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Simeon Wanyama

2006

University of Dundee

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CORPORATE GOVERNANCE AND ACCOUNTABILITY IN UGANDA: AN ANALYSIS OF STAKEHOLDER PERSPECTIVES

SIMEON WANYAMA

2006

phd.

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porate Governance and Accountability in Uganda: An Examination of Stakeholder Perspectives

Simeon Wanyama

In Memory of My Beloved Parents:

Domiano Kwamusi

and

Anastasia Anyango

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Acronyms

ACAD	Academics
APRM	African Peer Review Mechanism
CACG	Commonwealth Association for Corporate Governance
CEA	Company Employees and Accountants
CIO	Civil servants, Individual Investors and Others
CSR	Corporate Social Responsibility
EBRD	European Bank of Reconstruction and Development
EDO	Company Executives, Executive Directors, Non-Executive Directors and Owner-managers
ICGN	International Corporate Governance Network
ICGU	Institute of Corporate Governance of Uganda
ICPAU	Institute of Certified Public Accountants of Uganda
IFRS	International Financial Reporting Standards
KW	Kruskal-Wallis
LRJ	Legislators, Regulators, and members of the Judiciary
MFPED	Ministry of Finance, Planning and Economic Development
MP	Member of Parliament
MW	Mann-Whitney
NGO	Non-Governmental Organisation
OECD	Organisation for Economic Co-operation and Development
PACF	Pan-African Consultative Forum
SEE	South Eastern Europe
SME	Small and Medium Size Enterprises
UNECA	United Nations Economic Commission for Africa
USE	Uganda Securities Exchange

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Acknowledgements

I would like to express my gratitude to the Department of Accountancy and Business Finance (University of Dundee) and all the individuals who have played a part in preparing me to submit this thesis.

My sincere thanks go to Professor Michel Lejeune and Uganda Martyrs University for sponsoring my PhD Programme at the University of Dundee. My gratitude also goes to my research supervisors: Professor Christine V. Helliar and Dr. Bruce M. Burton for their dedicated and patient direction throughout the period of my studies at Dundee. Their concern for my personal welfare went beyond the call of duty. Of special mention is Professor David Power for the help he gave me in various ways during my stay in Dundee.

I will always treasure the support of my friends: Professor Thomas Boyd and Mary Boyd for being there for me and lending their support and understanding at all times. The same gratitude goes to all the PhD students in the Department of Accountancy whose friendship I enjoyed and will always treasure. These students include: George S. Cobb, Calum Middleton, Joao Oliveira, Aisha El-Shukri, Thomas Blewitt, Bashir Tijjani and Akira Yonekura.

A big "thank you" goes to Mr. Robert A. Lyon (Head of Department) and to the departmental staff, namely: Audrey Stewart, Alison Anderson, Hazel Batchelor, Ruth Kelly and Arlene Smith. I appreciate the help that you give us in the Department.

I would also like to thank Mr. Vincent F. Kaheeru (Chief Executive of the Institute of Corporate Governance of Uganda), Mr. Simon Rutega (Chief Executive, Uganda Securities Exchange), Mr. Japheth Kato (Chief Executive, Uganda Capital Markets Authority), Mr. Leo Kibirango (former Chairman of Uganda Capital Markets Authority) and all the other research participants for their great contribution during the course of my research. Your contribution made a great difference to my research and is highly appreciated.

My thanks also go to ICAS whose research grant was a welcome contribution towards the cost of carrying out my empirical work in Uganda. The list of those who deserve to be thanked is long and so, to each and everyone who has helped me in one way or another, thank you very much for your support.

Declaration

I hereby declare that I am the author of this thesis; that the work of which this thesis is a record has been done by myself; and that it has not previously been accepted for a higher degree.

Signed: Simeon Wanyama Date: 26/05/06

Simeon Wanyama

Certificate

We certify that Simeon Wanyama has worked the equivalent of nine terms on this research, and that the conditions of the relevant ordinance and regulations have been fulfilled.

Signed: C. V. Helliar Date: 22/5/06

Professor Christine V. Helliar

Signed: Bruce Burton Date: 22/5/6

Dr. Bruce M. Burton

Abstract

Corporate Governance and Accountability in Uganda – A Stakeholder Perspective

Abstract

This thesis examines the extent to which stakeholders in Uganda perceive the country's present governance framework to be effective in providing confidence about the corporate sector. The study is based upon semi-structured interviews and questionnaire surveys with different groups of stakeholders in Uganda. The issues that are examined include the legal, regulatory and supervisory frameworks, the political framework, the cultural framework, the ethical framework and the economic framework underpinning governance in the nation's corporate sector. The research adopts an accountability perspective to investigate the various issues that emerge; the results suggest that urgent action is needed in order to facilitate the implementation of a sound corporate governance system that provides for a meaningful degree of accountability.

Chapter 1

Introduction

Chapter 1

Introduction

1.1 Preamble

The notion of good corporate governance (and departures therefrom) features prominently in the world's professional and academic literature, largely as a result of various financial scandals and failures all over the world. The growing number of cataclysmic events occurring over the past ten years or so has led to heightened concern about the *de-facto* standards of Corporate Governance which exist across the world. The financial crisis that swept the world in the summer of 1998 proved particularly significant in this regard; the Russian Government defaulted on several major loans, after which the crisis spread to Central and South America before moving to Asia, and leading to widespread fear that the Western financial system would collapse (Monks and Minow, 2001). In addition to these macro level catastrophes, a number of spectacular failures in individual companies have also focussed attention on the lack of robust structures. Although most of this attention has been devoted to recent cases in the world's richest nations (e.g. Enron, Worldcom and Parmalat), [1] developing countries have not been immune from such difficulties. For example, Uganda has had several recent large-scale corporate failures; three indigenous banks (The Co-operative Bank, Greenland Bank and Trans Africa Bank) collapsed in 1999 while a fourth (Trust Bank), a subsidiary of a Kenyan financial institution, was closed in the same year. Prior to these cases there had been a series of

[1] Patsuris (2002) provides the following list of companies that have been involved in high profile corporate governance scandals: Adelphia Communications (April 2002); AOL Time Warner (July 2002); Arthur Andersen (Nov. 2001); Bristol-Myers (July 2002); CMS Energy (May 2002); Duke Energy (July 2002); Dynergy (May 2002); El Paso (May 2002); Enron (October 2001); Global Crossing (February 2002); Halliburton (May 2002); Homestore.com (January 2002); K-Mart (January 2002); Merck (July 2002); Mirant (July 2002); Nicor Energy LLC (July 2002); Peregrine Systems (May 2002); Qwest Communications International (February 2002); Reliant Energy (May 2002); Tyco (May 2002); WorldCom (March 2002); and Xerox (June 2000).

corporate governance scandals involving the AIB in Ireland, and BCCI, Polly Peck as well as the Maxwell Communications Group in the UK, events which led to a reappraisal of the notion of good governance in the countries concerned. As a result of all these scandals Governments and private sector organisations around the world have made various efforts to promote good governance in both the private and the public sector; this interest in improved governance has led to the emergence of numerous governance guidelines and codes (Laing and Weir, 1999).

Apart from corporate scandals, there has also been a demand for corporate governance guidelines among international investors; this has led to the tendency for convergence in the guidelines towards acceptable international norms. For example, traditional corporate governance practices in Japan, Germany and France were questioned; in these markets, the Government's role was relatively pronounced, debt financing was preferred to equity, stock market capitalisations were low, systems of cross-holding made ownership illiquid, a few giant shareholders predominated, takeovers were rare, and disclosure was poor (Monks and Minow, 2001).

The World Bank, through the International Finance Corporation, set out to promote corporate governance throughout the world; it has sponsored and endorsed efforts to this end. Among the main results of these endeavours were the Principles of Corporate Governance issued by the Organisation for Economic Co-operation and Development (OECD) in 1999 (later revised in 2004). These, together with the Commonwealth Principles (1999)[2] and the King Report I (1994)[3] were used as a basis

[2] "Commonwealth Principles" refers to the Principles for Corporate Governance in the Commonwealth that were issued by the Commonwealth Association for Corporate Governance in 1999.

for drafting the Manual on Corporate Governance – Incorporating Recommended Guidelines for Uganda (2001).[4] A copy of these guidelines is attached in Appendix 1.1. The Capital Markets Authority (CMA) of Uganda later published *The Capital Markets Corporate Governance Guidelines* in 2003 (see Appendix 1.2). The CMA guidelines were more specific than those published by the ICGU. Also, whereas the ICGU guidelines were meant to apply to all companies, the CMA guidelines were designed specifically for companies listed on the Uganda Securities Exchange.

The researcher picked up interest in the topic of corporate governance following the events that led to the collapse of Enron in 2001. When a company collapses or is involved in accounting and other corporate governance related scandals, various stakeholders are affected. For example, many or all employees lose their jobs as well as their pensions; shareholders lose practically all of their investments. Debt providers may not be able to recover the money lent to these companies; the Government loses the tax revenue that it would have received, both from the companies concerned and from other beneficiaries of the companies' operations. The community loses a source of employment when a company collapses and disposable income drops. Investor confidence is affected and the reputation of some professional entities may be affected.[5] These and other concerns influenced the researcher to examine the perceptions of stakeholders about corporate governance and accountability in Uganda,

---

[3] "King Report I" refers to the Code of Corporate Practices and Conduct (King Committee on Corporate Governance for South Africa), published by the Institute of Directors in Southern Africa in 1994. The code was later revised in 2002.

[4] In a document posted on its website on 19th April 2005, the Pan-African Consultative Forum (Corporate Governance) stated that an Institute of Corporate Governance of Uganda (ICGU) was established in Uganda to lead governance reform in that country; this decision was taken following a three-day regional workshop on corporate governance convened by the Commonwealth Association for Corporate Governance (CACG) in association with the Commonwealth Secretariat and the Parastatal Monitoring Unit in June 1998.

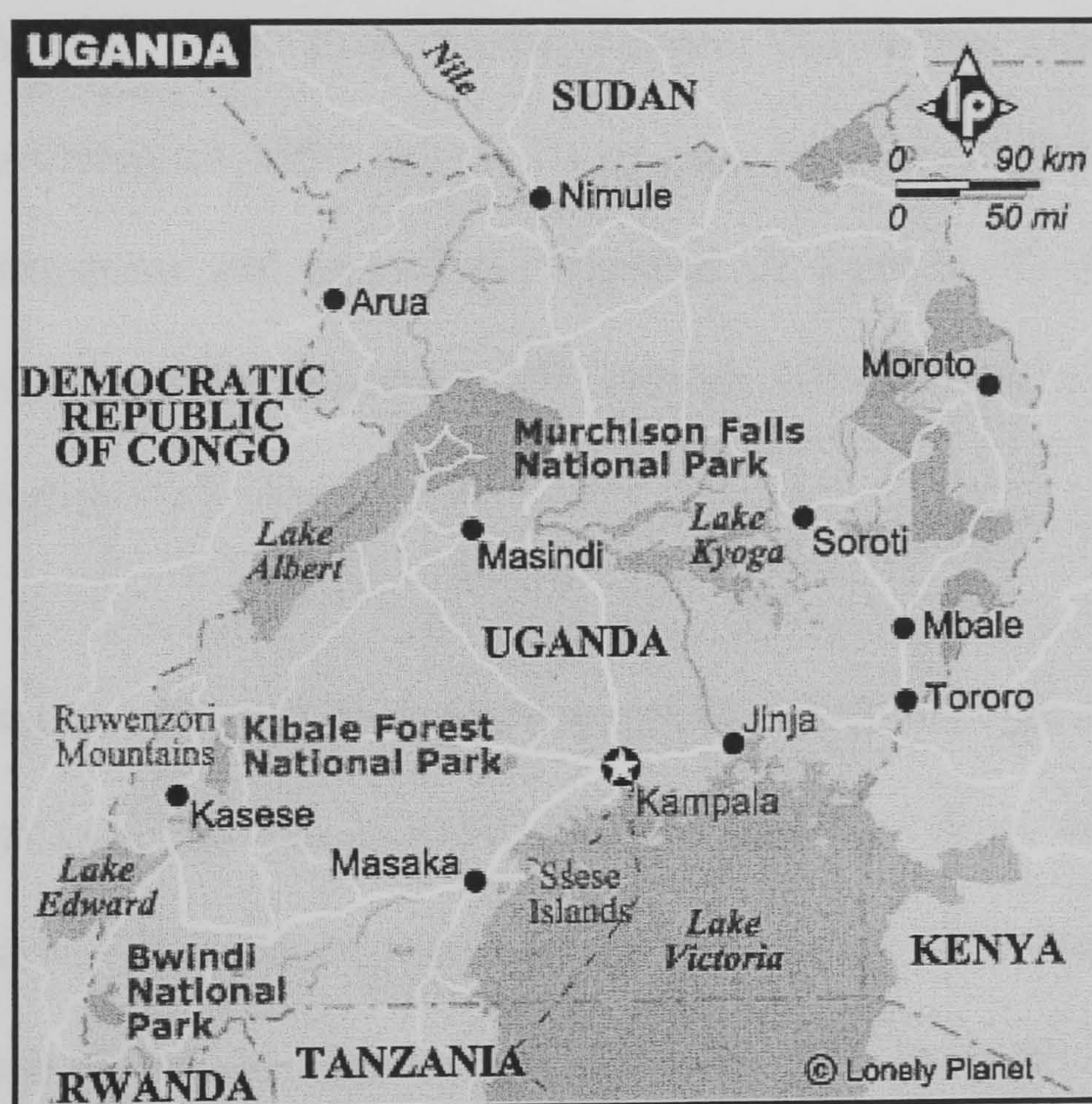
[5] E.g. Arthur Andersen, which was one of the biggest five accounting firms in the world, had to wind up as a result of being tainted by its involvement in the Enron scandal.

the researcher's own country; Uganda is a developing nation where confidence in the corporate sector's governance standards is, on the face of it, crucial if domestic and international investment is to grow, and the nation's economy to expand.

1.2 Background Information about Uganda

This section provides some background information about the political, legal, regulatory, economic, ethical, social and cultural environment in Uganda to provide the context for the empirical studies carried out in Uganda and discussed later in the thesis.

Figure 1.1 Map of Uganda



NOTE: This map, taken from Lonely Planet website, shows Uganda and its surrounding countries.

Uganda is a land-locked country located in the Eastern part of Africa. The nation is surrounded by Kenya to the east, Tanzania to the south, Sudan to the north, the

Democratic Republic of Congo to the west, and Rwanda to the southwest (see figure 1.1).

According to official records, Uganda began interacting with people from Europe in March 1860 following the visit of Giovani Miani, an Italian working for the Egyptian authorities. Uganda became a British Protectorate in 1894 and eventually gained its independence on 9th October 1962 (Ugandan Government, 2004).

1.2.1 Political Environment

Uganda has had a turbulent political history since gaining its independence from colonial rule in 1962. At the time of independence, Uganda had a federal system of government; however, in 1966 Milton Obote, the then Prime Minister, forcefully abolished all kingdoms and created the Republic of Uganda. Idi Amin eventually overthrew Obote in a military coup on 25th January 1971 and ruled Uganda until he himself was overthrown in April 1979.

After the overthrow of Amin there were successive short lived governments led by Professor Yusuf Lule (for two months), Godfrey Binaisa (eleven months) and Paul Muwanga (four months). Obote was returned to power in 1980 following elections and was sworn in as President for the second time on 11th December 1980. Obote was subsequently overthrown for the second time on the 27th July 1985 and Tito Okello was sworn in as President only to be forcefully removed from office on the 26th January 1986 by a group led by Yoweri Kaguta Museveni. Museveni was sworn in as

President of Uganda on 29th January 1986 and retains power to this day (Uganda Government, 2004).

The Ugandan Constitution of 1995 provides for a total of 305 members of parliament composed of 214 Constituency Representatives, 56 District Women Representatives, 10 Uganda People's Defence Forces Representatives, 5 Representatives of the Youth, 5 Representatives of Persons with Disabilities, 5 Representatives of Workers and 10 Ex-officio Members (Parliament of Uganda website, 2004). The functions of the Parliament of Uganda are specified as follows:

i. passing laws for the good governance of Uganda;

ii. providing, by giving legislative sanctions, taxation and acquisition of loans, the means of carrying out the work of Government;

iii. scrutinising Government policy and administration through the following:
   - pre-legislative scrutiny of bills referred to the parliamentary committees by Parliament;
   - scrutiny of the various objects of expenditure and the sums to be spent on each;
   - assurance regarding transparency and accountability in the application of public funds;
   - addressing to a member of Government questions for reply on the floor of the House; and
   - monitoring the implementation of Government programmes and projects;

iv. debating matters of topical interest, usually those highlighted in the President's State of The Nation address;

v. vetting the appointment of persons nominated by the President under the Constitution or any other enactment. (Uganda Parliament website, 2004).

The minimum qualifications for a person to become a member of parliament are A-Level or its equivalent.

1.2.2 The Legal System

As stated in Section 1.2.1 above, one of the functions of parliament is to pass laws for the good governance of Uganda. At the forefront of the legal system in Uganda is the Judiciary, whose official website states:

> The judiciary is a distinct and independent arm of Government entrusted with judicial authority, and mandated to administer and deliver justice to the people of Uganda. It plays a fundamental role in the promotion of law and order, human rights, social justice, morality and good governance.

The same website indicates the following regarding its mission:

> The mission of the Judiciary is to provide administration and timely delivery of justice to all people of Uganda. To achieve the above, the following main objectives are pursued as under:
>
> - Establish and facilitate an effective machinery capable of functioning as an adjudicating service;
> - Hear, consider and judge cases and dispose of them quickly and fairly in accordance with the law;
> - Interpret and apply the Constitution and other laws of Uganda; and
> - Introduce modalities for out-of-court dispute resolution mechanism to reduce the burden of cases on the courts.

Article 128 of the Constitution of Uganda (1995) states the following regarding the independence of the courts:

> The courts are not subject to the control or direction of any person or authority. No person can interfere with the courts in the exercise of their functions. All organs of the State are required to give the courts the assistance necessary to make them efficient.

The Judiciary in Uganda is divided into: (i) the Supreme Court; (ii) the Court of Appeal; (iii) the High Court; (iv) the Commercial Court; and (v) the Magistrates Courts.

The Supreme Court was established by Article 130 of the Constitution of Uganda (1995) and is composed of the Chief Justice and at least six other Justices. The

decisions of the Supreme Court are final and form precedents to be followed by all lower courts. The Court of Appeal came into being following the promulgation of the Constitution of Uganda (1995), and the enactment of the Judicature Statute (1996) and is between the Supreme Court and the High Court.[6] The Court of Appeal consists of the Deputy Chief Justice and at least seven other Justices. The only cases that can be brought directly to the Court of Appeal without passing through the High Court are cases involving the interpretation of the Constitution, where the Court of Appeal sits as a Constitutional Court.

The High Court of Uganda was established by Article 138 of the Constitution and can try any case of any value or crime of any magnitude in Uganda. It hears appeals from Magistrates Courts in addition to hearing cases brought to it directly. The High Court is headed by the Honourable Principal Judge who is in charge of the administration of the court and has general supervisory powers over Magistrates' Courts. The High Court conducts most of its business at its headquarters but also has circuits in seven other locations spread all over the country. The High Court has four divisions, namely the Civil Division, the Commercial Division, the Family Division and the Criminal Division. The Commercial Court is, therefore, a division of the High Court and specialises in areas of a commercial nature.

The Magistrate's Courts are the lowest courts and their decisions are subject to review by the High Court. The official website of the Ugandan Judiciary states:

> There are three levels of Magistrates Courts: Chief Magistrates, Magistrates Grade 1 and Magistrates Grade II. These courts handle the bulk of cases in Uganda. Presently the country is divided into 26 Chief Magistrates' areas administered by Chief Magistrates who have general

[6] The Court of Appeal is also a Constitutional Court.

powers of supervision over all magisterial courts within the area of jurisdiction.

The cases that these Magistrates' Courts can hear are limited according to value and type of crime. Crimes and cases above a certain value can only be tried by the High Court and the Superior Courts if there is an appeal against the decisions of the High Court.[7]

In addition to the above courts of judicature, there are also Judicial Commissions of Inquiry which operate under the Commission of Inquiries Act and are free to adopt their own modus operandi. Other institutions involved in the administration of justice include local council courts and land tribunals; however, these do not fall under the judiciary.

1.2.3 The Regulatory and Supervisory Environment

Corporations and statutory bodies are regulated and supervised by different types of bodies. Private companies are regulated by the Registrar General's office (Companies Act of Uganda, 1964). However, there are other government agencies such as the Uganda Revenue Authority, the National Environment Management Authority and the Institute of Certified Public Accountants of Uganda that have an interest in the running of corporations and have regulatory and supervisory powers in their respective areas of concern. State-owned enterprises are regulated by the respective Ministries under which they operate as specified in the respective Statutes and Acts

[7] "As far as civil claims are concerned the jurisdiction of the Chief Magistrates and Magistrates Grade I is limited to cases whose subject matter does not exceed the monetary value of shs. 5,000,000 (approx. £1,600) and shs. 2,000,000 (approx. £640) respectively. The present law limits the civil jurisdiction of Magistrates Grade II to minor claims whose value does not exceed shs. 5,000 (approx. £1.60)" (See official website of the Judicature of Uganda).

that set the entities up. These Statutes or Acts are passed by Parliament and may be revised from time to time. The Registrar General has regulatory powers for all corporations, whether private or public unless specifically excluded from his jurisdiction. Other institutions that are involved in monitoring private and state-owned enterprises include the office of the Auditor General, the Inspector General of Government and the Ministry of Ethics and Integrity.

1.2.4 The Economic Environment

The *Applied Language Solutions* (2006) states the following on its website regarding the economy of Uganda:

> Uganda has substantial natural resources, including fertile soils, regular rainfall, and sizable mineral deposits of copper and cobalt. Agriculture is the most important sector of the economy, employing over 80% of the work force. Coffee accounts for the bulk of export revenues. Since 1986, the government - with the support of foreign countries and international agencies - has acted to rehabilitate and stabilize the economy by undertaking currency reform, raising producer prices on export crops, increasing prices of petroleum products, and improving civil service wages. The policy changes are especially aimed at dampening inflation and boosting production and export earnings.

Uganda would arguably be far more developed than it is had it not been for the chronic political instability and erratic economic management that it has been experiencing since 1971 when Idi Amin overthrew the elected government and started a period of economic turmoil in Uganda. This economic and political instability has left Uganda among the poorest and least-developed countries in Africa, notwithstanding its wealth in natural resources. However, there have been some improvements in the economy with inflation falling from 240% in 1987 and 42% in June 1992 to 8.9% in 2006, whilst

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[9] While reference has been to the Wikipedia here, the researcher acknowledges the fact that anyone can post anything on the Wikipedia website. However, it is believed that the particular information that is cited here is accurate.

Uganda's real GDP for 2006 is estimated at 4.5% (Oketch, 2006). The Wikipedia (2004)[9] gave the following estimates with respect to Uganda's economy for the year 2002: investment as a percentage of GDP was estimated at 20.9%; private sector investment at 14.9% of GDP; and gross national savings as a percentage of GDP at 5.5%.

The Uganda Investment Authority was set up by an Act of Parliament in 1991 to encourage and facilitate investment in Uganda; its stated mission is:

> To market Uganda's investment opportunities and to ensure that Uganda becomes the best investment destination through provision of quick and quality facilitation services to all prospective investors to the country.[10]

In addition to the Uganda Investment Authority, Uganda has: the Capital Markets Authority which is responsible for regulating capital markets in Uganda; the Uganda Securities Exchange responsible for regulating the companies listed on the Ugandan Stock Exchange;[11] and the Uganda Manufacturers Association whose objective is to promote, protect and coordinate the industrialists in Uganda.[12] Most of the Ugandan businesses are either sole-proprietorships, or family owned, whilst others are privately owned with the number of shareholders not exceeding 50 members.[13] Only 5 Ugandan companies have the potential for dispersed ownership as a result of being listed on the Uganda Securities Exchange.

In 1993, the Ugandan Government decided to privatise most of the nation's state run corporations (Ddumba-Ssentamu and Mugume, 2001). The stated objective for doing

[10] Official website of the Uganda Investment Authority.
[11] At the time of writing this thesis (March, 2006), there are only 8 companies listed on the Uganda Securities Exchange; out of these, 5 are incorporated in Uganda, whilst 3 are registered in Kenya and cross-listed on the Uganda Securities Exchange.
[12] See official website of the Uganda Manufacturers Association.
[13] Section 30 of the Uganda Companies Act (1965) limits the number of shareholders of private companies to a maximum of 50.

so was: "to improve the quality, coverage and economic efficiency of commercial and utility services, through privatisation, private participation in infrastructure, and an improved regulatory framework".[14] To-date, 117 out of the 382 formerly state-owned companies have been privatised and only 36 are yet to be divested.[15] Five of the privatised companies had their shares listed on the Uganda Securities Exchange, while the remaining firms were bought by local and foreign investors without being listed.

Recently, there has been a move to revive the East African Community which was terminated during the time of Idi Amin in the mid 1970s. The Treaty establishing the East African Community (1999) set the following as its objectives:

- Promotion of sustainable growth and equitable development of partner states including rational utilisation of the region's natural resources and protection of the environment;
- Strengthening and consolidating the long standing political, economic, social, cultural and traditional ties by partner states and associations between the people of the region in promoting a people-centred mutual development;
- Enhancing and strengthening participation of the private sector and civil society;
- Mainstreaming of gender in all its programmes and enhancement of the role of women in development;
- Promotion of good governance including adherence to the principles of democratic rule of law, accountability, transparency, social justice, equal opportunities and gender equality; and
- Promotion of peace and stability within the region, and good neighbourliness among the partner states.

As can be noted in the above objectives, the promotion of good governance, including accountability and transparency, was one of the stated objectives of the East African Community. It was hoped that countries in the Community would agree on ways of

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[14] See official website of the Uganda Government Public Enterprise Reform and Divestiture Program.

[15] However, the Uganda Government retained partial ownership of some of the privatized companies, such as the New Vision Printing and Publishing Company Ltd.

improving the governance of their indigenous companies in their countries so as to promote accountability and transparency.

Further to the above objectives, on the 28th of August, 2004 the Heads of State of Kenya, Uganda and Tanzania issued the following Joint Communiqué during a Summit of the Heads of State held in Nairobi, Kenya, from 27th to 29th August 2004:

> In pursuance of the provision of paragraph 1 of this Article, the Partner States undertake to establish among themselves and in accordance with the provisions of this Treaty, a Customs Union, a Common Market, subsequently a Monetary Union and ultimately a Political Federation in order to strengthen and regulate the industrial, commercial, infrastructural, cultural, social, political, and other relations of the Partner States to the end that there shall be accelerated, harmonious and balanced development and sustained expansion of economic activities, the benefit of which shall be equitably shared.

The above communiqué was based on Article 5(2) of the East African Community Treaty. This proclamation set the stage for a larger economic market for the three East African Countries with the possibility of other countries in the region joining the East African Federation.

1.2.5 Cultural, Ethical and Social Environment

Uganda is made up of four main ethnic groups, namely the Bantu, Nilotics, Hamitics and NiloHamitics (Uganda Government, 2004). The Ugandan Constitution of 1995 recognised 56 tribes in Uganda. However four more were recognised in 2004 thus bringing the total number of officially recognised tribes to 60.[16] In the past, each tribe had a leader whose role was to unite the tribe and ensure that the interests of the tribe were adhered to by all members constituting that tribe. Deviation from community

[16] See Uganda Government White Paper on *The Report of the Constitutional Review* (2004). The newly recognised tribes include Gimara, Reli, Shana and Barundi. The other 56 are stated in the Constitution of Uganda (1995).

interests could be punished by banishment from the tribe. Each tribe had several clans which were in turn made up of families. There was a recognised leader at each of these levels whose function was similar to that of the tribal leader but at a lower level. Some tribes in Uganda, such as the Karimojong in the North East and the Sabiny in the East, still exhibit strict adherence to these systems and values. Some regions of the country such as Buganda, Busoga, Tooro, Budama and Teso have cultural leaders whose roles are mainly cultural and ceremonial rather than administrative in the sense of wielding political authority. Irrespective of the administrative or cultural system in place, there is still strong allegiance to the tribe, clan and family and individuals are often influenced to act in the best interest of those groups. This may lead to conflicts between acting in the best interests of the company or institution where one works, or fulfilling the tribal, clan or family expectations. Some officials may end up in unethical practices in order to raise money to satisfy these expectations.

In December 2003, Uganda joined the United Nations Convention Against Corruption during a three-day conference that took place in Merida, Mexico. The Convention aimed at: (i) promoting and strengthening measures to prevent and combat corruption more efficiently and effectively; (ii) facilitating and supporting international cooperation and technical assistance in the prevention of and fight against corruption; and (iii) promoting integrity, accountability and proper management of public resources (Kamya, 2004).

The potential impact of ratification might necessarily be expected to be large in Uganda. For example, speaking during a workshop organised by the Uganda Media Women Association, the Executive Director of Uganda Debt Network, Mr. Zie

Gariyo, suggested that Uganda loses between Shs200 billion[17] and Shs350 billion a year through corruption; he explained that corruption generally takes the form of outright fraud and embezzlement, illegal payments, payment of ghost employees, false declaration of customs entries, poor contracting systems and fraudulent procurement (Walulya and Nalugo, 2004). The issue of corruption will be one of the factors examined in the empirical work reported in Chapters 6 and 7.

1.2.6 Previous Studies on Corporate Governance in Uganda

Although there has been some investigation of corporate governance practices in Uganda, to the researcher's knowledge this is the first major study that has been carried out on the subject, particularly in the private sector. The World Bank has sponsored research projects in the banking sector and on good governance in the public sector, but little work appears to have been undertaken regarding corporate governance in the Ugandan private sector. Researchers such as Caprio et al. (2005), Manibog (2003), Fick (2002), and Tangari and Mwenda (2001) have stressed that corporate governance is essential for attracting investment, improving commercial performance and contributing to economic development; factors such as bad or unclear corporate governance, corruption, inadequate legal and judicial systems and lack of democracy are seen as not being conducive to investment. The Africa Competitive Report of 2000/2001 re-iterated the same issues and stressed the need for the regulatory framework to be tightened to provide for improved corporate governance and mandate prompt corrective measures.

[17] "Shs" is an abbreviation for "Shillings", which is the Ugandan currency.

1.3 Research Questions

The main aim of this research project is to examine the perceptions of stakeholders about corporate governance and accountability in Uganda. Based upon this objective, the research will try to address the following questions:

1. How is corporate governance understood in the Ugandan context?
2. What do stakeholders perceive the current state of corporate governance and accountability in Uganda to be?
3. What factors influence the practice of corporate governance in Uganda?
4. Does Uganda have an adequate framework to support the practice of corporate governance?
5. Are there any stakeholder suggestions on how corporate governance practices can be improved in Uganda?
6. To what extent are Western norms of corporate governance applicable to a developing nation such as Uganda?

1.4 Scope of the Research

The research will confine itself to examining the perceptions of various categories of individuals who are understood either to have a prominent role in shaping the governance of companies or who are representatives of the key constituencies in Ugandan society. These will include: regulators, legislators, company employees, company executives, executive directors, non-executive directors, investors, owner-managers, lawyers/judiciary, accountants, academics and civil servants. Semi-structured interviews and questionnaire surveys, with questions based on the research questions, as well as international corporate governance principles and the extant academic literature on corporate governance, will be used as a basis for the research. Stakeholders will be asked for their views regarding these recommended principles and whether these principles are being applied in Ugandan companies. Other country specific factors which could affect the practice of corporate governance will be

identified and integrated into the research. The main principles of corporate governance that will be used as sources for the questions are: (i) the OECD Principles (2004); (ii) the UK Combined Code (2003); (iii) the King Report II (2002); (iv) the Principles for Corporate Governance in the Commonwealth (1999); and (v) the Ugandan Manual on Corporate Governance (2001). Other codes that will be referred to are: the Guidelines for Enhancing Good Economic and Corporate Governance in Africa (2002); the Dutch Corporate Governance Code (2003); and the White Paper on Corporate Governance in South Eastern Europe (2003).

The study adds to the extant literature on corporate governance and accountability with respect to Uganda and other emerging or developing economies. The researcher was not able to locate any previous detailed study on corporate governance and accountability in Uganda. This study, therefore, will contribute to the academic literature regarding governance in Uganda, and Africa more generally. It is also hoped that various stakeholders in Uganda will use the results of the study to further their knowledge on corporate governance and accountability; they may reflect on the findings and take positive steps to improve governance in Ugandan companies. In this respect, the concluding chapter of the thesis attempts to draw together some of the key issues highlighted by the study that might be of concern to Ugandan regulatory authorities.

In the wake of the financial crises and other corporate scandals outlined in this chapter, the question of how companies are governed has come to prominence more than ever before; other factors such as political stability and the risk associated with decisions that may be made by particular Governments, legal protection of investors'

rights, the effectiveness of regulatory and other enforcement agencies, as well as ethical issues that include corruption and bribery, have become major considerations in investment decisions. Clearly the relative importance of certain of these factors is likely to differ between developed and developing countries; one of the key aims of this thesis is to examine the appropriateness of Western codes and norms to governance in developing nations such as Uganda. The assumption made in this study is that potential investors generally follow their perceptions in making investment decisions and will put their money where they perceive good corporate governance practices to exist. It is also assumed that increased investment will contribute to the economic and social development of the citizens of a particular country; corporate governance and accountability are taken to be important for a country's development. These factors led the researcher to examine the perceptions of stakeholders towards corporate governance and accountability in Uganda.

The study examines the perceptions of stakeholders, and so the interpretive paradigm, as identified by Burrell and Morgan (1979), is adopted. The study will give a descriptive account of the perceptions of stakeholders and attempt to interpret them using the conceptual framework of accountability. A stakeholder approach was selected in light of the researcher's experience of growing up in Uganda where cultural and social values stress allegiance to societal values; acting in the interests of the tribe, clan and family to which one belongs is important. These values may be changing, as society evolves and Ugandans interact with the international community, but they are still at the heart of the ordinary person in African society. The researcher is aware that the shareholder view is very influential in the UK although, in practice, some companies in that country may consider the interests of a wider cross-section of

stakeholders in their decisions. The research will, therefore, try to establish whether the participants in the current study view corporate governance from a shareholder or - consistent with the traditional societal values of Africa - a stakeholder approach.

1.5 Structure of the Thesis

The study is organised into eight chapters. Following the current introductory chapter, Chapter 2 presents a review of the extant literature in the general area of corporate governance, with specific emphasis on: the concept of corporate governance; the relevance of corporate governance; the board of directors and its committees; shareholders and other stakeholders; disclosure and transparency; and the framework of corporate governance.

Chapter 3 reviews the various efforts that have been made to outline and promote a robust set of corporate governance principles in Africa. These efforts include those of the Economic Commission for Africa, which published the Guidelines for Enhancing Good Economic and Corporate Governance in Africa in 2002; the King Report II (2002) of South Africa; and the Ugandan Manual on Corporate Governance (2001). Other relevant literature is used to develop the material in Chapter 2 in order to establish whether these issues are likely to be of major interest in an African context.

Chapter 4 sets out the methodology and methods which will be applied to the study. The chapter presents the various assumptions regarding ontology, epistemology, human nature and methodology that form the basis for the empirical research. As this chapter indicates, the study adopts Burrell and Morgan's (1979) interpretive paradigm. However, the paradigm borders on functionalism at various points and the

research uses both semi-structured interviews and questionnaire survey as its methods for collecting empirical data.

Chapter 5 continues setting out the research design of the thesis by presenting the theoretical framework that is used to interpret the findings. The theoretical framework adopted by the study is accountability. Stewart's (1984) ladder of accountability was selected as being appropriate for the study, in particular the notions of managerial accountability and commercial accountability set out in the model.

Chapter 6 describes the findings emerging from interviews held with sixteen individuals occupying various industrial, regulatory, political and judicial positions in Uganda during the month of September 2004. The chapter summarises the views of the participants and tries to interpret these perceptions in the light of internationally-accepted principles of corporate governance and accountability.

Chapter 7 continues with the presentation of empirical results and covers the findings of a questionnaire survey that was administered in Uganda during the months of April to June 2005. In addition to providing a description of the views of stakeholders, the chapter presents the results of the detailed statistical analysis that was conducted on the data. In particular, the average responses across the sample as a whole and between various sub-groups of respondents are investigated.

Chapter 8 discusses and synthesises results from both the interviews and the questionnaire survey, as well as examining the applicability of Stewart's ladder of accountability in the type of corporations prevalent in Uganda, while Chapter 9

presents some conclusions and recommendations based upon the empirical evidence, and highlights some limitations of the study and suggests areas for further research.

Chapter 2

Literature Review

Chapter 2

Literature Review

2.1 Introduction

A series of cataclysmic events led to heightened concern about Corporate Governance across the world. According to Monks and Minow (2001), the financial crisis that swept the world in the summer of 1998 proved particularly significant in this regard. The Russian Government defaulted on loans leading to fragility in the global financial system. The crisis then spread to Central and South America before moving to Asia, leading to widespread fears that the Western financial system would collapse. Dunne (2003) points out that this potential collapse of the global financial system forced regulators to reassess the applicability of the various governance structures in existence within corporate entities. Dunne cites failings in high profile companies like Enron and Worldcom in the USA, AIB in Ireland, and BCCI, Polly Peck and Maxwell Communications Group in the UK as a further impetus for scrutinising governance of firms. Laing and Weir (1999)[18] state that this interest in improved governance has led to the emergence of numerous guidelines and codes.

The aim of this chapter is to review the published literature on corporate governance and identify possible target research priorities. Section 2.2 describes the concept of corporate governance; Section 2.3 examines the relevance of corporate governance; Section 2.4 deals with the board of directors, while Section 2.5 discusses board committees; Section 2.6 looks at shareholders and Section 2.7 examines issues of

[18] Cited by Dunne (2003).

disclosure and transparency; the chapter ends with discussion of the framework of corporate governance in Section 2.8.

2.2 The Concept of Corporate Governance

2.2.1 The Shareholder versus Stakeholder View

One of the key debates in the modern corporate governance literature relates to the question of whether the effectiveness of a firm's governance arrangements has implications which go beyond those of its shareholders (Keasey et al., 1997). This issue has led to the development of the conflicting standpoints normally termed the shareholder and the stakeholder views.[19] For example, Letza et al. (2004) state that:

> For many commentators corporate governance is about building effective mechanisms, either in order to satisfy current social expectations or to satisfy the narrower expectations of shareholders (p. 242).

The position taken regarding this debate is usually viewed as depending on the perspectives and biases of the individual as to what comprises a corporation, and its appropriate position in society (Monks and Minow, 2001). This debate also highlights the extent to which public policy intervention is appropriate (Keasey et al., 1997).

Mallin (2004a) illustrates how important the distinction between the shareholder and stakeholder view is when she states that:

> An aspect of particular importance is whether the company itself operates within a shareholder framework, focusing primarily on the maintenance or enhancement of shareholder value as its main objective, or whether it takes a broader stakeholder approach emphasising the interests of diverse

[19] For example, the Anglo-Saxon system (which is shared by the UK and US) emphasises shareholder value and a board composed of executives and non-executive directors elected by shareholders. The German model, on the other hand, gives a legal right to certain stakeholder groups, such as employees, to be represented on the supervisory board alongside the directors.

> groups such as employees, providers of credit, suppliers, customers and the local community (p.9).

Mallin argues that this distinction is important because shareholders and stakeholders may favour different corporate governance structures and monitoring mechanisms; she points out, however, that: "In reality the involvement of shareholders and stakeholders will depend on national laws and customs and also the individual company's approach" (p.49).

The shareholder view starts from an assumption that management is only accountable to shareholders and that management's decisions are limited to the interests of the owners. This view perceives a corporation as a legal instrument for shareholders to maximise their wealth (Letza et al., 2004). Management is not required to take into account the effects of their corporate decisions on the interests of other parties (Keasey et al., 1997). Shareholders' rights are normally enshrined in law (Mallin, 2004a), while the theory underpinning management actions is based upon the separation of ownership and control as stated by Berle and Means (1932). Agency theory arose from analyses of this separation, and focuses on the issues where one party (the principal) delegates work to another party (the agent); in the case of a corporation, the shareholders are the principal and the directors are the agent (Mallin, 2004a). Mallin argues that, as a consequence of this focus on shareholders, the maintenance or enhancement of shareholder value becomes paramount. Keasey et al. (1997) suggest that the separation of ownership and control may allow a firm's behaviour to diverge from the profit-maximising, cost-minimising "ideal". In this context, Mallin points out that, agents may misuse their power for pecuniary or other advantage, or might fail to take appropriate risks in pursuance of the principals'

interests. She also notes the problem of information asymmetry whereby the agents have access to more information than the principals. Mallin argues that the shareholders have a vested interest in trying to ensure that resources are used to maximum effect, which, in turn, should be to the benefit of society as a whole.[20] The costs resulting from managers misusing their position, as well as the expense associated with monitoring and disciplining them to try to prevent abuse, have been termed "agency costs" (Blair and McLaury, 1995).

The shareholder view assumes that markets – particularly markets for capital, managerial labour, and corporate control – provide the most effective restraints on managerial discretion, and that the residual voting rights of shareholders should ultimately commit corporate resources to value-maximising ends on behalf of the shareholders (Letza et al., 2004; Keasey et al., 1997; Jensen and Meckling, 1976 and Manne, 1965). Related to this notion is the abuse of executive power model which addresses the problem of executive managers who may abuse the power they have by pursuing their own interests to the detriment of the corporation (Letza et al., 2004; Keasey et al., 1997; Hutton, 1995; Kay and Silberston, 1995). The principal-agent or finance model would try to ensure that these executives behaviour is aligned to the interests of the shareholders (Keasey et al., 1997).

Stakeholder theory extends the scope of the corporate governance notion beyond the relationship between management and shareholders, to include other relevant parties that have an interest in the operations of corporations. The theory is premised on the

[20] The Hampel Report (1998) took the view that whilst managements should develop appropriate relationships with their various stakeholder groups, they should have primary regard for the overall objectives of their companies – which is to preserve and enhance shareholder value over time. The report limited the accountability of the directors, as a board, to shareholders. Hermes, one of the largest institutional investors in the UK, took a similar approach in the Hermes Principles (2002).

concept of a company being a legal or artificial person that operates in a community, and on the view that "there should be some explicit recognition of the well being of other groups having a long-term association with the firm – and therefore an interest, or stake, in its long-term success" (Keasey et al., 1997, p.9).[21] Based upon this assumption, Letza et al. (2004) present the following description of corporate governance from a stakeholder perspective:

> In general, corporate governance is about the understanding and institutional arrangements for relationships among various economic actors and corporate participants who may have direct or indirect interests in a corporation, such as shareholders, directors/managers, employees, creditors, suppliers, customers, local communities, government, and the public (p. 242).

This understanding of corporate governance assumes that stakeholders participate in corporate decision-making, long-term contracts and trust relationships and highlights the role of business ethics in relating to stakeholders (Letza et al., 2004). To this end, the Code of Corporate Governance developed for South Eastern Europe (2003) states that protecting stakeholder rights and developing value-enhancing relations with stakeholders is now widely accepted as being linked to performance, thus conforming to the pursuance of shareholders' benefits. However, one of the fundamental problems of corporate governance is how companies can be held accountable to a wider cross-section of stakeholders. Highlighting this problem, Mclaren (2004) notes:

> Many [businesses] talk of a wider range of stakeholders in their businesses, but few actively seek to make their businesses accountable to their employees, customers, local communities and other stakeholders ... stakeholders currently have little influence over the corporations that affect their lives (p.192).

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[21] The European Bank for Reconstruction and Development (ERBD) makes a strong case when it states that the success of a company in the long-term depends not only upon having a sound strategy, a competent management, valuable assets and a promising market, but also hinges upon a company maintaining a sound relationship with the various constituencies on which it depends: customers, shareholders, lenders, employees, suppliers, the community in which it operates, Government and local authorities (EBRD, 1997).

The King Report I (1994) advocates an integrated approach to sound governance in the interests of a wide range of stakeholders, having regard to the fundamental principles of good financial, social, ethical and environmental practice. The King Report II (2002) affirms this same principle and argues that a "licence to operate" is no longer just a matter for the company and the regulator, but includes the permission of the regulator, industry and market standards, industry reputation, the investigative media, attitudes of customers, suppliers, consumers, employees, investors and communities (local, national and international), ethical pressure groups, public confidence and political opinion (par. 5.2).[22] The Commonwealth Code (1999) argues that while the board is accountable to the owners of the corporation (shareholders) for achieving corporate objectives, its conduct in regard to factors, such as business ethics and the environment, may have an impact on legitimate societal interests (stakeholders) and thereby influence the reputation and long-term interests of the business. The inclusive approach recognises that stakeholders need to be considered when developing the strategy of a company irrespective of whether the relationship between the company and these stakeholders is contractual or non-contractual (King Report II, 2002, par. 5.3).[23] McLaren (2003) suggested that stakeholder groups could collaborate with institutional investors who would, in turn, engage with companies through "voice" to have stakeholder concerns addressed; these investors were in a position to exercise power and influence over corporations (unlike the stakeholder groups who had no direct control over the companies concerned).

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[22] The Commonwealth Code (1999) also stresses that corporate governance requires that the board must govern the corporation with integrity and enterprise in a manner that entrenches the licence it has to operate and that this licence embraces the corporation's interaction with its shareholders and other stakeholders, such as the communities in which it operates, bankers and other suppliers of finance and credit, customers, the media, public opinion makers and pressure groups.

[23] In some countries, such as Germany and Japan, corporate goals seem to be defined more widely than shareholders' profits (Charkham, 1994 and Schneider-Lenne, 1992). For example, German companies are under a social obligation to employees and the local community; the company is seen as an enduring social organisation in both Germany and Japan (Keasey et al., 1997).

Mallin (2004a) suggests that agency relationships are not limited to those existing between directors and shareholders, and that a stakeholder view tries to maximise shareholder value whilst at the same time taking into account the interests of the wider stakeholder group. Letza et al. (2004) also note that shareholder interest is not independent of stakeholder interest and vice-versa. Customers, for example, are becoming more aware of social, environmental and ethical aspects of corporate behaviour and try to ensure that the company supplying them is acting in a socially responsible manner; examples of this include fair trade, organic products, the prohibition of child labour and the upholding of minimum human rights. On a related note, Monks and Minow (2001) note that:

> Corporations do not just determine what goods and services are available in the marketplace, but, more than any other institution, corporations determine the quality of the air we breathe and the water we drink and even where we live (p. 11).

Monks and Minow suggest that corporations provide jobs that pay wages, produce goods and services which meet the needs of society, and improve employees' self esteem. Monks and Minow also argue that society expects companies to offer a safe workplace and environment where the interests of employees, shareholders, customers, suppliers, creditors and neighbours are designed for the long-term benefit of all stakeholder groups.

The governance of corporations therefore affects various parties and not just the shareholders. Monks and Minow (2001) note that the relationship between corporations and stakeholders is governed by laws imposed by the legislature and by private law established in agreements between the corporation and its employees, customers, suppliers, investors and community; corporations also operate under the

laws of the marketplace. The OECD Principles of Corporate Governance (1999) require companies to recognise the rights of stakeholders as established by law, and encourage an active co-operation between corporations and stakeholders in creating wealth, jobs and sustainability in financially sound enterprises.[24]

Careful examination of the relevant literature as a whole suggests that the "Shareholder versus Stakeholder" debate substantively revolves around establishing a point on a continuum at which a company operates. The distinction does not seem to be one that can be arrived at by dichotomous analysis involving grouping companies into two separate and distinct categories with no commonalities. This distinction (i.e. whether corporate governance is motivated by the shareholder or stakeholder approach) may reveal that all companies take into account both shareholder and stakeholder interests, but to varying degrees.

2.2.2 Definition of Corporate Governance

Monks and Minow (2001) state that definitions of what constitutes a corporation reflect the perspectives (and biases) of those providing the definitions. Similarly, it can be argued that definitions of corporate governance may reflect the perspectives of the person defining the term; for example, Keasey et al. (1997) note that the term "corporate governance" has not been used in a consistent manner by different researchers:

> In its narrowest sense, the term may describe the formal system of accountability of senior management to the shareholders. At its most expansive the term is stretched to include the entire network of formal and

[24] Mallin (2004a) argues that the interests of shareholders and other stakeholders are intertwined since companies operate within a wider society.

> informal relations involving the corporate sector and their consequences for society in general. For the purposes of this volume we define corporate governance to include "the structures, process, cultures and systems that engender the successful operation of the organisations" (p.2).

The Cadbury Committee Report (1992) defines corporate governance as the system by which companies are directed and controlled. However, this report seems to limit accountability to the board reporting to shareholders on their stewardship, subject to laws and regulations in place. The UK Hampel Report (1998) extends the notion of corporate governance to taking into account the interests of constituencies (stakeholders) with a relevant interest in a company's business.

The preamble to the OECD's Principles of Corporate Governance (as revised in 2004) states that:

> 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.

The King II Report (2002, p. 6) endorses the following description of corporate governance given by Cadbury (1999):

> Corporate governance is concerned with holding the balance between economic and social goals and between individual and communal goals ... the aim is to align as nearly as possible the interests of individuals, corporations and society.

Monks and Minow (2001) define corporate governance as:

> ... the relationship among various participants in determining the direction and performance of corporations (p.1).

An examination of the above definitions seems to suggest that not all of them limit corporate governance to the narrow formal accountability of senior management to

shareholders. Instead, some of the definitions extend corporate governance to formal and informal relationships with other stakeholders which, presumably, companies would need to identify as being relevant. What seems to influence a company's predominant disposition towards the shareholder or stakeholder approach may be the laws of the country in which a company operates and the specific culture and circumstances of a particular company; this issue is one of the key questions addressed in this thesis. The empirical research conducted for the present study adopts the definition used by the OECD Principles (2004). This is because the researcher is of the view that the system by which companies are directed and controlled can include the whole framework of corporate governance rather than just the strict relationship between shareholders, the board and management. The basis for this view is the stakeholder approach that is adopted for the current study where companies are perceived to be responsible to stakeholders that extend beyond shareholders. This stakeholder view has a bearing on corporate social responsibility which is examined in Section 2.2.3.

2.2.3 Corporate Social Responsibility

In 1932, US Supreme Court Justice Louis Brandeis argued that, "The privilege of engaging in such commerce in corporate form is one which the state may confer or may withhold as it sees fit."[25] Brandeis stressed that states should make sure that the privilege of the corporate structure was conferred only in those cases where it was consistent with public policy and welfare. These views provide a basis for considering the corporation as a citizen of the state in which it operates; it is a legal person

[25] Quoted by Monks and Minow (2001, p.7).

operating in a community, having its own rights, privileges and responsibilities. Like any other citizen, the corporation is expected to act in a socially responsible manner that complies with the norms of the society in which it operates. Academic studies such as Gray et al. (1996), have been at the forefront of promoting social responsibility in corporations. In particular, Zappala (2003) notes that corporate citizenship includes integrating social, ethical, environmental, economic and political values in the core decision-making processes of business. The World Economic Forum has also been trying to champion the case for corporate social responsibility. The World Economic Forum (2002) noted that:

> Corporate social responsibility makes good business sense, but companies must balance the goal of good citizenship placed upon them by society with the traditional aim of profitability required by shareholders.[26]

In a joint statement from a task force of World Economic Forum CEOs, the World Economic Forum (2003) identified the following as being key issues in corporate citizenship: (i) good corporate governance and ethics – including compliance with the law, existing regulations and international standards, efforts to prevent bribery and corruption and other ethical issues; (ii) responsibility for people;[27] (iii) responsibility for environmental impacts; and (iv) a broader contribution to development (social and economic) in host countries and communities. The Economic Forum (2004) further argues that corporate citizenship should portray what a company stands for in terms of the principles and values that it holds and should not just be a matter of profitability. Corporate social responsibility should reflect the company's commitment to contribute to society's welfare in order to reflect its good citizenship. The article

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[26] Extract from a statement issued at the Annual Meeting of the World Economic Forum held in New York on 4 February 2002: "Group of CEOs Calls for Leadership on Global Corporate Citizenship".

[27] For example, product and employee safety programmes; human and labour rights which may include equal opportunities, non-discrimination, prevention of child labour, freedom of association and fair wages.

suggests that each board should be able to define, explain and ultimately measure the ethical, social and environmental risks and opportunities that their company and industry sector faces, including intangibles, and their impact on its reputation.[28]

Ward (2003) examines the legal aspects of corporate citizenship and argues that law and litigation are an important part of corporate social responsibility. She cites cases at the international level where companies that have been associated with abusive regimes - and those whose operations have harmed people in some way - have been taken to court. There has also been litigation against companies that have violated labour rights in the supply chain and those that have acted as cartels in order to fix the prices of their products and services.

The Global Stakeholder Report (2005)[29] discusses whether corporate social responsibility (CSR) reports should be made mandatory and claims that the level of support for mandatory reporting is decreasing.[30] The report finds that the stakeholder group most in favour of the mandatory approach is the financial services sector, while company employees are the strongest opponents. However, the Global Stakeholder Report points out that some users of the CSR publications view them as no more than tools which companies use for public relations purposes; there is sometimes no objective way of verifying the information contained in those documents. Companies

[28] In its Joint Action Plan for Business and Governments (2003), the Commonwealth Business Council noted that key to implementing the concept of corporate citizenship was the realisation that: "the values, attitudes and systems of good corporate citizenship should be embedded in the way that all employees, from top management to front line operatives, work from day to day" (p. 7)

[29] Accounting for Good: the Global Stakeholder Report 2005: The Second World-wide Survey on Stakeholder Attitudes to CSR Reporting.

[30] The report does not give reasons why the support for mandatory CSR report is decreasing. However, Business Week Online edition of 29/06/2005 published an article- "Corporate Citizenship on the Rise" - asserting that corporate citizenship was on the rise. This article argues that corporate citizenship is now a fundamental piece of any successful company's business plan and affects the company's bottom line, share price, and long-term viability.

are also noted as being selective in what they include in the reports. The motives for companies publishing CSR reports may include: (i) improving the company's reputation and brand image in terms of commitment to employees' and society's welfare; (ii) improving the company's bottom line; (iii) showing that the company complies with existing legislation and regulations; and (iv) creating goodwill with host Governments and the local community. Concerned parties may use the information contained in the reports (for what it is worth) to scrutinise the activities of companies and hold them answerable for their policies and activities.

2.3 Relevance of Corporate Governance

There are a number of reasons why the topic of corporate governance has grown in importance in recent years. First, it is seen as a response to the corporate scandals that occurred in the early 1990s, as explained in Section 2.1. Second, interest in corporate governance has grown as a result of the well-documented financial crises that spread throughout the emerging markets in the late 1990s. Third, a general concern for proper corporate governance mechanisms sprang up in the developed world.[31] Concern for corporate governance has been further heightened by large-scale corporate failures in developed markets as noted by Patsuris (2002). Zea (2003) highlights that accounting scandals continue to rock the business world in the US despite the tough Sarbanes-Oxley Act (2002).

[31] Monks and Minow (2001) note that corporate governance practices in Japan, Germany and France were questioned by international investors. In these markets, the Government's role is relatively pronounced, debt financing is preferred to equity, stock market capitalisations are low, systems of cross-holding make ownership illiquid, a few giant shareholders dominate, takeovers are rare, and disclosure is poor (Monks and Minow, 2001).

Institutional Shareholders have also played a major role in promoting corporate governance in the UK and the US. Doyle (1994) notes that today's shareholders are predominantly institutional investors rather than active owners and that their voice cannot go unheard; similarly, Monks and Minow (2001) argue that some institutional shareholders have become more active in exercising their share ownership rights since the late 1980s. Monks and Minow also note that shareholder activism initially started as a reaction to the abuses of the takeover era and focused on the key issues of board performance, the compensation of senior executives, board composition, and the independence (and competence) of audit committees.

In the UK, concern for corporate governance has given rise to various documents that address pertinent issues associated with better management of companies. A selection of some of these documents is presented in Appendix 2.1.

