, consequently, choose an appropriate design for the study (Creswell & Plano Clark, 2011). There are six major mixed methods approaches that provide a framework for a researcher to select the appropriate method which may provide robust solutions to research questions and be easier to manage at the required standards (Creswell & Plano Clark, 2011). According to Creswell and Plano Clark, these methods are: i) the convergent parallel design; ii) explanatory sequential design; iii) the exploratory sequential design iv) the embedded design v) the transformative design vi) the multiphase design (see Figure 4.1)

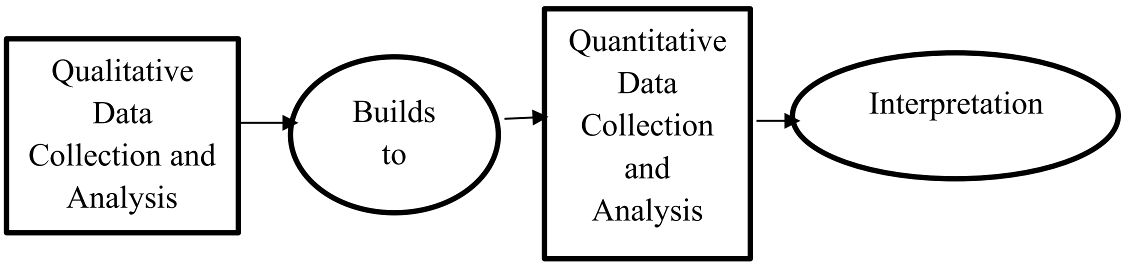
a) The Convergent parallel design



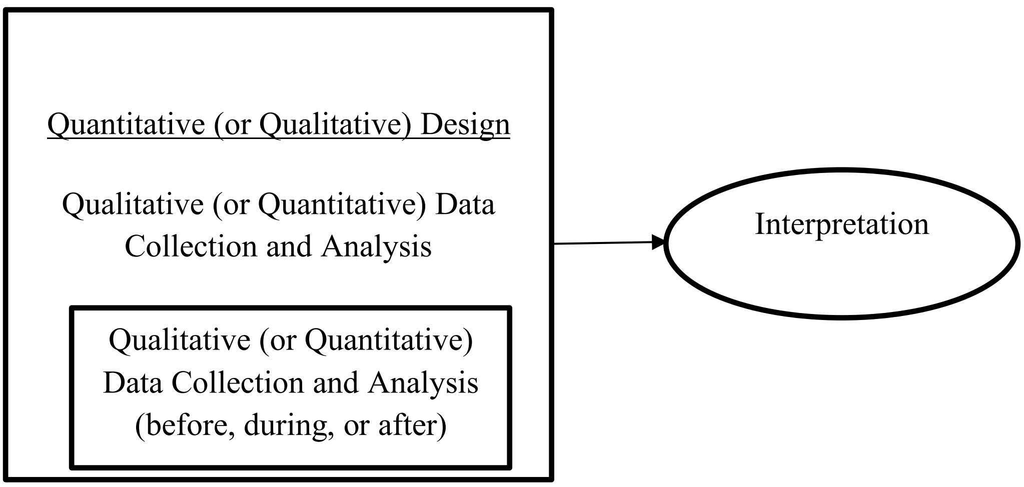
b) The explanatory sequential design



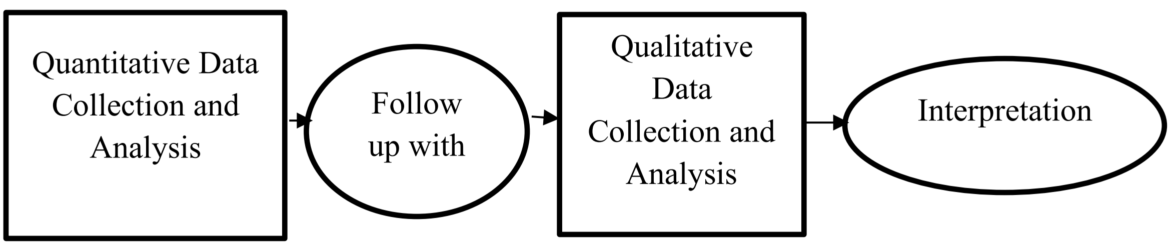
c) The exploratory sequential design



d) The Embedded design



e) The transformative design



f) The multiphase design

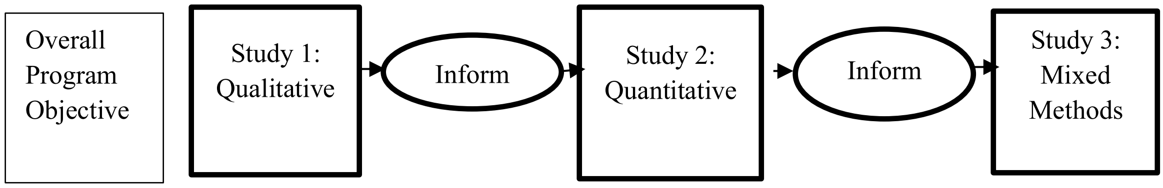


Figure 4.1 Creswell (2011)'s Prototypical Versions of the Six major research designs:

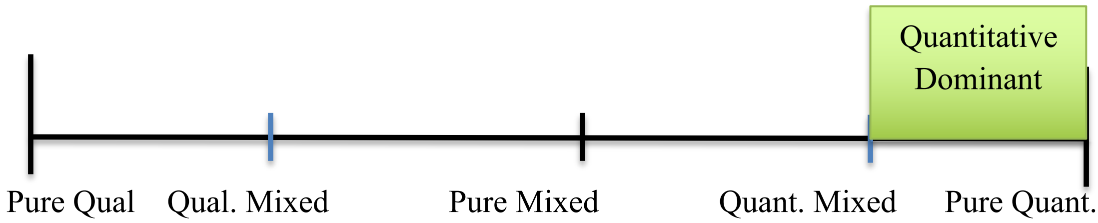
Source: Creswell and Plano Clark (2011, p.69)

Firstly, convergent parallel design enables the researcher to implement simultaneously the quantitative and qualitative parts of the research independently and, then, to combine the results during the general interpretation (Creswell & Plano Clark, 2011). This method has three common variants: parallel database variant; data transformation variant; and data validation variant. Secondly, in explanatory design, the researcher starts with the collection and analysis of the quantitative data and, then, the researcher collects and analyses qualitative data to support the quantitative findings (Creswell & Plano Clark, 2011). In this type of design, the emphasis is placed on the quantitative part of the study. Thirdly, in contrast to exploratory design, exploratory sequential design is in contrast of explanatory design is when a researcher starts with the collection and analysis of qualitative data and, then, builds from the exploratory results by collecting and analysing quantitative data to support the qualitative findings. The emphasis is on the qualitative part of the study (Creswell & Plano Clark, 2011).

Fourthly, embedded design is a design whereby a researcher collects and analyse qualitative and quantitative data within an old-style quantitative or qualitative design whereby the qualitative or quantitative research can be a supplemental strand to be added in order to improve overall design (Creswell & Plano Clark, 2011). Fifthly, transformative is a design that allows the researcher to collect and analyse quantitative and qualitative data within a transformative framework (Creswell & Plano Clark, 2011). Sixthly, multiphase design needs to implement multiple phases in order to address a research question(s) (Creswell & Plano Clark, 2011). However, in order to enhance the researcher creativity, there is no completely standardised mixed research design and this depends largely on the design's ability to answer the research questions effectively (Johnson & Onwuegbuzie, 2004).

4.3.3 Design Decisions

In designing the mixed methods research, three major decisions are involved. These include timing, weighting and mixing decisions (Bentahar & Cameron, 2015). Timing involves a decision about when the quantitative and qualitative studies should be implemented in mixed methods research (Creswell & Plano Clark (2011). Weighting decisions are when the researcher gives priority to the qualitative and quantitative research in order to achieve the research objectives (Creswell & Plano Clark, 2011). Mixing decisions involves the decisions to combine (integrate) quantitative and qualitative findings based on their relations or connection (Johnson et al., 2007).



Source: Johnson et al. (2007, p.124)

Figure 4.2 Three Convergent parallel design subtypes

4.3.3.1 Timing decisions of this study

For the purpose of this study, convergent parallel design (quantitative dominant) or QUANT + qual research is used as indicated on figure 4.2. In QUANT + qual research, the quantitative and qualitative data are collected, analysed and interpreted at nearly the same time (Johnson et al. 2007). The rationales of using the convergent parallel design include, firstly, the qualitative findings supplement the quantitative findings and, consequently, enhancing the validity of the study (Johnson et al. 2007). The researcher uses the qualitative findings to compliment the quantitative findings in order to obtain valid and well-substantiated findings (Creswell & Plano Clark, 2011). Secondly, in practical terms, convergent parallel design is probably more cost and time effective than other approaches since it saves cost and time associated with data collection and is appropriate for limited data (Creswell & Plano Clark, 2011). The collection of the interview data can take quite a long time, especially if the arrangement and carrying out of the interviews with board members are difficult to organise. Therefore, in order to make the most of the limited time available, it is important when making these arrangements to continue to collect other data (quantitative). Thus, the convergent parallel method is more feasible for this study since it allows the completion of one design (i.e. quantitative) while simultaneously working on the other (qualitative).

4.3.3.2 Weighting decision of this study

It is important to consider the weighting of the quantitative and qualitative methods in a mixed method research study (Johnson & Onwuegbuzie, 2004). By using convergent parallel design, a researcher can give equal or unequal priority to quantitative and qualitative research (Bentahar and Cameron, 2015). Creswell and Plano Clark (2011) argue that the researcher's worldview and research questions determine, to a larger extent, the decision about weighting. Therefore, as indicated in Figure 4.2, this study is based on the quantitative post-positivist perspective with consideration of the qualitative data (QUANT + qual). The researcher's reasons for using this approach are based mainly on both the theoretical and practical importance of the study and are described as follows.

Theoretically, the quantitative research design is arguably the most appropriate approach in determining cause and effect relationship (Bryman, 2016). In line with Bryman, the study's objective is to investigate the board characteristics' impact on the firm's financial performance, the qualitative findings complement to the quantitative results as they can increase the study's validity (Johnson et al., 2007); support and corroborate quantitative findings (Creswell & Plano Clark, 2011; Abdullah, 2014; Bentahar & Cameron, 2015); and interpret or clarify quantitative findings (Johnson et al., 2007). Furthermore, as a post-positivist critical realist, the researcher's philosophical position is that he believes in multiple evidences (Guba & Lincoln, 1994). Qualitative findings can add rich insights to the quantitative findings about the board characteristics' impact on the firm's financial performance.

Practically, the use of QUANT + qual approach is beneficial to the researcher in terms of data availability, time and money. It is more convenient for the researcher to access the online financial data available from the OSIRIS database and the Tanzanian listed firms' published annual reports. Meanwhile, as discussed in Chapter 5, it uses more time and money to organise and collect interview data. Therefore, using the QUANT + qual mixed approach has a positive affect on the investigation of the board characteristics–performance relationship.

4.3.2.3 The Mixing Decision of This Study

In order to qualify as mixed research, the results should be merged or mixed at some point of the research and, at least, at the interpretation stage (Johnson &

Onwuegbuzie, 2004; Creswell & Plano Clark, 2011). Therefore, in this study, the researcher keeps the quantitative and qualitative components independent until the interpretation stage when the quantitative and qualitative findings are combined (Johnson et al., 2007; Creswell and Plano Clark, 2011).

4.3.4 The Rationale of Using Mixed Methods Design

The researcher's rationale for using convergent parallel design in this study is summarised as follows. Firstly, compared to using individual methods, the combination of qualitative and quantitative methods (methodological pluralism) can provide a broader insight on the research questions (Johnson et al., 2007; Molina Azorin & Cameron, 2010). Secondly, the convergence of the quantitative and qualitative methods is likely to provide a strong conclusion to the study (Johnson & Onwuegbuzie, 2004; Johnson et al., 2007). Thirdly, the convergence of the quantitative and qualitative methods probably enriches the validity and reliability of this study's findings (Johnson et al., 2007, Molina Azorin & Cameron, 2010). Fourthly, this study's use of semi-structured interviews can provide practical based insights to the board characteristics' impact on Tanzanian listed firms' financial performance (Creswell & Plano Clark, 2011).

Fifthly, the use of both qualitative and quantitative methods tends to cancel out the weaknesses of the individual methods in the methodology stage of the study (Saunders et al., 2012; Bentahar & Cameron, 2015). Sixthly, the use of mixed methods research increases the study sample sizes (Creswell & Plano Clark, 2011). For example, this study uses both Tanzanian listed firms and the interviewees. Thus, mixed research methods research can reduce sample size problems in developing countries. Finally, this study's use of mixed methods research is likely to enhance research flexibility (such as use of qualitative research design) and can make stronger research arguments especially during the mixing stage (Johnson & Onwuegbuzie, 2004; Bazeley, 2015). Consequently, as discussed in the previous sub-sections, this study uses a convergent mixed method design. This means that quantitative and qualitative data are collected in parallel and, then, quantitative and qualitative analysis is conducted separately and, finally, qualitative findings are added to the quantitative findings (Creswell and Clark, 2011; Abdullah, 2014). It is believed that, by adopting the mixed methods approach, this study can accomplish its objectives and provide appropriate solutions to the research questions. Consequently, this study uses both quantitative and qualitative approaches to examine the research questions.

Table 4.4: Summary of Research Questions, Research Objectives and Relevant Research Methods

Research Questions	Research Objectives	Research Methods
1-What impacts do outside directors have on Tanzanian listed firms' financial performance?	1- To investigate the impacts of outside directors on Tanzanian listed firms' financial performance	1- Quantitative data obtained from Tanzanian listed firms' annual reports and qualitative data obtained from semi-structured interviews
2- What is the relationship between board size and Tanzanian listed firms' financial performance?	2- To ascertain the influence of board size on Tanzanian listed firms' financial performance	2- Quantitative data obtained from Tanzanian listed firms' annual reports and qualitative data obtained from semi-structured interviews
3- How does the CEO duality affect the Tanzanian listed firm's financial performance?	3-To investigate the relationship between the CEO duality and Tanzanian listed firm's financial performance in Tanzania	3- Quantitative data obtained from Tanzanian listed firms' annual reports and qualitative data obtained from semi-structured interview
4-How do board diversity aspects of gender, presence of foreign directors and board skill influence Tanzanian listed firms' financial performance?	4-To examine the link between Tanzanian listed firms' financial performance and the board diversity aspect of gender diversity, board skill and foreign directors	4- Quantitative data obtained from Tanzanian listed firms' annual reports and qualitative data obtained from semi-structured interviews

Source: Compiled by researcher

4.3.5 Research objectives and Mixed Methods

By using both quantitative and qualitative methods, this study aims to investigate the board characteristics' impact on Tanzanian listed firm's financial performance. Specifically, this study has the following four objectives:

(i) To investigate the impacts of outside directors on Tanzanian listed firms' financial performance;

(ii) To ascertain the influence of board size on Tanzanian listed firms' financial performance;

(iii) To investigate the relationship between the CEO/Chairperson duality and Tanzanian listed firms' financial performance; and

(iv) To examine the association between Tanzanian listed firms' financial performance and the board diversity aspect of foreign directors, gender and board skill.

The researcher believes that, in view of the benefits of the mixed methods design as explained by the previous sub-sections, the research objectives can be achieved from richness of the evidence generated through both quantitative and qualitative methods.

4.3.6 The Challenges of Using Mixed Methods Research

As explained in the following, there are some challenges from using mixed methods research. Firstly, mixed research methods can be confusing since some of its practices are not well defined e.g., mixing of two paradigms (Johnson & Onwuegbuzie, 2004). Secondly, it is very difficult to identify the correct data collection and analysis procedure that is relevant to a given problem under investigation (Saunders et al., 2012) due to the lack of an agreed framework (Albassam, 2014). Thirdly, the researcher needs to have sufficient knowledge about the proper use of mixed-methods research since it may be challenging for one researcher to use both methods (Johnson & Onwuegbuzie, 2004). Finally, it is costly and takes a lot of time to use both methods (Johnson & Onwuegbuzie, 2004).

4.4 CHAPTER SUMMARY

This chapter demonstrated the use of mixed methods research in examining the board characteristics' impact on Tanzanian listed firms' financial performance. Firstly, the chapter discussed the philosophical assumptions that underpin the research paradigm. This chapter presented the concepts of post-positivism, constructivism, pragmatism and positivist and participatory paradigms. The researcher selected post-positivism as the most relevant paradigm to this study. He chose this paradigm because of the nature of this study's objectives and the research questions. Also, the chapter discussed other rationales for selecting the paradigm. Secondly, the chapter showed the appropriateness of the research design in providing answers to the research questions. The rationale for choosing mixed method research design was presented and included:

(i) Mixed methods enhances complementarity;
(ii) Mixed methods brought greater credibility to this study since they enhanced triangulation;
(iii) Triangulation enriched the validity of the study's findings;
(iv) Through semi-structured interviews, mixed methods can shed more light on the impact of board characteristics on the listed firm's financial performance; and
(v) The use of both qualitative and quantitative methods tended to cancel out the weaknesses of the individual methods.

Finally, this chapter underscored the drawbacks of using mixed methods research. These are as follows:

(i) It can be difficult and sometimes confusing to use mixed method research design;
(ii) There is no proper philosophical framework for its application;
(iii) It is costly and time consuming; and
(iv) It needs a lot of learning and understanding about its application.

The next chapter discusses the quantitative research design. This includes the empirical data, the sample selection and the method used to analyse the collected quantitative data.

5 CHAPTER FIVE: QUANTITATIVE RESEARCH DESIGN

5.1 INTRODUCTION

Bryman and Bell (2011, p. 26) define quantitative research as a research strategy that emphasises quantification in the collection and analysis of data (methodology). The methodology's procedures and techniques are highly structured and standardised (Saunders et al., 2012). This study adopts the deductive approach whereby, based on previous theories and literature (Saunders et al, 2012), the focus is on using financial data collected from Tanzanian firms to test the developed hypotheses. The study is explanatory in nature since it seeks to explain the causal relationship between board characteristics and the Tanzanian listed firms' financial performance. Saunders et al. (2012) defines explanatory research as a study that establishes the causal relationships between variables.

This chapter presents the quantitative methodology in order to investigate the board characteristics' impact on Tanzanian listed firms' financial performance. The research questions, discussed in Chapters One and Four, determine the selection of the collected data and analysis techniques (Bryman & Bell, 2015). This chapter has the following objectives. Firstly, it presents the data variables, the sources of empirical data and the quantitative research methodology. Secondly, it deliberates about the rationale of the chosen data and methodology. Thirdly, it highlights the study's data analysis. The remainder of the chapter is organised as follows. Section 5.2 demonstrates the detail of the quantitative data collection. Section 5.3 discusses the quantitative research methodology. Section 5.4 explains the model used to investigate the relationship between board characteristics and the Tanzanian listed firm's financial performance. Section 5.5 discusses the data analysis and Section 5.6 provides a summary of the chapter.

5.2 DATA COLLECTION

This section discusses population, data sources and the sample collected for the quantitative part of the current study. The section is divided into three subsections that include: subsection 5.2.1 describing the sample population and Tanzanian listed firms; subsection 5.2.2 detailing the data sources and subsection 5.2.3 discusses the study sample and selected data.

5.2.1 Sample Population and Tanzanian Listed Firms

The sample takes into account all Dar es Salaam Stock Exchange (DSE) listed companies between the 1st January 2006 and 31st December 2013. DSE is a slowly growing market with only 18 listed firms at the end of year 2013. Table 5.1 provides a summary of the DSE listed firms.

Table 5.1: Summary of the sample selections for a sample period of 2006-2013

Panel A: Industrial composition of firms listed with DSE as at 31st December, 2013		No. in each industry	Percentage of sample
Construction		2	11.1
Industrial/Consumer Products and Services		6	33.3
Finance		5	27.8
Mining		1	5.6
Air transport and Airport handling services		3	16.7
News Media		1	5.5
Total firms to be sampled		18	100
Less Financial services firms	5		
Firms listed recently (2011-2013)	3		
Data available.			
Total excluded firms		8	
Final sample		10	

Panel B: Industrial composition of firms listed with full data 2006-2013	No. in each industry	Percentage of sample	No. Firm-Year Observations
Construction	2	11.1	16
Industrial/Consumer Products and Services	6	33.3	48
Air transport and Airport cargo handling services	2	11.1	16
Final sample selected	10	55.5%	80

Source: Dar es Salaam Stock Exchange (DSE)

Panel A of Table 5.1 summarises the industrial composition of the DSE listed firms. The categories include construction industries, which represent 11.1% of the total listed firms. 33.3% of the total listed firms fall within the category of Industrial/consumer products and services. Finance represents 27.8% of the listed firms and the remaining 27.8% of the total listed firms is covered by air transport and cargo handling services, mining and news media industries. Panel B of Table 5.1 indicates the final selected sample of 10 listed companies (80 firm-year observations), which account for 55.5% of the total population.

5.2.2 Sources of Empirical data

Data collection in most of the developing countries can be laborious task due to the bureaucracy of organisations and peoples' inadequate understanding of the importance of research (Hasan et al., 2014). Evidence is collected from a primary source when the researcher contacts the originator of evidence directly while a secondary source is information that is published or available indirectly for public access i.e. published annual reports, share market prices, interest and exchange rates (Ramenyi et al., 1998). This study uses secondary data in the quantitative part and the information relating to board characteristics and the listed firms' performance are collected from the published annual reports of the selected companies.

Secondary data have the several benefits. Firstly, secondary sources can provide good quality data for the study and involve minimal resources (such as money and time) in collecting the data (Bryman & Bell, 2011; Saunders et al., 2012). Secondly, secondary data provide an opportunity for balanced panel data, triangulation and generalisation of findings in order to enhance the study's credibility (Saunders et al., 2012). Thirdly, the public, including the researcher, can have easy access to the sources of secondary data since most of them are freely available to the public (Saunders et al., 2012). Finally, it can be argued that the financial information, extracted from the annual reports, tends to be more reliable since such information is produced under the requirements of International Financial Reporting Standards (IFRSs) and audited before being published. Consequently, large numbers of corporate governance studies on the board-performance relationship have used secondary data from annual financial reports (For example, Bhagat & Black; 2002, Jackling & Johl, 2009; Ujunwa, 2012 and Bhagat & Bolton, 2013). However, the access to secondary data varies greatly from one developing or developed country to another and depending on the context, it may be difficult and expensive, unsuitable and not current for a specific study (Saunders et al., 2012).

The data for analysis came from two sources of secondary data, which were as follows. Firstly, this study used the OSIRIS financial database where most of the world listed firms' financial information can be obtained. Most of the financial information, including financial data and ratios, was drawn initially from this database. Secondly, the study used the annual reports of the listed firms published on the DSE website. This was done mainly to provide information regarding board characteristics such as number of board members, women and foreign director, outside or inside directors and skills of board members.

The researcher chose to start in 2006 because of the following reasons. Firstly, 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. Secondly, it is believed that in 2006 most of the Tanzanian listed firms had already implemented the IFRSs effectively after they were introduced officially to Tanzania in 2004. Hence, from 2006 onwards, the data are possibly compliant with the requirement of IFRSs. Finally, the effect of firms' strategic decisions can be consistently measured after several years (Erhardt et al., 2003) and, therefore, a period of eight years is likely to show the impact of the board's previous strategic decisions. 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.

5.2.3 Study Sample and Selected Data.

This study used the census approach and, thus, the initial sample consists of all 18 Tanzanian DSE listed firms as at the 31st December 2013. The selection of this study's final sample was based on the following two criteria. Firstly, the financial firms had to be excluded from the sample because financial regulation, inflicted on these firms, potentially rendered governance mechanisms less important (Jackling & Johl, 2009; Uadiale, 2010; Nuryanah & Islam, 2011). Hence, five firms, belonging to the financial services industry, were excluded from the population due to the special regulatory environment in which they operated (see Table 5.1). Secondly, Tanzanian listed firms' annual reports and other financial information had to be available for all eight years from 2006 to 2013 in order to meet the demands of balanced panel data analysis and in line with the previous corporate governance studies (such as Ntim et al., 2012; Albassam, 2014). The use of balanced panel data minimises the risk of endogeneity and multicollinearity (Bhagat & Black 2002; Zhang & Yang, 2011; Albassam, 2014). This is because of the instruments provided by panel data (Börsch-Supan & Köke, 2002, as cited in Reddy et al., 2011). Therefore, three other firms were excluded from the sample because they did not have complete records of all data needed to measure the study variables between 2006 and 2013 (see Table 5.1).

Consequently, the final sample consists of the remaining 10 Tanzanian DSE listed firms between 2006 and 2013, producing a total sample of 80 observations over the study period (see Table 5.1). Consequently, although the sample seems small, 80 observations for this study are valid for statistical analysis. Weekes-Marshall (2014) argues that, due to adverse economic conditions of some developing countries, such as small capital markets, the use of small samples is inevitable. Furthermore, this study's sample size is comparatively larger than some of the corporate governance studies in developing countries (i.e., Tsamenyi et al., 2007; Al-Nodel & Hussainey, 2010; Zhang & Yang, 2011; Coşkun & Sayilir, 2012; Hassan & Bello, 2013; Weekes-Marshall, 2014).

For example, Weekes-Marshall's (2014) investigation of corporate governance disclosure practices in Barbados used 43 observations (22 listed firms for 2009 and 21 firms for 2011). Tsamenyi et al. (2007) used, also, a sample of 22 observations that represented 97.54% of firms listed with the Ghanaian Stock Exchange. Similarly, Zhang and Yang (2011) used 41 bank-year observations to investigate corporate governance's impact on the Chinese listed commercial banks' performance during the financial crisis. Likewise, Coşkun and Sayilir (2012) used 75 observations to examine the relationship between corporate governance and Turkish companies' financial performance. Also, Al-Nodel and Hussainey (2010) used 37 observations to examine the effect of corporate governance mechanisms on Saudi listed companies' financing decisions.

5.3 THE QUANTITATIVE RESEARCH METHODOLOGY

This section debates the quantitative research methodology, which provided solutions to the following research questions:

(i) What impacts do outside directors have on Tanzanian listed firms' financial performance?

(ii) What is the relationship between board size and the Tanzanian listed firms' financial performance?

(iii) How does the duality of the Chairperson of the Board and Chief Executive Officer (CEO) roles affect the Tanzanian listed firms' financial performance of firms?

(iv) How do board diversity aspects of gender, presence of foreign directors and board skill influence the Tanzanian listed firms' financial performance in Tanzania?

This section discusses in particular the model used to examine the board characteristics' impact on the Tanzanian listed firms' financial performance. Next, Section 5.3.1 discusses the board characteristics and firm financial performance model, including a discussion on the control variables and the dependent variables. The Section, also, highlights endogeneity and causality issues.

5.3.1 BOARD CHARACTERISTICS AND FIRM FINANCIAL PERFORMANCE MODEL

This model seeks to examine the board characteristics' impact on a Tanzanian listed firm's financial performance. This section is organised into three sub-sections discussing the regression model. Sub-section 5.3.1.1 discusses the independent variables used in the model. Sub-section 5.3.1.2 debates the dependent variables and Sub-section 5.3.1.3 presents the control variables. Sub-section 5.3.1.4 presents Regression Ordinary Least Square (OLS) Model and Sub-section 5.3.1.5 presents the Two Stages Least Square (2SLS) Regression model. Table 5.2 summarises the regression model variables used in this study.

Table 5.2: Data Variables

Variable	Acronym	Description
Independent Variables:		
Outside directors	BOUTSIDE	The number of outside non-executive directors as a percentage or proportion of total number of directors in 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 a chair and 0 if CEO is also a chair
Gender diversity	FEMDIR	The numbers of female directors as a percentage of total number of directors in 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	FMAGE	Natural logarithm of the total number of years which the firm has been listed on Dar es Salaam Stock Exchange (DSE)

Source: Compiled by researcher

5.3.1.1 Independent Variables

The previous studies on corporate governance, discussed in the literature review (Chapter Three) suggest that board characteristics can have an impact on a firm's financial performance (e.g., Zahra & Pearce, 1989 Kiel & Nicholson, 2003; Jackling & Johl, 2009; Shukeri et al., 2012; Vintilă & Gherghina, 2012). Consequently, the independent variables consist of six corporate governance aspects, namely, board size (BSIZE), outside directors (BOUTSIDE), CEO duality (CEOD), gender diversity (FEMDIR), board skill (BSKILL) and foreign directors (FODIR). Table 5.2 provides operationalisation of the independent variables.

5.3.1.2 Dependent Variables

Since there is no standard measure for a firm's performance, different scholars used different measures of performance (Healey, 1985 as cited in Garg, 2007; Bhagat & Black, 2002). Although the researchers applied a similar theoretical framework (Lawal, 2012), this may be one of the causes of the contradictions in corporate governance research findings. Cochran and Wood (1984 as cited in Haniffa & Hudaib, 2006) asserted that there was no agreement on which measure of firm performance ought to be applied and each measure of performance had particular strengths and weaknesses. However, in the corporate governance literature, there are three main measures of performance are accounting based, market based and total factor profitability measure (Vintilă & Gherghina, 2012).

Some studies supported accounting measures to measure firms' financial performance. Such measures included: ROA (Ujunwa, 2012; Van-Ness et al., 2010); ROE (Shukeri et al., 2012; Schwartz-Ziv, 2013); and ROCE (Uadiale, 2010). Accounting measures are convenient for decision-making in their calculation, interpretation and evaluation (Peterson & Peterson, 1996). Dalton et al. (1998) argued that, with regard to the CEO's impact on the firm's financial performance, accounting measures of performance provided a more accurate measure than market based measures. Likewise, Ujunwa (2012) contended that, by using the ROA ratio, the owners could measure directly the ROA entrusted to the managers.

Nevertheless, accounting measures do have certain limitations including the use of historical information. This makes it difficult to predict a firm's future performance and uncertainties (Dalton et al., 1998). Furthermore, they take no account of controllable and uncontrollable factors (Peterson & Peterson, 1996). Accounting based measures are more likely to be influenced by user bias and are not easily compatible with conglomerate firms. Therefore, it is difficult to use them to measure the risks to stockholders' investments (Dalton et al., 1998).

Other studies supported market-based indicators. Dalton et al. (1998) argued that market based measures were compatible with conglomerate firms and could measure investment risks more easily. Garg (2007) argued that Tobin's Q was an explicit measure of the firm's performance; this might be used to measure what future investment prospects were worth and the value of intangible assets such as goodwill (Peterson & Peterson, 1996). Kiel and Nicholson (2003) pointed out that stock market measurements of financial performance, such as Tobin's Q, might be more significant than historical, account-based measurements of performance (like ROA) in determining the link between board characteristics and the firm's financial performance. This is because, although there are still affected by external factors, they are more impartial than accounting indicators (Gani & Jermias, 2006 as cited in Mashayekhi & Bazaz, 2008).

Table 5.3: Previous Studies and Financial Performance Measures

Name of Author (s)	Performance Measure (s)
Abdullah et al. (2016)	Return On Assets (ROA) and Tobin's Q
Tarak and Apu (2013)	Net Sales, Net Profit, Return on Capital Employed, Earning per Share, Tobin's Q, Economic Value Added and Market Value Added
Bhagat and Bolton (2013)	Return On Assets (ROA) and Tobin's Q
Fauzi and Locke (2012)	Return On Assets (ROA) and Tobin's Q
Ferrer and Banderlipe, (2012)	Share Price (SHP) and Return On Equity (ROE)
Vintilă and Gherghina, (2012)	Tobin's Q, Return On Assets (ROA), Return On Equity (ROE), Price Book Value (PBV) and Price Earnings Ratio (PER)
Coşkun and Sayilir (2012)	Tobin's Q, Return On Assets (ROA), Return On Equity (ROE)
Khan and Awan (2012).	Tobin's Q, Return On Assets (ROA), Return On Equity (ROE)

Chang-Jui (2011)	Tobin's Q, Return On Assets (ROA), Return On Equity (ROE)
Elsayed (2011)	Return On Equity (ROE), Return On Assets (ROA), Tobin's Q
Bozcuk (2011)	Industry Adjusted Return On Equity (IAROE) and Industry Adjusted Price Performance (IAPP)
Chugh et al. (2011)	Return On Assets (ROA) and Return On Equity (ROE)
Marimuthu and Kolandaisamy (2009)	Return On Equity (ROE) and Return On Assets (ROA)
Francoeur et al. (2008)	Firm's beta, market to book ratio and the analyst's forecast standard deviation
Garg (2007)	Tobin's Q, ROA and ratio of sales to assets and Market-Adjusted Stock Price Returns (MASR)
Haniffa and Hudaib (2006)	Tobin's Q and Return On Assets (ROA)
Santiago-Castro and Baek (2003)	Return On Equity (ROE) and Return On Assets (ROA)
Kiel and Nicholson (2003)	Tobin's Q and Return On Assets (ROA)
Bhagat and Black (2002)	Tobin's Q and Return On Assets (ROA)

Source: Compiled by the researcher

Tobin's Q is arguably the most used market based measure and was used in several studies such as Nuryanah and Islam (2011), Yermack (1996), Rashid et al. (2010), Kumar and Singh (2012), Agrawal and Knoeber (1996), Carter et al. (2003). However, Tobin's Q has a tendency to value the firm on a market basis and ignores the firm's performance in terms of its assets valuations, previous and current operations (Kiel & Nicholson, 2003). As indicated in Table 5.3 above, some previous corporate governance studies used both accounting indicators and market indicators or both accounting measures to measure a firm's financial performance.

It is arguably good practice to use both measures of market and accounting since these cancel out the weaknesses of the individual measures. Table 5.3 supports this argument since it seems that most of the corporate governance studies used both marketing and accounting measures. Moreover, their use of two or more measures of performance could enhance a study's validity, robustness and credibility (Guerra et al., 2009 as cited in Lawal, 2012). Munisi and Randøy (2013) pointed out the difficulty of obtaining adequate market information from African stock exchanges. Consequently, because of the inadequacy of required market information from the DSE market, this study uses both accounting measures of ROE and ROA to measure a firm's financial performance. This is in line with the findings of Santiago-Castro and Baek (2003), Marimuthu and Kolandaisamy (2009) and Chugh et al. (2011).

This study applies the accounting based measure of performance for the following reasons. Firstly, the accounting based measures are convenient in their applications (Dalton et al., 1998). Secondly, the researcher resorted to accounts measures of performance due to the insufficiency of DSE market information in the early years of the study. Finally, these ratios reflect the characteristics of stakeholders and have been used regularly by corporate governance researchers (Reddy et al., 2011). However, the measures rely on historical information and, consequently, it is difficult to predict future financial performance and uncertainties (Dalton et al., 1998). Similar to previous corporate governance studies (e.g., Santiago-Castro & Baek, 2003; Chugh et al., 2011; Chang-Jui, 2011), the board characteristics' effects on a firm's performance were examined using both ROA and ROE. The calculations of ROA and ROE are consistent with Reddy et al.'s (2011) study on corporate governance and are presented as follows:

1. ROA is calculated by dividing Net Income by book value of total assets

(ROA=Net Income/Total Assets).