From the preceding discussion, it appears that the relevance of corporate governance lies mainly in protecting the interests of shareholders and other stakeholders. According to the International Corporate Governance Network (ICGN), the overriding objective of a corporation should be to optimise, over time, the return to its shareholders. To achieve this objective, the corporation should endeavour to ensure the long-term viability of its business and to manage effectively its relationships with stakeholders (Monks and Minow, 2001). The King Report II (2002) recognised the importance of corporate governance for investment when it stated that:

> If a country does not have a reputation for strong corporate governance practices, capital will flow elsewhere. If investors are not confident with the level of disclosure, capital will flow elsewhere. If a country opts for lax accounting and reporting standards, capital will flow elsewhere. All

> enterprises in that country – regardless of how steadfast a particular company's practices may be – suffer the consequences (par. 16).[32]

The Manual on Corporate Governance for Uganda (2001) notes that corporate governance is an essential tool for prosperity and economic growth and suggests:

> Past macroeconomic difficulties have been exacerbated by weak or inadequate corporate governance, stemming from weak legal and regulatory systems, inconsistent auditing standards, poor banking practices, unregulated capital markets, inefficient board of directors and ignoring of the rights of minority shareholders. Corporate governance is important because it promotes good leadership within the corporate sector (par. 2).

Monks and Minow (2001) note that the need of global corporations for capital (and the ability of shareholders to invest with ease worldwide) has led to a remarkably effective dialogue concerning governance reform. This move has made corporate governance relevant worldwide since, if a country wants to attract local and foreign investment, then it has to be concerned about the way companies in that country are managed and the security of the investment.[33] Realising this fact, the Principles of Corporate Governance in Kenya (2000) identify the following reasons underpinning the need for a sound corporate governance system: (i) attracting both local and foreign capital and assuring investors that their investment will be secure and efficiently managed in a transparent and accountable manner; (ii) creating competitive and efficient companies and business enterprises; (iii) enhancing the accountability and performance of those entrusted with managing corporations; and (iv) promoting efficient and effective use of limited resources. One of the institutions entrusted with the responsibility of ensuring the implementation of corporate governance practices is the board or directors which is examined in Section 2.4.

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[32] The King Report II (2002) reproduces this statement, originally made by Arthur Levitt, the former Chairperson of the US Securities and Exchange Commission.

[33] It remains to be seen whether such dialogue is actually taking place and whether it is leading to improved governance in companies worldwide.

2.4 The Board of Directors

2.4.1 Types of Boards

Mallin (2004a) explains that boards can have either a unitary or a two-tier system. A unitary board involves a company having only one single board comprising of both executive and non-executive directors.[34] In the two-tier system (or "dual") board system, a company typically has an executive management board and a supervisory board that often includes employee representatives.[35] In this part of the chapter, the codes of corporate governance for the UK and South Eastern Europe (SEE, 2003) will be used as examples of the unitary board system while the codes of the Netherlands (Dutch Code, 2003) will be used to illustrate the dual board system because they seem to be representative of each type of system.

2.4.2 The Role of the Board

The Dutch Code (2003) specifies that: "The management board and the supervisory board are responsible for the corporate structure of the company and compliance with the code" (Section I), while the UK Combined Code (2003) states that: "Every company should be headed by an effective board, which is collectively responsible for the success of the company" (Section A1).

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[34] Examples of countries that have this type of system include the UK, US, Uganda and the majority of EU member states.
[35] Countries such as Germany, the Netherlands, Austria and Denmark have the two-tier system of boards.

In the Dutch dual board system, the supervisory board oversees the direction of the business whilst the management board is responsible for the running of the business (Mallin, 2004a). In the unitary board structure, the prime responsibility of the board of directors is to determine the broad strategy of the company and to ensure its implementation (Hampel Report, 1998). Thus the roles of the two boards in the Dutch dual structure are both incorporated into one board for a unitary structure such as in the UK model.

The UK's Combined Code (2003) presents the following duties of the board: (i) to provide entrepreneurial leadership for the company within the framework of prudent and effective controls, thus enabling risk to be assessed and managed; (ii) to ensure that the necessary financial and human resources are acquired for the company to meet its objectives; (iii) to take decisions objectively in the interests of the company; (iv) to meet sufficiently regularly for the directors to discharge their duties effectively, and to have a formal schedule of matters specifically reserved for the board's decision and to specify those matters that have been delegated to management; and (v) to review management performance, set the company's targets, values and standards, and ensure that the company's obligations to its shareholders and others are understood and met.[36] In relation to the unitary board, the White Paper on Corporate Governance in South Eastern Europe (SEE, 2003) states that:

> The key functions of the board are to ensure the strategic guidance of the company, the appointment and effective monitoring of management and the accountability to shareholders (par. 241).

[36] A further function of the unitary board is to act as a link between managers and investors (Mallin, 2004a).

The SEE principles explain that ensuring the strategic guidance of the company provides the company with a sense of vision and direction and determines the long- as well as the short-term goals of the company. The company's strategy then has to be elaborated on and agreed with management. The role of monitoring management implies that the board will hire and fire senior management, including the CEO, monitor and manage conflicts of interest, and put in place any relevant procedures (SEE, 2003). Under the SEE recommendations, the board should be responsible for reporting relevant matters to the shareholders and for ensuring that the company has complied with the law; to fulfil this reporting responsibility, the board should ensure the integrity and effectiveness of the accounting and financial reporting system.

For countries with a two-tier system of boards, such as the Netherlands and Germany, the role of the management board is to: manage the company; be responsible for achieving the company's aims, strategy, policy and results; ensure compliance with all relevant legislation and regulations; and manage the risks associated with the company's activities (Dutch Code, 2003). These responsibilities are similar to the responsibilities of the Executive Board in the unitary board system. The supervisory board, under this two-tier system, supervises the management board; this role encapsulates: (i) monitoring the achievement of the company's objectives; (ii) reviewing corporate strategy and the risks inherent in the company's business activities; (iii) monitoring the structure and operation of the internal risk management and control systems; (iv) approving the financial reporting process; and (v) ensuring compliance with any legislation and regulations. Similar functions would also be

carried out by the unitary board in relation to the Executive Board.[37] Other roles for the board include:[38]

- taking responsibility for preparing the accounts and reporting the business as a going concern, with supporting assumptions or qualifications as necessary;
- presenting a balanced and understandable assessment of the company's position and prospects in interim and other price-sensitive public reports (and reports to regulators) as well as information required to be presented by statutory instruments;
- being responsible for the quality and completeness of publicly-disclosed financial reports;
- maintaining a sound system of internal control to safeguard shareholders' investment and the company's assets;
- establishing formal and transparent arrangements for maintaining an appropriate relationship with the company's auditors;
- defining the mission/vision of the company;
- approving business plans and budgets and monitoring major capital expenditures and corporate takeover;
- monitoring and supervising the company's compliance with relevant legislation, articles of association, in-house regulations and policies;
- maintaining a sound system of internal control to safeguard shareholders' investment and the company's assets, and conducting a review of the effectiveness of the group's internal controls;
- assessing whether the executives are sufficiently qualified to fulfil the demands of their positions;
- setting standards of conduct covering codes of ethics or statements of business practice which should be communicated to all employees and published both internally and externally (Cadbury, 1992); and
- complying with the duty of confidentiality whereby members are not allowed to disclose company information that is confidential and/or trade secret.[39]

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[37] Based upon the functions relating to the unitary board and those of the supervisory board, it would seem that there are some similarities between the unitary and the dual board system, and that the distinction between the two is largely a legal one since the unitary board supervises the executive board just as the supervisory board oversees the management board to ensure that the company's aims, strategies, policies and results are achieved as planned for, all relevant legislation and regulations are complied with and the company's risk is managed effectively.

[38] These points are taken from the following codes or principles of corporate governance:

1. The Cadbury Report (1992);
2. The Combined Code (2003);
3. The Dutch Code (2003);
4. The Hampel Report (1998);
5. Korea Code (1999);
6. Turkey Code (2003).

[39] Some of the board's functions may be delegated to board committees such as the audit, remuneration, nomination, and risk committees whilst others may be delegated to an executive (management) committee or board (Hampel, 1998; Mallin, 2004a). The role and composition of these committees is examined in more detail later.

In all systems, boards should abide by the company's articles of incorporation and by-laws and should do nothing that is outside the authority of the company, as laid down in its articles of incorporation. In addition to any legal requirements, companies should also clarify in their by-laws the board's main functions and responsibilities (SEE, 2003). The SEE stresses that: "[t]he actual functioning and effective role of the boards depends, to a large extent, on the qualities of their individual members as well as on the respective CEOs" (par. 239).

2.4.3 Board Composition

The UK Combined Code (2003) states that:

> The board should not be so large as to be unwieldy. The board should be of sufficient size that the balance of skills and experience is appropriate for the requirements of the business and that changes to the board's composition can be managed without undue disruption (par. A.3).

The same code recommends that there should be a strong presence on the board of both executive and non-executive directors and that undue reliance should not be placed on particular individuals. This point was stressed by the Combined Code (2003) when it stated that no one individual should dominate the board's decision-taking. The Code recommends that:

> Except for smaller companies, at least half the board, excluding the chairman, should comprise non-executive directors determined by the board to be independent. A smaller company should have at least two independent non-executive directors (par. A.3.2).[40]

The Hampel Report (1998) had earlier proposed that non-executive directors should be appointed based upon their experience, qualifications, technical and market

[40] The Combined Code (2003) defines a smaller company as being one below FTSE 350 throughout the year immediately prior to the reporting year and the Cadbury Report (1992) stressed that independent board members should not receive any emoluments from the company other than their directors' fees and benefits accruing from their shareholdings.

knowledge and, possibly, their political contacts.[41] Both the Dutch Code and the UK Combined Code require at least one member of the unitary or supervisory board to be a financial expert, with the relevant knowledge and experience of financial administration and accounting for listed companies or other large legal entities.[42]

In some countries that have a two-tier system of boards, such as Germany, employees may have representatives on the supervisory board as well as the management board, but the extent of this involvement varies from country to country (Mallin, 2004a).

Investigation of views regarding board composition (and the other board-related issues discussed in the preceding and following sections) forms a key part of research documented later in the thesis. It should however be noted that, in their study of 86 UK companies, Dulewicz and Herbert (2004) found no evidence that board composition had a significant impact on company performance. Board "potential" was found to have more impact on performance than the proportions of independent non-executive directors and executive directors.

2.4.4 Appointment to the Board

In the UK, the Combined Code (2003) states that appointments to the board should be made on merit, using objective criteria and that care should be taken to ensure that appointees have enough time available to devote to the job, particularly in the case of

[41] The Dutch Code (2003) also added the ability to assess the broad outline of overall company policy and possession of the specific expertise required for the fulfilment of duties being among the required qualities of membership to a company's board.
[42] The Combined Code also recommends that board members should be refreshed periodically and that the succession of board members should be planned.

chairmanships. This concern for directors to have sufficient time extends to both non-executive and executive directors. The Dutch Code (2003) recommends the following:

> The number of supervisory boards of Dutch listed companies of which an individual may be a member shall be limited to such an extent that the proper performance of his duties is assured; the maximum number is five, for which purpose the chairmanship of a supervisory board counts double.(par. III.3.4). [43]

The UK Combined Code states that:

> There should be a formal, rigorous and transparent procedure for the appointment of new directors to the board (Section A.4).

In the unitary board system, shareholders elect board members whilst in the dual board system, shareholders appoint the members of the supervisory board (other than the employee members) and the supervisory board appoints the members of the management board (Mallin, 2004a).[44]

The Combined Code recommends that succession for board members and senior management has to be planned in the context of maintaining an appropriate balance of skills and experience within the company and on the board. Similarly, the Principles for Corporate Governance in the Commonwealth (CACG Guidelines, 1999) argue that:

> The board should ensure that through a managed and effective process, board appointments are made that provide a mix of proficient directors, each of whom is able to add value and to bring independent judgement to bear on the decision-making process (p. 8).

In the UK, directors of listed companies are required by the Combined Code to submit themselves for election by the shareholders at the first Annual General

[43] The Combined Code recommends that executive directors should not take on more than one non-executive directorship in a FTSE 100 company nor the chairmanship of such a company.

[44] Although the appointment of directors to represent outside interests is arguably incompatible with board cohesion, the Dutch Code (2003) envisages that, in exceptional cases, it may be appropriate for a major creditor or shareholder to nominate a director.

Meeting (AGM) after their appointment, and to re-election thereafter at intervals of no more than three years.[45] The Hampel Committee Report (1998) had made a similar recommendation regarding re-election, subject to continued satisfactory performance.[46] The Dutch Code (2003) affirmed that a supervisory board member should be elected only after careful consideration of the particulars of the candidate in question.[47] The Combined Code also recommends that non-executive directors should be appointed for specified terms subject to re-election and to Companies Acts provisions relating to the removal of a director.[48] The need for orientation and training for both new and continuing directors has been recommended by several codes, such as the Combined Code (2003) and is discussed in Section 2.4.5.

2.4.5 Orientation and Training of Directors

The Combined Code (2003) states that:

> The chairman should ensure that new directors receive a full, formal and tailored induction on joining the board (A.5.1).

The SEE Report (2003) expressed a similar view when it stated that newly appointed board members should receive induction into the company's business, operations and markets. The Cadbury Committee report noted that this was particularly desirable for

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[45] The Combined Code (2003) specifies that "The names of directors submitted for election should be accompanied by sufficient biographical details and any other relevant information to enable shareholders to take an informed decision on their election" (par. A.7.1).

[46] In addition, the Hampel Committee Report (1998) recommended that all names submitted for election or re-election as directors should be accompanied by biographical details indicating their relevant qualifications and experience, to enable shareholders to take an informed decision about whether to support any directors' re-election.

[47] If a non-executive director in a UK firm resigns, that director is entitled to inform the shareholders about whether the resignation resulted from a policy disagreement or a personality clash; such a disclosure may be in the interests of all shareholders (Hampel, 1998).

[48] The Combined Code notes that: "Any term beyond six years (e.g. two three-year terms) for a non-executive director should be subject to particularly rigorous review, and should take into account the need for progressive refreshing of the board" (par. 7.2) and that serving more than nine years could be relevant to the determination of a non-executive director's independence.

directors, whether executive or non-executive, with no previous board experience. However, the Cadbury Committee Report pointed out that after the induction, it was up to individual directors to keep abreast of their legislative and broader responsibilities. The Combined Code also suggests that all directors should regularly update and refresh their skills and knowledge and that major shareholders should be given the opportunity to meet new non-executive directors.[49] The company should provide the necessary resources for developing and updating the knowledge and capabilities of all its directors.

The SEE (2003) identified three different aspects of training, namely: (i) the role of board members; (ii) the personal development of directors; and (iii) the technical skills necessary for the task. Among the matters to be covered by the training are practical guidance on the meaning of directors' fiduciary duties; how directors should perform their main functions; the capacity of the board members to work together; essential personal qualities like integrity, scepticism and the courage to question executive management; and specific technical and substantive training to complete and bring board members up-to-date in the various areas of expertise necessary for the adequate performance of their functions. The SEE (2003) recommended that in order to provide companies with expertise, centres to train board members (such as Directors' Institutes) could be set up, developed and reinforced at the country level. These centres could give board members the opportunity to exchange their experiences, create networks, contribute to the development of a new board culture and develop a database of qualified board members that would facilitate the future recruitment process for companies.

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[49] The Code argues that updating skill and knowledge, together with familiarity with the company, would enable board members to fulfil their role both on the board and board committees.

2.4.6 Independence of Board Members

The Dutch Code (2003) recommended that supervisory board members should be able to act critically and independently of one another, of the management board and of any particular interest groups. This recommendation also applied to the unitary board structure, and to all board members, whether executive or non-executive. For example, The Hampel Report (1998) stated the following:

> Executive directors share with their non-executive colleagues overall responsibility for the leadership and control of the company. As well as speaking for the business area or function for which he is directly responsible, an executive director should exercise individual judgement on every issue coming before the board, in the overall interests of the company. In particular, an executive director other than the chief executive officer needs to be able to express views to the board which are different from those of the chief executive officer and be confident that, provided that this is done in a considered way, the individual will not suffer. (par. 3.6)

Despite the above observations, the precise meaning of "board independence" remains problematic (Brennan and McDermott, 2004) and the practical aspects of how members can be truly "independent" remains open to debate. Based upon their study of over 250 Dutch companies, Hooghiemstra and van Manen (2004) point to what they term the "independence paradox" caused by the information asymmetry between company management and non-executive board members. The non-executive members are dependent on company executives in obtaining adequate information about companies and yet the non-executive directors are expected to be independent and to supervise these executives. The question remains whether the non-executive directors can be truly independent under those circumstances and whether the independent judgement they bring to bear is based on independent and

objective information. Evidently, not everyone agrees that boards should include a balance of executive and non-executive members. Based upon a study of 98 publicly traded Swedish companies, Randøy and Jenssen (2004) concluded that board independence was more relevant for companies operating in less competitive industries than in highly competitive industries and that the latter companies should have fewer outside board members as compared to less competitive companies. The companies surveyed argued that highly competitive companies were already being monitored by a competitive product market and that board independence reduces firm performance in such industries. Presumably this was because of the fast response speed required in such competitive environments and also because outside directors are less informed and less competent to make good decisions in highly competitive markets. Randøy and Jenssen (2004) noted that CEOs of firms in less competitive product markets tended to become risk-averse without necessarily maximising shareholder wealth, unless monitored by a strong independent board.

2.4.7 Non-Executive Directors

The Cadbury Report (1992) stressed the importance of non-executive directors, as far as independence is concerned, with the following words:

> Non-executive directors should bring an independent judgement to bear on issues of strategy, performance, resources, including key appointments, and standards of conduct. We recommend that the calibre and number of non-executive directors on a board should be such that their views will carry significant weight in the board's decisions (par. 4.11).

The Cadbury Report also argued that non-executive directors might lose something of their independent edge if they remained on a board too long. However, the SEE

Report (2003) argued that "being independent is more a question of individual character and personal attitude, which cannot be prescribed by law" (par. 254).[50]

The Combined Code (2003) recommended that the board should appoint one of the independent non-executive directors to be a senior independent director and that shareholders should have access to this individual where they have concerns that contact through the normal channels of chairman, chief executive or finance director have failed to resolve an issue or for which such contact is inappropriate.[51]

The Combined Code (2003) highlighted seven factors that would prevent a person from being considered to be an independent non-executive director; these included a person who:

(a) has been an employee of the company or group within the last five years;
(b) has, or has had within the last three years, a material business relationship with the company either directly, or as a partner, shareholder, director or senior employee of a body that has such a relationship with the company;
(c) has received or receives additional remuneration from the company apart from a director's fee, participates in the company's share option or a performance-related pay scheme, or is a member of the company's pension scheme;
(d) has close family ties with any of the company's advisers, directors or senior employees;
(e) holds cross-directorships or has significant links with other directors through involvement in other companies or bodies;
(f) represents a significant shareholder; or
(g) has served on the board for more than nine years from the date of their first election.

The Dutch Code (2003, III.2.2) provided a similar list, but added the following:

[50] According to the SEE Report (2003), the spirit of independence requires the capacity to exercise objective judgement on corporate affairs and not to be subordinate to any particular interest, especially that of management, controlling shareholders or political influence.
[51] The Cadbury Report (1992) identifies the senior non-executive director as the person to whom other directors could address their concerns if the role of chairman and chief executive are combined.

(h) a person who holds at least ten per cent of the shares in the company (including the shares held by natural persons or legal entities which cooperate with him under an express or tacit, oral or written agreement);

(i) a person who is a member of the management board or supervisory board – or is a representative in some other way – of a legal entity which holds at least ten percent of the shares in the company, unless such entity is a member of the same group as the company;

(j) a person who has temporarily managed the company during the previous twelve months where management board members have been absent or unable to discharge their duties.

A major factor that affects the ability of directors, especially the non-executive ones, to exercise their role from an informed point of view is access to adequate, relevant and timely information. The supply of information to board members is, therefore, discussed in Section 2.4.8.

2.4.8 Supply of Information to Board Members

The Combined Code (2003) stresses the importance of information and professional development when it notes the following:

> The board should be supplied in a timely manner with information in a form and of a quality appropriate to enable it to discharge its duties. All directors should receive induction on joining the board and should regularly update and refresh their skills and knowledge. (par. A.5).

The Hampel Report (1998) had stressed this earlier when it stated that the effectiveness of a board was dependent to a substantial extent on the form, timing and quality of the information that it received and that management had an obligation to

ensure an appropriate supply of information.[52] The SEE Report (2003) stresses that boards should have access to all information required to evaluate and decide on matters related to the company ahead of their meeting.[53] Management and the executive board members should provide supervisory board members with relevant and accurate information in an orderly and timely manner. The SEE Report continues to recommend that the chairman and the CEO should regularly assess and determine which information is necessary or relevant for non-executive board members to perform their task more efficiently and that there should be a constant dialogue between the executive and non-executive members regarding any information provided to the board.[54]

The SEE Report recommends further that companies should establish procedures that allow board members to have direct access to employees at all levels as an independent check on the information reported to the board by senior management, and to obtain information from external auditors that they consider necessary in order to be able to fully carry out their supervising duties.[55]

The Combined Code notes that there should be provision for board members to seek professional advice when they need it:

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[52] The chairman has a particular responsibility to ensure that all directors are properly briefed on issues arising from board meetings (Cadbury 1992).

[53] The SEE Report (2003) states that: "All board members should have explicit and broad power to access information that is necessary to the performance of their functions" (par. 265).

[54] However, the SEE Report (2003) advises that non-executive members should be proactive in acquiring any information that they judge is necessary for the effective control of the company and its management; they should look for complementary information or clarification of any issues when they deem it necessary.

[55] The Combined Code (2003) makes it the responsibility of the chairman to ensure that all the directors receive accurate, timely and clear information but also encourages directors to seek clarification or amplification where necessary. The Combined Code also recommends that a company secretary's responsibilities include ensuring good information flows within the board and its committees and between senior management and non-executive directors.

> The board should ensure that directors, especially non-executive directors, have access to independent professional advice at the company's expense where they judge it necessary to discharge their responsibilities as directors. Committees should be provided with sufficient resources to undertake their duties. (Combined, 2003, A.5.2)

The Dutch Code (2003, III.1.9) takes a similar stance:

> If the supervisory board considers it necessary, it may obtain information from officers and external advisers of the company. The company shall provide the necessary means for this purpose. The supervisory board may require that certain officers and external advisers attend its meetings.

This requirement for the board to be able to obtain information and external advice goes to show the importance placed on board members taking decisions from an informed position.

2.4.9 Directors' Liabilities

The SEE Report (2003) recommends that the collective (as well as personal) liabilities of board members should be clearly defined in company law, company by-laws, board procedures or other relevant regulatory acts and that sanctions should be dissuasive and effectively and consistently enforced in order to deter wrongdoing.[56] The SEE Report takes the view that the same legal duties and liabilities should be applied to executive and non-executive board members as this will encourage non-executive members to inform themselves and act diligently, although it recognises that different degrees of liability could be established by a court if the board is sued. The SEE Report argues that sanctions should be punitive enough for board members to take their responsibilities seriously, but suggests that this should be balanced so as not to

[56] The Turkey Code (2003) explicitly states that "Members of the board will be jointly liable should they intentionally or unintentionally fail to properly perform their duties assigned to them by legislation, the articles of association and the general assembly" (p.51).

unduly deter able candidates. Improvements in the training of board members and clarity about their duties that are laid down by laws and regulations would help in raising awareness of directors' liabilities.

2.4.10 Chairman and Chief Executive Officer

The Combined Code (2003) recommends a clear division of responsibilities at the head of the company between the running of the board and the executive responsibility for running of the company's business, with no one individual having "unfettered" powers of decision. The Combined Code expressed its opposition to the combining of the roles of chief executive and chairman when it stated:

> The roles of chairman and chief executive should not be exercised by the same individual. The division of responsibilities between the chairman and chief executive should be clearly established, set out in writing and agreed by the board. (par. A.2.1).

The Cadbury Committee (1992) makes the same recommendation and argued that separation of the two roles would help to avoid concentration of power in one person. The Report recommends that in the event that the chairman was also the chief executive, it is essential that there should be a strong and independent element on the board.[57]

The Hampel Report states that "The chief executive officer's task is to run the business and to implement the policies and strategies adopted by the board" (Hampel, 3.16). The chief executive would therefore be at the forefront of implementing the decisions of the board.

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[57] The Hampel Report (1998) requires boards to explain and justify their reasons where the two roles are combined.

2.4.11 Constructive Use of the AGM

The Turkey Code (2003) recommends that meetings of the board be planned and conducted in an effective and efficient manner. The Combined Code (2003) outlines the following recommendations regarding the annual general meeting (AGM):

(i) the AGM should be used by the board to communicate with investors and to encourage their participation;
(ii) the company should ensure that votes cast are properly received and recorded; this includes all proxy votes;
(iii) a separate resolution should be proposed on each substantially separate issue;
(iv) the chairmen of the audit, remuneration and nomination committees should be available to answer questions at the AGM and all directors should attend; and
(v) the notice of the AGM and related papers should be sent to shareholders at least 20 working days before the meeting.

2.4.12 Evaluation of Directors and Committees

The Combined Code (2003, A.6) specifies that:

> The board should undertake a formal and rigorous annual evaluation of its own performance and that of its committees and individual directors.

Such an evaluation is aimed at helping to establish the extent to which each director and board committee member contributes and is committed to their role; the chairman is expected to act on the results of the evaluation as appropriate. The non-executive directors, led by the senior independent director, should be responsible for evaluating the chairman, taking into account the views of executive directors (Combined Code, 2003).

Mallin (2004a) suggests the following approaches for evaluating the board as a whole: (i) a structured questionnaire to evaluate how the board is performing in key areas such as achieving key goals that have been set; and (ii) informal discussion between the chairman of the board and the directors that cover a wide range of strategic and operational issues. According to Mallin, the evaluation of directors provides each individual with the opportunity to discuss key issues with the chairman on a one-to-one basis. Mallin points out that these evaluations contribute to the establishment of the performance criteria that help to achieve corporate objectives and to align the performance of directors with the interests of shareholders.[58]

2.5 Board Committees

Various countries have recommended the setting up of committees by boards to permit the delegation of certain functions to those committees; the most commonly found board committees are the audit, remuneration and nomination committees (Combined Code, 2003; The King Report II, 2002; Mallin, 2004a and Gregory, 2002).[59] Countries that require board committees include Australia, Belgium, France, Japan, the Netherlands, Sweden, Uganda, the UK and the US. Board committees are seen as assisting the board and its directors to discharge their duties and responsibilities; however, the board retains its overall responsibility for those functions and it is the board as a whole that remains responsible for the issues covered by the committees (Mallin, 2004a and the King Report, 2002). The Combined Code (2003) recommends the following composition of board committees:

[58] The Combined Code (2003) requires boards to disclose in the annual report the way in which the performance evaluations have been carried out.
[59] The Recommended Guidelines for Corporate Governance in Uganda (2001) state that the nomination, remuneration, audit and governance committees are among the most relevant committees that boards should have (par. 2.7).

(i) audit committee: at least three members (two members for smaller companies) who should all be independent non-executive directors; at least one member should have recent and relevant financial experience;
(ii) remuneration committee: at least three (two in the case of smaller companies) who should all be independent non-executive directors;
(iii) Nomination committee: a majority of members of the nomination committee should be independent non-executive directors; the chairman or an independent non-executive director should chair the committee.

The OECD Principles (revised 2004) sound a cautious note when they state:

> While the use of committees may improve the work of the board, they may also raise questions about the collective responsibility of the board and of individual members. In order to evaluate the merits of board committees it is therefore important that the market receives a full and clear picture of their purpose, duties and composition. Such information is particularly important in the increasing number of jurisdictions where boards are establishing independent audit committees with powers to oversee the relationship with the external auditor and to act in many cases independently (Section VI, par. E.2).

The King Report II recommends that there should be a formal procedure for delegating certain functions of the board that describes the extent of such delegation and thereby enables the board to properly discharge its duties and responsibilities and to effectively fulfil its decision-taking process.[60]

2.6 Shareholders

The notion of diffuse stock ownership originated with Adam Smith's warning in the *Wealth of Nations* about "negligence and profusion" that resulted when those who managed enterprises were "rather of other people's money than their own."[61] Berle and Means (1932) and Jensen and Meckling (1976) have subsequently focused on the conflict between diffuse shareholders and professional managers.

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[60] The terms of reference, life span, role and function have to be formally determined; there should also be transparency and full disclosure from the committees to the board, except where the committee has been mandated otherwise by the board. The King Report II also requires committees to be subject to regular evaluation by the board to ascertain their performance and effectiveness.

[61] Cited by Holderness (2003, p.51)

This section of the chapter discusses the nature (and implications) of ownership-structures in the (largely developed) countries that most of the corporate governance literature has so far focused on. In the next chapter, the issues are contextualised in an African setting to which Uganda belongs.

2.6.1 Ownership Structure

Berle and Means (1932) suggested that ownership of a corporation can be in different forms. The first form is where an individual incorporates a business as a nominal vehicle for conducting that individual's own investment, activities and transactions; the individual still controls the business and there is no separation of ownership and control. The second form is where there are several owners of a business, with management owning the majority of the voting stock while the remainder is widely diffused; control and part ownership is effectively in the hands of management. The third form is where ownership is so widely scattered that working control can be maintained with only a minority interest; the shareholder(s) with the largest minority interest exercises effective control over the company. The fourth form suggested by Berle and Means is where the ownership is so dispersed that not even a substantial minority interest exists. In this latter case no identifiable shareholder has sufficient ownership to exercise any form of control; directors can, therefore, exercise control over the company using the proxy machinery[62] leading to complete separation between ownership and control since the investors exercise virtually no control over

[62] Management appoints the proxy committee which casts votes on behalf of shareholders and has control over that committee.

the wealth they contribute to the enterprise. This leads to a situation where, as Berle and Means (1932) note:

> The property owner who invests in a modern corporation so far surrenders his wealth to those in control of the corporation that he has exchanged the position of independent owner for one in which he may become merely recipient of the wages of capital (p. 3).

Berle and Means expressed the view that the separation of ownership from control produced a condition where the interests of owner and of ultimate manager could diverge, and where many of the checks which formerly operated to limit the use of power disappeared. Consequently, the position of ownership changed from that of an active to that of a passive agent since the investor had no actual control over the enterprise and its physical properties. Berle and Means (1932) argued that:

> Since direction over the activities of a corporation is exercised through the board of directors, we may say for practical purposes that control lies in the hands of the individual or group who have the actual power to select the board of directors, (or its majority), either by mobilizing the legal right to choose them – "controlling" a majority of the votes directly or through some legal device – or by exerting pressure which influences their choice (p.69).

Berle and Means conclude that control may arise from: almost complete ownership; majority control; a legal device without majority ownership; minority control; and management control. Whilst the first three of these result from the right to vote, the last two are factual rather than legal.

In line with dispersed ownership, a study commissioned by the Federation of European Securities Exchanges (FESE) identified the following categories of owners of listed companies in its report entitled *Share Ownership Structure in Europe* (FESE, 2002): (i) non-resident investors; (ii) the public sector; (iii) individual and household investors; and (iv) domestic collective investments (mutual funds, pension funds and insurance companies). According to the report, non-resident investors have become

the driving force in European markets, while the public sector's participation in listed companies varies from zero in countries like the UK and Spain to 30% in the new stock markets of Eastern Europe such as Poland and Slovenia. Ownership by individual and household investors varies from 25-30% in Spain and Italy to 3-8% in Finland, Portugal and France. Domestic collective investments account for 47% of the total market capitalisation in the UK. The report postulates that institutional investors seem to be increasingly diversifying their portfolios towards non-domestic markets and securities. Table 2.1 presents the findings of the research commissioned by the Federation of European Securities Exchange (FESE, 2002) regarding ownership structures in individual countries throughout Europe. Other investors make up for the remaining difference of 0.6%.

Table 2.1 Share Ownership Structure in Europe

Country	Foreign Investors %	Public Sector %	Individual Households %	Private Non-Financial Enterprises %	Private Financial Enterprises %
Denmark-2000	26	7	16	19	26
France - 2000	36	6	8	21	29
Germany-2000	20	6	16	40	18
Greece - 2001	22	0	34	25	19
Finland -2000	74	8	7	9	2
Italy - 2000)	15	15	25	25	20
Norway -2000	34	25	8	17	16
Poland - 2001	39	30	20	-	9
Portugal -1999	25	12	4	27	13
Slovenia-2000	4.7	24.5	23.1	21.2	26.5
Spain - 2000	36	0	30	20	14
Sweden-2000	40	9	13	10	28
UK - 2000	32	0	16	3	47
Average	31.1	11.0	16.9	19.8	20.6

Note: The above Table was compiled from information contained in the FESE (2002) Report.

Highlighting the impact of ownership structure on corporate governance, Burton et al. (2004) note:

> Many small, family-run, businesses do not need to take heed of these corporate governance requirements, especially where the business has no outside investors or major stakeholders. However, once a company seeks a stock market listing and offers its shares to the public through an IPO, detailed corporate governance requirements .... are likely to come into force for the first time (p. 354).

In the case of Uganda, there are only seven countries listed on the Uganda Securities Exchange and only five of these are incorporated in Uganda; the other two are cross-listed but registered in Kenya. The vast majority of Ugandan companies are either family-run or sole-proprietorships and so this raises questions about how much corporate governance is valued in them.

Mallin (2004b) points out that as the share ownership has concentrated in institutional investors, the ultimate beneficiaries, who are the real owners of the shares, have lost influence on the companies in which they invest, since it is the institutional investors, not the beneficial owners, who vote.

In addition to the separation of ownership and control, there are several other respects in which share ownership in the modern corporation differs from the traditional notions of ownership; these stem largely from the fact that there are so many owners that it makes little sense to consider any one of them an "owner" from the aspect of an individual with an economic interest in being informed about and involved in corporate affairs (Monks and Minow, 2001).

In 1960, Harvard law professor Abram Chayes wrote that "Ownership fragmented into shares was ownership diluted. It no longer corresponded to effective control over company operations." Chayes found that there were no "institutional arrangements" that could "make it possible for many scattered individuals to concert their suffrages

on issues sufficiently defined to warrant meaningful conclusions about an expression of their will".[63] Chayes' finding may no longer be applicable in light of increased shareholder activism (especially institutional shareholders).

2.6.2 Rights of Shareholders

The rights of shareholders are an important consideration in corporate governance. Adam Smith (1937)[64] believed that the protection of an individual in his quiet enjoyment of property was one of the few legitimate activities of civil Government. Various codes and principles of corporate governance have presented these rights in their documents. For example, the OECD Principles (2004) suggest the following rights of shareholders:

1. the right to: (i) secure methods of ownership registration; (ii) convey or transfer shares; (iii) obtain relevant and material information on the corporation on a timely and regular basis; (iv) participate and vote in general shareholder meetings; (v) elect and remove members of the board; and (vi) share in the profits of the corporation;
2. the right to participate in, and to be sufficiently informed on, decisions concerning fundamental corporate changes such as: (i) amendments to the statutes, or articles of incorporation or similar governing documents of the company; (ii) the authorisation of additional shares; and (iii) extraordinary transactions, including the transfer of all or substantially all assets, that in effect result in the sale of the company;
3. the opportunity to participate effectively and vote in general shareholder meetings and to be informed of the rules, including voting procedures, that govern shareholder meetings; shareholders should be able to vote in person or in absentia, and equal effect should be given to votes whether cast in person or in absentia;
4. disclosure by the company of capital structures and arrangements that enable certain shareholders to obtain a degree of control disproportionate to their equity ownership;
5. facilitation of the exercise of ownership rights by all shareholders, including institutional investors;

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[63] Abram Chayes, in his Dec. 1960 introduction to John P. Davis, Corporations (originally published 1897, republished Capricon Press, New York, 1961), pp. xvii-xviii.
[64] Cited by Monks and Minow (2001), p.81.

6. the right to consult with each other on issues concerning their basic shareholder rights, subject to exceptions to prevent abuse; and
7. equitable treatment of all shareholders, including minority and foreign shareholders and the opportunity for shareholders to obtain redress for violation of their rights.

Berle and Means (1932)[65] add the following points:

1. the right to use the property: for example, cashing dividend cheques, using stock to secure a loan or to give some, or all of it, as a gift;
2. the right to bring a suit for damages if the corporation's directors or managers fail to meet their obligations; and
3. certain residual rights following the company's liquidation (or its filing for reorganisation under bankruptcy laws), once creditors and other claimants are paid off.

2.6.3 Responsibilities of Shareholders

Monks and Minow (2001) argue that ownership is a combination of rights and responsibilities with respect to a specific property. Adam Smith (1937)[66] believed that, by pursuing their own interests, shareholders frequently promoted the responsibilities of society more effectively than if they had set out with this expressed purpose. Monks and Minow take the view that although fractionalisation of ownership characteristics has possibly served to enrich owners by decreasing their accountability, bad governance practices create an obligation for fiduciary shareholders to pull together the fractions of ownership and restore value for their beneficiaries.[67]

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[65] cited by Monks and Minow (2001), pp. 92-93.
[66] cited by Monks and Minow (1937), p. 82.
[67] Similarly, Hutton (1995) argues that pension funds and insurance companies are shareholders and that it is their "moral duty" to ensure that companies are governed in the interests of shareholders. In 1991, the Institutional Shareholders' Committee (ISC) issued a document entitled "The Responsibilities of Institutional Investors in the UK", in which it was advocated that institutions should make positive use of their voting rights (Mallin, 1996).

According to Graham and Dodd (1934), shareholders have a right and responsibility to focus their attention on matters where "the interest of the officers and the stockholders may be in conflict," including executive compensation. Moreover, Monks and Minow (2001) argue that shareholders must be vigilant about preserving the full integrity – and value – of their stock ownership rights.

The UK Committee on the Financial Aspects of Corporate Governance (Cadbury Committee, 1992) viewed institutional investors as having a special responsibility in influencing the standards of corporate governance in the companies in which they invested and called on them to play a more active part in securing better corporate governance, to take a positive interest in the composition of boards, to make positive use of their voting rights to change company decisions, and to disclose their policies on the use of voting rights.

The main areas of contention between institutional investors and their investee companies tend to be the following: (i) the requirement for a majority of independent directors on the board and on key committees; (ii) the separation of the roles of Chairman, CEO and lead directors; (iii) the compensation of executives and board members; (iv) takeover defence strategies; and (v) confidential voting (Mallin, 1996).[68]

Short and Keasey (1997) note that while institutional investors as a collective own the majority of the equity in UK companies, on an individual basis their shareholdings are

[68] Mallin (1996) points out that, in the UK, the voting services offered by institutional investors' representative groups have an important role to play in highlighting contentious issues and in helping the institutions to reach a consensus on resolutions, as well as, on occasion, acting as a "voice" for the institutions that they represent.

mostly in the region of 2-3 percent of a company's issued shares. In comparison to the size of the company and the size of the institution's total portfolio, this shareholding is small and may not warrant the expense that has to be incurred in actively monitoring management. An individual institution can only have a significant influence when the potential to influence other institutions or shareholders is taken into account. The sheer size of financial institutions gives them a voice, via their impact upon the media, which can be used to influence general perceptions of corporate behaviour. The potential for such a public voice also often translates into private influence and into the seeming willingness of corporations to run special sessions for institutional shareholders. Action taken by institutional investors may act as a deterrent to other companies' boards and may signal to the corporate community in general that intervention by institutions remains a credible threat. This influence has to be balanced with the effect of negative publicity upon share prices.

Edward V. Regan (1992), the former New York State Comptroller,[69] expressed concern that shareholders, directors and the public only reacted after the economic damage had been done; he stressed the need for a pro-active institutional investors' role in monitoring the performance of firms.

2.7 Disclosure and Transparency

This section examines some of the aspects of disclosure and transparency that have been stressed in the literature and codes or principles of corporate governance; the discussion again focuses on the key issues examined in the empirical chapters of the

[69] Cited by Monks and Minow (2001), p. 152.

thesis. With respect to disclosure and transparency, the Blue Ribbons Committee (1998) argued that the oversight function of committees, such as the audit committee, should ensure that appropriate accounting policies, internal controls and (independent and objective) outside auditors were in place to deter fraud, anticipate financial risks and promote accurate, high quality and timely disclosure of financial and other information to the board, public markets and shareholders.

From a shareholder perspective, the main concern for disclosure and transparency arises from the separation of ownership and control (Berle and Means, 1932) which leads to an agency relationship (Mallin, 2004a). Mallin argues that information asymmetry arises because the beneficial owners of companies are not actively involved in the day to day management of the company, and because management and shareholders have access to different levels of information. Recognition of this fact, together with the possibility that management can misuse their power and make decisions that diverge from the interests of the beneficial owners (Keasey et al, 1997) makes it necessary for management to make adequate disclosures and act in a transparent manner so as to enable the owners to monitor management's performance. The Principles for Corporate Governance in the Commonwealth (CACG Guidelines, 1999) suggests that this monitoring can help in holding management accountable for achieving the company's objectives.

From a stakeholder point of view, firms have a relationship with other relevant parties that have an interest in the operation of corporations. As such, companies are expected to recognise the well-being of other groups having a long-term association with the firm (Keasey et al., 1997). The EBRD (1997) observes that a company's success

hinges upon its maintaining a sound relationship with the various constituencies on which it depends and pursuing policies that enhance shareholders' benefits. The King Report II (2002) stresses the value of a firm's reputation in attracting capital and enhancing business performance, while Monks and Minow (2001) and Gray et al. (1996) note that a firm's position towards corporate social responsibility plays a role in the way that it is perceived by stakeholders. Disclosure and transparency is stressed by various codes, such as the Combined Code, as one of the ways of enhancing relations between companies and shareholders.[70]

Various codes of corporate governance, such as the OECD Principles (revised, 2004), Combined Code (2003), the Directors Remuneration Regulations (2002), the Hampel Committee Report (1998) and the Cadbury Committee Report (1992) suggest that the following information should be part of a company's disclosure set:

(a) financial and operating results;
(b) corporate objectives;
(c) major share ownership and voting rights;
(d) remuneration policy for members of the board and key executives;
(e) information about board members, including their qualifications, the selection process, other company directorships and whether they are regarded as independent by the board;
(f) related party transactions;
(g) foreseeable risk factors;
(h) governance structures and policies, in particular, the content of any corporate governance code or policy and the process by which it is implemented;
(i) material interest in any transaction or matter directly affecting the corporation;
(j) the impact of an organisation's activities on society and the environment;
(k) membership of board committees; and
(l) - in the event of a resignation by a non-executive director – information about whether the resignation resulted from a policy disagreement or a personality clash.

[70] Disclosure and transparency may also be driven by the need to conform to laws, regulations, by-laws and private laws established by the legislature, the company, or mutual agreement (Monks and Minow, 2001).

The UK Hampel Committee Report (1998) also required companies to disclose cases where the roles of chairman and chief executive were combined by explaining and justifying the reasons for combining the two roles. The Combined Code (2003) sought to enhance transparency in companies by recommending that the chairpersons of the audit, remuneration and nomination committees should be available to answer questions during the AGM.[71]

2.8 The Framework of Corporate Governance

Section I of the revised OECD Principles of Corporate Governance (OECD, 2004) stresses the importance of an effective corporate governance framework in the following words:

> The corporate governance framework should promote transparent and efficient markets, be consistent with the rule of law and clearly articulate the division of responsibilities among different supervisory, regulatory and enforcement authorities.

Letza et al. (2004) argue that:

> .... [A] pluralist approach ... suggests that corporate governance is not only conditioned to the economic logic such as economic rationality and efficiency, but also shaped and influenced by politics, ideologies, philosophies, legal systems, social conventions, cultures, modes of thought, methodologies, etc. (p.258).

Vintiadis (2004) also notes that conflict of interest, regulatory inefficiency, unsound ethics and greed are among the causes of recent major corporate failures. Some of the areas that will be considered as forming part of the framework of corporate governance are the political, legal, regulatory and accounting frameworks together with the economic, cultural, social and ethical factors that may have an impact on

[71] The Combined Code also recommended that all directors should attend such meetings.

corporate governance in a country. Each of them is examined in detail in the empirical analysis reported later in the thesis.

2.8.1 Political Framework

In line with the need for an appropriate framework for corporate governance, the Guidelines for Enhancing Good Economic and Corporate Governance in Africa (ECA Guidelines, 2002) state:

> Good economic governance exists in those economies where the institutions of Government have the capacity to manage resources efficiently; formulate, implement, and enforce sound policies and regulations; can be monitored and be held accountable; in which there is respect for the rules and norms of economic interaction; and in which economic activity is unimpeded by corruption and other activities inconsistent with the public trust. The key elements contributing to an environment of good economic governance are transparency, accountability, an enabling environment for private sector development and growth, and institutional development and effectiveness. (Section 2.1, par. 4).

The above quotation points to the necessity of having a political environment which is conducive to the promotion of corporate governance in a particular country.[72] Government is entrusted with an overall responsibility for the proper management of resources in a country through policies, regulations and institutions that monitor and enforce compliance with good stewardship. Businesses operate in accordance with laws, rules, regulations and policies that are put in place as a result of political decisions by Government. Measures such as fiscal and monetary policies and laws governing commercial interactions, and their enforcement thereof, should, arguably, provide a stable framework within which a business operates. Company officials will

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[72] The OECD Principles note that Governments have an important responsibility for shaping an effective regulatory framework that provides for sufficient flexibility to allow markets to function effectively and to respond to expectations of shareholders and other stakeholders.

respond to this framework by either following the laws and regulations faithfully and using them to promote good governance in their companies, or by trying to circumvent those laws and regulations (if they do not consider them appropriate under the prevailing circumstances). Such action may lead to poor corporate governance practices in companies.

The empirical focus of this thesis is on perceptions of governance practices in Uganda. The ECA Guidelines note that the majority of African countries lack the capacity to meet the mandate of eradicating poverty and improving economic growth due to deficiencies in their economic governance structures. In particular, the guidelines state that the deficiencies include:

> [T]he lack of an appropriate institutional framework to guide economic policy-making and execution; a weak civil society unable to hold Government accountable for its actions; a similarly weak or uninterested parliament; and the lack of consultative mechanisms for engaging the private commercial interests for input into sectoral planning or other national economic decision-making process. (Section 2.1, par. 5).

Also, if Government officials are perceived to be corrupt in their conduct, then their oversight function of Government and the business sector may be compromised.[73]

The political framework in passing appropriate laws, setting up regulatory and supervisory agencies, monitoring the implementation of those laws, regulations and policies, and being an example of good governance cannot be overstressed in the promotion of corporate governance in a country. Parliament's oversight function is seen as being instrumental in the process of good governance and accountability

[73] Neal (2003) examines the oversight function of parliament in her article: "Ensuring Accountability in Public Expenditure" published by the Commonwealth Parliamentary Association (19 March). Neal argues that Parliament has the responsibility of both passing bills that reflect good policies and monitoring their implementation to ensure that they are administered in accordance with the legislative intent.

(Neal, 2003).[74] The type of political leadership in a country may also affect the ability of companies in that country to attract foreign investment and to trade with foreign countries. Trade sanctions have been imposed at various times on countries whose political leadership was thought not to be acceptable by the international community. Examples include South Africa (at the time of apartheid),[75] Libya (Albright, 2000)[76] and Iraq (Elliot and Hufbauer, 2006).[77] These sanctions curtailed investment flows into those countries and the ability of each nation's firms to trade effectively with other countries. The focus of the present study, Uganda, provides a clear example of the problems that can be caused by sudden dismantling of established political structures, particularly in a developing country; when Idi Amin overthrew the elected Government in 1971, he set into motion certain policies that destroyed the economy of an otherwise flourishing country and also heralded an era of moral degeneration, which in turn resulted in extensive corruption (and other unethical business activities, such as smuggling) due to shortages of commodities (Mulumba, 2006). Such issues and the potential for a robust system of corporate governance to tackle them, is one of the central questions examined in the present study.

2.8.2 Legal and Regulatory Framework

The OECD Principles (2004) recommend that the corporate governance framework should be consistent with the rule of law and clearly articulate the division of

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[74] Neal also argues that: "the framework for effective parliamentary scrutiny must take into account two important issues: first, the establishment of specific oversight mechanisms to effectively hold the executive to account for their activities, and secondly the need for a bipartisan approach in Parliament when overseeing executive activities" (p. 3).

[75] U.S. Statutes at Large 100 (1986): 1086.

[76] Trade sanctions were imposed against Libya in 1986 after Libya was blamed for the bombing of a Berlin disco that killed two U.S. servicemen and a Turkish woman, and wounded 229, including 79 Americans.

[77] Sanctions were imposed against Iraq on 2 August 1990 after Iraq's invasion of Kuwait. See also: Akin Gump Strauss Hauer & Feld LLP (2003).

responsibilities among different supervisory, regulatory and enforcement authorities. This view implies that whoever is responsible for setting up principles or codes of corporate governance should make sure that there is no conflict between the proposed principles and the existing law of the country. In the event of a possible conflict, then appropriate legislation would need to be enacted if thought appropriate for the country. There could also be cases where no conflict exists with existing laws, but rather the absence of a law needed to support a specific aspect of corporate governance that is important. Again, the requirement for appropriate legislation would need to be investigated in such a situation.[78] Arun and Turner (2004) point to the need for appropriate laws that would protect investors, increase financial disclosure, impose fiduciary duties on directors and company executives and also reduce political interference in the management of companies.

There has been a debate as to whether codes of corporate governance should be legislated or left to the private sector to be formulated voluntarily as part of a self-regulating system. Dewing and Russell (2000) cite the example of the traditional British preference for self-regulation which is reflected in the UK Company law, where statutory provisions are supplemented by the activities of professional or other bodies. The authors quote Goulding (1999) who points out that to supplement the statutory frameworks, a series of "extra-legal codes" has been developed which includes Listing Rules (the "Yellow Book") administered by the LSE,[79] and the City Code on Takeovers and Mergers administered by the Panel on Takeovers and

[78] The King Report II (2002) identified 27 recommendations requiring statutory amendment and other actions.
[79] Although responsibility for the listing rules has now passed to the UK Listing Authority.

Mergers.[80] However, Dewing and Russell (2000) and Power (1997) question the effectiveness of self-regulation in actually regulating companies since companies do not have to comply with codes, but only to disclose non-compliance; according to these authors, there seems to be no adequate monitoring of disclosure of non-compliance. Dewing and Russell take the view that there is a case for the establishment of a more formal and permanent framework for setting, monitoring, and ensuring compliance with corporate governance standards in order to enhance accountability. US authorities took this line when they passed into law the Sarbanes-Oxley Act of 2002, while the UK published The Directors' Remuneration Report Regulations 2002 as a Statutory Instrument (2002 No. 1986) which is legally binding;[81] Ugandan firms are governed by The Companies Act (1964).[82] Dewing and Russell (2004) were of the view that regulation was justified in cases where the market failed to produce behaviour or results that were in the public interest and gave examples of social regulation involving environment, industrial relations, racial equality and safety (among others). Stressing the importance of the regulatory framework, Ade-Ajayi (2004) observed that levels of governance could be weakened depending on the regulatory and oversight environment of the host country. Ade-Ajayi argued that corporate governance would be enhanced in countries where the legal and regulatory framework was strong and effective.

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[80] Cheffins (1997) argues that the advantages of self-regulation within a statutory framework using extra-legal codes are that it has: "greater speed of response and flexibility in the face of changing circumstances; the ability to focus on the application of the spirit rather than the letter of the regulations; and the increased ability to draw on practitioner expertise which is made at a reduced cost" (pp. 378).

[81] in terms of certain disclosure items and the requirement for a (non-binding) shareholder vote on the remuneration report.

[82] The Act is based upon the British Companies Act of 1948 and was considered by the research participants to be outmoded and in urgent need of revision. The Recommended Guidelines for Corporate Governance in Uganda (2001) are voluntary and not legally binding. These are contained in the Manual on Corporate Governance published by the Institute of Corporate Governance of Uganda.

Selznich (1985) defined "regulation" as "sustained and focused control exercised by a public agency over activities that are valued by a community" (p.363).[83] Dewing and Russell (2004) refer to Baggott's (1987) three main classifications of regulatory systems, namely: (i) by degree of formality; (ii) by legal status; and (iii) by extent to which "outsiders" are involved. Dewing and Russell (2004) note that regulation may vary from voluntary systems of self-regulation, to more formal systems of self-regulation involving greater participation by outsiders, or it may be in the form of direct public regulation based on statute. Whittington (1993)[84] explained that self- or private-regulation was typically carried out by professional bodies, whilst broadly based self- or private-regulation involved a greater interdependence from the members of the group being regulated and included representation of broader interests; public regulation was backed by formal authority of law. Regardless of whether a country takes the legislative or self-regulatory route, the implementation, monitoring and enforcement of the codes will be important. A related question is the extent to which regulatory agencies' roles are clearly defined and distinct, and their resources adequate to facilitate their work. Also of importance is the extent to which companies comply with laws and regulations relating to corporate governance. In their study of Irish companies, Brennan and McDermott (2004) established that a significant number of Irish companies did not comply with some of the requirements of the UK Combined Code. Based upon this study, Brennan and McDermott concluded that:

> The lack of compliance by some companies with some of the provisions of the Combined Code highlights the limitations of using non-mandatory codes. It is likely that problem companies, most in need of following best practice, are least likely to adopt non-mandatory provisions (p. 334).

[83] Cited by Dewing and Russell (2004, p. 108).
[84] Cited by Dewing and Russell (2004).

Thus, the legal and regulatory framework in Uganda will be one of the issues investigated in this thesis.

2.8.3 Accounting Framework

The OECD Principles (2004) highlight the importance of the accounting framework in promoting disclosure and transparency, stating that:

> Information should be prepared and disclosed in accordance with high quality standards of accounting and financial and non-financial disclosure (Section V, B).

This statement suggests that accounting information plays a major role in the effective corporate governance of a firm as it enables relevant parties to monitor the performance of an organisation and use that information to hold management accountable for the stewardship of resources. Annual audits conducted by independent, competent and qualified auditors are recommended by the OECD Principles to provide an external and objective assurance to the board and shareholders about the financial position and performance of the company in all material respects (Section V, C). In line with this thinking, the Combined Code (2003) requires UK boards to present a balanced and understandable assessment of the company's position and prospects, stating that:

> The board's responsibility to present a balanced and understandable assessment extends to interim and other price-sensitive public reports and reports to regulators as well as to information required to be presented by statutory requirements. (Section C.1).

The importance of audit committees in ensuring the integrity of financial reports has already been examined in Section 2.5 of this chapter. The Cadbury Committee Report (1992) stressed the importance of the internal auditors - in addition to the external

auditors - requiring them to establish internal audit functions and undertake regular monitoring of key controls and procedures. The Cadbury Committee Report also highlighted the necessity of having a financial reporting system whereby financial transactions were accounted for in a consistent manner:

> A basic weakness in the current system of financial reporting is the possibility of different accounting treatments being applied to essentially the same facts, with the consequence that different results or financial positions could be reported, each apparently complying with the overriding requirement to show a true and fair view. ... there are advantages to investors, analysts, other accounts users and ultimately to the company itself in financial reporting rules which limit the scope for uncertainty and manipulation (par. 4.47).

This view suggests that sound accounting principles, applied similarly by all firms, should enable users to make a fair assessment of the performance of companies and guide the decisions of those users, either in making investment decisions, holding management accountable or for other uses, such as tax assessment and valuation of shares.[85]

The corollary questions seem to relate to who sets the accounting principles and who ensures that the principles are applied uniformly across companies. Such issues are where a robust accounting framework can play a major role in ensuring the integrity of the information that is prepared by companies and disseminated to users. The body that is responsible for the setting of a nation's accounting standards would need to consider the adequacy of the standards in portraying a true and fair view of the

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[85] However, not everyone thinks that annual financial reports are adequate tools for discharging accountability. For example, Steccolini (2004, p. 331) notes the following:

> Those who underline the weaknesses of the annual report as a disclosure tool point out that there is little demand for the information it provides (Jones and Pendlebury, 1996), that the number of users is likely to be small (Jones, 1992), that the annual report may not contain all the relevant information that users seek, that the information may be presented in too complex a format and the reports may not be directly available and accessible to potential users (for example, Jones et al., 1985).

Although the above statement was made in the context of public accountability, some of its elements are likely to apply to private sector accountability. Chapter 5 discusses the notion of accountability – and its relevance to modern corporate governance practices – in detail.

transactions of companies and in ensuring that these standards are applied uniformly across companies and as intended by the standard setters. The quality of the standards (and the enforcement of implementation) is likely to have an impact on the confidence of the users of the accounting information produced by firms that are applying those standards.

2.8.4 The Economic Framework

The OECD Principles (2004) recognise the importance of the economic framework when they state:

> Corporate governance is only part of the larger economic context in which firms operate that includes, for example, macroeconomic policies and the degree of competition in product and factor markets (p.12).

Coffee (2005) associates corporate scandals with the state of the economy and ownership structure; he argues as follows:

> Conventional wisdom explains a sudden concentration of corporate financial scandals as the consequence of a stock-market bubble. When the bubble bursts, scandals follow, and, eventually, new regulation. Historically, this has been true at least since the South Seas Bubble, and this hypothesis works reasonably well to explain the turn-of-the-millennium experience in the USA and Europe. World-wide, a stock-market bubble did burst in 2000, and in percentage terms the decline was greater in many European countries than in the United States. (pp. 198-199).

Coffee notes that the most recent economic downturn was associated with pervasive accounting scandals, fraud and financial irregularities that included earnings

manipulation.[86] One of the reasons given by the author for earnings manipulation is pressure from stock markets to support share prices.[87]

The economic framework, therefore, seems to be an important factor in corporate governance as it is likely to influence participants to act in certain ways. Pressures can come from the expectations of stock market analysts or as a result of economic policies put in place by Government that impact negatively on the performance of firms and affect their competitiveness. Other factors such as the level of taxes, inflation and poverty in a country, or the individual circumstances of company officials might also influence the conduct of directors in managing their company and incline them to act in one way or the other.

2.8.5 Cultural and Social Factors

Willmott (1996) argues that human beings participate in particular social worlds and that universal processes of accountability are influenced by historically and culturally distinctive backgrounds. The OECD Principles (2004) recognise the fact it is not possible to formulate corporate governance principles that would apply to all countries at all times. Moreover, the OECD acknowledges that their principles will need to be adapted by different countries according to the varying legal, economic and cultural circumstances therein. This necessary divergence can be evidenced by the routes that different countries have taken in the type of codes adopted. Several countries, including the UK, have stressed the shareholder view and adopted

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[86] Examples of these are given in footnote 19.
[87] However, in cases like Enron, there was apparent fraud intended to benefit certain individuals who were occupying senior positions in the company. See Monks and Minow (2001).

voluntary regulation (the Combined Code, 2003), whilst others such as the US have opted for the legal approach to corporate governance rule enforcement (SOX, 2002). Much of mainland Europe and Japan have instead opted for the stakeholder approach which extends beyond the interests of shareholders based upon the traditions prevailing in each nation. Despite this realisation that different countries may have different approaches to corporate governance, there seems to be a growing trend towards a commonly-accepted set of corporate governance principles as a result of on-going globalisation in capital and product markets. Hertig (2005) supports this view, stating that:

> Continental European reluctance to follow the UK and US lead started to soften owing to EU firms increasingly tapping US capital markets, and practically disappeared once it became clear that corporate scandals were not confined to North America. For their part, firms listed in industrialised Asian countries or in developing and transition countries are increasingly forced to show compliance with some kind of corporate governance principles if they want to avoid the costs associated with scoring badly on global corporate governance tables. (p. 273)

Such convergence in governance principles is likely to present new challenges, such as examining the cultural and social values of different countries and examining how these values can be aligned to those of the international investment community.

2.8.6 Ethical Framework

According to Monks and Minow (2001), some scholars have developed what they call an "ethical contract." This contract assumes that any executive's legitimacy can only be sustained by the interaction of a company's "relationships" with other stakeholders. The authors argue that the external legitimacy of executives and employees must be sustained and controlled by the personal ethic of the individuals

involved as well as by broader corporate and societal moral norms. The personal ethic operates through conscience, while the corporate and societal ethics work through the internal and external systems of scrutiny, each of which is reinforced by mechanisms for enforcement (Cannon, 1992). In line with this thinking, Chryssides and Kaler (1996) note that business ethics has two aspects: (i) the specific situations in which ethical controversy arises; and (ii) the principles of behaviour by which it is appropriate to abide. Chryssides and Kaler state that business ethics can manifest themselves in areas such as advertising, accounting, employee relations and environmental issues, and that legislation alone is not sufficient to protect stakeholders; they argue as follows:

> Appearing to be ethical, it may be suggested, is simply good business: consumers are arguably, more likely to buy from a company which can be seen to be acting ethically. Graduates are more likely to be attracted to companies which treat their employees fairly and give customers a fair deal. Others may contend that concern for business ethics is a means of forestalling legislation; business people do not want external restrictions or new possibilities for prosecution and litigation. Those who are less disenchanted with human nature will welcome this interest in responsible business behaviour as evidence that there is a genuine concern within the business world that consumers get a fair deal, that environmental pollution is brought under control, that men and women work in acceptable working conditions, and so on. (p. 5)

Chryssides and Kaler assume that one should act ethically "for no other reason than that it is wrong not to do so" (p.6), although Webley (2003) finds evidence that companies that have adopted codes of ethical practice tend to perform better than the others.[88] The OECD Principles (2004) note that factors such as business ethics as well as corporate awareness of the environment and societal interests of the communities in which a company operates, can have an impact on reputation and long-term success. However, Keasey et al. (1997) note that a system of accountability may need

[88] In a random sample of 17 codes published or revised between 2001 and 2003, Webley found that the most common words used in the preamble of those codes were: fairness, honesty, integrity, openness, respect, responsibility and trust.

to make trade-offs between ethical and wider efficiency issues, whilst Solomon and Solomon (2004) suggest that ethical behaviour is part of a company's corporate social responsibility. Potts and Matuszewski (2004) are of the view that:

> Ethics and integrity are critical to the global marketplace. Countries must demonstrate trustworthiness in order to fully share in the benefits of international development and trade (p. 178).

Potts and Matuszewski argue that "ethical" companies can recruit and retain the best workforces and foster positive, long-term relationships with vendors, customers, investors and stockholders. Potts and Matuszewski also note that "ethical" companies can develop sufficient collateral and respect to reduce activist and media pressures and protect corporate reputation. Supporting the importance of moral values in corporations, Dawson (2004) notes that confidence in corporations and capital markets can only be built based on the actions, values and beliefs of those in the boardrooms of the corporations themselves.

The above literature suggests that the ethical framework within which a company operates is an important aspect of its corporate governance. The framework in this context consists of: values held by the society within which a company operates; the legal framework; a company's internal values and practices; and the values held by the individuals who work in the company. Whether companies should be concerned about ethics because it makes business sense, or because it is good for the company's reputation or just because that is what they should do, is open to discussion. It is clear, however, from the literature that a company might reasonably expect to be affected by the ethical framework within which it operates and should take a position with regard to ethical issues as part of its corporate governance. A fuller discussion of ethical matters and their inter-relationships with corporate governance, accountability and the

stakeholder notion is explored in Chapter 5, and forms an important part of the interview and survey-based research reported later in this thesis.

2.8.7 Privatisation

Whilst much industrial activity across the globe takes place via a constantly changing mix of private and state-owned enterprises, a number of countries began large-scale privatisation programmes in the 1980s and 1990s and many of these are on-going. Wright et al. (1997) note that extensive privatisation has been undertaken across many countries of Central and Eastern Europe (CEE), while a similar process occurred a decade earlier in the UK. More recently, many privatisation programmes have begun in developing nations and continue today, particularly in Africa. The stated objectives of privatisation throughout the world usually include reducing subsidies to the entities concerned, thus improving national finances and enhancing efficiency and transparency as a result of the pursuit of the profitability required by private owners and market forces (Dean and Andreyeva, 2001). Dyck (2001), however, cautions that unless developing countries embrace a meaningful corporate governance perspective, privatisation is unlikely to provide the benefits of improved performance with accountability. Dyck argues that transfer of title alone does not ensure improved resource allocation and that adopting a corporate governance perspective will lead to more effective privatisations with fewer problems. This same view is expressed by Dean and Andreyeva (2001) who state that:

> [P]rivatisation *per se* does not achieve efficiency benefits. To ensure the transformation of incentives, a change in managerial behaviour, and finally better company performance, privatisation must create an effective mechanism of corporate governance (p. 63).

In addition to corporate governance mechanisms, there has also been concern about the process of privatisation in Uganda. There have been claims that the process lacks transparency and that, in some cases, it has been marred by corruption and lack of accountability for the proceeds from the sale of formerly state-owned enterprises.[89] Such claims highlight the importance of accountability at all levels of governance and illustrate that good intentions alone are not sufficient to achieve the desired objectives of any action. Proper mechanisms need to be considered in implementing a policy that is perceived to be beneficial to the intended group of stakeholders. As the study carried out in Russia by Judge and Naoumova (2004) illustrates, Uganda is not alone in encountering problems in its privatisation process. Judge and Naoumova established that the Russian privatisation process lacked transparency and fair play as government bureaucrats grabbed all the private property distributed by the state. Judge and Naoumova argue that Russia's troubled history, as well as its centralised culture, legal framework and prevailing corruption affected the privatisation process. Corporate governance practices in companies acquired in such a manner remain questionable following privatisation. Russia's experience highlights the impact of the political, cultural, social and ethical factors under which companies operate and the need to plan any privatisation process carefully, taking into account mechanisms that are likely to improve the governance of those companies following privatisation.

2.9 Conclusion

This chapter has reviewed some of the extant literature on corporate governance and related issues such as accountability and regulation with the aim of identifying

[89] Tangiri and Mwenda (2001) allege that "Uganda's privatisation in the 1990's was marred by malpractices and manipulation involving regime politicians and well-connected individuals" (p. 117).

potential research priorities. Section 2.2 examined the concept of corporate governance and discussed: the shareholder versus stakeholder view; the definition of corporate governance; and corporate social responsibility. Section 2.3 outlined the relevance of corporate governance, while Section 2.4 discussed boards of directors, reviewing types of board structure; the role of the board; board composition; appointment to the board; resignation of directors; orientation and training of directors; independence of board members; non-executive directors; supply of information to board members; directors' liabilities; chairman and chief executive officer; constructive use of the AGM; and evaluation of directors and committees. Section 2.5 described the board committees recommended by various codes of corporate governance before Section 2.6 examined ownership structure, in particular the rights and responsibilities of shareholders and their relevance to corporate governance structures. Section 2.7 of the chapter outlined various issues relating to disclosure and transparency while Section 2.8 reviewed various frameworks that underpin any robust corporate governance system, in particular, the: political; legal and regulatory; accounting; economic; cultural and social; ethical; and the impact of privatisation programmes in modern corporate governance regimes.

The literature suggests that corporate governance can help firms to generate and maximise value for intended beneficiaries by improving accountability, transparency and efficiency, and by treating all relevant parties fairly and justly. Clearly, identifying the "intended beneficiaries" of a corporation's actions will depend upon the firm's predominant disposition towards the shareholder and stakeholder viewpoints. However, adherence to the laws and regulations of countries where a company operates are likely to necessitate all firms to take into account certain rights

of stakeholders, other than just shareholders, as specified by those laws and regulations and by the by-laws and articles of association of the companies themselves.

Most of this chapter has been based on Western thinking; the next chapter discusses the potential relevance of Western corporate governance principles to developing countries such as those in Africa. The empirical research will be carried out in Uganda where many of the issues raised in this chapter will be applied and stakeholders will be asked for their views as to the applicability of these ideas in the Ugandan context, with its particular circumstances.

Chapter 3

Corporate Governance in Africa

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Corporate Governance in Africa

3.1 Introduction

Following the financial crisis that swept the world in 1997/98, the World Bank and the Organisation for Economic Co-operation and Development (OECD)[90] joined forces to create a formal programme (the Global Corporate Governance Forum) which would assist in the development of corporate governance standards worldwide. In 1999, the OECD published its Principles (revised in 2004) which were intended to act as guidelines for individual countries when drafting their own standards of good governance. The International Corporate Governance Network (ICGN) endorsed the OECD Principles but also came up with its own Statement on Global Corporate Governance Principles (ICGN, 1999) in which it was affirmed that:

> [A]long with traditional financial criteria, the governance profile of a corporation is now an essential factor that investors take into consideration when deciding how to allocate their investment capital (p. 1).

In his speech, delivered at the International Conference on Building the Institutions for a Modern Market Economy (held in China in 2002), Wolfensohn (2002)[91] outlined his belief that corporate governance was a part of a much broader framework of development that was an essential element in terms of job creation, distribution of resources, spreading of wealth, and integration into the international community. Wolfensohn stated that for corporate governance to work, legal reform was necessary

[90] OECD member countries: Australia, Austria, Belgium, Canada, the Czech Republic, Denmark, Finland, France, Germany, Greece, Hungary, Iceland, Ireland, Italy, Japan, Korea, Luxembourg, Mexico, the Netherlands, New Zealand, Norway, Poland, Portugal, the Slovak Republic, Spain, Sweden, Switzerland, Turkey, the United Kingdom, and the United States.

[91] Mr. Wolfensohn is the President of the World Bank.

in developing and emerging markets; he argued that compliance by private parties with corporate governance rules depended in part on a country's legal culture and respect for the rule of law, reinforced by a belief that the rules were enforceable. Wolfensohn identified that some of the problems faced by judicial systems included: the quality of judges; weak enforcement of judgments; Government interference; and corruption.

The OECD principles (as revised in 2004) contained the following headings:

I. Ensuring the Basis for an Effective Corporate Governance Framework

II. The Rights of Shareholders and Key Ownership Functions

III. The Equitable Treatment of Shareholders

IV. The Role of Stakeholders in Corporate Governance

V. Disclosure and Transparency

VI. The Responsibilities of the Board.

The OECD stated that its principles:

> [A]re intended to assist OECD and non-OECD Governments in their efforts to evaluate and improve the legal, institutional and regulatory framework for corporate governance in their countries, and to provide guidance and suggestions for stock exchanges, investors, corporations, and other parties that have a role in the process of developing good corporate governance.[92]

Corporate governance is treated by the OECD Principles as being a key element in improving economic efficiency and growth as well as enhancing investor confidence. The OECD Principles argue that the presence of an effective corporate governance system (at both individual company and macro-economic levels) helps to provide the

[92] This is an extract from the first paragraph of the Preamble to the OECD Principles (2004).

degree of confidence that is necessary for the proper functioning of a market economy, leading to a lower cost of capital, a more efficient use of resources and, thereby, encouraging economic growth.

3.2 Concept of Corporate Governance

The tendency in Africa for corporate governance to be analysed from a stakeholder perspective can be seen from the definitions and/or contents of the various codes and other literature pertaining to corporate governance in Africa. The introduction to the King Committee on Corporate Governance (King Report II, 2002) refers to corporate governance as being:

> [C]oncerned with holding the balance between economic and social goals and between individual and communal goals ... the aim is to align as nearly as possible the interests of individuals, corporations and society.[93]

The Principles for Corporate Governance in Kenya (Kenya, 1999) define corporate governance as:

> [T]he manner in which the power of a corporation is exercised in the stewardship of the corporation's total portfolio of assets and resources, with the objective of maintaining and increasing shareholder value and satisfaction of other stakeholders in the context of its corporate mission (para. 1.1.2).

The need for stakeholder rights to be recognised and protected is stressed in the document. The *Recommended Guidelines for Corporate Governance in Uganda* that was published by the ICGU in 2001 appeared to endorse the stakeholder perspective when it stated:

> Directors should recognize that companies do not act independently of the societies in which they operate, and that the continued and ultimate

[93] The King Report quoted Sir Adrian Cadbury's statement in *Corporate Governance Overview*, 1999 World Bank Report.

> success of a company depends on the support and goodwill of different resource providers, including investors, employees, creditors, suppliers, bankers, etc., whose interests must therefore be specifically addressed (section 2.5).

The same ICGU principles also recommended that boards should identify a company's internal and external stakeholders and agree a policy or policies regarding how the company should relate to them and address their interests.

According to Kempe (2003)[94], "good governance entails the existence of efficient and accountable institutions – political, judicial, administrative, economic, corporate – and entrenched rules that promote development, protect human rights, respect the rule of law, and ensure that people are free to participate in, and be heard on, decisions that affect their lives" (pp. 2-3). The Guidelines for Enhancing Good Economic and Corporate Governance in Africa, which were developed by the United Nations Economic Commission for Africa (ECA, 2002), define corporate governance as:

> [T]he mechanisms through which corporations (whether private, publicly-traded, or state-owned) and their management are governed. It involves a set of relationships between a company's management, its board, its shareholders, and its other stakeholders, and also provides the structure through which the objectives and the monitoring of performance are determined" (para. 14).

The Pan African Consultative Forum on Corporate Governance held at the Eskom Convention Centre, Johannesburg, South Africa (16th – 18th July 2001) described corporate governance as follows:

> Corporate Governance deals with the issues of who directs the company – and for whose benefit. Who has the real control of and who has a voice in direction of the company: the shareholders, the management, the board of directors, or other stakeholders, such as the employees, creditors and the wider community? The key elements of good corporate governance are

94 Kempe R. H. is the Director, Development Management Division, United Nations Economic Commission for Africa (UNECA). He presented a paper entitled "The UNECA and Good Governance in Africa" at the Havard International Development Conference 2003

accountability, transparency, responsibility, and fairness to all stakeholders.

3.3 Relevance of Corporate Governance in Africa

Combes and Wong (2004) caution against the mentality of thinking about corporate governance in terms of one-size-fits-all; they argue that corporate governance codes will shift over time and vary across countries. Voluntary codes, that require companies to comply or explain, are likely to work in countries where the media and activist shareholders monitor corporate behaviour, but in some emerging markets, where corporate governance awareness is low and public scrutiny weak, legislation might be favoured over voluntary codes. Combes and Wong point out, however, that there seems to be a powerful force driving the convergence of codes as companies list their shares in different countries and rating agencies around the world use similar criteria to evaluate governance practices. Industry bodies seem to want common standards in the countries and companies where their members invest. The *Asahi Weekly* (2004)[95] gives an example of a number of companies in Japan that are opting to fine-tune the traditional Japanese-style system rather than adopt the U.S. model in which management is overseen by three board committees that have a majority of members drawn from outside directors. In the Foreword to the Guidelines for Enhancing Good Economic and Corporate Governance in Africa (ECA, 2002), the Executive Secretary of ECA stated the following:

> Good economic and good corporate governance matter to Africa because, among other things, they contribute to macroeconomic stability; they enhance a Government's ability to implement development and poverty reduction policies with scarce resources; they enable public management functions to be executed in an accountable manner; they contribute to the

[95] "Corporate governance goes custom-made" in The Asahi Weekly published by The Asahi Shimbun, 19 June, 2004. http://www.asahi.com/english/business/TKY200406190169.html .

> creation of a credible policy environment in which domestic and international investors can have confidence and trade can be advanced; they lead to the strengthening of absorptive capacity to attract and mobilise development assistance flows; they enable the demonstration of transparent and participatory economic policy-making and execution as well as an open flow of information available to all stakeholders; they signal a Government's adherence to standards of institutional functioning free of corruption or other such rent-seeking behaviour; they represent a source of competitive advantage; they attract private domestic and foreign investment; and they broaden and deepen local capital markets.

It has also been postulated that good governance is synonymous with the achievement of better economic growth rates, particularly when institutions that support markets are established (ECA, 2002). This view was supported by Hossain (2004)[96] who wrote the following in the *Financial Express*:

> Globally, corporate governance has succeeded in attracting a good deal of public interest because of its importance for the economic health of businesses and corporations and the welfare of society, in general.

Corporate governance is also perceived as a prerequisite for attracting and improving foreign investment. Mr Kitili Mbathi, the Vice President of the Uganda Presidential Investors Round Table (PIRT) concurred with this view when he stated:

> ... the bottlenecks which hinder foreign investment do not need funding; most of it is to do with good sound governance and economic management.[97]

Delegates at the Pan-African Consultative Forum (PACF, 2001) agreed that improvements in corporate governance should benefit all types and sizes of enterprises in Africa - not just the few large publicly-listed companies, but also: unlisted private companies; family firms; state-owned enterprises; small and medium-sized enterprises (SMEs); and local subsidiaries of multinational companies. The Pan African Consultative Forum (PACF, 2001) recognised the fact that good corporate

[96] http://www.financialexpress-bd.com/print.asp?newsid=12823
[97] Quoted by Nakawesi, D. in The Monitor Online (25/03/2005).

governance improved the financial performance of companies and the operation of capital markets by making firms safer for investors, thereby decreasing the cost of capital and increasing investment. Delegates at the Consultative Forum affirmed that good corporate governance was also a prerequisite for corporate responsibility and thus to overall sustainable development.[98] Delegates also spoke of the inseparability of corporate governance, public governance and the economic policy environment, and the consequent need for policy review and modification to the legal framework.

The PACF (2001) was of the view that throughout the developing world, but especially in most of Africa, it was necessary to focus not so much on the role of capital markets in improving corporate governance, but rather to look at the banking sector, development finance institutions and private equity investment. Similarly, in the context of international investment, corporate governance should be improved to attract not just international portfolio capital, but also foreign direct investment. In addition, domestic savings need to be mobilised for investment in national companies.

3.4 Corporate Governance Issues in Africa

The New Partnership for Africa's Development (NEPAD)[99] is based on a three-pronged strategy – creating the preconditions for development; addressing priority issues; and mobilizing resources. The preconditions for development are the promotion of peace, democracy, human rights and sound economic management.[100] Mobilising resources involves creating the conditions that promote private sector

[98] Which includes financial, environmental and social sustainability.
[99] NEPAD is an organisation that was initiated by the Organisation of African Unity (OAU) to develop an integrated socio-economic framework for Africa. Its activities include reviewing political and corporate governance in the member countries of the OAU.
[100] Sound economic management includes good corporate governance practices.

investment, thereby reducing capital flight and bringing in foreign investors (The LRS Report, 2002). However, the PACF (2001) recognised that country-specific circumstances will lead to differing priorities and stages of development in corporate governance practices.

3.5 Corporate Governance Framework

The OECD Principles (2004) identify the following as being among the factors that constitute the framework of corporate governance: (i) macroeconomic policies; (ii) the degree of competition in product and factor markets; (iii) legislation; (iv) regulation such as listing requirements; (v) the institutional environment, including regulatory bodies; and (vi) the societal interests of communities in which companies operate. The OECD Principles recognise that a country's specific circumstances, history and tradition will affect the corporate governance framework. According to the OECD Principles,

> The corporate governance framework should promote transparent and efficient markets, be consistent with the rule of law and clearly articulate the division of responsibilities among different supervisory, regulatory and enforcement authorities (OECD Principles, 2004, Section I).

The OECD Principles also stress the importance of taking into account the interactions and complementarity between different elements of the corporate governance framework and its overall ability to promote ethical, responsible and transparent corporate governance practices. If new laws and regulations are needed, they should be designed in a way that makes them possible to implement and enforce in an efficient and even-handed manner. Corporate governance requirements and practices are typically influenced by an array of legal domains, such as: (i) company

law; (ii) securities regulation; (iii) accounting and auditing standards; (iv) insolvency law; (v) contract law; (vi) labour law; (vii) tax law and (viii) banking laws (OECD Principles, 2004; Wolfensohn, 2002). Effective enforcement of laws and regulations requires that the allocation of responsibilities for supervision, implementation and enforcement among different authorities is clearly defined so that the competencies of complementary bodies and agencies are respected and used most effectively (OECD Principles, 2004). It is also important to ensure that regulatory responsibilities are vested with bodies that are subject to judicial review and can pursue their functions without conflicts of interest (OECD Principles, 2004).

In 2003, the OECD issued a report entitled *Experiences from the Regional Corporate Governance Roundtables* in which the following was stated:

> The experiences of economic transition and all too frequent financial crises in developing and emerging market economies have confirmed that a weak institutional framework for corporate governance is incompatible with sustainable financial market development.

UNECA (2002) is of the view that the majority of African countries lack the capacity to meet their mandate of delivering the economic growth and stability due to deficiencies in their economic governance structures.

> Those deficiencies include the lack of an appropriate institutional framework to guide economic policy-making and execution; a weak civil society unable to hold Government accountable for its actions; a similarly weak or uninterested parliament; and the lack of consultative mechanisms for engaging the private commercial interests for inputs into sectoral planning or other national economic decision-making process (ECA, 2002, para. 5).

3.5.1 Political Framework

ECA (2002) argues that good political governance is a prerequisite for good economic and corporate governance. Good corporate governance includes predictable, open and enlightened policy-making; a bureaucracy imbued with a professional ethos; a strong civil society participating in public affairs; adherence to the rule of law; respect for basic human rights and freedoms, judicial independence; and consistent traditions and predictable institutions that determine how authority is exercised in a given country. Public institutions help determine limits on the arbitrary exercise of power by politicians and bureaucrats.

ECA (2002) is of the view that the ability of the state to provide the requisite institutional framework to support good governance outcomes is fundamental to the interaction between political governance and economic and corporate governance. ECA points out that one of the major concerns in Africa is bad political governance and the subversion of basic human rights and freedoms resulting in the erosion of the capacity of a number of states to sustain economic growth and address poverty. ECA believes that corporate governance in Africa can be greatly helped by improvements in an overall framework that promotes transparency and accountability and that has adequate monitoring and enforcement mechanisms.

In its Anti-Corruption Handbook[101], Transparency International mentions oversight of Government and other authorities as being one of the important functions of a modern parliament. Parliamentary oversight entails the monitoring of executive activities for

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[101] http://www.transparency.org/ach/oversight_bodies/supreme_audit/discussion.html 31/10/2005

efficiency, probity and fidelity.[102] However, according to ECA (2002), there has been a steady decline in the ability of most legislative assemblies to act as a counterbalance to executive power and to hold the executive branch of Government accountable. Moreover, parliaments do not seem to have an impact on the affairs of the state, on making of laws, or the unmaking of Governments. In Africa, the executive branch might dominate Parliaments as a result of controlling resources, making cabinet appointments and diplomatic positions, and also due to the ineptness of the opposition members of some of the parliaments. Loyalties to political parties may also outweigh concerns for the legislature as an institution and some parliaments might just act as "rubber stamps" to the decisions of the executive. In line with this, there have been various allegations in the Ugandan media that the executive arm of Government sometimes uses monetary incentives and promises of lucrative jobs to get MPs to vote for Government's position.[103] There have also been allegations that some MPs are bribed in order to vote for Government positions on various matters that are brought before Parliament. Corruption is perceived by some members of the press as being

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[102] The official website of the Parliament of Uganda mentions the following as being among the functions of the Parliament of Uganda:

(i) to pass laws for the good governance of Uganda;
(ii) to provide, by giving legislative sanctions to taxation and acquisition of loans, the means of carrying out the work of Government;
(iii) to scrutinise Government policy and administration through the following:
  - pre-legislative scrutiny of bills referred to the Parliamentary committees by parliament;
  - scrutinising of the various objects of expenditure and the sums to be spent on each;
  - assuring transparency and accountability in the application of public funds;
  - addressing to a member of Government questions for reply on the floor of the House; and
  - monitoring the implementation of Government programmes and projects.
(iv) to debate matters of topical interest usually highlighted in the President's State of The Nation address;
(v) to vet the appointment of persons nominated by the President under the Constitution or any other enactment.

http://www.parliament.go.ug/index_functions.htm. 27/10/2004.

[103] In Uganda, for example, there have been various allegations in the media regarding Members of Parliament being influenced to vote for Government positions by being given money or promises of appointments to certain positions. See Appendix 3.1 for a list of some of the articles that have been written in the Ugandan Newspapers on this subject.

institutionalised in Uganda.[104] The alleged taking of bribes by MPs provoked a statement from the bishops of four main Christian Churches in Uganda in which the bishops warned MPs against being compromised in their decision-making processes. Emmanuel Cardinal Wamala appealed to the MPs to abide by the oaths of their office and cautioned them as follows:

> As leaders of the country charged with the obligation of making laws and overseeing the implementation of Government policies, we appeal to you to be true to your oaths of office especially at this time when you are dealing with issues of constitutional amendment. ... Your political organisations are important, but Uganda is more important. I therefore urge you to discharge your duties honourably and with a clear conscience so that you can leave behind a robust and unimpeachable legacy." (The Monitor Online, 20/11/2004).

Politicians who take "bribes" from Government in order to support Government's position might also be compromised in setting and monitoring the enforcement of laws affecting corporate governance in both private and public sector corporations. In some African countries, such as Uganda, several cabinet ministers are board members of both private and public sector corporations – a situation that can create potential conflicts of interest for these officials as they exercise their monitoring and supervisory functions. ECA argues that boosting parliamentary oversight in Africa requires the building of political will to combat corruption, ensure accountability and provide parliament with tools such as committees with the power to scrutinise legislation, and collaborative relationships with civil society organisations, including the media, which should be entrenched in law.

An examination of articles written in the Ugandan Newspapers indicates that stakeholders are concerned about Government enacting appropriate laws that are:

[104] See Appendix 3.2 for a selection of articles examining corruption in Uganda.

conducive to the promotion of good governance in both the public and private sector (such as labour laws to govern remuneration and respect for the rights of workers); facilitating regulatory and supervisory authorities to perform their functions efficiently and without undue interference in their work; taking firm steps to counter corruption and bribery in all sectors as such practices are perceived to have an impact on corporate governance in all firms – whether directly or indirectly; the legislature improving their image so that they can be perceived as champions of transparency and accountability; setting up fiscal and monetary policies that can contribute to the positive governance of companies; and promoting a general political environment where both foreign and local investors can have confidence in doing business in Uganda or with Ugandan firms.

The integrity of prominent political figures is perceived as being crucial in encouraging all parties involved in the governance of businesses to be transparent and accountable to their respective stakeholders. Political interference and cronyism in the appointment of senior executives and board members in institutions where Government has a stake is seen as being counterproductive if the qualifications, competence, experience and personal qualities of the prospective appointees are not taken into account when judging whether these individuals have the required attributes to be able to carry out the responsibilities entrusted to them. There have also been concerns in the media about some senior Government officials protecting certain individuals against prosecution in instances where those individuals have been alleged to have acted inappropriately in their business transactions, just as it has been alleged that some Government officials have conflicts of interest in their dealings with commercial entities (see Appendix 3.2).

The management of the privatisation process in Uganda has also drawn a lot of attention from stakeholders with some claiming that the process has been poorly managed, lacks transparency and Government has not given adequate accountability for the proceeds from the disposal of privatised entities. The Ugandan Government gave the following as being among the benefits of privatisation: (i) reduction of subsidies; (ii) promotion of the private sector; (iii) efficiency improvements and (iv) increase in production capacity.[105] Appendix 3.4 presents a list of articles that examine some of the above issues.

3.5.1.1 The African Peer Review Mechanism (APRM)

The African Peer Review Mechanism (APRM) is an organ of NEPAD and is regarded in part as an attempt to inspire under-performing states to improve their governance. However, the recommendations resulting from a review of a country are not legally binding. A peer review under NEPAD focuses primarily on the state of a country's democracy, political process, economic development and corporate governance practices, based on criteria of governance norms and democratisation goals to which African leaders have committed themselves. At the time of acceding to the APRM protocol, each state must have a clearly defined time-bound Programme of Action for implementing NEPAD and the African Union's[106] declarations on democracy, political, economic and corporate governance, as endorsed by the inaugural summit of the AU in Durban, South Africa, in July 2002. This Programme of Action must include periodic reviews (Mathoho, 2003).

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[105] The above benefits were outlined by the Privatisation Unit in an article published in The New Vision, which is the official Government newspaper (22nd April, 2004).
[106] The African Union is made up of all countries in Africa, including Uganda.

A possible problem regarding the implementation of the APRM relates to the extent to which African leaders are prepared to go to put pressure on their peers. Given the state of corruption that was observed in the ECA (2002) report, there may still be a great deal of work to be done by African Governments to develop a culture that will conform to the standards on political and economic cooperation and good governance that they have set for themselves.

3.5.2 Legal Framework

As regards the role of law in governance, the ECA report of 2002 states that:

> Good governance requires impartial and fair legal institutions. A judiciary independent from both Government intervention and influence by the parties in a dispute provides the best institutional support for the rule of law. The fair enforcement of the rule of law and order promote the development of markets, economic growth, and poverty reduction. In particular, economic growth generates greater demand for a consistent legal framework and reliable legal tools. (para. 56)

In addition to outlining the general role of law, ECA (2002) also gives the following attributes required if a Judiciary is considered to be independent:[107]

1. *It is impartial.* Judicial decisions are not influenced by a judge's personal interest in the outcome of the case at hand.
2. *Judicial decisions, once rendered, are respected.* Either the parties to the case must comply voluntarily with the decision, or those with the power to coerce compliance must be willing to use such power if compliance is not forthcoming.
3. *The judiciary is free from interference.* Parties to a case, or others with an interest in its outcome, cannot influence the judge's decision. This protection from interference also allows for the prevention of judicial corruption and coercion.

[107] See paragraph 52, UNECA (2002).

According to ECA, national Governments pose perhaps the most serious threat to judicial independence in Africa. The power of African judiciaries resides primarily in the degree to which political elites and members of the public consider impartial resolution of disputes important to the conduct of their lives. In those countries with bad governance, "impartiality" will not be operative since control takes precedence, e.g. the tendency for Governments to ignore judicial decisions that do not favour them (para. 54).[108] Judicial independence,[109] in turn, brings a number of benefits to a society or a state, for example: the vesting of legal rights that are enforceable and protected; greater attention to the rule of law and more transparent enforcement of contracts. (ECA, 2002, para. 55).[110]

The official web page of the Uganda judiciary states the following:

> The judiciary is a distinct and independent arm of Government entrusted with judicial authority, and mandated to administer and deliver justice to the people in Uganda. It plays a fundamental role in the promotion of law and order, human rights, social justice, morality and good governance.[111]

Despite the stated objectives of the judiciary, there have been a lot of concerns regarding the adequacy of the judiciary in Uganda to handle cases related to the governance of companies in a fair and expeditious manner due to the limited number of judicial officers and allegations of compromise within the judiciary. Various efforts have been made to increase the number of judges and magistrates and to clean up the

[108] Other documented attempts by Governments to influence judicial decisions in Africa have included bribery, harassment, control over the assignment of cases to individual judges, promotions, transfers, dismissals, and the removal of cases from the jurisdiction of the courts and their placement in parallel tribunals that do not safeguard due process (UNECA, 2002, para. 54).

[109] which includes the impetus to demonstrate judicial integrity on the part of members of the judiciary

[110] An example of possible political interference in the independence of the judiciary is Uganda where the President has threatened to sack any judge who gives a ruling that would involve the eviction of a squatter on the property of a registered owner. Such a threat may have an impact on the rights of private ownership of property. There have also been allegations that some high profile businessmen are under the protection of certain political figures who protect them against prosecution when those individuals violate the law.

[111] http://www.judicature.go.ug.

alleged corruption within the judiciary. Other concerns include the independence and competence of the judiciary, laws and regulations that are perceived as being inadequate or outmoded and needing revision and antiquated technology (especially information systems). Appendix 3.3 gives a list of some of the articles that have been written about the judiciary in Ugandan newspapers.

3.5.3 Ethical and Social Framework

The ethical values held by society, and most especially by the participants in the governance of companies are likely to influence the way those participants exercise their duties. According to the ECA report (2002), corruption is one of the most fundamental problems in most of Africa, primarily because of the lack of financial resources, personnel and top political support to allow enforcement of the law. ECA suggests that the economic, social, and political costs of corruption are formidable and that corruption, ultimately, is a symptom of weak institutions and poor policies. Moreover, addressing corruption effectively means addressing the underlying economic, political and institutional causes. Prevention of corruption needs the involvement of civil society, the media, the private sector, and parliaments; however, the most important of all conditions to control corruption is, ECA suggests, a strongly motivated political leadership supported by other persons of appropriate insight and integrity. Good governance (economic, corporate, and political) allows for the functioning of, and respect for, institutions, laws, conventions and practices that would effectively discourage corruption and punish those intent on perpetrating it.

ECA (2002) suggests that political will refers to "the demonstrated credible intent of political actors (elected or appointed leaders, civil society watchdogs, stakeholder

groups, etc.) to attack perceived causes or effects of corruption at a systemic level" (para. 50). Without such intent, the pronouncements of Governments, in particular, are simply regarded as ritualistic.

3.5.4 Regulatory Framework

Among the most essential foundations of good economic and corporate governance is the regulatory framework. Separating the Government's policymaking and regulatory roles by establishing independent regulatory mechanisms and fostering the development of regulatory expertise helps to assure stability in the regulatory environment, thereby reducing the risk that regulation may be misused to achieve short-term political ends. The regulation of the financial system is a particularly important factor for capital markets, given the importance of the latter in building a viable and growing economy. (ECA, 2002). The role of the regulatory and supervisory frameworks in promoting corporate governance will be examined in more detail in Chapters 6 and 7 which will present the empirical findings of the research conducted in Uganda.

3.6 Observations

Africa is realising that it needs to improve its governance in the political, economic and corporate sectors if it is to achieve sustainable development for its people. There is a growing awareness that African leaders have to tackle the underlying factors that have been hindering sustained development. These factors include a failure of political will, absence of an independent judicial system that is free from interference, a lack of properly functioning regulatory mechanisms that are capable of carrying out

necessary sanctions and a well-articulated division of responsibilities between the supervisory, regulatory and enforcement authorities. Political will is also needed to tackle the problem of corruption which appears to be pandemic in Africa. It is therefore imperative that, in their planning, African leaders consider the corporate governance framework which encompasses cultural, political, economic, legal, ethical and technological dimensions. The decision will then involve identifying a framework that may be applicable to individual countries. Ultimately, the adoption of corporate governance mechanisms will impact directly on the mission to achieve sustainable development, because attracting both domestic and foreign investment requires more confidence in the state of the major African economies than is currently the case.

The next chapter examines the research paradigm, methodology and methods that will be employed in gathering data for the present study.

Chapter 4

Research Design: Methodology and Methods

Chapter 4

Research Design: Methodology and Methods

4.1 Introduction

Vogt (1993, p.196) defines research design as the "science (and art) of planning procedures for conducting studies so as to get the most valid findings." The design provides a detailed plan which a researcher can then employ to guide and focus the research (Collis and Hussey, 2003). The research problem underpinning the present study and the availability of the sources of information (including literature, original sources and research subjects) were discussed in Chapter 1. Chapters 4 and 5 outline and explain the research design and underlying theory; specifically, Chapter 4 discusses the research methodology and methods, while Chapter 5 presents the theoretical framework within which the empirical work on corporate governance in Uganda is carried out and interpreted.

4.2 Research Paradigms

Collis and Hussey (2003, p. 47) state that paradigms "offer a framework comprising an accepted set of theories, methods and ways of defining data", while Bailey (1978, p.18) describes a paradigm as "the mental window through which the researcher views the world." Creswell (1998, p.74) refers to paradigms as:

> [A] basic set of beliefs or assumptions that guide their (researchers) inquiries. These assumptions are related to the nature of reality (the ontology issue), the relationship of the researcher to that being researched (the epistemological issue), the role of values in a study (the axiological issue), and the process of research (the methodological issue).

In line with this viewpoint, Burrell and Morgan (1979) develop a set of paradigms based upon the assumptions made by a researcher about the nature of social science and the nature of society. The assumptions about the nature of social science include issues relating to: (i) ontology; (ii) epistemology; (iii) human nature; and (iv) methodology. Burrell and Morgan further assume that distinctions can be made in each of the above categories depending upon whether the social scientist is using a subjective or objective approach to study. Burrell and Morgan also argue that a researcher is influenced by his/her view about the nature of society; both of these categories of assumptions are discussed in detail below.

4.2.1 Assumptions about the Nature of Social Science

Ontological assumptions involve the nature of reality or being. Burrell and Morgan (1979) give the following as an illustration of the basic ontological question faced by social science researchers:

> … whether the " reality to be investigated is external to the individual – imposing itself on individual consciousness; whether "reality" is of an "objective" nature, or the product of individual consciousness; whether "reality" is a given "out there" in the world, or the product of one's mind. (p.1)

Collis and Hussey (2003) argue that researchers must decide whether they consider the world to be objective and external to themselves, or socially constructed and only understood by examining the perceptions of human actors.

Related to the ontological assumption is the epistemological assumption which deals with the grounds of knowledge, that is, how one might begin to understand the world and communicate this as knowledge to fellow human beings. This assumption is:

> … predicated upon a view of the nature of knowledge itself: whether, for example, it is possible to identify and communicate the nature of knowledge as being hard, real and capable of being transmitted in tangible form, or whether "knowledge" is of a softer, more subjective, spiritual or even transcendental kind, based on experience and insight of a unique and essentially personal nature. (Burrell and Morgan, 1979, pp. 1-2).

The stance taken towards knowledge will determine the relationship between the researcher and that which is being researched.

The epistemological assumption made in this study is in line with Merleau-Ponty's (1908-1961) middle ground between subjectivism and objectivism which accepts the possibility of cognitive relations between subject and object, i.e. where the "seer" and the "seen" condition one another, and the capacity for seeing depends upon the capacity for the object being seen. Schutz's (1899-1959) notions of reflexivity (the process of turning on oneself, looking at what has been going on and, thus, attaching meaning retrospectively to what has already been experienced) and indexicality (the process of organising and ordering experiences using expressions and activities which are shared even though they are not explicitly stated) are in effect adopted in this study when the perceptions of stakeholders are interpreted.

Burrell and Morgan's third type of assumption relates to human nature, particularly the relationship between human beings and their environment. This is an assumption that is used in examining whether human beings respond in a mechanistic or even deterministic fashion to the situations encountered in their external world, or whether man, through his free will, is regarded as the creator of his environment. This examination envelopes the philosophical debate between the advocates of determinism and voluntarism. Burrell and Morgan (1979) argue that the assumptions

made by a researcher regarding ontology, epistemology and nature have direct implications on the methodology used in a particular study. The assumptions made and the methodology adopted in this study will be outlined in Section 4.3 of this chapter.

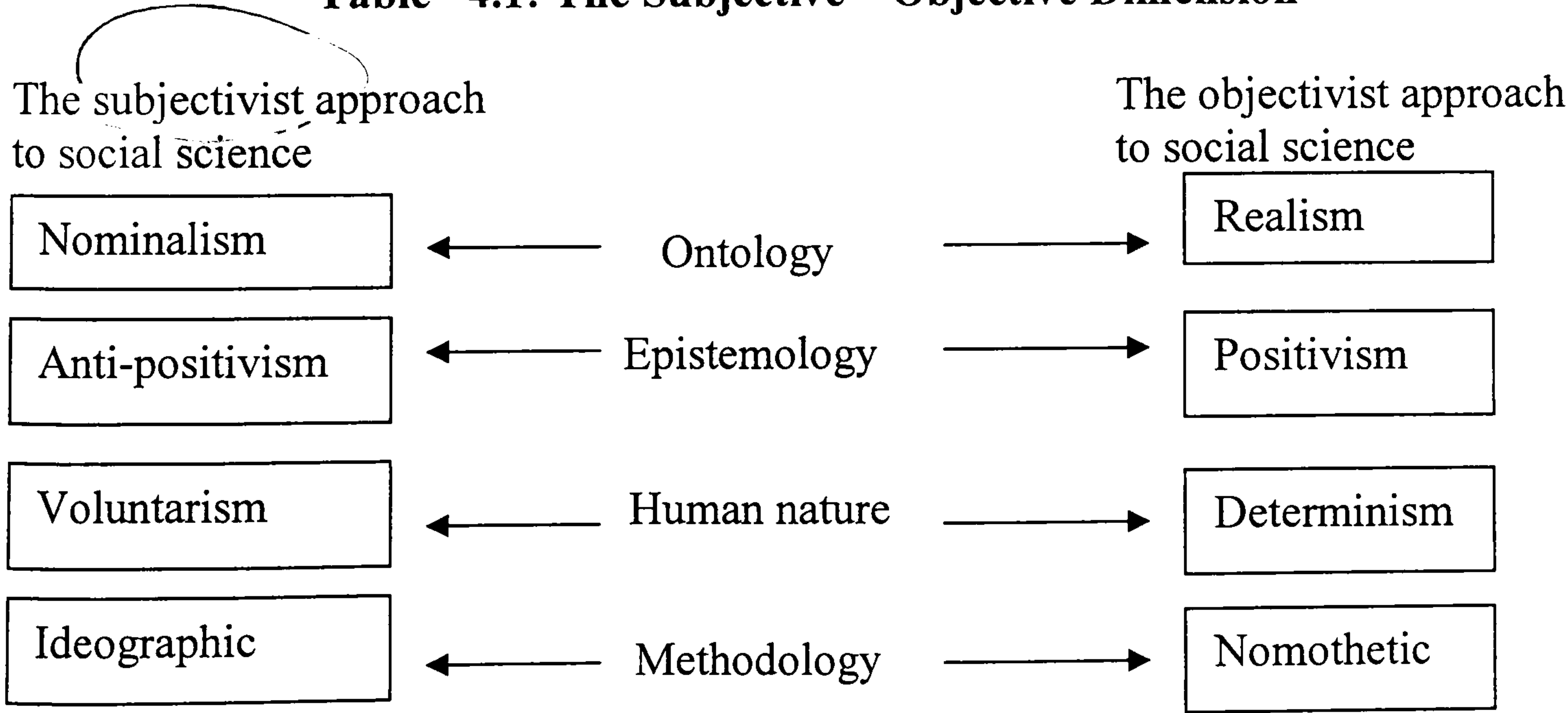
4.2.2 The Subjective – Objective Dimension

Burrell and Morgan (1979, p.3) used the framework of assumptions regarding ontology, epistemology, human nature, and methodology to underpin the following outline of the subjective – objective dimension of research, as shown in Table 4.1.

Burrell and Morgan (1979) explain that the nominalist position revolves around the assumption that the social world, external to individual cognition, is made up of nothing more than names, concepts and labels which are used to structure reality; there is no "real" structure to the world that these concepts are used to describe.

> The "names" used are regarded as artificial creations whose utility is based upon their convenience as tools for describing, making sense of and negotiating the external world. (Burrell and Morgan, 1979, p. 4).

Table 4.1: The Subjective – Objective Dimension



Note: This Table shows Burrell and Morgan's (1979) scheme for analysing assumptions about the nature of social science.

Burrell and Morgan go on to explain that realism postulates the social world, external to individual cognition, to be a real world made up of hard, tangible and relatively immutable structures that exist irrespective of whether we label and perceive them.

Burrell and Morgan (1979) note that the term positivism can be used to describe epistemologies which seek to explain and predict what happens in the social world by searching for regularities and causal relationships between the constituents; these reflect traditional research approaches which dominate the natural sciences. Some positivists claim that hypothesised regularities can be verified by an adequate experimental research programme while others maintain that hypotheses can only be falsified and never demonstrated to be true. Burrell and Morgan argue that both "verificationists" and "falsificationists" accept that the growth of knowledge is essentially a cumulative process in which new insights are added to the existing stock of knowledge and false hypotheses eliminated.

According to Burrell and Morgan (1979), for the anti-positivist, the social world is essentially relativistic and can only be understood from the point of view of the individuals who are directly involved in the activities being studied. Anti-positivists maintain that one can only develop understanding by occupying the frame of reference of the participant in action. Social science is seen as being essentially a subjective rather than an objective enterprise and cannot, as a consequence, generate objective knowledge of any kind. Anti-positivism does not, therefore, search for laws or underlying regularities in the world of social affairs.

Burrell and Morgan (1979) argue that man and his activities can either be regarded as being completely determined by the situation or "environment" in which he is located, or they can be regarded as being completely autonomous and free-willed. Burrell and Morgan postulate that social science theories:

> ... must incline implicitly or explicitly to one or other of these points of view, or adopt an intermediate standpoint which allows for the influence of both situational and voluntary factors in accounting for the activities of human beings (p. 6).

Burrell and Morgan's assumptions about the nature of social science are widely seen as relevant but not exhaustive. For example, Collis and Hussey (2003) add an axiological, value-based assumption; in this context, positivists are seen as believing that science and the process of research are value-free, and regard the phenomena under investigation as objects to be examined in a detached manner. Phenomenologists take the view that researchers have values (whether explicit or not) and that these values help to determine what are recognised as facts and the interpretations which are drawn from them.

4.2.3 Assumptions about the Nature of Society

Burrell and Morgan (1979) used Dahrendorf's (1959) "order-conflict" debate as the basis for their assumption that society can be studied via the notions of regulation and radical change. These concepts are discussed in the following paragraphs.

Dahrendorf (1959) and Lockwood (1956) try to distinguish between approaches to sociology which concentrate upon explaining the nature of social order and equilibrium on the one hand, and those which are more concerned with problems of

change, conflict and coercion in social structures on the other. This distinction is referred to as the order-conflict debate. Table 4.2 presents a schema which Burrell and Morgan (1979, p. 13) use to portray Dahrenhorf's simplified model of the order-conflict debate. Burrell and Morgan argue that the distinction between integration and conflict is a continuum, where consensus could be a result of coercion rather than a result of integration arising from shared values (though not necessarily so) and could be treated as a system legitimising the power structure.

Table 4.2 Two Theories of Society: "Order" and "Conflict"

The "order" or "integrationist" view of society emphasises:	The "conflict" or "coercion" view of society emphasises:
Stability	Change
Integration	Conflict
Functional co-ordination	Disintegration
Consensus	Coercion

NOTE: This Table shows Burrell and Morgan's schema used to portray Dahrenhorf's simplified model of the order-conflict debate.

Burrell and Morgan (1979) suggest that the order-conflict debate be replaced by the notions of "regulation" and "radical change". Burrell and Morgan use the term "sociology of regulation" to refer to theorists who are primarily concerned with providing explanations of society in terms that emphasise its underlying unity and cohesiveness, and about the need for regulation in human affairs so that society is maintained as an entity.

According to Burrell and Morgan (1979), the "sociology of radical change" is concerned about finding explanations for radical change, deep-seated structural conflict, modes of domination and structural contradiction which its theorists see as

characterising modern society. Burrell and Morgan argue that the sociology of radical change is substantially concerned with people's emancipation from the structures that limit and stunt their potential for development, and with alternatives rather than with the acceptance of the status quo.

Table 4.3 The Regulation – Radical Change Dimension

	The sociology of REGULATION is concerned with:		The sociology of RADICAL CHANGE is concerned with:
(a)	The status quo	(a)	Radical change
(b)	Social order	(b)	Structural conflict
(c)	Consensus	(c)	Modes of domination
(d)	Social integration and cohesion	(d)	Contradiction
(e)	Solidarity	(e)	Emancipation
(f)	Need satisfaction	(f)	Deprivation
(g)	Actuality	(g)	Potentiality

Note: This Table shows Burrell and Morgan's (1979) characteristics of "regulation" and "radical change".

Table 4.3 presents the distinction that Burrell and Morgan (1979, p. 18) made between the characteristics of "regulation" and those of "radical change". Burrell and Morgan (1979) argue that the two models are separate and distinct from each other (however close one's position might be to the middle ground) since they are based upon opposing assumptions.

According to Burrell and Morgan (1979), "the ideographic approach to social science is based upon the view that one can only understand the social world by obtaining first-hand knowledge of the subject under investigation" (p. 6) and stresses getting

close to one's subject and letting one's subject unfold its nature and characteristics during the process of investigation.

> The ideographic approach emphasises the analysis of the subjective accounts which one generates by "getting inside" situations and involving oneself in the everyday flow of life – the detailed analysis of the insights revealed in impressionistic accounts found in diaries, biographies and journalistic records (p.6).

The nomothetic approach to social science emphasises the importance of basing research upon systematic protocol and technique, as in the natural sciences, which focus upon the process of testing hypotheses in accordance with the canons of scientific rigour. Burrell and Morgan (1979) argue that this approach is preoccupied with the construction of scientific tests and the use of quantitative techniques for the analysis of data; surveys, questionnaires, personality tests and standardised research instruments are mentioned by the authors as examples of the techniques associated with the nomothetic approach.

4.2.4 Burrell and Morgan's Four Paradigms

Burrell and Morgan (1979) present four paradigms, namely: the radical humanist; radical structuralist; interpretive; and functionalist. Burrell and Morgan base their classification on the assumption that the nature of science can be thought of in terms of the subjective – objective dimension, while the nature of society can be thought of in terms of a regulation – radical change dimension. Within the sociology of regulation, the subjective – objective debate has assumed the form of a debate between interpretive sociology and functionalism, while within the context of the sociology of radical change there has been a division between theorists subscribing to radical humanist and radical structuralist views of society. Burrell and Morgan (1979,

p. 22) used these dimensions to come up with four paradigms which, they claimed, define fundamentally different perspectives for the analysis of social phenomena (Table 4.4). It may, however, be pointed out that the two axes are continua and, arguably, not absolutely but just relatively different.

Table 4.4 Four Paradigms for the Analysis of Social Theory

THE SOCIOLOGY OF RADICAL CHANGE

SUBJECTIVE			OBJECTIVE
	Radical humanist	Radical Structuralist	
	Interpretive	Functionalist	

THE SOCIOLOGY OF REGULATION

Note: This Table shows Burrell and Morgan's (1979) four paradigms

Burrell and Morgan (1979) argue that these four paradigms are defined by meta-theoretical assumptions which underwrite the frame of reference, mode of theorising and *modus operandi* of social theorists, and that the paradigms are based upon different meta-theoretical assumptions with regard to the nature of science and of society. Burrell and Morgan take the position that the four paradigms are mutually exclusive and that one cannot operate in more than one paradigm at any given point in time, although one can operate in different paradigms sequentially over time. According to Burrell and Morgan (1979), the functionalist paradigm is firmly rooted in the sociology of regulation and approaches its subject matter from an objectivist point of view, while the interpretive paradigm reflects the sociology of regulation and takes a subjectivist approach. The functionalist paradigm is concerned about providing explanations of the status quo, social order, consensus, social integration, solidarity, need satisfaction and actuality. In contrast, the interpretive paradigm is

concerned about understanding the world as it is, based on the subjective experience of the participant, as well as the observer, and uses an approach which is nominalist, anti-positivist, voluntarist and ideographic. The radical humanist paradigm is concerned about developing a sociology of radical change from a subjectivist standpoint, while advocates of the radical structuralist paradigm do so from the objectivist one; however, both the radical humanist and radical structuralist are committed to a sociology of:

> … radical change, emancipation, and potentiality, an analysis which emphasises structural conflict, modes of domination, contradiction and deprivation (Burrell and Morgan, 1979: 34).

The radical humanist paradigm views the social world from a perspective which tends to be nominalist, anti-positivist, voluntarist and ideographic, while radical structuralism approaches reality from a standpoint which tends to be "realist", "positivist", "determinist" and "nomothetic".

In a similar vein, Collis and Hussey (2003) present two main paradigms, namely, the positivistic paradigm and the phenomenological paradigm. The positivistic paradigm is quantitative, objectivist, scientific, experimentalist and traditionalist. The phenomenological paradigm is qualitative, subjectivist, humanistic and interpretive; according to Collis and Hussey, the phenomenological paradigm may also be referred to as the interpretivist paradigm.

Burrell and Morgan (1979) identify four strands of interpretive theory (Table 4.5), namely: (i) solipsism (the most extreme form of subjective idealism); (ii) phenomenology (both transcendental or "pure" phenomenology, and existential phenomenology); (iii) phenomenological sociology (ethnomethodology and

phenomenological symbolism); and (iv) hermeneutics. Burrell and Morgan base these distinctions upon the degree of subjectivity in terms of the four strands of the subjective – objective dimension.

Table 4.5 Characteristics of the Four Paradigms

THE SOCIOLOGY OF RADICAL CHANGE

Conflict Radical Change Coercion Division Hostility

SUBJECTIVE: Nominalism Anti-positivism Voluntarism Ideographic

Radical humanism	**Radical structuralism**
Anarchistic Individualism French Existentialism Critical theory	Contemporary Mediterranean Marxism Russian social theory Conflict theory • dissensus • malintegration
Solipsism Phenomenology Hermeneutics Phenomenological Sociology	Integrative theory Social system theory Objectivism Interactionism and social action theory
Interpretive sociology	**Functionalist sociology**

OBJECTIVE: Realism Positivism Determinism Nomothetic

THE SOCIOLOGY OF REGULATION

Commitment	Cohesion	Solidarity	Consensus
Reciprocity	Stability	Persistence	Need satisfaction
Actuality	Social order	Status quo	Co-ordination
Social integration			

Note: This Table summarises the different strands within each paradigm as proposed by Burrell and Morgan (1979); Dahrendorf (1959) and Cohen (1968)

Table 4.5 summarises the characteristics of Burrell and Morgan's (1979) four paradigms. The strands in the four paradigms are arranged from left to right according to the order in which they are closest to the subjective or objective dimension, with the one to the left being more subjective than the one to the right.