2. ROA is calculated by dividing Net Income by total shareholders' equity

(ROE= Net Income/Shareholders' Equity).

Table 5.2 summarises the operationalisation of the dependent variables.

5.3.1.3 Control Variables

Payne, Benson and Finegold (2009) argue that, in order to control the influence of other variables (control variables) on independent and dependant variables, control variables should be included in the regression model. Consistent with Vintilă & Gherghina (2012), this study's model includes the following variables that may influence financial performance. These are, namely: firm size; firm debt; and firm age. Table 5.2 shows the operationalisation of these control variables.

Firm Size

Firm size has been applied consistently as a control variable in most of the corporate governance and firm performance research (Mashayekhi & Bazaz, 2008). Firm size may have an influence on a firm's financial performance (Fama & French, 1995 as cited in Mashayekhi & Bazaz, 2008) due to its economies of scale and ability to influence market price (Van-Ness et al., 2010). Corporate governance studies have failed to agree on the appropriate measure of firm size. The corporate governance studies' common measures of firm size are the logarithm of total assets, logarithm of sales and the logarithm of total number of employees. For example, Vintilă and Gherghina (2012) measured firm size by the logarithm of total assets, while Payne et al., (2009) and Rashid et al., (2010) used the logarithm of total sales and Van-Ness et al. (2010) used the logarithm of total number of number of employee to measure firm size. In line with Vintilă and Gherghina (2012), this study uses the logarithm of total assets to measure firm size.

Firm debt (leverage)

Firm debt can affect firm performance through external controls of the firm's debtors as a mechanism to minimise agency costs (Jensen & Meckling, 1976; Mashayekhi & Bazaz, 2008; Rashid et al., 2010). In line with the previous corporate governance studies (e.g., Mashayekhi & Bazaz, 2008; Rashid et al., 2010), this study measures the firm's total liabilities by dividing them by the firm's total assets.

Firm age

Rashid et al., 2010 point out that firm age may impact on a firm's financial performance. Arguably, the efficiency of a firm's operations tends to increase as the experience in performing those operations increase. In line with Rashid et al. (2010), this study uses the natural logarithm of number of years since the firm was listed on the DSE.

5.3.1.4 The Regression Models

This study uses Panel data for the years from 2006 to 2013. Consequently, the Ordinary Least Square (OLS) model and Two-Stage Least Square regression (2SLS) model are designed to examine the board characteristics' (i.e. outside directors, board size, CEO duality, gender diversity, board skills, foreign directors) impact on the Tanzanian listed firms' financial performance for the eight years between 2006 and 2013. The potential endogeneity problem on the relationship between board characteristics and the firm's financial performance is addressed using 2SLS and the results are compared to OLS model findings. This is similar to previous corporate governance studies (e.g., Bhagat & Black, 2002; Zhang & Yang, 2011).

Ordinary least square (OLS) model

To a large extent, previous corporate governance studies used the OLS regression model to fit quantitative data into the model in order to investigate the link between board characteristics-financial performance (Bhagat & Black, 2002, Mashayekhi & Bazaz, 2008; Vintilă & Gherghina, 2012). The model is presented as follows:

$$Y_{it} = \alpha + \beta_1 BSIZE_{it} + \beta_2 OUTSIDEit + \beta_3 CEOD_{it} + B_4 FODIR_{it} + \beta_5 BSKILL_{it} + \beta_6 FEMDIR_{it} + B_7 FDEBT_{it} + \beta_8 FMSIZE_{it} + \beta_9 FMAGE_{it} + \varepsilon_{it} \quad (1)$$

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 terms. Table 5.2 defines all variables.

5.3.1.5 2SLS model

Empirical corporate governance researches on the relationship between two or more variables can face the serious problem of endogeneity; this can make the Ordinary Least Square (OLS) findings biased and inconsistent (Bound, Jaeger & Baker, 1995; Bhagat & Black, 2002; Wintoki, Linck & Netter, 2012; Abdallah, Goergen & O'Sullivan, 2015). Endogeneity often occurs in accounting and finance studies which use regression as an analysis method (Larcker & Rusticus, 2010; Abdallah et al., 2015). It is likely to be a challenge in corporate governance studies since "it is generally difficult to find exogenous factors or natural experiments with which to identify the relation being examined" (Wintoki et al., 2012, p.55). It is widely known that exogenous variables are not influenced by the changes to the model but by other factors outside the model while the endogenous variables are influenced by the changes to the model. Generally, the variables can be endogenous if they correlate with the error term (Larcker & Rusticus, 2010; Ntim et al, 2012).

Simultaneity and omitted variables are among the common causes of endogeneity in corporate governance research (Ntim et al., 2012; Abdallah et al., 2015). Simultaneous endogeneity happens when a dependent variable impacts on an explanatory variable and explanatory variables impact simultaneously on the dependent variable (Abdallah et al., 2015). For example, the board structure and firm financial performance can be determined simultaneously. Namely, the board structure can influence firm performance and firm performance can influence the board structure (Bhagat & Black, 2002; Larcker & Rusticus, 2010; Wintoki et al., 2012; Abdallah et al., 2015). The firm's past performance can have an impact or be correlated with board characteristics variables (Ashbaugh-Skaife, Collins & LaFond, 2006). Additionally, board structure is affected by past decisions and other unknown factors that are not closely related to board characteristics (Bhagat & Black, 2002). An unobservable factor or omitted variable may influence both dependent and independent variables and may not be included in the regression model. This can make an error term correlate with independent variables (Ashbaugh-Skaife et al., 2006; Larcker & Rusticus, 2010; Ntim et al., 2012; Abdallah et al., 2015).

There are a number of approaches that can be used to address the problem of endogeneity. These include the use of lagged structures for endogeneity caused by simultaneity, and Two Stages Least Squares regression (2SLS) for both endogeneity caused by simultaneity and omitted variables (Larcker & Rusticus, 2010; Ntim et al., 2012). 2SLS is applied using the instrument variables (IV). The IV estimation approach can solve both problems of simultaneity by using multiple equation models and omitted variables using single equation models (Bhagat & Black, 2002; Ashbaugh-Skaife et al., 2006; Larcker & Rusticus, 2010). Moreover, IV estimation is the approach commonly to address the endogeneity problem (Bound et al., 1995).

Larcker and Rusticus (2010) suggested that a research study had to use the instrumental variables (IV) that were not determined by the regression model (exogenous variables). Namely, the IV can be used effectively by 2SLS if they are not correlated with the residuals in the equation and are correlated, also, with the endogenous variables in the regression model. However, some of the previous corporate governance studies found difficulties in identifying the appropriate IV variables. Consequently, it is argued that it is very difficult to pinpoint the IV variables in accounting studies including corporate governance studies (Bhagat &

Black, 2002; Ashbaugh-Skaife et al., 2006; Larcker & Rusticus, 2010; Wintoki et al., 2012). This is because there is no sophisticated model or theory about the economic influences on corporate governance structures (Hermalin & Weisbach, 2003 as cited in Ashbaugh-Skaife et al., 2006). Moreover, the IV variables, which do not correctly meet the aforementioned assumptions, can have a more serious impact than the OLS findings on the study (Larcker & Rusticus, 2010).

There is a suggestion that the choice of IV should be based on the previous corporate governance literature (Ashbaugh-Skaife et al., 2006; Baghat & Bolton, 2008; Jackling & Johl, 2009). However, the simultaneous equations method is more prone to model misspecifications than OLS (Bhagat & Black, 2002). Table 5.4 summarises the empirical studies which considered endogeneity and causality issues.

Table 5.4: Empirical Studies Considering Endogeneity and Causality

Author (s)	Country	Method for testing endogeneity and causality	Instruments test	Explanatory Variables
Ntim (2015)	South Africa	Fixed effects and 2SLS	Hausman test	Board diversity (gender, gender non-whites, ethnicity & gender and ethnicity)
Ntim et al. (2012)	South Africa	Lagging structures and 2SLS	Hausman test	New shareholders and stakeholders rules and relative value relevance of disclosing good corporate governance practices on shareholders vs stakeholders
Jackling and Johl (2009)	India	3SLS	None	Several internal governance structures
Baghat and Bolton (2008)	US	3SLS	Hausman test	Corporate governance, Corporate performance, corporate capital structure and corporate ownership structure
Ashbaugh-Skaife et al. (2006)	US	Two stages procedures	Ward alpha[2]	Several corporate governance variables
Baghat and Black (2002)	US	3SLS	None	Board Independence

Himmelberg et al. (1999)	US	2SLS and Fixed Effects	None	Ownership structure
Agrawal and Knoeber (1996)	US	2SLS	Relationship among governance variables	Board size and Outside directors variables

Source: Compiled by the researcher

Therefore, similar to the studies of Agrawal and Knoeber (1996) and Ntim et al. (2012) and Ntim (2015), this study addresses the endogeneity problems by using 2SLS in panel data and by using the following 2SLS model:

$$\beta_2 OUTSIDEit = \alpha + \beta_1 Y_{it} + \beta_2 BSIZE_{it} + \beta_3 CEOD_{it} + B_4 FODIR_{it} + \beta_5 BSKILL_{it} + \beta_6 FEMDIR_{it} + B_7 FDEBTit + \beta_8 FMSIZE_{it} + \beta_9 FMAGE_{it} + \varepsilon_{it} \quad (1)$$

$$Y_{it} = \alpha + \beta_1 BSIZE_{it} + \beta_2 OUTSIDEit + \beta_3 CEOD_{it} + B_4 FODIR_{it} + \beta_5 BSKILL_{it} + \beta_6 FEMDIR_{it} + B_7 FDEBT_{it} + \beta_8 FMSIZE_{it} + \beta_9 FMAGE_{it} + \varepsilon_{it} \quad (2)$$

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 terms. Table 5.2 defines all variables.

5.4 DATA ANALYSIS

For the purpose of the study's empirical analysis, this study used the descriptive statistics, Pearson's correlation and linear multiple regression as underlying statistical tests. These tests have been applied frequently in corporate governance studies (e.g., Haniffa & Hudaib, 2006; Zubaidah et al., 2009; Vintilă & Gherghina, 2012).

For the following reasons, this study used SPSS, version 22 to process the collected quantitative data. Firstly, the software is familiar, convenient and easy to understand. Secondly, it is the most commonly used software used to analyse quantitative data and is accessed conveniently at the University. Finally, it is probably the most commonly used software in corporate governance and other business studies. This section is organised into two sub-sections. Sub-section 5.4.1 discusses the suitability of regression and Sub-section 5.4.2 presents analytical procedures and robustness of the OLS findings.

5.4.1 Appropriate of Regression

Most corporate governance studies use regression analysis and, especially, the OLS method (Singh, 2007). OLS is used in many corporate governance studies (e.g., Bhagat & Black, 2002, Mashayekhi & Bazaz, 2008; Vintilă & Gherghina, 2012), as a common approach of regression analysis that it can be applied conveniently through the statistical software (Farhat, 2014). Thus, this study uses OLS method in the analysis of quantitative data.

The OLS multiple regression model, should meet its assumptions to ensure that the findings are valid and reliable (Field, 2014). The key assumptions include normality, homoscedasticity/homogeneity, independent residuals/errors and multicollinearity (see Table 5.5). Following Field's (2014) suggestions, this study carries out different tests to find out whether the assumptions are met.

Table 5.5: The assumptions of the OLS model

The problem	Condition	Detecting test
Normality	Residuals in the multiple regression model, should be normally distributed	Histograms and normal probability plots of standardised residuals
Linearity	The dependent variables and independent variables in the model should be linear related	Plot of standardised residuals against standardised predicted values
Homoscedasticity/ homogeneity of variance	The variances of the distributions should be equal	Plot of standardised residuals against standardised predicted values or Levene's test or variance ratio
Independence errors/residuals	The residuals in any two cases should be independent	Durbin-Watson test
Multicollinearity	Independent variable should not be strongly related	Variances inflation factor (VIF)

Source**:** Field (2014, p.305-312).

Regarding outliers, the researcher uses Tukey's rule, prescribed by Carling (2000), to detect extreme values and these values are winsorised to the value of the highest values not considered to be outliers for the purposes of improving data quality (Field, 2014). More details of regression appropriateness are discussed in the quantitative empirical analysis and findings (Chapter Seven).

5.4.2 Analytical Procedures and Robustness Tests

The examination of the board characteristics' impact on Tanzanian listed firms' financial performance was done by using 80 observations of firms' balanced panel data for the period from 2006 to 2013. The study uses OLS as regression analytical methods. The OLS findings may be biased and inconsistent due to endogeneity and causality; these can exist between the model's variables (Reeb et al. 2012). In order to check the robustness of the findings, this study uses variances inflation factor (VIF) and bootstrap method (Field, 2014). This is similar to Reddy et al. (2011). They argue that these methods can check multicollinearity among the explanatory variables and the spurious effect on the OLS findings. The endogeneity problem in quantitative research can be addressed by instrument variables if properly selected (Larcker & Rusticus, 2010) and lagging structure (Ntim et al., 2012). Hence, this study applied 2SLS, instrument variables and lagging structure to deal with endogeneity challenge. The issue of analytical procedures is discussed further in the quantitative empirical analysis and findings (Chapter Seven).

5.5 CHAPTER SUMMARY

This chapter presented in detail the methodology of quantitative data in order to answer the four research questions. In particular, it attempted to tackle four main issues. Firstly, it presented the data, variables, source of empirical data and quantitative research design. This included a brief explanation of independent variables, dependent variables and control variables. The corporate governance and financial information were extracted mainly from the Tanzanian listed firms' annual reports obtained from OSIRIS database and DSE website. Complete data were collected from 10 of the 18 Tanzanian firms listed on the DSE as of 31st December 2013. The final sample of data covered eight years from 2006 to 2013.

Secondly, this chapter deliberated on the rationale of using the quantitative methods. It discussed the rationale behind quantitative data and selected sample, chosen data and methodology. Thirdly, the chapter underlined this study's data analysis. Specifically, it shed light on different tests to check on the appropriateness of the regression model. In addition, it highlighted analytical procedure using OLS and 2SLS methods were highlighted. The next chapter discusses the qualitative research design. Specifically, it presents a framework of the design, semi-structured interviews and data collection and analysis.

6 CHAPTER SIX: QUALITATIVE RESEARCH DESIGN

6.1 INTRODUCTION

This study applies a mixed-method approach to investigate the board characteristics' impact on the Tanzanian listed firms' financial performance. This study uses qualitative findings to complement the quantitative findings. Chapter five discussed the quantitative research design used to investigate the board characteristics' impact on the Tanzanian listed firms' financial performance. Firstly, this chapter describes a theoretical framework of qualitative research. Secondly, it discusses the semi-structured interviews and collection of data used to investigate the board characteristics' on the Tanzanian listed firms' financial performance and, thirdly, it explains the analysis of the semi-structured interviews. The remainder of the chapter is organised as follows: Section 6.2 describes the theoretical framework of qualitative research. Section 6.3 discusses the qualitative design and the collected from the semi-structured interviews. Section 6.4 explains the semi-structured interview process and Section 6.5 summarises the chapter.

6.2 THEORETICAL FRAMEWORK OF QUALITATIVE RESEARCH

The objective of qualitative research in corporate governance is to construct rich knowledge about the subject under study from knowledgeable and skilled people or organisations (Malsch & Salterio, 2015). In this study, the researcher interviewed Tanzania's key corporate governance stakeholders in Tanzania were interviewed in order to provide rich information on the board characteristics' impact on the listed firms' financial performance. This section is organised as follows: sub-section 6.2.1 presents an overview of the qualitative research; sub-section 6.2.2 deals with the reliability and validity of qualitative research; and sub-section 6.3.2, presents the interviews.

6.2.1 Overview of Qualitative Research

Strauss and Corbin (1998, p. 11) define qualitative research as "to research about persons' lives, lived experiences, behaviours, emotions and feelings as well as about organization functioning, social movements, cultural phenomena, and interactions between nations". Qualitative research has the following several features. Firstly, it is premised on words rather than numbers and aims to develop theories (inductive view) (Bryman, 2016). Secondly, it is based on the analysis of interpretation of people's perceptions about the subject under investigation (interpretivism) (Bryman & Bell, 2015). Thirdly, the knowledge is constructed through interaction between the researcher and the research interviewees (subjectivism) (Bryman, 2016). Qualitative research aims to explore phenomena in a social world by seeking an understanding from people who are knowledgeable and experienced in that phenomenon (Willig, 2008, Yin, 2011). Thus, this study uses qualitative research to understand from key stakeholders, who have rich experience and knowledge about corporate governance issues, the board characteristics' impact on the Tanzanian listed firms' financial performance.

There are many approaches to qualitative data analysis since it is not standardised. However, a quality of qualitative data analysis is influenced, to a large extent, by combinations of many factors including approaches used for data collection and analysis (Bryman & Bell, 2015). Furthermore, qualitative research design is worthwhile if a researcher uses the appropriate methods for data collection and analysis in order to ensure the validity and reliability of the findings (Willig, 2008). Bryman (2016) argues that the validity and reliability criteria can be used to measure the quality of the research. However, the qualitative researchers have not been able to agree on the relevant criteria for reliability and validity in evaluating the quality of a qualitative research study (Anfara, Brown & Mangione, 2002; Bryman, 2016). However, the validity and reliability of a qualitative research study depends on the researcher's efforts and abilities and improves, also, the quality of the research (Kimberlin & Winterstein, 2008). Consequently, as discussed in the following sub-sections, this study adopts some measures to improve the quality of the study.

6.2.2 Reliability and Validity in Qualitative Research

A quality research study is the one in which a researcher can show the reader that measures are taken to ensure methods are reliable and the findings are valid (Bryman, 2016).

6.2.2.1 Reliability

The findings are reliable when different researchers collect similar data, using the same methods of collecting and analysing data and obtain similar findings (Willig, 2008). The reliability of qualitative research can be either external reliability or internal reliability. External reliability is the extent to which the similar findings can be reproduced, while internal reliability relates to the consistency of applications of research methods (Bryman, 2016). However, it is understood that it is very difficult to meet external reliability in qualitative research due to the absence of standardised procedures as found in quantitative research (Bryman, 2016).

In order to improve the reliability of data and findings, a researcher should collect quality data (Saunders et al., 2012; Bryman & Bell, 2015). Similar to Bailey and Peck (2013) and Albassam (2014) this study follows two criteria for enhancing the reliability of the collected data in order to improve the reliability of the findings. These criteria are: i) the researcher targets key corporate governance stakeholders who have extensive knowledge about board issues and who are willing to share their rich knowledge and experience in answering the research questions ii) the study's participants have been selected from the listed firms and other corporate governance stakeholders.

In line with Albassam (2014) and Bryman (2016), the researcher took the following measures in order to enrich the reliability of the interviews. Firstly, the researcher developed a straightforward interview guide (see Table 6.3) based on the research questions, in order to enable quick and appropriate responses and understanding from the interviewees and, also, to facilitate accuracy in the coding and analysis of data. Secondly, the researcher recorded most of the interviews and the transcriptions of them are based exactly on what the interviewees said (verbatim). However, the concept of reliability is less emphasised in qualitative research due to disagreements among researchers on the degree of reliability because qualitative research aims to explore a phenomenon in detail in order obtain rich information (Willig, 2008).

6.2.2.2 Validity

A valid study is “the one that has properly collected and interpreted its data, so that the conclusions accurately reflect the situation that was studied” (Yin, 2011, p. 78). The concept of validity in qualitative research has two major categories; these are internal validity; and external validity. Internal validity can be defined as the similarities between the developed theories and the participants’ perceptions while the external validity involve the generalisation of the research findings (Bryman & Bell, 2015). However, due to the nature of qualitative research (such as unstandardised procedures and non-representative sample) it is extremely difficult to generalise the qualitative findings (Bryman, 2016). Yin (2011) asserts that a researcher has to take appropriate measures and make sound decisions during selection of participants and conduct interview in order to improve the validity of the study. To improve the validity of the interviews in this study the following measures were taken. Firstly, the researcher reviewed and refined the interview questions several times (Saunders et al., 2012). Secondly, the researcher’s first supervisor reviewed the questions and provided her feedback; the researcher took account of this feedback (Saunders et al., 2012).

Table 6.1: Guba and Lincolin criteria for assessing qualitative research

Quantitative Term	Qualitative Term	Strategies
Internal Validity • The extent to which the findings are determinable by explanatory variables and not some extraneous variables	Credibility • Find out that if the research findings ere trusted from the participants point of view	• Prolonged engagement in field • Use of peer debriefing • Triangulations • Member checks • Time sampling
External Validity • The degree to which the research findings can be generalised	Transferability • The extent which the research findings can be transferred or generalised to other context	• Provide thick descriptions • Purposive sampling
Reliability • The degree to which the research outcome can be replicated or repeated and get similar result	Dependability • Consistency in the process of enquiry during the research period	• Create an audit trail • Code-recode strategy • Triangulation • Peer examination
Objectivity	Confirmability • The extent to which others could confirm the research outcome	• Triangulation • Practice reflexivity

Source: Anfara et al. (2002, p. 8)

Thirdly, the researcher conducted two pilot interviews, firstly, with an experienced board member and associate Professor in Economics from a reputable Tanzanian University and, secondly, with an experienced board member and a senior manager at DSE Tanzania. Their feedback helped the researcher to improve the quality of the interviews (Yin, 2011). The validity of the mixed methods research study can be improved, also, by using techniques such as triangulation (Johnson et al., 2007, Molina-Azorin & Cameron, 2010). By merging and substantiating the results from using different methods to investigate the same subject, triangulation is a very important approach in improving the validity of the study (Yin, 2011; Creswell & Plano Clark, 2011). Table 6.1 shows how triangulation can be used as a strategy to enhance a study's validity and reliability. Triangulation can improve both the validity and reliability of the research and, hence, can enhance the accuracy of the findings (Easterby-Smith, Thorpe, & Jackson, 2012). However, Yin (2011) contends that recording of the interviews minimises the need for triangulation. Hence, this study's use of both quantitative and qualitative methods of research is likely to increase the validity of the findings.

There is no specific measurement of reliability and validity in qualitative research; these are determined, to a large extent, by the quality of the interview process, transcription of the interviews and analysis of the interviews (Saunders et al., 2012; Albassam, 2014). Nevertheless, most qualitative researchers agree that the alternative measures, proposed by Guba and Lincolin (1994), may be more relevant in determining the quality of qualitative research and are within the philosophical framework of the qualitative research (Bryman & Bell, 2015; Bryman, 2016). These alternatives measures include the dependability, transferability, confirmability and credibility (see Table 6.1). The reliability and validity of the interview data are discussed further in Sections 6.3 and 6.4.

6.2.3 Interviews

Interview is a method of data collection whereby valuable information is collected from knowledgeable and skilled participants in order to determine their perceptions about the matter under investigation (Easterby-Smith et al., 2012). The interview process involves communication between an interviewer and interviewee. There are three major types of interview: these are structured; unstructured; and semi-structured (Bryman, 2016). A structured interview involves the use of standardised closed questions and recording of answers in order to maintain the consistency of the study (Bryman & Bell, 2015). Unstructured interview is a method where the researcher uses an informal research guide during the interview process and where the research questions seem to vary (Bryman & Bell, 2015). Semi-structured or qualitative comprises an interview schedule that contains general open questions to be asked in an unstandardised format (Bryman & Bell, 2015).

This study uses semi-structured interview to collect rich information from board members, regulators and directors' trainers, on whether or not board characteristics have an impact on the Tanzanian listed firm's financial performance. This is similar to the previous studies of Haniffa and Hudaib (2007), Bailey and Peck (2013) and Albassam (2014). The rationale of using the semi-structured interview approach is as follows. Firstly, compared to other interview methods, this method is probably more flexible, less complex and compatible with other methods of data analysis (Willig, 2008; Bryman & Bell, 2015). Secondly, semi-structured interviews enable a unique social relationship between the interviewer and the interviewee that allows unstandardised back and forth interactions between them (Yin, 2011; Bryman & Bell, 2015). Thirdly, it enables the interviewees to provide rich knowledge about the research questions (Anfara et al., 2002; Bryman & Bell, 2015). In line with Albassam (2014) and Bryman (2016), the interview process involves the following three main phases: i) designing the interview guide; ii) conducting interviews; and iii) analysing the interviews. The process is discussed in the following subsections.

6.3 SEMI-STRUCTURED INTERVIEWS AND DATA COLLECTION

This section describes the whole process before and during the interview. Sub-section 6.3.1 explains the selection of the interviewees. Sub-section 6.3.2 presents the design of the interview guide. Sub-section 6.3.3 discusses the relationship between the research questions and the interview questions. Sub-section 6.3.4, discusses the process and reflections on the semi-structured interviews. Sub-section 6.3.5 presents the ethical considerations.

6.3.1 Selection of the interviewees

The researcher targeted board members of the Tanzanian listed companies and other key stakeholders as this study's participants due to their rich knowledge and experience in corporate governance and in order to enhance their effective and efficient participation in the interviews (Haniffa & Hudaib, 2007; Bailey & Peck, 2013; Albassam, 2014; Bryman & Bell, 2015). Moreover, directors are part and parcel of the board that is probably the most important corporate governance mechanism (Jackling & Johl, 2009; Nuryanah and Islam, 2011). In line with the studies of Albassam (2014) and Haniffa & Hudaib (2007), the researcher selected other key stakeholders who were employed as officers by DSE, IODT and CMSA in Tanzania.

The selection of participants was based on judgmental (purposive) sampling (Haniffa & Hudaib, 2007; Bryman & Bell, 2015) and Snowball sampling (Albassam, 2014; Bryman & Bell, 2015) in order to maximise the number of participants. Judgmental sampling was used initially as a sampling technique since it improved the quality of the data by selecting purposively the knowledgeable and skilled participants (Haniffa & Hudaib, 2007; Bryman, 2016). Snowball sampling was used, also, since the initially selected participants connected the researcher to other relevant potential participants (Bryman & Bell, 2015). Moreover, a snowball approach works better in a place where, like Tanzania, there is a small pool of corporate governance stakeholders and experts. This is because it is easier to identify other competent colleagues in the field (Malsch & Salterio, 2015). In this regard, the interviewer asked the interviewees to suggest others potential interviewees who were able to provide insights to the board characteristics' impact on the listed firms' financial performance.

Table 6.2: Overview of the Semi-Structured Interviewed Participants

SN	Accr.	Position of the Participants	Category
1	B1	Board of director	Listed firm
2	B2	Board of director	Listed firm
3	B3	Board of director	Listed firm
4	B4	Board of director	Listed firm
5	B5	Board of director	Listed firm
6	B6	Board of director	Listed firm
7	B7	Board of director	Listed firm
8	B8	Board of director	Listed firm
9	B9	Board of director	Listed firm
10	R1	DSE Representative	DSE
11	R2	CMSA Representative	CMSA
12	R3	IODT Representative	IODT

Source: Developed by the researcher

In order to improve the study's number of respondents and credibility and, in line with Albassam (2014), the researcher communicated with targeted members to check their availability, through physical contact or email, and provided the interview questions and a consent form. This described: i) the purpose of the research; ii) information about the researcher's identity; iii) the respondent's rights; and iv) the researcher's assurances on the confidentiality of the respondent's identity. The targeted number of participants was 25 but, as shown in Table 6.2, the researcher managed to interview 12 participants. This was a smaller number than was expected. This supports Hasan et al. (2014) claim that the access to potential participants and their willingness to attend interviews is a problem in most developing countries. However, the previous studies of Marshall et al. (2013), Malsch and Salterio (2015) and Dhir (2015) argue that the richness of the participants' insights is more important than the size of the sample in qualitative research. Furthermore, Bailey and Peck (2013) contend that it is a laborious task to access board information due to the participants' confidentiality concerns.

In order to minimise these setbacks, the researcher guaranteed the participants their anonymity before and during the interviews (Bailey and Peck, 2013). Also, the researcher prompted the targeted participants and established a good rapport with them during the interviews (Willig, 2008; Bryman, 2016). Therefore, the data collected from knowledgeable and experienced participants is believed to be of significant richness in answering the research questions.

6.3.2 Interview guide

The Interview guide include a list of concise questions and provides the directions on the interview process, particularly on providing answers of the phenomena under investigation (Bryman & Bell, 2015).

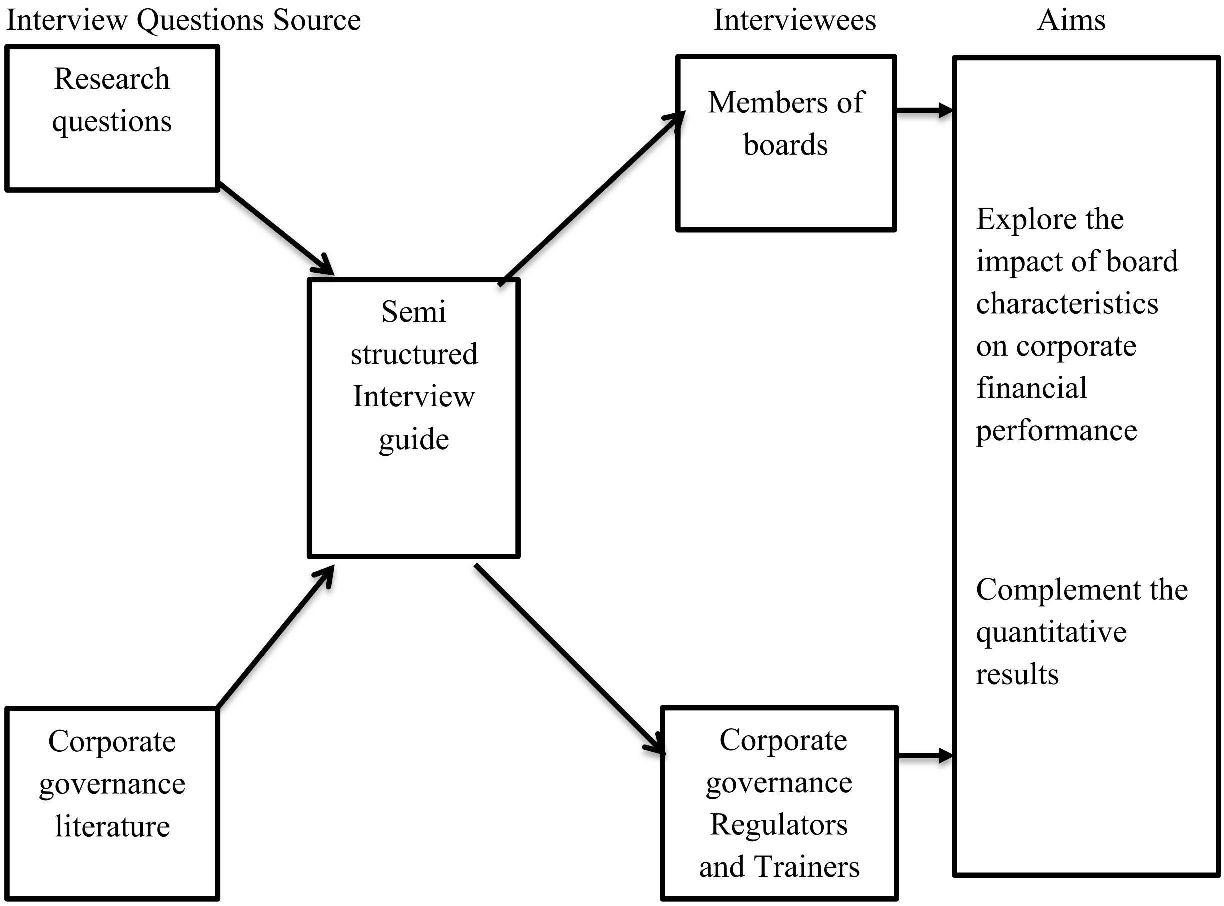


Figure 6.1 Semi-structured interview guide and two key research participant groups

(Source: Developed by the researcher based on study's design and Albassam (2014, p.255)

The researcher developed a semi structured interview guide (as shown in Figure 6.1). He used the guide questions (see Table 6.3) a to interview board members and other corporate governance stakeholders.

Similar to Albassam's (2014) study, the researcher developed, firstly, an interview guide (Table 6.3) grounded in the research questions and corporate governance literature (Figure 6.1); in order to achieve the research objectives and to enhance identification of the basic themes (Albassam, 2014; Bryman, 2016). Secondly, the researcher formulated interview questions believed to be appropriate for the interviewees from the three categories of directors, regulators and trainers (Figure 6.1) to offer rich answers to the research questions (Bryman & Bell, 2015). Thirdly, the flexibility of semi-structured interviews provides room for the researcher to review and amend the interview guide before and during the interview (Willig, 2008; Bryman & Bell, 2015); this is to enhance effective exploration of the board characteristics' impact on corporate financial performance (Figure 6.1). Table 6.3 provides the interview guide in order to enhance the effective interview process.

Table 6.3: Interview guide

SN	Question
1	What are the main criteria of appointing a Tanzanian listed firm's board member?
2	How do outside independent directors link to the Tanzanian listed firm's financial performance?
3	In what ways does the board size improve the Tanzanian listed firm's financial performance?
4	Please tell me how CEO Duality affects the Tanzanian listed firm's financial performance?
5	In what ways are diversity characteristics emphasised in the appointment of new board members of the Tanzanian listed companies?
6	How does the presence of foreign directors link to the Tanzanian listed firm's financial performance?
7	How does gender diversity influence the Tanzanian listed firm's financial performance?
8	What is the impact of board skills on the Tanzanian listed firm's financial performance?

Source: Developed by the researcher

6.3.3 The Relationship between Research Questions and Interview Questions

This subsection discusses how the interview questions address the research questions. Table 6.4 presents the research questions and related specific interview question(s). The research questions influenced this study's methodology (Bryman & Bell, 2015) because they underpin the interview questions, the interview process and the interview data analysis (Anfara et al., 2002; Bryman, 2016). Hence, this study has four research questions that formed the basis of the interview questions. The first research question is: What is outside independent directors' impact on the Tanzanian listed firms' financial performance? This question investigates the outside independent directors' impact on Tanzanian listed firms by using data from annual reports. This is consistent with previous studies of corporate governance for example, Jackling and Johl (2009). To add to this question, the similar interview questions are:

How are outside independent directors linked to a Tanzanian listed firm's financial performance? What are the main criteria of appointing board members to a Tanzanian listed firm? This question provides insight to the appropriateness of the appointment of directors and, in particular, outside directors.