Chua (1986), Willmott (1993) and Cohen (1968) criticised Burrell and Morgan's assertion that the four paradigms were mutually exclusive and that one could not operate in more than one paradigm at any given point in time; they argued that it was possible to operate across paradigms without fully inclining to one or the other and gave the example of the possibility for theories to involve elements of both order and conflict. It therefore follows that not every researcher is in agreement with Burrell and Morgan's exclusive stance on the paradigms. Arguably, Burrell and Morgan's classification schema may be considered to be simplified learning tools that do not capture the complexity of what is possible in research; the actual methodology adopted by a researcher may depend on the issues being examined and the relevant assumptions the researcher may wish to make to guide a particular study under specific circumstances.

4.3 Research Methodology

Collis and Hussey (2003, p. 55) describe research methodology as "the overall approach to the research process, from theoretical underpinning to the collection and analysis of data" and stress that the type of methodology a researcher selects should reflect the assumptions of the research paradigm. Collis and Hussey present a range of methodologies that vary depending upon whether the positivistic or the

phenomenological methodologies are used. Phenomenological methodologies would be similar to Burrell and Morgan's (1979) subjective dimension while the positivistic would relate to the objective type. The present study will be mainly concerned with the sociology of regulation and not radical change and so will adopt neither radical humanism nor radical structuralism. Although the sociology of regulation is consistent with use of both the interpretive and functionalist paradigms, this thesis mainly draws its methodology from the interpretive paradigm. The study will not assume complete objectivism in its approach since it deals with the perceptions of stakeholders towards corporate governance and accountability in Uganda. The next section discusses further the various aspects of the interpretive paradigm that will provide the basis of assumptions made in the research.

4.3.1 The Interpretive Paradigm

The research will use both qualitative and quantitative methods to collect and analyse data. However, the main thrust of the research is interpretive as both the qualitative and quantitative data will be interpreted in an effort to identify and understand the perceptions of stakeholders about corporate governance and accountability in Uganda.

As noted earlier in this chapter, the study adopts Merleau-Ponty's (1908-1961) middle ground between subjectivism and objectivism. Consequently, this research assumes that corporate governance deals with real organisations and real people who exist independently from the mind of the participant, although the perceptions of those participants do not exist outside of their minds. The study is qualitative in nature and does not look for causal relationships between the constituent elements of the social

world, nor does it attempt to establish regularities by means of an experimental research programme that can be independently verified[112] or that can be used to predict future events; this approach supports anti-positivism which is characteristic of the interpretive paradigm.

The study assumes that humans are not completely determined by the situation or "environment" but neither are they completely autonomous and free-willed. A middle ground, where the participant is influenced, but not determined, by the environment, will be adopted. This point will be especially relevant when dealing with codes or principles of corporate governance - which are an element of the sociology of regulation and may have elements of uniformity - while leaving room for adaptation depending upon the specific circumstances of the participants. Both voluntarism and determinism will, therefore, be relevant in the study in which a continuum between extreme voluntarism and determinism is assumed.

This study adopts a stakeholder approach and seeks to establish the perceptions of stakeholders, as participants, towards corporate governance and accountability in Uganda. This approach has been selected by the researcher because the traditional cultures of the people in Uganda, and most of Africa, are stakeholder-based. There is a strong belief in the values of family, clan, and the tribe to which every member of that group of persons has to owe allegiance. Traditionally, family, clan and tribal values were strictly enforced by the leaders of those communities and everyone who belonged to the respective groups was expected to uphold and act in its interests or else face strict sanctions. The study therefore assumes that this communal approach to

[112] e.g. by repeating the same research process.

governance and accountability continues to exist in Uganda, while recognising that some of these values may have changed as a result of normal evolution (or interaction with other cultures).

This study adopts the ideographic approach to social science, which is based on the view that one can only understand the social world by obtaining first hand knowledge of the subjects under investigation. In contrast, the nomothetic approach bases research upon systematic protocol and technique involving testing hypotheses in accordance with the processes of scientific rigour, similar to those employed in the natural sciences.

4.3.2 Strands of the Interpretive Paradigm

Burrell and Morgan (1979) argue that the common characteristic of the interpretive paradigm is to attempt to understand and explain the social world from, primarily, the point of view of the actors directly involved. Burrell and Morgan further explain:

> The interpretive paradigm is informed by a concern to understand the world as it is, to understand the fundamental nature of the social world at the level of subjective experience. It seeks explanation within the realm of individual consciousness and subjectivity, within the frame of reference of the participant as opposed to the observer of action (p.28).

Burrell and Morgan assume that the interpretive paradigm tends to be nominalist, anti-positivist, voluntarist and ideographic in its approach to social science and that the world of human affairs is cohesive, ordered and integrated; they state that interpretive

sociology is concerned "with issues relating to the nature of the *status quo, social order, consensus, social integration and cohesion, solidarity and actuality*"[113] (p.31).

The interpretive paradigm is in line with Dilthey's (1833 – 1911) argument that the cultural sciences are essentially concerned with the internal processes of human minds that can only be fully understood in relation to the minds that create them and the inner experience which they reflect.[114] Weber (1864 – 1920)[115] also argues that the key characteristic function of social science is to be "interpretive", that is, to understand the subjective meaning of social action. For Weber, the objective reality of the social world is not a central issue; it is the way in which it is interpreted by human actors that is important.

4.3.3 The Strand of Interpretive Paradigm Adopted for this Study

Burrell and Morgan (1979) present four strands within the interpretive paradigm, namely: solipsism; phenomenology; hermeneutics; and phenomenological sociology (see Table 4.5 and Appendix 4.1). Solipsism has not been adopted in this case because solipsists are extreme idealistic subjectivists who believe that the world is the creation of the mind and does not have any distinct independent existence. In contrast, the present study assumes that there is a real world outside the human mind and that the people whose perceptions are being sought are real, even if their perceptions may be subjective. A hermeneutical standpoint has not been adopted because it primarily relates to literary studies, whereas this thesis is conducted via interaction with

[113] The emphasis is in the original text of Burrell and Morgan (1979).
[114] Quoted by Burrell and Morgan (1979, p. 229)
[115] idem. (p.230)

individuals. Moreover, the study focuses on the perceptions of the participants, where it is assumed that these perceptions are influenced, but not determined, by the life experiences of those taking part. Phenomenological sociology is also ruled out because this study does not employ ethnomethodology or phenomenological symbolic interactionism, or the methods of collecting data that are associated with those methodologies. Ethnomethodology uses ethnography which involves describing and interpreting a cultural or social group or system (Creswell, 1998); in particular, the researcher examines the group's observable and learned patterns of behaviour, customs, and ways of life (Harris, 1968); as Cresswell (1998) notes:

> As a process, ethnography involves prolonged observation of the group, typically through participant observation in which the researcher is immersed in the day-to-day lives of the people or through one-on-one interviews with members of the group. The researcher studies the meanings of behaviour, language, and interactions of the culture-sharing group (p. 58).

The main method of collecting ethnographical data is participant observation where the researcher becomes a full working member of the group being studied, with the aim of being able to interpret the social world in the way that the members of that particular group would do; the research normally takes place over a long period of time in a clearly defined location (Collis and Hussey, 2003). Phenomenological symbolic interactionism is extremely subjective and does not accept the existence of a real world to which the participant reacts; in contrast, the present study assumes a real world does exist upon which perceptions are based.

This leaves phenomenology which, in turn, is divided between: (i) transcendental (or pure) phenomenology; and (ii) existential phenomenology. Husserl's (1859 – 1938) pure phenomenology (see Appendix 4.1) is extremely subjective but the present study

borders on functionalism as it deals with codes and principles of corporate governance. The study, therefore, does not adopt pure or transcendental phenomenology. Although principles and codes are generally established to serve a function in a group of individuals (or an organisation), the study does not concentrate on the functions themselves, but focuses instead on the perceptions of stakeholders towards the understanding and state of the principles; any factors that have an impact in the practice of those codes and principles are also explored. The study therefore adopts an existential phenomenological approach, whereby the researcher attempts to develop an understanding of the perceptions from the point of view of the stakeholders themselves. However, it is assumed that by interacting with the subjects of the research, the researcher may influence the perceptions and responses of those individuals. The research, therefore, adopts a two-way flow of perceptions and influences, which may manifest itself particularly in the gathering of information using semi-structured interviews; the phrasing of statements in the questionnaire (and the type of information sought) may also reflect the researcher's attitude which may, in turn, influence the answers given by the respondents. A major assumption in this thesis is that the stakeholders are likely to be influenced by their historical and present experiences, and the values held by the society in which they live. It is, therefore, a study that tries to understand and explain the social world from the point of view of the actors directly involved in the social process – i.e. stakeholders in Ugandan companies. These experiences will be assumed to be the basis of reflexivity and indexicality which may influence respondents' perceptions of corporate governance and accountability in Uganda.

4.4 Research Methods

Based upon the assumptions made in this study regarding ontology, epistemology, human nature and methodology, the researcher has selected semi-structured interviews and questionnaire surveys as the principal methods of collecting empirical data for the study; the reasons for these choices are now set out and discussed.

4.4.1 Semi-Structured Interviews

Interviews involving one-on-one in-depth discussions are conducted as one of the methods of gathering data. Interviews can take a structured, semi-structured, or unstructured (open-ended) form. In structured interviews "all respondents are asked exactly the same questions in the same order with the aid of a formal interview schedule" (Bryman, 2004, p.544); the researcher compiles questions requiring specific responses selected from a limited set of phrases designed by the researcher without deviating from the directed process. Bryman argues that a semi-structured interview:

> … (refers) to a context in which the interviewer has a series of questions that are in the general form of an interview guide but is able to vary the sequence of questions. The questions are frequently somewhat more general in their frame of reference from that typically found in a structured interview schedule. Also, the interviewer usually has some latitude to ask further questions in response to what are seen as significant replies (p. 543).

Bryman describes an unstructured interview as:

> … an interview in which the interviewer typically has a list of topics or issues, often called an interview guide, that are typically covered. The style of questioning is usually very informal. The phrasing and sequencing of questions will vary from interview to interview (p.543).

Semi-structured interviews are conducted in this thesis to permit the coverage of general themes that have been identified in the literature on corporate governance

frameworks, while allowing flexibility so that significant issues raised during the interviews can be pursued. This method of research was adopted to enable the stakeholders to give answers in specific areas suggested by the general literature as being important; this approach also gives the respondents a chance to discuss any related issues that they think are pertinent to the area of study.

The research further assumes that the views expressed by stakeholders in the interviews will reflect their life experiences as well as their historical (and present) social situations and the values held by their society. To this end, a cross-section of regulators, business executives, shareholders, members of the judiciary, practitioners and parliamentarians were interviewed as indicated in Table 4.6. These particular interviewees were selected based upon their knowledge, experience and participation in the field of corporate governance. Others, such as academics, the judiciary, members of parliament and the Chairman of Transparency International (U), were included as stakeholders who might reasonably be expected to have an interest in corporate governance and accountability in Uganda. Another factor that influenced the selection of interviewees was their availability and willingness to participant in the research. Attempts were made to contact other individuals but they were either not available or not willing to be interviewed. For example, no institutional investor was interviewed because attempts to make appointments with institutional investors were not successful. There was also a practical aspect of cost and time constraints; only those stakeholders living within Kampala (the capital city of Uganda) were interviewed because it would have been too expensive for the researcher to travel to different locations outside of Kampala. The interviews highlighted a number of important issues that required following up in the questionnaire survey to establish

whether the views expressed were shared by a wider cross-section of stakeholders, including employees and owner-managers; access to these groups for interviews had been attempted, but had not proved possible to arrange.

Table 4.6 List of Interviewees

INTERVIEWEES (Sept. 2004)	No.
President, Capital Markets Authority	1
Regulators	2
CEO Institute of Corporate Governance of Uganda	1
High Court Judges	2
Company Secretary & Legal Counsel	1
Legislators	2
Senior Civil Servant	1
Chairperson, Transparency International (U)	1
Solicitor and Senior Partner	1
Former Executive Director	1
Former Director, Central Bank of Uganda	1
Managing Director of a company	1
Partner, CPA Firm	1
Total	**16**

Note: This Table shows the list of stakeholders that were interviewed in this study.

4.4.2 Questionnaire Survey

Despite the fact that the research will be dealing with perceptions of stakeholders that are mainly qualitative, questionnaires (which are often analysed quantitatively) are also used, thus introducing a method of enquiry that is consistent with the nomothetic approach. The study will therefore have elements of the functionalist paradigm, in terms of the collection and subsequent analysis - using both parametric and non-parametric techniques – of the questionnaire data.[116]

Questionnaires can be structured or semi-structured. In a structured questionnaire, every respondent is presented with questions requiring specific responses, typically by

[116] Bryman (2004) describes questionnaires as: "A collection of questions administered to respondents. When used on its own, the term usually denotes a self-completion questionnaire" (p. 542).

ticking a box; the respondents are usually asked to select a response from a limited set of choices compiled by the designer of the questionnaire, and neither the researcher nor his/her subject are permitted to deviate from the given alternatives. A semi-structured questionnaire will often use general guiding questions to which the subject responds without being tied down to a selection of specific possible answers. The respondent may be given an option to raise further issues that he/she considers important but are not covered in the specific questions asked in the questionnaire; they may also be given the chance to elaborate on their answers.

For the current study, questionnaires were administered to a wide sample of stakeholders as a method of triangulation to verify whether there was consistency between: (i) the general literature on corporate governance and accountability that was presented in Chapter 2 of this thesis; (ii) the views of stakeholders that were gathered during the interviews; and (iii) the responses to the questionnaire survey. The questionnaires employed a combination of structured and semi-structured questions so as to elicit personal views from the respondents according to their perceptions about the framework of corporate governance and accountability in Uganda. The questionnaire survey was selected for practical reasons in order to get views from a wider selection of stakeholders as the researcher could not have hoped to interview the sheer range and volume of stakeholders that responded to the questionnaire survey. The survey was deliberately done after the interviews to examine consistency with, and generalisability of, the findings from interviews as part of the triangulation method.

The study assumes that the responses of the stakeholders who took part in the survey are based upon their personal perceptions, influenced in turn by their lived experiences and values; these values are also assumed to be influenced by those of the wider society in which the stakeholders live. However, the study also assumes that the stakeholders' views are not wholly determined by the society or environment in which they live, but rather reflect the interaction between personal views and values and those of society. This reasoning implies that the study will reflect the views of those who respond to the survey; the generalisability of the research findings may, therefore, be hampered by use of this method. However, the analysis of the results indicates the extent to which the views of different categories of respondents are shared by other groups; this is assumed to be an indicator of how much the views expressed by the respondents are shared by the stakeholders in Uganda. Another potential limitation of a survey such as this relates to the phrasing of the statements to which the stakeholders are asked to respond. Self-administered surveys do not give a chance to the respondents to elicit clarification from the researcher (as interviews do) and so different respondents may interpret specific questions in ways more varied than is in interviews and give a range of answers based upon their understanding of the questions. The respondents in this study were given an opportunity to make comments at the end of the questionnaire survey and add whatever information or views that they thought relevant to the field of study. This provision was intended to enable them to express personal views that reflected their perceptions of certain other issues relating to corporate governance and accountability in Uganda.

The categories that were targeted in the questionnaire survey included regulators, legislators, company executives and directors, the judiciary and other stakeholders as

indicated in Table 4.7. The specific individuals were selected based upon the positions they held and their availability and willingness to participate in the survey.[117] A major consideration was whether the individuals belonged to stakeholder groups that would be likely to have up-to-date knowledge of, and concern about, issues relating to the governance of Ugandan companies. To increase the response rate, the researcher hand delivered copies to the individuals selected for the survey. Where possible, appointments were made through telephone calls so that the purpose of the research could be explained to potential respondents and assurances of privacy for the individuals participating in the study given – unless those individuals decided to waive their privacy. The researcher agreed with the respondents a date on which the questionnaires would be collected. In the event of questionnaires not being ready at the agreed time, new dates were set for collection. It was hoped that this personal approach to explaining, delivering and collecting questionnaires would improve the response rate.

Table 4.7 List of the Questionnaire Survey Recipients

RESPONDENT	No.
Legislators	30
Regulators	6
Company Employees	50
Civil Servants	50
Academics	35
Accountants	20
Company Executives	64
Owner-managers	5
Individual Investors	40
Institutional Investors	5
Non-Executive Directors	7
Executive Directors	50
Judiciary/Legal	10
Others	10
Total	**382**

Note: This Table shows the list of individuals to whom the questionnaires were distributed.

[117] For practical reasons, only those stakeholders in and around Kampala were selected.

The questionnaire survey was piloted on three individuals in the UK, two of whom were academics, with the third being a practitioner heading the corporate governance section of a global investment firm. It was not possible to pilot the survey in Uganda due to the distance involved. Copies of the questionnaire survey were sent to some individuals in Uganda but none responded.

4.5 Summary

This chapter has presented the various assumptions that are made in the present study and identified the research methodology and methods adopted. The assumptions about the nature of social science relate to ontology, espistemology, human nature and methodology as suggested by Burrell and Morgan (1979). The central ontological assumption made in the study involves recognition of the existence of reality outside the mind of individuals' perceptions. However, the perceptions of participants are assumed to be subjective, and influenced by the environment in which they live (for example, reflecting the values held by society).

The epistemological assumption made in this study is in line with Merleau-Ponty's (1908-1961) middle ground between subjectivism and objectivism. Schutz's (1899-1959) notions of reflexivity and indexicality are in effect adopted in this study when the perceptions of stakeholders are interpreted.

With respect to assumptions regarding human nature, the individual is assumed to have a free will and to be able to make decisions that are not totally determined by the environment. However, the study also assumes that the values held by the society in which one lives will have an impact on one's attitudes and activities, and that the

society may take sanctions against an individual or company that violates its values. Such sanctions may force compliance with the values held by society or the particular group of individuals with which one is associated or belongs to. The study, therefore assumes a middle ground between voluntarism and determinism. Based upon the foregoing assumptions regarding ontology, epistemology and human nature, the study adopts the interpretive paradigm as its main methodology, but also adopts elements of the functionalist approach. This choice of methodology is also influenced by assumptions about the nature of society, where the present study prioritises regulation over radical change. The study employs both qualitative and quantitative methods of collecting data by using both questionnaire surveys and semi-structured interviews. These methods were selected because of their convenience in the collection of data, considering the wide range of stakeholders targeted in the research. It would have been difficult to use case studies as these would have limited the availability of the spectrum of stakeholders, given the present situation in Uganda where there are only seven listed companies and the stock market does not seem to be fluid. Also, companies seem to be very sensitive about researchers publishing information about their companies as some claim that they have had experiences where these researchers have published information that was damaging to the reputation of these companies.[118] Ethnographic studies were also not possible for the same reasons. Other methods such as content analysis would not be suitable since there is hardly anything about corporate governance in reports published by Ugandan companies. The media have published various articles regarding corruption and political interference but these mainly relate to Government institutions; not much is written about private companies, except for an occasional article about violation of the rights of employees.

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[118] This concern may also be a reflection of the state of corporate governance in those companies.

The researcher was not able to identify any business magazines that could have been used for content analysis. Semi-structured interviews and questionnaire surveys enabled the researcher to reach a cross-section of stakeholders and provided useful information for the research.

The next chapter examines the theoretical framework adopted for this study. The theoretical framework provides the context in which the results of both the semi-structured interviews and questionnaires are interpreted.

Chapter 5

Theoretical Framework: Accountability

Chapter 5
Theoretical Framework – Accountability

5.1 Introduction

Chapter 4 of this thesis outlined the methodological underpinning of this study. The interpretive paradigm, particularly the phenomenological approach, was selected because the research will be dealing with the perceptions of stakeholders regarding the notion and practice of corporate governance in Uganda. This chapter examines the theoretical framework that will be adopted. The lens that will be used in examining stakeholder perceptions towards corporate governance in Uganda is that of accountability. Since the dissertation will handle corporate governance in both public sector and private sector corporations, Stewart's Ladder of Accountability (Stewart, 1984) was deemed specifically to be an appropriate theoretical framework.

5.2 Definition of Accountability

The term "accountability" can be understood from three perspectives. The first standpoint involves viewing the notion of accountability in its widest sense, with the term defined in ways such as "the capacity to give an account, explanation, or reason" (Munro, 1996, p. 3).

The second (and narrowest) sense of accountability involves perception of the corporate form in terms of a principal-agency relationship, whereby the principal has a right to receive an account of the agents' stewardship of the entrusted resources. In

this context, the information will be used for the purpose of monitoring, evaluating and controlling the agents so that their actions are aligned to the interests of the principals. This narrow perspective is concentrated on the relationship between a principal and an agent, such as a shareholder (principal) and management (agent), or a superior (principal) and a subordinate (agent) in a hierarchical structure (Berle and Means, 1932; Donaldson, 1963; Jensen and Meckling, 1976; Byrd et al., 1998; Bushman and Smith, 2001; 2003; Vinten, 2001). The notion of management being accountable to the owners is based upon the agency concept which was proposed by Berle and Means (1932), where the separation of ownership and control necessitated the placing of limits on managerial discretion (Fama and Jensen, 1983) to safeguard the assets of the company. Accountability was also seen as helping to minimise the potential risks of fraud and to boost investor confidence (ICAEW, 1999; Abbott et al., 2000; Bushman and Smith, 2001; 2003; Burton et al., 2003). Gray et al. (1996) and Stanton (1997) point out that the requirement to report financial information to shareholders is one of the very few instances of explicit accountability established within the law itself.

The third meaning of accountability is much wider and based upon the stakeholder perspective whereby companies are not just accountable to shareholders, but also to other groups such as employees, debtors, creditors and others with direct contractual or transactional relations with the corporation. Stakeholders in this context include suppliers of goods and services as well as any members of the general public, who affect or are affected by the actions - or inactions - of the companies (Benston, 1982a; 1982b; Gamble and Kelly, 2001; Dunne, 2003; Tricker, 1984). These stakeholders are identified through the actual or potential harm and benefits that they experience (or

anticipate experiencing) as a result of a firm's actions or inactions; these impacts can be either internal or external (Donaldson and Preston, 1995). Thus, management has the responsibility of identifying those with a legitimate demand for accountability (Gray et al., 1987; Gray et al., 1996; Moir, 2001).

Within a stakeholder context, Munro (1996) argues that accountability is mainly concerned with issues of identity and alignment, while Keasey and Wright's (1993) definition is "a subset of governance [which] involves the monitoring, evaluation and control of organisational agents to ensure that they behave in the interests of shareholders and other stakeholders" (p.291). A company, as a member of the society in which it operates, is concerned with establishing its identity and defining itself within its (stakeholder-comprised) community; it therefore provides accounts which help to identify it within that community. The community can respond to the company's disclosures by either accepting and including it, or rejecting and excluding it, from the community. The standards that form the basis for inclusion or exclusion of the community are either expressed explicitly or taken for granted, based upon the lived experiences of existing members. The lived experiences of the community (reflected in the stakeholders' perceptions) are indexed and used for sanctioning other community members. Thus, companies wishing to be accepted into a community have to align themselves with these indexed experiences, which themselves form the basis of the community's values.

Within a stakeholder framework, the notion of accountability implies that a company that is giving an account of itself would be interested in creating a favourable

impression with the community and demonstrating that it is aligned with the interests of that community (Munro, 1996).

Stewart (1984) argues that for accountability to exist there must be a relationship of power between the point of account (the person or entity giving the account) and the point to which the account is given (the entity that is receiving the account). Stewart calls this relationship the "bond of accountability" which implies that the information is evaluated against some standard or expectation, and sanctions are then applied accordingly; accountability thereby presumes a responsibility and an answerability for actions undertaken by a subject (Dunshire, 1971). Gray et al. (1996) stress these rights and responsibilities of the participants, whereby the subjects have an obligation to explain their actions to others who have the power to assess the performance of the subjects and allocate praise or censure (Jones, 1977). The answerable subjects are required to demonstrate the reasonableness of their actions to a community of others, thereby embedding an element of moral responsibility (Arrington and Francis, 1993). Tricker (1983) argues that these rights and responsibilities must be enforceable for an accountability relationship to exist; Ijiri (1975, p. ix) notes that the rights may stem from "a constitution, a law, a contract, an organisational rule, a custom or even an informal obligation". Rights may also be enshrined in quasi-legal documents such as codes of conduct, statements from authoritative bodies to whom the organisations subscribe, mission statements and other documents (Gray et al., 1996). There may also be other rights and responsibilities not stated in statute or other forms of agreement; these may be absolute or relative, and can only be achieved through debate, education and agreement (Gray et al., 1996). Although there can be multiple links of account as a response to multiple demands of accountability, there must be a

clear "bond of accountability" with specified rights and responsibilities (Stewart, 1984; Jones, 1977). For example, Jackson (1982) argues that:

> In giving an account, its form and substance depend upon the values, beliefs and perceptions of the person giving the account (p.221).[119]

In this context, Stewart (1984) states that:

> To be meaningful the account must also recognise the values, beliefs and perceptions of those to whom the account is given (p. 30).

Gray (1994) explains that the concept of accountability reflects the notions of fairness and justice and is seen as essential in terms of the re-introduction of an ethical basis for accounting.

The present study is based upon the stakeholder approach and will treat accountability as extending to all relevant stakeholders that affect, or are affected by, the activities of a company, whether a public sector or private sector organisation. This is because the researcher believes that a company operates within a community and the community in which it operates is interested in the activities of that company since the community normally permits a company to operate within its environment if the company is perceived to be in harmony with the community's interests. This view is coloured by the background of the researcher where communal interests are perceived as being paramount in the African society. The study will, therefore, also assume that the perceptions of stakeholders towards corporate governance in Uganda will be influenced by their values and beliefs.

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[119] Quoted by Stewart (1984, p.30).

5.3 Objectives of Accountability

The objectives of accountability will depend upon whether it is private or public accountability. The objectives of private sector accountability include: (i) assuring the shareholders, employees, creditors, consumers, local community and other stakeholders of an organisation that their interests are being served by the functioning of a free market system in conjunction with internal and external monitoring systems (Benston, 1982a; 1982b); (ii) acting as a control mechanism through the monitoring, evaluating and controlling of an organisation's agents, and measuring their performance by outcomes (Keasey and Wright, 1993; Munro, 1996); (iii) managing a company's risk (Cadbury, 1992; Turnbull Report, 1999; Treadway Commission, 1994); (iv) influencing the organisations' behaviour as a result of their being held to account - what is accounted for can shape participants' views of what is important, what to do and what not to do (Burchell et al, 1980; Hopwood, 1983; Gallhofer and Haslam, 1993); and (v) reinforcing power relationships between the accountee (managers) and accountor (stakeholders) and attempting to communicate what should happen in the future (Roberts and Scapens, 1985).

The objectives of public sector[120] accountability will depend upon whether the accountability is commercial, managerial, or public in nature. Commercial accountability in public sector entities shares the same characteristics as private sector accountability. Managerial accountability incorporates most of the elements of commercial accountability, but may vary depending upon whether the accountability relates to a commercial entity (such as state-owned corporations which are designed

[120] In the context of this study, "public sector" refers to organisations that are run under government auspices, i.e. state-owned.

to run on a profit making basis) or a not-for-profit organisation.[121] Political, or public, accountability normally relates to the relationship between a Government and its electorate, and aims at ensuring that elected officials conduct their affairs in the interests of the electorate (or face being sanctioned by being voted out of office); it is, therefore, a control mechanism to some extent. Unlike commercial and managerial accountability, which are more clearly defined, public accountability is wider, relatively loose in nature and can extend to non-elected Government officials who may be sanctioned indirectly by the electorate holding a Government to account for those officials' actions (Stewart, 1984).

5.4 Stewart's Ladder of Accountability

Stewart (1984) suggested a ladder of accountability consisting of the following five steps: (i) accountability for probity and legality; (ii) process accountability; (iii) performance accountability; (iv) programme accountability; and (v) policy accountability. Stewart constructed this ladder of accountability specifically to analyse public accountability, but suggested that it could also be used to examine managerial and commercial accountability.

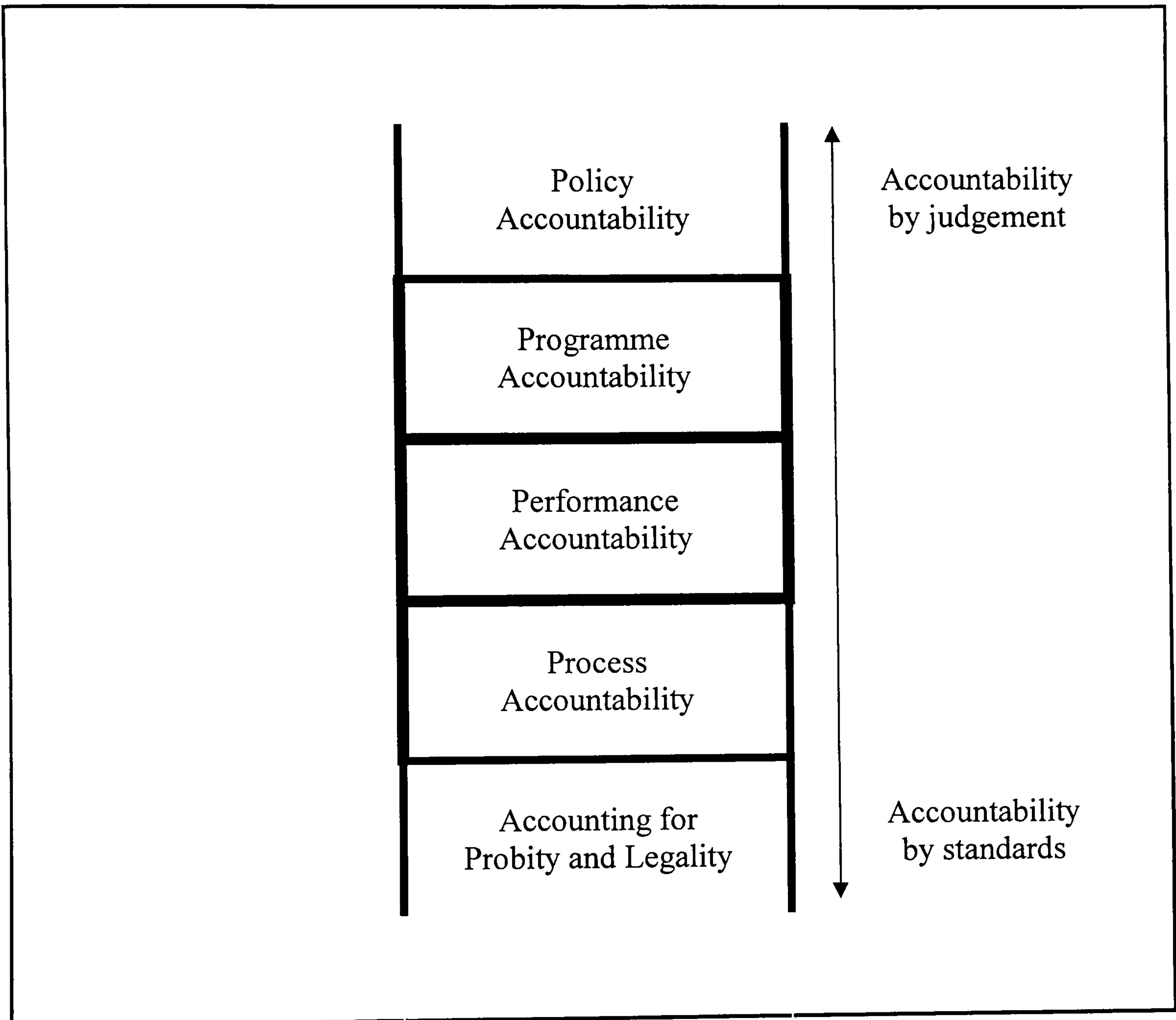
> This framework has been constructed for the analysis of public accountability, but can be used for other forms of accountability, such as managerial accountability and commercial accountability (p.18).

It is on this basis that Stewart's ladder of accountability has been selected for the current study. Given the nature of the corporate form in Uganda, with a mixture of private, state and semi-state owned organisations in existence, the ladder will be used in this thesis to examine the perceptions of Ugandan stakeholders towards corporate

[121] For example, not-for-profit entities will typically have no shareholders. The emphasis in this study is on private and public and semi-state owned companies that are ostensibly operating to make a profit.

governance. This will be done by analysing and interpreting the research findings to see whether the practice of corporate governance in Uganda reflects the different forms of accountability suggested by Stewart in his ladder of accountability.

Table 5.1 Stewart's Ladder of Accountability (1984)



NOTE: This Table shows the 5 levels of Stewart's Ladder of Accountability as illustrated by Hannah (2003). At the bottom of the ladder is accountability by standards and at the top is accountability by judgement.

5.4.1 Accountability for Probity and Legality

Accountability for probity and legality is at the bottom of Stewart's ladder. This form involves the scrutinising of whether funds that have been provided to an organisation

have been used properly in an authorised manner and whether the law has been complied with. Financial information provided by statements of account, together with approved budgets and externally audited financial statements of account, can be used to examine probity. Probity also includes what Robinson (1971) refers to as "fiscal" accountability, i.e. whether funds have been expended as stated and whether items have been used for the projects for which they were entrusted. Legal documents that grant powers can also be examined and compared with what has transpired to verify whether the legality component has been satisfied. Stewart (1984) argues that the information and explanations provided by the officers of an organisation do not in themselves represent accountability, but provide a basis for judgement as to whether the officers have been accountable in fulfilling their probity and legality requirements. It is this scrutiny of the information - and holding the officers to account - that ensures accountability. Stewart notes that legislation may specify the form in which information is to be provided and published by the accounting officer, and the right of access by the stakeholders to that information. The financial information required for probity and legality can, therefore, be defined with precision.

Considering what happened in business scandals such as Enron, Worldcom, Parmalat and Maxwell, as well as the Ugandan scandals involving alleged insider lending and other dealings by officials of Greenland Bank, accounting for probity and legality is a pertinent issue in corporate governance. The providers of capital expect the officials working in companies to use companies' resources in an authorised manner and to comply with legal requirements such as submission of various returns required by law and adherence to health and safety standards, observance of workers rights which are enshrined in the law and ensure compliance with various environmental laws and

regulations as specified by the respective Governments and international bodies. Other laws and regulations may stem from financial markets and other regulatory agencies. Stakeholders have a major concern about the appropriate use of funds and other resources committed to the management of company officials and accountability for probity is an important aspect of the governance of any organisation, whether public or private sector. Accountability for legality and probity is in line with what Ijiri (1975) pointed out, namely that rights and responsibilities might stem from "a constitution, a law, a contract, an organisational rule, a custom or even an informal obligation" (p.ix). Gray et al. (1986) also noted that rights might be enshrined in quasi-legal documents such as codes of conduct, statements from authoritative bodies to whom the organisations subscribe, mission statements and other documents. Gray et al. also argued that there might be other rights and responsibilities not stated in statute or other forms of agreement and that these might be absolute or relative. Companies might, therefore, be required to account for legality and probity with respect to all these issues as part of their corporate governance.

5.4.2 Process Accountability

Robinson (1971) put forward the notion of process accountability to facilitate examinations of: (i) waste in the use of resources; (ii) the adequacy of procedures used to perform any work; and (iii) whether the work was carried out following specified processes. Stewart (1984) argues that the information requirements for process accountability can, if narrowly conceived, also be defined. The providers of capital are concerned about the way the resources of the organisation that they fund uses the resources at its disposal. Shareholders would not appreciate management wasting the resources of the company as this would have a direct impact on the

profitability of that company and, consequently, the value of the company. Procedures, such as internal control mechanisms, are an important aspect of the proper management of an organisation. Management and the Board also have a special duty to make sure that the strategic and operational plans laid down for a company are implemented according to plan. Process accountability is, therefore, important for both public and private sector commercial entities and is part of the corporate governance of such entities.

5.4.3 Performance Accountability

Performance accountability scrutinises the performance of an officer, or an organisation, to examine whether the expected goals and objectives have been achieved. Stewart (1984) points out that the stated goals may not always be fully known by the stakeholders, and this lack of information affects their ability to hold the relevant parties to account.

Performance accountability plays an important role in corporate governance as one of the major responsibilities of the board is to make strategic plans for the company. These plans include goals and objectives which are then left to management to implement. The board is expected to monitor the achievement of these goals and part of the evaluation of management's performance is whether the goals and objectives set for the entity have been achieved as expected. As was discussed in Chapter 2, the remuneration of senior management may take into account the achievement of these goals and objectives and this serves as an incentive to align management's performance to the goals and objectives of the owners of the company which promotes accountability to the providers of capital and other relevant stakeholders.

However, other goals and objectives may be set, taking into account a wider cross-section of stakeholders such as employees, customers and the community at large. This may be in the form of improving the conditions under which the employees serve, or reducing the number of customer complaints and increasing customer satisfaction, or reducing pollution and participating in activities that may enhance the quality of life for the community where an organisation operates. Management may be held accountable for the achievement of these goals and their performance may be evaluated taking this into account. This accountability may be to the community through various regulatory agencies and elected representatives or to the owners of the company either through the board or at Annual General Meetings, or other fora.

Stewart (1984) points out that some stakeholders may not be aware of the goals and objectives set for the company. This issue was discussed in Chapter 2 under information asymmetry between management and non-executive board members but also applies to other stakeholders such as owners, customers and the community. The fact that management possesses some information that may not be available to other stakeholders may limit the ability of those stakeholders to assess the performance of management in achieving the company's goals and objectives and to hold management accountable for their performance. This is where disclosure of relevant information may be required as part of management's accountability to stakeholders.

5.4.4 Programme Accountability

Programme accountability is similar in nature to performance accountability since it also examines whether the stated goals and objectives have been achieved. However, performance accountability can involve all the activities of an organisation, whereas

programme accountability examines specific programmes with concrete goals and objectives. Stewart (1984) intended programme accountability to deal with specific programmes in an organisation and to examine whether the goals and objectives set for those programmes had been achieved (Robinson, 1971).

Programme accountability applies to all companies irrespective of whether they are in the public or private sector. Each company may set up special programmes whether to develop a specific product or service, or to develop a particular segment of the market, or to set up something to benefit employees or the community. Companies may come up with promotions of products or training of employees. All these may be in the form of specific programmes which may be aimed at improving the performance and profitability of the company, but may just be furthering the company's image as a good corporate citizen. The board may monitor management's performance and hold them accountable for the achievement of these specific programmes. In the context of the stakeholder approach, relevant stakeholders may also hold management and the board accountable for the policies and activities of the companies for which they are responsible.

5.4.5 Policy Accountability

A Government is accountable to its electorate for setting standards and policies, but there may be no predetermined standards. Stewart (1984) argues that Government is accountable for both the policies that it pursues and those that it fails to pursue. Policy accountability is carried out via the response to the varied demands of stakeholders as there are no pre-set bounds determined for it. These stakeholders may include not only the electorate but also any other parties, such as other foreign Governments and

international bodies, that may have an interest in what a particular Government does or does not do.

Although Stewart discusses policy accountability in the context of Government, the concept may be extended to both public and private sector commercial entities since Stewart foresaw that the Ladder of Accountability could be applied to those sectors. Business entities have levels of management where policy is set, starting with the board and filtering through to the lower levels. Some of these policies may have an impact on the governance of companies and the relationship with stakeholders. Companies may have to account to stakeholders for the policies that they set and follow whether these policies are related to increasing the value of the investment made by shareholders or to dealing with issues of interest to other stakeholders. An example could be the impact of companies' activities on the environment or on employees. Some of these policies may enhance the performance of the company or derail the achievement of the company's goals and objectives. The board of any company would be involved in setting the overall policies of the company and would be accountable to the owners of the company and other relevant stakeholders on the choice and implementation of policies. The board would, in turn, hold management accountable for the implementation of those policies and for setting sub-policies that are consistent with the overall policies set by the board.

Monitoring and evaluating the policies set and implemented by companies may not always be easy for stakeholders who are not involved in the management of those companies as these stakeholders may not be aware of all the policies set by the companies. However, these policies would normally manifest themselves in the

activities of the companies and in the way the companies carry out those activities. Companies may also publish some of their policies in their annual reports or on their websites. This would be part of the disclosure of relevant information by companies. Policy accountability is, therefore, part and parcel of the governance of companies for which the board and management may be held accountable.

5.5 The Adequacy of Stewart's Ladder of Accountability

The tone of Stewart's (1984) ladder of accountability reflects the principal-agent model of corporate governance where the superior holds the subordinate answerable for his/her actions. In the case of a commercial entity, the provider of capital holds management accountable and management acts on behalf of the principal. Government is also held accountable to the electorate since, presumably, the citizens are the owners of the resources managed by Government. Arguably, Government could also be held accountable for the manner in which companies conduct their business since Government grants firms licences and provides a framework in which they operate. One area of accountability which is arguably neglected by Stewart's Ladder is that involving relationships between people working at the same level in an organisation or between those employed in different organisations where hierarchical accountability does not apply. In a hierarchical organisation, superiors can hold subordinates accountable, but there are also situations where subordinates such as employees can hold their superiors accountable for their actions and policies. Competing organisations can also demand accountability from each other, particularly when it comes to "fair play" and the infringement of rights and obligations. The local community can call both the private and the public sector firms to account for their activities when they affect the legal rights, and the quality of life of the environment.

Although Stewart's Ladder of Accountability may have some shortcomings, it appears to be applicable to the study being conducted and will be applied in the study. A further review of Stewart's Ladder will be made at the end of the study to evaluate the extent of its suitability with respect to private sector businesses.

5.6 Concluding Remarks

This chapter has presented a framework of accountability based upon Stewart's Ladder of Accountability. This ladder of accountability was originally designed to scrutinise public sector accountability, but is also applicable to the private sector.

This particular research is adopting a stakeholder approach which will extend Stewart's ladder to accountability to stakeholders as defined in Chapter 2. The research will assume that companies have to account for the legality and appropriateness of their activities taking into account not only the effect of those activities on the interests of shareholders, but also the impact of the companies' activities on a wider public such as employees, customers, creditors, and the public. Some of the rights of these stakeholders are protected by law and the companies will be required to abide by these laws and regulations. Other rights may not be protected by law but the companies will still be expected to act in a socially responsible manner. The processes employed by companies are vital for achieving company objectives and will be part of the board's strategic planning and monitoring responsibilities. This will go together with setting, monitoring, and evaluating company goals and objectives and taking corrective actions when and as required. These are aspects of performance

accountability which are exercised by all companies. As argued before, companies, irrespective of whether they are public or private, might institute specific programmes and it is part of the board's responsibilities to oversee such programmes. It was also pointed out that all companies set policies for which they might be held accountable.

A major problem in implementing the various steps in Stewart's ladder of accountability may be how to establish "bonds of accountability" between management or the board and the different stakeholders – if this is taken to be the pre-condition for true accountability. Berle and Means (1932) foresaw the problem encountered by fractured share ownership where individuals do not have a sufficient share of ownership to exert control over management. Berle and Means argued that this led to a situation where management exercised control and the owners just collected "rent" in the form of dividends from their investment without having any effective control over the companies in which they invested. Alternatively, majority shareholders could exercise control at the expense of the minority. Ugandans are minority shareholders with insignificant share ownerships in the companies listed on the Uganda Securities Exchange (only 5 of which are Ugandan companies); this in itself might affect their ability, as minority shareholders, to hold management accountable. The companies that are run as sole-proprietorships or are family-owned might not see the need for accountability as there is no separation of ownership from management. The other private companies whose shareholders do not exceed 50 members (as specified by law) would need to be examined to establish whether there are dominant shareholders who are in a position to control the company or whether all shareholders can bring management to account through a true bond of accountability.

Despite these questions, Stewart's ladder of accountability will be used to analyse Ugandan stakeholders' perceptions about corporate governance and accountability in their country. Emphasis will be placed on accountability for legality and probity as these appear to be the most applicable steps of Stewart's ladder with respect to commercial enterprises. However, references will be made to the other aspects of Stewart's ladder where and when applicable. A further appraisal of the applicability of the ladder to private sector companies will be made in Chapter 8 which provides a synthesis of the research findings.

Chapter 6

Semi-Structured Interviews in Uganda

Chapter 6

Semi-Structured Interviews in Uganda

6.1 Introduction

Semi-structured interviews with sixteen individuals occupying various industrial, regulatory and judicial positions in Uganda were carried out during the month of September 2004.[122] The purpose of the interviews was to examine the extent to which stakeholders in Uganda perceived the country's present corporate governance framework as being effective in providing confidence and accountability regarding the corporate sector. Table 6.1 provides further details about the interviewees.

Table 6.1 Timetable for Interviewees

Interviewee	Date of Interview	Time
President, Capital Markets Authority	Sept. 20th	11.30 am
Regulator 1	Sept. 6th	4.30 pm
CEO Institute of Corporate Governance of Uganda	Sept. 4th	9.15 am
Regulator 2	Sept. 8th	11.30 am
High Court Judge 1	Sept. 7th	3.00 pm
High Court Judge 2	Sept. 15th	3.00 pm
Company Secretary & Legal Counsel	Sept. 13th	11.00 am
Legislator 1	Sept. 8th	10.00 am
Legislator 2	Sept. 9th	1.00 pm
Senior Civil Servant	Sept. 16th	3.00 pm
Chairperson, Transparency International (U)	Sept. 14th	12.00 pm
Solicitor and Senior Partner	Sept. 20th	4.30 pm
Former Executive Director	Sept. 9th	11.00 am
Former Director, Central Bank of Uganda	Sept. 16th	1.00 pm
Managing Director of a company	Sept. 20th	3.00 pm
Partner, CPA Firm	Sept. 15th	8.00 am

Note: Table showing the individuals that were interviewed. All the interviewees were based in Kampala, Uganda.

[122] See Appendix 6.1 for the guiding questions used during the interviews.

In line with the discussions in the previous chapters, the issues that were examined in the interviews included the legal, regulatory and supervisory frameworks in existence, the political, cultural, ethical framework and the economic frameworks. Each interview lasted for approximately one hour and was recorded with the permission of the interviewee; these tapes were later used in transcribing and writing up the results of the interviews which were analysed in the context of the accountability notions laid out in Chapter 5. The method used is in line with Creswell's (1998) recommendation that interviews could be used in collecting data under phenomenology; this data should then be used to describe and interpret a cultural and social group.

The remainder of the chapter outlines the key points and arguments put forward by the interviewees. Section 6.2 describes views regarding the nature and meaning of the term "corporate governance", while Section 6.3 highlights opinions relevant to the framework of corporate governance in Uganda, set out earlier in the thesis. Section 6.4 examines accountability while Section 6.5 analyses responses about the most pressing issues in corporate governance in Uganda and Section 6.6 presents the summary to this chapter.

6.2. Concept of Corporate Governance

Before examining the applicability and relevance of the accountability concept, the interviews began by seeking opinions regarding the meaning and nature of corporate governance.

6.2.1 Definition of Corporate Governance

Each interviewee's definition of the term "corporate governance" was consistent with conventional stakeholder theory. For example, the Chief Executive Officer (CEO) of the Institute of Corporate Governance of Uganda (ICGU) stated:

> The stakeholder approach was adopted by the ICGU over the shareholder view because it is broader and is not limited to shareholders although it includes shareholders. Some organisations, such as the ICGU and public sector bodies, do not have shareholders but there are parties that are interested in the way that these organisations are managed. These parties may include the members who subscribe to the organisations, the public in the case of the public sector enterprises, customers, employees, the banks and other providers of finance, and the community which may refuse to buy goods and services from the business and thus run it out of business.

The President of the Capital Markets Authority (CMA) of Uganda emphasised this point when he stated that "businesses cannot operate in isolation since they operate in an environment where there are other stakeholders; businesses need the cooperation of these stakeholders". The Registrar General, on the other hand, described corporate governance as "the basic mechanism by which companies and other corporate bodies are directed, controlled, managed and regulated." This definition reflected Cadbury's (1992) definition which stressed a board's accountability to shareholders in line with the principal-agent view.

The definitions suggested by these and other interviewees[123] emphasise the following aspects of corporate governance (see Table 6.2):[124]

i) promoting probity, transparency and accountability in companies;

ii) concern for stakeholders that extends beyond shareholders;

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[123] Not reported here.

[124] These are presented in the order of number of times they were raised by the interviewees in Table 6.2; the number of times is indicated between brackets.

iii) mechanisms or systems for directing, controlling, managing and regulating organisations;

iv) creating wealth for shareholders and adding value to the corporation;

v) acting in the interests of, and protecting, all shareholders – including minority shareholders;

vi) setting and implementing targets and objectives;

vii) corporate social responsibility; and

viii) acting within the law of the country.

Table 6.2 Summary of Issues Raised by Interviewees

	Interviewees who Mentioned	Total Number of Interviewees	Percentage of Interviewees
Concern for stakeholders that extends beyond shareholders	16	16	100%
Promoting probity, transparency and accountability in companies	16	16	100%
Creating wealth for shareholders and adding value to the corporation	16	16	100%
Mechanisms or systems for directing, controlling, managing and regulating	14	16	88%
Setting and implementing targets and objectives	14	16	88%
Acting in the interests of, and protecting, all shareholders – including minority shareholders	14	16	88%
Corporate social responsibility	12	16	75%
Acting within the law of the company	12	16	75%

Note: This Table shows the number of interviewees who mentioned each aspect of corporate governance.

It was notable that most of the interviewees highlighted the importance of a wide range of stakeholders extending beyond the firms' owners. It was, however, surprising that only 75% of the respondents mentioned corporate social responsibility as being an aspect of corporate governance. One might reasonably have expected more

interviewees to be concerned about corporate social responsibility since all of them supported the view that corporate governance should include concern for stakeholders that extended beyond shareholders. It is possible that the individuals who were interviewed were not conversant with the social issues relating to the operations of companies in Uganda.

6.2.2 Guidelines developed by the Institute of Corporate Governance in Uganda

Many of the interviewees had not seen or read the Corporate Governance Guidelines developed by the Institute of Corporate Governance of Uganda (ICGU) in 2001 (see Table 6.2 below). One half of the participants said that they had seen the guidelines, however, only 6 out of the 16 (or 37.5 per cent) claimed to have read them.

Table 6.3 Awareness about the ICGU guidelines

Interviewee	Seen Principles	Read Principles
President, Capital Markets Authority	Yes	Yes
Regulator 1	Yes	No
Regulator 2	Yes	Yes
CEO Institute of Corporate Governance of Uganda	Yes	Yes
High Court Judge 1	No	No
High Court Judge 2	No	No
Company Secretary & Legal Counsel	Yes	No
Legislator 1	No	No
Legislator 2	No	No
Senior Civil Servant	Yes	Yes
Chairman of Transparency International (Uganda)	Yes	Yes
Solicitor and Senior Partner	Yes	Yes
Former Executive Director	No	No
Former Director, Central Bank of Uganda	No	No
Managing Director of a company	No	No
Partner, CPA Firm	No	No

Note: This Table shows the interviewees who had read or seen the Guidelines of Corporate Governance that were issued by the ICGU.

It was notable that among those who had not read the guidelines were legislators, directors of companies, accountants, a company secretary and even one of the regulators who was directly involved in regulating companies. These results highlight the need for the training of all the relevant parties involved in corporate governance in Uganda so that they can familiarise themselves with the requirements in relation to the firms that they manage or oversee. None of the interviewees mentioned the guidelines of corporate governance published by the Uganda Capital Markets Authority; this might be an indication that the interviewees were not aware of this document, which was designed only for firms publicly traded on the USE.

6.2.3 The State of Corporate Governance in Uganda

The CEO of the ICGU expressed concern that the structures needed to support implementation of the ICGU guidelines were not in place, and that the level of implementation of the guidelines was poor. This interviewee went on to point out that the ICGU was trying to have an impact on the situation by training senior management, conducting public awareness lectures, and adding value to organisations by sensitising (and helping) people to appreciate the fact that good corporate governance was inherently beneficial. In particular, this interviewee felt that the training and sensitisation seminars would have a multiplier effect arising from the dissemination of ideas by those who had been sensitised. The President of the ICGU suggested that the ICGU corporate governance guidelines should be used by companies to develop their own internal rules. A Senior Civil Servant was of the view that the Institute of Certified Public Accountants of Uganda (ICPAU) should play a central role in promoting corporate governance. This interviewee also expressed the

hope that the ICGU would work with the Uganda Securities Exchange in promoting the principles of corporate governance; he was of the view that companies in Uganda should be compelled to either comply with the guidelines or explain and justify why they had not (as in countries such as the UK).

According to the CEO of the ICGU, the Ministry of Finance in Uganda is helping to finance the training of directors in the public sector corporations. However, funds are limited and managers and board members from the private sector have not received much training with respect to corporate governance guidelines. This interviewee explained that various organisations were supportive of the efforts of the ICGU, including the Bank of Uganda, the Uganda Capital Markets Authority and the Uganda Securities Exchange. The ICGU is also working together with the Commonwealth and the African Project and Development Facility under the auspices of World Bank.

The Chairman of Transparency International (Uganda) made the following observation which might need to be taken into consideration in order to make the sensitisation process more effective:

> Corporate governance guidelines should be simplified so that they can be understood by managers at lower levels. The ICGU has been organising conferences and seminars for the top people around Kampala and the membership of the ICGU is limited to people around Kampala. The ICGU is a club of people who head big companies and non-Governmental organisations (NGOs) or those who head ministries or who have influence in ministries and parastatal bodies. It should go down to lower levels because that is where the majority of people are.

6.2.4 Relevance of Western Models of Corporate Governance

Because Western models of corporate governance dominate the literature, the interviewees were asked for their views about the applicability of such norms to a

developing country such as Uganda. As Table 6.3 indicates, most were of the opinion that international corporate governance guidelines were of some relevance to Uganda, citing issues such as accountability, disclosure, integrity and transparency as being universal in application. However, some interviewees observed that international guidelines would require to be adapted to the Ugandan environment, since it was felt that one model could not fit all situations completely. In this context, factors such as: the level of national economic development; corruption; sectarianism; poverty; lack of job security; unemployment and corporate ownership structure were all mentioned as being likely to affect the practice of corporate governance.

One of the lawyers saw no reason why international guidelines should not apply in Uganda, since the Companies Act of Uganda was modelled on the British Companies Act of 1948 and it is this Act that is the basis of the governance of companies in Uganda.[125] The CEO of the ICGU argued that international principles of corporate governance could be used as a benchmark for a domestic framework, commenting that Uganda could think globally while acting locally. The CEO of the USE expressed this view by stating:

> It is critical that we look at all models available and get the best out of them because, eventually, with globalisation the whole issue of convergence of standards and guidelines becomes prominent. An example of this is the international financial reporting standards.[126]

Inspection of Table 6.3 reveals that the company directors did not think that Western Models of corporate governance were relevant to Uganda. The reasons given by this group for this opinion included: the difference in environments, sizes and ownership

[125] The ICGU guidelines themselves were based on the OECD Principles (1999), the Commonwealth Principles (1999) and the King Report I (1999) of corporate governance.

[126] The Chairman of the Capital Markets Authority of Uganda explained that what might differ would be the degree to which corporate governance principles were applied in Uganda.

structure between Ugandan companies and companies in the Western World; the respective levels of development; problems affecting multinational corporations compared with those affecting local companies; and differences in the understanding of corporate governance arising from different cultures.

Table 6.4 The Relevance of Western Models of Corporate Governance to Uganda

Interviewee	Yes	No
Legislator 1	Yes	
Legislator 2	Yes	
Regulator 1	Yes	
Regulator 2	Yes	
President, Capital Markets Authority	Yes	
ICGU	Yes	
High Court Judge 1	Yes	
High Court Judge 2	Yes	
Company Secretary	Yes	
Senior Civil Servant		No
Lawyer	Yes	
Former Director, Central Bank of Uganda		No
Managing Director of a company		No
Partner, CPA Firm	Yes	
Former Executive Director		No
Other Senior Official	Yes	

Note: This Table shows whether interviewees thought that Western Models of Corporate Governance were or were not relevant to Uganda.