Table 6.4: Research Questions in Relation to Interview Questions

Research Questions	Interview Questions
1. What impact do independent outside directors have on Tanzanian listed firms' financial performance?	• How are outside independent directors linked to a Tanzanian listed firm's financial performance? • What are the main criteria of appointing a board member to a Tanzanian listed firm?
2. What is the relationship between board size and Tanzanian listed firms' financial performance?	In what ways does the board size improve the Tanzanian listed firm's financial performance?
3. How does the separation or duality of the Chairperson of the Board and Chief Executive Officer (CEO) roles affect the Tanzanian listed firm's financial performance?	How does CEO/Chairperson duality affect the Tanzanian listed firm's financial performance?
4. How do board diversity aspects of gender, presence of foreign directors and board skill affect Tanzanian listed firms' financial performance?	• How is the foreign directors' presence linked to a Tanzanian listed firm's financial performance? • How does gender diversity influence a Tanzanian listed firm's financial performance in Tanzania? • What is the board skills' impact on a Tanzanian listed firm's

	financial performance? • In what ways are diversity characteristics emphasized in the appointment of new board members to Tanzanian listed companies? • What are the main criteria of appointing a Tanzanian listed firm's board member?

Source: Developed by the researcher

The above questions seek to provide more information from interviewees through semi-structured interviews on the outside independent directors' impact on the Tanzanian listed firms' financial performance. The second question is: What is the relationship between board size and Tanzanian listed firms' financial performance? The question depends on the quantitative data from the annual reports to come up with data about the relationship between board size and the Tanzanian listed firms' financial performance. This is consistent with corporate governance literature e.g. Yermack (1996), Haniffa and Hudaib (2006) and Shukeri et al. (2012). The similar interview question is: In what ways do the board size improve the Tanzanian listed firm's financial performance? This question is asked to provide additional information on the board size's impact on the listed firm's financial performance.

The third question is: How does the separation or duality of the Chairperson of the Board and Chief Executive Officer (CEO) roles affect Tanzanian listed firms' financial performance? This question depends on the quantitative data from the annual reports. The question is in line with Zahra and Pearce (1989), Haniffa and Hudaib (2006) and Vintilă & Gherghina (2012). The relevant question, asked in the semi-structured interview, is: How does CEO/Chairperson duality affect the Tanzanian listed firms' financial performance?

The fourth question is: How do board diversity aspects of gender, presence of foreign directors and board skill affect Tanzanian listed firms' financial performance? This question is in line with Kiel & Nicholson (2003), Hewa Wellalage (2011), Jhunjhunwala and Mishra (2012), and Schwartz-Ziv (2013). The relevant questions, asked in the semi-structured interviews, are: How is the foreign directors' presence linked to the Tanzanian listed firm's financial performance? How does gender diversity influence the Tanzanian listed firm's financial performance? What is the board skills' impact on a Tanzanian listed firm's financial performance? In what ways are diversity characteristics emphasized in the appointment of new board members to Tanzanian listed companies? What are the main criteria of appointing a board member to a Tanzanian listed firm? These interview questions seek to provide insights to the link between Tanzanian listed firms' financial performance and board diversity aspects of gender, foreign directors and board skill.

The interview guide's qualitative questions 1 and 5 are as follows. Question 1: what are the main criteria of appointing a board member to a Tanzanian listed firm? Appointment of directors may affect board independence, board skills, directors' nationalities and gender balance. The interviewees' responses on this question provide insights to the issue of directors' appointments and their effects on the board characteristics under investigation. According to the reviewed literature of the previous corporate governance studies, this is still a problem in most of the developing countries (Ponnu, 2008).

The researcher sought from interviewees how the appointment of board members was likely to influence board characteristics. Another question, relevant to the research questions is: In what ways are diversity characteristics being emphasized in the appointment of new board members to the Tanzanian listed companies? Most of corporate governance codes, according to reviewed corporate governance literature, have not put enough emphasis on the issue of diversity especially that of directors' appointments (Lückerath-Rovers, 2009); this is, also, the case with regard to CMSA's guidelines. The question is connected directly with board diversity aspects of gender, foreign directors and board skill. Carter et al. (2003) argue that board diversity deserves theoretical and practical investigation since many corporate governance researchers believe that this is vital to good governance. A diverse board can enrich board independence (Carter et al., 2003); board diversity links the firm to external resources (Lückerath-Rovers, 2009); and improves the board strategic decision-making (Kim & Rasheed, 2014). Hence, the responses to this question can provide rich insights to the connection between board diversity aspects and the firm's financial performance.

6.3.4 Semi-structured Interview: Process and Reflections

This section discusses the most common approaches of collecting qualitative data from the whole interview process. The interview can be conducted between the researcher and an individual participant (One on one Interview) or between the researcher and a group of participants (focus group) (Yin, 2001; Bryman, 2016). A focus group uses interactions between participants as a source of data whereby a researcher plays the role of moderator, while one on one interview uses interactions between a researcher and participants as a source of data (Willig, 2008; Bryman, 2016).

This study used one on one interviews to obtain meaningful insights from the participants through face-to-face approaches rather than telephone interviews because body language is vital for healthy interview between the researcher and participants (Bryman & Bell, 2015). In addition, one on one interview is probably more flexible and convenient than other methods of qualitative interview and less difficult to organize logistically than focus group (Willig, 2008; Bryman, 2016). Moreover, it asks more of a participant in making meaning than other interview methods and it is more commonly used in qualitative research than a focus group in exploring individual experiences and perspectives (DiCicco-Bloom & Crabtree, 2006). However, focus group interview may be more valid and less reliable than a one on one interview since it nurtures the participant's justifications of their views; it is easier to challenge a participant's opinion; and it can enhance real life contributions from a group (Willig, 2008).

The researcher communicated with the potential interviewees through either emails or delivering physically at their offices the introduction letter from the researcher's employer along with the copies of consent letter and interview questions. 25 application letters were distributed to the targeted participants. Some of them responded while almost half of them did not respond. Most of the respondents agreed to be interviewed. The whole interview process took approximately 3 months. The process took longer than expected (2 months) due to the access barriers faced by the researcher. These signify how challenging it is to conduct research in developing countries (Hasan et al., 2014). Twelve interviewees participated in this study. Due to some of the participants being very busy, the interviews lasted on average one hour and eleven out of the twelve were audio recorded (Saunders et al., 2012). The researcher conducted all interviews himself in order to enhance the reliability of the interview process (Bailey and Peck, 2013).

Similar to Albassam's (2014) study, this study's interviews were conducted in three stages. The first stage was preparation before the interview. The researcher obtained comprehensive information about the participants and, especially, their backgrounds in education, skills and experiences in corporate governance and, also, a firm to a participant. This was to enhance the effectiveness of the interview process (Saunders et al., 2012; Albassam, 2014). Secondly, during the interviews the researcher assured the participants about the confidentiality of their identities and sought their consent on whether or not to be recorded. Also, the participants were asked to provide their professional background. Henceforth, the researcher highlighted to the participants the research study's main purpose and goals in order to give them knowledge about the required information (Saunders et al., 2012). The researcher tried to maintain lively and healthy interviews by maintaining good rapport with participants, encouraging active participation and being impartial (Willig, 2008; Bryman & Bell, 2015). Finally, at the end of the interview, the researcher acknowledged his appreciation to the participants for devoting their limited time and assured them of the confidentiality of their views. Also, the researcher reviewed the whole interview process and the recorded information in order to enhance effective transcription of the interviews (Saunders et al., 2012; Albassam, 2014). In this study, nine interviews were conducted in English and three were conducted in both English and Swahili. The researcher translated Swahili information to English; a previous DBA student from Gloucestershire University, who knows Swahili, reviewed the translations to ensure the quality of the translations.

6.3.5 Ethical Issues

Ethics are behaviour standards that guide a researcher's conduct in relation to the rights of research participants (Saunders et al, 2012). They safeguard the interests, privacy and dignity of research participants (Bryman, & Bell, 2011). The researcher has to restrain from any issue that may damage the research participants' interests and reputations (Easterby-Smith et al., 2012). Consequently, the researcher has to take into consideration the relevant issues in order to improve the quality of the study (Saunders et al., 2012). The researcher was guided, also, by University of Gloucestershire's (2008) handbook of principals and procedures of research ethics.

Before the interview, an official letter was obtained from the researcher's employer to introduce him to prospective research participants. Similar to Bryman's suggestions (2012), the researcher explained to the prospective participants orally and, by use of an informed consent form, the purpose of the research and the importance of their contributions to the research and their rights. Moreover, the researcher's responsibilities were disclosed to them and they were assured that all information, which they might provide, would be treated with a high degree of confidentiality and their participation was willingly and voluntary. The participants were informed of their right to withdraw partly or fully from the research process at any time and were asked to give permission on whether or not their interview could be recorded (Bryman, & Bell, 2011).

During the interview, the researcher collected qualitative data by using the semi-structured interview technique. The researcher respected greatly the research participants' anonymity during the interviews and he was fully open and honest with the participants (Bryman, 2012). In general, their privacy was considered greatly during the collection, analysis and report of data in order to avoid non-maleficence (Saunders et al., 2012).

6.4 ANALYSIS OF SEMI-STRUCTURED INTERVIEWS

This study used QSR NVivo 10 software to organise and analyse the qualitative data. The NVivo 10 software has the following benefits. Firstly, NVivo has a memo facility, which enables a researcher to record the detailed account of all analytical decisions made and events of the entire research process (Hutchison, Johnston & Breckon, 2010). Secondly, it can import and link the relevant literature to memos and other NVivo's files (Hutchison et al., 2010). Thirdly, NVivo can import, manage and accommodate documents like interview transcripts, audio files, video word, picture and PDF (Hutchison et al., 2010). Fourthly, it can create nodes and allow them to have more than one dimension and they can be grouped to a major group (Tree nodes) since it helps to provide room for new emerging possibilities from the data (Hutchison et al., 2010). Fifthly, NVivo provides a researcher with a coding stripe function that facilitates the comparison categories and concepts (Hutchison et al., 2010). Sixthly, it provides the researcher with the coding queries, matrix-coding queries and sets facilities; these help the researcher to conduct detailed investigation of concepts, sub-themes and themes (Hutchison et al., 2010).

There common qualitative analytic approaches include framework analysis, thematic analysis, interpretative phenomenological analysis, constructivist grounded theory etc. (Bryman & Bell, 2015). To analyse the qualitative data, this study applies the thematic analysis approach in order to make sense of the collected interview data (Boyatzis, 1998; Thomas & Harden, 2008; Fereday & Muir-Cochrane, 2008; Bailey & Peck, 2013; Albassam, 2014) and for the purpose of providing a detailed description of the relationship between board characteristics and Tanzanian listed firms' financial performance.

There is no specific definition of a theme since most of the writers have different opinions. Some of them define a theme as identical to the code and others say that it is a collection of similar codes (Bryman, 2008; Bryman, 2016). However, Boyatzis

(1998, p.4) defines a theme as “a pattern found in the information that at a minimum describes and organises the possible observations and at a maximum interprets aspect of the phenomenon”. Bryman (2008:700) defines thematic analysis as “a term used in connection with the analysis of qualitative data to refer the extraction of key themes in one’s data. It is a rather diffuse approach with few generally agreed principles for defining core themes in data”. Thematic analysis depends on the way in which a researcher him/herself perceives themes from raw data (Boyatzis, 1998). Similar to previous studies on corporate governance (Haniffa and Hudaib, 2007; Bailey & Peck, 2013 and Albassam, 2014), this study uses two phases of thematic analysis. These are, firstly, the pre-coding and, secondly, the coding stage.

In the first phase, all the audio files of the interviews were transcribed. 8 of the total of eleven (11) audio files were recorded in English. However, 3 were recorded in both English and Swahili (local language) and, therefore, those Swahili sentences were translated directly to English by the researcher in order to improve the quality of the transcripts (Albassam, 2014). The Doctorate of Business Administration (DBA) holder from Gloucestershire University who speaks Swahili, reviewed all translations and transcripts to ensure the reliability of the transcripts. The researcher himself produced the transcripts, based on the verbatim approach, to improve the quality of the findings (Bryman, 2008; Bryman, 2016). One interviewee refused to be recorded; the researcher took notes during the interview. The researcher reviewed the transcripts while listening to the voice record apps to authenticate the quality of the transcripts. Each interview took the researcher, on average, three hours to transcribe and each transcript ranged from three to four pages. Memos were created, also, in NVivo software for emerging new ideas, patterns, connections and similarities (Bryman, 2008; Bryman, 2016).

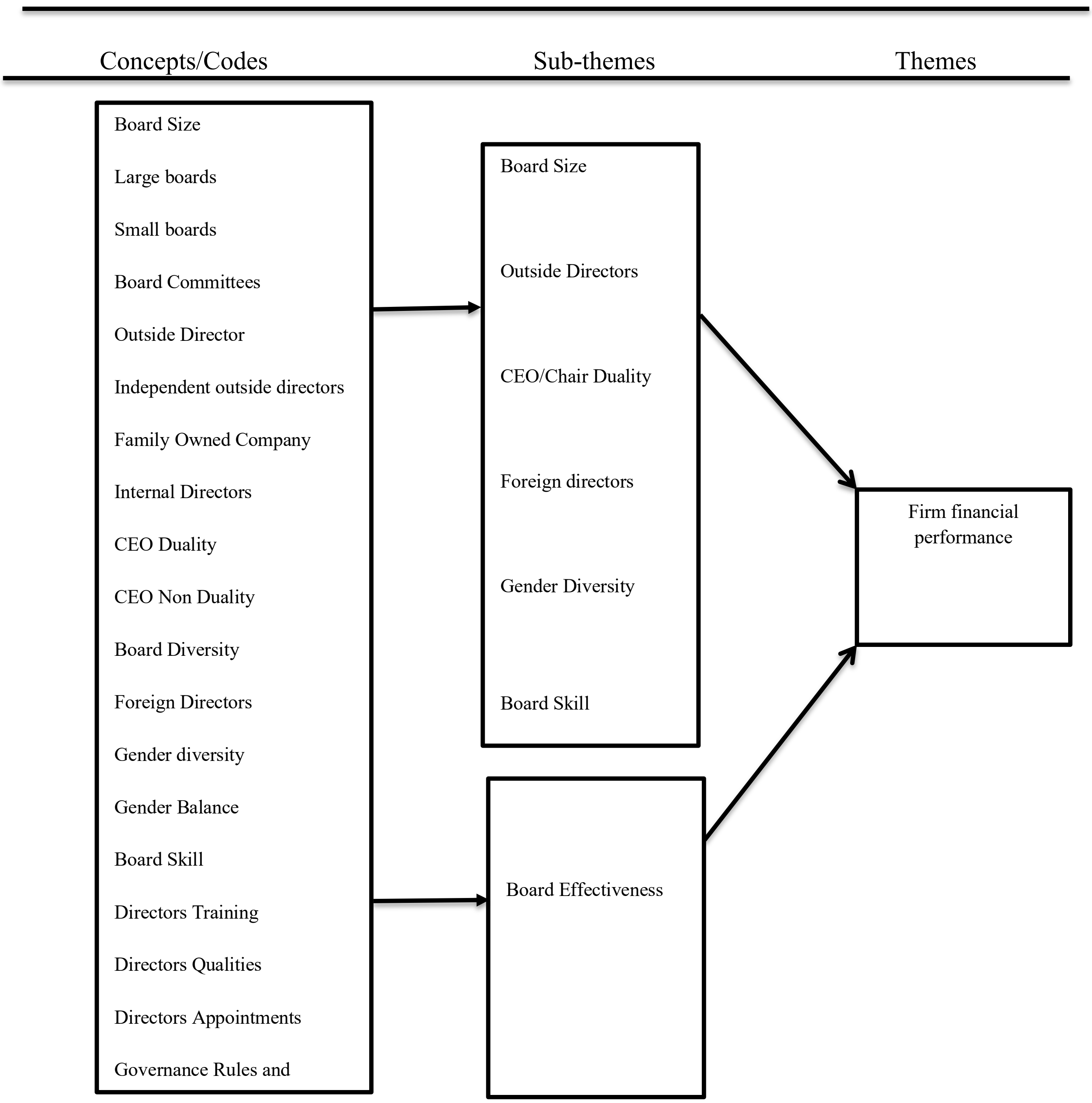


Figure 6.2 Coding System and Data Structure

(Source: constructed by a researcher based on Albassam (2014, p.262) and Bailey & Peck (2013, p. 138)

In the second phase, the researcher conducted an in depth review all the interviews transcripts in order to obtain close connections, patterns and to become accustomed with the interviews and to develop a framework for data coding (Strauss and Corbin, 1998). The data were coded with the assistance of the NVivo 10 data software through nodes. Coding is an approach whereby data are broken down into discrete parts, closely examined and compared for similarities and differences (Strauss and Corbin, 1998). The analysis began by loading interview transcripts into NVivo 10 software and coding the data into preliminary codes/concepts related to board characteristics. For instance, the preliminary codes included large boards, small boards, gender balance, gender diversity, CEO duality and directors training. Next, the researcher compiled similar concepts/codes to sub-themes like gender diversity, board size, board effectiveness, outside directors and board skill. This helped the researcher to recognise the link or connection between data, coding and recoding, and data sorting to categories (Anfara et al., 2002).

The researcher used the framework, developed on the pre code phase, to develop codes. During the coding process, 22 concepts were identified, as shown in Figure 6.2, based on the previous research on the corporate governance literature and the research questions (Boyatzis, 1998). The reliability of the codes reliability was tested to see if they connected with the interview transcripts (Boyatzis, 1998).

6.5 CHAPTER SUMMARY

Chapter six discusses the theoretical framework of the qualitative research. This includes the whole process of interviewing Tanzania's key corporate governance stakeholders. In particular, it discusses the reliability and validity of data collection and analysis of the semi-structured interviews. The chapter provides rationales for selection of interviewees and other measures to ensure the validity and reliability of the interviews. The chapter also highlights measures to ensure that research ethics standards were observed.

The chapter discusses the analysis of the semi-structured interviews, including rationales for using NVivo analytical software in interview analysis. The interview transcription process and the measures to ensure its quality are also discussed in this chapter. Furthermore, Chapter six discusses the application of a thematic analysis approach to analysing the interviews. The next chapter presents the quantitative research findings.

7 CHAPTER SEVEN: QUANTITATIVE EMPIRICAL FINDINGS

7.1 INTRODUCTION

This chapter presents the descriptive statistics of the empirical models' variables and the findings from the multivariate regression analysis by using the quantitative data (extracted from Osiris and Annual Reports). This chapter's main objectives are as follows. Firstly, it provides the tests for regression analysis assumptions. Secondly, the chapter presents the analyses by examining the relationship between board characteristics and the firm's financial performance by using the Ordinary Least Squares (OLS) regression technique. Finally, there is consideration of the robustness of the findings and test of endogeneity followed by a summary of the study.

This chapter remainder is organised as follows. Section 7.2 presents OLS Regression Assumptions. Section 7.3 presents the Data Analysis and Interpretations. Section 7.4 deals with the Robustness of the Findings. Finally, Section 7.5 summarises the chapter.

7.2 OLS REGRESSION ASSUMPTIONS

Assumptions are conditions under which the mathematics underlying the model is valid. Violation of these assumptions can affect parameter estimates, standard errors, confidence intervals, test statistics and p-values and, as a result of which, a research might finish with an invalid conclusion (Field, 2014). This section addresses significant assumptions, which relate to fitting a linear model to the data, such as normality, linearity, homoscedasticity/homogeneity of variance and independence (Field, 2014). Furthermore, the section addresses the issue of outliers.

7.2.1 Normality

Repeatedly, the assumptions of normality have been wrongly defined by some researchers as being the idea that the data is supposed to be normally distributed (Field, 2014). However, the reality is that it depends on different things in different contexts, i.e. model parameter estimates, confidence intervals and significance tests of models (Miles & Shevlin, 2006; Field, 2014). In the case of multiple regression, the residuals in the model should be normally distributed (Field, 2014). A method of least square regression can produce more robust estimates than other methods provided that the residuals are normally distributed in the population (Field, 2014).

For a smaller sample i.e., n <30 (widely accepted value), violation of the assumptions can make confidence intervals and tests unreliable but, for the larger samples i.e. n >30 (widely accepted value), violation can have a minimal impact because of the central limit theorem where data in different circumstances can be presumed to be normal irrespective of their distribution (Field, 2014). Thus, the method of least square regression can give an estimate of the model parameters that minimises errors and, therefore, a normality assumption may have an insignificant effect on a larger sample (Field, 2014).

Field (2014) and Miles and Shevlin (2006) recommend the use of a histogram and normal probability plots of regression-standardised residuals to check violation of normality assumptions. Therefore, in order to test the normality of the residuals, histograms and normal probability plots of standardised residual were used for ROA and ROE respectively. Both histograms and normal probability plots, as shown in the Appendices to Chapter. 7.1 and Chapter. 7.2 indicate that the resulting distributions of the returns are basically normal although slightly skewed to the left. This is possibly caused by the frequency of negative returns which slightly more than that of positive returns. The effect of this is not likely to be significant according to Field (2014). In addition, Table 7.2 (Pearson correlation) and the Appendix to Chapter 7.7 (Spearman correlation) present parametric and non-parametric correlation coefficients respectively. In line with previous studies of Ntim and Soobaroyen (2013) and Albassam, (2014), these correlations were compared, also, to check the effect of non-violation of normality assumptions. The result indicates an absence of significance violation of normality assumptions since the magnitude and direction of both coefficients seem to be reasonably similar. It can be argued that residuals distribution is reasonably normally distributed.

7.2.2 Linearity and Homoscedasticity

The dependent variables and independent variables in the model should be linear related and the combined effect of independent variables is best explained by totalling their effects (Field, 2014). Homoscedasticity is the situation where the variances of the distributions are equal (Miles & Shevlin, 2006).

Field (2014) argues that linearity and homoscedasticity assumptions are based upon the residuals in the model, which is fitted into the data. A violation of both of them can be identified by a plot of standardized residuals against standardized predicted values while violations of homoscedasticity can also be spotted by Levene's test and variance ratio. However, Field (2014) discourages the use of Levene's test because it is only relevant for unequal group sizes with small samples.

In order to check if there is linearity or heteroscedasticity problems, zpred vs. zresid and regression zresid vs. regression zpred plots were created to determine if there is a systematic relationship between predicted values and residuals (Miles & Shevlin, 2006: Field, 2014). The Appendices to Chapters 7.3 and 7.4 show that there is a reasonably linear relationship between standardised residual values and predicted values and there are no obvious outliers. The Appendices show, also, the wide spread of data. This indicates the absence of serious systematic relationships of the outcome predicted by the model and the deviations in the model (Field, 2014). Therefore, the assumptions of linearity and homoscedasticity have been reasonably met.

7.2.3 Independent Residuals

The residuals in any two cases should be independent, i.e. not associated (Field, 2014). Field (2014) argues that a Durbin-Watson test should be used to assess whether residuals are correlated and, if not correlated, the required standard should be a value around 2 (Field, 2014). In this study the independent errors assumption was tested using a Durbin-Watson test. The Appendix to Chapter 7.5 shows the summary of the model using ROA, the value of Durbin-Watson is 1.440, which is close to 2, and the Appendix to Chapter 7.6 shows the summary of the model using

ROE, the value of Durbin- Watson is 1.545 which is close to 2 as well. Therefore, the residuals are likely not to be correlated.

7.2.4 Outliers

The financial performance measures of ROA and ROE and control variables, like FDEBT, contain extreme values. For example, the extreme value of ROE is 160.79% while the minimum was -47%. Similarly, the maximum value of FDEBT is 6.6 whereas the extreme value is 7.34. It can be argued that the values are extreme because they are a long way from the bulk of the data, and/or they have a disproportionate influence on the results. These extreme values are likely to be caused by the effects of global economic problems on some of the firms (Haniffa & Hudaib, 2006; Albassam, 2014) and the study sample comprises firms of different sizes (Albassam, 2014) with different performances.

To lessen the impact of these extreme values on the findings and be consistent with the previous studies of Ammann, Oesch and Schmid (2011), Ntim et al. (2012) and Albassam (2014), two extreme cases of ROE (160.79) and FDEBT (7.340) were identified as obvious outliers, by using Tukey's rule (Carling, 2000), and were winsorised to the value of the highest data points not considered to be outliers, in order to improve data accuracy (Field, 2014).

Conclusion

Tests of the normality, homoscedasticity, linearity and independent errors indicate a lack of serious violation of the assumptions. The assumptions have been fairly met and it is presumed that the study models would generalise to ROA and ROE. Also the identified extreme values were winsorised. The independent variables of outside directors, board size, CEO Duality, gender diversity, foreign directors and board skill are likely to be important in predicting the firms' financial performance as measured by ROA and ROE.

7.3 DATA ANALYSIS AND INTERPRETATION

This section presents the results of the analysis performed on the findings for the purpose of answering the research questions. The analysis was carried out with the aid of Statistical Package for Social Science (SPSS Version 22.0). This section starts with an analysis of the characteristics of the variables by using descriptive statistics, followed by an analysis from the Pearson correlation matrix and, finally, an analysis of regression findings.

7.3.1 Descriptive Statistics

This section presents the description statistics of the variables used to build the regression model. Table 7.1 was constructed to show descriptive statistics. The descriptive reports consist of a number of observations, maximum and minimum data points and mean and standard deviation.

Table 7.1: Descriptive Statistics of Model Variables for All (80) Firm Years

	No. of observation	Minimum	Maximum	Mean	Std. Deviation
Firm Debt	80	0.23	6.60	1.6	1.66
Firm Size	80	5.22	8.47	7.42	0.78
Firm Age	80	0.00	1.18	0.74	0.33
Return on Asset (%)	80	-8	47	17	14
Return on Equity (%)	80	-47	95	31	25
Board Size	80	5	12	7.71	2.26
Outside Directors (%)	80	38	100	82	17
CEO Duality (%)	80	0	100	90	30
Foreign Directors (%)	80	0	100	61	29
Board Skill (%)	80	0	29	9	9
Gender Diversity (%)	80	0	36	9	10

Chapter Five provides a detailed definition of the measurement methods of all variables used.

As per Table 7.1, the firm performance under ROA ranges from -8% to 47% with an average of 17%. Similarly, Eisenberg, Sundgren, and Wells (1998) find that ROA is 18% among Finish listed firms. ROE ranges from -47% to 95% with an average of 31%. The mean ROE is similar with Reddy et al.'s (2011) finding that ROE is 27.1% among firms listed in New Zealand. The wide spread suggests that the possibilities of sample selection bias are reduced due to appropriate selection of the variables and sampled firms. The average ratio of female directors on boards is 9% scaled by average board size and ranges from 0 to 36%. Similarly, Shukeri et al. (2012) find that the, on average, gender diversity is 9.82% among firms listed in Malaysia. Nevertheless, the average is slightly below that of developed countries; for example, Australia, Sweden, Norway, UK and USA had more than 12% in 2010 (Ahern & Dittmar, 2012). The board size ranges from 5 members to 12 members with an average of about 8 members (mean = 7.71). Similarly, Uadiale (2010) and Vintila and Gherghina (2012) report that the average board size is 8.93 and 8.46 among listed firms in the Nigeria and USA respectively. This is in line with one of the early pioneers of research into board size, Lipton and Lorch's recommendation (1992, as cited in Lawali, 2012) of a board size of not less than seven and not more than nine members.

The composition of outside directors on boards ranges from 38% to 100%, with an average of 82% scaled by average board size. Similarly, Oxelheim and Randøy (2003) and Bozcuk (2011) report that the average proportion of independent outside directors is 80%, and 81.1% among listed firms in Turkey, and Norway or Sweden respectively. This is in line with CMSA's guidelines (2002) recommendations and agency theory, which proposes that the board should have a large proportion of outside directors to enhance effective monitoring and control (Zahra & Pearce, 1989). The prevalence of CEO duality within the sample was, on average, 10% while CEO non-duality was 90%. Similarly, Uadiale (2010) reported a CEO non-duality average of 87% among listed firms in Nigeria. (Table 7.1 indicates most of the Tanzanian listed firms in Tanzania do not combine CEO and COB roles. This is consistent with the CMSA's guidelines (2002) and agency theory's suggestion of separating the roles of CEO and COB (Jensen and Meckling, 1976; Fama and Jensen, 1983).

The average ratio of board members with at least a doctoral qualification is 9% scaled by average board size and ranges from 0% to 29%. This is inconsistent with other studies from developing countries. For example, Ujunwa (2012) found that the average number of directors with PhD qualifications on boards is 67.85% among listed firms in Nigeria. The proportion of foreign directors on boards ranges from 0% to 100%, the average percentage is 61% scaled by average board size. This evidence reflects that foreign directors outnumber local directors on most boards of the Tanzanian listed firms, due to the fact that most of the listed African firms are likely to be owned by foreign investors (Ujunwa, 2012, BoT, 2015). The average firm age (Ln.) is 0.74 or an average of 7 years and it ranges from 0 year to 1.18 (Ln.) or 15 (yrs.). The leverage ratio ranges from 0.23 to 6.6, with a mean of 1.6. This is similar to Ferrer & Banderlipe's (2012) finding that the average firm debt is 1.41 among firms listed in the Philippines. These results indicate that most of the Tanzanian listed firms are highly financed by debt than equity. The firm size (by natural log of assets [Ln.]) ranges from 5.22 to 8.47 with a mean of 7.42. This is inconsistent with the study of Jackling and Johl's (2009) finding that the average firm size is 16.32 (Ln) among top firms listed on Bombay Stock Exchange (BSE) in India.

7.3.2 Correlations

Thus, the study correlation analysis is based on the Pearson correlation matrices, shown in Table 7.2, which shows the values of correlation coefficients and their respective probabilities for all variables fitted to a regression model

Table 7.2: Correlation Matrix of the Variables for All (80) Firm Years

		1	2	3	4	5	6	7	8	9	10	11	VIF
1	Firm debt	1											1.368
2	Firm size	-.043	1										1.959
		.702											
3	Firm age	.012	-.195	1									2.208
		.919	.083										
4	Return on Assets	-.524**	-.012	-.133	1								
		.000	.914	.240									
5	Return on Equity	-.078	-.098	-.111	.821**	1							
		.490	.386	.325	.000								
6	Board size	.262*	-.196	-.012	-.169	.053	1						2.038
		.019	.081	.916	.134	.642							
7	Outside directors	.307**	-.314**	-.304**	-.185	-.028	.058	1					3.887
		.006	.005	.006	.100	.803	.607						
8	CEO duality	.218	-.318**	-.222*	-.337**	-.205	.106	.774**	1				2.640
		.052	.004	.047	.002	.069	.351	.000					
9	Foreign directors	.224*	.424**	-.544**	-.016	.078	.463**	-.016	.006	1			4.100
		.046	.000	.000	.885	.490	.000	.891	.959				
10	Board skill	.108	.169	-.264*	.168	.262*	.148	.388**	.254*	.384**	1		2.246
		.340	.134	.018	.137	.019	.191	.000	.023	.000			
11	Gender diversity	-.202	-.077	.105	.383**	.409**	.031	-.125	-.182	-.120	.342**	1	1.586
		.073	.497	.354	.000	.000	.787	.270	.105	.290	.002		

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

According to Table 7.2, there is a significant negative correlation between CEO duality and ROA (Pearson Correlation Coefficient = -0.337 and Prob. = 0.002) and a marginal significant correlation between ROE and CEO duality (Pearson Correlation Coefficient = -0.205 and Prob. = 0.069). This fact suggests that firms with CEO duality are likely to have poorer financial performance. This is in line with the argument of Finkelstein and D'aveni (1994) that CEO duality enhances CEO entrenchment; impairs board independence; and, hence, produces poor performance. Also, CEO duality is associated significantly and negatively with firm age (Pearson Correlation Coefficient = -0.222 and Prob. = 0.047). Moreover, CEO Duality is associated negatively with firm size (Pearson Correlation Coefficient = -0.318 and Prob. = 0.004). These can be explained by the fact that larger and older firms, possibly due to an increase in operations, need to separate the role of CEO and COB to enhance the board's independence in monitoring executives effectively in order to reduce agency problems.

Moreover, CEO duality is marginally significant and positively with firms' debts (Pearson Correlation Coefficient = 0.218 and Prob. = 0.052). This result is in line with Ranti (2013) who found that CEO duality correlated positively with a firm's debt. It can be argued that, whenever there is a CEO duality, firms' debts tend to increase as an external mechanism of controlling agency costs. On the other hand, CEO duality is correlated positively with outside directors (Pearson Correlation Coefficient = 0.774 and Prob. = 0.000), and board members with doctoral qualification (Pearson Correlation Coefficient = 0.254 and Prob. = 0.023). The possible explanation for this finding is that the number of outside directors and board members, with high level of skills, tends to increase when there is a CEO duality on the board in order to enhance effective monitoring and formulation of strategies.

Gender diversity correlates significantly and positively with ROA (Pearson Correlation Coefficient = 0.383 and Prob. = 0.000) and correlates, also, significantly and positively with ROE (Pearson Correlation Coefficient = 0.409 and Prob. = 0.000). Therefore, as the number of female directors increases, the financial performance increases, also. This is consistent with the argument of Carter et al.

(2003) that women on boards can increase a firm's performance due to their quick and sensible decision-making and connections with the outside environment. Gender diversity correlates marginally significantly and negatively with a firm's debt (Pearson Correlation Coefficient = -0.202 and Prob. = 0.073). It can be interpreted that women on the corporate boards of directors are possibly risk averse in issuing of debts (Levi, Li & Zhang, 2013). Gender diversity is associated, also, significantly and positively with numbers of directors with doctoral qualifications (Pearson Correlation Coefficient = 0.342 and Prob. = 0.002). This is in line with the findings of Mahadeo et al. (2012) regarding the positive association between gender and educational background. The relationship suggests that firms that seek to improve the number of women board members prefer, also, women with doctoral qualifications.

Firm debt correlates highly and negatively with ROA (Pearson Correlation Coefficient = -0.524 and Prob. = 0.00) and has an insignificant association with ROE (Pearson Correlation Coefficient = -0.078 and Prob. = 0.490), indicating that highly geared firms tend to have poorer financial performance. Firm leverage is linked, also, significantly and positively with outside directors (Pearson Correlation Coefficient = 0.307 and Prob. = 0.006), board size (Pearson Correlation Coefficient = 0.262 and Prob. = 0.019) and has a significant association with foreign directors (Pearson Correlation Coefficient = 0.224 and Prob. = 0.046). This indicates that highly geared firms tend to have large size boards and large numbers of outside and foreign directors in order to enhance effective monitoring and to provide valuable advice and access to external resources.