The Chairperson of Transparency International (TI) in Uganda was of the view that some aspects of conventional international guidelines might not work under the present circumstances in Uganda; he argued as follows:

> If you take the level where we are and the level where the Americans or British are, they are up there, they understand and they have been exposed to some of these things early and they are very ethical in whatever they do and they have no pressures from friends and relatives who may not be as endowed or as privileged as they are. In our setting we are forced by circumstances to do things which someone in America is not forced to do. And even the system of controls in those countries does not allow you to go off the rails and get away with it. But here someone goes off the rails and may be running an institution or Government and he does something and gets away with it. Though we should not have different standards for

> Uganda and the rest of the world, I think we should start with something that we can enforce.

The Chairperson of TI was referring to the possibility that some people in Uganda might become involved in certain malpractices (such as embezzlement, corruption and bribery) and that no action would be taken against them either because of political protection, or as a result of bribing whoever was responsible for taking action; such activities would not be condoned and would be much more likely to be followed up by the media and the judicial system in the Western World. The issue of corruption and bribery emerged strongly throughout the interviews and is returned to below. It should, however, be noted that corruption and other forms of malpractices are by no means the exclusive preserve of developing nations, as can be evidenced by recent events at Enron in the USA and Parmalat in Italy. The difference between the two sets of circumstances is, however, that concrete action can be taken against officials who are proved to be involved in such inappropriate acts in the West, whereas such outcomes are rare in developing countries such as Uganda.

The responses given by the interviewees regarding the relevance of Western Models to developing countries such as Uganda were mixed, as can be seen in Table 6.4. These answers might be due to differences between general principles of corporate governance such as those published by the OECD and specific codes or acts such as those issued in the UK and the USA. The OECD Principles and the Principles for Corporate Governance in the Commonwealth (1999) were specifically designed with widespread applicability in mind, with the understanding that they could be adapted to fit the specific circumstances of the different countries; in contrast the UK Combined Code (2003) and the SOX (2002) were specific to the nations concerned. Developing countries might have stipulations in their corporate governance guidelines that differ

from the requirements of the codes that are specific to the UK and the USA. Differences in ownership structure might affect the principles applicable in a particular country; for example, in the UK and the USA corporate ownership is relatively widely dispersed whereas in developing countries most firms are either family-owned or sole proprietorships, with no separation between ownership and management. Therefore, the general principles proposed by the OECD and the Commonwealth might be considered more applicable to the developing countries. Notwithstanding this point, developing countries could also benefit from some of the contents of the codes and acts of the Western Models and could adapt these contents to the specific circumstances of their respective countries.

6.2.5 The Applicability of Corporate Governance Guidelines across classes of Ugandan Companies

The interviewees were unanimous in their view that the basic principles of corporate governance should apply to all companies in Uganda, whether listed or unlisted; the only difference would be in the matter of details to be disclosed.[127] The interviewees argued that all companies had a responsibility towards various stakeholders (such as shareholders, customers, suppliers, Government, employees, the environment and the community in which the company operates), and took the view that poor management could potentially cause any company to collapse. For example, the CEO of the ICGU indicated that:

> The principles of corporate governance are applicable to all companies, whether listed or not, but can be customised to suit the particular type of entity that we are looking at. Listed companies will have to operate under very stringent standards. Unlisted companies would operate under less

[127] However, the problems affecting multinational companies were not perceived to be the same as those affecting small corporations in developing countries, even though the need for principles of good governance remained the same.

tight regulations. Better governance can enable some of the companies that are not listed to get the requirements for listing.

In addition, a former Company Secretary of a listed firm argued that a common overall objective should exist, namely to maximise the wealth of the providers of capital (while taking into account the interests of other stakeholders), and he suggested further that good governance would help companies to attain such objectives. This interviewee also stated that "the only difference between listed and unlisted companies is in ownership, but the objectives are the same." A Senior Civil Servant argued that sound governance: (i) would be good for the growth of a company; (ii) could minimise the risk of failure, and (iii) might promote social responsibility.

While accepting the view that the principles of good governance should apply to all companies, one of the Senior Civil Servants pointed out that the cost aspect of implementing corporate governance guidelines could be a drawback for small businesses. One of the lawyers also argued that listed companies would require more control than unlisted ones, since in the former type of firm shareholders did not have a direct relationship with the directors, apart from appointing them in a general meeting, whereas in unlisted companies the shareholders were usually also the directors.

The views of the respondents suggested that stakeholders in Uganda would generally want the principles of good governance to be applied to all companies. However, the extent of application would depend upon factors such as size and the ownership structure of the company.

6.2.6 Importance of Corporate Governance in Uganda

The interviews also sought to explore views about the underlying importance attached to the notion of corporate governance. The good governance of Ugandan corporations was perceived as having a wide range of benefits, but was thought likely to be particularly important in terms of the following: (i) the economic and social development of the country; (ii) creating wealth for shareholders; (iii) managing resources in a transparent manner; (iv) promoting accountability; (v) managing risk; (vi) improving the performance of companies; (vii) attracting both local and foreign investment; and (viii) protecting the interests of all shareholders – including minority shareholders. The CEO of the ICGU expressed the belief that good governance allowed a company to examine its long-term sustainability and assess the extent to which value was being added to the company; he also pointed to its role in controlling management's handling of owners' resources, so that the entity was managed in line with the latters' objectives. This interviewee further described his hope that corporate governance improvements would address the issue of corruption, lead to better utilisation of scarce resources and enable people to have a better quality of life and standard of living. In a similar vein, a Member of Parliament of Uganda stressed the importance of good corporate governance thus:

> If any company is not properly managed and it collapses or gets a problem, the effect of the corruption or poor management goes beyond the managers and owners of the company and affects either the Government revenue in the form of lost taxes, or the employees and other members of the community who may lose a source of income.

6.2.7 Stakeholder versus Agency Perspectives

One of the striking findings arising from the interviews was that most of the individuals appeared to view corporate governance from a stakeholder perspective

rather than as a dimension of conventional principal/agent theory. For example, the President of the Capital Markets Authority (CMA) of Uganda argued that:

> Businesses cannot operate in isolation since they operate in an environment where there are other stakeholders; businesses need the co-operation of these stakeholders in order to survive and operate profitably.

In contrast, as listed in the previous chapter, the principal/agent theory of corporate governance places good governance in the context of the relationship between management (as agents) and shareholders (as principals), and tends to limit accountability of management and the board of directors to the company as a whole and shareholders as a collective (Keasey et al., 1997).[128] The principal/agent perspective is broadly in line with the approach adopted in the Cadbury Report (1992) in the UK, which defined corporate governance as "... the system by which companies are directed and controlled" (par 2.5) and specified the responsibilities of the board as including "... setting the company's strategic aims, providing the leadership to put them into effect, supervising the management of the business and reporting to shareholders on their stewardship" (par. 2.5), subject to laws, regulations and the shareholder body in general meeting.

Stakeholder theory, on the other hand, extends the notion of corporate governance beyond the relationship between management and the shareholders to include other relevant parties that have an interest in the operations of corporations. The theory is premised on the concept of a company being a legal or artificial person that operates in a community, and on the view that "there should be some explicit recognition of

[128] This standpoint was implied in the "Caparo" Case in the UK where the House of Lords ruled that auditors owed a legal duty of care to the company and to the shareholders collectively, but not to the shareholders as individuals, nor to third parties (Caparo Industries plc v. Dickman and others [1990]1 ER 568).

the well-being of other groups having a long-term association with the firm – and therefore an interest, or 'stake', in its long-term success" (Keasey et al., 1997, p. 9).

In addition, The King II Report (2002) of South Africa adopted the stakeholder view when it embraced the following description of corporate governance given by Cadbury (1999):

> Corporate governance is concerned with holding the balance between economic and social goals and between individual and communal goals ... the aim is to align as nearly as possible the interests of individuals, corporations and society.

It is worth noting, however, that the report rejected the notion of directors being accountable to all legitimate stakeholders:

> In governance terms, one is accountable at common law and by statute to the company if a director, and one is responsible to the stakeholders identified as relevant to the business of the company. The stakeholder concept of being accountable to all legitimate stakeholders must be rejected for the simple reason that to ask boards to be accountable to everyone would result in their being accountable to no one (par. 5.1).

Whilst this form of words is similar to that in the UK's Hampel Report of 1998, in adopting a limited view of the groups to whom directors are answerable, the overall picture which emerged from the interviews was of pervasive support for the stakeholder view of corporate governance.

6.2.8 Stakeholders

Based upon their perceptions of accountability to a broader cross-section of stakeholders, as outlined in Section 6.3.1, the interviewees had well-formed views about the groups that could be thought of as stakeholders in Uganda. For example, one of the legislators (D) stated the following:

> Stakeholders include all the people who can get affected by the operations of a corporation. These include shareholders, Government, suppliers, contractors, employees, providers of finance and the community that may be concerned about environmental issues such as pollution. Stakeholders also include the ordinary citizens whom members of parliament and Government represent since the people want to know whether the members of parliament and Government officials are carrying out the responsibilities entrusted to them on behalf of the people.

As the managing director of a company pointed out:

> Different stakeholders have different concerns about the activities of an organisation. The Government, for instance, will be concerned about collecting taxes and ensuring that the various laws of the country are complied with while the community will be mainly concerned with the organisation's impact on the environment. In contrast, providers of capital such as shareholders and donors will be concerned about the usage of the funds to achieve the set objectives.

Specific examples of the various regulatory authorities mentioned by the interviewees as being potential stakeholders included the Registrar of Companies, the Uganda Revenue Authority (URA), the National Environmental Management Authority, the Uganda Securities Exchange (USE), the Uganda Capital Markets Authority (CMA), and the National Social Security Fund.

6.2.9 Corporate Citizenship

As noted earlier, in 1932, US Supreme Court Justice Louis Brandeis stressed that states should make sure that the privilege of the corporate structure was conferred only in those cases where it was consistent with public policy and welfare. Such a perspective provides a basis for viewing the corporation as a citizen of the state in which it operates, i.e. as a legal person operating in a community and having its own rights, privileges and responsibilities. Like any other citizen, the corporation is

expected to act in a particular manner that complies with the norms of the society in which it operates.

In line with this standpoint, most of the interviewees appeared to adhere to the broad notion of corporate citizenship, arguing that corporations had to integrate into the economic and societal concerns of the community if they were to operate on a sustainable basis.

6.3 The Framework of Corporate Governance in Uganda

As highlighted in the previous chapter, the issue of accountability is inextricably linked to the notion of corporate governance. Section I of the revised OECD Principles of Corporate Governance (OECD, 2004) stresses the importance of an effective corporate governance framework in the following words:

> The corporate governance framework should promote transparent and efficient markets, be consistent with the rule of law; and clearly articulate the division of responsibilities among different supervisory, regulatory and enforcement authorities.

In the light of this multi-faceted notion of corporate governance, the semi-structured interviews covered the legal, regulatory, political and accounting frameworks together with the economic, cultural, social, and ethical factors that might have an impact on corporate governance practices in Uganda.

6.3.1 The Legal Framework

The CEO of the Uganda Securities Exchange (USE) stressed that the interaction between the directors, managers and shareholders of a company must take place

according to the laws of the country concerned, and ensure that: no laws are violated; all shareholders (whether are minority or majority owners) are protected; and cater for issues of corporate social responsibility. In Uganda, the basic law governing the operation of all companies is The Companies Act, originally issued in 1948 and last revised in 1964.[129] Various laws and statutes governing different types of statutory corporations also exist; the Act or Statute establishing each public sector corporation outlines the corporate governance guidelines that they are required to follow.[130] Some of the interviewees pointed out that, although there were various laws in Uganda which addressed corporate governance, their implementation remained a major problem. It was also noted that some companies implemented selective sections of the Companies Act while some private corporations found a way of getting around the requirements of the law. The laws that govern corporate governance in Uganda were perceived as either not being adequate or as being outdated and needing revision; the Companies Act was singled out in this context.[131]

An area of concern for several of the interviewees was the protection of minority shareholders, especially in multinational companies. An example was given of one of

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[129] The Ugandan Companies Act is largely based upon the British Companies Act of 1948.

[130] Examples of such Acts and Statutes include:

1. The Companies Act, 1964;
2. The National Environment Statute, 1995;
3. The Public Finance and Accountability Regulations, 2003;
4. The Public Finance and Accountability Act, 2003;
5. The Leadership Code Act, 2002;
6. The Collective Investment Schemes Act, 2003;
7. The Investment Code, 1991;
8. The Public Enterprises Reform and Divestiture Statute, 1993;
9. The Public Enterprises Reform and Divestiture (Amendment) Act, 2000;
10. The Capital Markets Authority Statute, 1996;
11. The Financial Institutions Act, 2004;
12. The Accountants Statute, 1992;
13. The Workers' Compensation Act, 2000;
14. The Uganda Registration Services Bureau Act, 1998;
15. The Uganda Securities Exchange Limited Rules, 2003.

[131] A number of respondents claimed that, in some cases, there was no proper consultation process before the passing of the statutes and laws governing various corporations.

the multinational companies listed on the USE; the parent company of this subsidiary owned 90% of the shares while Ugandans owned only 10%. The concern related to how the interests of the Ugandan shareholders could realistically be protected since, out of the eight current board members, three were Executive Directors appointed by the parent company, two were representatives of the parent company, one was a former employee of the Ugandan subsidiary and the other two have been Board members since the Board was established.

A Judge from the High Court of Uganda felt strongly about the need to protect employees and to pay living wages. This interviewee pointed out that, presently, there was no law covering the setting of minimum wages and that The Workers' Compensation Act (2000) was silent on this issue; employers were free to pay what they wanted and this had led to the exploitation of some employees who were paid just a "pittance".

Some of the interviewees argued that, although the courts of law were an enforcement mechanism, the court system was overstretched as the number of judges was insufficient to handle all the pending cases expeditiously. Concern was also expressed that some members of the judiciary were being influenced by bribes when cases were brought before them.[132]

While it was felt that the Ugandan judiciary generally acted independently in adjudicating cases, some examples were cited where there had been interference in implementing the decisions of courts or the recommendations of judicial commissions

[132] However, to-date no concrete evidence has been brought to prove this allegation against judges.

of enquiry. Some of the interviewees stated that the recommendations made by the Commission of Enquiry that looked into the affairs of the Police Force in Uganda were generally implemented, whilst the ones concerning the purchase of the "junk helicopters" were not and those of the enquiry into the Uganda Revenue Authority (URA) were suppressed on technicalities.[133] The helicopters were purchased from a foreign country with the involvement of a local Ugandan company and raised ethical and legal questions relating to transparency, fairness, probity and respect for contractual obligations. Alleged corruption within the URA had a direct impact on companies as it affected accountability, transparency and proper disclosure by both the URA and the companies that colluded with the URA officials. This, in turn, had an impact on the community at large since the revenue lost through corruption could have been used to enhance the services provided by Government to the people of Uganda.

In terms of judicial independence, High Court Judge 1 stated that:

> Independence of the judiciary means that a judge can hear and decide a case without fear or favour to a third party and would have nothing behind his mind such as personal concerns in deciding the case. It means being free from interference or fear in deciding a case.

Similarly, High Court Judge 2 described independence of the judiciary as:

> ... the ability of the individual judge in adjudicating between parties to be able to look at the issues and make a decision based on the issues without fear or favour or pressure from any other party but purely based on the law and the evidence presented.

The two judges did not, however, regard the failure to implement court decisions as a sign that the judiciary lacked independence. High Court Judge 1 argued that although there had been a few cases of interference, there was a general level of independence

[133] There has been some restructuring of the URA during 2005 in measures which are believed to be a result of donors applying pressure on the Ugandan Government to act on the Report of the Commission of Enquiry into the URA (The Sebutinde Report) (Nyanzi, 2006).

among the judiciary; in his view, non-implementation of the judgements would only affect a small section of the work of the judiciary, mostly those that involved Government. High Court Judge 2 argued as follows:

> Implementation of the decisions of courts of law is left to other parties and does not affect the independence of the judiciary, although the atmosphere within which the Judge is working may influence the Judge. However, by and large, the role of the court ends with the judgement.

The general view of the two judges was that the judiciary was playing its part in protecting the rights of stakeholders by trying to adjudicate between various parties in cases involving alleged violation of contractual and other rights where the respective parties were protected by law. The judges felt that this process was instrumental in promoting corporate governance in Uganda and that the judgements made were based on the evidence presented to court and were free of interference by any external party.

6.3.2 The Regulatory and Supervisory Framework

The OECD Principles state the following regarding the supervisory and regulatory framework:

> Supervisory, regulatory and enforcement authorities should have the authority, integrity and resources to fulfil their duties in a professional and objective manner. Moreover, their rulings should be timely, transparent and fully explained (Section I, D).

Some of the interviewees claimed that Ugandan regulatory authorities were not effective in enforcing governance regulations even though they had the authority to do so.[134] However, the Registrar General outlined several problems that impacted on the

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[134] The regulatory and supervisory authorities in Uganda include: the Registrar General's Office, the Bank of Uganda (BoU), National Drug Authority (NDA), Electricity Regulatory Authority (ERA), Uganda Wildlife Authority (UWA), National Environment Management Authority, Uganda Revenue Authority (URA), Uganda Securities Exchange (USE), Capital Markets Authority, Uganda

enforcement of laws and regulations; shortages of resources including funds, personnel, transport and up-to-date technology were among the major problems that the Registrar's office was facing in its effort to follow up what was happening in companies and to demand compliance. Moreover, the office was still using obsolete information systems that relied on paper files which, considering the number of companies involved, made it difficult to keep track of developments.[135] Neither was the Registrar's office able to verify information supplied by existing and prospective companies due to the geographical spread of companies and the insufficiency of resources. Most of the companies did not keep proper financial and other required records; this inevitably affected the quality of data collected.[136] Corruption, and insufficient knowledge and/or training for those who were supposed to implement the regulations were other factors that affected implementation.

The Registrar General pointed out that the Registry had prosecuted some companies for non compliance but he argued that the process was too cumbersome. The companies were dispersed all over the country and this made it very expensive for the Registrar's office to follow up all companies in Uganda and prosecute them in their respective courts of law. One of the Managing Directors interviewed took the view that some regulatory agencies, such as the Central Bank of Uganda, simply reacted to situations and imposed the regulations of advanced countries on Ugandan companies

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Communications Commission (UCC) and the Institute of Public Certified Accountants of Uganda (ICPAU).

[135] It was hoped that a computerised record keeping system would be set up soon.

[136] Another factor mentioned in the interviews was the inadequacy of fines designed to encourage compliance. Some other interviewees added ignorance of the laws and regulations, lack of political will to enforce compliance, political interference with the officers charged with enforcing the laws and regulations, corruption and insufficient training for those involved in implementing the rules and regulations as being some of the factors affecting enforcement of regulations and laws in Uganda.

without consultation and without tailoring these regulations to the Ugandan environment.

On the whole, the respondents felt that there was a clear division of responsibilities between regulatory bodies, although more than one body appeared to want to regulate in certain areas; this situation often reflected the fact that different bodies were looking at a variety of consequences for the same event.

6.3.3 Accounting Framework

The OECD Principles (2004) highlight the importance of the accounting framework in promoting disclosure and transparency, stating that:

> Information should be prepared and disclosed in accordance with high quality standards of accounting and financial and non-financial disclosure (Section V, B).

Annual audits conducted by independent, competent and qualified auditors are recommended by the OECD Principles in order to provide an external and objective assurance to the board and shareholders about the financial position and performance of the company in all material respects (Section V, C). In terms of standard setting, a Company Secretary made the following observation:

> The Institute of Certified Public Accountants of Uganda (ICPAU) Statute was enacted in 1992 to regulate the accounting profession and to guide Government in accounting related matters; consequently, the ICPAU had recommended the use of the International Financial Reporting Standards (IFRS). However, IFRS are not yet mandatory in Uganda – except for listing purposes; some accountants follow the US accounting standards while others follow the UK standards, but the trend right now is towards use of the IFRS.

Despite the stated objective of the ICPAU, the general view among the respondents was that the accounting framework in Uganda was weak. Some of the interviewees noted that part of the problem may relate to the fact that practising accountants in Uganda belong to different professional bodies that are supposed to regulate accounting practice; in addition, a number of these professional bodies are international and do not have sufficient mechanisms for liaising with their Ugandan members. The Chief Executive of the ICPAU stressed the problem of monitoring and regulating accounting practitioners in Uganda due to the limited resources at the disposal of the ICPAU and the number and geographical spread of those practitioners.

It was clear from the interviews that the accounting framework needed urgent attention to ensure that financial statements in Uganda were prepared using common accounting principles, thereby allowing for meaningful evaluation and comparison of performance. In this context, mechanisms for effective supervision and censoring of members who do not adhere to accepted principles need to be developed and implemented.

6.3.4 Political Framework

The general consensus was that a nation's political environment affected the practice of corporate governance in tangible and substantive ways. The interviewees argued that factors such as Government's fiscal and monetary policies (as well as security, stability and the political leadership in a nation) could all have a strong influence. A stable and conducive political climate was perceived as being a prerequisite for providing assurance to the business community and stimulating investment and good

governance practices. Some of the political factors that were mentioned as affecting the practice of corporate governance in Uganda were:

(1) political interference with the work of regulatory and supervisory bodies;

(2) the protection of certain entities that have political connections when these entities do not comply with certain legal and regulatory requirements;

(3) the existence of political appointees who do not have the required qualifications and experience, or who cannot be held to account because of protection from major political figures; and

(4) the awarding of tenders to political supporters, and the denial of business to entities that are critical of Government.

A Managing Director made the following noteworthy assertion regarding the ability of directors to exercise independent judgement:

> There are cases where we have "shadow directors". A person may be appointed as a director, but that person is answerable to another person who directs him in his duties. These directors act in the interest of the party who appoints them and not necessarily in the interests of the corporation. There are even cases of people being sent by some political authority to sit in meetings and hear what is going on and then report back to the authority; this limits the freedom of the board members to express their views freely and make independent decisions.

Clearly such behaviour differs dramatically from what the (admittedly US and UK dominated) literature on corporate governance suggests as best practice. In a similar vein, one of the interviewees observed that politicians sometimes ignored the professional advice of independent official bodies and appointed their own cronies to boards of directors and senior management positions without following the official structures and policies in place at the time.

The interviewees did not appear to have much confidence in the ability of the present Ugandan Parliament to enact laws appropriate for assisting in the practice of good governance. This belief reflected perceived corruption, lack of integrity, and vested

interests among some parliamentarians; there was also a feeling that some of its members were easily manipulated by the executive arm of Government and that several failed to understand the concepts underlying good corporate governance.[137] There was concern that the above conduct of parliamentarians could compromise their ability to promote accountability in Government and in private companies. In this context, a former Director of the Central Bank observed that:

> If there is corruption within the Government circles then the Government cannot enforce good governance in corporations. Most of the MPs are on Boards of statutory corporations and other corporations where Government has an interest. However, these MPs cannot enforce good governance in those corporations because some of them are perceived to be corrupt.

The above views bring into question the competence of some of the directors to perform their duties and to be accountable to the relevant parties (rather than to their political patrons). One interviewee argued that political interference and appointments occurred everywhere in the world; however, in developed countries such people would be vetted and institutional investors could launch extensive media publicity highlighting any appointment that was thought not to be proper.

There has been an attempt to curb corruption among senior Government officials and politicians through The Leadership Code Act (2002) whereby these officials are required to declare their income, assets and liabilities.[138] Another office that has been trying to enforce good governance is that of the Inspector General of Government

[137] It was argued by some of the interviewees that parliament would do a better job if it had a recognised and effective opposition. The Ugandan Constitution did not allow multi-party politics at the time the interviews were conducted; consequently, no formal opposition party was recognised by government. Multi-party politics was provided for with effect from the parliamentary elections conducted in February 2006. However, the members of the opposition are still a minority in parliament and are likely to be overruled by the members of parliament belonging to the ruling party. It remains to be seen whether there will be a change in the way Ugandans perceive their parliamentarians and whether the new members are any less prone to manipulation by the executive arm of government than were the former members..

[138] Certain measures have also been specified to avoid conflicts of interest.

(IGG), which is supposed to enforce The Leadership Code. However, an MP expressed the following reservations about the effectiveness of the IGG in carrying out his/her duties:

> The IGG is supposed to be one of the arms of Government in enforcing good governance. However the IGG can make recommendations regarding specific officers that may be involved in malpractice or may not be performing up to expected standards, but does not have the power to enforce implementation of the recommendations. These recommendations may be ignored by the appointing authority.[139]

It was felt by some interviewees that for parliament to pass laws that were suitable for (and conducive to) promoting a strong corporate governance system, parliamentarians themselves must first understand what the notion of corporate governance implied; they should then make sure that all related laws that they passed reflected good governance principles. In this context, one of the interviewees recommended that MPs and other politicians should receive formal training in corporate governance.

6.3.5 Cultural and Social factors

The interviewees were of the view that both cultural and social factors impacted on the practice of corporate governance in Ugandan corporations. People's attitudes towards integrity, political interference, corruption and bribery, conflicts of interest and accountability were seen as being necessary for the enforcement of principles of good governance. The specific cultural and social factors mentioned by the interviewees included: (i) pressure from extended families and the clan for financial support (which might encourage corruption and bribery); (ii) respect for elders, allied

[139] The Ministry of Ethics and Integrity is also trying to play a role in improving corporate governance in Uganda by monitoring Members of Parliament and Senior Government officials in matters relating to their ethical behaviour as laid out in The Leadership Code Act (2002) of Uganda.

to due deference to one's superiors and non-confrontation of those in authority; (iii) the head of a family making decisions for family-owned businesses without expecting to be questioned about his decisions; (iv) attitudes towards employment; (v) attitudes towards women (and the dominance of men); and (vi) tribalism. These issues were mentioned as having the potential to affect the demand for accountability. The practice of glorifying those who acquired wealth - irrespective of the means used to acquire it – was thought likely to encourage corruption and embezzlement of funds, while tribalism could lead to the employment of unqualified and incompetent personnel.

In reference to pressure from extended families and clan members for financial and other support, a Solicitor and Senior Partner stated that:

> Culturally, when you are in a good position you must take care of everybody from your clan. So you may find yourself employing people not because they are qualified and competent but because they come from your area or from your family. Some of these employees may disobey their direct bosses because they know the chairman of the board or some other senior officer who brought them into the company.

Some interviewees suggested that people who were thought to have political connections were feared and not criticised for fear of retribution; such individuals tended to become "sacred cows", untouchable in their organisations. This fear was extended to all those who got jobs through the auspices of prominent political figures. A Senior Official gave the following explanation as to why elders were not questioned in some Ugandan cultures:

> The elders were considered to be wise and very fair; they would only make a decision after looking at all sides and so they would not need questioning. Some of our cultures are very democratic. In Karamoja, for instance, all important decisions are determined by the council of elders. However, these days some people are appointed to positions of leadership on political grounds and do not have those qualities that the traditional

> elders had. Not questioning them would have a negative impact on good governance.

However, one of the High Court Judges felt that culture was not relevant to corporate governance and that good governance was a question of discipline and respecting the law. This Judge argued as follows:

> Many organisations have a practice manual that binds the staff. This is on top of the Statute governing the organisation. Cultural aspects are not embedded in these practice manuals. With due respect to our cultures, there is a time for everything. As Africans, not just as Ugandans, we need to respect the law whether it is contained in the Statute or in the practice manual.

More generally, the view of most respondents was that negative cultural and social elements in Uganda should be changed so that good corporate governance and accountability could be enhanced in both private and public sector organisations. Measures were believed to be required to identify the cultural and social factors that affected individual organisations, each of which should come up with specific rules and procedures that could (taking into account its particular circumstances) improve the culture of corporate governance in that particular company.

6.3.6 Ethical Factors

The interviewees appeared to see a link between moral codes and governance practices, with each of the following ethical factors perceived as having a negative impact on corporate governance practices in Uganda: (i) threats of a person being sacked for exposing an official who was doing something wrong; (ii) sexual harassment against staff; (iii) compromising behaviour of management in dealing with junior staff; (iv) political appointments that failed to take account of qualifications or competence regarding assigned duties; (v) recruitment of unqualified and incompetent

individuals on other grounds; (vi) corruption and bribery - particularly in the public sector; (vii) insufficient disclosure of accounting information; (viii) non-adherence to the codes of conduct governing various corporations; (ix) lack of qualities such as integrity, punctuality, honesty and accountability; and (x) the tendency of some politicians to demand favours from the officers of public sector corporations – in particular, an officer who refused to grant the favours could find himself out of a job.

Some of the interviewees argued that when an individual was appointed on the basis of personal connections with the employer (or on political grounds), nothing might be done about malpractice by that employee since there would be a big officer behind the person and the other company officials would be afraid of taking action against him or her. Other ethical factors that were mentioned included conflicts of interests and inadequate remuneration. A partner in an accounting firm narrated his specific experience of bribery in a Government office as follows:

> I went to the office to licence my car when it was approaching lunch time. I was supposed to pick up a bank pay-in-slip. The person at the counter told me that the people responsible for the pay-in-slips had gone but if I could buy her some lunch she would be able to get me the bank slip so that I could get my licence. This bothered me. Maybe if this lady was being remunerated properly there would be no need for her to ask for a bribe. However, some people are just selfish and are using their positions to enrich themselves.

A High Court Judge noted the direct impact of endemic corruption on levels of accountability:

> Corruption is the biggest ethical factor facing us in Uganda. The feeling is that once you are appointed to work in a public corporation you have been given a plantation from which you can harvest. You cannot come out and complain that you do not have money since corruption will solve all your problems. This is connected to lack of accountability; a person involved in corruption will not want accountability since this would reveal the wrong things going on in the corporation. If a person such as an accountant

> stands up against the General Manager because of corruption, that person will be sacked.

A Senior Government Official referred to bribery as "moving things" because some officials might demand bribes before they could work on certain things or they might just slow down the process until they were given bribes. Some documents might even be hidden so as to frustrate the person who did not want to give a bribe. Some Government officials might even demand bribes before they awarded contracts to private businesses.

One of the High Court Judges was very outspoken against corruption in Uganda:

> Corruption should not be tolerated. There can be corruption anywhere but in a country like Uganda where we are underdeveloped or developing, the effects of corruption are far greater reaching than in a country that is developed. Every Shilling that you lose through corruption affects many more people because our GDP and per capita income is small and that one Shilling makes a whole lot of difference to someone's life if it is not there. We are largely an economy that depends a lot on donor funding. We can ill afford to tolerate corruption and yet you will be surprised to see how much we do tolerate corruption in our public and private institutions.

The President of the CMA decried the moral decadence that had prevailed in Ugandan society since Amin's time.

> You may remember the period which they called "mafuta mingi"; that is getting anything for free. That spirit is still continuing in some people. There is also the problem of diluting religious values which has had an impact on the ethical values. We used to have a subject called Civics in schools but the subject was removed. Civics was about protection of the environment and about being a good citizen. We are trying to ensure that these good things that happened in the past can be introduced in the school curriculum again. We are trying to say that corporate governance is a key subject and that it should be introduced in the school syllabus starting from Primary School level because most of the people leave school at Primary School level. We think that people should know about ethical

values, transparency and good business management starting from that level.[140]

A senior partner in a law firm argued that tax evasion was not just a legal issue but also an ethical one since some business people allegedly bribed Government officials in order to dodge paying tax or in order to lower their tax bills.

The views expressed by the interviewees indicated that they did not consider business to be divorced from ethics; they were of the view that people's attitudes towards moral values might affect their integrity, accountability and the practice of corporate governance as a whole. These views suggest that the ethical and moral issues mentioned by the interviewees should be considered as Uganda attempts to improve the corporate governance system.

6.3.7 Economic Factors

The interviewees were of the view that the macro-economic policies of a country could affect the way in which large organisations were managed. Economic factors such as the level of remuneration, poverty, and inflation were also seen as affecting accountability; for example, a Member of Parliament took the view that companies in financial distress might be tempted to manage their accounts (using unethical and illegal means) so as to give a misleading positive impression to shareholders, and thereby reduce the accountability of managers. However, the company secretary argued that fiscal policies such as tax regimes could also influence corporate

[140] Although the teaching of civics was suggested by only one interviewee, there has been extensive discussion regarding the need for improving the moral and ethical standards of the Ugandan population. The Ugandan Government has subsequently decided that Civics is now to be taught in all Primary Schools and Ethics in all Universities. It is hoped that this would strengthen the moral and ethical values of the Ugandan citizens.

governance; specifically, if tax rates were considered to be too high then, he argued, some business people might try and evade the taxes by either under-declaring their profits (or the value of the goods that they import), or by smuggling goods into the country. An MP argued that high inflation and poor exchange rates reduced the purchasing power of the local currency and reduced people's spending power; he further argued that this could have an impact on the management of companies as poverty could drive malpractices by those whose wealth had decreased.

One of the interviewees claimed that some board members were primarily concerned about getting paid and, therefore, simply accepted what the company executives told them about - or decided for - the company; this behaviour was seen as being likely to affect the board's oversight function. Some interviewees asserted that poor wages often underpinned any corrupt tendencies, especially if employees thought that they could get away with it. Notwithstanding these arguments, one of the High Court Judges argued as follows:

> I have come to the conclusion that you do not have to be rich to be honest and not every poor person is a thief or is corrupt. It is just greed that makes people corrupt. Whatever the case is, corruption should not be tolerated at all as it can only lead to disadvantages.

It was also pointed out that some Ugandan organisations that were struggling to survive under stiff competition might not be following good corporate governance practices. A senior Government official gave the example of a multi-national company that had resorted to means that were potentially unfair to a particular stakeholder group, namely their customers:

> Last week the Governor of the National Bureau of Standards visited some stores that sell food products. When he visited Company X, which is a multinational Supermarket, he found that the Supermarket was using expired materials to bake bread which they were selling to customers in

the store. One would not expect such a prestigious store to resort to such practices in order to make profits.

The above views indicate the various ways in which the state of a domestic economy can affect the practice of corporate governance. In the light of this evidence, it appears reasonable to suggest that the Government should scrutinise its fiscal and monetary policies and the impact that these may have on the economy and, consequently, on the practice of corporate governance; otherwise, meaningful improvements in accountability are unlikely to be achieved. What is clear from the comments made by the interviewees is that a poor economy characterised by poverty, inadequate remuneration, high inflation, and high tax rates could be a breeding ground for poor corporate governance, because of a lack of accountability and the propensity for adopting unethical practices as a means of survival.

6.3.8 Privatisation in Uganda

In Uganda there has been a move to liberalise the economy, thereby giving way to private ownership of previously state-owned enterprises.[141] The CEO of the ICGU explained that one of the aims of privatisation in Uganda was to improve corporate governance in those public sector entities that were targeted for privatisation. Other interviewees supported the privatisation process, saying that they saw it as a good thing as it would help to improve accountability, the quality of products and services, and the quality of management. One of the High Court Judges stated the following:

> There was a general feeling that public enterprises belonged to nobody. So whoever was appointed to manage those corporations did not have that inner responsibility that they belonged to somebody; as long as the

[141] Examples of such divestitures include the Government owned newspaper – The New Vision – whose shares were floated by the Government on the USE in September 2004; the DFCU Bank where Government sold its shares to the public in July 2004; British American Tobacco Uganda Ltd (BATU); Uganda Clays; the Bank of Baroda; Uganda Telecom; Post Bank; and Uganda Commercial Bank.

> corporations survived and there was enough money to keep employees and to pay the big shots, nobody worried about accountability. The Government kept putting money into these corporations but the corporations did not yield the desired results.

The Managing Director who took part in the interviews thought that privatisation would encourage professionalism in running the privatised companies and also hoped that competent and skilled managers would help to improve accountability and achieve best practice.[142] This comment was made in light of the perception amongst some stakeholders that the privatisation process itself was not transparent, and that some companies were being sold to people based on political and other considerations (including undeclared interests by some of the Government officials that were responsible for effecting the process); some of these people were not thought to be sufficiently qualified and competent to run the companies.

There were also concerns that asset stripping had occurred in some of the privatised companies. For example, one interviewee claimed that some of the foreigners who bought state-owned enterprises used the titles to those assets to obtain loans from banks, after which they left the country. Some interviewees argued that several companies had been sold to non-Ugandan interests who did not have a credible track record in the industries concerned. An example was given of Westmont, which initially bought the Uganda Commercial Bank only for the purchase to be cancelled later when the Bank was collapsing as a result of internal lending and other malpractices.

[142] This interviewee's only caution was that state-owned companies should be sold to people who were capable of running them and adding value to them.

Other interviewees also commented on the problems associated with privatisation in Uganda. For example, the Chairman of Transparency International noted that:

> There has been a lot of wastage of resources after the privatisation of state owned entities. Some of the new owners do not respect labour laws or employees and do not act in the interests of the company. A number of these companies are run down. The Government was focusing on the market rather than on the corporate governance issues during the privatisation process; issues of corporate governance were left to the new private owners.

Concern was also expressed about the lack of accountability for money received by Government from the privatisation process. This issue has led to speculation that the Government may have diverted the proceeds from the sale of the companies to unauthorised purposes to foster political or personal interests.

The Chairman of the CMA argued, however, that privatisation had improved the management of the economy by removing political patronage and introducing efficient operating methods in the industries concerned.[143]

Evidently, stakeholders have observed the privatisation process in Uganda with mixed feelings and a degree of cynicism. While there seems to be general support for the process, the concerns about transparency and accountability need to be addressed. Some interviewees also argued that, while foreign investment was welcome, first priority should be given to Ugandan bidders when the state disposed of its industrial assets, either by floating shares on the USE or by inviting bids from core Ugandan investors before engaging foreign investors. This change, it was argued, would promote a spirit of investment among Ugandans.

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[143] The company secretary also cited the floating of Government's shares on the stock exchange as a means of improving transparency and accountability in the privatisation process.

6.4 Accountability

6.4.1 Perception of Accountability

Chapter 5 outlined the interrelatedness of the notions of: (i) corporate governance, (ii) stakeholder theory, and (iii) accountability. The discussions, therefore, explicitly probed the interviewees for their views about the latter in the context of the Ugandan corporate governance framework and the support for the stakeholder notion outlined in the previous section. The interviewees agreed that accountability to several stakeholders (i.e. not just shareholders) was an essential aspect of good governance, but they felt that very little accountability was evident in the current Ugandan environment, especially in public sector corporations. For example, a Company Secretary of a listed company made the following observation:

> In law, management is accountable to the company and to shareholders as a collective. However, if you look at society as a whole, depending upon the nature of the industry, the industry is such that it has an impact on the environment, or it extracts its resources from the environment. Government uses revenues collected from these companies in the form of taxes to provide services to the community. The community is also the market for the products of the company. The company survives because of the broader society and not just the shareholders. Management has, therefore, to be accountable to society on how they utilise the environment.

The elements that featured most prominently in the definitions of accountability advanced by the interviewees included perceptions of accountability as: (i) companies providing information to enable stakeholders to make judgements about the performance of management in running the company; (ii) management being able to justify their actions and decisions in the pursuit of maximising shareholder value; (iii) ensuring that what was entrusted to a person was put to the rightful use for the benefit

of whomever it was intended and as authorised (i.e. probity and legality); (iv) demonstrating proper stewardship of resources; (v) adhering to agreed budgets and programmes; and (vi) being able to demonstrate the reasonableness of policies followed (or not followed). Also included under accountability was the keeping of proper financial records and presenting proper and accurate periodic reports to relevant stakeholders such as regulatory authorities, Uganda Revenue Authority (URA) and shareholders. Proper stewardship of resources included being accountable for the impact of a company's activities and policies on the environment and the community in which the company operated. The concept of accountability to all those who affected or were affected by a company's activities and policies kept being repeated during the interviews. This concept was extended to accountability to all society by some interviewees, arguing that the world was becoming a global village where what was done in one part of the world affected other parts of the world (such as global warming).

These descriptions are broadly consistent with the (mainly US and UK) based definitions of accountability outlined in Chapter 5 and suggest that the notion of accountability is not exclusive to (or only applicable in) developed nations. The multi-dimensional view of accountability that was expressed by the interviewees was in line with Stewart's Ladder of Accountability (Stewart, 1984) that was also presented in Chapter 5. The interviewees expressed a wish for companies to act in a manner that was appropriate and consistent with the law (probity and legality); they were concerned about the value of companies being enhanced through proper management, transparency, disclosure and accountability which includes aspects of process, performance, programme and policy accountability. Probity, legality and policy

accountability, together with transparency and disclosure also have a bearing on the companies' relationships with various stakeholders that may affect or be affected by the companies' activities.

In summary, the views of the interviewees indicated that there was a need for greater accountability (of many types, including those suggested in Stewart's ladder) in Uganda and that concrete action was required to achieve it.

6.4.2 The State of Accountability in Ugandan Companies

All the interviewees were of the view that a basic level of accountability should apply to all corporations in Uganda. The following statement made by the CEO of the USE was typical in this regard:

> Accountability is critical; you cannot have corporate governance without accountability. To me it is the foundation of management and boards.

One of the legislators mentioned that the giving of reports by companies - and the assessment of managerial performance this facilitates – was vital to the proper running of companies.

However, as Table 6.5 indicates, virtually all the interviewees stated that the practical implementation of accountability in Uganda was very limited, especially in public sector corporations. Multinational companies were thought of as having better corporate governance than locally owned companies, while listed companies were perceived to be more accountable than their unlisted counterparts because of the listing requirements enforced by the CMA and the USE. Several interviewees mentioned conflicts of interest, political interference, poor record-keeping,

unqualified or incompetent staff, forged (managed) accounts, and family ownership of companies as some of the key factors affecting accountability in Uganda. The overall perception of interviewees that the level of accountability in Ugandan Companies was poor points to the need to take corporate governance issues seriously and to find ways of improving the confidence that stakeholders have in the governance practices of the Ugandan business sector.

Table 6.5 Views about the Level of Accountability in Ugandan Companies

Interviewee	Private Sector	Public Sector
Legislator 1	Poor	Poor
Legislator 2	Poor	Good**
Regulator 1	Poor	Very poor
Regulator 2	Poor, but some better than others	
Regulator 3	Poor, but some better than others	Poor
ICGU	Poor, but some better than others	
High Court Judge 1	Poor	Very poor
High Court Judge 2	Poor	Very poor
Company Secretary	Poor, but some better than others*	Poor
Senior Civil Servant	Poor	Very poor
Solicitor and Senior Partner	Poor	Poor
Former Director, Central Bank of Uganda		Poor
Managing Director of a company		Poor
Partner, CPA Firm	Poor	Poor
Former Executive Director	Poor	Very poor
Chairman, Transparency International	Poor	Poor

Note: This Table summarises the interviewees' perceptions regarding the level of accountability in the private and public sectors in Uganda.
* According to this Company Secretary, listed companies are slightly better because of listing requirements and public scrutiny.
** Legislator 2 serves on various Government committees while legislator 1 is a junior parliamentarian. Legislator 2's involvement could have influenced his views.

Referring to the reliability of information provided by companies, a Chief Accountant in one of the Government Ministries made the following comment:

> Accountability in Uganda is cosmetic in the sense that we reduce accountability to paperwork which may not reflect the actual reality of what has actually transpired. An example is the report on the construction

> of valley dams in Uganda. The report indicated that all valley dams had been constructed and completed satisfactorily whereas this was not entirely true.

One of the factors seen by the interviewees as impacting on accountability in Uganda was the structure of ownership of the entities. A Senior Official made the following observation:

> Most of the companies that we have in Uganda are either family owned or sole proprietorships and I do not think that the owners care about accountability.

One of the High Court Judges suggested that people in Uganda were "docile" and tended not to demand accountability from Government or those in charge of running private corporations, and were afraid of expressing themselves freely; the interviewee argued that this encouraged officials to act with impunity. This judge went on to suggest that the political history of Uganda might have affected people's attitudes in this manner, stating that:

> During the colonial times Ugandans used to exercise their rights through boycotts, but with the coming of military regimes people feared for their safety. Boycotts and any expression of displeasure were quickly quelled through the use of force against the demonstrators.

6.4.3 Summary of Findings on Accountability

Considering the interviews as a whole, it appears that the participants view accountability from a stakeholder perspective, whereby companies are seen as being accountable to a wider range of stakeholders than just shareholders. These stakeholders include all those who affect (or are affected by) the company's operations; some interviewees extended accountability to society as a whole. The views expressed throughout the interviews overwhelmingly indicate that there is a

need for greater accountability (of many types, including those suggested in Stewart's ladder) in Uganda and that concrete action is required to achieve it.

6.5 Views about the Most Pressing Issues in Corporate Governance in Uganda

Each interviewee was asked to state what he/she thought the most pressing governance-related issues in Uganda were.

The responses, summarised in Table 6.5, indicate that top of the list are: a lack of accountability, transparency and disclosure; followed by corruption and bribery; political interference and sectarianism; and the lack of compliance (or non-implementation) of laws and regulations.

The need for training and sensitising of stakeholders on the principles of corporate governance - together with the need for up-to-date laws that are enforceable - was also stressed as being urgent. Also mentioned by a majority of interviewees was the need for qualified, competent, experienced, and credible management and board members whose integrity was not questionable.

Table 6.6 Summary of views regarding the most pressing issues of Corporate Governance in Uganda

Issue	Interviewees who mentioned	Total number of interviewees	Percentage
Accountability, Transparency and Disclosure	16	16	100%
Corruption and bribery	14	16	88%
Political interference and sectarianism	14	16	88%
Implementation and Compliance with laws and regulations	14	16	88%
Training and sensitisation	12	16	75%
Proper and up-to-date laws that are enforceable	12	16	75%
Qualifications, competence and credibility of management and board members	11	16	69%
Inadequate infrastructure and resources for regulators	7	16	44%
Lack of ethical values and standards	6	16	38%
Need for a strong, competent and credible parliament that can make good laws and demand for accountability from gvt	5	16	31%
Lack of awareness of shareholders' rights	3	16	19%
Need to Protect minority shareholders	3	16	19%
Lack of political will to enforce CG	2	16	13%
Fairness to employees and shareholders	2	16	13%
Gender balance on boards and senior management positions	2	16	13%
Need to strengthen regulatory bodies such as the Registrar's office and the ICPAU	2	16	13%
Conflict of interests	1	16	6%
Lack of exemplary leadership by politicians	1	16	6%
Board members overstretched due to membership on too many boards	1	16	6%
Re-introduction of courses like Civics and Religion in schools to promote ethical values	1	16	6%
Salaries too low for a living wage	1	16	6%
Need for competent people to enforce laws and regulations	1	16	6%
Need for board evaluation	1	16	6%
Respect for the judiciary by the Government executive	1	16	6%
Keeping of proper records	1	16	6%
Democracy and good political leadership	1	16	6%
Appointment of auditors	1	16	6%

Note: This Table summarises the views of the interviewees regarding the most pressing issues of corporate governance in Uganda.

6.6 Summary

The semi-structured interviews reported in this chapter revealed a number of salient issues regarding the perceptions of stakeholders towards corporate governance in Uganda. These perceptions include: (i) the principles of corporate governance are known by a limited number of people who are considered to be an elite circle; (ii) training carried out by the ICGU has so far concentrated on the managers and board members of public sector corporations;[144] (iii) corporate governance in Uganda is viewed from a perspective that is broadly consistent with the central tenets of conventional stakeholder theory; (iv) detailed laws and regulations governing corporate governance exist in Uganda, but some of these are outdated and need revision; (v) Western models of corporate governance have been used to draft the principles of corporate governance in Uganda, but these should be adapted to fit local circumstances; (vi) most interviewees are of the view that all companies, whether listed or not, should be governed by the same principles of corporate governance, although the extent of disclosure may vary; (vii) corporate governance is seen as being important for the economic and social development of Uganda and for attracting both local and foreign investment; (viii) accountability, transparency and disclosure need to be strengthened; (ix) corruption, bribery and political interference should be eliminated; (x) measures to protect all stakeholders (including employees and minority shareholders) are needed, especially with the increased presence of foreign-owned or multinational companies within Uganda; (xi) regulatory and enforcement agencies need to be supported so that they can carry out their duties effectively; (xii) the accounting framework needs to be clarified and strengthened so

[144] Some members from the private sector corporations have also attended some corporate governance seminars.

that all companies use similar accounting standards (and accounting practices can be supervised and enforced to a meaningful degree); (xiii) negative cultural, social and ethical practices, such as glorifying those who become rich irrespective of the means used to acquire their wealth, need to be eliminated so that good practices can be promoted; and (xiv) Government should put in place sound fiscal and monetary policies that help nurture improvements in governance practices across all sectors.

What emerged clearly in the interviews was a perception that not all was well with respect to corporate governance in Uganda. Although these were the perceptions of the interviewees - and the researcher did not set out to verify whether they were true or not - it seems that the views of stakeholders may influence the way that they respond to certain situations. Investors may be unwilling to risk their money in a market which is perceived to be lacking accountability, transparency and integrity. Very few of them would think of investing in a market that is plagued with corruption and political interference. A sound and effective legal system, where investors' rights can be enforced and a regulatory system that is perceived to work satisfactorily, are more likely to encourage both local and foreign investment. Perceptions, therefore, may influence people's behaviour and have an impact on the management of both public and private sector companies in Uganda; this, in turn, may influence the economic and social development of Uganda and the willingness of both local and foreign stakeholders to invest in Uganda.

The findings from the interviews indicate that there might be some problems of accountability based upon Stewart's Ladder of accountability. The emphasis placed on accountability to stakeholders calls to question how true accountability can be

achieved in a stakeholder context if Stewart's notion of a bond of accountability is to be adhered to. As of March 2006, there are 8 companies listed on the USE, five of which are incorporated in Uganda, whilst the other three are registered in Kenya and cross-listed on the USE. [145] With the exception of Uganda Clays Limited, Ugandan shareholders own minority shareholdings in the companies listed on the Uganda Stock Exchange which do not entitle them to have actual control of those firms by virtue of their voting power. These companies are instead controlled by their multinational parent companies who own dominant shareholdings of up to 90% of total ownership. Policies are therefore dictated by parent companies to the extent that the Ugandan minority shareholders cannot hold management and boards accountable since there is no mechanism for enforcing the views of these minority shareholders. Since there is no true bond of accountability as specified by Stewart (1984), it could be concluded that Ugandan minority shareholders do not have a framework for holding management accountable.

The only remedy that could ensure accountability to the shareholders and other stakeholders would require the legal framework to enforce the protection of stakeholder rights. Some of the rights, such as those relating to environmental issues and labour relations, are currently protected by law and could thus be enforced in courts of law. In theory, therefore, stakeholders could hold companies accountable using the force of law. However, interviewees expressed concern that there was poor enforcement of laws and regulations and that some of the laws were inadequate or

[145] The 5 Ugandan companies currently listed on the USE are: (1) Uganda Clays Limited; (2) British American Tobacco; (3) Bank of Baroda; (4) Development Finance Company of Uganda; and (5) New Vision Printing and Publishing Company Ltd. The Kenyan companies cross-listed on the USE are: (1) Kenya Airways; (2) East African Breweries Limited; and (3) Jubilee Holdings Ltd. (See the USE website).

out-dated and not relevant. These issues need to be addressed in order to have true accountability for legality.

Accountability for probity could be problematic in the case of minority shareholders and other stakeholders unless the conduct of company officials violates laws and regulations. These minority shareholders cannot sanction management through "voice" as their vote is not large enough to compel company officials to comply with their views. Parent companies could even dictate unfavourable practices in order to transfer revenue from subsidiary companies by using practices such as transfer pricing, major asset revaluation and write-offs, and management contracts to the disadvantage of the minority shareholders in the subsidiary companies. Although this might not be considered appropriate by the Ugandan minority shareholders, these shareholders would have no recourse unless protected by relevant laws. Boards of the respective companies might need to look into accounting for probity to ensure the protection of Ugandan minority shareholders; management and accounting practices, in particular, need scrutinising in order to establish accounting for legality and probity. Some of the activities company officials and board members may be involved in may reflect the ethical values (or absence of ethical values) of the individuals who control companies. These values would impact on issues such as: integrity; honesty; political interference; conflicts of interest; corruption and bribery; unfair accounting practices; and the level of stewardship by company officials. In addition, these values may influence the accuracy, relevance, timeliness, adequacy and reliability of information provided to shareholders and other stakeholders; stakeholders use that information to assess the performance of companies and form a judgement as to whether management has been accountable for probity and legality.

The views of interviewees, therefore, seem to reflect a wish for true and proper accountability by companies but do not appear to be supported by actual practices in listed Ugandan companies whether these companies are in the private or the public sector (state-owned). Accountability may vary for unlisted companies depending on the type of ownership as noted by Berle and Means (1932). Interviewees noted that most Ugandan companies are owned by either sole proprietors or families and that these owners may not appreciate the need for accountability since there is no real separation between ownership and management. Also, cultural practices in Uganda do not encourage members of the family questioning the "head" of the family. These situations may not support Stewart's notion of a bond of accountability. However, it is conceivable that in situations of unlisted companies with share ownership of not more than 50 members, there could be shareholders with sufficient ownership – whether individual or combined with other shareholders – to exert control over management by the weight of their voting power and thereby establish a bond of accountability which can force management to be accountable. For accountability to other stakeholders who are not shareholders, there would be a need for enforceable laws and regulations that protect their interests. Alternatively, stakeholders could lobby both individual and institutional shareholders who have significant shareholdings and are sympathetic to the issues affecting stakeholders to advance the causes of the concerned stakeholders. The bond of accountability would then be exercised indirectly either by force of law or with the support of shareholders who have sufficient shareholdings to exert control over management.

The interviews documented in this study suggest that much more sensitisation is needed to develop awareness of the importance of good governance and accountability among directors and managers, as well as among a wide range of groups of stakeholders in Ugandan corporations. Several organisations, including the ICGU, are attempting to improve the situation, but the Government itself is seen as perhaps needing to exhibit a greater will to tackle corruption - and encourage accountability and good governance - not just in words, but in practical actions. Political cronyism, vested interests and interference, as well as a lack of sufficient backing for regulatory agencies appear to be serious obstacles to the emergence of improved governance structures in Uganda. A concerted effort is required to ensure that management and boards develop better corporate governance practices and enhance their accountability framework so that they become (and are seen to become) good corporate citizens.

In summary, there is clearly a need for the Ugandan authorities to address the issues identified in this study, and work towards a system of governance that will enhance confidence (both domestic and international) in the inherent accountability of the Ugandan corporate system. While the present study has limitations, most notably in the fact that only those willing to be interviewed took part, the results strongly point to a common view along the lines stated above and a need for action that is increasingly urgent.

Chapter 7 will present the results of the questionnaire survey that was conducted in Uganda. The questionnaire survey covered some of the important issues that were raised in the literature review (Chapter 2) and in the interviews (Chapter 6).

Chapter 7

Questionnaire Survey – Uganda

Chapter 7

Questionnaire Survey – Uganda

7.1 Introduction

Chapter 6 presented the results of the interviews conducted in Uganda as part of the research for this thesis. The present chapter outlines and discusses the results of the questionnaire survey carried out in the same country during the months of April, May and June 2005.

The questionnaire survey was administered to a cross-section of legislators, regulators, company employees, civil servants, academics, accountants, company executives, owner-managers of companies, individual investors, institutional investors, non-executive directors, executive directors and individuals working in the legal profession. In all, 382 questionnaires were distributed, out of which 158 were returned during that period; the response rate of 41.4% is high in comparison with other recent surveys that examine the views of a range of stakeholders (Burton et al., 2003; Helliar et al., 2001).

The questionnaire survey comprised 21 questions, most of which were divided into sub-questions.[146] The first question asked respondents to select the primary category to which they belonged; these categories are indicated in Table 7.1.

[146] Appendix 7.2 contains a copy of the questionnaire and Appendix 7.1 provides a copy of the accompanying letter.

Questions 2 to 14 employed a Likert Scale in which respondents were asked to note the extent of their agreement with each statement on a scale of 1 to 5 by ticking the appropriate box, where a 1 indicated strong disagreement and a 5 strong agreement.[147]

Table 7.1 Categories of Respondents for the Questionnaire

Category	Name	No.	% Resp.	Category	Name	No.	% Resp.
1	Legislators	7	23.3	8	Owner-managers	3	60.0
2	Regulators	6	100.0	9	Individual Investors	9	22.5
3	Company Employees	36	72.0	10	Institutional Investors	0	0.0
4	Civil Servants	16	32.0	11	Non-Executive Directors	4	57.1
5	Academics	21	60.0	12	Executive Directors	7	14.0
6	Accountants	16	80.0	13	Judiciary or Legal	4	40.0
7	Company Executives	25	39.1	14	Other	4	40.0

Note: This table shows the number of respondents and percentage response from each group of stakeholders.