There is no significant correlation between board size and ROA (Pearson Correlation Coefficient = -0.169 and Prob. = 0.134) and, also, there is no significant correlation with ROE (Pearson Correlation Coefficient = 0.053 and Prob. = 0.642). However, there is a significant and positive correlation with Foreign Directors (Pearson Correlation Coefficient = 0.463 and Prob. = 0.000). This indicates that an increase in board size results in an increase in the proportion of foreign directors. There is no significant correlation between firm size and ROA (Pearson Correlation Coefficient = -.0.012 and Prob. = 0.914) and ROE (Pearson Correlation Coefficient = -0.098 and

Prob. = 0.386). There is a marginally significant and negative association between firm size and firm age (Pearson Correlation Coefficient = -0.195 and Prob. = 0.083), and, also, with outside Directors (Pearson Correlation Coefficient = -0.314 and Prob. = .005). This indicates that as the firm's age increases, the number of outside directors and the firm's size decline. There is a significant and positive association between firm size and foreign directors (Pearson Correlation Coefficient = 0.424 and Prob. = 0.000). Moreover, as a firm's size increases the number of foreign directors tends to increase.

There is an insignificant correlation between firm age and a firm's financial performance (ROA and ROE) (Pearson Correlation Coefficient = -0.133 and Prob. = 0.240) and (Pearson Correlation Coefficient = -0.111 and Prob. = 0.325). In addition, there is a significant and negative correlation between firm age and outside directors (Pearson Correlation Coefficient = -.304 and Prob. = 0.006). There is, also, a significant and negative relationship between firm age and board members with doctoral qualifications (Pearson Correlation Coefficient = -0.264 and Prob. = 0.018). Additionally, there is a strong and negative correlation between firm age and foreign directors (Pearson Correlation Coefficient = -0.544 and Prob. = 0.000). These findings show that, as the firm grows older, its performance tends to decline slightly and the proportion of outside directors tends to increase. In addition, there is an increasing proportion of foreign directors and board members with at least a doctoral qualification.

There is a positive correlation between board size and the proportion of foreign directors on the board (Pearson Correlation Coefficient = 0.463 and Prob. = 0.000). There is an insignificant correlation between board size with ROA (Pearson Correlation Coefficient = -0.169 and Prob. = 0.134) and, also, an insignificant correlation with ROE (Pearson Correlation Coefficient = 0.530 and Prob. = 0.642). There is a significant and marginally negative association between board size and firm size (Pearson Correlation Coefficient = -0.196 and Prob. = 0.081). This is consistent with the study of Dalton et al. (1999) and it can be argued that small boards tend to be more effective in large firms. There is, also, a significant and positive association between firm leverage and board size (Pearson Correlation Coefficient = 0.262 and Prob. = 0.019). This suggests that the board's size tends to increase when the firm's leverage increases since they are both mechanisms to minimise agency costs.

There is an insignificant correlation between outside directors and ROA (Pearson Correlation Coefficient = -0.185 and Prob. = 0.100) and, also, an insignificant correlation with ROE (Pearson Correlation Coefficient = -0.028 and Prob. = 0.803). However, there is a positive correlation between the proportion of outside directors and the number of board members with doctoral qualifications (Pearson Correlation Coefficient = 0.388 and Prob. = 0.000). This indicates that the proportion of board members with doctoral qualifications tends to increase as the proportion of outside directors increases. This is consistent with the argument of Francis et al. (2015) that academic directors are resources outside of the firm and that they bring skills and knowledge to the firm.

There is an insignificant correlation between foreign directors and ROA (Pearson Correlation Coefficient = -0.016 and Prob. = 0.885) and an insignificant association with ROE (Pearson Correlation Coefficient = 0.078 and Prob. = 0.490). There is a significant and positive association between foreign directors and board members with doctoral qualification (Pearson Correlation Coefficient = 0.384 and Prob. = 0.000). The explanation of this finding is probably that the number of foreign directors tends to increase as the number of board members with doctoral qualifications increases. There is insignificant relationship between the number of board members with doctoral qualifications and ROA (Pearson Correlation Coefficient = 0.168 and Prob. = 0.137) and a significant and positive relationship with ROE (Pearson Correlation Coefficient = 0.262 and Prob. = 0.019).

7.3.3 Empirical Results from Firm Financial Performance Model

This sub section demonstrates the empirical findings from the estimation of the relationship between board characteristics and Tanzanian listed firms' financial performance. The relationship between board characteristics and a Tanzanian listed firms' financial performance was investigated using ROA and ROE as accounting based measures. This is in line with Santiago-Castro and Baek (2003), Mashayekhi and Bazaz (2008), Chang-Jui (2011), Vintila and Gherghina (2012) and Garba and Abubakar (2014). The researcher applied agency and resource dependence theories in developing the hypotheses, which helped to answer the research questions.

This model aims to answer the following research questions:

(i) What is the independent outside directors' impact have on Tanzanian listed firms' financial performance?

(ii) What is the relationship between board size and Tanzanian listed firms' financial performance?

(iii) How does the separation or duality of the Chairman of the Board and Chief Executive Officer (CEO) roles affect the Tanzanian listed firms' financial performance?

(iv) How do board diversity aspects of gender, presence of foreign directors, board skill affect Tanzanian listed firms' financial performance in Tanzania?

The variables under investigation include: Outside directors (BOUTSIDE); Board Size (BSIZE); CEO Duality (CEOD); Gender Diversity (FEMDIR); Board Skill; (BSKILL); and foreign Directors (FODIR). The empirical result is considered significant if it is below 5% (2-tailed) and below 1% (2 tailed). However, the result is considered to be weak or marginally significant if it is below or equal to 10% and greater or equal to 5%.

7.3.3.1 OLS Regression Findings based on Return on ROA

The summary from the Appendix to Chapter 7.8 shows the proposed hypotheses to examine the relationship between board characteristics and the firm's financial performance as measured by ROA.

Table 7.3: OLS Coefficient Estimates for All (80) Firm Years Based on ROA

	B	t	Sig.	VIF
(Constant)	0.273	2.685	0.009**	
Board size	-0.012	-1.672	0.099	1.345
Outside directors	0.094	0.646	0.521	2.968
CEO duality	-0.179	-2.368	0.021*	2.575
Foreign directors	0.033	0.491	0.625	1.837
Board skill	0.184	0.850	0.398	2.056
Gender diversity	0.435	2.450	0.017*	1.506
R^2		27%		
Adjusted R^2		21%		
F-Statistics		4.591**		
No. of observations		80		
(Constant)	0.733	3.282	0.002**	
Board size	-0.012	-1.590	0.116	2.038
Outside directors	0.139	1.005	0.319	3.887
CEO duality	-0.225	-3.533	0.001**	2.640
Foreign directors	0.095	1.149	0.254	4.100
Board skill	0.286	1.520	0.133	2.246
Gender diversity	0.256	1.688	0.096	1.586
Firm debt	-0.039	-4.741	0.000**	1.368
Firm size	-0.053	-2.496	0.015*	1.959
Firm age	-0.045	-0.859	0.393	2.208
R^2		51.70%		
Adjusted R^2		45.50%		
F-Statistics		8.332**		
No. of observation		80		

* Significant at the 5% level (2 tailed). ** Significant at the 1% level (2-tailed). Chapter five provides a detailed definition of the measurement methods of all variables used.

Outside directors

Table 7.3 shows that the outside directors' variable (BOUTSIDE) has an insignificant relationship with ROA. This is empirically consistent with studies of Dalton et al. (1998), Bhagat and Black (2002), Haniffa and Hudaib (2006), Van-Ness et al. (2010), Santiago-Castro and Baek (2003), Rashid et al. (2010) and Vintila and Gherghina (2012). Bhagat and Black (2002) do not find any relationship between the proportion of outside directors and ROA. Also, Santiago-Castro and Baek (2003) find that a large proportion of outside directors in small Latin American firms does not have significant impact on the firms' financial performance. Other studies by Haniffa and Hudaib (2006), Rashid et al. (2010) and Chang-Jui (2011), which were conducted in developing countries, did not find any significant relationship between the proportion of outside directors and ROA. The findings do not endorse the theories of resource dependence and agency which support a larger number of outside directors on the board for the purpose of monitoring and connecting the firm to its outside environment (Jackling & Johl, 2009).

CEO duality

Table 7.3's findings show that there is a significant ($p < 0.01$) and negative relationship between ROA and the CEO duality (CEOD) variable. The empirical results support the previous studies, such as Dalton et al., (1998) and Bhagat and Bolton (2013), which find a negative relationship between CEO duality and a firm's financial performance. In addition, some of the developing countries studies of Haniffa and Hudaib (2006) and Ujunwa (2012) find that there is a significant and negative linkage between CEO duality and the firm's performance as measured by ROA. The findings support the agency theory, which recommends that the roles of CEO and the COB should be separated (Jensen & Meckling, 1976; Fama & Jensen, 1983; Ujunwa, 2012). The findings support the resource dependence theory, which favours COBs from outside the firm (Kiel & Nicholson, 2003).

Board size

Table 7.3's findings show that there is an insignificant relationship between board size and ROA. The findings are not in line with studies conducted in developing countries (e.g. Mashayekhi & Bazaz, 2008; Ujunwa, 2012), which find that there is a negative relationship between board size and ROA. However, the findings are in line with correlation results (see Table 7.2), which do not indicate any association between firm performance and ROA and show that there is no correlation between board size and ROA. This study's findings do not agree with resource dependence theory, which recommends larger boards because they provide a firm access to outside resources (Jackling & Johl, 2009). Moreover, the findings disagree which agency theory that favours larger number of outside directors on board in order to improve oversight and reduce agency problems (Shleifer & Vishny, 1997).

Gender diversity

Pearson correlation findings (see Table 7.2) show that women directors on boards have a significant and positive influence on ROA. Table 7.3's findings show that the gender diversity coefficient links positively with ROA. It is significant at $p < 0.05$ before the use of control variables but the link becomes weak when control variables are introduced to the model. Firm debt may be among the possible causes since it is associated negatively with gender. This may reflect that women on the board exhibit risk aversion in debt financing decisions in order to protect the interests of shareholders (Smith et al., 2005; Khan &Vieito, 2013).

The finding is, also, in line with studies done in developing countries such as those of Mahadeo et al. (2012) and Abudallah et al. (2012) who find that women on boards are related positively with ROA. However, the finding is inconsistent with the findings of Ujunwa (2012) and Darmadi (2013), who find that there is a negative relationship between women and ROA. The findings support the agency theory argument that women on boards enhance the board's monitoring and control function (Carter et al., 2003). Also, the findings are consistent with the resource dependence theory argument that women on boards can enhance the firms' networks with society (Lückerath-Rovers, 2009).

Board skills

The results (see Table 7.3) show that there is an insignificant relationship between board members with doctoral qualifications and ROA. The results are in line with Kim and Rasheed (2014) who find, also, an insignificant relationship between educational background and ROA. The findings are, also, in line with Ponnu's (2008) study of developing countries where he finds that directors' academic qualifications of directors are unrelated to ROA. However, the results are inconsistent with Ujunwa (2012)'s empirical evidence from developing countries that there is a positive relationship between board members with PhD qualifications and ROA. The result does not support the theories of agency and resource dependence, which recognise that the directors' knowledge and skills are essential in effective monitoring; servicing; and strategy formulation (Murray, 1989; Muth & Donaldson, 1998; Francis et al., 2015).

Foreign directors

As shown in Table 7.3, there is no link between foreign directors and a listed firm's financial performance. The findings do not support other empirical evidence from developing countries (i.e. Ujunwa, 2012) that find a positive linkage between ROA and foreign directors. The findings do not support the agency and resource dependence theories, which favour the presence of foreign directors on boards in order to enhance board independence and the firm's access to external resources (Ruigrok et al., 2007). The insignificant finding may contribute to geographical distance being the reason for the lack of essential information to assist decision making (Masulis et al., 2012).

Controls variables

As shown in Table 7.3, there are mixed findings from the control variables based on performance measures. The findings are robust with regard to firm debt and firm size. There is a negative relationship between firm debt and ROA at 1% level of significance. This finding is consistent with the studies of Haniffa and Hudaib (2006), Jackling and Johl (2009), Rashid et al. (2010) and Albassam (2014), which find that there is a negative relationship between firm leverage and ROA. According to Table 7.3, most of the Tanzanian listed companies have been heavily financed by debt; this makes debt ineffective as a control mechanism (Haniffa & Hudaib, 2006).

Also, there is a negative relationship with firm size at 5% level of significance. This implies that, as a firm increase in size, its operations and systems become more complex. Consequently, the firm's board will be ineffective and performance declines (Dalton et al., 1998). However, there is an insignificant relationship between firm age and ROA. ROA may decline as firms become older due to increases in operating costs and dwindling markets (Loderer & Waelchli, 2010)

The fitness of the model

To provide a test of the board characteristics' influence on the firm's performance, Table 7.3's results shows R^2 is 51.7 %, this means that about 52% of ROA can be explained with the model. This result is in line with the study of Albassam (2014) who finds R^2 of 51.4%. Moreover, the adjusted R^2 is 0.452 or 45.2% significant at $p < 1\%$ and the difference from R2 (.515 - .452) is .063 or 6.3%; this is reasonable shrinkage. If the model were derived from the population rather than a sample, it would explain approximately 6.3% less. Field (2014) suggests that it should be preferably identical or nearly the same as R^2. Therefore, the cross validity of the model is reasonably good. The value of F-ratio is significant at $p < 0.001$ and the ratio is 8.247. This is significantly greater than 1 and means that there is an improvement in the prediction of ROA as a consequence of fitting the model to the data (Field, 2014).

7.3.3.2 OLS Regression Findings based on Return on ROE

The summary from the Appendix to Chapter 7.9 shows the proposed hypotheses to examine the relationship between board characteristics and the firm's financial performance as measured by ROE.

Outside directors

Table 7.4 shows that the outside directors have insignificant relationships with firm performance as proxied by ROE. This finding is consistent with the study's finding of ROA that the proportion of outside directors has no significant impact on a firm's financial performance. The finding is empirically consistent with that of Vintila and Gherghina (2012). Moreover, the finding is consistent with findings of Santiago-Castro and Baek (2003), Chang-Jui (2011), and Ferrer and Bandelipe (2012), who concluded that, in developing countries, the proportion of outside directors is unrelated to ROE. The finding is in contrast with agency theory and resource dependence theories that suggest having a large number of outside directors on the board (Jackling and Johl, 2009).

Table 7.4: OLS Coefficients Estimates for All (80) Firm Years Based on ROE

	B	t	Sig.	VIF
(Constant)	0.101	0.551	0.583	
Board size	0.002	0.117	0.907	1.345
Outside directors	0.397	1.522	0.132	2.968
CEO duality	-0.312	-2.299	0.024*	2.575
Foreign directors	0.070	0.586	0.560	1.837
Board skill	0.271	0.697	0.488	2.056
Gender diversity	0.889	2.787	0.007**	1.506
R2		24.5%		
Adjusted R2		18.3%		
F-Statistics		3.948		
No. of observation		80		
(Constant)	1.101	2.326	0.023*	
Board size	-0.007	-0.442	0.660	2.038
Outside directors	0.202	0.690	0.492	3.887
CEO duality	-0.348	-2.581	0.012*	2.640
Foreign directors	0.112	0.638	0.526	4.100
Board skill	0.516	1.291	0.201	2.246
Gender diversity	0.737	2.293	0.025*	1.586
Firm debt	-0.002	-0.128	0.899	1.368
Firm size	-0.094	-2.091	0.040*	1.959
Firm age	-0.097	-0.875	0.384	2.208
R2		30.10%		
Adjusted R2		21.20%		
F-Statistics		3.356**		
No. of observation		80		

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

Chapter Five provides a detailed definition of the measurement methods of all variables used.

CEO duality

Table 7.4 demonstrates that there is a statistically significant negative relationship between CEO Duality and the firm's financial performance as measured by ROE at $P < 0.05$. The finding is in line with a developing countries study of Chugh et al. (2011) who argue that significant negative coefficient signposts the risk of agency costs when there is CEO Duality. The result seems to support agency theory which recommends that the roles of CEO and COB should be separated in order to enhance the board's ability to perform its monitoring, advising and resource dependence functions properly (Fama & Jensen, 1983; Vintila & Gherghina, 2012). Moreover, the findings support, also, the resource dependence theory which favours the COB being appointed from outside the firm (Kiel & Nicholson, 2003).

Board size

Board size was predicted to increase the firm's value. As shown in Table 7.4, board size has an insignificant relationship with ROE. This is in line with empirical evidence from developing countries collected by Ferrer and Banderlipe (2012) who find that there is no significant relationship between board size and ROE. Nevertheless, the result is not in line with Shukeri et al.'s (2012) and Uadiale's (2010) studies which find a positive relationship in developing countries between board size and ROE. However, Mashayekhi and Bazaz (2008) find that there is a negative relationship between board size and ROE. The finding does not support the agency and resource theories which advocate larger boards (Kiel & Nicholson, 2003).

Gender diversity

Table 7.4's results suggest a strong and positive relationship between women directors on boards and the firms' financial performance, as proxied by ROE. The findings are supported, also, by the correlation analysis results (see Table 7.2), which show that there is a strong and positive correlation between women's presence on boards and ROE. The findings are consistent, also, with Lückerath-Rovers (2013) and Joecks et al. (2013), who find a significant and positive relationship between gender diversity and ROE. However the finding does not agree with some empirical evidence from developing countries (i.e. Marimuthu & Kolandaisamy, 2009; Shukeri et al., 2012) that there is no relationship between women on boards and ROE.

The findings support the agency theory argument that the presence of female directors on boards can reduce agency costs because women are considered to be good at making quick and sound decisions (Jurkus et al., 2008). The finding supports, also, the resource dependence theory argument that women on boards can increase a firm's access to resources from the outside environment and improve the firm's image of firm within society (Carter et al., 2003).

Board skills

The findings (Table 7.4) show an insignificant relationship between directors with doctoral qualifications and ROE. This result is in line with Ponnu's (2008) study of developing countries in which he finds that the directors' academic qualifications are unrelated to ROE. In addition, the findings are in line with Jhunjhunwala and Mishra (2012) who did not find any relationship between the directors' levels of education and the firm's financial performance. The result does not support the theories of agency, resource dependence and stewardship which recognise the directors' knowledge and skills as being essential to quick and sensible decision making (Murray, 1989; Muth & Donaldson, 1998; Francis, Hasan & Wu, 2015).

Foreign directors

Table 7.4 shows that foreign directors have no significant association with ROE. Hence, hypothesis six is rejected since it predicted that there would be a positive relationship. The finding is in line with the empirical evidence from developing countries (i.e. Jhunjhunwala and Mishra, 2012), which does not find a relationship between the proportion of foreign directors on boards and the firm's financial performance. The findings do not support the agency and resources dependence theories argument that the presence of foreign directors on boards can enhance board independence and access to external resources (Ruigrok et al., 2007).

Control variables

Table 7.4's findings indicate an insignificant association between firm debt and a firm's financial performance. This is consistent with Hasan et al. (2014). The findings do not support the agency theory suggestion that the firm's debt is likely to be an effective control mechanism for resolving agency problems (Jensen &

Meckling, 1976). As shown in Table 7.4, there is a negative relationship between firm size and ROE at 5% significant level. This is explained by Zahra and Pearce's (1989) argument that as a firm become larger, the challenges increase while the systems and operations become multifaceted. Consequently, financial performance may be impaired. Table 7.4 shows that there is an insignificant relationship between firm age and ROE. Loderer and Waelchli's (2010) empirical explanation contends that as the firm grows older, its profitability declines due to lower productivity.

Fitness of the Model

Finally, Table 7.4 demonstrates the model's goodness of fit. The value of R^2 and the F-ratio are significant at 1%. R^2 is 24.1 before the introduction of control variables and 30.1% after the introduction of control variables. This indicates that the model can explain 30.1% of the ROE variation. This is by far greater than Chang-Jui (2011) study's R_2 of 6.8%. F-ratio is 3.447 and p= 0.001 is greater than 1; this means that there is an improvement in the prediction of ROE as an effect of fitting the model to the data (Field, 2014). The adjusted R^2 for model one before the introduction of control variables is 0.183 or 18.3% significant at $p < 1\%$, and differed by (0.245-0.183) 0.062 or 6.2%. After the control variables were introduced it became 0.212 or 21.2% was insignificant and the difference was (0.301-0.212) 8.9%. This is a reasonable shrinkage according to Field (2014). However, the addition of control variables did not make a significant difference.

7.3.3.3 Discussion of the results based on both ROA and ROE

This study aims to investigate the board characteristics' impact on the firm's financial performance as measured by the accounting performance measures of ROA and ROE. The study's findings (Table 7.5) show, to a large extent, similarities between the ROA and ROE results. However, there are some minor variations based on the accounting measures. Table 7.5 summarises the differences and similarities of the results of the board characteristics' impact on a firm's financial performance as measured by ROA and ROE. These are discussed as follows.

Outside directors

The findings (see Table 7.5) show that the proportion of outside directors is not significantly related to either ROA or ROE. The relationship between outside directors and the firm's financial performance was hypothesised to be positive and, consequently, the first hypothesis is rejected. This is consistent with previous corporate governance studies, which did not find any relationship between outside directors and the firm's financial performance (e.g. Dalton et al., 1998; Bhagat & Black, 2002; Van-Ness et al., 2010; Vintila & Gherghina, 2012). Also, the findings are consistent with the developing countries studies of Santiago-Castro and Baek (2003), Haniffa and Hudaib (2006), Rashid et al. (2010) and Tarak and Apu (2013).

The findings do not support an agency theorist's argument that a board of directors is a critically important mechanism to control a firm whereby its members observe and evaluate the firm's top management in order to improve the firm's financial performance (Zahra and Pearce, 1989). Also, the findings do not support the agency theory argument 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 minimise agency costs (Jensen & Meckling, 1976; Fama & Jensen, 1983; Zahra & Pierce, 1989; Kiel & Nicholson, 2003). However, the findings support the stewardship argument that outside directors' contribution to the firm can be insignificant if they do not have as much information, expertise and motivation as the inside directors (Muth & Donaldson, 1998) who are trustworthy and loyal to the shareholders (Davis et al., 1997). Moreover, The result does not support the resource dependence theory argument that outside directors bring external resources to the firm (Dalton et al., 1999).

The findings do not support the recommendations of CMSA guidelines (2002) about having at least one-third independent outside directors on the board. This study's insignificant relationship result indicates that the large proportion of outside directors is not financially important to Tanzanian listed companies. The insignificant relationship between outside directors and ROA is supported by some arguments in the literature and is likely to be influenced by the following. Firstly, the finding is likely to be affected by the fact that most of the outside directors' appointments to Tanzanian listed firms are likely to be influenced by political motives rather than by the members' competencies; this means that the board members may be insufficiently independent (Fulgence, 2014). Moreover, these findings support Fulgence's argument that, because of their power, some majority shareholders in Tanzanian listed firms are likely to appoint directors based on personal motives rather than on merit. Consequently, the process of appointing directors may not be transparent and appropriate, i.e. there may be a faulty appointment process of outside directors (Van den Berghe & Levrau, 2004). Secondly, Tanzania, as a developing country, has a different environment from that of developed countries due to its weak legal system, financial and political interference (Haniffa & Hudaib, 2006; Tsamenyi et al., 2007; Mulili, 2011); these might make the argument for having a large proportion of outside directors inapplicable in developing countries.

Thirdly, most of the boards of Tanzanian listed firms can be ineffective in their monitoring and advisory functions due to a lack of proficiency (Melyoki, 2005). Furthermore, the lack of independence and professionalism among outside directors can be the cause of insignificant results (Weir et al., 2002). Therefore, the appropriate mix of diverse knowledge, talents, competencies and skills on a board matter more than the outside directors' mere independence in reducing agency problems and providing a linchpin between the firm and society (Erhardt et al., 2003; Kiel & Nicholson, 2003; Jhunjhunwala & Mishra, 2012; Kim & Rasheed, 2014).

Table 7.5: A Summary of Board Characteristics and Firm Financial Performance Under Different Performance Measures (OLS Module)

	Dependent Variables	
	a) ROA	b) ROE
Constant	0.73**	1.10*
	0.00	0.02
Board size	-0.01	-0.01
	0.12	0.66
Outside directors	0.14	0.20
	0.32	0.49
CEO duality	-0.22**	-0.35*
	0.00	0.01
Foreign directors	0.095	0.112
	0.254	0.526
Board skill	0.286	0.516
	0.133	0.201
Gender diversity	0.256	0.737*
	0.096	0.025
Firm debt	-0.039**	-0.002
	0.000	0.899
Firm size	-0.053*	-0.094*
	0.015	0.040
Firm age	-0.045	-0.097
	0.393	0.384
R2	51.7%	30.1%
Adjusted R2	45.50%	21.20%
F- Statistics	8.332**	3.356**
No. of Observations	80	80

* Significant at the 5% level (2 tailed). ** Significant at the 1% level (2-tailed Chapter Five provides a detailed definition of the measurement methods of all variables used.

CEO duality

CEO duality shows a significant and negative relationship with both ROA and ROE (see Table 7.5). The relationship between CEO duality and firm financial performance was hypothesised to be negative; therefore, the second hypothesis is accepted. These findings are in line with other studies conducted in developing countries. For example, Dalton et al. (1998), Haniffa and Hudaib (2006), Chugh et al. (2011), Chang-Jui (2011) and Shukeri et al. (2012) find a strong and negative linkage between CEO duality and the firm's performance. However, the finding is inconsistent with Boyd (1995) and Van-Ness et al. (2010) who find that there is a positive relationship between CEO duality and the firm's financial performance.

The findings support agency theory suggestions that the roles of CEO and COB should be separated in order to enhance the board's independence (Jensen & Meckling, 1976; Fama & Jensen, 1983; Lawali, 2012). Moreover, the findings support, also, the literature's argument that CEO duality enhances CEO entrenchment and impairs board independence and makes the board ineffective in its monitoring and advisory functions in addition to harming firm financial performance (Fama & Jensen, 1983; Bhagat & Bolton, 2013). In addition, the findings support the agency theory that recommends that the roles of CEO and COB should be separated since duality can give a CEO too much power and a motive for pursuing his/her own interests and impairing the board's independence (Fama & Jensen, 1983; Jensen & Meckling, 1976; Haniffa & Hudaib, 2006; Dey et al., 2009; Chugh et al., 2011; Ujunwa, 2012). Moreover, whereby the CEO is, also, the COB, the board is likely to be ineffective because the board independence is likely to be impaired (Haniffa & Hudaib, 2006; Vintilă & Gherghina, 2012). Furthermore, CEO non-duality ensures the board discharges its responsibilities effectively (Jackling & Johl, 2009).

The findings support the resource dependence theory suggestion that the COB should come from outside the firm so that he or she can bring resources to the firm (Kiel & Nicholson, 2003, Pfeffer & Salancik, 2003). Furthermore, the findings support, also, the recommendation from the CMSA's guidelines (2002) that the CEO and COB roles should be separated. Consequently, the negative and significant results, observed in this study, are likely to indicate that separation of CEO and COB roles is financially healthier for Tanzanian listed firms. Nevertheless, the findings do not support the stewardship theory argument that, due to information asymmetry and the advantage of expertise, CEO duality can increase the firm's financial performance because it enhances unity of command; streamlines the firm's management; enhances effective formulation and implementation of strategies; and, hence, gives the firm strong leadership (Finkelstein & D'aveni, 1994).

Board size

It was hypothesised earlier that there was a positive relationship between board size and a firm's financial performance as measured by ROA and ROE. Firstly, board size shows an insignificant relationship with both ROA and ROE (see Table 7.5). Therefore, the third hypothesis is rejected. This finding suggests that board size does not have a significant effect on a Tanzanian listed firm's financial performance. The finding is in line with Ferrer and Banderlipe's (2012) study, which finds that board size, is unrelated to the firm's financial performance. However, the findings are not in line with the studies of Yermack (1986) and Bhaghat and Black (2002) who find that there is a negative relationship between board size and the firm's financial performance. Moreover, the findings do not agree with studies conducted in developing countries (e.g. Mashayekhi & Bazaz, 2008; Chang-Jui, 2011; Ujunwa 2012) which all find that there is a negative relationship between board size and a firm's financial performance. Also, the finding is not in line with the studies conducted in developing countries of Haniffa and Hudaib (2006), Shukeri et al. (2012) and Uadiale (2010), which find that there is a positive relationship between board size and ROE.

The findings do not support the agency theory argument that having a larger number of outside directors improves the board's quality of decision making and effective monitoring of the management in order to protect the shareholders' interests (Kiel & Nicholson, 2003). Furthermore, the finding does not support the resource dependence theory argument that a larger board can improve a firm's network resources with its outside environment and, hence, improve its firm financial performance (Pfeffer & Salancik, 2003). However, the findings seem to be in line with the stewardship theory argument that structures that empower and facilitate matter more than a large board size that monitors and controls the firm's management (Davis & Donaldson, 1997).

The finding suggests that board size does not add to the potential economic value of a Tanzanian listed firm. It can be argued from the findings that most of the Tanzanian listed firms' boards may lack the right mix of expertise required to improve the firms' financial performance. Thus, the board's performance is determined to a large extent by the quality of the board members rather than by its number (Lawali, 2012). Furthermore, the boards need a high degree of expertise for the effective discharge of monitoring, advisory and strategic formulation functions (Forbes & Milliken, 1999). However, the finding is empirically consistent with Ujunwa (2012) argument that, as the number of board members increases, the boards effectiveness declines and, consequently, the firm's financial performance worsens.

Gender diversity

Table 7.5 shows a marginal positive relationship between women on boards and ROA and a strong positive link between women on boards and ROE. This is consistent with the findings of Torchia et al. (2011), Carter et al. (2003), Lückerath-Rovers (2013) and Joecks et al. (2013). Moreover, the findings are in line with the empirical evidence from developing countries (e.g. Mahadeo et al., 2012; Abudallah et al., 2016). However, the findings are not supported by Ahern and Dittmar's (2012). They find that there is a negative relationship between women on boards and the firms' financial performance. Similarly, Ujunwa's (2012) developing countries' empirical evidence shows that women on boards relate negatively with the firms' financial performance. The findings are in line with CMSA's guidelines (2002) that encourage women's representation on boards.

Among the possible reasons for a marginally positively significance measured by ROA are:

Firstly, women are argued to be more risk averse than men. In particular, when making financial and investment decisions, companies perform better when the CEO is a woman (Khan &Vieito, 2013). Men are overconfident in their decision-making, which in turn, can result to bad decisions and minimise the shareholders' returns (Huang & Kisgen, 2013; Levi et al., 2013). Compared to men, women on boards possibly give greater consideration to shareholders' interests when making complex decisions regarding companies' mergers and acquisitions (Levi et al., 2013). Female directors are likely to perform better than their male counterparts in complex decision making (Francoeur et al., 2008; Carter et al., 2003; Khan &Vieito, 2013).

Moreover, women directors undertake fewer acquisitions and issue less debt; these have less risk and offer higher returns when compared to decisions made by men (Huang & Kisgen, 2013). This is reflected by the correlation results shown in table 7.2 showing that there is a negative correlation between the presence of women on the board and a firm's debt. Therefore, the firms with women on the boards have lower liabilities (risks). This explains why ROE is higher than ROA since total assets include total liabilities and total equity. Secondly, listed companies with larger asset bases (denominators), which comprise of total liabilities and total equity and with smaller returns (numerators) may experience poor returns on assets (Kiel & Nicholson, 2003). In line with Lückerath-Rovers (2013), this study cannot conclude totally that one woman (see Table 6.1) on a board has an impact on the firm's financial performance.

The findings support the resources dependence view that women on boards can increase the firm's network with its external environment (Lückerath-Rovers, 2013). In addition, the findings support the argument that women on boards can increase, also, the image of the firm and its products; enhance sound decision-making; bring more creativity and innovation to the firm; and, consequently, may increase the firm's performance (Carter et al., 2003). The findings are consistent with agency perspectives that women on boards can increase the board's independence and, hence, enhance effective monitoring and control, which improve the board's effectiveness and the firm's reputation (Carter et al., 2003; Shukeri et al., 2012). The findings support, also, the view that women on boards can enhance good communication and sound decision-making, which minimises agency costs (Carter et al., 2003).

Board skills

There is an insignificant relationship between the proportion of directors with doctoral qualifications and both ROA and ROE (see Table 7.5). The hypothesis H5 predicted a positive relationship between board skill and financial performance. As a result of the findings the hypothesis is rejected. The results are in line with the study of Kim and Rasheed (2014), which finds an insignificant relationship between board members' educational qualifications and the firm's financial performance. The study is, also, consistent with Jhunjhunwala and Mishra's (2012) empirical evidence from India, a developing country that there is an insignificant relationship between the board members' levels of education and the firm's financial performance. On the other hand, the findings are inconsistent with Ujunwa's (2012) study in Nigeria, a developing country. His findings show that there is a significant and positive relationship between directors with PhD qualifications and the firm's financial performance.

Moreover, the findings do not support the argument from agency theory and resource dependence that knowledge and skills advance the directors' monitoring, advising and decision making (Kim & Rasheed, 2014; Forbes & Milliken, 1999). However, the correlation results (see Table 7.2) show that board skills are probably an important element for the board to possess in order to influence the firm's performance. An insignificant result may be caused by the lack of an appropriate skills mix on the board (Kim & Rasheed, 2014). Also, the average number of directors with a doctoral qualification is approximately one per board (see Table 7.1). This may impede the board's influence. Moreover, there is a lack of emphasis on matters that are essential to the firm's performance and poor decisions caused by board members' inadequate practical experience or exposure in business (Francis et al., 2015). Furthermore, due to other responsibilities in their other organisations, academic directors may possibly not utilise their expertise enough and apply them to real business matters (Francis et al., 2015). The results suggest that the board members with doctoral qualifications may not contribute to the potential economic values of Tanzanian listed firms.

Foreign directors

The findings (see Table 7.5) indicate that there is no link between the proportion of foreign directors and the firm's financial performance. The hypothesis H6 predicted a positive relationship between foreign directors and financial performance: as a result of the findings the hypothesis is rejected. The findings are also in line with the empirical evidence from developing countries (e.g. Jhunjhunwala & Mishra, 2012) which find no relationship between the proportion of foreign directors and the firm's financial performance. However, the findings do not support the empirical evidence of Ujunwa (2012) from developing countries that there is a positive relationship between the proportion of foreign directors and the firm's financial performance. The findings are, also, inconsistent with those of Oxelheim and Randoy (2003) and Masulis (2009).

The result does not support the resource dependence and agency theory that foreign directors minimise agency problems and provide access to foreign capital, contacts, networks and expertise (Ruigrok et al., 2007; Ujunwa, 2012). In addition, the study does not support Ruigrok et al.'s (2007) conclusion that foreign directors are more likely to be independent than local directors and, hence, enhance the board's monitoring and control functions. One of the reasons that is likely to contribute to the insignificant relationship between foreign directors and financial performance is that most of the foreign directors are outside directors and they may fail to fulfil their monitoring and advisory responsibilities and providing access to appropriate information due to the disadvantages of their geographical locations (Masulis et al., 2012). The findings do not support Ujunwa's (2012) argument that foreign directors minimize agency problems and provide access to foreign capital and expertise (Ujunwa, 2012).

7.4 ROBUSTNESS ANALYSES

This section assesses the robustness of the OLS regression results by using tests of Variance Inflation Factors (VIF), Bootstrap method, estimation of lagged value board characteristics- financial performance and the 2SLS regression method. As discussed in detail in the following sections, these tests' results are compared with OLS results in order to determine the similarities and differences.

7.4.1 Multicollinearity and Bootstrap methods

There are many methods of checking the robustness of findings. For example, there are trimmed mean, M-estimators and bootstrap method (Field, 2014). Consistent with Reddy et al. (2011), this study uses a test of multicollinearity and bootstrap method to check the robustness of the OLS results.

7.4.1.1 Multicollinearity

Multicollinearity happens when there is a strong relationship between independent variables and this relationship affects the deviation of parameter coefficients, the size of the correlation coefficients and the revaluation of the independent variables (Field, 2014). Correlation matrixes can check multicollinearity among the independent variables (Ntim & Soobaroyen, 2013; Field, 2014). Table 7.2 presents correlation matrixes for the variables under investigation. Multicollinearity can be detected by VIF and a value of 10 or above indicates a multicollinearity problem (Myers, 1990 as cited in Jackling & Johl, 2009; Field, 2014). A pairwise correlation of above 0.8 and a tolerance statistic of below 0.1 indicate a serious problem while a result of below 0.2 indicates a potential problem (Field, 2014).

Table 7.6: Multicollinearity Diagnostic

Independent Variables	Tolerance	VIF
Board Size	0.491	2.038
Outside Directors	0.257	3.887
CEO duality	0.379	2.640
Foreign Directors	0.244	4.100
Board Skill	0.445	2.246
Female Directors	0.630	1.586
Financial Leverage	0.731	1.368
Firm Size	0.510	1.959
Firm Age	0.453	2.208

Chapter Five provides a detailed definition of the measurement methods of all the variables used in this study.

The multicollinearity diagnostic in Table 7.6 shows VIF using ROE and ROA. The findings show the VIF values range from 1.368 to 4.10 and that the minimum tolerance value is 0.244 and the maximum is 0.731. Moreover, Table 7.2 shows the values of pairwise correlations and none of the values are above 0.8. Consequently, the test suggests that there is no serious multicollinearity problem between the study model's independent variables.

7.4.1.2 Bootstrap Methods

Bootstrap methods provide better estimations of p-values and confidence intervals from the sample distribution (bootstrapped distribution) (Erceg-Hurn & Mirosevich, 2008; Field, 2014). In order to reduce the risk of violating OLS regression assumptions, this study used the robust method of bootstrapping (as suggested by Field, 2014), to estimate the confidence intervals and significance values because it does not rely on the assumptions of normality or homoscedasticity (Field, 2014). This is consistent with Reddy et al. (2011).

Table 7.7: Bootstrap for Coefficients (ROA and ROE)

	ROA		ROE	
	B	Sig.	B	Sig.
(Constant)	0.273	0.024*	0.101	0.689
Board size	-0.012	0.129	0.002	0.919
Outside directors	0.094	0.60	0.397	0.282
CEO duality	-0.179	0.05*	-0.312	0.089
Foreign directors	0.033	0.574	0.07	0.523
Board skill	0.184	0.305	0.271	0.417
Gender diversity	0.435	0.016*	0.889	0.011*
(Constant)	0.733	0.017	1.101	0.079
Board size	-0.012	0.086	-0.007	0.69
Outside directors	0.139	0.527	0.202	0.664
CEO duality	-0.225	0.011*	-0.348	0.063
Foreign directors	0.095	0.234	0.112	0.53
Board skill	0.286	0.122	0.516	0.165
Gender diversity	0.256	0.207	0.737	0.119
Firm debt	-0.039	0.003**	-0.002	0.939
Firm size	-0.053	0.02*	-0.094	0.05*
Firm age	-0.045	0.349	-0.097	0.32

* Significant at the 5% level (2 tailed). ** Significant at the 1% level (2-tailed). Chapter Five provides a detailed definition of the measurement methods of all the variables used in this study.

Table 7.7 shows that there is a significant relationship between CEO duality and ROA and a marginally significant relationship between CEO duality and ROE. Furthermore, there is a weak positive relationship between gender diversity and ROE and an insignificant relationship between gender diversity and ROA. There are, also significant and positive relationships between firm debt and firm size and ROA. Moreover, there is a significant and negative relationship between firm size and ROE. Table 7.7 shows that the relationship between CEO duality and ROE is significant and marginally negative. The bootstrapped coefficients are relatively similar to normal OLS coefficients. Table 7.8 shows a comparison of the OLS and bootstrap results. The Table indicates that there is a significant and negative relationship between CEO duality and non-bootstrapped coefficients and a significant and marginally negative relationship between CEO duality and bootstrapped coefficients. There is a strong and positive relationship between women on boards and the ROE coefficient on the non-bootstrapped coefficients while there is a weak and positive relationship between women on boards and the ROE coefficient on bootstrapped coefficients.

Table 7.8: Summary of normal and bootstrapped coefficients under different performance measures (OLS) Model

	Normal Coefficients		Bootstrapped Coefficients	
	ROA	ROE	a) ROA	b) ROE
Constant	0.73**	1.10*	0.733*	1.101
	0.000	0.020	0.017	0.079
Board size	-0.010	-0.010	-0.012	-0.007
	0.120	0.660	0.086	0.690
Outside directors	0.140	0.200	0.139	0.202
	0.320	0.490	0.527	0.664
CEO duality	-0.22**	-0.35*	-0.225*	-0.348
	0.000	0.010	0.011	0.063
Foreign directors	0.095	0.112	0.095	0.112
	0.254	0.526	0.234	0.530
Board skill	0.286	0.516	0.286	0.516
	0.133	0.201	0.122	0.165
Gender diversity	0.256	0.737*	0.256	0.737
	0.096	0.025	0.207	0.119
Firm debt	-0.039**	-0.002	-0.039**	-0.002
	0.000	0.899	0.003	0.939
Firm size	-0.053*	-0.094*	-0.053*	-0.094*
	0.015	0.040	0.020	0.050
Firm age	-0.045	-0.097	-0.045	-0.097
	0.393	0.384	0.349	0.320
R2	0.517	0.301	0.517	0.301
Adjusted R2	0.455	0.212	0.455	0.212
F- Statistics	8.332**	3.356**	8.332**	3.356**
No. of Observations	80	80	80	80

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

Chapter Five provides a detailed definition of the measurement methods of all the variables used in this study.

The regression results between CEO duality and ROE indicate a marginally positive significance; on the other hand, Table 7.8 indicates an insignificant relationship between gender diversity and ROA on the bootstrapped coefficients. The control variables are similar in magnitude and significance. Generally, the bootstrapped coefficients are similar in magnitude and direction to the OLS coefficients (see Table 7.7). Therefore, the OLS findings are robust to the bootstrapped results.

7.4.2 Endogeneity problem

7.4.2.1 Endogeneity and Instrumental variables

As discussed in Chapter Three, endogeneity is one of the challenging issues in corporate governance studies. It occurs when there is a correlation between independent variables and the error term in a statistical model (Larcker & Rusticus, 2010; Ammann et al., 2011; Ntim et al., 2012). Endogeneity in corporate governance research may be caused mainly by simultaneity and omitted variable bias (Larcker & Rusticus, 2010). Previous studies argue that a board structure is to be determined endogenously (e.g. Hermalin & Weisbach, 2001; Bhagat & Black; 2002). For example, the number of outside directors and foreign directors can have a simultaneous effect on the firm's financial performance and the firm's good past performance can attract more foreign directors (Oxelheim & Randøy, 2003).

On the other hand, a firm, which produced previously poor performance, can lead to an increase of independent directors on the board (Hermalin & Weisbach, 2001; Bhagat & Black, 2002). If board characteristic variables are endogenous, the OLS regression may be biased; consequently, the problem can be addressed by two approaches. Firstly, by using the instrumental variables approach (IV) (Bhagat & Black, 2002, Ashbaugh-Skaife et al., 2006; Larcker & Rusticus, 2010) and secondly, there are lagged values of board characteristics and the firm's financial performance (Amman et al., 2011; Ntim et al., 2012). In order to tackle the issue of endogeneity and in line with the studies of Larcker & Rusticus (2010), Amman et al. (2011), and Ntim et al. (2012), this study adopts the approaches of instrumental variables through

2SLS and lagged values). Table 7.9 shows a list of some of the prior literature that used instrumental variables.

Table 7.9: List of Studies Using Instrumental Variables on Dealing with Endogeneity

Author(s)	Country	Method for testing endogeneity and causality	Instruments variables	Issue
Albassam (2014)	Saudi Arabia	Lagged structure regression and instrumental Variables (IV) approach		Corporate governance, Voluntary disclosure and Financial Performance
Farhat (2014)	UK	2SLS	Lagged values of board structure (INDEP AND BSIZE) and other exogenous variables, and control variables	Corporate governance and firm performance
Desoky and Mousa (2012)	Egypt	Fixed effects, 2SLS	Control variables (FSIZE, FLEVER, and FLIQUI) and Log ROA, Log ROE, and Log TOBIN Q	Ownership, Characteristics and firm performance
Ntim et al. (2012)	South Africa	2SLS and Lagged Structure Regression	Predicted SACGI and control variables	Value Relevance of Shareholder and Stakeholder Corporate Governance Disclosure Policy Reforms

Ammann et al. (2011)	22 developed countries	Dynamic panel GMM estimator	Lagged values of the governance indices and performance	Corporate governance and firm value
Jackling and Johl (2009)	India	3SLS	Lag performance, powerful CEO and Capital structure instrument.	Board structure and firm performance
Bhagat and Bolton (2008)	US	2SLS	CEO tenure-to Age, Treasury stock, Currently active CEO on board and Capital structure instrument.	Corporate governance and firm performance
Oxelheim and Randøy (2003)	Norway and Sweden	2SLS	Firm size and foreign subsidiary	Foreign directors and firm performance
Bhagat and Black (2002)	US	2SLS	Firm performance measure, board independence and CEO ownership.	Board independence and firm performance
Himmelberg, Hubbard and Palia (1999).	US	Fixed effects, 2SLS	Log sales, log sales squared, standard deviation and standard deviation dummy	Ownership and firm performance
Agrawal and Knoeber (1996)	US	2SLS	Assets, founder dummy, regulatory	Governance and firm performance

			dummy.	

7.4.2.2 Instrumental Variables

An Instrumental Variable (IV) is a variable that is assumed to be uncorrelated with error term but related with the right hand side variables (Bhagat & Black, 2002). Instrumental variables can reduce the endogeneity of explanatory variables and measurement errors in those variables (Larcker & Rusticus, 2010). However, it is very difficult to choose instrumental variables appropriate to the model (Ashbaugh-Skaife et al., 2006; Bhagat & Bolton, 2008; Larcker & Rusticus, 2010). Consequently, there is disagreement on the appropriate instruments for corporate governance research.

On the other hand, an instrumental variables approach may be less effective than OLS when the identified instrumental variables are inadequate (Larcker & Rusticus, 2010). The instrumental variable should be selected with consideration of the empirical evidence (Ashbaugh-Skaife et al., 2006; Bhagat & Bolton, 2008; Jackling & Johl, 2009; Larcker & Rusticus, 2010) and the identified instrumental variables have to be related to the endogenous variables but not correlated with the error term (Larcker & Rusticus, 2010). Consequently, in line with Larcker and Rusticus (2010), this study conducted a (2SLS regression using selected instrumental variables; these are assumed to be exogenous and appropriate.

7.4.2.3 Appropriateness of the Instrumental Variables

Previous studies support the use of Instrumental Variables (IV); for example, in, Bhagat and Black (2002), Jackling and Johl (2009), Larcker and Rusticus (2010) Reeb, Sakakibara, and Mahmood (2012), Farhat (2014). This study used lagged values of explanatory variables (LAGBOUTSIDE, LAGBSIZE, LAGCEOD, LAGFEMDIR, LAGBSKILL, LAGFODIR, LAGFEDEBT, LAGFMSIZE, LAGFMAGE) and controls variables of FDEBT, FMAGE and FMSIZE as IV since they are uncorrelated with the error term in the model. Appendix Ch. 7.10 shows there is no association between the IV and error term. Furthermore, the IV are correlated to the right hand side variables (see Appendix Ch 7.10) (Bhagat & Black, 2002; Larcker & Rusticus, 2010). There is a medium to strong correlation of the right hand side endogenous variables to their lagged values, for instance, BOUTSIDE and LAGBOUTSIDE is 83.3%, while BSIZE and LAGBSIZE is 89.9%, CEOD and LAGCEOD is 86.1%, FODIR and LAGFODIR 93.5%, BSKILL and LAGBSKILL 78.5%, FEMDIR and LAGFEMDIR 68.9%. Thus, the correlations are likely to be high; this may be an indication that the instruments are more likely to be exogenous than endogenous variables (Larcker & Rusticus, 2005 as cited in Farhat, 2014). Moreover, the uses of lagged values as IV are consistent with the previous corporate governance studies of Jackling and Johl (2009), Ammann et al. (2011) and Farhat (2014) (see Table 7.9).

7.4.2.4 Two Stage Least Square Regression (2SLS)

Following Ntim et al. (2012), this study addresses challenges of the endogeneity resulting from the omitted variable bias by using 2SLS regression. IV used in the running of 2SLS regression in the SPSS software version 22. This study used the following IV instrumental variables: Lagged values of board size (LAGBSIZE) and outside directors (LAGBOUTSIDE) and other regressor variables, while board size (BSIZE) and outside directors (BOUTSIDE) were assumed to be endogenous variables. Table 7.10 presents the results of the 2SLS regressions on the relationship between board characteristics (board size, outside directors, CEO duality, gender diversity, education diversity and foreign directors) and the firm's financial performance measured by ROA and ROE.

Table 7.10: 2SLS Coefficients Estimates

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

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

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

Chapter Five provides a detailed definition of the measurement methods of all the variables used in this study.

Table 7.10's 2SLS results show that there is a significant and negative association between firm debt and ROA while there are no significant relationships between the other control variables of firm age and firm size and the firm's financial performance as measured by ROA and ROE. While there are significant and negative relationships between CEO duality and both measures of performance (ROA and ROE), there is no significant relationship between other explanatory variables and the firm's financial performances as measured by ROA and ROE. Table 7.11 shows a comparison between the coefficients of the variables from the OLS and 2SLS models as measured by ROA and ROE. Consistent with the OLS results in table 7.11, there is a significant and negative relationship between CEO duality and ROA and ROE. Also, there is a significant and negative correlation between firm debt and ROA and an insignificant relationship with ROE. The coefficients are similar in magnitude and direction.

The notable difference is on gender diversity; there is a weak and positive relationship with ROA (OLS model); however, gender diversity is unrelated with ROA (2SLS model). There is a significant and positive relationship between gender diversity and ROE on the OLS model and a marginally significant and positive relationship with ROE on the 2SLS model. In addition, with the exception of firm size, the control variables look similar. These have a significantly negative relationship with both ROA and ROE on the OLS model, and an insignificant relationship with ROA and ROE on the 2SLS model. Other right hand side variables have coefficients that are similar in magnitude and direction.

There are, also, some small differences in the fitness of both the OLS and 2SLS models. For the OLS model, the value of R2 is 51.7% and 30.1% for ROA and ROE respectively while, for the 2SLS model, it is 48.4% and 25.5% for ROA and ROE respectively. The adjusted R2 is, also, different in both models; in the OLS model, it is 45.5% and 21.2% for ROA and ROE respectively while, in the 2SLS model, the percentages are 41.7% and 15.8% for ROA and ROE respectively. In the OLS model, the F-values for ROA and ROE are 8.332 and 3.35 respectively, both at 1% significance level while, in 2SLS model, the values are 7.197 and 2.623 for both ROA and ROE respectively, both at 1% significance level.

Table 7.11: Comparison between OLS and 2SLS Findings

		OLS Regression Coefficients		2SLS Regression Coefficients	
		a) ROA	b) ROE	ROA	ROE
COSTANT		0.73**	1.10*	0.518	0.61
		0.00	0.02	0.096	0.356
BSIZE		-0.01	-0.01	-0.008	-0.001
		0.12	0.66	0.399	0.961
BOUTSIDE		0.14	0.2	0.285	0.576
		0.32	0.49	0.268	0.296
CEOD		-0.22**	-0.35*	-0.275**	-0.467*
		0.000	0.01	0.008	0.033
FODIR		0.095	0.112	0.062	0.08
		0.254	0.526	0.624	0.768
BSKILL		0.286	0.516	0.009	-0.153
		0.133	0.201	0.982	0.854
FEMDIR		0.256	0.737**	0.35	1.017
		0.096	0.025	0.233	0.107
FDEBT		-0.039**	-0.002	-0.038**	-0.002
		0.000	0.899	0.000	0.929
FMSIZE		-0.053*	-0.094*	-0.032	-0.054
		0.015	0.04	0.204	0.308
FMAGE		-0.045	-0.097	-0.064	-0.121
		0.393	0.384	0.35	0.409
R Square		51.7%	30.1%	48.4%	25.5%
Adjusted R2 Square		45.5%	21.2%	41.7%	15.8%
F- Statistics		8.332**	3.356**	7.197**	2.623*
No. Of Observations		80	80	80	80

Notes: *, ** denotes significant at the 5% level (2 tailed) and 1% level (2-tailed) respectively. This table shows 2SLS regression results of the board characteristics' impact on Tanzanian listed companies' financial performances for the years 2013-2013. The dependent variables in the regression are ROA and ROE. ROA is measured by earnings before interest and tax divided by the book value (BV) of the company's total assets (current assets +current liabilities). ROE is computed by fiscal year's net income (after preferred stock dividends but before common stock dividends) divided by total equity (excluding preferred shares), expressed as a percentage. The independent variables in the regression include the proportion of outside directors (BOUTSIDE). CEOD is practice whereby a single individual is serving as both Chief Executive Officer (CEO) and board chair, as measured by assigning 1 if CEO is not the chair and 0 if CEO is also the chair. Board size is measured by the total number of directors on the board (BSIZE) while the number of female directors as a percentage of total number of directors on the board takes the designation (FEMDIR). The number of directors with doctoral qualifications to the total number of directors is known as (BSKILL). FODIR is the proportion of foreign directors to the total number of directors, DEBT is the financial leverage computed by total debt divided by total equity. FMSIZE is the firm size as computed by a natural logarithm of a firm's total assets. FMAGE is the length of time over which common stock has been traded on DSE.

The 2SLS findings are largely similar to the OLS findings (see Table 7.11) since the magnitude and direction of both sets of coefficients look similar. There are minor differences between findings. Therefore, the initial OLS findings are robust to the 2SLS findings. The lagging structure is estimated, also, in the next sub-section to check the endogeneity problem.

7.4.2.5 Lagging structure estimation

The problems of simultaneity can be solved by a lagged structure of the board characteristics-firm performance relationship whereby the dependent variables differ from explanatory variables by one year or more (Amman et al., 2011; Ntim et al., 2012; Albassam, 2014). This means that the effect of a previous change or decision relating to right hand side (RHS) variables may affect the current year's performance (Ntim et al., 2012; Albassam, 2014). Similar to the previous studies of Albassam (2014) and Ntim et al. (2012), this study re-estimated the OLS model with a one-year lag between dependent and independent variables so as to address endogeneity problems that may be caused by simultaneity. Consequently, equation 1 in Chapter Five is re-estimated to a one-year lag of independent variable values as follows:

$$Y_{it} = \alpha + \beta_1 BSIZE_{it-1} + \beta_2 OUTSIDE_{it-1} + \beta_3 CEOD_{it-1} + B_4 FODIR_{it-1} + \beta_5 BSKILL_{it-1} + \beta_6 FEMDIR_{it-1} + B_7 FDEBT_{it-1} + \beta_8 FMSIZE_{it-1} + \beta_9 FMAGE_{it-1} + \varepsilon_{it-1}$$

The above equation is the same as equation 1 except there is one year-lag between ROA, ROE and the RHS variables. The current year's performance (ROA and ROE) depends on last year's RHS. The RHS variables in the regression include the proportion of outside directors (BOUTSIDE), CEO duality (CEOD), board size (BSIZE), Proportion of female directors on board (FEMDIR), Board skill (BSKILL), foreign directors on board (FODIR), Firm debt (FDEBT), Firm size (FMSIZE) and Firm age (FMAGE). The one year-lag estimation and results are indicated in Table 7.12:

Table 7.12: Regression Results for the Estimated Lagged Structure for the OLS Model

	B	t	Sig.	VIF	B	T	Sig.	VIF
(Constant)	0.683	2.699	0.009**		0.817	1.484	0.143	
LAGBSIZE	-0.01	-1.195	0.237	2.216	-0.002	-0.094	0.925	2.216
LAGBOUTSIDE	0.246	1.581	0.119	4.226	0.533	1.575	0.120	4.226
LAGCEOD	-0.294	-4.224	0.000**	2.709	-0.46	-3.043	0.003**	2.709
LAGFODIR	0.073	0.792	0.431	4.378	0.136	0.675	0.502	4.378
LAGBSKILL	0.235	1.133	0.262	2.329	0.269	0.595	0.554	2.329
LAGFEMDIR	0.224	1.327	0.189	1.673	0.831	2.267	0.027*	1.673
LAGFMSIZE	-0.049	-2.071	0.043*	2.054	-0.085	-1.66	0.102	2.054
LAGFMAGE	-0.059	-1.005	0.319	2.398	-0.085	-0.674	0.503	2.398
LAGFDEBT	-0.043	-4.305	0.000**	1.425	-0.012	-0.564	0.575	1.425
R2		52.70%				32.50%		
Adjusted R2		45.60%				22.40%		
F Sign.		7.425**				3.211**		
No of Observation		70				70		

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

Notes: Variables are defined as follows: lagged board size (LAGBSIZE), lagged outside directors (LAGBOUTSIDE), Lagged CEO duality (LAGCEOD), lagged foreign directors (LAGFODIR), lagged board skill (LAGBSKILL), lagged gender diversity (LAGFEMDIR), lagged firm size (LAGFMSIZE), lagged firm age (LAGFMAGE) and Lagged firm debt (LAGFDEBT). Chapter Five provides a detailed definition of the measurement methods of all the variables used in this study.

Table 7.12 shows that the lagged CEO duality, firm size and firm debt have a significant and negative relationship with ROA. The lagged CEO duality has a significant and negative relationship with ROE and the lagged Gender diversity has a significant and positive relationship with ROE. Table 7.13 shows the comparison between the regression results of the lagged structure and un-lagged results from OLS

Table 7.13: Regression Results of the Estimated Lagged Structure with Comparison to OLS Unlagged Results

	Dependent Variables			
	Panel A: Main Regression Un-lagged Structure		Panel B: Estimated lagged structure regression	
	a) ROA	b) ROE	ROA	ROE
Constant	0.73**	1.10*	0.683**	0.817
	0.000	0.020	0.009	0.143
BSIZE	-0.010	-0.010	-0.010	-0.002
	0.120	0.660	0.237	0.925
BOUTSIDE	0.140	0.200	0.246	0.533
	0.320	0.490	0.119	0.120
CEOD	-0.22**	-0.35*	-0.294**	-0.460**
	0.000	0.010	0.000	0.003
FODIR	0.095	0.112	0.073	0.136
	0.254	0.526	0.431	0.502
BSKILL	0.286	0.516	0.235	0.269
	0.133	0.201	0.262	0.554
FEMDIR	0.256	0.737*	0.224	0.831*
	0.096	0.025	0.189	0.027
FDEBT	-0.039**	-0.002	-0.043**	-0.012
	0.000	0.899	0.000	0.575
FMSIZE	-0.053*	-0.094*	-0.049*	-0.085
	0.015	0.040	0.043	0.102
FMAGE	-0.045	-0.097	-0.059	-0.085
	0.393	0.384	0.319	0.503
R2	51.70%	30.10%	52.7%	32.5%
Adjusted R2	45.50%	21.20%	45.6%	22.4%
F- Statistics	8.332**	3.356**	7.425**	3.211**
No. of Observations	80	80	70	70

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

Table 7.13 shows the comparison of main un-lagged regression coefficients and estimated lagged structural models. The coefficients in both structures are similar in direction and magnitude. Particularly, CEO duality correlates significantly and negatively with firm ROA and ROE and gender diversity correlates significantly positively with ROE. Other explanatory variables have almost the same coefficients; these are the same in direction and magnitude. However, some of the control variables differ in level of significance. For instance, FDEBT relates significantly and negatively with ROA in both models but relates marginally negatively insignificantly with ROE in both models. A notable difference is FMSIZE; it relates significantly and negatively with ROA in the un-lagged structural model while it relates insignificantly with ROE on the lagged structural model.

The R2 and adjusted R2 for un-lagged and lagged structure model on ROA are approximately 56% and 42%. For ROE, the R2 is 30.10% and adjusted R2 is 21.2% for the un-lagged structure model while, in the lagged structure model, the R2 is 32.5% and adjusted R2 is 22.4%. The F-value is similar in both un-lagged and lagged structure models. Therefore, these findings are similar to the OLS findings and indicate, also, the robustness of the OLS findings.

7.5 CHAPTER SUMMARY

This chapter aimed to investigate the impact of board characteristics of board size, outside directors, CEO duality, education diversity, foreign directors and gender diversity on the Tanzanian listed firm's financial performance as measured by ROA and ROE. Firstly, before conducting OLS regression, the main assumptions were checked to ensure that the OLS findings were reliable. These assumptions included: normality; linearity; homoscedasticity; and autocorrelation. To test normality of the residuals, histograms and normal probability plots of standardised residual were used for ROA and ROE respectively. Linearity and homoscedasticity were tested by using a plot of standardized residuals against standardized predicted values while autocorrelation was tested by using the Durbin-Watson test. Multicollinearity was checked by Pearson correlation. These tests' findings indicated that the assumptions were reasonably met.

Secondly, the main OLS results were similar on both measures of performance (ROA and ROE). CEO duality was found to be related significantly and negatively to ROA and ROE. There was a weak positive relationship between gender diversity and ROA while it was strong on ROE. There was no significant relationship between board size, outside directors, board skill and foreign directors with firm financial performance measured by ROA and ROA. The control variable of firm debt related significantly and negatively to ROA but related insignificantly to ROE. The firm size related, also, significantly negatively to ROA and ROE while no significant relationship was found between firm age and ROA and ROE.

Thirdly, the tests were carried out to examine the robustness of the main OLS findings. The coefficients of OLS were bootstrapped to provide a better estimate of p values and confidence interval. The findings were similar to those of the main OLS findings. The findings indicated that the assumptions of multiple regressions were reasonably met. Also, the potential endogeneity problems were addressed by using instrumental variables in 2SLS regressions and lagged variables structures. After these tests, the magnitude and direction of the variables coefficients were similar to the OLS findings. Therefore, the findings were similar, also, to the main findings and indicated that the absence of serious impact of endogeneity. The next chapter presents the findings from the qualitative research. It provides a qualitative exploration of the participants' perceptions on the board characteristics' impact on Tanzanian listed firms' financial performance.

8 CHAPTER EIGHT: QUALITATIVE ANALYSIS, FINDING AND DISCUSSION

8.1 INTRODUCTION

This chapter presents the analysis gathered from the interviews with different participants who were corporate governance stakeholders in Tanzania. These included directors (outside directors, female directors, chief executives officers, board chairman) and other key corporate governance stakeholders.

This chapter has two main objectives. The first objective is to explore the participants' views on the board characteristics' impact on a Tanzanian listed firm's financial performance and the awareness of corporate governance in Tanzania. The second objective is to discuss the integration of findings from the interviews and the quantitative results in order to gain richer insights to the board characteristics' on Tanzanian listed firms' financial performance.

The analysis is carried out on the main theme, namely, financial performance, developed from the coding system in Chapter Six as indicated in Figure 6.2, which is financial performance. Hence, the rest of the chapter is organized as follows: Section 8.2 discusses the investigation of the assessment of the association between board characteristics and the firm's financial performance; and section 8.3 discusses the integration between the quantitative results and qualitative findings. Finally, section 8.4 presents a summary of the chapter.

8.2 ASSOCIATION BETWEEN BOARD CHARACTERISTICS AND FIRMS' FINANCIAL PERFORMANCE

The board has many characteristics that can impact on the firm's financial performance. Specifically, this subsection explores: i) board size; ii) board skills; iii) CEO duality; iv) outside directors; v) gender diversity; and vi) foreign directors. The conflicting debate on the board characteristics' impact on a firm's financial performance has focused discussion of this topic (Garg, 2007; Tricker, 2012).

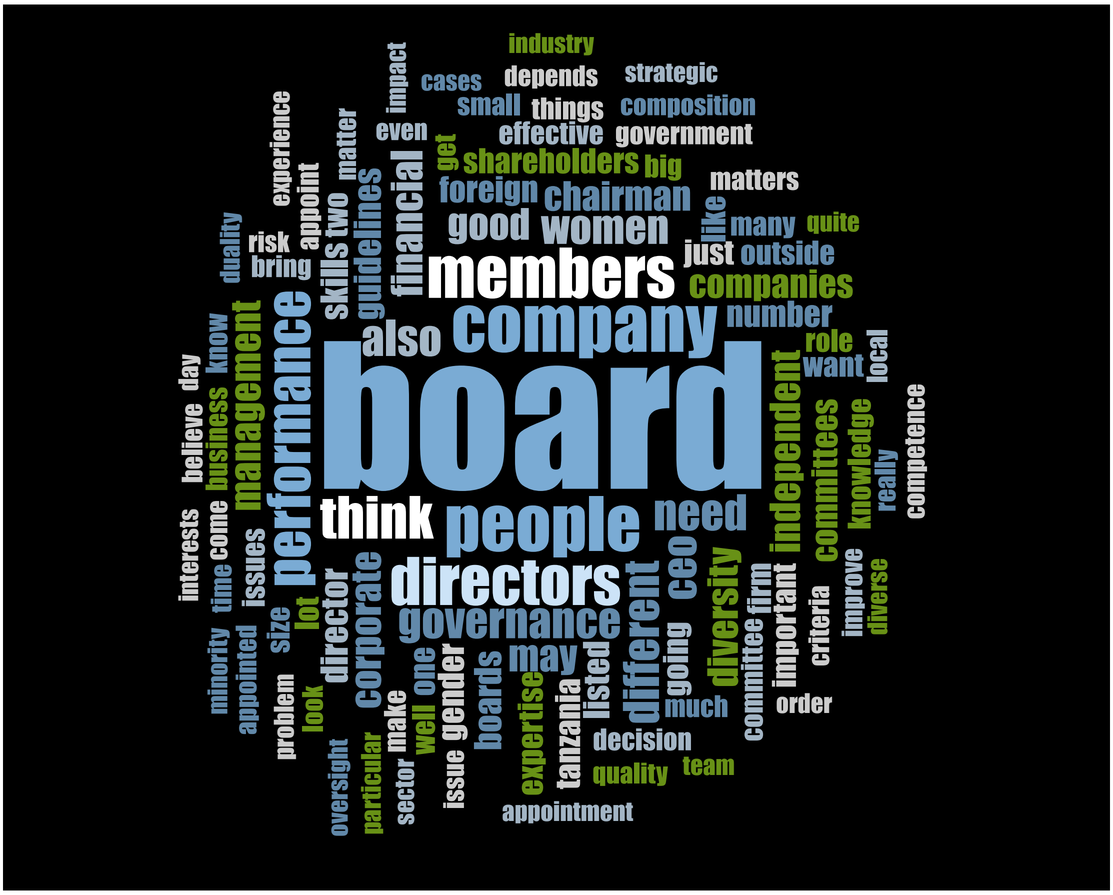


Figure 8.1 Interviewees' Views on Board of Directors

Figure 8.1 illustrates how the participants viewed the board mostly as an important mechanism of corporate governance and how it affected the firm's financial performance. For example, board member B7 reported that "*A board is a very important mechanism of corporate governance, if you have the proper, collective, and experienced board; it is indispensable to good financial management*" (Interviewee B7). This is in line with Nicholson and Kiel's (2004) assertion that the board of directors is an important instrument of monitoring and directing the firm's management to ensure that they are complying with relevant laws, regulations and risk management procedures in order to increase the shareholders' wealth.

i) Outside Directors

R2 argued that it was a requirement of governance principles and regulations to have outside independent directors on the board. R3 argued further that DSE required companies to have a good number, at least 30% on their boards. In addition, he claimed that DSE encouraged listed companies to have outside independent directors on their boards in order to ensure that the board discharged its responsibilities effectively and protected shareholders' interests. R1 argued that outside directors were unlikely to have a direct link with the firm's financial performance. B2 stressed this by arguing that the link between outside directors and firm financial performance stemmed from their effectiveness in directing and controlling the board and their application of corporate governance principles. He argued that they had to be independent in order to be effective. This was supported by the arguments of Zahra and Pearce (1989), Jackling and Johl (2009) and Shukeri et al. (2012) that independent outside directors could provide effective oversight of the firm's management in order to protect the owners' interests.

Thus, the independence of the outside directors was likely to be key element in order for them to be effective. B9 believed that most Tanzanian listed firms directors were independent and had fiduciary responsibilities to shareholders. Therefore, they had to deliver what was in the best interests of the firm and its shareholders. However, B6 claimed that there were still some outside directors who protected the management's interests. This was because some of them were not appointed based on their merits but due to other factors such as political (B2; B3 and R2).

The independence of outside directors was emphasised, also, by B6 who argued that independence empowered outside directors to perform their duties of monitoring and oversight of management effectively. B6 reported:

> *...Independent members...always push for good performance regardless of anything and in most cases because they are independent they can ask whichever question they would like to ask and they can demand any explanation from management, and the way the management respond to those issues is a little bit different from when they are responding to executives because with executives, particularly the internal ones, they are still the same people, they know each other, they have no restrictions, so they have a bit of understanding when things are not going in the right direction.*

(Interviewee B6)

Also, B7 consented that the outside directors played an important role in minimising agency problems by monitoring and controlling the management in order to protect the owners' interests including involvement in the practice of risk management. In this regard, Fama and Jensen (1983) argue that independent directors had a motivation to minimise agency problems. To highlight this point, B3 argued that outside independent directors were very important to the board's monitoring and control functions, especially when the firm was not performing well. B3 indicated:

> *I look at outside directors as bringing into the board an outside view of how the company is running as opposed to people who have been in the company, because they will take for granted things as usual but when you get people who are outside, then they will look at things from a different perspective*.

(Interviewee B3)

In addition, B1 believed outside directors could improve the firm's financial performance because they have a different motivation apart from financial gain. He said: "*the motivation is different, apart from money. That improves their independence considerably. You should only appoint people who are genuinely committed. They are* *there to gain reputation and their reputation could be damaged as well if they underperform"* (Interviewee B1). Also, R3 argued that outside directors strengthened the board since they brought a unique flavour to the board.