The effect of ownership structure on the practice of corporate governance in Uganda was examined in Q15 where respondents were asked to select either "Yes", "No", or "I do not know". Question 19 asked respondents who worked in companies to indicate the accounting standards their firms employed and whether their companies had annual audits. This information was summarised and interpreted as part of the analysis of the questionnaire survey.

Respondents were asked in Q20 to list any other factors that could affect the practice of corporate governance in Uganda. Out of a total of 158 respondents, 103 (or 65.2%) suggested some other factors which they felt to be important, while 70 respondents (44.3%) gave additional comments in Q21 which asked for any other views about Ugandan corporate governance practices.[148]

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[147] The respondents were asked not to tick any box if they did not know the answer to a specific question.
[148] The factors and comments that were presented by the respondents have been incorporated in the analysis for questions 1 to 14.

For the purposes of analysis, the categories of respondents were divided into the following five groups:[149] (i) "LRJ", consisting of the legislators, regulators and members of the judiciary (17 responses); (ii) "CIO", made up of civil servants, individual investors, and others (29); (iii) "CEA", comprising company employees[150] and accountants (52); (iv) "EDO", composed of company executives, executive directors, non-executive directors and owner-managers (39); and (v) ACAD, which represents academics (21). The purpose of the groupings was to facilitate analysis between different classes of respondents by having fewer groups. Legislators, regulators and the judiciary were assumed to have similar characteristics; civil servants were also assumed to share similar characteristics with individual investors and others because most of these investors were employees not employed by commercial entities. Company employees were grouped together with accountants because the accountants who participated in the questionnaire survey were mainly internal and could therefore logically be considered to be company employees; only one of the accountants was an external auditor.[151] Company executives, executive directors and non-executive directors were thought to be similar because they are all involved in managing and/or controlling companies. The academics were perceived to be unique and were left in their own group.

[149] Respondents with similar professions or positions were identified as belonging to the same category. Categories that were perceived to be similar or expected to have similar views were combined together into what is referred to as groups in the thesis. The assumption was that these groups were composed of people in similar positions and, therefore, similar views.
[150] The employees in this category were mid-level management; senior level employees were classified as company executives.
[151] Attempts were made to contact external accountants (including PriceWaterhouseCoopers) but none of the major accounting firms responded to the questionnaire. Only one of the smaller accounting firms responded to the questionnaire survey.

The Anderson-Darling Test was used to establish whether the data obtained from the questionnaire survey was normally distributed before deciding on the analytical methods to be employed in examining the views of stakeholders in Uganda. The null hypothesis assumed by the test was that the data being tested was normally distributed. The p-values obtained from the test indicated that the probability of the associated A-Squared values were all zero to three decimal places. The test therefore established that, for each question in the survey, normality could be rejected at the 5% level (Appendix 7.4). It was, therefore, decided to use non-parametric methods of analysis consisting of: (i) the Chi-squared test; (ii) Kruskal-Wallis (KW) test; and (iii) the Mann-Whitney (MW) test. The chapter also employs parametric analysis where appropriate however; for example, mean responses to each question were thought to be more informative than medians in the context of a 5 point Likert scale, and so the former are reported and their significance examined in a one-sample t-test. However, analysis of the medians yielded very similar findings in terms of the pattern of significance. The chi-squared test was conducted to examine differences in relative numbers of respondents agreeing or disagreeing (irrespective of the strength of their views) with each question; responses of "4" and "5" were classed as agreeing, while responses of "1" or "2" were classed as disagreeing.[152] The KW test was used to establish whether there were differences in average response across the five different groups in their answers to each question. This test does not reveal where the differences lie; to establish this, the MW test was used to verify which pairs of group averages were significantly different.

[152] The questions asked in each section of the questionnaire, together with the results of the One Sample T-Test, Chi-square test, group averages, KW and MW tests have been presented in each table within the Chapter. The results of all the other statistical tests have been included in the Appendices, as follows: (i) frequencies (shown in Appendix 7.3); (ii) Anderson-darling normality test results (Appendix 7.4); and (iii) means for each of the 14 different categories of stakeholders shown in Table 7.1 (Appendix 7.5). An asterix (*) after a number in the tables indicates that the p-value is statistically significant at the 5% level of confidence.

The actual write-up of the survey findings does not follow the numerical order of the questions. Instead, questions were grouped together according to themes so as to present a more coherent view of the perceptions of the respondents.

7.2 Views Regarding the Concept of Corporate Governance

Question 2 of the survey sought to establish general perceptions regarding the concept of "corporate governance". The alternatives given in the question described corporate governance in terms of either the principal/agent model (which limits corporate governance to management's relationship with the owners of the company), or the stakeholder view (which extends the concept to management's relationship with a wider range of parties). Panel A of Table 7.2 shows the overall means, t-test and chi-squared test for each of the statements in questions 2(a) to 2(j), while Panel B of the same Table presents the group means and MW test results.

7.2.1 Principal/Agent vs. Stakeholder View

Questions 2(a) to 2(c) examined the extent to which respondents viewed corporate governance from a principal/agent and stakeholder standpoint. In Q2(a), the mean and the actual numbers of respondents showed that there was more disagreement with the principal/agent view since the overall mean was 2.72 and 58 out of 101 disagreed with the statement. A t-test (Panel A of Table 7.2) indicated that the mean was significantly different from the neutral response of 3 (p-value: 0.014), but the Chi-square test suggested that the relative numbers agreeing and disagreeing were not significantly different (p-value = 0.135). This seems to suggest that although the t-test rejected the

principal/agent model, the chi-square test indicated that there is still room for discussion as to which model to follow.

The statement which received most support was that which described corporate governance in terms of an organisation's relationship with all those stakeholders who are affected by, or who affect, the organisation's decisions and activities (Q 2b). This statement received an overall mean response of 4.29 and was supported by more than 93% of the respondents. As the relevant p-values of the t-test and chi-square test in Panel A of Table 7.2 illustrate, both the mean and proportion of responses were significantly different from their neutral values, demonstrating the respondents' clear support for the stakeholder view of corporate governance.

The statement in Q2(c), which suggested that corporate governance could be extended to all society irrespective of whether the individuals concerned affected or were affected by the operations of the organisation, was supported with an overall mean of 3.43. Although the support for this view was not as strong as the one in Q2(b) - which limited corporate governance to an organisation's relationship with stakeholders who were affected by, or who affected the organisation's decisions and activities – the level of support was greater than for limiting corporate governance to the principal/agency model. The number of responses supporting the statement in question 2(c) was 76, while 43 disagreed. As with Q2(b), the mean and response proportions suggested significant support for the statement.

The MW test (Panel B of Table 7.2) indicates that there were some differences between groups in terms of responses to Q2(a) and Q2(c). In particular, the MW test

results for Q2(a) indicate that the LRJ group provided significantly stronger support for the principal/agent theory of corporate governance than did the CIO group, with a p-value of 0.05 resulting. This evidence might reflect the possibility that legislators and regulators are more concerned about legal definitions while civil servants, individual investors and others are focussed more on practical relationships with a wider range of stakeholders.[153]

In question 2(c), the average response for the LRJ group was significantly lower than all the other groups, since it was the only group that expressed disagreement.[154] This evidence is consistent with a desire to only hold companies accountable for policies and activities that affect other parties or that are in violation of a specific law or regulation. In practical terms it might be difficult for regulators, legislators and the judiciary to take action against a company when there is no demonstrable evidence of the effect of a company's policies or actions on all society. The individuals who affect or are affected by a company would therefore be the only ones with grounds to hold a company answerable for their activities.

[153] Inspection of Appendix 7.5 indicates that, although the mean for the LRJ group was 3.19, the mean for the judiciary (category 13) was 2.75; notwithstanding the small numbers involved, the analysis on the stakeholder groups suggests that the judiciary view corporate governance as extending beyond the relationship between a company and its owners. Responses to Q2(b) indicate that the judiciary prefer companies to extend their relationship to all those stakeholders who are affected by, or who affect, the organisation's decisions and activities (mean: 4.75). It is interesting to note that the judiciary reject the notion of corporate governance referring to an organisation's relationship with all members of society, irrespective of whether they affect or are affected by the operations of the organization as suggested in Q2(c) (mean: 2.50). These views seem to be consistent with the judiciary's role as protecting the rights of individuals in their interaction with each other and not holding one responsible for actions for which one is not responsible. The judiciary, therefore, seem to be more analytical when looking at the substance of the interactions between companies and other parties.

[154] However, the means of individual categories indicated that the sub-group of regulators in the LRJ group was non-committal with a mean of 3.00 while categories 8 (owner-managers) and 11 (non-executive directors) in the EDO group had means of less than 3. It is not surprising that owner-managers did not want to be tied down to a relationship with all members of society; however, it is interesting to note that the non-executive directors had similar views to the legislators and the judiciary – possibly they were relatively cautious and did not want companies to be bound by relationships with the whole of society.

Table 7.2: Concept of Corporate Governance

Panel A: Questions

Statement	One Sample T-Test			Chi-square Test			
	Mean	T Stat	p-value	Disagree	Agree	Chi-Square	p-value
2(a) The term "corporate governance" refers to an organisation's relationship with its owners.	2.72	-2.50	0.014*	58	43	2.23	0.135
2(b) The term "corporate governance" refers to an organisation's relationship with all those stakeholders who are affected by, or who affect, the organisation's decisions and activities.	4.29	15.70	0.000*	9	120	95.51	0.000*
2(c) The term "corporate governance" refers to an organisation's relationship with all members of society, irrespective of whether they affect or are affected by the operations of the organisation.	3.43	3.54	0.001*	43	76	9.15	0.003*
2(d) Improvements in corporate governance will improve the accountability of Ugandan firms.	4.35	16.89	0.000*	7	121	101.53	0.000*
2(e) Improvements in corporate governance will help to reduce the level of corruption in Uganda.	4.10	11.81	0.000*	15	108	70.32	0.000*
2(f) All companies, whether listed or not, should be governed by the same principles of good governance.	4.36	15.26	0.000*	12	124	92.24	0.000*
2(g) Good corporate governance is important in attracting foreign investment in Uganda.	4.32	15.47	0.000*	9	118	93.55	0.000*
2(h) Good corporate governance is important in attracting local investment in Uganda.	3.84	8.01	0.000*	23	98	46.49	0.000*
2(i) Good corporate governance is important for the Ugandan economy.	4.55	23.72	0.000*	3	128	119.27	0.000*
2(j) Corporate social responsibility is an integral aspect of good corporate governance.	4.40	19.48	0.000*	5	125	110.77	0.000*

NOTE: Panel A of Table 7.2 presents the specific statements, overall means, T-Test results and Chi-square test results for questions 2(a) to 2(j).

Panel B: Group Means, Kruskal-Wallis and Mann-Whitney Test

	Groups Means					KW	Mann-Whitney Test p-values									
Q	LRJ	CIO	CEA	EDO	ACAD	P-Value	Gp (LRJ, CIO)	Gp (LRJ, CEA)	Gp (LRJ, EDO)	Gp (LRJ, ACAD)	Gp (CIO, CEA)	Gp (CIO, EDO)	Gp (CIO, ACAD)	Gp (CEA EDO)	Gp (CEA, ACAD)	Gp (EDO ACAD)
Q2(a)	3.19	2.33	2.53	2.92	2.89	0.19	0.05*	0.10	0.57	0.56	0.51	0.08	0.19	0.17	0.35	0.90
Q2(b)	4.18	4.08	4.26	4.45	4.39	0.40	0.50	0.96	0.39	0.48	0.30	0.08	0.15	0.28	0.40	0.99
Q2(c)	2.56	3.78	3.38	3.56	3.61	0.09	0.01*	0.05*	0.02*	0.03*	0.24	0.61	0.63	0.45	0.55	0.87
Q2(d)	4.24	4.21	4.21	4.69	4.28	0.16	0.40	0.71	0.34	0.94	0.52	0.01*	0.42	0.05*	0.76	0.24
Q2(e)	4.41	3.46	4.10	4.46	3.89	0.02*	0.01*	0.41	0.88	0.20	0.02*	0.00*	0.27	0.34	0.49	0.11
Q2(f)	4.65	4.21	4.22	4.41	4.53	0.59	0.34	0.17	0.67	0.36	0.76	0.56	0.88	0.22	0.63	0.48
Q2(g)	4.47	4.05	4.08	4.68	4.41	0.11	0.27	0.32	0.39	0.83	0.79	0.02*	0.37	0.02*	0.45	0.24
Q2(h)	4.29	3.17	3.75	4.18	3.78	0.02*	0.00*	0.24	0.81	0.34	0.05*	0.00*	0.11	0.22	0.94	0.38
Q2(i)	4.76	4.23	4.53	4.74	4.39	0.15	0.09	0.26	0.81	0.09	0.31	0.05*	0.88	0.21	0.38	0.06
Q2(j)	4.53	4.22	4.45	4.37	4.41	0.88	0.36	0.81	0.60	0.68	0.36	0.59	0.64	0.68	0.79	0.98

Note: Panel B of Table 7.2 shows the group means, plus the p-values for the KW and MW tests for questions 2(a) to 2(j). The KW test shows whether there are any differences in the means of the responses given by the groups for each question, while the MW test tries to establish which particular pairs of group means are significantly different from each other.

An evaluation of the answers to the three questions relating to the concept of corporate governance indicates that the strongest support was for the perception of the term referring to an organisation's relationship with all those who are affected by, or who affect, an organisation's decisions and activities. This lends support to a stakeholder view of corporate governance and suggests that organisations need to identify their stakeholders and take them into account as part of their practice of corporate governance.

7.2.2 Relevance of Corporate Governance

Questions 2(d), 2(e), 2(g), 2(h) and 2(i) examined the relevance of corporate governance in Uganda. Panel A of Table 7.2 details the specific statements to which respondents were asked to state the extent of their agreement; the Panel also indicates the means, and t-test and chi-square test results relating to accountability, corruption, foreign investment, local investment and the economy.

The p-values for the t-test (shown in Panel A of Table 7.2) indicate strong concurrence with each statement, with the means all proving to be significantly different from 3. The overall means for each question also suggest that corporate governance is seen as relevant in Uganda in terms of improving the accountability of Ugandan firms, helping to reduce the level of corruption, and attracting both local and foreign investment.[155]

[155] Out of the respondents who answered the question, 128 supported the statement that corporate governance was important for the Ugandan economy and only 3 opposed it; the mean was 4.55.

Although these responses seem to indicate general support for the statements, there were some noticeable differences among the groups as indicated by the means of the different groups (Panel B of Table 7.2) and confirmed by the KW test (Appendix 7.5). Inspection of the MW test p-values reveals that there were significant differences between groups in questions 2(e) dealing with corruption, and 2(h) regarding the attraction of local investment to Uganda; in particular, the CIO group was the least optimistic in agreeing with the statements that corporate governance would help to reduce the level of corruption in Uganda (mean = 3.46) and in attracting local investment in the country (3.17). This finding is consistent with the notion that corruption is endemic in the Ugandan public sector where the civil servants work, and that a need exists to address this issue and improve governance in public sector corporations. The EDO group (mean = 4.68) lent the highest support for the statement in question 2(g) which suggested that good corporate governance was important in attracting foreign investment in Uganda; such investors might logically be interested in the strategic planning, profitability and growth potential of the company, which would be among the main governance issues handled by the Board. The differences in the responses of the EDO group (mean = 4.36) and both the CIO (4.05) and CEA (3.98) groups were statistically significant. This finding might indicate that the EDO group appreciate the problems of raising investment for companies since they are the ones more likely to be involved in raising capital for the company than, for instance, company employees in the CEA group.

7.2.3 The Applicability of Corporate Governance Principles

Question 2(f) asked respondents to state the extent of their agreement with the view that all companies, whether listed or otherwise, should be governed by the same

principles of good governance. Most of the respondents - 83% - who answered the question agreed; this is arguably surprising because countries such as the UK make special provisions for small- and medium-sized companies, and these are often exempted from certain requirements of the codes of corporate governance. It is possible that the respondents were unaware of all the requirements of the principles of corporate governance as expressed in various codes. The argument given by some individuals who were interviewed in October 2004 was that certain principles of governance were universal in nature and should be applied to all companies, irrespective of size (see Chapter 6). However, some respondents were of the view that the extent of disclosure requirements would differ according to the size and ownership structure of the company.[156]

Respondents were asked in Question 2(j) to state whether corporate social responsibility was an integral aspect of good corporate governance and 86% of those who answered the question agreed that it was.[157] All the groups seemed to be in agreement as neither the KW nor the MW tests identified any differences in answers between groups.

[156] It is worth noting that all the regulators (category 2) and owner-managers (category 8) supported this statement with an average of 5.00 for each category (Appendix 7.5).
[157] An examination of the means of the different categories revealed that the highest support for the statement came from legislators and non-executive directors with an average of 5.00 each, followed by the accountants (mean of 4.73), and owner-managers and others who each had a mean of 4.67. Surprisingly, it was the judiciary and the executive directors who gave the least support, albeit with an average of 4.00.

7.2.4 The State and Importance of Corporate Governance in Uganda

A frequent comment in response to the open questions (20 and 21) was that board members, company directors, employees and other stakeholders had little knowledge about the main concepts underlying the notion of corporate governance. The ICGU has been carrying out sensitisation seminars lasting for three days, but these seminars have been aimed at senior officers and board members working in public sector corporations; these three-day seminars are arguably unlikely to make board members knowledgeable in all aspects of corporate governance; moreover, they involve only a small fraction of all the board members in Ugandan firms. The need to have induction sessions on appointment and continued training programmes for board members was expressed by many of the respondents as a way of disseminating the principles and improving on the practice of corporate governance; it appears clear that this suggestion needs urgent attention by Ugandan companies.

Some of the respondents suggested that regulatory authorities and each company should draw up clear rules that would form a code of conduct for employees, management and board members, and that these rules might enhance good corporate governance as part of the culture of the organisation. This evidence suggests that managers and boards of Ugandan businesses need further convincing about the need to encourage good corporate governance practices (and the disadvantages of bad governance) for individual companies, stakeholders and society as a whole.[158]

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[158] Some of the respondents mentioned members of various professions, such as accountants and lawyers, as having an important role in business operations. These professionals, together with regulators and the Government itself, were called upon to be committed and play an important part in disseminating and encouraging the practice of good governance in companies.

As reported in Chapter 6, the interviewees argued that corporate governance was important for the economic and social development of Uganda, and for creating wealth for shareholders. These individuals further suggested that such aims could be achieved if boards managed resources in a more transparent manner, promoting accountability, managing risk, attracting both local and foreign investment and protecting the interests of all shareholders. One of the stakeholder interviewees supported the above view by making the following comment in Q21 of the questionnaire:

> If Uganda is to attract quality international investments, then it has to embrace good corporate governance and ensure that we have a transparent business environment in which to operate. Corporate governance is, therefore, important for our growth and development.

7.3 International Corporate Governance Guidelines

Question 3 dealt with issues relating to international corporate governance guidelines. Q3(a) asked respondents to express their views about the relevance of guidelines developed by the Western World to Uganda, while Q3(b) asked whether such international norms could be adopted by developing countries, such as Uganda, without the need to adapt them to individual home-country circumstances. The results in each case are shown in Table 7.3 below.

There was significant support for the notion that international guidelines have relevance in a Ugandan context (mean = 3.38). The LRJ group had the highest mean of 3.82 for Q3(a); the academics were the only group whose mean was below 3.[159]

[159] An inspection of responses across the 14 stakeholder categories (Appendix 7.5) revealed that the judiciary had the highest mean in support of this statement (4.25). This might be due to the fact that the

The MW test (shown in Panel B of Table 7.3) revealed that there were significant differences in responses between the LRJ group and the CIO, although both groups expressed significantly higher support than did the ACAD group. The academics disagreed (mean = 2.7) with the relevance of the international corporate governance guidelines; this result is surprising since academics generally acknowledge the opinions of other thinkers in their pursuit of knowledge, irrespective of the country of origin of those other thinkers. It is possible that the academics resented the idea of having guidelines being imposed on Ugandans from outside.

Similarly, for Q3(b) the group means ranged between 2.15 (ACAD) and 3.14 (EDO). However, although the number of respondents who disagreed with the statement that international guidelines could be adopted by developing countries (including Uganda) without the need to adapt them to the individual circumstances of those countries was more than those who agreed and the overall mean for all respondents was 2.84, the chi-squared test results in Panel A of Table 7.3 indicated that the difference between those who disagreed and those who agreed was not statistically significant (p-value of 0.348). There was, therefore, no conclusive evidence to suggest that the respondents either agreed or disagreed with the statement in question 3(b). The OECD Principles (2004) suggested that their guidelines should be adapted to the circumstances of individual countries.[160] The MW test indicated a significantly lower average response

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judiciary sometimes use judgements rendered in similar cases (irrespective of the country in which the judgement was given) as precedents. The regulators were next in support of the statement (mean = 4.17), followed by non-executive directors. These two categories of stakeholders would, presumably, be quite familiar with what is involved in running companies and would appreciate the guidance given by international guidelines. Academics (2.70) and others (2.50), who expressed the least agreement with the relevance of international guidelines, are not directly involved in the management or regulation of companies and might therefore be responding from a theoretical point of view.

[160] The OECD Principles (2004) suggested that their guidelines should be adapted to the circumstances of individual countries. Those who disagreed most with the adoption of international guidelines without the need to adapt them to the circumstances of individual countries were the judiciary, the non-executive directors and the academics with means of 1.75, 2.00 and 2.15 respectively (Appendix 7.5);

from the ACAD group than the EDO, CIO, and CEA groups. It is arguably surprising that the EDO group would agree with the adoption of international guidelines without the need to adapt them to individual country circumstances.

Several comments were made by respondents to Q20 and Q21 in which the current trend towards globalisation and its impact on the practice of corporate governance all over the world was acknowledged. For example, one respondent commented that:

> The world is becoming a global village and multinational investors influence the practice of corporate governance in developing countries, including Uganda. Globalisation can help to improve corporate governance in Uganda as Uganda needs to rise up to global expectations if it is to remain a player in the global economic market.

While some respondents commented that the concepts of corporate governance were new in African countries, others argued that these concepts were already part of the African culture. One respondent commented as follows:

> Although corporate governance is often seen as a Western concept, it is an old phenomenon in Africa. Traditionally, Africans cared about one another, had a sense of responsibility, understanding and vision; there was also a sense of shame if someone acted in a manner that was not consistent with the accepted norms of society. Whatever an African did was considered to have an impact on the community and appropriate sanctions would be taken against those whose behaviour was believed not to be in the interests of the community.[161]

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this might be because these groups looked at the principles and the local situation more critically than the others.

[161] It is possible that the community-based values referred to by the respondent have been eroded as Ugandan culture has interacted with (and been affected by) interactions with other traditions and with the rise of a new breed of leaders and executives who do not owe allegiance to cultural values. In addition, the whole structure of society has changed and members of society are not subject to sanctions imposed by cultural structures and values based on the good of the community.

Table 7.3 International Corporate Governance Guidelines

Panel A: Questions

Statement	One Sample T-Test			Chi-square Test			
	Mean	T Stat	p-value	Disagree	Agree	Chi-Square	p-value
3(a) International guidelines of corporate governance that have been developed by the Western World are relevant to Uganda.	3.38	3.66	0.000*	34	79	17.92	0.000*
3(b) International guidelines can be adopted by developing countries (including Uganda) without the need to adapt them to the individual circumstances of these countries.	2.84	-1.41	0.000*	62	52	0.88	0.348

NOTE: Panel A of Table 7.3 shows the statistical results of the One Sample T-Test and Chi-square Test for Q3(a) and Q3(b).

Panel B: Group Means, Kruskal-Wallis and Mann-Whitney Test

Q	Group Means					KW	Mann-Whitney Test p-values									
	LRJ	CIO	CEA	EDO	ACAD	P-Value	Gp (LRJ, CIO)	Gp (LRJ, CEA)	Gp (LRJ, EDO)	Gp (LRJ, ACAD)	Gp (CIO, CEA)	Gp (CIO, EDO)	Gp (CIO, ACAD)	Gp (CEA EDO)	Gp (CEA, ACAD)	Gp (EDO ACAD)
Q3(a)	3.82	3.46	3.41	3.46	2.70	0.10	0.26	0.20	0.37	0.01*	0.95	0.78	0.07	0.68	0.06	0.03*
Q3(b)	2.76	3.05	2.84	3.14	2.15	0.11	0.53	0.85	0.38	0.19	0.59	0.75	0.02*	0.31	0.04*	0.01*

Note: Panel B of Table 7.3 shows the group means, plus the p-values for the KW and MW tests for questions 3(a) and 3(b). The KW test shows whether there are any differences in the means of the responses given by the groups for each question, while the MW test tries to establish which particular pairs of group means are significantly different from each other.

7.4 Disclosure and Transparency

Several authors, such as Berglof and Pajuste (2005), Solomon and Solomon (2005), Brenkert (2004), Monks and Minow (2001) and Abayo et al. (1993) have stressed the importance of disclosure and transparency in the proper governance of firms.[162] In question 4, respondents were asked to state the extent of their agreement with a range of views relating to disclosure and transparency; the results are shown in Table 7.4.

The results of the t-test (Panel B of Table 7.4) indicate that respondents agreed that the following disclosures should be made to stakeholders: (a) the financial and operating results of the company (mean = 4.68); (b) the company's objectives (4.72); (c) major share ownership and voting rights (4.40); (d) the remuneration policy for the members of the board and key executives (4.20); (e) information about board members (4.43); (f) related party transactions (4.01); (g) foreseeable risk factors (4.12); (h) governance structures and policies (4.46); (i) material interest in any transaction or matter directly affecting the Corporation (4.16); and (j) the impact of the organisation's activities on society and the environment (4.37).[163] These views are consistent with the UK's revised Combined Code of Corporate Governance (2003) and other Western models of corporate governance; internal accountability and corporate relations with other stakeholders would both be enhanced if these disclosure and transparency measures were observed.

[162] The Sarbanes-Oxley Act of 2002 dedicated a whole Section (Title IV) to financial disclosure, while the Combined Code devoted Schedule C to disclosure of corporate governance arrangements. The UK Directors' Remuneration Report Regulations 2002 require quoted companies to prepare and allow a vote on a directors' remuneration report containing specific information as outlined by the regulations.

[163] Unexpectedly, it was category 3 (composed of company employees) that offered the least support for disclosure of related party transactions with a mean of 3.56 while the highest support came from individual investors (category 9) and non-executive directors who each had a mean of 5.00 (Appendix 7.6). This would suggest that employees could have had an interest in related party transactions and wanted to protect their position.

The answers to Q4(i), which dealt with disclosure of material interest in any transaction or matter directly affecting the Corporation, were consistent with the answers in Q4(f) which covered disclosure of related party transactions; the lowest means were from academics (3.90) while the highest support came from the LRJ group (4.53). This evidence is not surprising since legislators, regulators and the judiciary would be interested in firms disclosing certain information that is required for their continued registration as companies and listing on stock markets. Academics might not appreciate the requirements for such disclosure if they are less aware of regulatory requirements and the likely effect of directors having a material interest in company transactions (or of a company having related party transactions).

It was, however, noted by a number of respondents in Q20 and Q21 that some companies were not run in a transparent manner and that such companies had poor disclosure practices.[164] It was also claimed that some Ugandan companies, including public sector corporations, did not disclose financial information to their employees and that access to this information was limited to a select few executives. Some respondents even argued that the Government itself had not adhered to high standards of transparency in the process of privatising former state owned corporations. In the light of these comments, it appears that levels of disclosure and transparency in Uganda need to be urgently looked into with a view to their enhancement.

[164] They cited examples of some foreign owned companies which kept two sets of books: one set would be in English and would be used for official purposes; the other set would be in a foreign language which the Ugandan executives and company employees did not understand – this set of books which was kept by the foreign nationals themselves would be the set of accounts reflecting the actual transactions as opposed to the "cooked" financial statements in the official accounts.

Table 7.4 Disclosure and Transparency

Panel A: Questions

Q.4. Companies in Uganda should make a timely and accurate disclosure to relevant stakeholders on all material matters regarding the corporation in the following aspects:

Statement	One Sample T Test			Chi-Square Test			
	Mean	T Stat	p-value	Disagree	Agree	Chi-Square	p-value
4(a) the financial and operating results of the company	4.68	35.10	0.000*	0	142	142.00	0.000*
4(b) the company objectives	4.72	35.41	0.000*	1	142	139.03	0.000*
4(c) major share ownership and voting rights	4.40	19.62	0.000*	7	128	108.45	0.000*
4(d) remuneration policy for members of the board and key executives	4.20	13.08	0.000*	15	116	77.87	0.000*
4(e) information about board members, including their qualifications, the selection process, other company directorships and whether they are regarded as independent by the board.	4.43	20.27	0.000*	6	131	114.05	0.000*
4(f) related party transactions	4.01	11.04	0.000*	15	108	70.32	0.000*
4(g) foreseeable risk factors	4.12	13.35	0.000*	10	108	81.39	0.000*
4(h) governance structures and policies, in particular, the content of any corporate governance code or policy and the process by which it is implemented.	4.46	21.69	0.000*	4	129	117.48	0.000*
4(i) material interest in any transaction or matter directly affecting the Corporation.	4.16	13.29	0.000*	11	109	80.03	0.000*
4(j) the impact of the organisation's activities on society and the environment.	4.37	18.29	0.000*	9	129	104.35	0.000*

NOTE: Panel A of Table 7.4 shows the questions, together with the statistical results for the One Sample T-Test and Chi-square test for questions 4(a) to 4(j).

Panel B: Group Means, Kruskal-Wallis and Mann-Whitney Test

	Groups Means					KW	Mann-Whitney Test p-values									
Q	LRJ	CIO	CEA	EDO	ACAD	P-Value	Gp (LRJ, CIO)	Gp (LRJ, CEA)	Gp (LRJ, EDO)	Gp (LRJ, ACAD)	Gp (CIO, CEA)	Gp (CIO, EDO)	Gp (CIO, ACAD)	Gp (CEA EDO)	Gp (CEA, ACAD)	Gp (EDO ACAD)
Q4(a)	4.76	4.46	4.69	4.82	4.62	0.10	0.08	0.80	0.95	0.32	0.05*	0.01*	0.39	0.65	0.34	0.16
Q4(b)	4.82	4.63	4.63	4.82	4.81	0.24	0.31	0.17	0.89	0.61	0.75	0.14	0.55	0.04*	0.31	0.43
Q4(c)	4.59	4.38	4.24	4.46	4.52	0.44	0.21	0.11	0.47	0.34	0.72	0.42	0.61	0.20	0.39	0.74
Q4(d)	4.41	4.48	3.83	4.28	4.43	0.12	0.97	0.09	0.57	0.94	0.05*	0.56	0.97	0.10	0.06	0.50
Q4(e)	4.59	4.57	4.24	4.54	4.38	0.53	0.83	0.25	0.80	0.85	0.15	0.60	0.70	0.23	0.38	1.00
Q4(f)	4.41	4.09	3.82	4.21	3.71	0.10	0.33	0.12	0.94	0.02*	0.53	0.36	0.18	0.10	0.47	0.02*
Q4(g)	4.06	4.00	3.98	4.36	4.21	0.16	0.97	0.98	0.04*	0.36	0.96	0.04*	0.38	0.04*	0.43	0.29
Q4(h)	4.59	4.43	4.31	4.66	4.38	0.24	0.42	0.22	0.90	0.19	0.68	0.23	0.54	0.06	0.79	0.05*
Q4(i)	4.53	4.09	4.10	4.26	3.90	0.40	0.16	0.20	0.57	0.08	0.83	0.35	0.66	0.39	0.46	0.17
Q4(j)	4.53	4.74	4.18	4.38	4.29	0.10	0.32	0.20	0.90	0.36	0.01*	0.21	0.04*	0.16	0.74	0.34

Note: Panel B of Table 7.4 shows the group means, plus the p-values for the KW and MW tests for questions 4(a) to 4(j). The KW test shows whether there are any differences in the means of the responses given by the groups for each question, while the MW test tries to establish which particular pairs of group means are significantly different from each other.

7.5 The Board of Directors

7.5.1 Composition of the Board

Various issues dealing with the composition of the Board were covered in Q8. Panel A of Table 7.5 presents the specific questions used and a summary of the responses received. It can be seen from the panel that an overwhelming majority of respondents agreed with all three related statements. The perception of the respondents was that: (a) the majority of the members of the board should be independent non-executive directors; (b) the Chairman of the Board should be an independent non-executive director; and (c) the Chief Executive should not at the same time be the Chairman of the Board. These views are consistent with the revised Combined Code (2003) in the UK.

There were no significant differences in means between the five groups of respondents for Q8(a). However, the MW test indicated that for Q8(b), there were significant differences in the answers given by the EDO (with the strongest level of support) and both the ACAD and the CEA groups. The EDO and LRJ groups provided the strongest level of support for the view that the Chairman of the board should be an independent non-executive director, while the ACAD and CEA groups expressed the least agreement. Similarly, for Q8(c) the EDO (mean = 4.82) and LRJ (4.82) groups agreed most with the suggestion that the Chief Executive should not simultaneously be the Chairman of the board, while the CIO (4.26) and CEA (4.46) agreed with it least. The responses to Q8(b) and 8(c) may well reflect the fact that the EDO group is the one faced with the challenges of dealing with the Chairman and the CEO of companies, and are therefore aware of the possible problems that can arise as

a result of combining the two roles. The LRJ appeared to be more sensitive to the consequences of having a Chairman who is not independent and of combining the roles of Chairman and Chief Executive. In contrast, the ACAD, CIO and CEA groups do not, generally, deal with board matters.

Several factors were mentioned in responses to the open questions, Q20 and Q21, relating to desired board composition characteristics; among these was the scarcity of candidates who were sufficiently knowledgeable in matters of corporate governance to be appointed as directors. The perception of respondents was that some board members lacked the skills, knowledge and technical competence required of them in controlling management, setting the direction of the company, and being accountable and responsible to the relevant stakeholders. It was, therefore, questioned whether – under existing circumstances – Ugandan firms could get sufficient numbers of appropriately qualified and competent individuals to act as independent non-executive directors.[165] Some respondents were of the view that the selection process of board members was not transparent and lacked the participation of shareholders.[166] In addition, respondents felt that merit, rather than political or other sectarian considerations, should be used as a basis for appointing directors and senior company executives.

165 Other respondents, however, felt that the selection of board members was currently made from a few individuals who were on several boards at the same time; it was thought that a wider selection of possible candidates could be found with a proper nationwide search (i.e not just in Kampala, the Capital City of Uganda).

166 The Manual on Corporate Governance in Uganda (2001) states that the nomination committee is one of the most relevant committees of the board (par. 2.7).

Table 7.5 **Composition of the Board**

Panel A: One Sample T-Test and Chi-square Test

Statement	One Sample T-Test			Chi-square Test			
	Mean	T Stat	P-Value	Disagree	Agree	Chi-Square	P-Value
Q8(a) The majority of the members of the board should be independent non-executive directors.	4.18	14.06	0.000*	11	119	89.72	0.000*
Q8(b) The Chairman of the board should be an independent non-executive director.	4.27	12.92	0.000*	19	121	74.31	0.000*
Q8(c) The Chief Executive should not at the same time be the Chairman of the board.	4.61	21.47	0.000*	7	135	115.38	0.000*

NOTE: Panel A of Table 7.5 shows the statements, One Sample t-Test and Chi-square Test for questions 8(a) to 8(c).

Panel B: Group Means, Kruskal-Wallis and Mann-Whitney Test

	Group Means					KW	Mann-Whitney Test p-values									
Q	LRJ	CIO	CEA	EDO	ACAD	P-Value	Gp (LRJ, CIO)	Gp (LRJ, CEA)	Gp (LRJ, EDO)	Gp (LRJ, ACAD)	Gp (CIO, CEA)	Gp (CIO, EDO)	Gp (CIO, ACAD)	Gp (CEA EDO)	Gp (CEA, ACAD)	Gp (EDO ACAD)
Q8(a)	4.53	3.92	4.12	4.33	4.10	0.29	0.06	0.27	0.80	0.19	0.32	0.08	0.60	0.31	0.71	0.24
Q8(b)	4.47	4.25	4.08	4.56	4.05	0.17	0.42	0.23	0.78	0.17	0.74	0.15	0.50	0.04*	0.71	0.04*
Q8(c)	4.82	4.26	4.46	4.82	4.76	0.08	0.09	0.19	0.88	0.80	0.46	0.02*	0.11	0.05*	0.25	0.65

NOTE: Panel B of Table 7.5 shows the group means, plus the p-values for the KW and MW tests for questions 8(a) to 8(c). The KW test shows whether there are any differences in the means of the responses given by the groups for each question, while the MW test tries to establish which particular pairs of group means are significantly different from each other.

There appears to be a need for Ugandan authorities to examine the processes and criteria used for selecting board members, to ensure that technical competence, experience, qualifications, personal skills, and stakeholder interests are taken into account; it would also be useful if, once appointed, members are given a formal induction programme to familiarise them with the workings of the company and provide them the necessary background information to make decisions for, and about, the company. Subsequent training of new board members should also be seen as a priority to enable them to continue improving their knowledge of the principles of corporate governance and the various aspects of their role in governing the company. Currently there seems to be very little training (if any) of private sector board members.

7.5.2 The Responsibilities of the Board

Respondents were asked to express the extent of their agreement with statements presented in Q9 relating to the responsibilities of Boards (Panel A of Table 7.5). As can be seen, the respondents agreed that Boards had all twelve of the responsibilities mentioned. These perceptions of stakeholders in Uganda are consistent with the recommendations contained in the revised Combined Code (2003) of the UK and of the Revised OECD Principles (2004) of corporate governance. It is therefore evident that the principles regarding the responsibilities of the board in Uganda are similar to those contained in international principles of corporate governance. The problem seems to be in the implementation of those principles.

The MW test revealed significant differences in the averages of various pairs of groups for questions 9(g), 9(h), 9(i), 9(j), 9(k) and 9(l). For 9(g). The CEA group expressed the lowest agreement amongst the respondents for the statement that all boards should always treat all shareholders fairly, particularly when board decisions may affect different shareholder groups differently. However, the extent of agreement was very high for all groups. Similarly for 9(h), the MW test identified significantly lower support from the CEA than the EDO group. Once again, the high level of agreement with the statement that all boards should take into account the interests of other stakeholders when making decisions came from the EDO group, while the CEA group had the lowest mean. As with Q9(g), all the group means were high and the KW test did not identify overall inter-group variation in average responses. The KW test indicated that there were, however, significant differences in responses to Q9(i). The MW test identified significantly lower support from the CEA and both the EDO and ACAD groups. The mean of the CEA group was the lowest while the ACAD and EDO groups displayed the highest extent of agreement with the statement which suggested that all boards should monitor the effectiveness of their company's governance practices and make changes as needed. For Q9(j), significant differences in means were identified between the CEA (mean = 4.35) and both the EDO (4.76) and ACAD (4.67) groups. The EDO group agreed most with the statement in question (that all boards should align key executive and board remuneration with the longer-term interests of the company and its shareholders). Consistent with the earlier responses, the EDO group (mean = 4.79) expressed the highest extent of agreement with the statement in Q9(k) which suggested that all boards should be responsible for selecting, compensating, monitoring and, when necessary, replacing key executives and overseeing succession planning; the CEA group (4.21) had the lowest mean for

this question. Similarly, significant differences were also identified in Q9(l) between the CEA and the EDO groups and between the CIO and both the EDO and ACAD groups. The EDO group expressed the highest extent of agreement with several of the statements in Q9 relating to responsibilities. This evidence suggests that the respondents who were company executives, executive directors, non-executive directors or owner-managers viewed the responsibilities of the board in wide terms, probably reflecting their senior positions in the company. The company employees, who were the majority in the CEA group, seemed to be less familiar with the responsibilities of the board, possibly because they were not closely involved with the workings of boards. However, all groups exhibited an underlying knowledge of the responsibilities of boards since all group means for each part of Q9 were higher than 4.00.

The respondents also made various comments in Q20 and Q21 regarding the responsibilities of the board. Most of the issues raised related to certain shortfalls which were perceived as needing attention to enable board members to improve their responsibilities. Training (in-service and external) and refresher courses for both management and board members were stressed as being crucial for board members to know, understand and put into practice the principles of proper corporate governance. The attitude of both management and board members towards issues of corporate governance was also thought to need attention.

Table 7.6 The Responsibilities of the Board

Panel A: One Sample T-Test and Chi-square Test

Statement	One Sample T-Test			Chi-square Test			
	Mean	T Stat	p-value	Disagree	Agree	Chi-Square	P-Value
Q9(a) All Board members in Uganda should be provided with sufficient information about the company to enable them make informed decisions.	4.88	58.74	0.000*	0	149	149.00	0.000*
Q9(b) All Board members should be provided with equal, accurate, timely and cost efficient access to relevant information about the company.	4.75	36.16	0.000*	2	147	141.11	00000*
Q9(c) All Board members should act in good faith, with due diligence and care, and in the best interests of the company and its shareholders.	4.81	49.19	0.000*	0	149	149.00	0.000*
Q9(d) All Board members should play an important role in ensuring the integrity of the corporation's accounting and financial reporting systems.	4.68	33.26	0.000*	1	144	141.03	0.000*
Q9(e) Non-executive board members should play an important role in ensuring that the board exercises objective independent judgement on corporate affairs.	4.47	21.25	0.000*	6	133	116.04	0.000*
Q9(f) The nomination and election process of board members should be formal and transparent.	4.70	33.18	0.000*	1	140	137.03	0.000*
Q9(g) All Boards should always treat all shareholders fairly, particularly when board decisions may affect different shareholder groups differently.	4.71	37.44	0.000*	2	147	141.11	0.000*
Q9(h) All Boards should take into account the interests of other stakeholders when making decisions.	4.56	21.98	0.000*	6	134	117.03	0.000*
Q9(i) All Boards should monitor the effectiveness of their company's Governance practices and make changes as needed.	4.52	21.79	0.000*	5	131	116.74	0.000*
Q9(j) All Boards should align key executive and board remuneration (incentives) with the longer-term interests of the company and its shareholders.	4.50	23.02	0.000*	4	133	121.47	0.000*
Q9(k) All Boards should be responsible for selecting, compensating, monitoring and, when necessary, replacing key executives and overseeing succession planning.	4.43	19.03	0.000*	6	130	113.06	0.000*
Q9(l) All Boards should monitor and manage potential conflicts of interest of management, board members and shareholders, including the misuse of corporate assets and abuse in related party transactions.	4.52	21.73	0.000*	7	138	118.35	0.000*

NOTE: Panel A of Table 7.6 shows the questions, together with the statistical results for the One Sample T-Test and Chi-square test for questions 9(a) to 9(l).

Panel B: Group Means, Kruskal-Wallis and Mann-Whitney Test

	Group Means					KW	Mann-Whitney Test p-values									
Q	LRJ	CIO	CEA	EDO	ACAD	P-Value	Gp (LRJ, CIO)	Gp (LRJ, CEA)	Gp (LRJ, EDO)	Gp (LRJ, ACAD)	Gp (CIO, CEA)	Gp (CIO, EDO)	Gp (CIO, ACAD)	Gp (CEA EDO)	Gp (CEA, ACAD)	Gp (EDO ACAD)
Q9(a)	4.76	4.79	4.90	4.92	4.95	0.61	0.70	0.24	0.25	0.19	0.47	0.48	0.34	0.98	0.65	0.67
Q9(b)	4.76	4.71	4.62	4.87	4.90	0.39	0.96	0.79	0.32	0.25	0.71	0.34	0.27	0.12	0.13	0.71
Q9(c)	4.71	4.71	4.79	4.90	4.90	0.41	0.94	0.57	0.18	0.23	0.45	0.11	0.17	0.32	0.38	0.93
Q9(d)	4.71	4.63	4.57	4.82	4.76	0.54	0.38	0.41	0.87	0.80	0.88	0.15	0.44	0.15	0.50	0.59
Q9(e)	4.71	4.39	4.25	4.66	4.57	0.27	0.28	0.09	0.61	0.69	0.56	0.40	0.47	0.08	0.18	0.96
Q9(f)	4.59	4.70	4.62	4.79	4.81	0.53	0.45	0.84	0.36	0.16	0.46	0.97	0.48	0.36	0.14	0.38
Q9(g)	4.59	4.74	4.58	4.85	4.85	0.10	0.47	0.93	0.08	0.08	0.42	0.31	0.22	0.04*	0.05*	0.63
Q9(h)	4.76	4.65	4.29	4.72	4.67	0.10	0.74	0.14	0.54	0.87	0.21	0.33	0.65	0.01*	0.11	0.71
Q9(i)	4.59	4.57	4.27	4.66	4.76	0.04*	0.93	0.22	0.49	0.30	0.16	0.57	0.34	0.01*	0.02*	0.58
Q9(j)	4.24	4.43	4.35	4.76	4.67	0.06	0.44	0.92	0.05*	0.10	0.37	0.31	0.38	0.01*	0.05*	0.91
Q9(k)	4.41	4.25	4.21	4.79	4.52	0.04*	0.28	0.32	0.34	0.90	0.77	0.01*	0.19	0.01*	0.20	0.37
Q9(l)	4.71	4.08	4.35	4.85	4.71	0.01*	0.08	0.28	0.23	0.53	0.29	0.00*	0.02*	0.01*	0.08	0.67

Note: Panel B of Table 7.6 shows the group means, plus the p-values for the KW and MW tests for questions 9(a) to 9(l). The KW test shows whether there are any differences in the means of the responses given by the groups for each question, while the MW test tries to establish which particular pairs of group means are significantly different from each other.

Some board members were perceived by respondents as putting personal interests above the interests of the companies on whose boards they served. One of the respondents observed that:

> Many directors still think that being appointed to the board is just a reward for something that he or she has done outside the company. So they come with the mentality of receiving and not of adding value.[167]

Some respondents argued that the level of remuneration was poor and did not provide commensurate reward for the efforts of directors in the performance of their duties and that this could also be an obstacle to good governance. Respondents also suggested that boards should come up with mechanisms and policies that provide proper incentives for management to commit to standards of good governance and increase the value of the corporations on behalf of the stakeholders. Some respondents emphasised that the procedures for appointing Chief Executives should be clear, fair and transparent, just as there should be a clear definition of roles within corporations so as to avoid role conflicts and undue interference. The personal traits of management - and the CEO in particular - were seen as being a major factor in the governance of corporations; it was thought that these traits should be taken into account when considering candidates for appointment to those positions. Interference by owners or non-executive board members in the day-to-day management of corporations was seen as a possible setback for good corporate governance; the respondents suggested that the roles of management, the board and the owners should be clearly laid out and ownership should be separated from management.

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[167] This comment was made in view of appointments that are made based upon political considerations; there are Government appointees on the boards of most of the privatised corporations in Uganda.

7.5.3 Board Committees

Q10 sought stakeholder perceptions on what committees the boards should have. Inspection of Panels A and B of Table 7.7 reveals that there was strong agreement among respondents that companies should have: an Audit Committee, a Remuneration Committee, a Nomination Committee, a Governance Committee and a Risk Committee.[168] However, a number of respondents pointed out that some of these committees could be combined instead of having each committee as a separate entity.[169]

The MW test results revealed some differences in responses to Q10(d) and Q10(e). For example, in Q10(d) the academics agreed most with the statement suggesting that boards should have Governance Committees to scrutinise all matters relating to corporate governance, while the LRJ group provided the least support. It seems that the LRJ group took the view that governance issues were a matter for the board as a whole; academics might be used to having review committees to deal with different issues, and this could have influenced their view that boards should establish governance committees to scrutinise corporate governance issues. While all the groups supported the setting up of risk committees, as suggested by Q10(e), the extent of agreement was significantly different between the CEA and both the EDO and ACAD groups.

[168] The Ugandan Manual on Corporate Governance (2001) recommends the nomination committee, remuneration committee, audit committee and governance committee as being among the most relevant committees that boards should have (par. 2.7).
[169] One of the respondents suggested that the Audit Committee could be combined with the Risk Committee.

Table 7.7 **Board Committees**

Panel A: One Sample T-Test and Chi-square Test

Companies should have the following committees of the board:

	One Sample T-Test			Chi-square Test			
Statement	Mean	T Stat	P-Value	Disagree	Agree	Chi-Square	p-value
Q10(a) **Audit Committee** – to oversee the accounting and financial reporting policies and processes and to liaise with internal and external auditors.	4.71	28.40	0.000*	4	140	128.44	0.000*
Q10(b) **Remuneration Committee** – to assist in determining the company's policy on executive remuneration and specific remuneration packages for each of the Executive Directors.	4.28	15.90	0.000*	9	120	95.51	0.000*
Q10(c) **Nomination Committee** – to lead the process for board appointments, make recommendations to the board and be involved with succession planning in the company.	4.15	12.54	0.000*	16	115	74.82	0.000*
Q10(d) **Governance Committee** – to scrutinize all matters relating to corporate governance in the company.	4.36	17.01	0.000*	10	128	100.90	0.000*
Q10(e) **Risk Committee** – to assess and monitor the risks that the company is facing, especially financial risks.	4.23	13.42	0.000*	15	117	78.82	0.000*
Q11(a) **Audit Committees** should be composed of ONLY non-executive directors who are independent of the company.	3.91	8.27	0.000*	29	105	43.10*	0.000*
Q11(b) **Remuneration Committees** should be composed of ONLY non-executive directors who are independent of the company.	3.61	5.62	0.000*	34	87	23.21*	0.000*
Q11(c) **Nomination Committee** – the majority of members of the nomination committee should be independent non-executive directors.	3.87	8.90	0.000*	19	102	56.93*	0.000*

NOTE: Panel A of Table 7.7 presents the statements and the results of the One Sample and Chi-square tests for questions 10 and 11 with respect to Board Committees and their composition.

Panel B: Group Means, Kruskal-Wallis and Mann-Whitney Test

	Group Means					KW	Mann-Whitney Test p-values									
Q	LRJ	CIO	CEA	EDO	ACAD	P-Value	Gp (LRJ, CIO)	Gp (LRJ, CEA)	Gp (LRJ, EDO)	Gp (LRJ, ACAD)	Gp (CIO, CEA)	Gp (CIO, EDO)	Gp (CIO, ACAD)	Gp (CEA EDO)	Gp (CEA, ACAD)	Gp (EDO ACAD)
Q10(a)	4.71	4.75	4.73	4.77	4.52	0.57	0.82	0.93	0.77	0.49	0.89	0.91	0.29	0.79	0.35	0.26
Q10(b)	4.12	4.21	4.12	4.47	4.52	0.27	0.79	1.00	0.23	0.20	0.72	0.29	0.24	0.10	0.11	0.83
Q10(c)	3.88	4.42	4.02	4.26	4.19	0.33	0.15	0.68	0.31	0.42	0.14	0.59	0.44	0.34	0.55	0.83
Q10(d)	3.94	4.33	4.43	4.33	4.62	0.37	0.30	0.09	0.23	0.04*	0.68	1.00	0.30	0.63	0.39	0.25
Q10(e)	4.00	4.21	3.98	4.49	4.57	0.11	0.58	0.96	0.13	0.12	0.44	0.30	0.22	0.04*	0.05*	0.75
Q11(a)	4.00	4.04	3.75	4.08	3.76	0.89	0.91	0.52	0.83	0.60	0.40	0.91	0.51	0.27	0.98	0.41
Q11(b)	3.94	3.33	3.56	3.92	3.19	0.12	0.14	0.29	0.96	0.10	0.48	0.09	0.73	0.20	0.29	0.06
Q11(c)	3.35	3.96	3.90	4.13	3.67	0.33	0.13	0.12	0.04*	0.50	0.84	0.54	0.41	0.35	0.46	0.16

NOTE: Panel B of Table 7.7 shows the group means, plus the p-values for the KW and MW tests for questions 10(a) to 11(c). The KW test shows whether there are any differences in the means of the responses given by the groups for each question, while the MW test tries to establish which particular pairs of group means are significantly different from each other.

The academics expressed the highest agreement with the statement suggesting that every company should have a Risk Committee to assess and monitor the risks that a company is faced with, especially financial risks (mean = 4.57) while the company employees and accountants supported it to a lesser extent with a group mean of 3.98.[170] It is possible that company employees had a relatively low appreciation of the risks faced by a company and did not see the need for a special committee to assess and monitor such uncertainty; they may have been of the view that monitoring and assessing risks was a matter for the board as a whole, or that risk management could be delegated to a board committee with other duties, such as the audit committee.[171]

The major issue highlighted by the responses appears to be the difficulty of finding candidates who are qualified, experienced and competent enough to serve on these committees and to enlist the cooperation of all those concerned so that the work of the committee members can be facilitated.

In Q20 and Q21, the respondents recommended Audit committees for all companies as a means of improving accountability. The strengthening of both internal and external audits for effectiveness, and making corporate governance report a mandatory part of a company's annual financial statements were also suggested. The integrity of the accounting profession was seen as a pre-requisite for audited

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[170] However, the means of the sub-categories (shown in Appendix 7.5) indicate that owner-managers (category 8), followed by executive directors (category 12), with means of 5.00 and 4.71 respectively, agreed most strongly with the statement in Q10(e) while the least support came from legislators (category 1), others (category 14) and, perhaps surprisingly, accountants, with means of 3.57, 3.75 and 3.88 respectively. It must be noted, however, that all the categories supported the setting up of risk committees to assess and monitor the risks that companies face (especially financial risks). It is possible that the accountants were of the view that the risk committee could be combined with the audit committee.

[171] The King Report II (2002) recommended that: "A board committee, either a dedicated committee or one with other responsibilities, should be appointed to assist the board in reviewing the risk management process and the significant risks facing the company" (par. 3.1.6).

statements that could provide assurance to users of financial statements. Respondents expressed the view that boards should set up mechanisms for ensuring that the required reports were filed and that their integrity was monitored.

7.5.4 Composition of Board Committees

Q11 developed the line of enquiry begun in Q10 by seeking respondents' views regarding the composition of board committees; the three statements are also shown in Table 7.7. The majority of respondents (105 out of 134) agreed with the view that Audit Committees should be composed of only non-executive directors who were independent of the company, with a mean of 3.91. There was also agreement with a statement which suggested that Remuneration Committees should only be composed of non-executive directors who were independent of the company (mean = 3.61). The respondents also felt that the majority of members on the Nomination Committee should be independent non-executive directors (3.87). The chi-squared test suggested that the difference between those who agreed and those who disagreed with the statements was statistically significant for each of the statements in Q11 (Panel A of Table 7.7).

While there were no statistically significant differences in averages between different groups for questions 11(a) and 11(b), the MW test (Panel B of Table 7.7) indicated that there was a statistically significant difference between the answers given by the LRJ group and EDO group for Q11(c). The former group (legislators, regulators and judiciary) expressed the least agreement with the view that the majority of the members on the Nomination Committee should be independent, non-executive

directors (mean = 3.35) while the company executives, directors and owner-managers offered the most support. The reverse might logically have been expected given the powers vested in the LRJ group. A closer inspection of the means of the individual categories (Appendix 7.5), however, revealed that the judiciary (sub-category 13) strongly affected the overall mean of this group since this category had a mean of 2.00 while the regulators (sub-category 2) had a mean of 4.50 and the legislators a mean of 3.14. It is possible that the judiciary were influenced by the fact that judges in Uganda are nominated by the members of the Judicial Service Commission; the latter are members of the legal profession and not necessarily independent.

7.6 Factors Affecting Corporate Governance Practice

This section of the questionnaire sought to establish stakeholders' views as to which factors most affected the practice of corporate governance in Uganda. The responses, summarised in Panel A of Table 7.8, indicated agreement with statements to the effect that corruption and bribery, conflicts of interest, sectarianism, non-compliance with laws and regulations, inadequate infrastructure (and resources) for regulatory and enforcement agencies, as well as insignificant fines that fail to encourage compliance with laws and regulations, affect both private sector and public sector corporations.