Nonetheless, B5 said that she did not think that the independence of directors was the most important issue: she believed what mattered more was the output of board members; adherence to corporate governance principles; and competency of board members in terms of expertise, experience, knowledge of the business and the industry. This view is supported by Garg's (2007) argument that lack of skills and competency of directors in emerging economies was likely to contribute to their poor performance. In this regard, B4 said that most family owned firms were not performing well because their directors lacked professionalism. Hence, the competence of the outside directors was another element likely to be essential for them to discharge their responsibilities effectively.

ii) Board Size

The participants had different opinions about the appropriate size of a board and pointed out a range of numbers of board members could be appropriate. B2 reported that their board had only five members and B8 claimed that they had set a limitation on their board size. He said, "a*ccording to our article and memorandum of association the maximum number of the board size should not exceed 7"* (Interviewee B8). However, B3 suggested that an optimal board ought to comprise of members in the range of 7-10. In addition, B6 suggested the key range for board size should be between 10 and 12. On the other hand, B5 and B9 argued that the nature of a firm was likely to be a determinant for the appropriate board size. In this regard, Lawal (2012) posits that the contrary debate about the correct size of a board is still on going between corporate governance scholars.

The majority of participants favoured small boards when it came to the issue of influence on a firm's financial performance. B2 argued that smaller boards were more effective than larger boards since they could aid easier and quicker access to a firm's information; this would contribute to sensible, timely decisions. Similar to this opinion, B1 emphasised the importance of smaller boards:

> *If you have a smaller team, it is better than a big team. If you have quick thinking directors, they are able to make decisions and move quickly. Therefore, you need a team of people who are able to speak together and sit down and get a consensus quite quickly and move on. That can only happen in smaller groups.*
>
> (Interviewee B1)

This is supported by Yermack (1996) and Chang-Jui (2011), which indicate that a smaller board is likely to improve corporate financial performance due to the fact that correct decisions are made at the right time. Consequently, there is effective oversight of management. However, B7 argued that large boards could reduce financial performance since it encouraged division among the board members. Also, B1, B4 and B2, pointed out that a board with a large number of members was ineffective because it was very difficult to make an appropriate strategic decision on time. Conversely, B3 suggested that a small board was likely to be ineffective in decision making due to the limitation on ideas. R1 stressed that one of the limitations of a smaller size board was that there were insufficient numbers to fill each of those key positions on board committees and, consequently, some committees would be ineffective. In this regard, Mahadeo et al. (2012) argue that a board ought to be big enough to offer a diversity of skills among its members.

In addition, B7 underscored this argument, saying "y*ou may have a problem in some cases where they want you to have committees. You require at least 12 people to have that kind of divergence in board committees"* (Interviewee B7). In contrast to the arguments of R1 and B7, B1 claimed that a small board of directors could segment into board committees. Other interviewees, B5 and B4, suggested that the board ought not to be too big or too small. Therefore, the mixed views on optimal board size are a reflection of how there is still confusion about the appropriate size of the board. However, B2, R1 and B9 suggested that the numbers of board members alone might have not an impact on the firm's financial performance; instead, it depended on the competency of the board members. In this regard B5 argued:

> *I would not put emphasis on the board size as such but the board composition of different expertise, skills, gender etc. Because, the correct board composition also allows formulation of the appropriate board committees like audit and risk committee etc. and the quality and composition of the committees depends on the composition of the board itself.*

(Interviewee B5)

In addition, R2 argued that board size affected the firm's financial performance when the board was diverse; she said:

> *I would say that what matters are the skills and experiences that will enable the performance of the functions of that institution. So, instead of going for a minimum number in the board, I would say a board should have a mix of diverse skills and professionals.*

(Interviewee R2)

Thus, interviewees reported different views on the e board size's effect on the firm's financial performance. This is reflected, also, in the corporate governance literature where there are conflicting findings on the board size's impact on corporate financial performance (Lawal, 2012). Despite different opinions, the majorities of them discourage bigger boards and suggest that the board size alone cannot affect performance. However, it can have an effect in combination with other factors like the board's diversity and the quality of its members. This is in line with Kiel and Nicholson (2003) who state that a firm may not maximize its output from only its board size but from, also, a diversity of skills and knowledge on the board. Therefore, firms should consider the diversity and competence of the board members in setting an optimal board size.

iii) CEO Duality

Most of the participants were of a view that the role of CEO and COB should be separated. B2 argued that the role of CEO and COB were very important and they ought to be separated in order to enhance independence and effective functioning of the board. He 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)

Moreover, B1 preferred the separation of the CEO and COB roles to enhance board accountability and felt that the relationship worked very well when the COB gave overall guidance through the board. This is in line with Fama and Jensen (1983) and Jackling and Johl (2009), who argue that the separation of CEO and COB positions is likely to increase the board's independence and enhance the effective oversight of the management.

Moreover, B6 thought that CEO duality was not a good governance practice and the separation of the CEO and COB roles was really important. He said:

> *Transparency of the company in terms of what it is happening might be in question because the CEO has a vested interests in the sense that he wants to report that the company is a going concern or performing well and in that way he would not want to emphasize some of the weak area in the performance the company in any case because that would be a self-defeat to him.*
>
> (Interviewee B6)

R1 argued that most of the good corporate governance principles and practices discouraged CEO duality and it was awkward for the CEO to be a COB of the board because the board's independence was likely to be impaired. To emphasise this point, R2 and B7 argued that the roles of CEO and COB ought to be separated. They argued, also, that the board's independence could be in jeopardy and minimised when there was a CEO duality. This view is supported by Chang-Jui (2011) who argues that CEO duality renders it difficult for a board to monitor and direct a CEO and management successfully for the purpose of minimizing agency problems. Also, R2 argued that those roles ought to be separated in order to ensure checks and balances within the board. In addition, B7 claimed that CEO duality made the CEO very powerful; in order to enhance independence, the role of CEO and the COB ought to be separated.

B4 argued that it would be difficult when there was CEO duality because one of the board's functions was to evaluate and guide the CEO. Also, B3 argued that the CEO's duties included day to day running of the firm. When the CEO was, also, a COB, it would be difficult for him or her to question what was happening in the firm and, also, his/ her influence on the board might be higher. In addition, B9 argued that, when the CEO was, also, the COB, there was a risk of him becoming more powerful and management not being open because the CEO was, also, the boss of the board. In this regard, Vintilă & Gherghina (2012) argue that a CEO duality can make the CEO powerful to the extent of controlling important information for decision-making; impairing the board's independence and making the board toothless. To emphasise this point, R3 explained that CMSA's guidelines (2002) advocated the separation of the CEO and COB positions because the separation made the board more independent on strategic decision-making.

By contrast, B1 and B9 argued that CEO non-duality tended not to work when the CEO and COB were not on good terms; this situation could lead to division, conflicts and mismatch of ideas within the board. This resulted in the board being ineffective and could lead to the firm's poor performance. Moreover, B6 argued that the advantage of the CEO being the COB was that he/she would have a deep knowledge of the firm and its operations. Thus, B8 suggested CEO duality was working well because the CEO had a good knowledge of the firm. He said:

CEO duality is a very common practice in USA. For me, whether the CEO is also a chairman it does not really make a difference because we also have checks and balances so...CEO/Chairperson needs to align with the policies and procedures of the company. A CEO who is also Chairperson has a deeper insight of the business; this helps him when presiding over the board meeting as the chairperson. Somebody who is a non-executive may not have very intricate understanding of the business.

(Interviewee B8)

Van-Ness et al., (2010) support this by pointing out that CEO duality can enhance the CEO's effectiveness due to the fact that he/she has rich knowledge of the firm's operations.

iv) Gender diversity

A majority of the interviewees were of the view that the number of women on corporate boards did not impact on corporate financial performance. This is supported by Shukeri et al.'s argument (2012) that gender diversity has no significant link with a firm's financial performance. In this regard, B2, B6, R1, B7, B9 B4 and B3 argued that the quality and output of board members was most likely to contribute to the firm's financial performance. B2 claimed that the issue of gender ought to be considered secondary while the quality of the directors should be considered primarily because proficiency mattered most. However, she agreed that gender balance was important, especially during the board decision-making process. Furthermore, B6 posited the board functions of strategic decision-making and oversight did not depend on the gender of the director. In addition, R1 said:

Shareholders are interested in seeing their company perform well in order to increase their wealth, so they can see if their company performance is good or not by checking numbers (reports). So, the company is interested in bringing the best people who can help to deliver those numbers from the management to the board level, not their gender.

(Interviewee R1)

B4 argued that the government was emphasising the issue of female empowerment. However, she urged caution on that issue because it could compromise the director's competence during the appointment process and could lead to the appointment of unqualified women to boards. Moreover, B3, R2 argued that the issue of introducing quotas to Tanzanian boards ought to be discouraged because it might result in unqualified women being appointed. This is in line with Randøy and Oxelheim (2006) who argue that the issue of introducing quotas to boards is politically oriented because there is no significant association between gender diversity and the firm's financial performance. Therefore, R2 suggested that women ought to be appointed through a transparent and independent vetting process. B3 claimed that, if a business made a product of which many users were women, its board ought to include women as a marketing strategy.

B4, R3 argued that the number of women directors in Tanzania was fewer by far than men or even non-existent on the boards of Tanzanian listed firms. This view was supported by B2, B8 and B9, who stated that they had 2 or less, or none, on their boards. This view is supported by Lückerath-Rovers (2013) who claimed that the number of female directors on most boards is much smaller than the number of males. B4 argued that this was likely to be the reason why women's contribution to firms' financial performance was insignificant. B5 took a view that it might be caused by a lack of competent women qualified for board member posts. Also, B8 and B9 said that the small pool of qualified women candidates contributed to the lack of women on boards due to the fact that few women had risen through the ranks to the senior management level.

R3 argued, also, that the number of women, who attended IODT seminars, was, also, small compared to men. He further argued that this might be due, also to the small number of qualified women willing to be directors due to cultural issues. R3 said that "*The small number of women on boards is also to be blamed to patriarchy in management and society where women are not given enough time by their family to participate in management issues*" (Interviewee R3).

Offering a similar view, R2 argued that there were very few women applying for posts and those, who were applying, had been directors for some time. She further argued that new women were scared to apply, possibly because they were afraid to split their families as a result of their careers and their board membership accountabilities and responsibilities. This is in line with Darmadi (2013) and Hewa-Wellalage and Locke (2013) assertion that political and cultural reasons can influence the lack of women on boards in developing countries.

In contrast, B1, R3, B5 and R2 supported the idea that women influenced firms' financial performance. B1 suggested that women ought to be considered as board members because they had a different way of decision-making and brought a unique organisational culture. B5 argued that female directors performed very well and brought peace and harmony to the board. B4 stated, also, that sometimes women performed better than men because they were more focused, committed and determined. Furthermore, R2 argued that most women were more trustworthy and straightforward than men. In addition, she said women were sensible decision makers while men could conspire with each other and make illogical decisions. In this regard, Schwartz-Ziv (2013) argues that women are likely to make the board more active and lively and, as a result, increase the shareholders' wealth.

Moreover, R2 said:

> *If women have the relevant qualifications, experience and competences I do believe that they can do wonders, even more than men. Especially, when they are steering the board. For example, if the woman is the chairman she would most of the time want to show she can do it and is capable of doing it, most of the time they can make hard decisions, when they understand something and their conscience tells them is the right thing they are doing, they are able to pursue it.*

(Interviewee R2)

v) Board Skills

This is the area that most participants thought were crucial for a board's effectiveness. B2 argued that to consider the board characteristics' impact on the firm's financial performance, without considering the quality of the people and the diversity of different skills on board, was likely to produce poor results. He suggested that the s board members' skills ought to be the main focus. R2, R1, B3, B9 and B8 pointed out that the director's skills in terms of experience, expertise, local and international exposure and overall competence were very important for the board to be effective and, hence, improve the firm's performance. This is in line with Van-Ness et al. (2010), who argue that varied expertise and skills bring diverse ideas and improve the quality of a board's decisions and, hence, improve the firm's performance.

Some of the interviewees went further and were of the view that the board members' skills might have more impact on the firm's financial performance if they had different professions. B4 suggested that economists ought to be involved on the board. Also, B1, B4 and B9 stressed the need for engineers on the board if the company dealt with technical issues. Moreover, B2, B1, B4, B3 and B9 pointed out that people with financial backgrounds and expertise were very important board members because they could easily read, understand and discuss financial information or financial performance reports and translate their findings to other board members for decision-making. To emphasise this point, B2 argued, also, that a range of different professionals was an advantage for the formation of successful audit committees. This is supported by the argument of Lückerath-Rovers (2009) and Kim and Rasheed (2014) that diverse expertise improves the effectiveness of the board's oversight, resource provisions and strategy making and, as a result, a firm's performance will increase. However, Murray (1989) argues that the impact of diverse skills relates to the long term due to increases in flexibility. Conversely, Murray (1989) and Mahadeo et al. (2012) argue that boards, which put emphasis on a mix of different skills and knowledge, are likely to be ineffective in the short term due to the incompatibility of different professionals. In addition, B6 argued that apart from skills, a board member ought to be independent and diligent.

Many respondents drew a connection between the board's overall skills with the appointment and training of board members. One area that the majority of the interviewees pointed out as important for the board to consider in ensuring quality members was the appointment of board members. B7, B4, B5, B9, B8, R3 and B6 claimed that there were company principles, stipulated by the company's memorandum and articles of association, which were a guide to the appointment of board members. However, B6 expressed his concerns about adhering to these principles and the transparency of the appointment process. In this regard, Ponnu (2008) argues that some developing countries' board members are likely to be ineffective because their appointments are based on political and personal factors rather than their competencies.

B1 and B7 mentioned that the board has to be structured in such a way that the Tanzanian Government's interests (if it had a stake), and the majority and minority shareholders were represented. They further argued that majority shareholders and the Government could appoint their representatives without being vetted, whereas the minority shareholders ought to be vetted. B1, B7 and R1 claimed that the Tanzanian Government had interests (stakes) in some of the listed companies and sometimes took a direct representation where the Treasury Register (TR) had the authority to appoint the Tanzanian Government's representatives who were government employees. Additionally, B1 claimed that the Tanzanian Government had direct representation to enable the company to have goodwill; however, he claimed that some of the Government representatives were appointed on the basis of political motives rather than on their merits. Nonetheless, in line with Ponnu (2008), R1 argued that this could be the reason why some of the Government representatives are underperforming as board members.

In addition, some of the interviewees claimed that the majority shareholders and the Tanzanian Government had been negligent in appointing members to represent them on the boards of listed companies where they had interests. In this regard, B2 claimed:

In most cases, nominations would be done on the basis of friendship, on the basis of like giving someone a reward for what they did in the past; others are even given board directorship to help them with their economic wellbeing.

(Interviewee B2)

Moreover, some of the interviewees claimed that there were board members such as retired senior Tanzanian Government officials and retired army officers who had been appointed as middlemen when there was an issue between the firm and the Government. R2 stressed this by claiming that some board members were appointed not on merit but because of political reasons or personal interests. This view is supported by Melyoki's argument (2005) that the directors' independence is likely to be compromised due to an unfair appointment process. In addition, B3 said:

The appointment of directors is not being done transparently, people are not going to the board on their respective merit, a director has to go to the board knowing that there is a certain contribution which he/she would be required to make.

(Interviewee B3)

B5 suggested that competence ought to be the main criteria for appointing board members. Moreover, B8, B2, B9, suggested, also, that the broad knowledge and experience of worldwide business ought to be considered in the appointment of board members. This was because skilled directors could influence the quality strategic decision-making and, consequently, this improved the board's transparency, compliance with regulations and accountability, effectiveness to its shareholders (Kiel & Nicholson, 2003; Ponnu, 2008).

R3 posited out the current change of governance was happening quickly and that this made the directors' positions complex. Consequently, R2, B3, R3 and B1 suggested that directors ought to undertake relevant training and courses in order to minimize governance problems in Tanzania and to equip them with the required skills and competencies. This is supported by the Haniffa and Hudaib's argument (2006) that training of directors can improve their knowledge and skills, which are essential if they are to discharge their board responsibilities effectively. B3 stressed this point by saying:

> *I think one of the big problems is a lot of board they don't know their roles. So, that could be a challenge to the institute of directors (IODT) to make sure that at least these boards they know what their roles are, and if they know and the legal implication involved to it.*
>
> (Interviewee B3)

vi) Foreign Directors

It is important to note that the some of the participants were of a similar view that the director's nationality did not have a significant influence on the firm's financial performance (B2, B3, B4, B7, B8 and R2). Their views are supported by Masulis, Wang and Xie (2012) who argue that geographical distance can make a foreign director less effective because of the additional costs of collecting strategic company information; limited access to that information; and less knowledge of the firm's operations and culture. In this regard, B4 suggested that the foreign directors' performance depended on their links to the firm. B2 argued that foreign directors did not have any more influence on the firm's financial performance than local ones because they had the same qualifications and experiences. To emphasise B2's argument, B7 reported:

> *Directors are generally not chosen because they are foreign, most foreign directors are appointed to boards to represent foreign interests. So, it does not matter whether they are foreigners or not, what matters is the quality of the directors themselves rather than their nationalities.*
>
> (Interviewee B7)

In a similar view, B4 argued that most foreign directors' performance did not differ from the local directors but the shareholders had higher expectations of the foreign directors in terms of their performance than that of the local directors. Hence, B3 suggested that what was needed was not local or foreign directors, what was needed were well-qualified board members and the process of appointing them ought to be objective and transparent. In addition, B3 said that directors ought to be appointed because of their professionalism and competencies. Also, R2 further argued that the synergies of directors in skills and experience were what mattered. To stress B3 and R2's arguments, B8 said that, rather than the board members' nationalities, the value and diversity of directors' expertise was essential for the board to be effective.

In contrast, B1 believed that foreign directors had an impact on the firm's financial performance if they possessed unique expertise and experience that local directors did not have. Jhunjhunwala and Mishra (2012) support B1's view by arguing that foreign directors enhance the board with unique talents and know-how. Similar to B1's views, B6 stated:

> *It depends how they come and in what capacity. If they are neutral, independent, and knowledgeable obviously you will see their impact. The foreign directors bring diversity to the board, also different experiences to the board. Therefore, the performance would increase.*

Some of the participants discussed the issue of the appointment of foreign directors; this seemed not to be transparent in other firms. For example, B2 claimed that the majority shareholders were the ones who appointed foreign directors as their representatives. This was supported by Ujunwa's argument (2012) that the number of foreign directors in developing countries is higher because of foreign direct investment. Moreover, R3 argued that most of the listed companies had their own criteria for appointing foreign directors. In this regard, the number of foreign directors on boards was higher than local directors. B8 explained why the number of foreign director was large by reporting:

> *Most of the board members are foreigners basically because the company is diverse in its management makeup, so there is a combination of locals and foreigners at management level and on the board. Moreover, when a*

multinational is a big shareholder, somebody needs to come and represent their interests and they are the ones who appoint them.

(Interviewee B8)

To emphasise B8's point above, R1 reported that cross-listed companies at the DSE might cause it; some of them had operations in Tanzania while some of them did not and it was unnecessary for them to have Tanzanian directors. He further claimed the fact that only a small number of Tanzanians had a significant stake in those companies and that this might be another factor.

vii) Board Effectiveness

The board characteristics' impact on the firm's financial performance is probably an indirect one and is likely to be caused by the board's effectiveness in discharging its functions of oversight (agency theory); provision of resources (resource dependence theory); and strategic decision-making (agency theory & resource dependence). Emphasising this point, B6 argued that the board's effectiveness probably depended on the quality of the information received from the management for strategic decision-making and the board's competency in evaluating what was reported and the real situation in oversight of management. Likewise, the previous corporate governance studies (e.g., Zahra & Pearce 1989; Nicholson & Kiel, 2004; Jackling & Johl, 2009) argue that the board characteristics' impact is likely to be indirect due to the fact that the firm's performance is improved probably when a board is practising its oversight, advisory and resource dependence roles effectively.

Moreover, B6 argued that the best board was the result of the board's magnificent or sound oversight caused by the quality of the directors. Similar to B6, B3 argued that monitoring and controlling of management was an essential function of the board. In addition, R3 argued that the directors' independence was likely to enhance the board's oversight function. In support of B6, B3 and R3, B9 posited that the board, through its oversight function, ensured that the firm's management worked in line with the policies it had set. However, R2 and B6 argued that CEO duality might lead to an ineffective board because it was likely to deter its oversight. In addition, B6 argued that incompetent directors and a lack of independence impaired the board's oversight function. Likewise, B5 and B7 argued that, by bringing external resources to the firm, diversity ought to enhance the board's effectiveness.

B3 pointed out that most Tanzanian boards were probably not effective enough in strategic decision-making and risk management. In addition, he argued that the board could be effective if it had quick access to the information needed for strategic decisions at the right time. In stressing B3's point, B1 argued that a small board of directors could make decisions quickly. In this regard, B7 suggested that the board had to intervene in situations that were likely to put the owners' interests at risk.

The next section presents the integration of the quantitative and qualitative findings and, especially, how the qualitative findings support the quantitative findings.

8.3 INTERGRATION BETWEEN QUANTITATIVE AND QUALITATIVE RESULTS

8.3.1 Introduction

As discussed in Chapter 4, this study adopts a mixed-methods approach by using quantitative and qualitative data to investigate the relationship between board characteristics and the firm's financial performance. In particular, it employs a convergent mixed-methods design where quantitative and qualitative data are collected separately (Creswell & Plano Clark, 2011) and participants' perceptions are used to compliment the quantitative findings (Abdullah, 2014). This section seeks to achieve combination between quantitative findings and interviewees' views. This study is based mainly on the quantitative findings, which are supported by interviewees' views. Chapter 7 and chapter 8 (section 8.2) provide detailed discussions of the quantitative and qualitative findings respectively. The following subsections present the integration of quantitative and qualitative findings.

8.3.2 Outside Directors

The quantitative results show an insignificant relationship between the proportion of outside directors and the firm's financial performance as measured by ROA and ROE. The results are in line with the findings of a US study by Bhagat and Black (2002) and other corporate governance studies conducted in developing countries by Santiago-Castro and Baek (2003), Haniffa and Hudaib (2006), Garg (2007), Rashid et al. (2010), Ferrer and Banderlipe (2012), Kumar and Singh (2012), Tarak and Apu (2013). These findings do not reveal a significant relationship between the proportion of outside directors and the firm's financial performance. The findings are also not in line with agency theory, which recommends having a larger proportion of outside directors on the board to enhance its oversight role (Fama & Jensen, 1983; Dalton et al., 1998).

The majority of the interviewees' opinions were not in line with the quantitative findings that there is no relationship between outside directors and the firm's financial performance. They were of the view that outside directors could influence the firm's financial performance. However, interviewees R1 and B2 argued that there was an indirect link between outside directors and the firm's financial performance. B2, B6, B9, R1 and R3 stressed this by arguing that the link stemmed from the outside directors' effectiveness in directing and controlling the firm's management. The outside directors' effectiveness is probably enhanced to a large extent by their independence (B1, B2, B6 and R3); information access (B3); non-financial motivation (B1); and competence (B4, B5 and B6). However, B5 claimed that there was still a competency challenge among directors in Tanzania. Outside directors' competencies mattered greatly since the directors' expertise was essential in making complex decisions regarding the firm (Jhunjhunwala & Mishra, 2012); Kim and Rasheed, 2014). The competency of directors is a challenge in most developing countries (Haniffa & Hudaib, 2006; Garg, 2007).

The majority of the interviewees supported the argument that outside directors had a positive influence on the firm's financial performance. Nonetheless, some outside Tanzanian directors had an affiliation with management because of a faulty appointment process (B2, B3 and R3). This is supported by Melyoki's argument (2005) that the Tanzanian process of appointing directors was not fully transparent. The faulty directors appointment process can make the board have incompetent directors who lack the required skills, knowledge and independence in discharging the essential roles of advisory, monitoring and resource dependence (Bhagat & Black, 2002; Van den Berghe & Levrau, 2004; Haniffa & Hudaib, 2006; Tarak & Apu, 2013). This can be the reason why outside directors do not have significant influence on the firm's financial performance. Hence, the first hypothesis that the proportion of outside directors has a positive influence on firm financial performance is rejected.

8.3.3 Board Size

The empirical results, discussed in Chapter 7, show an insignificant relationship between board size and the firm's financial performance as measured by ROA and ROE. Therefore, the second hypothesis, proposing a positive relationship between board size and firm financial performance, is rejected. These findings are consistent with those of Nuryanah and Islam (2011) and Ferrer, Banderlipe (2012) and Garba and Abubakar (2014) that were conducted in developing countries. However, the findings are inconsistent with other studies which found a significant and negative relationship between board size and the firm's financial performance (such as Yermack 1996; Bhagat & Black, 2002). The findings are not in line with the agency theory recommendation favouring a large board comprising a large number of outside directors in order to improve the board's monitoring function (Kiel & Nicholson, 2003).

The findings are inconsistent with the resource dependence theory argument that a large number of directors on the board may improve the connection between a firm and its outside environment (Zahra & Pearce, 1989). While the majority of interviewees favoured small boards on the grounds that it was easier to make quick strategic decisions and encouraged unity among board members (B1, B2, B4 and B7), some favoured large boards (B3 and R1). The interviewees argued that board size itself might not influence a firm's financial performance (B2, B5, B9, R1 and R2). They argued that a competent board, consisting of members with diverse knowledge, competencies and skills, was more important. In line with this, Lawali (2012) argues that board performance is determined greatly by the board members' competencies rather than their numbers.

8.3.4 CEO Duality

The regression analysis, discussed in Chapter 7, demonstrates that there is a significant and negative relationship between CEO duality and the firm's financial performance as measured by ROA and ROE. Thus, the third hypothesis predicted a negative relationship between CEO duality and Tanzanian listed firms' financial performance is rejected. Indeed, the findings show a significant and negative relationship between CEO duality and the firm's financial performance. The finding supports agency theory recommendation about separating the roles of the CEO and COB (Schleifer & Vishny, 1997). The results support, also, the resource dependence theory argument that CEO non-duality enables the COB to connect the firm more to the external environment (Zahra & Pierce, 1989).

These findings are consistent with previous studies' findings by Haniffa and Hudaib (2006,) Uadiale (2010), Chang-Jui (2011), Ujunwa (2012), Bhagat and Bolton (2013) and Jermias and Gani, (2014). The findings do not support the stewardship theory argument of combining the roles of the CEO and COB (Donaldson & Davis, 1991). The findings are inconsistent, also, with those of Brickley et al. (1997) and Dey et al. (2011). The majority of the interviewees' views are consistent with the quantitative findings. They argued that the roles of the CEO and COB ought to be separated (B1, B2, B3, B4, B5, B6, B7, B9, R1, R2 and R3) in order to enhance the board's accountability (B1); transparency (B6); checks and balances (R2); and independence (R1, R2, R3, B3, B7 and B9).

8.3.5 Gender Diversity

The quantitative analysis shows a marginal positive relationship between women on boards and ROA and a strong positive link between women on boards and ROE. As discussed in chapter 7, one of the possible explanations of these results is that women are more risk averse than men, which, in turn, can increase financial performance, and men are overconfident in their decision-making, which, in turn, can lead to poor performance (Huang & Kisgen, 2013). Women can perform better than men on the board in their monitoring and advisory roles since they consider the shareholders' interests especially during making complex decisions such as merger and acquisition and issue of debts (Carter et al., 2003; Khan & Veito, 2013; Huang & Kisgen, 2013; Levi, Li & Zhang, 2013). The correlation results (see Table 7.2) support this argument since there is a negative correlation between gender diversity and the firm's debts.

Moreover, Table 7.1 indicates that most Tanzania listed firms in are financed largely by debts rather than equity. This could result in lower returns since total assets (denominators) include total liabilities and total assets. Therefore, ROE is higher than ROA since the total assets is the same as the sum of total liabilities and total equity.

The findings are in line with studies by Mahadeo et al. (2012) and Abdullah et al. (2016) conducted in developing countries. The findings are, also, in line with corporate governance literature from developed countries (such as Joecks et al., 2013; Lückerath-Rovers, 2013). This study is, also, in line with previous corporate governance studies which demonstrated that corporate boards with female directors exhibited higher ROE (Catalyst, 2004; McKinsey, 2007; Lückerath-Rovers, 2013). The findings support, also, the agency theory viewpoint that women can enhance the board's effective monitoring since they are more likely to be independent and good decision makers (Carter et al., 2003; Khan & Veito, 2013; Huang & Kisgen, 2013). Similarly, the findings support resource dependence since female directors are seen to provide more connections and legitimacy to the outside environment (Carter et al., 2003; Lückerath-Rovers, 2013).

These quantitative findings are in line with the views of interviewees B1, R3, B5 and R2 who all claimed that female directors performed better than men due to their unique decision-making abilities. Interviewees B2, B6, R1, B7, B9 B4 and B3 agreed that competent female directors could have a positive influence on a firm's financial performance and they suggested that their competence was the issue that mattered most in improving the firm's financial performance. In line with this argument, the correlation results (see Table 7.2) indicate that gender diversity is correlated positively with directors with doctoral qualifications. Moreover, according to some of the respondents, female directors bring peace and harmony to the board (B5); they are more focused and determined (B4); and more trustworthy, straightforward and sensible decision makers (R2). Consequently, women on the board can improve the board's effectiveness and the firm's reputation (R2).

However, the majority of the interviewees did not support the view that the presence of women on board of directors influenced firms' financial performance. The main reason for this view was influenced possibly to a large extent by cultural perceptions against women rampant in Sub-Saharan African countries (UNDP, 2015; Oduro and Staveren, 2015). There is a relationship between culture and underrepresentation of women on the boards (Carrasco et al., 2015). In their studies, Carrasco et al. (2015) found that the countries with cultures, which discriminated against women, could influence the decision to appoint female directors to the board and could lead eventually to lower number of female directors on the board.

The culture is argued to be related to corporate governance (Tricker, 2012). Gender diversity is likely to be affected by the country and corporate culture; some cultures believe that leadership posts are too demanding for women and others that most roles are more suitable for men than women (McKinsey, 2012). It is argued also that executives can have a negative mentality about women in countries that have an unfavourable culture against women (McKinsey, 2012). For that reason, the majority of the interviewees were possibly against women on boards. Consequently, the fourth hypothesis that women on the board have a positive impact on the firm's financial performance is accepted.

8.3.6 Board Skills

Quantitative results show that there is an insignificant relationship between board members with doctoral qualifications and the firm's financial performance as measured by ROA and ROE. This is in line with Kim & Rasheed (2014) and empirical evidence from Ponnu (2008) regarding developing countries. However, the findings do not support hypothesis H5 that predicted a positive relationship between board skills and the firm's financial performance. The results are also inconsistent with Ujunwa's study (2012), conducted in a developing country (Nigeria), which found a positive board skill-performance linkage. Further, the findings are inconsistent with agency, resource dependence and stewardship theories. The results do not support the agency theory perspective that agency costs can be reduced through aligning the directors' knowledge and skills with the firm's objectives (Kiel & Nicholson, 2003). Neither do they support the resource dependence theory argument that directors can bring diverse skills and knowledge to the board (Bryant & Davis, 2012). Also, the findings do not support the resource dependence theory suggestion that executive directors' knowledge and skills are important in the formulation of strategies (Davis et al., 1997).

Nonetheless, the majority of the interviewees agreed that board skill improved the firm's financial performance. R2, R1, B3, B9 and B8 argued that diverse board skills, in terms of educational qualifications, professionalism, experiences and expertise, were likely to have a direct link with the firm's financial performance. In line with this argument, Forbes and Milliken (1999) argue that corporate boards face complex and ambiguous tasks and, therefore, professionalism on boards is important for effective complex decision-making. However, B6 expressed his concerns about the appointment of Tanzanian board members because majority shareholders and the Tanzanian Government appointed some of them, without being vetted, based on political and personal motives (B1, B2, B7 and R2). A lack of training for directors could be another reason; consequently, B1, B2, R3 and R3 suggested that directors ought to undergo training conducted by IODT.

There is a contradiction between the results of the statistical analysis and the major interviewees' views. In line with previous studies (Ujunwa, 2012; White et al., 2014; Francis et al, 2015), this study used directors with doctoral qualifications as a proxy for board skill. Most of the academic directors are appointed on the boards possibly to enhance the firm's reputation since the society perceives academic directors to be highly qualified (White et al., 2014; Francis et al. 2015). The interviewees (B1, B2, B6, B7, & R2) supported this argument by viewing that the appointment of directors in Tanzania was based conceivably on other motives such as personal and politics rather than possessing the right skills required. This is possibly the main reason why the interviewees viewed that academic directors had a positive influence on a firm's financial performance. However, these directors' performance can be insignificant if their appointments are not based on factors that enhance board and directors' heterogeneity such as the firm's specific needs and constraints (White et al., 2014; Francis et al., 2015). The quantitative results show that directors with doctoral qualifications do not have significant influence on the firm's financial performance. Therefore, the hypothesis H5 that the proportion of directors with doctoral qualifications is positively associated with Tanzanian listed firms' financial performance is rejected

8.3.7 Foreign Directors

Empirical results show that foreign directors had a non-significant relationship with the firm's financial performance, as measured by ROA and ROE. The results led to the rejection of the sixth hypothesis that foreign directors had a positive relationship with the firm's financial performance. The results are consistent with the findings of Jhunjhunwala and Mishra (2012), but inconsistent with the findings of Ujunwa (2012) who found a positive relationship between foreign directors and the firm's financial performance. The findings do not support the agency theory view that foreign directors can improve the monitoring process due to their independence and skills acquired in other countries (Ameer et al., 2010). Neither do the findings support the resource dependence theory viewpoint that foreign directors bring foreign connections and foreign capital to a board (Ruigroik et al., 2007).

Some interviewees supported the quantitative results that foreign directors made an insignificant contribution to the firm's financial performance (B2, B3, B4, B7, B8 and R2). For example, B7 and R2 argued that the directors' nationalities mattered less than their qualities. B2 argued that, based on influence rather than on merit, majority shareholders appointed most of the listed firms' foreign directors as their representatives. This is similar to the view of Ponnu (2008) who argues that some foreign directors' competencies can be questioned as they are appointed based on protecting shareholders' interests rather than necessarily their competence. B4 and B2 argued that foreign directors' performance in Tanzanian listed firms was similar to that of local directors since, generally, they had the same qualifications and competencies. However, B1 was of a different view, suggesting that, compared to local directors, some foreign directors had unique skills.

8.4 CHAPTER SUMMARY

This chapter presented the interviewees' perceptions on the board characteristics' impact on the Tanzanian listed firm's financial performance. More specifically, it discussed the interviewees' views on the board characteristics of board size, outside directors, CEO duality, foreign directors, board skills and gender diversity. In most cases, the qualitative findings were in line with the quantitative findings. This chapter presented, also, the integration between the quantitative results and interview findings in order to complement the quantitative findings and provide a clear understanding of the board characteristics' impact on the firm's financial performance. The qualitative findings provided some helpful insights as to why most of the research hypotheses were rejected and as to why some were confirmed. The next chapter discusses this study's conclusions and includes a summary of the quantitative and qualitative findings and the study's limitations and recommendations.

9 CHAPTER NINE: SUMMARY AND CONCLUSION

9.1 INTRODUCTION

This study investigated the impact of board characteristic variables, namely outside directors, board size, CEO duality, gender diversity, board skill and foreign directors, on corporate financial performance as measured by ROA and ROE. Specifically, this study aimed to achieve the following objectives:

i) To ascertain the impact of independent outside directors on Tanzanian listed firms' financial performance;

ii) To ascertains the influence of board size on Tanzanian listed firms' financial performance;

iii) To investigate the relationship between the CEO duality and Tanzanian listed firms' financial performance; and

iv) To examine the link between Tanzanian listed firms' financial performance and the board diversity aspects of gender, foreign directors and board skill.

Some studies investigated similar issues in developing countries, for instance Santiago-Castro and Baek (2003), Mashayekhi and Bazaz (2008), Jackling and Johl (2009), Chugh et al., (2011), Ujunwa (2012) and Ferrer and Banderlipe (2012).

In order to achieve these objectives, this study employed mixed research methods; this is still an underutilised approach in corporate governance studies. Compared to qualitative and quantitative monomethods, mixed methods can provide rich insights (Molina-Azorin & Cameron, 2010; Bentahar & Cameron, 2015). This study has responded to a call from Molina-Azorin and Cameron (2010) and Bentahar and Cameron (2015) to apply the underutilised mixed research methods by adopting a convergent mixed methods approach, as suggested by Creswell and Plano Clark (2011). In this regard, the study collected separately quantitative and qualitative data (Creswell & Plano Clark, 2011) and used the participants' perceptions to compliment quantitative findings (Abdullah, 2014), as discussed in chapters 4 and 8.

Regarding the quantitative data, the study analysed balanced panel data of 80 firm-year observations taken from Tanzanian listed firms' annual reports covering the years from 2006 to 2013. The data were sourced from the OSIRIS database and the DSE website. Concerning the qualitative data collected during the study, the researcher conducted semi-structured interviews with 12 key stakeholders. Similar to the studies by Haniffa and Hudaib (2007), Bailey and Peck (2013) and Albassam (2014), this study used a thematic analysis. Twenty-two concepts were identified during the coding process of the interview data; these were premised on previous studies and the research questions (Boyatzis, 1998). Seven sub-themes emerged in the analysis.

This study's findings add to the theoretical corporate governance literature, which hitherto, has been inconclusive with regard to the following questions:

1) What impact do independent outside directors have on Tanzanian listed firms' financial performance?
2) What is the relationship between board size and the Tanzanian listed firms' financial performance?
3) How does the duality of the Chairperson of the Board (COB) and Chief Executive Officer (CEO) roles affect the Tanzanian listed firms' financial performance?
4) How do board diversity aspects of gender, presence of foreign directors and board skills affect the Tanzanian listed firms' financial performance?

This chapter aims to achieve three objectives: firstly, to provide conclusions based on the study's objectives; secondly, to underline the study's overall implications; and, thirdly, to highlight the study's contribution and limitations and provide suggestions for future research. The remainder of the chapter is organised into the following sections: Section 9.2 discusses the study's conclusions on the basis of its objectives. Section 9.3 discusses the study's implications for policy makers and practitioners. Section 9.4 reports on the study's contributions. Section 9.5 addresses the study's limitations and, finally, section 9.6 provides suggestions for future research.

9.2 CONCLUSIONS ON FINDINGS BASED ON OBJECTIVES

This sub section aims to tie together, integrate and synthesize the issues arising in the discussion chapters based on the research objectives and, eventually, to provide answers to the research questions.

Objective One: Ascertain the impact of outside directors on Tanzanian listed firms' financial performance

The main findings were discussed in detail in Chapters 7 and 8. They indicate that the proportion of outside directors has no significant relationship with the firm's financial performance. This is inconsistent with the agency theory recommendation of having a large proportion of independent outside directors on a board (Jensen & Meckling, 1976; Fama & Jensen, 1983; Shleifer & Vishny, 1997). The findings led to the rejection of the first hypothesis that proposed that the proportion of outside directors had a positive influence on Tanzanian listed firms' financial performance. The study is inconsistent with other studies conducted in developing countries, for instance, Mashayekhi and Bazaz (2008) and Uadiale (2010). However, the findings are consistent with proponents of stewardship theory's argument that executives are motivated to maximise the shareholders' wealth and, consequently, the board's monitoring function becomes less important (Donaldson & Davis, 1991). Moreover, the findings are empirically consistent with developing country studies conducted by Santiago-Castro and Baek (2003), Haniffa and Hudaib (2006) and Ferrer and Bandelipe (2012).

The findings are not in line with the views of the majority of interviewees; they argued that outside directors were linked to the firm's financial performance. However, interviewees B2, B3, B6, B9, B2 R1 and R3, argued that the link between outside directors and the firm's financial performance could be through the effectiveness of the monitoring function. However, interviewees B2, B3, B6, B9 R1 and R2 considered that the directors' appointments process in Tanzanian listed companies was questionable. Interviewee B6 went further by arguing that the appointment of some outside directors was likely to be determined by the major shareholders' self-interests rather than on merit. These are consistent with Haniffa and Hudaib's argument (2006) that some directors' appointments in developing countries are based on majority shareholder influence, political and personal motives rather than on merit. The domination of some majority shareholders is probably determined largely by the concentrated ownership, which is common in Tanzanian listed companies. In line with American research by Zahra and Pearce (1989), concentrated ownership reduces possibly the effectiveness of the board's monitoring and control functions and makes majority shareholders more powerful to the extent of influencing decisions in Tanzanian listed firms such as the appointment of directors.

The interviewees stated that outside directors ought to be independent (B1, B2, B6 and R3); competent (B4, B5 and B6) and motivated (B1) in order to influence firm financial performance. However, the faulty appointment process can result in outside directors not being independent, competent and motivated and, hence, can lead to insignificant performance. This is in line with Bhagat and Black's argument (2002), that questionable independence, lack of motivation and incompetence among outside directors can make a board ineffective. The descriptive statistics (see Table7.1) show a large proportion of outside directors (average 82%) in Tanzanian listed firms and that they reflect a high compliance with the CMSA's guidelines. However, the findings raise questions about the credibility of the outside directors appointments and the efficacy of the recommendation in the CMSA's guidelines (2002) that the board should comprise of at least 1/3 of outside directors. The guidelines were adapted to a larger extent from the UK's corporate governance model (comply or explain approach). The findings suggest that inadequate independence and expertise among outside directors can contribute in a certain degree, to outside directors insignificant influence on Tanzanian listed firms' financial performance.

Objective Two: To ascertain the influence of board size on Tanzanian listed firms' financial performance

The second hypothesis suggested that a large board size had a positive relationship with the firm's financial performance. However, the findings show that there is no significant relationship between board size and the firm's performance. Hence, this hypothesis was rejected. This is consistent with findings from studies conducted in the developing world. For instance, Nuryanah and Islam (2011), Ferrer and Banderlipe (2012) and Garba and Abubakar (2014) found an insignificant relationship between board size and the firm's financial performance. However, the findings are inconsistent with the agency and resource dependence theories, which suggest that large boards can enhance the effectiveness of their monitoring and service roles (Pearce and Zahra, 1992). The findings are inconsistent, also, with the findings of Yermack (1996), Bhagat and Black (2002) and the developing country study of Ujunwa (2012). The findings do not support the agency and resource theory suggestion of having a greater number of board members in order to minimize agency costs and attract more resources from the external environment (Jackling & Johl, 2009).

Some interviewees argued that the board size might not matter if the directors do not have the required level of proficiency to be a board member (B2, R1 and B9). This is supported by Lawali's argument (2012) that the expertise of the board is more important than the quantity. A board should comprise of members of great and diverse expertise in order to enhance its effectiveness in discharging its responsibilities (R2 and B5). The findings suggest that some of the board members of the Tanzanian listed firms may have inadequate competencies for their posts. It can be concluded that this study's overall results indicate that board size does not have significant impact on the Tanzanian listed companies' financial performance

Objective Three: Investigate the relationship between CEO duality and firms' financial performance in Tanzania

Finkelstein & D'aveni (1994) likened the relationship between CEO duality and firm financial performance to a 'double edged sword', meaning that it can have drawbacks as well as benefits. The issue of CEO duality has received much attention from the USA and Europe. This study's findings, as discussed in detail in Chapters 7 and 8, reveal that there is a significant and negative association between CEO duality and ROA and ROE. The results support, also, the agency theory suggestion of separating the CEO and COB roles (Jensen & Meckling, 1976; Fama & Jensen, 1983; Shleifer & Vishny, 1997).

Generally, this study supports the second hypothesis that CEO duality has a negative impact on the firm's financial performance. Empirically, these findings are supported by studies by Haniffa and Hudaib (2006), Ujunwa (2012) and Amba (2014), conducted in developing countries. It can be argued that most studies, inconsistent with this study's findings, for example Donaldson and Davis (1991), Brickley et al. (1997), Dey et al. (2011) and Bhagat and Bolton (2013), were conducted in a different governance environment. For example, most American corporate governance practices support CEO duality (Carty & Weiss, 2012). The quantitative findings were supported by the majority of interviewees (B1, B2, B3, B4, B5, B6, B7, B9, R1, R2 and R3) who considered that the roles of the CEO and Chairperson should be separated because CEO non-duality enhanced the directors' independence and the effective functioning of the board. In addition, the interviewees argued that separation of the CEO and Chairperson roles enhanced board transparency, accountability and working relationships. It enhanced, also, the board's oversight function in order to minimize agency costs.

There is, also, a positive correlation between CEO duality and firm debt and a negative correlation between CEO duality and firm age and firm size. These correlations indicate that CEO non-duality is probably appropriate mechanism in highly debited firm debt and it may be important, also, in Tanzanian large and aged firms as a control mechanism for agency costs. The findings are in line with the prescriptive recommendations of the CMSA's guidelines (2002). The separation of the CEO and COB roles can improve the board's effectiveness in discharging its roles in Tanzanian listed firms. It can be argued from the findings that the corporate governance practice of separating the roles of the CEO and COB can be beneficial to the Tanzanian listed firms' financial performance.

Objective Four: Examine the link between firms' financial performance in Tanzania and the board diversity aspects of gender, foreign directors and board skill

As discussed in Chapters seven and eight, this study has found that women on boards have a positive influence on the Tanzanian listed firms' financial performance. This is contributed possibly by the fact that most of women on the board are more risk averse than men and, consequently, they can make sound decisions even in complex situations (Carter et al., 2003; Khan & Veito, 2013; Huang & Kisgen, 2013; Levi, Li & Zhang, 2013). The findings are in line with studies conducted in developing countries (Mahadeo et al., 2012; Garba & Abubakar, 2014; Abdullah et al., 2016), as well as corporate governance literature from developed countries (Joecks et al., 2013; Lückerath-Rovers, 2013). However, the findings are inconsistent with the findings of a Nigerian study (developing country) carried out by Ujunwa (2012) and a Norwegian study (developed country) by Ahern and Dittmar (2012). These studies found a negative relationship between women directors and the firms' financial performance.

The findings empirically support the resource dependence theory that having women on a board improves the external network; the firm's reputation; and the board's decision making (Carter et al., 2003; Terjesen et al., 2009; Tricker, 2012; Garba & Abubakar, 2014). The study supports, also, the agency theory argument that women on a board enhance its monitoring function due to their independence and abilities to make rational decisions (Carter et al., 2003; Huang & Kisgen, 2013; Levi, Li & Zhang, 2013). The interviewees B1, R3, B5 and R2, supported Carter et al.'s argument that female directors could perform better than men due to their unique decision-making. B2, B6, R1, B7, B9 B4 and B3 agreed, also, that female directors, who had the required competencies, could influence a firm's financial performance. B4 pointed out that there was a relatively a small number of women on Tanzanian boards, and Mori and Olomi (2012) supported this view. Indeed, the descriptive statistics (see Table 7.1) show that the average number of women board members in Tanzanian listed firms is approximately one per board.

However, the majority of the interviewees did not agree that female directors could have a positive influence on the firm's financial performance. These views were influenced probably by very common cultural perceptions that discriminated against women in developing countries (Wellalage & Locke, 2013; Rhode & Packel, 2014; UNDP, 2015; Oduro & Staveren, 2015; Carrasco et al., 2015). This is also a dominant ideology in Tanzania (R3). Consequently, the fourth hypothesis that women on the board have a positive influence on the firm's financial performance is supported. Some corporate governance studies, most of which were conducted in the developed world (such as Torchia et al., 2011; Joecks et al., 2013), have found that three or more women directors (critical mass) can have a positive impact on a firm's financial performance. However, this study's findings are in line with the studies by Mahadeo et al. (2012) and Abdullah et al. (2016) conducted in the developing countries of Mauritius and Malaysia respectively. These countries and Tanzania were all colonised by Britain and they have, to some extent, adopted UK corporate governance best practices. The findings suggest that, even a very small number of women directors on the board, can influence the Tanzanian listed firms' financial performance.

With regard to board skill, this study's statistical test results show that there is no significant relationship between directors with a doctoral qualification and the firm's financial performance. The results are in line with American studies, Van-Ness et al. (2010) and Kim and Rasheed (2014) and empirical evidence from developing countries (Ponnu, 2008). The findings are inconsistent with some studies from both developing and developed countries (e.g., Ujunwa, 2012; Fransis et al., 2015), which found a positive relationship. Also, the findings do not support the resource dependence theory perspective that a higher level of education, such as a doctoral qualification, is a strategic resource that brings proficiency to a board that is essential for sound decision making (Carpenter & Westphal, 2001). In addition, the findings do not support the agency theory argument that, through enhancing effective monitoring, board skills reduce agency costs (Kiel & Nicholson, 2003).

Nevertheless, the majority of the interviewees did not support the findings. They considered that board skills influenced the firm's financial performance. There is a common perception that the higher educated person performs better than less educated person. Interviewees B2, B3, B6, R1 and R2 argued that the there was a deficient appointment process; this meant that decisions could be influenced by majority shareholders and politicians' motives rather than on their merits. Sometimes, the boards can appoint a director with doctoral qualifications in order to increase the firm's status (White et al., 2014). However, these directors' performance can be insignificant if their appointments are not based on factors that enhance board and directors heterogeneity such as the firm's specific needs and constraints (White et al., 2014; Fransis et al., 2015). Moreover, the absence of an appropriate combination between the board members' expertise and the firm's required needs (Kiel & Nicholson, 2003; Garg, 2007) may contribute, also, to insignificant results. Also, the smaller number of directors of Tanzanian listed firms with doctoral qualifications (see Table 7.1) might be too insignificant to influence the firms' performance. The results lead to the rejection of the fifth hypothesis, which predicted a positive relationship between directors with a doctoral qualification and the firm's financial performance.

In respect of foreign directors, it was found that foreign directors did not have a significant influence on the firm's financial performance. This is in line with the findings of Jhunjhunwala and Mishra (2012). However, the findings are inconsistent with empirical evidence from a developing country (Nigeria) by Ujunwa (2012) and findings by Oxelheim and Randoy (2003) from a developed country (Norway). These studies found a positive foreign directors-financial performance linkage. The findings suggest that some foreign directors in Tanzanian listed firms may not bring adequate foreign networks and expertise to these firms. The findings do not support agency and resource dependence theories. Some of the interviewees' arguments (B2, B3, B4, B7, B8 and R2) were in line with the quantitative findings. The interviewees argued that local directors were likely to perform the same as foreign directors if they all possessed the required competencies. They argued that the board members' performance depended on their skills and knowledge rather than on their nationalities. They argued that the board member's nationality did not matter. The findings imply that foreign directors may not add to the potential economic value of the Tanzanian listed firms.

9.3 STUDY CONTRIBUTIONS

1) The study responds to a call from previous corporate governance studies to conduct country specific research on corporate governance (Kang et al., 2007; Mulili, 2011; Post & Byron, 2015). 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 empirical evidence on the board characteristics' impact of outside directors, board size, CEO duality, gender diversity, board skill and foreign directors on Tanzanian listed firms' financial performance.

2) The study premised on the use of mixed methods methodology, which is the uncommon approach in corporate governance research, in order to enhance effective and appropriate responses to research questions. This study responds to recent calls for corporate governance studies to use mixed methods research. The combination of quantitative and qualitative approaches enhances the study's credibility more than using only a single method (Molina-Azorin & Cameron, 2010). The use of the mixed methods approach provides a greater understanding of the relationship between board characteristics and the firm's performance (Boyd, Franco Santos, & Shen, 2012). Furthermore, the study demonstrates that, due to smaller and less developed stock exchange markets (Ntim, 2012) and, hence, their fewer numbers of samples, mixed methods methodology can be useful to emerging countries, especially African countries.

3) The study examined the linkage between board characteristics and the listed firms' financial performance by using mainly agency and resource dependence

theories. The study's findings support agency and dependence theories partially since no single theory supports the linkage between corporate governance and the firm's financial performance (Kiel & Nicholson, 2003; Hillman & Dalziel, 2003; Jackling & Johl, 2009; Nicholson & Kiel, 2007). This study explains how the integrative multi-theory approach works using Tanzanian data.

4) Similar to the few other previous African corporate governance studies conducted in Africa (e.g., Ntim et al., 2012; Munisi & Randøy, 2013: Ntim, 2015), this study used the necessary econometrics methods to address the issue of endogeneity in respect of the relationship between board characteristics and the firm's performance. Endogeneity can distort the OLS results (Wintoki et al., 2012).

9.4 IMPLICATIONS FOR POLICY MAKERS

1) This study supports the argument that there is no board function or mechanism that fits all boards universally and, more especially, in developing countries (Haniffa & Hudaib, 2006; Tsamenyi, 2007; Mulili, 2011; Lawal, 2012). These study findings provide evidence to Tanzanian policy makers that not all developed countries' corporate governance practices are applicable to developing countries. In line with Mulili's (2011), the findings challenge Tanzanian corporate policy makers about their adoption of every developed country's corporate governance practice. As suggested by Munisi and Randoy (2013), the firms should adopt corporate governance practices that have 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.

2) This study's findings show that the proportion of outside directors, board size, academic directors and foreign directors do not have a significant impact on the firm's financial performance. Lack of proficiency and independence among

outside directors may contribute, also, to insignificant results (Weir et al., 2002; Haniffa & Hudaib, 2006). Moreover, lack of appropriate mix of directors with diverse characteristics on boards and the intrinsic problem of information asymmetry may lead to insignificant results (Weir et al, 2002; Erhardt et al, 2003; Rhode & Packel, 2014). This study's findings suggest that Tanzanian corporate governance institutions should improve the openness and transparency of their appointment processes and that they should conduct more capacity building training among directors.

3) The findings indicate that the separation of the CEO's and COB's duties improves the firm's financial performance. This finding supports agency theory recommendations (Fama & Jensen, 1983; Shleifer & Vishny, 1997). The results are, also, in line with previous studies of corporate governance, i.e. Haniffa and Hudaib (2006), Chang-Jui (2011), Chugh et al., (2011), Ujunwa (2012). The findings can be used to attract foreign and local investors to invest in Tanzanian listed companies. 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.

4) The findings provide economic evidence for the positive influence of female directors on the firm's financial performance. The study found that it might be beneficial to have proficient female directors on the board in order to improve the firm's financial performance. The findings can be used as future evidence for gender diversity in Tanzania since the country is striving to achieve gender equality and women's empowerment through including women in decision-making, leadership and development issues (MDG, 2014). 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.

LIMITATIONS OF THE STUDY

The previous sections presented the contribution of the study. Nonetheless, the study has the following limitations.

1) Board independence can enhance the firm's financial performance (Nuryanah & Islam, 2011). One of the limitations of this study was that the researcher was unable to separate independent outside directors from non-independent outside directors due to insufficient information about directors' independence during the period of study, 2006-2013. However, the study managed to examine the impact of outside directors proportional to firms' financial performance.

2) The study used two accounting measures of ROA and ROE; this was consistent with other studies (Santiago-Castro & Baek, 2003; Chugh et al., 2011; Chang-Jui, 2011). However, the study faced limitations in terms of market information of the listed companies during the period from 2006 to 2013. This limited the study to use the market measures of performance. Similarly, Munisi and Randøy (2013) argue that it is challenging to collect market information in most African countries.

3) The study failed to acquire sufficient quantitative information about the profession of the listed firms' board members due to the fact that a majority of the firms did not disclose details of their board members' professions during the period under review. The use of profession as a proxy of board skill could have given more insights to this study. However, the qualitative information collected using the semi-structured interviews, makes the thesis more credible and it can be used as evidence by the researcher and Tanzanian policy makers on the board characteristics' impact on listed firms' financial performance.

4) This study was faced with the limitation of quantitative data sample size although the researcher tried to collect data as fully and accurately as possible. As previously mentioned, sample size is a challenge in many developing

countries (Weekes-Marshall, 2014). DSE had only 18 members at the time of obtaining balanced data for 2006-13. The final sample consisted of 10 non-financial listed companies. This resulted in 80-firm year observations and limited the multivariate regression of each model to be conducted in each year of the study (2006-2013).

However, the pooled multiple regression was conducted for all eight years for each model. Further, as discussed in Chapter 5, the 80 firm-year observations are comparatively acceptable relative to other studies in corporate governance. The sample size was increased after adding the qualitative data. However, the researcher faced a poor response from the potential interviewees due to the confidential nature of boards and other difficulties in conducting interviews in developing countries (Hasan et al., 2014). In this regard, Haniffa and Hudaib (2007) and Marshall et al. (2013) argue that the study's richness matters more than the sample size. Moreover, the researcher took into consideration the validity and reliability of the thesis. Therefore, the analysis and conclusions can be used as evidence for future studies and by Tanzanian policy makers.

5) This study was conducted in Tanzania using listed companies with DSE as a sample. Although they use similar corporate governance practices, the researcher did not include SOE and non-listed companies. Therefore, this study's findings may be inapplicable to non-listed, SOE and to organisations outside Tanzania.

6) The investigation of the impact of board characteristics on the listed firms' financial performance was based solely on the traditional view of corporate governance which put an emphasis on the maximisation of shareholders wealth by preventing principle-agent problems (Tricker, 2012). The researcher took no account of the modern view (stakeholders view) of corporate governance.

9.5 SUGGESTIONS FOR FUTURE RESEARCH

The study limitations discussed in the previous section provide a path for suggestions for future corporate governance research. These suggestions are as follows.

1) To the researcher's knowledge, this is the first study of the board characteristics' impact on Tanzanian listed firms' financial performance to use mixed methods. Future Tanzanian corporate governance studies should apply mixed method research in order to increase their credibility and sample size.

2) The use of other proxies, rather than directors with doctoral qualifications, such as the professionalism of board members, could bring more insights about the board skills' impact on financial performance. Particularly, professional or occupational expertise and experience of board members should be considered in future corporate governance studies. Also, future studies on the process and impact of directors' appointments on listed firms' performance could make a worthwhile contribution to this line of research.

3) Tanzania is striving to achieve gender equality and women's empowerment in line with the United Nations (UN), Millennium Development Goals (MDG) indicated in the country's (2014) MDG Report The findings show that there is a positive link between women on boards and the listed firms' financial performance. Future studies could explore more about the influence of female directors on listed firms' performance and contribute to women's participation on boards.

4) This study examined board characteristic aspects of outside directors, size, CEO/COB duality, gender diversity, foreign directors and board skills on the financial performance of firms, represented by Return on Assets (ROA) and Return on Equity (ROE). Future studies could study the influence of board aspects of directors' stockholding, board committees, multiple directorships,

directors' tenure, and other corporate governance mechanisms on listed firms' financial performance.

5) Future studies could use market measures of performance such as Tobin's Q and other varieties of financial performance measures to examine the board characteristics' impact on Tanzanian firms' financial performance. In addition, the researcher encourages that future corporate governance research uses econometric methods for accounting endogeneity problems such as fixed-effects regression, generalised method of moments (GMM).

6) Corporate governance models developed elsewhere can have an influence on a country's corporate governance (Tricker, 2012). Future studies investigating the influence of the UK's compliance and explanatory corporate governance approach on the Tanzania corporate governance practices could add more insights to assist Tanzanian policy makers.

7) This study's sample was taken from DSE listed companies. The sample could be extended to Tanzanian SOE and registered unlisted private companies. This would allow more flexible approaches to be adopted in conducting Tanzanian corporate governance studies.

8) Future Tanzanian corporate governance studies should consider investigation of the extent to which Tanzanian listed firms comply and disclose corporate governance practices.

9) In future, similar corporate governance studies to this one should consider both the modern and traditional views of corporate governance that take account of the interests of the wide range of stakeholders group rather than only those of the shareholders.

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APPENDICES

Appendices for Chapter 6

Appendix 6.1: Research Questions

SN	Question
1	What are the main criteria of appointing a Tanzanian listed firm's board member?
2	How do outside independent directors link to the Tanzanian listed firm's financial performance?
3	In what ways does the board size improve the Tanzanian listed firm's financial performance?
4	Please tell me how CEO Duality affects the Tanzanian listed firm's financial performance?
5	In what ways are diversity characteristics emphasised in the appointment of new board members of the Tanzanian listed companies?
6	How does the presence of foreign directors link to the Tanzanian listed firm's financial performance?
7	How does gender diversity influence the Tanzanian listed firm's financial performance?
8	What is the impact of board skills on the Tanzanian listed firm's financial performance?

Appendix 6.2: A sample of interview consent form

- I, the undersigned, have read and understood the study information sheet provided…
- I have been given the opportunity to ask questions about the study.
- I understand that taking part in the study will include being interviewed and audio recorded.
- I have been given adequate time to consider my decision and I agree to take part in the study.
- I understand that my personal details such as name and employer address will not be revealed to people outside the project.

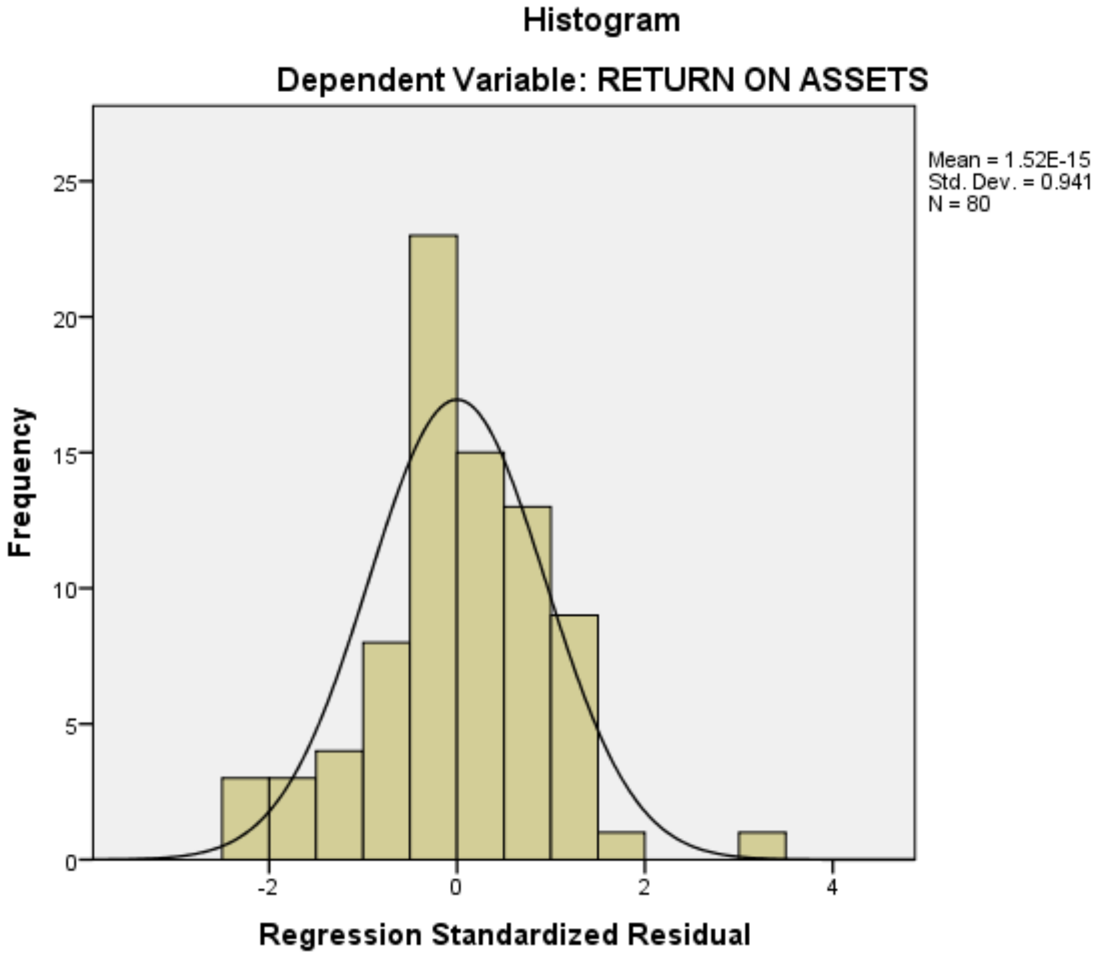
- I understand that my words may be quoted in publications, reports, web pages and other research outputs but my name will not be used.
- I agree to assign the copyright I hold in any material related to this project to (name of the researcher).
- I understand that I can withdraw from the study at any time and I will not be asked any questions about why I no longer want to take part.