Panel A of Table 7.8 indicates that the respondents to Q7(f) felt that incompetent personnel are more prevalent in public sector corporations (mean = 4.02) than in private ones (mean = 2.97). Fear and respect for the authority of elders was not perceived as affecting private sector corporations (mean = 2.69), and there was only

lukewarm support for it affecting public sector corporations (mean = 3.08).[173] Instead, it is the fear and respect for those in authority that seems to affect the governance of companies, as indicated by answers to question 7(l). This view suggests that employees in corporations, whether public or private, respect those in authority (even if these are younger than they are). This respect, however, is often coupled with a fear for those in authority. Other factors that affect the public sector include: political interference; lack of political will to combat corruption; lack of political will to enforce compliance; incompetent personnel; and fear and respect for those in authority. The results indicate that the public sector is affected far more by these factors than the private sector; this is clear in particular from the higher means and numbers of those agreeing with each of the statements in Panel A of Table 7.8.

While the KW test only identified differences in responses for Q(k)(ii), the MW test results (shown in Panel B (i) and B (ii) of Table 7.8 for private and public sector corporations respectively) indicated that there were statistically significant differences in answers between the groups for questions 7(a)(i), 7(b)(i), 7(b)(ii), 7(d)(i), 7(h)(i), 7(i)(i), 7(k)(i), 7(k)(ii) and 7(l)(i). These results indicate that academics expressed the highest agreement with the statement in Q7(a)(i) that corruption and bribery affected private sector corporations, while company employees and accountants (i.e. the CEA group) agreed with it to a lesser extent. It was arguably surprising that company employees expressed less agreement with this statement than the EDO group; this could be because employees are believed to be deeply steeped in corruption and bribery and did not want to point an accusing finger at themselves. However, all

[173] This result seems to contradict the views of the interviewees in Chapter 6 who felt that fear and respect for the authority of elders affects the governance of all corporations.

groups agreed that corruption and bribery affected both private and public sector corporations.

The LRJ group displayed significantly greater support than the CIO, CEA and EDO groups for question 7(b)(i), which asked whether conflicts of interest affected the practice of corporate governance in private sector companies. While all the groups agreed that conflicts of interest had an impact in private sector corporations, the extent of agreement for the LRJ group was significantly higher than for other groups. This might be because legislators, regulators and the judiciary have to deal with cases involving conflicts of interests, and therefore are more aware of the effect of such conflicts of interests on the governance of corporations. There was also a significant difference between the EDO and the academics in their responses as to whether conflicts of interest affected public sector corporations, with the former group agreeing most strongly.[174]

The EDO group (with a mean of 2.76) was the only group that did not agree with the view expressed in Q7(d)(i) stating that lack of political will to combat corruption affected private sector corporations.[175] The MW test identified significant differences in answers between the academics and both the EDO and CEA groups with the latter two groups supplying less support. On the whole, respondents who worked in private sector companies and the judiciary (who handled the cases of corruption in private

[174] Interestingly, the CIO and EDO groups who are actively involved in business expressed their agreement with the statement with mean responses of 4.65 and 4.77 respectively; within the former group, owner-managers (category 8) agreed with the statement with a mean of 5 (see Appendix 7.5).
[175] An inspection of the means of individual categories (shown in Appendix 7.5) indicates that the judiciary (category 13) did not support the statement (mean = 2.25) while individual investors (category 9) remained neutral (mean of 3.00). With the exception of owner-managers (category 8) who had a mean of 4, all the other categories in the EDO group had means that were below 3. The judiciary (sub-category 13) in the LRJ group also disagreed with the statement (mean = 2.25). It is possible that while other groups pointed accusing fingers at Government (and politicians), the EDO group felt that they themselves were the ones primarily responsible for corruption in private sector companies.

sector companies) expressed less agreement with the statement than other respondents.[176] It should, however, be pointed out that the Chi-square test (shown in Panel A of Table 7.8) indicates that the difference in numbers agreeing and disagreeing with the statement is not significant (p-value of 0.190), although those who agreed were more numerous than those who disagreed (64 and 50 respectively). The one sample t-test also indicates that the mean for this question is not significantly different from the test value of 3 (p-value: 0.148). It cannot, therefore, be conclusively argued that the respondents agreed with the view that lack of political will to combat corruption affects private sector corporations.

As Panel B of Table 7.8 shows, only the EDO group failed to agree with the statement in Q7(e)(i) that a lack of political will to enforce compliance affected private sector corporations. This result was surprising because it might have been expected that the legislators and regulators would have a more favourable impression of their role than the company executives and directors with respect to the political will needed to enforce compliance.[177] It appears reasonable to argue that the company executives and directors might rather blame themselves than the politicians for any lack of compliance with corporate governance guidelines, since the executives and directors are the ones who bear the responsibility for non-compliance in private companies.

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[176] However, all the other categories, except the judiciary (i.e. legislators, regulators, company employees, civil servants, academics, accountants, owner-managers, individual investors and others) agreed with the view that lack of political will to combat corruption affected private sector corporations (see Appendix 7.5).

[177] The legislators (category 1) and regulators (category 2) agreed with the statement (with means of 3.88 and 4.50 respectively) suggesting that a lack of political will to enforce compliance affected corporate governance in private sector corporations while company executives and directors disagreed with the statement, generating means of 2.46 and 2.67 respectively (see Appendix 7.5).

Table 7.8 Factors that affect Corporate Governance in Uganda

Panel A: Questions, T-Test and Chi-square Tests

Q 7 Please indicate the extent of your agreement as to whether the following factors affect the practice of corporate governance in private sector and public sector (Government-owned) corporations.

	(i) Private Sector Corporations							(ii) Public Sector Corporations						
Statement	Mean	T Stat	P-Value	Dis-agree	Agree	Chi-Square	P-value	Mean	T stat	P-Value	Dis-agree	Agree	Chi-Square	P-Value
7(a) Corruption and bribery	3.71	6.29	0.000*	38	88	19.84	0.000*	4.77	34.19	0.000*	3	142	133.25	0.000*
7(b) Conflicts of interest	3.79	7.81	0.000*	22	92	42.98	0.000*	4.50	21.26	0.000*	6	134	117.03	0.000*
7(c) Political interference	3.19	1.67	0.098	49	63	1.75	0.186	4.78	34.28	0.000*	3	140	131.25	0.000*
7(d) Lack of political will to combat corruption	3.18	1.46	0.148	50	64	1.72	0.190	4.49	18.18	0.000*	9	126	101.40	0.000*
7(e) Lack of political will to enforce compliance	3.17	1.48	0.140	44	64	3.70	0.054	4.36	16.65	0.000*	9	119	94.53	0.000*
7(f) Incompetent personnel	2.97	-0.31	0.757	58	54	0.14	0.708	4.02	10.76	0.000*	19	108	62.37	0.000*
7(g) Sectarianism	3.36	3.24	0.002*	41	71	8.04	0.005*	4.02	17.29	0.000*	5	117	102.82	0.000*
7(h) Non-compliance with laws and regulations	3.62	5.6	0.000*	33	83	21.55	0.000*	3.99	11.18	0.000*	16	101	61.75	0.000*
7(i) Inadequate infrastructure and resources for regulatory and enforcement agencies	3.51	4.55	0.000*	37	76	13.46	0.000*	3.82	7.78	0.000*	26	100	43.46	0.000*
7(j) Insignificant fines which do not encourage compliance with laws	3.66	5.95	0.000*	28	84	28.00	0.000*	3.82	9.7	0.000*	21	105	56.00	0.000*
7(k) Fear and respect for the authority of elders	2.69	-2.76	0.007*	69	41	7.13	0.008*	3.08	0.62	0.536	56	62	0.31	0.578
7(l) Fear and respect for those in authority.	3.34	2.96	0.004*	40	67	6.81	0.009*	3.76	7	0.000*	28	98	38.89	0.000*

NOTE: Panel A of Table 7.8 shows the means, and the results of the One Sample T-Test and Chi-square test for questions 7(a) to 7(l).

Panel B (i): Group Means, Kruskal-Wallis and Mann-Whitney Test - Private Sector Corporations

	Group Means					KW	Mann-Whitney Test p-values									
Q	LRJ	CIO	CEA	EDO	ACAD	P-Value	Gp (LRJ, CIO)	Gp (LRJ, CEA)	Gp (LRJ, EDO)	Gp (LRJ, ACAD)	Gp (CIO, CEA)	Gp (CIO, EDO)	Gp (CIO, ACAD)	Gp (CEA EDO)	Gp (CEA, ACAD)	Gp (EDO ACAD)
Q7(a)(i)	3.81	3.73	3.44	3.76	4.2	0.36	0.98	0.45	0.94	0.23	0.47	0.96	0.27	0.30	0.05*	0.22
Q7(b)(i)	4.44	3.76	3.68	3.65	3.84	0.25	0.05*	0.05*	0.03*	0.12	0.97	0.72	0.80	0.75	0.79	0.54
Q7(c)(i)	3.06	3.52	3.18	2.92	3.53	0.42	0.39	0.81	0.73	0.34	0.33	0.10	0.82	0.39	0.33	0.13
Q7(d)(i)	3.38	3.55	3.06	2.76	3.76	0.08	0.55	0.33	0.17	0.34	0.13	0.06	0.67	0.27	0.05*	0.03*
Q7(e)(i)	3.56	3.32	3.08	2.81	3.69	0.13	0.84	0.10	0.10	0.38	0.32	0.23	0.31	0.35	0.07	0.06
Q7(f)(i)	3.13	2.71	2.96	2.89	3.26	0.74	0.35	0.63	0.53	0.70	0.47	0.64	0.24	0.78	0.40	0.36
Q7(g)(i)	3.33	3.57	3.33	3.39	3.17	0.90	0.44	0.93	0.81	0.68	0.33	0.62	0.51	0.70	0.75	0.67
Q7(h)(i)	3.81	3.35	3.35	3.89	3.89	0.17	0.22	0.28	0.59	0.49	0.92	0.09	0.13	0.05*	0.12	0.92
Q7(i)(i)	4	3.35	3.23	3.68	3.68	0.27	0.19	0.05*	0.53	0.89	0.75	0.40	0.42	0.13	0.21	0.84
Q7(j)(i)	4.06	3.4	3.49	3.84	3.67	0.51	0.22	0.15	0.82	0.70	0.87	0.27	0.54	0.19	0.52	0.79
Q7(k)(i)	2.8	2.38	2.49	3.11	2.67	0.24	0.39	0.49	0.49	0.82	0.66	0.06	0.48	0.04*	0.63	0.27
Q7(l)(i)	3.87	3.24	2.98	3.43	3.79	0.10	0.26	0.03*	0.31	0.96	0.44	0.69	0.28	0.15	0.03*	0.35

NOTE: Panel B (i) of Table 7.8 shows the group means, plus the p-values for the KW and MW tests for questions 7(a)(i) to 7(l)(i). The KW test shows whether there are any differences in the means of the responses given by the groups for each question, while the MW test tries to establish which particular pairs of group means are significantly different from each other.

Panel B (ii): Group Means, Kruskal-Wallis and Mann-Whitney Test - Public Sector Corporations

	Group Means					KW	Mann-Whitney Test p-values									
Q	LRJ	CIO	CEA	EDO	ACAD	P-Value	Gp (LRJ, CIO)	Gp (LRJ, CEA)	Gp (LRJ, EDO)	Gp (LRJ, ACAD)	Gp (CIO, CEA)	Gp (CIO, EDO)	Gp (CIO, ACAD)	Gp (CEA EDO)	Gp (CEA, ACAD)	Gp (EDO ACAD)
Q7(a)(ii)	4.82	4.79	4.77	4.81	4.6	0.91	0.80	0.72	0.79	0.70	0.47	0.56	0.85	0.95	0.45	0.48
Q7(b)(ii)	4.53	4.65	4.46	4.72	4	0.20	0.49	0.68	0.28	0.28	0.74	0.75	0.08	0.47	0.09	0.02*
Q7(c)(ii)	4.82	4.67	4.84	4.83	4.6	0.41	0.72	0.61	0.35	0.51	0.30	0.17	0.75	0.60	0.17	0.09
Q7(d)(ii)	4.59	4.38	4.56	4.44	4.44	0.99	0.88	0.92	0.88	0.90	0.97	0.73	0.72	0.69	0.74	0.88
Q7(e)(ii)	4.41	4.04	4.31	4.57	4.44	0.18	0.47	0.90	0.11	0.60	0.46	0.03*	0.25	0.05*	0.47	0.42
Q7(f)(ii)	3.82	3.83	3.92	4.17	4.4	0.43	0.89	0.53	0.18	0.10	0.66	0.24	0.15	0.37	0.28	0.80
Q7(g)(ii)	4.06	4.22	4.36	4.25	4.53	0.49	0.50	0.19	0.24	0.09	0.67	0.71	0.27	0.94	0.33	0.39
Q7(h)(ii)	3.88	3.91	4	4.09	3.95	0.89	1.00	0.63	0.36	0.77	0.68	0.40	0.83	0.58	0.89	0.58
Q7(i)(ii)	3.81	3.96	3.67	4.17	3.43	0.15	0.18	0.89	0.03*	0.78	0.28	0.38	0.39	0.03*	0.72	0.10
Q7(j)(ii)	4	3.95	3.9	4.11	3.86	0.95	0.56	0.85	0.42	0.83	0.66	0.93	0.74	0.57	0.97	0.72
Q7(k)(ii)	2.76	2.57	3.26	3.56	2.58	0.04*	0.59	0.21	0.05*	0.64	0.07	0.01*	0.93	0.36	0.09	0.02*
Q7(l)(ii)	3.88	3.35	3.65	4.03	3.95	0.41	0.36	0.62	0.51	0.64	0.53	0.11	0.21	0.16	0.30	0.91

NOTE: Panel B (ii) of Table 7.8 shows the group means, plus the p-values for the KW and MW tests for questions 7(a)(ii) to 7(l)(ii). The KW test shows whether there are any differences in the means of the responses given by the groups for each question, while the MW test tries to establish which particular pairs of group means are significantly different from each other.

The group means shown in Panel B of Table 7.8 indicate that all the groups expressed strong agreement with the view that a lack of political will to enforce compliance affected public sector corporations (all means were above 4 for this statement). The MW test identified significantly stronger support from the EDO group and both the CIO and CEA groups. This evidence might reflect the EDO group being more conversant with governance issues in both private and public sector companies and, therefore, finding themselves in a better position to make an informed judgement. However, all the groups strongly agreed that the lack of political will to enforce compliance affected the practice of corporate governance in public sector corporations.

There were also differences in means between groups in responses to Q7(h)(i) which suggested that non-compliance with laws and regulations affected the practice of corporate governance in private sector corporations. The ACAD (mean = 3.89) and EDO (3.89) groups expressed the strongest agreement with the statement, while the CEA group (3.35) agreed with it least. Once again, it appears reasonable to surmise that the EDO group's responses reflected a more informed position relative to the CEA group, members of which are not directly involved in enforcing compliance in companies.[178]

Differences were also identified in responses to Q7(i)(ii) which stated that inadequate infrastructure and resources for regulatory and enforcement agencies affected the practice of corporate governance in public sector corporations. The MW test indicated significantly stronger support from the EDO group and both the CEA and LRJ groups.

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178 The ACAD group might be speculating on possible causes for the state of corporate governance in Uganda.

The EDO group had the highest mean while the CEA and LRJ had the lowest. In one respect this result is surprising because it might logically have been expected that the LRJ group would have the highest mean since its members are the ones most directly involved with regulation and enforcement.[179] The LRJ group (mean = 4.00) agreed most strongly with the statement in Q7(i)(i) which suggested that a lack of adequate infrastructure and resources for regulatory and enforcement agencies affected corporate governance in private sector corporations, while the CEA group agreed least (3.23). The responses to Q7(i) suggest that members of the LRJ group are of the view that inadequate infrastructure and resources for enforcement agencies affects the practice of corporate governance in private sector companies more than public sector ones. This evidence might reflect the fact that the regulators who responded to the questionnaires were most involved in regulating private sector corporations. It is also possible that the LRJ group took the view that corporate governance in public sector corporations was really a concern for the line ministries under which those enterprises fell, and not the regulators directly; the respondents might not have included those line ministries among regulators and enforcement agencies. Alternatively, the LRJ group may simply not have believed that those Government ministries lacked the infrastructure and resources to monitor the companies under their charge.

Only the EDO group (mean = 3.11) agreed with the statement in Q7(k)(i) that fear and respect for the authority of elders affected corporate governance in private sector

[179] An examination of the means of the individual categories (Appendix 7.5) reveals that the regulators themselves had a mean of 4.00 which makes sense since they would be aware of the factors limiting their enforcement of regulations governing corporate governance. However, the categories that agreed with the statement most strongly were: owner-managers (5.00); executive directors (4.67); civil servants (4.33); and company executives (4.13).

companies.[180] Question 7(k)(ii) asked respondents to express their views as to whether fear and respect for the authority of elders affected the practice of corporate governance in Ugandan public sector corporations. Inspection of Panel B of Table 7.8 reveals that the CEA and EDO groups agreed with the statement (with means of 3.26 and 3.56 respectively) while all the other groups had a mean of less than 3; the overall mean was 3.08. There was, however, a significantly higher average response from the EDO group than the LRJ, CIO and ACAD groups.[181] The answers to question 7(k)(ii) indicate that those who work in companies support this view with respect to public sector corporations, (albeit with a mean of 3.08) but not for private sector ones (mean = 2.69).

Q7(l)(i) and 7(l)(ii) asked whether fear and respect for those in authority affected private and public sector corporations. As in all questions in this section, there was more agreement with the view that fear and respect for those in authority affected public sector corporations (mean = 3.76) more than private ones (mean of 3.34). There were no significant differences in the means of the groups in their responses to question 7(l)(ii) which concerned itself with public sector corporations. However, the MW test revealed differences in Q7(l)(i) where the answers for the CEA group were significantly different from those of the LRJ (p-value: 0.03) and ACAD groups (p-

[180] An inspection of the means of the individual categories (Appendix 7.5) shows that it was only the regulators (category 2) who agreed with the statement (mean: 4); all the other categories did not agree. This perception seems to have been based upon the traditional practices in African cultures, as expressed in the interviews (Chapter 6 of this thesis).

[181] A closer examination of the means of the individual categories (in Appendix 7.5) indicates that the individuals who work in companies, such as owner-managers (mean = 4.00), company executives (3.75), company employees (3.57) and executive directors (3.17) perceive fear and respect for the authority of elders as affecting the practice of corporate governance in public sector corporations; these company people were supported by regulators (4.00) and others (3.33). This evidence is consistent with the findings of the interviews in Chapter 6 where interviewees mentioned fear and respect for the authority of elders as being among the factors that affect corporate governance in both private and public sectors, but more strongly in the latter. It is possible that this fear is perceived to exist in public sector corporations because of respect for seniority in the public sector (where promotions are also influenced by the length of service), whereas in the private sector the priority might be on delivering expected results.

value: 0.03). While the LRJ and ACAD groups agreed with the statement with means of 3.87 and 3.79 respectively, the CEA had a mean of 2.98.[182] On the whole, these views were in consonance with those expressed by interviewees in Chapter 6. One would have expected the CEA group to agree with the statement more than the other groups but, it seems, this group is not as sensitive to corporate governance issues as the other groups, such as the LRJ.

7.7 Stakeholders

Question 12 asked respondents to identify who they thought the term "stakeholders" referred to. Given the importance of the issue of corruption in Ugandan corporations that emerged during the interviews, respondents were also asked whether each of the potential stakeholder groups were affected by it.

7.7.1 Stakeholder Groups

Respondents were asked to express the extent of their agreement with the statements in Panel A of Table 7.9 with a view to establishing which groups are perceived to be stakeholders in Uganda. The mean values of the responses indicated that all the groups mentioned were perceived as stakeholders with each mean being above 3 and significant.[183]

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[182] Inspection of the means of the individual categories within the CEA group (see Appendix 7.5) indicates that company employees agreed with the statement (mean: 3.14) and the accountants disagreed (2.60). All the different categories of those who actually work in companies agreed with the statement (albeit, to different degrees). The category that gave the highest support to the statement was that of the regulators (category 20 with a mean of 4.50.

[183] The non-parametric Chi-square test (Panel A of Table 7.0) verified that the difference between those who agreed and those who disagreed with the statements was statistically significant in all cases.

Table 7.9 **Stakeholders and corruption**

Panel A: One Sample T-Test and Chi-square Test

Question 12	(i) The term "stakeholder" includes the following:							(ii) The following are affected by corruption in Ugandan corporations:						
	One Sample T-Test			Chi-square Test				One Sample T-Test			Chi-square Test			
	Mean	T Stat	P-Value	Dis-agree	Agree	Chi-Square	P-Value	Mean	T Stat	P-Value	Disagree	Agree	Chi-Square	P-Value
(a) Shareholders	4.71	25.28	0.000*	6	138	121.00	0.000*	4.66	23.97	0.000*	8	139	116.74	0.000*
(b) Suppliers	4.53	19.76	0.000*	9	132	107.30	0.000*	4.59	21.26	0.000*	8	137	114.77	0.000*
(c) Customers	4.55	19.68	0.000*	10	131	103.84	0.000*	4.40	18.52	0.000*	10	134	106.78	0.000*
(d) Financial Institutions	4.53	17.47	0.000*	10	128	100.90	0.000*	4.17	11.97	0.000*	17	112	69.96	0.000*
(e) Environmental groups	4.16	12.44	0.000*	15	109	71.26	0.000*	3.91	8.86	0.000*	25	96	41.66	0.000*
(f) Regulatory and enforcement agencies	4.22	12.96	0.000*	16	114	73.88	0.000*	4.25	14.42	0.000*	13	115	81.28	0.000*
(g) Members of Parliament	3.44	3.67	0.000*	44	78	9.48	0.002*	3.71	6.18	0.000*	32	89	26.85	0.000*
(h) The Judiciary	3.29	2.45	0.016*	47	71	4.88	0.027*	3.63	5.36	0.000*	34	82	19.86	0.000*
(i) The Government	4.34	14.06	0.000*	16	122	81.42	0.000*	4.49	19.17	0.000*	9	128	103.36	0.000*
(j) All persons who affect or are affected by the company's activities	4.53	19.05	0.000*	8	127	104.90	0.000*	4.36	16.32	0.000*	9	120	95.51	0.000*
(k) Society as a whole.	4.03	9.25	0.000*	27	103	44.43	0.000*	4.47	17.02	0.000*	11	131	101.41	0.000*

NOTE: Panel A of Table 7.9 presents the results for the One Sample T-Test and Chi-square Test for Q12 which deals with stakeholders and corruption in Ugandan companies.

Panel B (i): Group Means, Kruskal-Wallis and Mann-Whitney Test (Stakeholder Groups)

	Group Means					KW	Mann-Whitney Test p-values									
Q	LRJ	CIO	CEA	EDO	ACAD	P-Value	Gp (LRJ, CIO)	Gp (LRJ, CEA)	Gp (LRJ, EDO)	Gp (LRJ, ACAD)	Gp (CIO, CEA)	Gp (CIO, EDO)	Gp (CIO, ACAD)	Gp (CEA EDO)	Gp (CEA, ACAD)	Gp (EDO ACAD)
12(a)(i)	4.94	4.91	4.69	4.55	4.67	0.50	0.74	0.36	0.15	0.38	0.48	0.17	0.51	0.38	0.95	0.54
12(b)(i)	4.59	4.70	4.39	4.47	4.71	0.45	0.42	0.74	0.86	0.27	0.21	0.25	0.78	0.88	0.13	0.16
12(c)(i)	4.65	4.73	4.43	4.55	4.57	0.66	0.44	0.76	0.68	0.35	0.26	0.7	0.84	0.42	0.24	0.6
12(d)(i)	4.24	4.50	4.31	4.42	4.60	0.69	0.49	0.63	0.49	0.15	0.72	0.92	0.4	0.76	0.23	0.34
12(e)(i)	4.06	4.05	4.06	4.25	4.45	0.48	0.88	0.67	0.44	0.09	0.75	0.53	0.11	0.65	0.15	0.25
12(f)(i)	4.12	4.32	4.10	4.24	4.50	0.55	0.34	0.48	0.34	0.07	0.8	0.95	0.34	0.81	0.23	0.29
12(g)(i)	3.24	3.55	3.27	3.45	3.95	0.34	0.45	0.94	0.61	0.08	0.41	0.71	0.38	0.55	0.05*	0.12
12(h)(i)	3.00	3.82	3.02	3.33	3.63	0.12	0.05*	0.98	0.38	0.14	0.03*	0.15	0.82	0.3	0.11	0.32
12(i)(i)	4.00	4.64	4.24	4.42	4.42	0.63	0.34	0.9	0.53	0.33	0.22	0.61	0.9	0.42	0.27	0.59
12(j)(i)	4.59	4.68	4.33	4.59	4.70	0.49	0.7	0.43	0.74	0.77	0.2	0.94	0.94	0.15	0.24	0.98
12(k)(i)	3.71	4.27	3.86	4.14	4.30	0.36	0.15	0.55	0.2	0.08	0.31	0.77	0.61	0.39	0.16	0.47

NOTE: Panel B of Table 7.9 shows the group means, plus the p-values for the KW and MW tests for the section of Q12 which tried to establish who the stakeholder groups were. The KW test shows whether there are any differences in the means of the responses given by the groups for each question, while the MW test tries to establish which particular pairs of group means are significantly different from each other.

Panel B (ii): Group Means, Kruskal-Wallis and Mann-Whitney Test (Corruption)

	Group Means					KW	Mann-Whitney Test p-values									
Q	LRJ	CIO	CEA	EDO	ACAD	P-Value	Gp (LRJ, CIO)	Gp (LRJ, CEA)	Gp (LRJ, EDO)	Gp (LRJ, ACAD)	Gp (CIO, CEA)	Gp (CIO, EDO)	Gp (CIO, ACAD)	Gp (CEA EDO)	Gp (CEA, ACAD)	Gp (EDO ACAD)
12(a)(ii)	4.47	4.65	4.65	4.90	4.38	0.28	0.58	0.32	0.06	0.94	0.73	0.19	0.52	0.28	0.28	0.05*
12(b)(ii)	4.65	4.58	4.54	4.79	4.33	0.22	0.75	0.88	0.12	0.62	0.81	0.03*	0.83	0.04*	0.65	0.03*
12(c)(ii)	4.47	4.78	4.29	4.67	4.62	0.28	0.34	0.69	0.25	0.65	0.12	0.91	0.6	0.06	0.34	0.48
12(d)(ii)	3.71	4.18	4.10	4.46	4.14	0.24	0.3	0.26	0.02*	0.26	0.98	0.19	0.85	0.11	0.78	0.35
12(e)(ii)	3.82	3.78	3.76	4.13	4.10	0.69	0.87	0.97	0.32	0.42	0.91	0.42	0.47	0.24	0.34	0.97
12(f)(ii)	4.18	4.04	4.24	4.47	4.20	0.77	0.87	0.68	0.31	0.55	0.51	0.23	0.51	0.48	0.83	0.83
12(g)(ii)	3.65	3.64	3.61	3.89	3.76	0.93	0.91	0.99	0.56	0.62	0.94	0.6	0.82	0.39	0.67	0.97
12(h)(ii)	3.71	3.61	3.33	3.92	3.76	0.37	0.98	0.31	0.62	0.75	0.41	0.61	0.74	0.04*	0.2	0.93
12(i)(ii)	4.41	4.52	4.50	4.58	4.33	0.88	0.57	0.72	0.32	0.83	0.69	0.8	0.75	0.39	0.99	0.58
12(j)(ii)	4.35	4.43	4.18	4.42	4.60	0.32	0.97	0.42	0.99	0.49	0.31	0.89	0.34	0.16	0.05*	0.31
12(k)(ii)	4.24	4.61	4.31	4.66	4.57	0.35	0.31	0.89	0.14	0.38	0.27	0.72	0.91	0.07	0.34	0.61

NOTE: Panel B of Table 7.9 shows the group means, plus the p-values for the KW and MW tests for the section of Q12 which tried to establish whether the respective stakeholder groups were affected by corruption in Ugandan companies. The KW test shows whether there are any differences in the means of the responses given by the groups for each question, while the MW test tries to establish which particular pairs of group means are significantly different from each other.

The ranking of stakeholders (based upon the respective means) was as follows: (i) shareholders (4.71); (ii) customers (4.55); (iii) suppliers (4.53); (iv) all persons who affect or are affected by the company's activities (4.53); (v) financial institutions (4.40); (vi) the Government (4.34); (vii) regulatory and enforcement agencies (4.22); (viii) environmental groups (4.16); (ix) society as a whole (4.03); (x) Members of Parliament (3.44); and (xi) the judiciary (3.29).

The MW test (the results of which are shown in Panel B of Table 7.8) revealed that there were differences in certain pairs of group averages for Q12(g)(i) and Q12(h)(i). In 12(g)(i), the academics expressed the strongest support of any group for Members of Parliament being considered to be among a company's stakeholders, while the CEA group provided the lowest level of agreement. The response of the academics is consistent with their view expressed in Q7(j)(i) that all persons who affect or are affected by a company's activities are stakeholders (which had a mean of 3.86); Members of Parliament affect companies through the legislation and policies that they pass in Parliament. Company employees, on the other hand, may conceivably not want to be involved too closely with politicians as they might want to avoid political interference.

The CIO group (civil servants, individual investors and others) agreed that the judiciary were stakeholders (with a mean of 3.82), the LRJ and CEA groups had means of 3.00 and 3.02 respectively; in both cases the average was significantly different from the CIO figure according to the MW test result. It is interesting to note

that the LRJ group (which is composed of legislators, regulators and the judiciary), seemed equivocal as to whether the judiciary can be classed as stakeholders or not.[184]

Although the overall mean indicated support for notion of Members of Parliament included among stakeholders (mean = 3.44), some of the members of the group disagreed.[185] The CEA group might have preferred to keep Members of Parliament out of their business because of alleged political interference by some of those members.

7.7.2 Stakeholders and Corruption

As well as defining stakeholder groups, respondents were also asked, in question 12(ii), to state the extent of their agreement as to whether those identified as stakeholders were affected by corruption in corporations in Uganda (Panel A of Table 7.9). The overall means for the respective stakeholders ranged between 3.63 and 4.66, indicating a pervasive view that these stakeholders are affected by corruption in Ugandan firms; Panel B(ii) of Table 7.9 confirms that this view was common to all five groups of respondents. Such a widely-held perception suggests that action is needed at all levels (including Government, regulators, enforcement agencies,

[184] However, the means of the individual categories (shown in Appendix 7.5) within this group revealed that legislators (subcategory 1) supported the view that the judiciary were stakeholders (mean = 4.00); it was the regulators, and especially the judiciary themselves, who did not think that the judiciary should be viewed as stakeholders in companies (2.67 and 1.75 respectively). This evidence suggests that the judiciary prefer to be independent and not considered as stakeholders in corporations. The other categories that strongly disagreed with the suggestion that the judiciary were among stakeholders included: owner-managers (1.33); and accountants (2.94). Evidently these categories preferred to maintain the independence of the judiciary.

[185] As inspection of Appendix 7.5 indicates, those who disagreed included: the judiciary (mean = 1.75); owner-managers (2.83) and regulators (2.83). This is arguably surprising as it might have been expected that the judiciary and regulators would be of the view that legislators are stakeholders by monitoring private and public sector corporations so as to promote transparency and accountability at all levels as representatives of the electorate.

legislators, judiciary, management and boards) to change the views of stakeholders; confidence in the investment climate is unlikely to develop if corruption is perceived to be endemic in the business sector in Uganda. The laws and regulations that are relevant to the good governance of companies in Uganda may need to be reviewed for relevance and effectiveness, so as to change the perceptions of stakeholders towards corruption.[186]

The MW test indicated significant differences in average responses for various pairs of groups for questions 12(a)(ii), 12(b)(ii), 12(d)(ii), 12(h)(ii), and 12(j)(ii). The EDO group provided the most support for the statement in Q12(a)(ii) which suggested that shareholders are affected by corruption in Ugandan corporations, while the academics agreed with it the least (4.38). Similarly, in Q12(b)(ii) the strongest agreement for the view that suppliers are affected by corruption came from the EDO group (mean = 4.79) while the ACAD, CEA and CIO groups agreed least, with means of 4.33, 4.54 and 4.58 respectively. The same trend continued in Q12(d)(ii) where the EDO group (mean = 4.46) agreed most that financial institutions are affected by corruption, with the LRJ group agreeing least strongly with a mean of 3.71. Similarly, in Q12(h)(ii), the EDO group (mean = 3.92) agreed most that the judiciary are affected by corruption in Ugandan corporations, while the CEA group agreed least (3.33). It would be interesting to find out whether the strong agreement expressed by the group of executive directors, company executives, non-executive directors, and owner-managers (as compared to all the other groups) was based upon direct experience with the judiciary. Allegations have been made that elements of corruption exist within the

[186] When split into the 14 categories (see Appendix 7.5), it is interesting to note that the judiciary did not agree with the statements suggesting that environmental groups, MPs and the judiciary were affected by corruption in Ugandan companies. The regulators did not agree with the view that financial institutions are affected by corruption in Ugandan firms, although they accepted that corruption in Ugandan companies affected regulatory and enforcement agencies (mean = 3.67).

Ugandan judiciary, but these are still to be proved (in courts presided over by members of the judiciary).[187]

The above responses demonstrate that the EDO group (i.e. company executives, executive directors, non-executive directors and owner-managers) were very conscious about the effect of corruption on a company's stakeholders. It appears reasonable to argue that this awareness should be followed up by concrete actions that can eliminate the corruption in Ugandan companies which has a negative impact on stakeholders. The EDO group, more than the other groups in the survey, is likely to the one that knows the day-to-day reality of what transpires in companies and should therefore be proactive in the attempt to route out corruption.

7.7.3 Rights of Stakeholders

A further section of the questionnaire focused on the rights of stakeholders. Panel A of Table 7.10 indicates that respondents were of the view that the rights of stakeholders established by Ugandan law are not respected (with a significant mean of 2.77); equally worryingly, there was strong disagreement with the view that employees can freely communicate their concerns about illegal or unethical practices to the board without fear of adverse consequences to themselves for doing so (2.14), while it was also thought that companies do not generally act in a responsible manner or respect the rights of the community, whether these rights are enshrined in the law or not (significant mean of 2.52). There was weak support for the statement asserting that rights of stakeholders established through mutual agreements are respected by

[187] It was only for Q12(j)(ii) that the EDO group did not have the highest mean with respect to corruption affecting the respective stakeholders that were identified; in this case it was the ACAD group that agreed most strongly that corruption impacts all persons who affect or are affected by companies' activities; the CEA group (mean = 4.18) agreed least.

companies (3.13), and for a statement claiming that where stakeholder interests are protected by the law, stakeholders have the opportunity to obtain effective redress through the courts of law for violation of their rights (3.44). The mean response to Q14(e), which covered the adequacy of legal protection for stakeholders, was 2.91 and not conclusive either way. All in all, this section of the questionnaire points to a range of issues that should be of concern to Ugandan authorities, with urgent attention arguably being required to rectify the perceptions of stakeholders' rights being weak in practice. An environment where stakeholders have little confidence in their rights being respected is unlikely to be conducive to economic and social development and may fail to encourage both local and foreign investment.

The MW test results (Panel B of Table 7.10) indicate that there were differences in the responses made by various pairs of the five groups to questions 14(a), 14(b), 14(e) and 14(f). For Q14(a), there was a significant difference between the CIO group and the academics. It was only the CIO group that agreed with the statement that rights of stakeholders which are established by the law are respected by companies (mean of 3.13); the ACAD group disagreed with this statement most strongly with a resultant mean of 2.42. The reasons why the CIO group (made up of civil servants, individual investors and others) supported this statement (while all other groups did not) are not immediately obvious and may need further investigation. It is surprising to note that all groups, except the academics, agreed with the statement in question 14(b) which claimed that the rights of stakeholders that are established through mutual agreements are respected by Ugandan companies, since the same respondents thought that the rights established by law are not respected by these companies. The MW test identified statistically significant differences in the mean responses of the CIO and

ACAD groups with the CIO group agreeing with the statement most strongly (mean = 3.43) and the academics disagreeing with it (mean: 2.68).[188] The one sample T-Test indicated, however, that the mean was not significantly different from the neutral value of 3 and the chi-square test was insignificant.

It was only the EDO (mean = 3.16) and ACAD (3.21) groups that agreed with the statement in Q14(e) suggesting that there is adequate legal protection of stakeholders such as creditors, in the event of a company becoming insolvent or bankrupt. The MW test picked up significant differences in average responses between the CEA and EDO groups, but not between the former and the ACAD group which had the highest group mean. It is not surprising that the EDO group thought there to be adequate protection for stakeholders, since this group includes those responsible for implementing any such rights. All the groups disagreed with the statement in Q14(f) which suggested that companies act in a responsible manner and respect the rights of the community, even if these rights are not enshrined in the law. The strongest disagreement came from the LRJ group (with a mean of 2.06), while the weakest came from the EDO group (2.74). It is striking that the EDO group also appear to believe that companies do not act in a responsible manner or respect the rights of the community; it is evident from the responses given in Q14 as a whole that the rights of stakeholders need attention so as to build confidence in the Ugandan corporate sector.

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188 A scrutiny of the means for the 15 different categories (shown in Appendix 7.5) indicates that along with the academics, executive directors (mean = 2.43), regulators (2.67) and non-executive directors disagreed with the view that the rights of stakeholders established through mutual agreement are respected by companies; the company employees (3.00) were non-committal in their view on the matter. Apart from the company executives (3.52), it was the judiciary (3.75) and the civil servants (3.53) who agreed with the statement most strongly. It is quite revealing that company officials such as the executive directors, non-executive directors and company employees do not support the view in question since they are presumably active participants in dealing with stakeholders.

Table 7.10 **Rights of Stakeholders**

Panel A: One Sample T-Test and Chi-square Test

	One Sample T-Test			Chi-square Test			
Statement	Mean	T Stat	P-Value	Disagree	Agree	Chi-Square	p-value
Q14(a) In Uganda, the rights of stakeholders that are established by the law are respected by companies.	2.77	-2.44	0.016*	56	36	4.35	0.037*
Q14(b) The rights of stakeholders that are established through mutual agreements are respected by companies.	3.13	1.50	0.135	34	52	3.77	0.052
Q14(c) Where stakeholder interests are protected by the law, stakeholders have the opportunity to obtain effective redress through the courts of law for violation of their rights.	3.44	4.58	0.000*	32	74	16.64	0.000*
Q14(d) Employees can freely communicate their concerns about illegal or unethical practices to the board without fear of adverse consequences to themselves for doing so.	2.14	-8.91	0.000*	103	25	47.53	0.000*
Q14(e) There is adequate legal protection of stakeholders such as creditors, in the event of a company becoming insolvent or bankrupt.	2.91	-0.95	0.344	51	43	0.68	0.410
Q14(f) Companies generally act in a responsible manner and respect the rights of the community, even though some of these rights are not enshrined in the law.	2.52	-5.02	0.000*	78	32	19.24	0.000*

NOTE: Panel A of Table 7.10 shows the results of the One Sample T-Test and Chi-square test for questions 14(a) to 14(f) which deal with the rights of stakeholders.

Panel B: Group Means, Kruskal-Wallis and Mann-Whitney Test

	Group Means					KW	Mann-Whitney Test p-values									
Q	LRJ	CIO	CEA	EDO	ACAD	P-Value	Gp (LRJ, CIO)	Gp (LRJ, CEA)	Gp (LRJ, EDO)	Gp (LRJ, ACAD)	Gp (CIO, CEA)	Gp (CIO, EDO)	Gp (CIO, ACAD)	Gp (CEA EDO)	Gp (CEA, ACAD)	Gp (EDO ACAD)
Q14(a)	2.82	3.13	2.67	2.85	2.42	0.29	0.49	0.49	0.93	0.23	0.08	0.52	0.04*	0.43	0.28	0.24
Q14(b)	3.06	3.43	3.10	3.23	2.68	0.21	0.22	0.93	0.37	0.25	0.15	0.68	0.04*	0.32	0.18	0.09
Q14(c)	3.53	3.71	3.29	3.51	3.32	0.72	0.61	0.49	0.88	0.61	0.20	0.60	0.36	0.38	0.94	0.59
Q14(d)	1.88	2.59	2.10	2.13	2.00	0.44	0.10	0.67	0.53	0.96	0.13	0.19	0.14	0.78	0.71	0.57
Q14(e)	2.88	2.95	2.61	3.16	3.21	0.10	0.82	0.28	0.31	0.44	0.19	0.46	0.54	0.01*	0.06	0.98
Q14(f)	2.06	2.74	2.48	2.74	2.32	0.25	0.09	0.19	0.04*	0.61	0.46	0.89	0.29	0.28	0.56	0.19

NOTE: Panel B of Table 7.10 shows the group means, plus the p-values for the KW and MW tests for questions Q14(a) to 14(f). The KW test shows whether there are any differences in the means of the responses given by the groups for each question, while the MW test tries to establish which particular pairs of group means are significantly different from each other.

The respondents expressed concern via Q20 and Q21 that some boards just use shareholders as "rubber stamps", without having proper discussion on significant issues when Annual General Meetings are called. Shareholders appear to be perceived as lacking avenues for meaningful communication with management and boards, and as not being treated equally and fairly. Neither shareholders nor consumers have been made aware of their rights and there are no programmes or groups to advocate for their interests. Respondents suggested that there should be a programme to sensitise stakeholders (including shareholders) on their rights. Several respondents mentioned respect for shareholders' views by boards as being one of the issues that needs most attention by Ugandan regulatory authorities; it was felt that the ICGU should receive more support from Government so that it can carry out this sensitisation of shareholders in particular and stakeholders in general.

7.7.4 The Board and Accountability to Stakeholders

In Q13 respondents were asked to express the extent of their agreement with statements as to whom boards were accountable or responsible. The answers given by the respondents are summarised and analysed in Table 7.11.

The perceptions of the respondents were that boards were accountable to all the stakeholders mentioned in question 13; the only exception related to suppliers in Q13(b)(i) where the mean response was 3.0, as Panel A of Table 7.11 shows. However, respondents were of the view that boards should be responsible to suppliers, with both the mean of 3.7 and the proportion agreeing (89 of 119 respondents) proving to be significant. An analysis of the answers indicates respondents' belief that

companies should be accountable to a wider group of stakeholders than just the shareholders. Overall, therefore, these responses support the opinion of the respondents discussed earlier that corporate governance should be perceived from a stakeholder point of view which includes all those who affect or are affected by the activities of the company and may even extend to the whole of society.

The MW test results (Panel B of Table 7.11) identified differences in average responses between various pairs of groups in questions 13(a)(i), 13(a)(ii), 13(b)(ii), 13(c)(ii), 13(d)(i), 13(d)(ii), 13(e)(ii), 13(f)(i), 13(f)(ii), 13(h)(i), 13(i)(i), 13(j)(i), and 13(k)(i). With respect to the board being accountable to the respective types of stakeholder, the group providing the strongest agreement in most cases was the ACAD group.[189] Academics, therefore, appear to think that boards should be accountable to a broader spectrum of stakeholders, which is interesting given that academics are potentially subject to extensive scrutiny by a wide cross-section of stakeholders when they publish articles or books. Academics may also be more aware of CSR literature. This fact could, possibly, have influenced the academic respondents to take the view that boards should also be subject to wide scrutiny and accountability. In Q13(a)(i), the CIO group (mean = 4.95) provided the strongest agreement for the notion of board accountability to shareholders; they were followed by the LRJ group (4.88) in the extent of agreement. Surprisingly, given their role in the governance of corporations, the EDO group expressed the least extent of agreement (4.51), and the MW test picked up a significant difference in means between the CIO and EDO groups. The LRJ and CIO groups (each with a mean of 5.00) agreed most that boards should be responsible for maintaining relations with shareholders while the CEA

[189] Questions 13(d)(i), 13(f)(i), 13(h)(i), 13(i)(i), 13(j)(i), and 13(k)(i).

(4.59) and EDO (4.77) agreed least; all the means did reveal strong agreement with the statement. The level of support for the notion of boards being responsible to suppliers, stated in Q13(b)(ii), were higher than those agreeing with the notion of accountability to suppliers, as suggested in Q13(b)(i). The ACAD group (mean = 4.52), followed by the CIO group (4.19), provided the strongest agreement with the view that boards are responsible to suppliers; the CEA group agreed least (3.14). For Q13(f)(i), there was a significant difference between the CIO group and the academics in terms of the extent of their agreement as to whether boards are accountable to regulatory and enforcement agencies. While the academics strongly agreed with the statement (with a mean of 4.58), the civil servants, individual investors and others gave it less support, with a mean of 3.91. In Q13(h)(i), the academics expressed the strongest agreement with the statement that the board are accountable to the judiciary (mean = 4.18) and the CEA expressed the least support with a mean of 3.16.[190]

As shown in Panel B(i) of Table 7.11, the difference in responses between the ACAD and each of the LRJ, CIO, and EDO groups was statistically significant for Q13(i)(i) in relation to boards being accountable to Government. For questions 13(j)(i) and 13(k)(i), as with all other questions in this section, the academics expressed a higher level of agreement than any other group with the view that boards are accountable to all persons who affect or are affected by the company's activities and to society as a whole. The academics' interest in boards being accountable to this stakeholder group

[190] The level of agreement from the CEA group was consistently lower than from the other groups with respect to boards being accountable to or responsible to the stakeholder groups mentioned in Q13. This was the case in Q13(a)(ii), 13(b)(i), 13(b)(ii), 13(c)(i), 13(c)(ii), 13(e)(ii), 13(f)(ii), 13(h)(i), and 13(h)(ii); they also had the second lowest means in 13(d)(ii), 13(e)(i), 13(g)(i), 13(g)(ii), 13(j)(i), and 13(j)(ii). It is possible that this group was the least familiar with the way boards operate and did not have the same level of appreciation of the requirements for accountability and responsibility that other groups had.

might be for the same reasons mentioned earlier, namely the need to be held answerable to a wider cross-section of stakeholders as part of their CSR.

A comparison of the answers given in question 12(i) and 13(i) reveals that, on the whole, respondents were consistent in their view that boards should be accountable to the groups identified in Q12 (see section 7.7.1 above). The only inconsistencies seemed to occur when considering suppliers and the judiciary (see Panel C of Table 7.11). Whereas in question 12(b)(i) the respondents had expressed strong agreement with the view that suppliers could be classed as stakeholders (with a mean of 4.53), they appeared to be undecided in question 13(b)(i) when asked whether boards should be accountable to suppliers (mean = 3). A possible explanation could be that the respondents did not feel that accountability to suppliers was the role of boards *per se* but of individual company executives and employees. Also, whereas in Q12(h)(i) respondents agreed with the judiciary being considered as stakeholders (with a mean of only 3.29), in Q13(h)(i) there was strong agreement that boards should be accountable to the judiciary (mean = 3.5). This result is somewhat puzzling; one possibility is that the respondents viewed accountability as a one-way, rather than a two-way, relationship.

There was strong agreement with the statement that boards should be responsible for maintaining relations with all the groups (including suppliers) that were mentioned in question 13 with means ranging between 3.6 and 4.8 (Table 7.11, Panel A). Each mean was significantly different from 3, while the Chi-squared test results suggested that the proportions agreeing and disagreeing all differed significantly.

Table 7.11 The Board and Accountability

Panel A: Questions, T-Test and Chi-square Tests

Question 13	(i) Boards are accountable to the following:							(ii) Boards are responsible for maintaining relations with the following:						
	One Sample T-Test			Chi-square Test				One Sample T-Test			Chi-square Test			
Statement	Mean	T Stat	P-Value	Dis-agree	Agree	Chi-Square	P-value	Mean	T Stat	P-Value	Dis-agree	Agree	Chi-Square	P-Value
Q13(a) Shareholders	4.7	24.33	0.000*	8	139	116.74	0.000*	4.8	32.93	0.000*	3	137	128.26	0.000*
Q13(b) Suppliers	3.0	0.29	0.772	54	58	0.14	0.708	3.7	6.17	0.000*	30	89	29.25	0.000*
Q13(c) Customers	3.6	5.39	0.000*	34	89	24.59	0.000*	4.0	8.56	0.000*	23	99	47.34	0.000*
Q13(d) Financial Institutions	3.9	9.11	0.000*	19	102	56.93	0.000*	4.1	11.56	0.000*	14	103	67.70	0.000*
Q13(e) Environmental groups	3.6	6.03	0.000*	28	81	25.77	0.000*	3.7	5.93	0.000*	32	75	17.28	0.000*
Q13(f) Regulatory and enforcement agencies	4.2	13.89	0.000*	9	111	86.70	0.000*	4.1	11.39	0.000*	16	103	63.61	0.000*
Q13(g) Members of Parliament	4.0	9.95	0.000*	19	101	56.03	0.000*	4.1	11.46	0.000*	18	107	63.37	0.000*
Q13(h) The Judiciary	3.5	4.13	0.000*	39	77	12.45	0.000*	3.6	4.80	0.000*	36	75	13.70	0.000*
Q13(i) The Government	4.1	11.88	0.000*	16	113	72.94	0.000*	4.4	16.79	0.000*	9	114	89.63	0.000*
Q13(j) All persons who affect or are affected by the company's activities	3.8	7.19	0.000*	28	91	33.35	0.000*	4.0	8.94	0.000*	23	93	42.24	0.000*
Q13(k) Society as a whole.	3.8	7.00	0.000*	29	93	33.57	0.000*	3.9	8.26	0.000*	27	94	37.10	0.000*

NOTE: Panel A of Table 7.11 shows the over-all means, and the results of the One Sample T-Test and Chi-square test for questions 13(a) to 13(k) which deal with the stakeholder groups that boards are accountable to.

Panel B (i): Group Means, Kruskal-Wallis and Mann-Whitney Test (Accountability)

	Group Means					KW	Mann-Whitney Test p-values									
Q	LRJ	CIO	CEA	EDO	ACAD	P-Value	Gp (LRJ, CIO)	Gp (LRJ, CEA)	Gp (LRJ, EDO)	Gp (LRJ, ACAD)	Gp (CIO, CEA)	Gp (CIO, EDO)	Gp (CIO, ACAD)	Gp (CEA EDO)	Gp (CEA, ACAD)	Gp (EDO ACAD)
Q13(a)(i)	4.88	4.95	4.69	4.51	4.62	0.20	0.41	0.94	0.25	0.31	0.33	0.05*	0.07	0.14	0.24	0.91
Q13(b)(i)	3.41	3.13	2.78	3	3.3	0.45	0.56	0.12	0.29	0.89	0.33	0.68	0.65	0.43	0.20	0.41
Q13(c)(i)	3.88	3.7	3.4	3.62	3.85	0.71	0.84	0.33	0.64	0.68	0.50	0.84	0.51	0.55	0.22	0.40
Q13(d)(i)	3.65	4.09	3.83	3.78	4.3	0.32	0.20	0.48	0.64	0.05*	0.40	0.36	0.55	0.84	0.12	0.10
Q13(e)(i)	3.53	3.65	3.57	3.57	3.85	0.80	0.57	0.73	0.83	0.24	0.74	0.66	0.61	0.88	0.33	0.28
Q13(f)(i)	4.12	3.91	4.18	4.14	4.58	0.36	0.73	0.58	0.66	0.09	0.32	0.35	0.04*	0.95	0.16	0.25
Q13(g)(i)	3.76	3.95	3.92	4.08	4.16	0.94	0.75	0.56	0.52	0.43	0.78	0.75	0.57	0.93	0.73	0.70
Q13(h)(i)	3.35	3.48	3.16	3.56	4.18	0.07	0.66	0.65	0.58	0.04*	0.33	0.94	0.08	0.18	0.00*	0.05*
Q13(i)(i)	3.76	4.24	4.13	4	4.68	0.13	0.30	0.15	0.40	0.01*	0.56	0.90	0.04*	0.50	0.14	0.05*
Q13(j)(i)	3.71	3.82	3.71	3.53	4.42	0.13	0.95	0.90	0.59	0.09	0.80	0.45	0.06	0.52	0.02*	0.01*
Q13(k)(i)	3.53	4.13	3.63	3.56	4.38	0.11	0.26	0.96	0.98	0.08	0.14	0.15	0.39	0.88	0.02*	0.03*

NOTE: Panel B(i) of Table 7.11 shows the group means, plus the p-values for the KW and MW tests for questions Q13(a)(i) to 13(k)(i). The KW test shows whether there are any differences in the means of the responses given by the groups for each question, while the MW test tries to establish which particular pairs of group means are significantly different from each other.

Panel B (ii): Group Means, Kruskal-Wallis and Mann-Whitney Test (Responsibility)

	Group Means					KW	Mann-Whitney Test p-values									
Q	LRJ	CIO	CEA	EDO	ACAD	P-Value	Gp (LRJ, CIO)	Gp (LRJ, CEA)	Gp (LRJ, EDO)	Gp (LRJ, ACAD)	Gp (CIO, CEA)	Gp (CIO, EDO)	Gp (CIO, ACAD)	Gp (CEA EDO)	Gp (CEA, ACAD)	Gp (EDO ACAD)
Q13(a)(ii)	5	5	4.59	4.77	4.76	0.04*	1.00	0.04*	0.04*	0.12	0.02*	0.02*	0.07	0.88	0.47	0.56
Q13(b)(ii)	3.94	4.14	3.14	3.77	4.52	0.00*	0.52	0.06	0.73	0.13	0.01*	0.25	0.40	0.05*	0.00*	0.03*
Q13(c)(ii)	4.00	4.19	3.46	4.09	4.62	0.01*	0.52	0.21	0.83	0.09	0.04*	0.56	0.28	0.06	0.00*	0.07
Q13(d)(ii)	3.94	3.86	3.94	4.26	4.62	0.13	0.88	0.83	0.29	0.03*	0.70	0.22	0.03*	0.29	0.03*	0.21
Q13(e)(ii)	3.56	3.95	3.31	3.58	4.33	0.03*	0.31	0.56	0.94	0.04*	0.07	0.26	0.28	0.41	0.00*	0.02*
Q13(f)(ii)	4.44	4.00	3.84	4.09	4.52	0.15	0.39	0.11	0.25	0.62	0.52	0.89	0.18	0.51	0.02*	0.07
Q13(g)(ii)	4.38	3.86	3.94	4.31	4.15	0.78	0.44	0.30	0.71	0.94	0.99	0.61	0.58	0.36	0.44	0.68
Q13(h)(ii)	3.47	3.71	3.31	3.65	3.95	0.40	0.57	0.70	0.70	0.28	0.23	0.76	0.60	0.28	0.07	0.35
Q13(i)(ii)	4.27	4.2	4.31	4.54	4.33	0.63	0.86	0.83	0.30	0.48	0.63	0.18	0.34	0.27	0.49	0.88
Q13(j)(ii)	3.8	3.91	3.81	4.06	4.30	0.49	0.87	0.94	0.46	0.25	0.73	0.47	0.25	0.23	0.11	0.59
Q13(k)(ii)	3.67	3.76	3.84	4.03	4.29	0.49	0.84	0.63	0.33	0.13	0.77	0.39	0.15	0.46	0.17	0.44

NOTE: Panel B(ii) of Table 7.11 shows the group means, plus the p-values for the KW and MW tests for questions Q13(a)(ii) to 13(k)(ii). The KW test shows whether there are any differences in the means of the responses given by the groups for each question, while the MW test tries to establish which particular pairs of group means are significantly different from each other.

Panel C: Stakeholders, Corruption, Accountability and Responsibility

Categories	Stakeholders include	The following are affected by Corruption:	Boards are accountable to the following:	Boards are responsible to the following:
Shareholders	4.71	4.66	4.70	4.77
Customers	4.55	4.40	3.62	3.95
Suppliers	4.53	4.59	3.03	3.73
Financial Institutions	4.53	4.17	3.90	4.10
All persons who affect or are affected	4.53	4.36	3.78	3.96
Government	4.34	4.49	4.14	4.35
Regulatory & Enforcement Agencies	4.22	4.25	4.17	4.09
Environmental groups	4.16	3.91	3.62	3.65
Society as a whole	4.03	4.47	3.79	3.92
Members of Parliament	3.44	3.71	3.98	4.10
The Judiciary	3.29	3.63	3.45	3.57

NOTE: Panel C presents a comparison between the means for the different categories of stakeholders and whether these stakeholders are affected by corruption, as well as whether boards should be accountable or responsible to those stakeholders.

The MW test identified significant differences between various pairs of groups in their responses to questions 13(a)(ii), 13(b)(ii), 13(c)(ii), 13(d)(ii), 13(e)(ii) and 13(f)(ii). With respect to Q13(a)(ii), there was significantly less agreement from the CEA group than from both the LRJ and CIO groups for the notion that boards are responsible for maintaining relations with shareholders.[191] However, this statement received the highest extent of overall agreement (with a mean of 4.8); all groups strongly agreed with the view that boards should be responsible for maintaining relationships with shareholders.