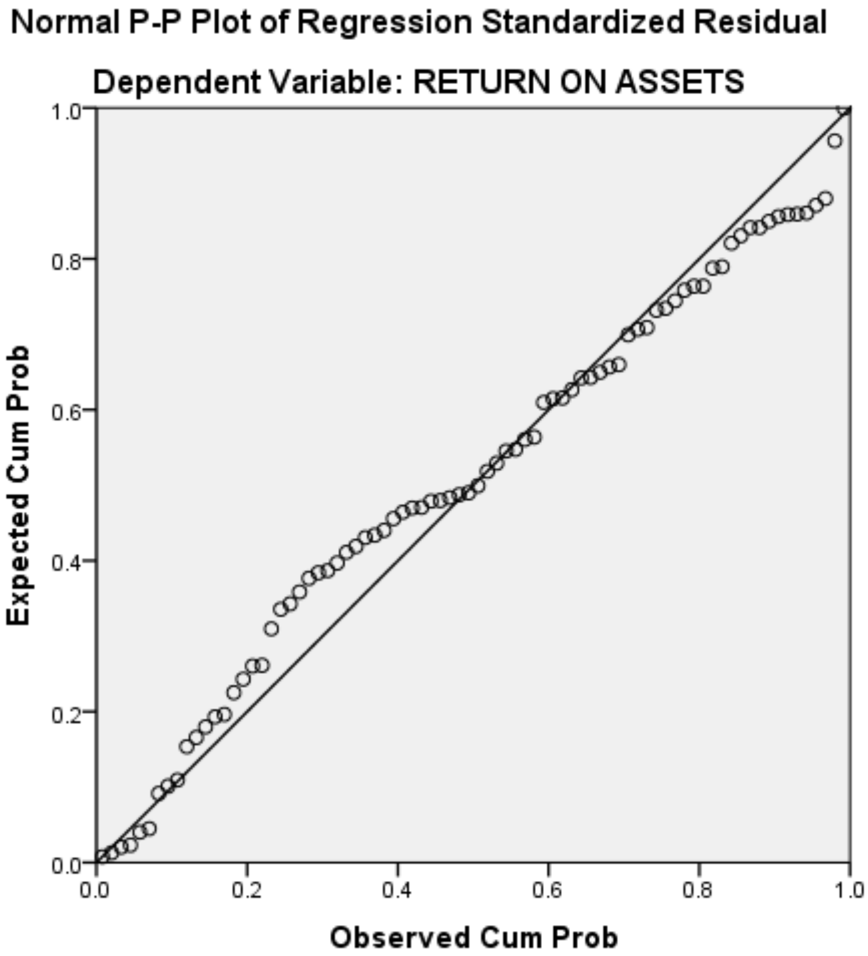
Name of Participant……………………. Date:

Researcher Signature

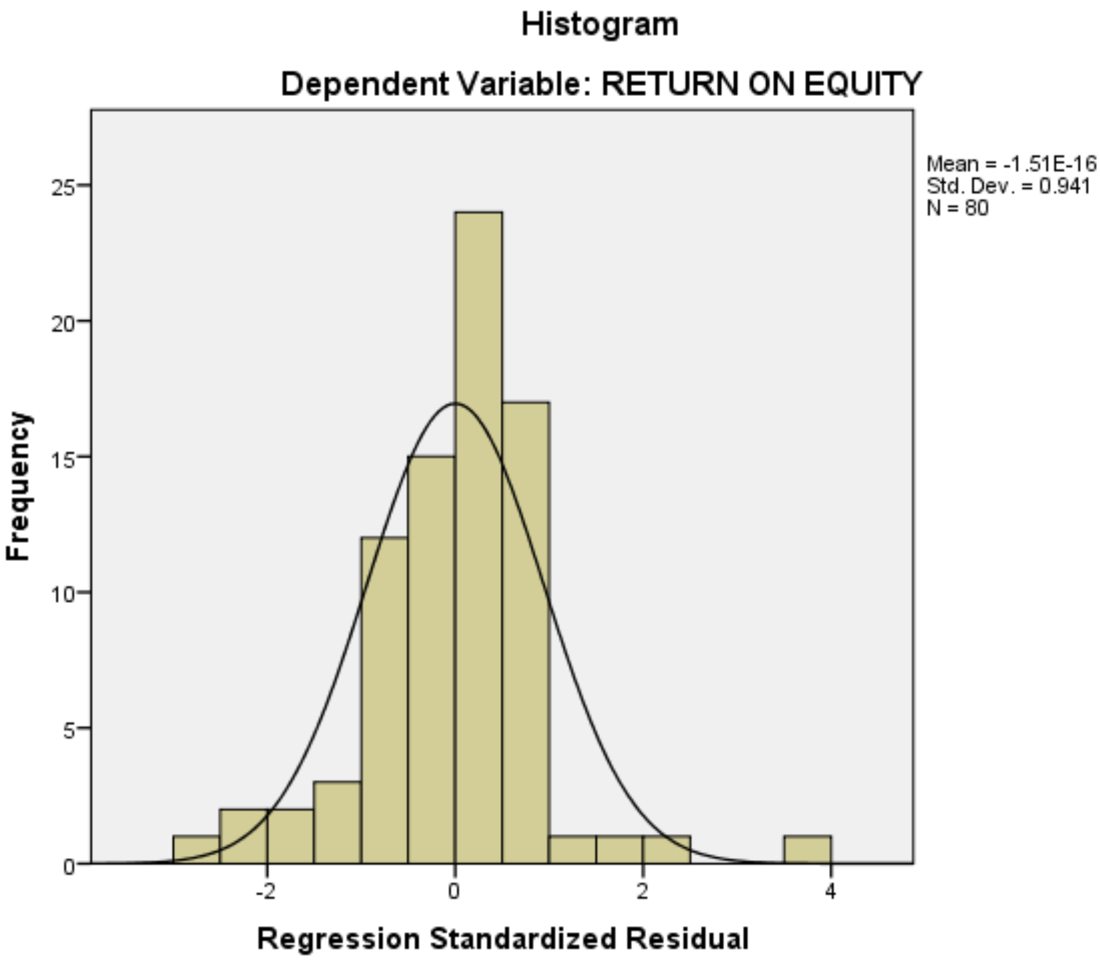
Appendices for Chapter 7

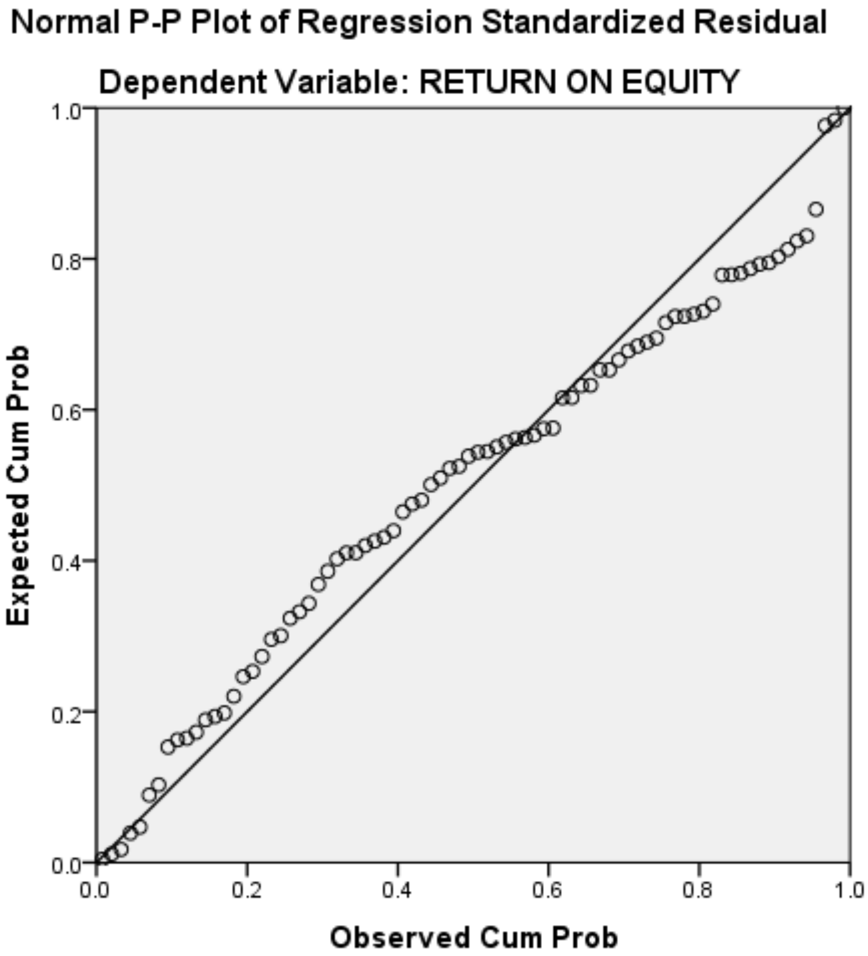
Appendix Ch. 7.1 ROA: Normality tests through the construction of histogram of regression of standardized residual and normal probability plots




Normal P-P Plot of Regression Standardized Residual
Dependent Variable: RETURN ON ASSETS
Expected Cum Prob
Observed Cum Prob
0.0
0.2
0.4
0.6
0.8
1.0

Appendix Ch. 7.2 ROE: Normality tests through the construction of histogram of regression of standardized residual and normal probability plots

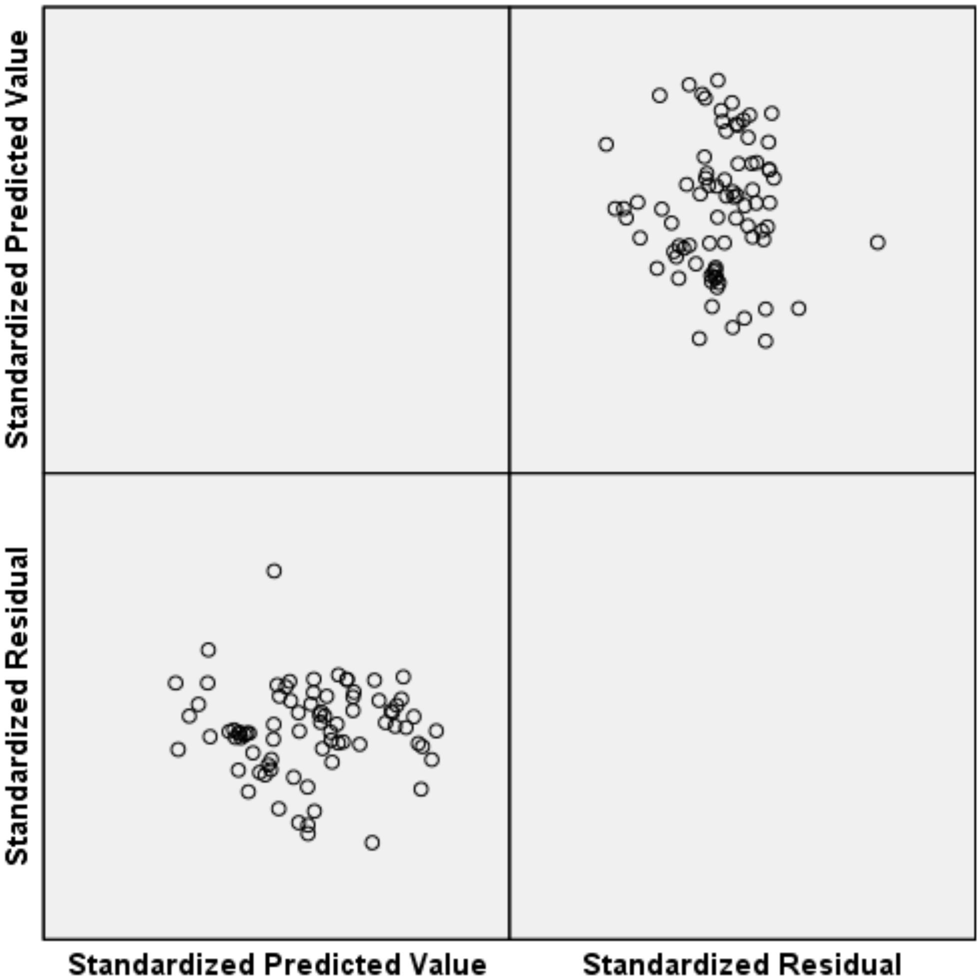



Normal P-P Plot of Regression Standardized Residual
Dependent Variable: RETURN ON EQUITY
Expected Cum Prob
Observed Cum Prob
0.0
0.2
0.4
0.6
0.8
1.0

Appendix Ch. 7.3 ROA: Linearity and Homoscedasticity tests through the construction of scatter plots of standardised predicted values vs. standardised residual values and scatter plots of regression standardised value vs. regression predicted value

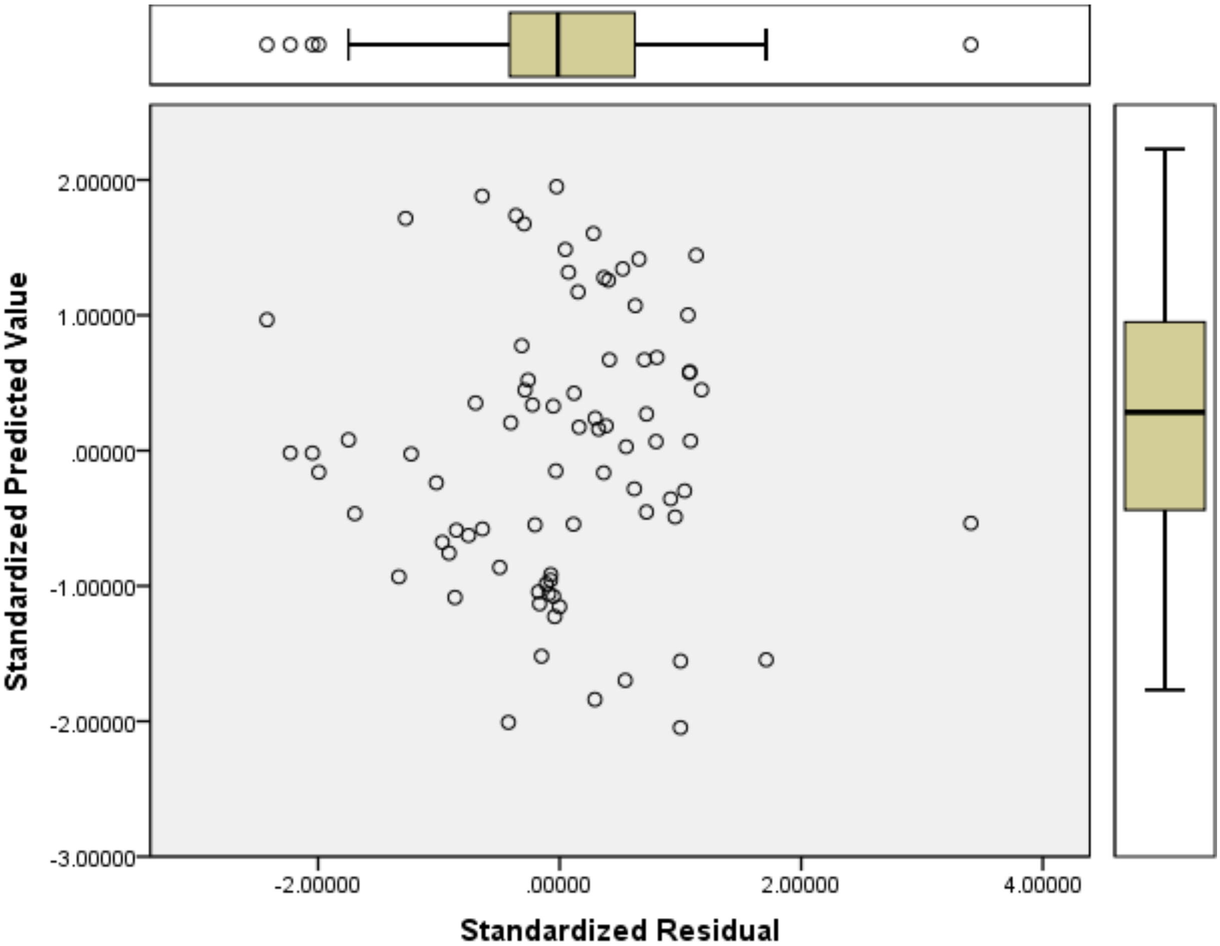
Scatterplots

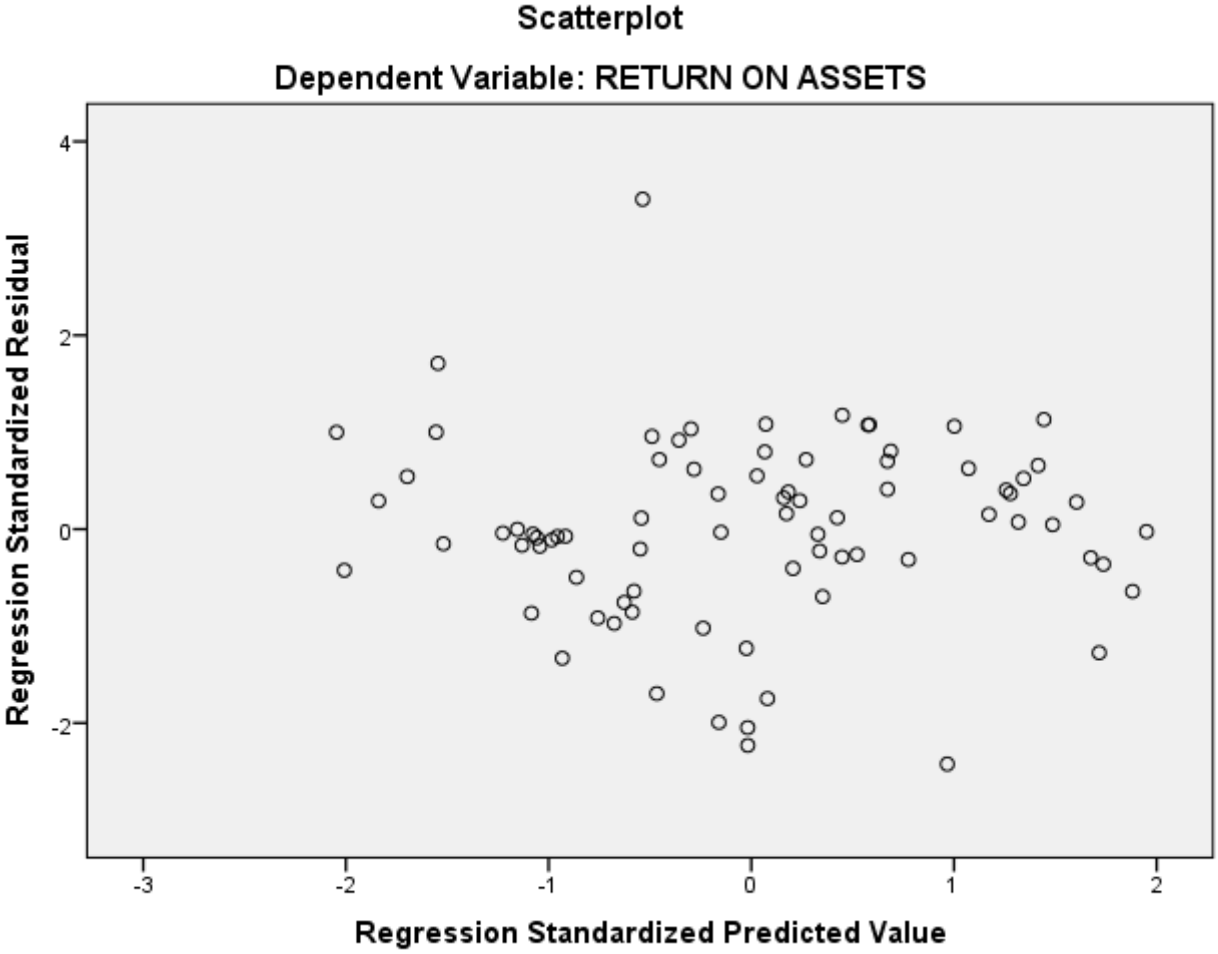
ZPred vs. ZResid plots (ROA)



Scatterplot

ZPred vs. ZResid (ROA)

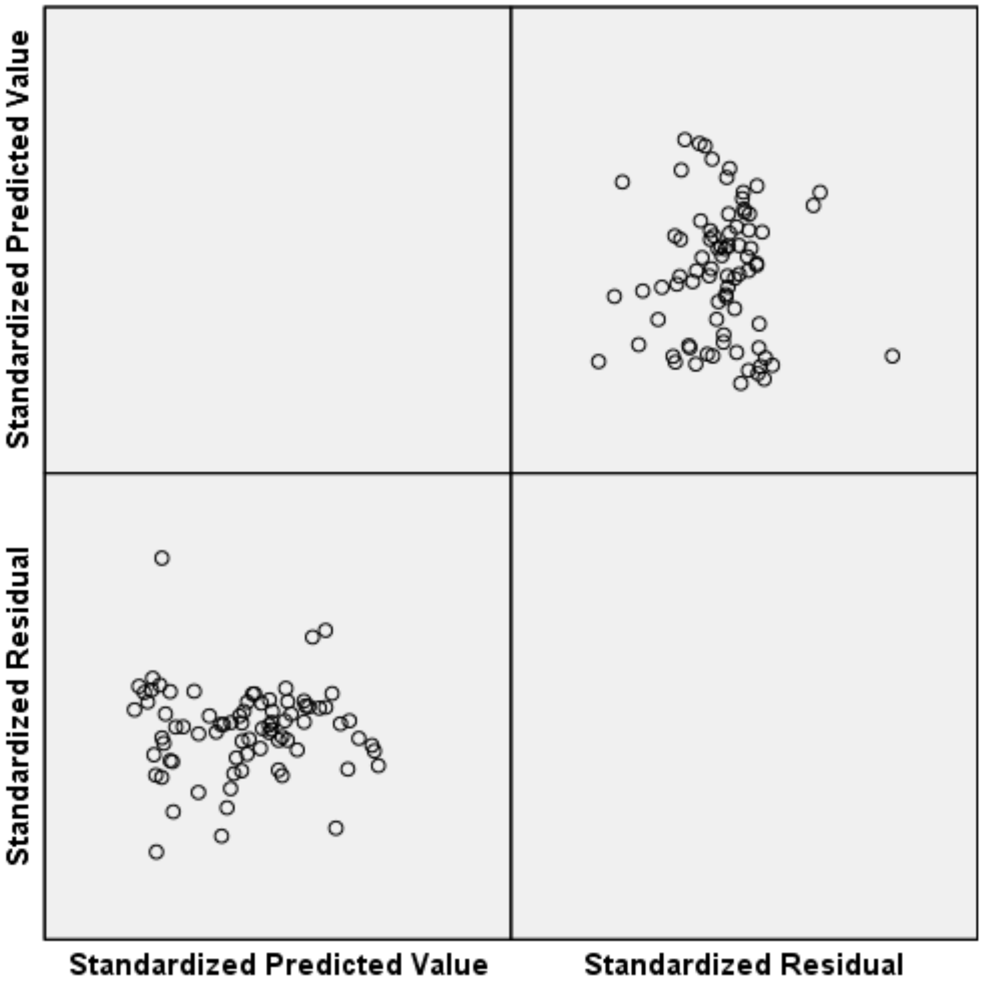



Scatterplot
Dependent Variable: RETURN ON ASSETS
Regression Standardized Residual
4
2
0
-2
-3
-2
-1
0
1
2
Regression Standardized Predicted Value

Appendix Ch. 7.4 ROE: Linearity and Homoscedasticity tests through the construction of scatter plots of standardised predicted values vs. standardised residual values and scatter plots of regression standardised value vs. regression predicted value

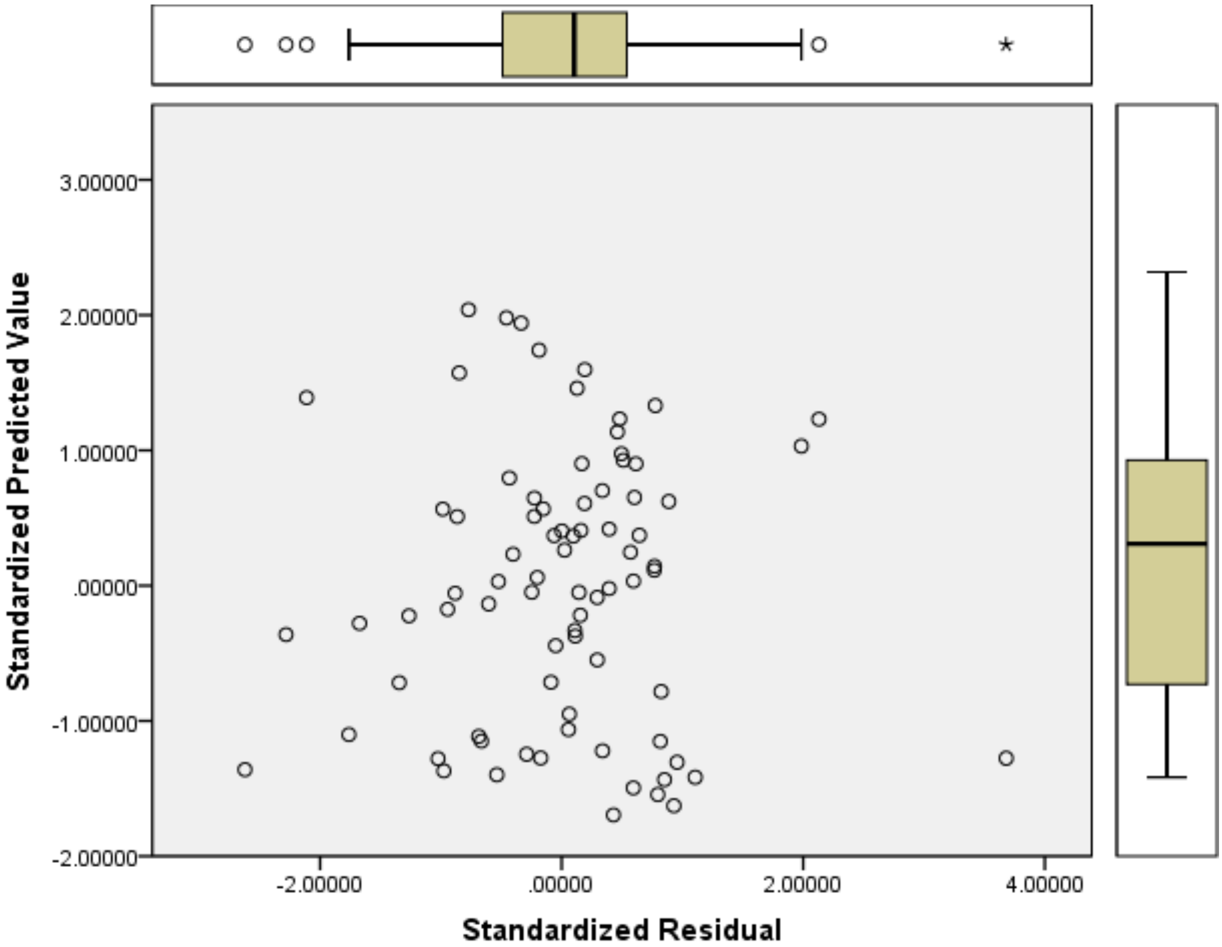
Scatterplots

ZPred vs. ZResid plots (ROE)



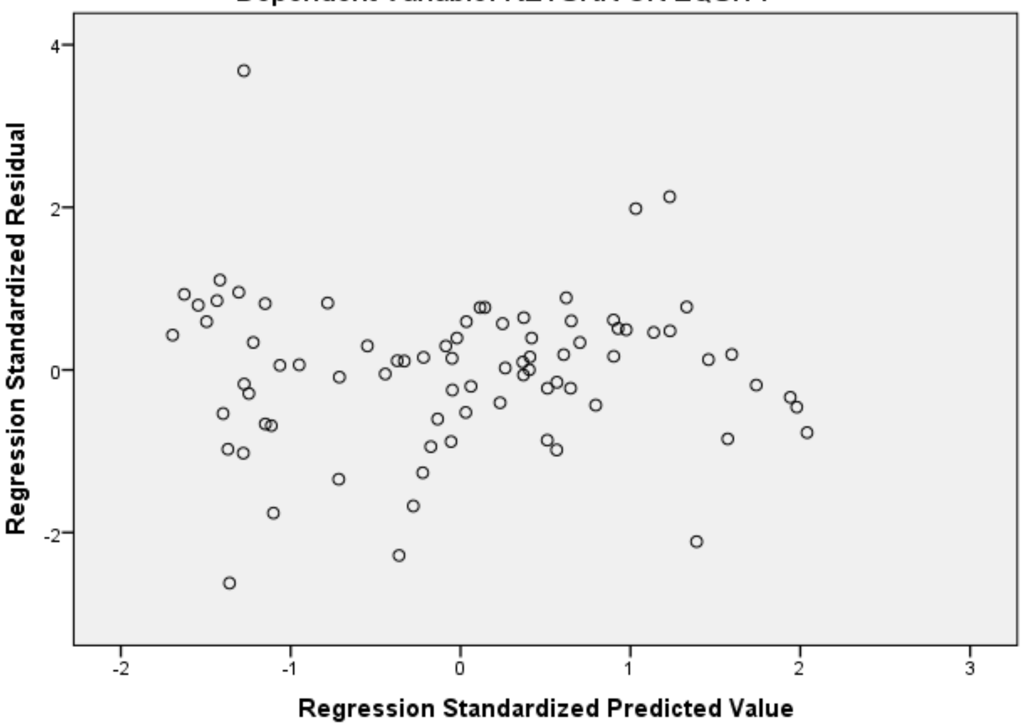
Scatterplot

ZPred vs. ZResid scattered (ROE)



Scatterplot

Dependent Variable: RETURN ON EQUITY



Appendix Ch. 7.5 ROA: A Durbin-Watson test to assess whether residuals are correlated

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Change Statistics					Durbin-Watson
					R Square Change	F Change	Df1	Df2	Sig. F Change	
1	.523[a]	.274	.214	.12614	.274	4.591	6	73	.001	
2	.719[b]	.517	.455	.10504	.243	11.756	3	70	.000	1.440

a. Predictors: (Constant), FEMALE DIRECTORS, BOARD SIZE, OUTSIDE DIRECTORS, FOREIGN DIRECTORS, EDUCATION DIVERSITY, CEO DUALITY
b. Predictors: (Constant), FEMALE DIRECTORS, BOARD SIZE, OUTSIDE DIRECTORS, FOREIGN DIRECTORS, EDUCATION DIVERSITY, CEO DUALITY, FINANCIAL LEVERAGE, FIRM SIZE, FIRM AGE
c. Dependent Variable: RETURN ON ASSETS

Appendix Ch. 7.6 ROE: A Durbin-Watson test to assess whether residuals are correlated

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Change Statistics					Durbin-Watson
					R Square Change	F Change	Df1	Df2	Sig. F Change	
1	.495[a]	.245	.183	.22667	.245	3.948	6	73	.002	
2	.549[b]	.301	.212	.22266	.056	1.885	3	70	.140	1.545

a. Predictors: (Constant), FEMALE DIRECTORS, BOARD SIZE, OUTSIDE DIRECTORS, FOREIGN DIRECTORS, EDUCATION DIVERSITY, CEO DUALITY
b. Predictors: (Constant), FEMALE DIRECTORS, BOARD SIZE, OUTSIDE DIRECTORS, FOREIGN DIRECTORS, EDUCATION DIVERSITY, CEO DUALITY, FINANCIAL LEVERAGE, FIRM SIZE, FIRM AGE
c. Dependent Variable: RETURN ON EQUITY

Appendix Ch. 7.7: Spearman Rho Correlations for all (80) Firm Years

		1	2	3	4	5	6	7	8	9	10	11
1	Firm debt	1.000										
2	Firm size	-.389**	1.000									
		.000										
3	Firm age	.107	-.198	1.000								
		.345	.079									
4	ROA	-.574**	.120	-.156	1.000							
		.000	.288	.166								
5	ROE	-.235*	-.055	-.101	.888**	1.000						
		.036	.628	.373	.000							
6	Board size	.342**	.073	.010	-.190	-.020	1.000					
		.002	.518	.932	.092	.862						
7	Outside directors	.202	-.292**	-.293**	-.017	.057	-.094	1.000				
		.073	.009	.008	.879	.616	.405					
8	CEO duality	.258*	-.388**	-.237*	-.341**	-.272*	.034	.528**	1.000			
		.021	.000	.034	.002	.014	.765	.000				
9	Foreign directors	.170	.470**	-.628**	-.080	-.039	.449**	-.025	.026	1.000		
		.132	.000	.000	.482	.730	.000	.825	.817			
10	Board skill	.027	.059	-.367**	.199	.267*	.112	.390**	.252*	.355**	1.000	
		.809	.603	.001	.076	.017	.325	.000	.024	.001		
11	Gender diversity	-.276*	-.094	.053	.397**	.461**	-.021	-.147	-.165	-.191	.373**	1.000
		.013	.408	.640	.000	.000	.853	.193	.143	.089	.001	

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

Appendix Ch. 7.8: A summary of all of the hypotheses and findings for the financial performance models based on the dependent variable ROA

Explanatory variable	**No. Hypothesis**	**Expected sign**	**Finding sign**	**Finding significance**	**Hypothesis status**
(Panel A: Without Control Variables)					
Outside Directors	1	+	+	Insignificant	Rejected
CEO Duality	2	-	-	Significant at the 5 % level	Accepted
Board Size	3	+	-	Insignificant	Rejected
Gender Diversity	4	+	+	Significant at the 5 % level	Accepted
Board Skill	5	+	+	Insignificant	Rejected
Foreign Directors	6	+	+	Insignificant	Rejected
Panel B: With Control Variables)					
Outside Directors	1	+	+	Insignificant	Rejected
CEO Duality	2	-	-	Significant at the 1% level	Accepted
Board Size	3	+	-	Insignificant	Rejected
Gender Diversity	4	+	+	Marginal significant	Accepted
Board Skill	5	+	+	Insignificant	Rejected
Foreign Directors	6	+	+	Insignificant	Rejected

Notes: The details of the hypotheses are presented in Chapter Three.

Appendix Ch. 7.9: A summary of all of the hypotheses and findings for the financial performance models based on the dependent variable ROE

Explanatory variable	**No. Hypothesis**	**Expected sign**	**Finding sign**	**Finding significance**	**Hypothesis status**
(Model 1: Without Control Variables)					
Outside Directors	1	+	+	Insignificant	Rejected
CEO Duality	2	-	-	Significant at the 5 % level	Accepted
Board Size	3	+	+	Insignificant	Rejected
Gender Diversity	4	+	+	Significant at the 1 % level	Accepted
Board Skill	5	+	+	Insignificant	Rejected
Foreign Directors	6	+	+	Insignificant	Rejected
Model 2:With Control Variables)					
Outside Directors	1	+	+	Insignificant	Rejected
CEO Duality	2	-	-	Significant at the 5% level	Accepted
Board Size	3	+	-	Insignificant	Rejected
Gender Diversity	4	+	+	Significant at the 5% level	Accepted
Board skill	5	+	+	Insignificant	Rejected
Foreign Directors	6	+	+	Insignificant	Rejected

Notes: The details of the hypotheses are presented in Chapter Three.

Appendix Ch. 7.10: Correlations between independent variables, error terms and lag of endogenous variables

	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18	19	20	21	22
1. Firm debt	1																					
2. Firm size	-.043	1																				
	.702																					
3. Firm age	.012	-.195	1																			
	.919	.083																				
4.Return on assets	-.524**	-.012	-.133	1																		
	.000	.914	.240																			
5.Return on equity	-.078	-.098	-.111	.821**	1																	
	.490	.386	.325	.000																		
6.Board size	.262*	-.196	-.012	-.169	.053	1																
	.019	.081	.916	.134	.642																	
7. Outside directors	.307**	-.314**	-.304**	-.185	-.028	.058	1															
	.006	.005	.006	.100	.803	.607																
8.CEO duality	.218	-.318**	-.222*	-.337**	-.205	.106	.774**	1														
	.052	.004	.047	.002	.069	.351	.000															
9.Foreign directors	.224*	.424**	-.544**	-.016	.078	.463**	-.016	.006	1													
	.046	.000	.000	.885	.490	.000	.891	.959														
10.Board skill	.108	.169	-.264*	.168	.262*	.148	.388**	.254*	.384**	1												
	.340	.134	.018	.137	.019	.191	.000	.023	.000													
11.Gender diversity	-.202	-.077	.105	.383**	.409**	.031	-.125	-.182	-.120	.342**	1											
	.073	.497	.354	.000	.000	.787	.270	.105	.290	.002												

12.LAGBSIZE	.246*	-.174	-.047	-.153	.063	.899**	.029	.050	.474**	.148	.026	1										
	.029	.126	.678	.180	.579	.000	.800	.665	.000	.194	.819											
13.LAGBOUTSIDE	.313**	-.287*	-.238*	-.164	.009	.072	.833**	.683**	-.039	.361**	.053	.057	1									
	.005	.010	.035	.148	.936	.529	.000	.000	.731	.001	.641	.618										
14LAGFMSIZE	-.052	.916**	-.279*	-.017	-.105	-.127	-.247*	-.184	.451**	.162	-.127	-.197	-.322**	1								
	.647	.000	.013	.882	.359	.264	.028	.105	.000	.153	.264	.082	.004									
15.LAGFMAGE	-.049	-.215	.652**	-.064	-.086	-.067	-.310**	-.232*	-.505**	-.236*	.081	-.013	-.311**	-.197	1							
	.671	.057	.000	.576	.450	.555	.005	.040	.000	.036	.480	.913	.005	.082								
16.LAGCEOD	.203	-.292**	-.225*	-.310**	-.189	.120	.749**	.861**	-.006	.260*	-.110	.105	.776**	-.320**	-.224*	1						
	.072	.009	.046	.005	.095	.293	.000	.000	.955	.021	.335	.356	.000	.004	.047							
17.LAGFODIR	.216	.355**	-.493**	-.070	.039	.473**	.022	.062	.935**	.394**	-.073	.465**	-.029	.423**	-.551**	.002	1					
	.056	.001	.000	.537	.730	.000	.847	.588	.000	.000	.521	.000	.801	.000	.000	.987						
18.LAGBSKILL	.073	.103	-.251*	.068	.154	.111	.403**	.315**	.291**	.785**	.403**	.147	.385**	.167	-.266*	.253*	.381**	1				
	.520	.366	.026	.553	.176	.328	.000	.005	.009	.000	.000	.196	.000	.141	.018	.025	.001					
19.LAGFEMDIR	-.203	-.030	.096	.314**	.336**	-.024	-.141	-.266*	-.150	.234*	.689**	.032	-.114	-.073	.109	-.180	-.110	.350**	1			
	.073	.794	.400	.005	.002	.832	.215	.018	.186	.038	.000	.777	.319	.524	.338	.113	.336	.002				
20.LAGFDEBT	.720**	-.087	-.168	-.386**	-.056	.190	.377**	.212	.217	.137	-.303**	.264*	.292**	-.052	.006	.215	.210	.101	-.187	1		
	.000	.447	.139	.000	.623	.094	.001	.061	.055	.228	.007	.019	.009	.650	.960	.057	.064	.375	.098			
21.Error for ROA	-.009	-.041	.007	.694**	.755**	.029	.004	.069	.064	.147	.010	-.010	.014	.001	-.023	-.011	-.002	.005	-.041	-.051	1	
	.938	.716	.951	.000	.000	.800	.974	.544	.573	.192	.927	.930	.900	.994	.842	.925	.988	.968	.722	.658		
22.Error for ROE	-.004	-.019	.003	.618**	.817**	.003	-.005	.067	.055	.146	-.014	-.007	-.007	.009	-.029	-.018	.008	.010	.001	-.009	.909**	
	.971	.865	.977	.000	.000	.979	.962	.556	.628	.195	.904	.950	.950	.936	.801	.875	.945	.931	.993	.940	.000	

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