With respect to boards' responsibility for maintaining relationships with suppliers (Q13b ii), Panel B(ii) of Table 7.11 shows that the academics' views differed

[191] There were also significant differences in responses between the EDO group and both the LRJ and CIO groups.

significantly from those of the CEA and EDO groups; academics strongly agreed with the statement (mean = 4.5), while the others had means of 3.1 and 3.8 respectively.[192] It is possible that these results reflect the company employees' and executive directors' feeling that, in practice, it is their responsibility, and not that of boards, to maintain relationships with suppliers, whereas the academics are more concerned with the board's formal duties.

As Panel B(ii) of Table 7.11 shows, there were also some statistically significant differences between the academics and the LRJ, CEA and EDO groups regarding boards' responsibility for maintaining relationships with environmental groups, as suggested in Q13(e)(ii). The academics agreed with the statement most strongly, with the LRJ, CEA and EDO groups displaying significantly lower levels of agreement.[193]

There were also statistically significant differences between the responses given by the academics and the CEA group to Q13(f)(ii) in the extent of their agreement with the view that boards are responsible for maintaining relationships with regulatory and enforcement agencies. In this case, the academics provided the strongest agreement with the statement (with a mean of 4.5), while the CEA provided the lowest mean of 3.8.[194]

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[192] Similarly, while the owner-managers, non-executive directors and academics strongly agreed that boards should be responsible for maintaining relationships with customers (means of 5.00, 4.75 and 4.65 respectively), the regulators, accountants, company employees and executive directors expressed less agreement with that view (means of 3.50, 2.44, 3.47 and 3.57 respectively) while the individual investors neither agreed nor disagreed with the statement (mean = 3.00); see Appendix 7.5.

[193] The judiciary (category 13) were the only category that actually disagreed with the statement (mean = 2.50; see Appendix 7.5). This is surprising and it was not clear whether they preferred management, rather than boards, to maintain relationships with environmental groups.

[194] However, when broken down into categories (Appendix 7.5), the owner-managers agreed completely with the statement (mean: 5.00), followed by the regulators (4.67); the categories that expressed the least extent of agreement were: executive directors (3.17); individual investors (3.25); company employees (3.79) and accountants (3.94). Possibly the executive directors, company

Overall, it was the academics who gave the strongest support for the statements dealing with the board's responsibility to maintain relationships with the various groups mentioned in Q13, while company employees and accountants, whilst still in broad agreement, gave the least support. It might, therefore, be interesting to investigate whether the employees and accountants believe that employees and management - rather than board members - should be responsible for maintaining these relationships. It is possible that these groups of respondents consider the maintenance of relationships with these groups to be part of the day-to-day management of companies and would see board's active participation as interference in their roles.

7.8 Ownership Structure and Corporate Governance

Question 15 of the survey asked respondents whether they thought that ownership structure affected the practice of corporate governance in Ugandan companies. Of the 150 people who answered this question, 87% were of the opinion that ownership structure affects the governance of companies. The questionnaire did not go into the details of how the structure affected governance; further study is needed on this matter. As mentioned in Section 1.2 most Ugandan companies are either family-owned or are run by sole proprietors; these owner-managers might not value improved corporate governance in the conventional sense since there is no separation between ownership and management.

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employees and accountants felt that it was their duty to deal with regulatory and enforcement agencies and not that of boards.

Several respondents made specific comments, via Q20 and Q21, that support the notion of ownership structure affecting the governance of companies.[195] At the time of writing this thesis (March 2006), there are only eight companies listed on the USE, only five of which are incorporated in Uganda (the other three are incorporated in Kenya and cross-listed in Uganda). The fact that the stock market is relatively small and illiquid may affect the choices that are open to potential and actual investors and the voice that they have in those companies. It was argued by some respondents that a vibrant stock market with more companies listed on it would help to improve corporate governance in Uganda since there would be more competition for capital. Improved governance practices would also enable companies to get listed and have access to more capital. Ugandan investors cannot use the "voice" option and engage the management of those companies to comply with their suggestions since Ugandan shareholders are, on the whole, a small minority. The "exit" option is not very practical either because there are simply too few investment options and the liquidity of the shares is limited; as a result, shareholders just buy and hold. The major shareholders of the companies listed on the USE are multinational companies that dictate policies favourable to them (including accounting, management contracts and transfer pricing policies) even though some of these policies may not be beneficial to the Ugandan minority owners.

Since most of the companies in Uganda are either family owned or sole proprietorships, there is often very little practical distinction, if any, between ownership and management; this raises the probability of interference by owners in the management of those companies, with potential compromising of good

[195] There was specific concern that the ultimate ownership of some foreign companies in Uganda was not clear, and that it was not known who to hold accountable for certain practices in those companies.

governance. The USE does not have the powers to intervene in unlisted companies and so cannot force such companies to comply with the guidelines of good corporate governance. The Registrar General's Office, which has the appropriate regulatory and monitoring powers, including ensuring compliance with the Ugandan Companies Act (1964), does not have the resources required to implement enforcement.[196] The Institute of Corporate Governance of Uganda (ICGU) itself was incorporated on 1st December 1998 as a company limited by guarantee (and not share capital); the guarantors are its enrolled members.[197] The ICGU is, therefore, not a statutory body and has no powers to enforce compliance with the corporate governance guidelines that it issues. The ICGU has, however, been involved in training (mostly public sector) directors by offering them three-day courses in corporate governance. Some of the respondents to the questionnaire called for the Government to give more backing to the ICGU in its efforts to promote good governance in Ugandan companies.

It appears reasonable to conclude that the ownership structure of Ugandan companies is seen as a major factor in the implementation of proper corporate governance practices. It also seems evident that the various types of owners may need to be convinced that improvements in governance would add value to their companies.

[196] This point was highlighted by the Registrar General during the interviews (see Chapter 6).
[197] Although the ICGU was incorporated in 1998, it was officially launched on 12th October 2000 (see Manual on Corporate Governance – Incorporating Recommended Guidelines for Uganda).

7.9 Compliance with Corporate Governance Guidelines

7.9.1 Compliance by Private and Public Sector Companies

Questions 5(a) to 5(c) of the questionnaire examined respondents' views about which types of companies should comply with the principles of corporate governance that were issued by the Institute of Corporate Governance of Uganda. The responses to these questions are summarised in Panels A and B of Table 7.12.

The respondents strongly agreed with a statement suggesting that companies that are listed and publicly traded on the USE should comply with the principles of corporate governance issued by the ICGU, with a mean response of 4.8 resulting; the same average level of support was expressed in the case of all state-owned companies. These means are clearly high and indicate a widely held view that all public sector and listed private sector companies should comply with the ICGU principles.

Respondents also agreed that all private sector companies, irrespective of whether they are listed or not, should comply with the principles of corporate governance issued by the ICGU. However, the extent of agreement with this statement (mean = 3.9) was less than that for listed and state-owned corporations. The CEA group provided the least support for this statement, with the CIO group proving to be significantly more enthusiastic.[198]

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[198] Appendix 7.5 indicates that the accountants (category 6) had the lowest mean (3.53) followed by executive directors (3.57), company employees (3.63) and owner-managers (3.88). These categories are closely associated with the operation of companies and are likely to be concerned about the implications of implementing the guidelines; such concerns would be likely to include cost considerations.

Table 7.12 Compliance with Corporate Governance Guidelines

Panel A: Questions, One Sample T-Test and Chi-square Test

Q. 5. The following companies should comply with the principles of corporate governance issued by the Institute of Corporate Governance of Uganda:

	One Sample T-Test			Chi-Square Test			
Statement	Mean	T Stat	p-value	Disagree	Agree	Chi-Square	p-value
5(a) companies that are listed and publicly traded on the Uganda Securities Exchange.	4.8	33.17	0.000*	2	139	133.11	0.000*
5(b) all private sector companies irrespective of whether they are listed or not.	3.9	9.33	0.000*	20	102	55.11	0.000*
5(c) all state-owned corporations.	4.8	35.02	0.000*	2	143	137.11	0.000*

NOTE: Panel A of Table 7.12 shows the questions, and results of the One Sample T-Test and Chi-square Test for questions 5(a) to 5(c) which seek respondents' views as to which companies should comply with the principles of corporate governance that were issued by the ICGU.

Panel B: Group Means, Kruskal-Wallis and Mann-Whitney Test

	Group Means					KW	Mann-Whitney Test p-values									
Q	LRJ	CIO	CEA	EDO	ACAD	P-Value	Gp (LRJ, CIO)	Gp (LRJ, CEA)	Gp (LRJ, EDO)	Gp (LRJ, ACAD)	Gp (CIO, CEA)	Gp (CIO, EDO)	Gp (CIO, ACAD)	Gp (CEA EDO)	Gp (CEA, ACAD)	Gp (EDO ACAD)
Q5(a)	4.82	4.73	4.80	4.84	4.53	0.47	0.87	0.93	0.31	0.46	0.76	0.24	0.54	0.27	0.30	0.06
Q5(b)	4.18	4.43	3.60	3.92	3.95	0.08	0.30	0.14	0.70	0.43	0.01*	0.12	0.06	0.21	0.45	0.64
Q5(c)	4.94	4.87	4.82	4.82	4.45	0.11	0.72	0.30	0.78	0.06	0.45	0.91	0.08	0.30	0.13	0.03*

NOTE: Panel B of Table 7.12 shows the group means, plus the p-values for the KW and MW tests for questions Q5(a)(i) to 5(c). The KW test shows whether there are any differences in the means of the responses given by the groups for each question, while the MW test tries to establish which particular pairs of group means are significantly different from each other.

As observed earlier, the CEA group are often out of line with the other groups in the extent of their agreement with a number of the questions. One possible reason for this tendency could be concern in Uganda that companies are not behaving in a responsible and accountable manner. The behaviour and attitudes of company employees could be partly responsible for this negative view of corporate governance and accountability in Ugandan companies, and this viewpoint may be reflected in the CEA group's responses to various parts of the survey.

The MW test results indicated that responses were fairly consistent among all the groups. The only significant differences picked up were between the CIO and CEA groups in Q5(b) and between the CEA and ACAD groups in Q5(c). The CIO group expressed the highest extent of agreement (mean = 4.43) with the view expressed in Q5(b) that requires all private companies, irrespective of whether they are listed or not, to comply with the principles of corporate governance issued by the ICGU , while the CEA group had the lowest mean of 3.60. For Q5(c), the academics gave the lowest support for the view that all state-owned corporations should comply with those principles (mean = 4.45), while the LRJ agreed most (4.94). However, the MW test highlighted significant differences in average response between the EDO and ACAD groups in their answers to Q5(c) (but, surprisingly, not between the LRJ and ACAD groups). In the case of Q5(c), the LRJ (4.94), CIO (4.87), EDO (4.82), CEA (4.82) and ACAD (4.45) groups all strongly agreed that state-owned enterprises should comply with principles of good governance, suggesting wide-spread support for the notion.

The responses to Q5 as a whole indicate support, for all companies, to comply with the ICGU principles.[199] Compliance remains an issue, however; while it is relatively easy to enforce compliance in listed companies (this could be made a condition for their remaining listed and traded on the USE), it is likely to be much more difficult to police non-listed companies, as the Registrar General's office which is responsible for regulating these companies does not seem to have sufficient resources to enforce compliance (as earlier pointed out by the Registrar General during the interviews). The aspiration for all companies to comply therefore needs to be examined critically to determine how it can be implemented. Each company could be required to declare compliance with corporate governance guidelines in their annual reports, but, short of full and reliable external audits taking place, there would still be no way of guaranteeing that companies had actually complied with those guidelines.

7.9.2 General Compliance with Corporate Governance Guidelines

Questions 6(j) to 6(l) (shown in Panel A of Table 7.13) asked stakeholders to indicate their perceptions about corporate governance practices and potential penalties for failure to comply across different types of Ugandan firms. The results in Panels A and B of the table indicate that respondents disagreed with statements suggesting that the practice of corporate governance was satisfactory in listed (mean = 2.88) and un-listed companies (2.40). It seems clear, therefore, that stakeholders do not have much

[199] An analysis of the responses given by the different categories (Appendix 7.5) indicates that individual investors (category 9), non-executive directors (category 11) and others (category 14) expressed full agreement with the requirement for all companies to comply with the guidelines, as each of those categories had a mean of 5.00 for all the statements in Q5. The regulators (category 2) and owner-managers (category 8) gave full support for listed companies and public sector companies having to comply with the guidelines (mean = 5.00 for each statement), while the judiciary (category 13) fully supported compliance by listed companies (5.00) and strongly agreed with the requirement for all state-owned enterprises to comply. As illustrated by their answers in this question, these groups consistently demonstrate greater awareness of the importance of corporate governance issues.

confidence in the governance systems in Ugandan companies in general. Respondents were of the view, expressed in Q6(l), that foreign owned companies had better corporate governance practices than Ugandan-owned companies. However, some individuals that are closely associated with foreign-owned companies have doubts about the validity of this perception.[200]

The responses to Q6(s) indicate strong agreement with the view that listed companies which fail to comply with corporate governance guidelines should explain and justify themselves (mean = 4.39). The respondents were also of the view that listed companies which do not explain and justify their non-compliance with corporate governance guidelines should be de-listed (mean = 3.66) as suggested in Q6(t). Respondents also agreed with the statement put forward in Q6(u) which suggested that voluntary corporate governance guidelines should be replaced with regulations that are legally binding and enforceable (mean = 3.79).

The MW test identified statistically significant differences in answers to questions 6(j), 6(s) and 6(u). For Q6(j), the EDO group (mean = 3.13) was the only one that agreed that the practice of corporate governance in listed companies in Uganda was satisfactory. It is arguably not surprising that the EDO group would take this position since they were the ones responsible for corporate governance practices in companies,

[200] One of the foreign-owned companies that are listed in Uganda was temporarily suspended from trading on the USE following the company's suspension of operations in a major sector of its business without informing the USE. At the time of writing this thesis (November, 2005), this is the only listed company in Uganda whose share price has fallen below its IPO price, and is the only listed company to have been suspended from trading on the USE. The company was allowed to resume trading on the USE when it re-opened the sector concerned. Some of the interviewees (in Chapter 6) mentioned dubious accounting practices used by some of these companies to under-declare their taxable revenue in Uganda and also referred to the practice of some foreign companies of keeping different set of books in their attempt to hide their actual revenue from Ugandan authorities. Some companies utilise classification of transactions, writing off or revaluation of assets, transfer pricing and management contracts with parent companies to siphon revenue from Uganda to the disadvantage of Ugandan minority shareholders and other stakeholders, such as Government.

and might not have wanted to judge themselves negatively. The EDO group (with a mean of 4.61) also provided the most support for the suggestion in Q6(s) that listed companies which fail to comply with corporate governance guidelines should explain and justify their non-compliance; this is in line with the stipulation of the UK Combined Code which requires companies to adopt the "comply or explain" approach.[201]

Responses to Q6(u) were notable in that respondents overwhelmingly agreed with the view that voluntary corporate governance guidelines should be replaced with regulations that are legally binding and enforceable. Many of the countries in the Western world (with some exceptions including the USA) have opted for voluntary corporate governance guidelines rather than legally binding rules and regulations. This view received the most support from the EDO group (mean = 4.21) and the least support from the academics (3.30); the MW test indicated that the difference in average response between these groups was significant. This result is somewhat counter-intuitive; it might have been expected that company executives and directors would argue for self-regulation rather than external regulation of their companies. It is possible that members of the EDO group realise that the market mechanisms are not sufficient to pressure companies to abide by corporate governance guidelines, as can be evidenced by the current low level of compliance by Ugandan companies, and that the force of law is required if implementation of those guidelines is to be achieved, especially in view of protecting the rights of minority shareholders.

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[201] The MW test results indicate that there was a statistically significant difference between the EDO and the CIO groups in their answers to Q6(s). Inspection of Appendix 7.5 reveals that it was the civil servants (category 4) in the CIO group that affected the group mean since theirs was the only one that was below 4 (3.81); however, the averages of the other categories in that group (individual investors and others) were also relatively lower than the averages for the other categories (except for legislators who also had a mean of 4.00).

Table 7.13 Corporate Governance in Different Types of Firms

Panel A: Questions

	One Sample T-Test			Chi-Square Test			
Statement	Mean	T Stat	P-Value	Disagree	Agree	Chi-Square	P-Value
Q6(j) The practice of corporate governance in listed companies in Uganda is satisfactory.	2.88	-1.38	0.170	55	41	2.04	0.158
Q6(k) The practice of corporate governance in un-listed companies in Uganda is satisfactory.	2.40	-6.45	0.000*	83	19	40.16	0.000*
Q6(l) Foreign owned companies have better corporate governance practices than Ugandan-owned companies.	3.61	6.92	0.000*	18	82	40.96	0.000*
Q6(s) Listed companies that do not comply with corporate governance guidelines should explain and justify their non-compliance.	4.39	18.20	0.000*	8	127	104.90	0.000*
Q6(t) Listed companies that do not explain and justify their non-compliance with corporate governance guidelines should be de-listed.	3.66	5.76	0.000*	33	91	27.13	0.000*
Q6(u) Voluntary corporate governance guidelines should be replaced with regulations which are legally binding and enforceable.	3.79	7.20	0.000*	27	97	39.52	0.000*

NOTE: Panel A of Table 7.13 shows the questions and results of the One Sample T-Test and Chi-square Test for questions dealing with compliance with corporate governance guidelines in different types of Ugandan firms.

Panel B: Group Means, Kruskal-Wallis and Mann-Whitney Test

	Group Means					KW	Mann-Whitney Test p-values									
Q	LRJ	CIO	CEA	EDO	ACAD	P-Value	Gp (LRJ, CIO)	Gp (LRJ, CEA)	Gp (LRJ, EDO)	Gp (LRJ, ACAD)	Gp (CIO, CEA)	Gp (CIO, EDO)	Gp (CIO, ACAD)	Gp (CEA EDO)	Gp (CEA, ACAD)	Gp (EDO ACAD)
Q6(j)	3.00	2.55	2.86	3.13	2.74	0.27	0.16	0.68	0.60	0.54	0.18	0.05*	0.42	0.22	0.74	0.20
Q6(k)	2.18	2.45	2.24	2.72	2.32	0.42	0.63	0.90	0.17	0.85	0.45	0.41	0.79	0.08	0.64	0.25
Q6(l)	3.76	3.39	3.70	3.67	3.43	0.67	0.21	0.94	0.96	0.57	0.20	0.23	0.71	0.83	0.43	0.56
Q6(s)	4.47	3.87	4.53	4.61	4.19	0.21	0.15	0.90	0.69	0.62	0.04	0.03*	0.37	0.69	0.44	0.30
Q6(t)	4.18	3.18	3.82	3.69	3.33	0.22	0.03*	0.30	0.42	0.12	0.08	0.17	0.74	1.00	0.27	0.45
Q6(u)	3.82	3.59	3.74	4.21	3.30	0.13	0.65	0.86	0.17	0.38	0.58	0.08	0.44	0.18	0.17	0.01*

NOTE: Panel B of Table 7.13 shows the group means, plus the p-values for the KW and MW tests for questions 6(j) to 6(u). The KW test shows whether there are any differences in the means of the responses given by the groups for each question, while the MW test tries to establish which particular pairs of group means are significantly different from each other.

7.10 The Framework of Corporate Governance

The revised Principles of the OECD (2004) place strong emphasis upon the framework of corporate governance, which includes: (i) the Legal Framework; (ii) the Regulatory Framework; (iii) the Accounting Framework; (iv) the Political Framework; (v) the state of the economy; and (vi) cultural, social and ethical factors; this framework is intended to facilitate the implementation of the principles of corporate governance. Question 6 sought the perceptions of stakeholders towards the framework of corporate governance in Uganda; the responses are summarised in Table 7.14.

7.10.1 The Legal Framework

Questions addressing the Legal Framework in Uganda were presented in questions 6(a) to 6(d). Respondents were asked for their views regarding the adequacy and effectiveness of the Ugandan laws that relate to promoting corporate governance and accountability, and whether these laws could help to reduce levels of corruption. The answers given by the respondents (Panels A of Table 7.14) indicate that the majority (74 out of 105) disagreed with the notion that there are adequate and effective laws that promote corporate governance in Uganda[202]. This perception is clearly worrying and suggests that attention from the relevant authorities is needed so that stakeholders can have confidence that a legal system exists which promotes high standards of de-facto corporate governance in Uganda.

[202] The p-values for both the T-Test and Chi-square tests were highly significant.

There was general agreement with the statement in Q6(b) that the legal system could help to improve corporate governance in Uganda (mean = 4.09). The groups that agreed most strongly were the EDO group (4.34), the CEA group (4.18) and the LRJ group (4.18), while the least support for the statement came from the academics (3.60) and the CIO group (3.83).

The MW test results in Panel B of Table 7.14 identify significant differences in answers to Q2(b) between the group of academics and both the EDO and CEA groups, as well as between the CIO group and the EDO group.[203]

Question 6(c) sought respondents' views as to whether the legal system could help to improve accountability in Uganda. The mean for the answers to this question was 4.0 and there was a statistically significant difference between the number agreeing (117) and disagreeing (17) with the statement. There was therefore clear support for the statement. The results of the MW test indicated significantly lower support from the academics than both the CEA and EDO groups, plus significantly stronger support from the CEA than the CIO group (Panel B of Table 7.14).[204] The EDO and CEA groups agreed most with the statement; these two groups are closely involved in the running of companies and this experience might have made them realise the role of

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[203] The differences in the CIO group partly reflect the view of civil servants and the others who each had a mean of 3.75; the means of all the other categories in this group were higher than 4. The academics expressed the least support for the statement (mean = 3.60), while those working in companies indicated more support for the legal system helping to improve the practice of corporate governance. The civil servants and individual investors also expressed less confidence in the legal system (mean: 3.83) than the company executives, executive directors, non-executive directors and owner-managers. The legislators themselves (mean: 3.86) expressed the least extent of agreement within the LRJ group. This point would be worth following up in later research.

[204] When the 14 categories of respondents are analysed separately (see Appendix 7.5) the academics (with a mean response of 3.40) had the lowest mean, followed by civil servants, individual investors and others, who each had a mean of 3.5. In Q6(b), the legislators expressed the lowest extent of agreement (within the LRJ group) regarding the ability of the legal system to help in improving accountability in Ugandan companies. This could be due to a perception by legislators that, despite the laws and regulations that are in place, accountability has remained a problem in Uganda.

the legal system in the proper running of companies. In contrast, the CIO and academics are less actively involved with the management of companies, and their awareness of companies' day-to-day activities is lower than that of the EDO and CEA groups.

In question 6(d) respondents were asked to state the extent of their agreement with the view that the legal system could help to reduce corruption in Ugandan companies. The mean for all responses to this question was 3.89, with the LRJ (mean = 4.35) agreeing most, followed by the CEA (4.12) and EDO (3.95) groups; the academics (3.40) and the civil servants (3.42) expressed the least agreement with the statement. This evidence is notable because the perception among stakeholders is that corruption is prevalent in the public sector entities where the civil servants would be employed. However, a significant majority of the respondents (106 out of 124) agreed with the statement that the legal system could help to reduce corruption in Ugandan companies.[205] The MW test indicated that the average level of support given by the LRJ group was significantly higher than that given by both the CIO and ACAD groups, while the support given by the CEA group differed from those of the CIO and ACAD groups (see Panel B of Table 7.14). The LRJ, CEA and EDO groups should be relatively familiar with what goes on in companies by virtue of their positions, and should be aware of the pandemic of corruption alluded to in the interviews and the need to route it out through the legal system to both improve accountability and responsibility to stakeholders, and actions which may affect the wealth of the providers of capital.

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[205] However, the extent of agreement expressed by the following categories of respondents was notably lower than for the others: others (2.75); individual investors (3.50); and civil servants (3.56).

Table 7.14 The Framework of Corporate Governance

Panel A: Questions, One Sample T-Test and Chi-square Test

	One Sample T-Test			Chi-square Test			
Statement	Mean	T	P-Value	Dis-agree	Agree	Chi-Square	P-Value
Legal Framework							
Q6(a) There are adequate and effective laws that promote the practice of good corporate governance in Uganda.	2.55	-4.43	0.000*	74	31	17.61	0.000*
Q6(b) The legal system could help to improve corporate governance in Uganda.	4.09	14.96	0.000*	6	118	101.16	0.000*
Q6(c) The legal system could help to improve accountability in Uganda.	4.00	12.37	0.000*	11	117	87.78	0.000*
Q6(d) The legal system could help to reduce corruption in Ugandan companies.	3.89	9.37	0.000*	23	106	53.40	0.000*
Regulatory and Supervisory Framework							
Q6(e) The enforcement agencies have the power and authority to enforce compliance with laws and regulations in Uganda.	3.00	0.00	1.000	49	52	0.09	0.764
Q6(f) Ugandan regulatory and enforcement authorities are effective in enforcing compliance with laws and regulations.	2.20	-9.42	0.000*	102	16	62.68	0.000*
Q6(g) Corruption in Uganda affects the ability of regulatory authorities to enforce compliance with corporate governance principles and accountability.	3.99	9.41	0.000*	24	110	55.19	0.000*
Accounting Framework							
Q6(h) The Institute of Certified Public Accountants of Uganda is effective in enforcing good accounting and financial reporting practices.	2.81	-2.18	0.031*	51	34	3.40	0.065
Privatisation							
Q6(i) The privatisation of state-owned enterprises has improved the practice of corporate governance in those companies.	2.92	-0.85	0.396	52	53	0.01	0.920
Political Framework							
Q6(m) The political climate in Uganda is conducive to the practice of good corporate governance in private sector companies.	2.67	-3.49	0.001*	63	36	7.36	0.007*
Q6(n) The political climate in Uganda is conducive to the practice of good corporate governance in public sector companies.	2.37	-6.30	0.000*	84	29	26.77	0.000*
Economic, Social, Cultural and Ethical Factors							
Q6(o) The state of the economy in Uganda affects the practice of corporate governance.	3.79	8.97	0.000*	16	95	56.23	0.000*
Q6(p) Social factors affect the practice of corporate governance in Uganda.	3.57	6.24	0.000*	23	83	33.96	0.000*
Q6(q) Cultural factors affect the practice of corporate governance in Uganda.	3.40	3.85	0.000*	34	82	19.86	0.000*
Q6(r) Ethical factors affect the practice of corporate governance in Uganda.	3.95	10.40	0.000*	18	105	61.54	0.000*

NOTE: Panel A of Table 7.14 shows the questions regarding the Framework of Corporate Governance, together with the results of the One Sample T-Test and Chi-square Test.

Panel B: Group Means, Kruskal-Wallis and Mann-Whitney Test

	Group Means					KW	Mann-Whitney Test p-values									
Q	LRJ	CIO	CEA	EDO	ACAD	P-Value	Gp (LRJ, CIO)	Gp (LRJ, CEA)	Gp (LRJ, EDO)	Gp (LRJ, ACAD)	Gp (CIO, CEA)	Gp (CIO, EDO)	Gp (CIO, ACAD)	Gp (CEA EDO)	Gp (CEA, ACAD)	Gp (EDO ACAD)
Q6(a)	2.76	2.50	2.49	2.62	2.47	0.88	0.42	0.30	0.56	0.39	0.90	0.79	0.96	0.69	0.99	0.75
Q6(b)	4.18	3.83	4.18	4.34	3.60	0.05*	0.22	0.83	0.41	0.14	0.09	0.02*	0.65	0.43	0.05*	0.01*
Q6(c)	4.12	3.50	4.20	4.32	3.40	0.00*	0.07	0.48	0.20	0.12	0.01*	0.00*	0.96	0.46	0.02*	0.01*
Q6(d)	4.35	3.42	4.12	3.95	3.40	0.04*	0.02*	0.62	0.30	0.04*	0.02*	0.10	1.00	0.47	0.04*	0.15
Q6(e)	3.76	3.00	2.94	2.74	3.00	0.04*	0.08	0.00*	0.00*	0.05*	0.97	0.57	0.97	0.56	0.57	0.30
Q6(f)	2.41	1.95	2.24	2.14	2.29	0.73	0.09	0.34	0.27	0.46	0.60	0.56	0.73	0.92	0.95	0.96
Q6(g)	4.24	4.00	3.84	3.85	4.38	0.35	0.57	0.26	0.32	0.60	0.58	0.70	0.24	0.88	0.07	0.09
Q6(h)	3.13	2.87	2.88	2.66	2.65	0.43	0.27	0.24	0.08	0.13	0.80	0.56	0.65	0.32	0.47	0.92
Q6(i)	3.00	2.46	2.88	3.29	2.81	0.09	0.12	0.67	0.38	0.46	0.16	0.01*	0.28	0.11	0.77	0.09
Q6(m)	2.88	2.74	2.60	2.59	2.75	0.86	0.42	0.30	0.56	0.39	0.90	0.79	0.96	0.69	0.99	0.75
Q6(n)	2.47	2.32	2.12	2.59	2.55	0.46	0.22	0.83	0.41	0.14	0.09	0.02*	0.65	0.43	0.05*	0.01*
Q6(o)	3.71	3.67	3.65	4.03	3.85	0.38	0.07	0.48	0.20	0.12	0.01*	0.00*	0.96	0.46	0.02*	0.01*
Q6(p)	3.69	3.39	3.51	3.72	3.57	0.73	0.02*	0.62	0.30	0.04*	0.02*	0.10	1.00	0.47	0.04*	0.15
Q6(q)	3.41	3.13	3.52	3.54	3.10	0.67	0.08	0.00*	0.00*	0.05*	0.97	0.57	0.97	0.56	0.57	0.30
Q6(r)	4.12	3.87	3.98	4.21	3.30	0.11	0.09	0.34	0.27	0.46	0.60	0.56	0.73	0.92	0.95	0.96

NOTE: Panel B of Table 7.14 shows the group means, plus the p-values for the KW and MW tests for questions 6(a) to 6(i) and 6(m) to 6(r). The KW test shows whether there are any differences in the means of the responses given by the groups for each question, while the MW test tries to establish which particular pairs of group means are significantly different from each other.

As a whole, the answers to questions 6(a) to 6(d) suggest that there are questions about the effectiveness of the legal system, despite overall support, emerging for its role in corporate governance. It appears that there are still serious concerns about the current legal system and that governance and accountability are affected by the inability of the extant system to reduce corruption.

An analysis of comments made in Q20 and Q21 indicates that while some respondents feel that Uganda should emphasise persuasion - and a change of mindsets of stakeholders - rather than external regulation and enforcement, others favour the introduction of stiffer penalties for non-compliance with laws and regulations; the current penalties were not seen as being adequate to promote compliance.[206]

Respondents noted that whistleblowers who disclosed malpractices in companies were in a vulnerable situation since there is no evident law in Uganda to protect them against dismissal and other reprisals. Respondents felt that it was necessary to introduce such a law and suggested that this law would contribute to the improvement of Ugandan corporate governance practices.

7.10.2 The Regulatory and Supervisory Framework

The OECD Principles (2004) highlight the importance of the regulatory, supervisory and enforcement authorities and state the following:

[206] Some respondents even suggested that the Government should establish a body that would be responsible for the enforcement of the principles of corporate governance, thereby making corporate governance a legal requirement in companies.

> Supervisory, regulatory and enforcement authorities should have the authority, integrity and resources to fulfil their duties in a professional and objective manner (Section I, D).

Several questions were therefore asked to ascertain the perceptions of stakeholders about Ugandan regulatory and enforcement agencies; the results are summarised and analysed in Table 7.14. Panel A of the table indicates that respondents disagreed with the statement in Q6(f), i.e that Ugandan regulatory and enforcement authorities are effective in enforcing compliance with laws and regulations (the mean response was 2.20).[207] However, the respondents were neutral about the issue of whether enforcement agencies have the power and authority to enforce compliance with laws and regulations in Uganda, as suggested by Q6(e) (the T-Test and Chi-square test were both insignificant).[208] Only the LRJ group (mean = 3.76) agreed with the statement, while company people were amongst those that failed to show support.

As Panel B of Table 7.14 shows, none of the five groups agreed with the statement in Q6(f) which suggested that Ugandan regulatory and enforcement agencies are effective in regulating and enforcing compliance with corporate governance practices in Ugandan companies.[209] Panel A of the table indicates that the overall mean for this question was only 2.20. These results are entirely consistent with the interviewees' views (outlined in

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[207] The chi-square test generated a p-value of 0.000, suggesting that a significantly higher number of respondents disagreed than agreed with the statement.

[208] The means of individual categories (Appendix 7.5) indicate that the regulators themselves (category 2) and the judiciary (category 13) agreed with the statement, with means of 4.33 and 4.00 respectively, while the company executives (category 7), executive directors (category 12), non-executive directors (category 11) and individual investors (category 9) disagreed with the statement, with means of 2.67, 2.71, 2.75 and 2.75 respectively.

[209] Neither the KW nor the MW tests detected any differences in the average response of the different groups.

the previous chapter) that there was poor enforcement of laws and regulations relating to corporate governance in Uganda.[210]

All five groups agreed with the view put forward in Q6(g) whereby corruption is one of the factors affecting the ability of regulatory authorities to enforce compliance with the principles of corporate governance and accountability (the overall mean was 3.99), but there were no statistically significant differences in group averages detected by either the KW or MW test.[211]

In Q20 and Q21, respondents expressed the view that the supervision of public sector corporations by parent ministries was not adequate and recommended that the respective Ministries must play a role in monitoring and fostering compliance with corporate governance principles in the public sector corporations under their charge.

Some respondents were of the view that regulatory agencies in Uganda needed strengthening with greater resources provided to help them enforce compliance with laws and regulations. It appears reasonable to argue that the USE itself should make compliance with generally accepted principles of corporate governance a condition for listing on the stock market.

[210] It is worth noting that none of the 14 categories of respondents agreed with the statement that Ugandan regulatory and enforcement authorities were effective in enforcing compliance with laws and regulations (except, of course, the regulators who had a mean of 3.50); see Appendix 7.5.

[211] The regulators (category 2) themselves agreed with the statement with a mean of 4.33 (see Appendix 7.5), while the owner-managers and the judiciary each generated a mean of 5.00.

7.10.3 Accounting Framework

The Accounting Standards used in recording and presenting the transactions of a company are instrumental in conveying financial information and other annual reports to the users of the statements issued by companies. The use of similar and consistent accounting principles by different firms will enable users to evaluate the performance of companies using similar yardsticks. This, in turn, enables users to assess the performance of management in terms of their governance of companies and their accountability to stakeholders.

Question 19(a) tried to ascertain which accounting standards were being used by Ugandan companies.[212] Out of the 80 respondents who answered this question, 67.5% stated that their companies used International Financial Reporting Standards (IFRS), while others said that they employed UK Accounting Standards (8.8%) or Ugandan Accounting Standards (12.5%) and others (11.2%) said that they did not know which standards their companies were using.[213]

The answers given by respondents indicated that not every company in Uganda uses IFRS and that, in several cases, there appears to be uncertainty about which standards are being used. Based upon the personal experience of the researcher, who is a member of the faculty of a Business School in Uganda, it appears that some Business Schools use

[212] This question was only put to those respondents who worked in companies.
[213] It was, however, clarified by some respondents that the Institute of Certified Public Accountants of Uganda (ICPAU) had issued one accounting standard to govern accounting for Value Added Tax (VAT) and that all companies in Uganda had to use this accounting standard. Because of this, some respondents marked the boxes for both Ugandan Accounting Standards and IFRS.

whatever textbooks they can get hold, irrespective of the accounting standards used in those books. There is, therefore, an obvious need to standardise the principles used in these schools to prepare accounting students so that de-facto uniform standards of accounting in Uganda develop over time.

The OECD Principles (2004) stress the importance of annual audits in the following words:

> An annual audit should be conducted by an independent, competent and qualified, auditor in order to provide an external and objective assurance to the board and shareholders that the financial statements fairly represent the financial position and performance of the company in all material respects (Section V, C).

In question 19(b), respondents were asked to state whether their companies had an annual audit conducted by independent, competent and qualified auditors. Out of the 81 respondents who answered this question, 80 (i.e. 98.8%) indicated that their companies had annual audits; the Companies Act of Uganda (1964) requires all companies to have annual audits by independent, qualified auditors and any company not having annual audits would be contravening the law. However, as noted earlier, compliance with other elements of Ugandan corporate law appear to be patchy and so such a widespread perception of compliance is noteworthy. Nonetheless, given the propensity for corruption documented in this and the previous chapter, pertinent questions remain regarding the quality and extent of the audits that these companies receive and, since shareholders and other stakeholders such as regulators and Government rely on their opinions in judging and evaluating the performance of those companies, whether the auditors are truly independent and objective.

The accountability of external auditors to shareholders was also highlighted by the OECD Principles (2004):

> External auditors should be accountable to the shareholders and owe a duty to the company to exercise due professional care in the conduct of the audit (Section V, D).

Of the 79 people who responded to Q19(c), which asked whether external auditors were accountable to shareholders, 68 (or 86%) responded in the affirmative, 6 (8%) said "no" and 5 (6%) said that they did not know. External auditors are, therefore, clearly perceived as being accountable to shareholders in Uganda, but further work might usefully examine the form which this accountability takes and whether it is true accountability or simply communication of information. The Companies Act of Uganda (1964) places the responsibility of appointing auditors on shareholders at an Annual General Meeting. In the light of findings reported in this thesis regarding the difficulties faced by Ugandan shareholders, and the general climate of inconsistent respect for the law, it is worth speculating whether the owners of firms have de-facto responsibility for the appointment and sanctioning, where necessary, of auditors, as stipulated by the Companies Act, or whether management's choice of auditors prevails in most cases. In the case of multinational companies, the extent of influence that Ugandan Shareholders have over the selection of auditors is questionable, since, as minority shareholders, their voting power is not significant enough to influence the decision.

Another important question relates to the regulation of accounting practices in Uganda. Although the majority of respondents disagreed with the statement in Q6(h) suggesting

that The Institute of Certified Public Accountants of Uganda (ICPAU) was effective in enforcing good accounting and financial reporting practices, the difference in numbers agreeing and disagreeing was not statistically significant despite the fact that the t-test indicated that the mean of 2.8 was significantly lower than the test value of 3 (see Table 7.14, Panel A). Only the LRJ group, with a mean of 3.13,[214] agreed with the statement that The Institute of Certified Public Accountants of Uganda was effective in enforcing good accounting and financial reporting practices. However, there were a high number of neutral responses and the results do not support a strong conclusion either way. The responses suggest, however, that more needs to be done by the ICPAU to convince stakeholders that it is effective in regulating, monitoring and enforcing compliance with agreed upon standards of accounting and auditing.

7.10.4 The Political Framework

Questions 6(m) and 6(n) examined stakeholders' perceptions as to whether the political climate in Uganda was conducive to the practice of corporate governance in private and public sector companies. The responses are summarised in Panel A of Table 7.14. The results indicate that a statistically significant number of respondents thought that the political climate in Uganda is not conducive to the practice of corporate governance in either private sector (Q6(m)) or the public sector (Q6(n)) companies, with the public sector corporations having a poorer perception than the private sector ones; the public

[214] It was the regulators (category 2) in the LRJ group who agreed most strongly with the view that the Institute of Certified Public Accountants were effective in enforcing good accounting and financial reporting practices (mean = 3.50) whereas all the other categories in the group did not. This result is not surprising since regulators might want to believe that other members of their profession were effective in doing their work.

sector corporations had a mean of 2.37 as opposed to 2.67 for private sector corporations.[215] These views should be of concern to the business environment in Uganda as the prevailing political climate is likely to have an impact on the governance of companies and on both local and foreign investment in the country.

Further concerns were raised in responses to Q20 and Q21 where respondents expressed the perception that the political climate did not promote respect for the rights of stakeholders (some stakeholders were not aware of their rights and so did not seek to enforce them). A view was also expressed that Government's continued ownership of shares in "privatised" corporations was a breeding ground for political interference in the running of those organisations. High tax rates were also mentioned as an incentive for some company executives to use illegal means such as smuggling in goods, under-declaring the value of goods, or managing trading accounts in order to evade taxes. These responses support the view that Government's fiscal and monetary policies can affect the governance of companies in a tangible and substantive manner.

7.10.5 Economic, Social, Cultural and Ethical Factors

Respondents agreed that the following factors that were presented in questions 6(o) to 6(r) affected the practice of corporate governance in Uganda: (i) the state of the economy

[215] An examination of the means of the individual categories (Appendix 7.5) indicates that even the legislators were non-committal (mean = 3.00) as to whether the political climate in Uganda was conducive to the practice of good governance in public sector companies; other than the non-executive directors (category 11; mean= 3.25), none of the categories agreed with the statement in Q6(n). It was only the legislators and the regulators who, marginally, agreed that the political climate in Uganda is conducive to the practice of corporate governance in private sector corporations, with means of 3.14 and 3.33 respectively. This finding is not surprising since the legislators are responsible for the political climate in the country.

(mean = 3.79); (ii) social factors (3.57); (iii) cultural factors (3.40); and (iv) ethical factors (3.95). The difference between the numbers who agreed and those who disagreed with the statements in Panel A of Table 7.14 was statistically significant with the majority of respondents expressing the view that these factors affected the practice of corporate governance in Uganda.[216]

These results suggest that companies are not isolated from the environment in which they operate; economic, social, cultural and ethical factors are all seen as part of this environment and therefore influence the practice of corporate governance.

Respondents made several comments in Q20 and Q21 regarding the ethical and moral degradation of Ugandan society and its effect on the practice of corporate governance by providing the seedbed for corruption and other malpractices. These respondents argued that there should be moral rehabilitation in Uganda through education, starting from the early formative years; it was recommended that a course in "civics", which stresses good citizenship and the responsibilities of a good citizen, should be introduced in schools right from primary level and that business ethics should be made to be a compulsory part of the curriculum of all institutions of higher learning.[217]

Respondents also recommended that Government should issue a strong public condemnation of unethical behaviour, such as corruption and the failure of politicians to

[216] An analysis of the results using the KW and MW tests (Panel B of Table 7.14) did not indicate any significant differences in average responses between groups for Q6(r).
[217] Some Universities in Uganda, such as Uganda Martyrs University, have already made the study of Business Ethics mandatory for all their students.

abide by the leadership code. Respondents argued that punitive measures should be taken against all public officials who were involved in such malpractices, without fear or favour, and that this should not be done selectively whereby some "untouchables" were not penalised for their misconduct. This course of action would, they argued, necessitate leadership by example, with greater political will and commitment to good governance required at all levels of Government. Measures such as imprisonment and seizure of the property of corrupt officials were proposed as a possible deterrent against corruption in the effort to promote good governance in Uganda.[218]

Other respondents thought that high unemployment compromised the practice of good governance as Ugandan workers were often desperate for jobs, and prepared to work under any conditions even if their rights were not respected.[219] Poor remuneration of regulators, employees, management and directors was perceived to be a factor that affected good governance, as it might encourage officials to be involved in corruption and bribery. Other factors affecting good governance were thought to include: greed by management and board members; lack of grievance procedures in organisations; backwardness; lack of commitment by management and board members; obsolete technology; lack of written codes of conduct for employees and management; "get-rich-quick" mentality; sectarianism based on tribe, religion or politics; poverty and high unemployment; ignorance; job insecurity; rich proprietors who had little formal education and did not appreciate the principles of good corporate governance of their companies;

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[218] There was also concern among respondents that some employees, management and board members lacked a sense of professionalism and recommended that this professionalism should be promoted in all organisations.
[219] Lack of opportunities for career development was also seen as affecting the commitment of company employees.

and unclear auditing standards. These views are consistent with those expressed by interviewees in the previous chapter.

7.10.6 Privatisation

Question 6(i) sought to establish stakeholder perceptions as to whether or not corporate governance had improved in the privatised entities. The responses, as presented in Panels A and B of Table 7.14, indicate that stakeholder responses were split evenly between those who thought that there had been improvement (53) and those who did not (52); while the mean for all respondents (2.92) seemed to suggest that, on the whole, respondents did not take a strong view about the effect that privatisation had had on corporate governance in the companies concerned.[220] The most optimistic group seemed to be the EDO group (mean = 3.29) which is composed of company executives, non-executive directors, executive directors and owner managers while the most pessimistic was the CIO group (2.46). It was not surprising that company executives and owner-managers perceived corporate governance in privatised companies in a favourable manner since they are the ones responsible for day-to-day running of the companies. The LRJ group (legislators, regulators and judiciary) seemed undecided (mean: 3), while the CIO, CEA, and ACAD groups all had a mean of less than 3.

These responses are worrying, in that they question whether the Ugandan Government has adopted the measures that are necessary to improve corporate governance in state

[220] A substantial number of respondents (46) were undecided.

owned companies following their privatisation. The hope seems to have been that the private ownership of the companies concerned would automatically lead to improvements in corporate governance. Interviewees in the previous chapter pointed out that the Government also wanted to save itself the money it was using to subsidise those corporations, most of which were loss making; the money saved could then be used to improve Ugandan public services. However, some respondents expressed concerns about Government accountability for the funds raised from the sale of the privatised entities.

7.10.7 Policy Implications for the Donor Community

Some respondents suggested in Q20 and Q21 that the international donor community should insist on good governance as a pre-requisite before developing countries such as Uganda receive aid. While this was seen as having the potential to improve corporate governance practices in Uganda, a number of respondents countered that some of the donor agencies need to improve governance in their own organisations. An example was given of a donor agency that sent its own agents from outside to be in charge of some projects in Uganda, but some of these agents ended up acting in a manner that was not transparent and accountable to the Ugandan authorities. Money was sent to the personal accounts of these individuals and there was no account of how the money was spent. Instead, the Ugandan counterparts were being asked by these individuals to sign statements verifying proper use of the funds without them handling the funds or verifying the accounts. Despite this, the role of the international donor community was seen as

being vital in putting pressure on all the relevant parties to ensure development of a more robust corporate governance system in Uganda.

7.11 Summary

The questionnaire survey that was administered to a cross-section of legislators, regulators, company employees, civil servants, academics, accountants, company executives, owner-managers of companies, individual investors, institutional investors, non-executive directors, executive directors and individuals working in the legal profession had the objective of establishing the perceptions of stakeholders towards the state of corporate governance and accountability in Uganda. The areas investigated included: the concept of corporate governance; the relevance and importance of corporate governance; applicability of corporate governance principles to listed companies, non-listed companies and state-owned companies; corporate social responsibility; the relevance of international corporate governance guidelines developed by the Western World; disclosure and transparency; the responsibilities of the board; the composition of the board; board committees and their composition; factors that affect corporate governance; stakeholder groups; stakeholders' rights and other matters affecting stakeholders (including shareholders); ownership structure and corporate governance; the extent of compliance with corporate governance guidelines by private and public sector corporations (both local and foreign-owned); the framework of corporate governance; and whether privatisation has improved corporate governance in privatised companies.

The respondents seemed to view corporate governance more from a stakeholder perspective than a principal/agent standpoint. The majority of respondents favoured the statement describing stakeholders as those individuals who are affected by, or who affect, the organisation's decisions and activities (mean of 4.29); this was followed by the understanding of stakeholders as all members of society (3.43). Although more respondents disagreed with the principal/agent view than those who agreed with it, the difference between those who agreed and those who disagreed was not statistically significant. The majority of respondents (86%) also agreed that CSR was an integral part of corporate governance. As pointed out in Chapter 6, the stakeholder approach presents problems in establishing a bond of accountability, as stipulated by Stewart (1984) in his Ladder of Accountability. It is difficult to pinpoint who can enforce sanctions against management and boards of companies in the event of these not meeting stakeholder expectations – unless stakeholder expectations are protected by law and, therefore, enforceable in courts of law. It was suggested in Chapter 6 that stakeholders could enforce their rights through shareholders who have substantial shareholdings or through the force of law (where applicable).

Corporate governance was perceived as being important for the economic and social development of the country, creating wealth for shareholders, ensuring transparent management of resources, promoting accountability, reducing the level of corruption, managing risk, attracting both local and foreign investment and protecting the interests of all shareholders (including minority shareholders). Respondents felt that good corporate governance should apply to all private and public sector companies, whether listed or not.

although the extent of disclosure could vary according to ownership and size. It was also argued that improved governance practices would enable companies to get listed and have access to more capital on the Uganda Securities Exchange.

It was observed, however, that there seemed to be little knowledge of the principles of corporate governance by board members, management and employees and that more needed to be done in order to train and sensitise various groups of stakeholders on their respective responsibilities and rights. The ICGU has been attempting to do this by conducting short courses for board members (mainly public sector members of the board and senior management), but these efforts need to be strengthened and extended to a wider public outside the capital city, Kampala. International corporate governance guidelines were seen by the respondents as being important because of the current trend towards globalisation; similarly, multinational investors will have an impact on local corporate governance practices and their investment decisions are likely to be influenced by the current principles and state of corporate governance in a target country. There was also concern that certain foreign investors do not respect the rights of the locals who work for them, and that some are not transparent, failing to disclose the actual results of their operations to the Ugandan Government authorities. Given the fact that most Ugandan companies are either family-owned or sole proprietorships, there was need for these owners to be convinced about the benefits of improved governance of the companies they own and manage.

Respondents supported the view that there should be adequate, accurate and timely disclosure of the following information: financial and operating results; company objectives; details about board members, including the selection process, other company directorships and whether they were considered to be independent non-executive directors; governance structures and policies; major share ownership; impact of organisation's activities on society and the environment; remuneration policy; material interest in any transaction or matter affecting the company; foreseeable risk factors; and related party transactions. Stewart (1984) discussed the Ladder of Accountability in the context of information needs for stakeholders to be able to evaluate the activities and policies of elected officials to establish whether their performance met the expectations of the electorate. The above list of required disclosures would provide information to stakeholders to enable them to evaluate and establish the accountability of companies and their officials. However, respondents commented, in questions 20 and 21, that there were poor disclosure practices and restrictions on access to relevant information. The list of disclosures, therefore, appears to be more of a "wish list" than reality. The transparency required in providing appropriate information seems to be lacking and there is not much that stakeholders can go by in order to assess the performance of management and board members. The view of respondents suggested that management and boards just communicated information to shareholders in AGMs and published summary statements in the public media but were not open to critical evaluation; there was hardly any room for the Ugandan minority shareholders imposing sanctions against management, especially those of multinational companies. Family-owned companies and sole proprietorships were not required to publish their annual reports in the public media. The

absence of adequate, accurate and timely information seems to be a major hindrance to the accountability of firms in Uganda.

The views of the respondents regarding board composition were similar to those of the Combined Code (2003), namely that: the majority should be independent non-executive directors; the chairman should be an independent non-executive director; and the chief executive should not at the same time be the board chairperson. The criteria for the selection of board members and the specification of their composition and responsibilities were seen as needing attention so as to improve transparency; board committees and their composition was also seen as an important factor in the governance of companies. Respondents were of the view that new board members should receive induction into the activities of the companies and the way the particular companies operate so that they can exercise their roles from an informed position; it was also recommended that there should be ongoing training for board members and senior management so that they can keep current with developments in the field of corporate governance. Respondents expressed the need for clear codes or rules of conduct for employees and management to be drawn up so as to guide them in their work and relationships.

The responsibilities of the board identified by respondents were similar to those contained in Western models of corporate governance, namely: acting in good faith, with due diligence and care, and in the best interests of the company and its shareholders; treating all shareholders equally; ensuring the integrity of accounting and financial reporting systems; exercising objective, independent judgement on corporate affairs;

monitoring the effectiveness of a company's governance practices and making changes as needed; aligning key executive and board remuneration with longer-term interests of the company and its shareholders; being responsible for selecting, compensating, monitoring and, when necessary, replacing key executives and overseeing succession planning; and monitoring and managing potential conflicts of management, board members and shareholders – including related party transactions. Respondents felt that board members should also take into account the interests of other stakeholders. Several comments were made in questions 20 and 21 to the effect that both the attitudes of management and board members, and the personal traits of management, especially the chief executive, were considered to be major factors in corporate governance as they influence the behaviour of those officials in the conduct of their duties. The integrity of company officials was seen as a pre-requisite for the good governance of companies. Issues of integrity and personal traits are likely to affect those officials' accountability for probity.

The following factors were identified as affecting corporate governance in private sector companies in Uganda: corruption and bribery; conflicts of interest; sectarianism; non-compliance with laws and regulations; inadequate infrastructure (and resources) for regulatory and enforcement agencies; fear and respect for those in authority; and insignificant fines that do not encourage compliance with laws. In addition to the factors that affected private sector companies, other factors, such as political interference, lack of political will to combat corruption, lack of political will to enforce compliance, and incompetent personnel were mentioned as affecting public sector corporations in Uganda. The above factors affect the implementation of accountability for both legality and

probity in Ugandan firms. Fear and respect for the authority of elders was not an issue that generated significant support in either private or public sector companies, although interviewees in Chapter 6 had thought that such fear and respect affected the governance of companies. It was also argued that because most Ugandan companies are either family-owned or owned by sole proprietors, the owner-managers might not value the need for corporate governance since, by definition, there is no separation between ownership and management.

There seemed to be general agreement that the structures required for a robust framework of corporate governance are in place in Uganda. These structures included the legal, the regulatory, the political and the economic framework. The legal framework consists of laws passed by parliament; these specify the manner in which companies are to be set up and managed and the specific returns to be submitted to the various regulatory agencies. Failure to comply with legal requirements constitutes criminal offences whose remedies are enforceable in courts of law. Accountability for legality can be identified by establishing whether companies have conformed to legal and regulatory requirements. Some sections of the law, such as the Companies Act of Uganda, stipulate how companies are to relate with shareholders and other stakeholders. These sections of the law, as well companies' internal codes and rules of conduct could be used to assess whether companies have complied with accountability for probity. Practices such as corruption and bribery, conflicts of interest and not declaring related party transactions are covered by law and could be the subject of accountability for both legality and probity. The accounting framework is regulated by the statute which established and

specified the role of the Institute of Public Certified Accountants of Uganda; additionally, some of the financial and operating reporting requirements are included in the Companies Act of Uganda. The accounting framework, therefore, has the backing of the force of law in Uganda which can be used to compel financial reports to be prepared and presented in a specified manner. Non-compliance with these requirements would violate accountability for legality. The financial and other company reports provide information which could be used to assess the company's performance, process and programme accountability. However, it was felt that some of these frameworks need updating, with the resources provided to enable the regulatory and enforcement agencies to perform their work adequately. The accounting framework also needs to be clarified so that uniform accounting and auditing standards can be followed by all companies to facilitate the interpretation and comparison of results between different companies and financial periods. In addition, the economic policies of the country (together with cultural, social and ethical factors) need to be scrutinised for their contribution to the promotion of good corporate governance in Uganda. Overall, it was clear that a lot of improvements are seen as being needed if the frameworks in place are to form the basis for enhanced corporate governance in both listed and unlisted companies in Uganda, whether locally-owned or owned by foreign nationals.

Summary of Differences in Means Between Different Groups

Inspection of Table 7.15 reveals that the EDO group had the most idiosyncratic responses, with 23 significant differences with the ACAD group, 22 with the CEA group

and 20 with the CIO group. In the discussion of results presented in this chapter, it has been suggested that the EDO group appears more knowledgeable in corporate governance matters than the others, since its members deal with governance and accountability issues as part of their duties whereas others might not have had direct experience of those issues. Also, the CEA, being company people, presumably had first hand experience of company issues and were more knowledgeable in company matters than the academics who were answering based upon their theoretical knowledge; this may explain the 23 significant differences in average response between the two groups. The LRJ group tended to have the lowest number of significant differences from the other groups. This might reflect the possibility that the members of this group tended to be more analytical in their views, resulting in cautious and balanced answers that were shared by other groups. It is notable that the academics had the highest number of differences with both the EDO and the CEA groups which were composed of individuals who were actively involved in the running and management of companies. This evidence might reflect the fact that these academics were viewing issues from a broadly theoretical perspective whilst the EDO and CEA were basing their responses on the practical experiences that they had acquired in the firms.

Table 7.15 Summary: The Mann Whitney Test

Q	Gp (LRJ, CIO)	Gp (LRJ, CEA)	Gp (LRJ, EDO)	Gp (LRJ, ACAD)	Gp (CIO, CEA)	Gp (CIO, EDO)	Gp (CIO, ACAD)	Gp (CEA EDO)	Gp (CEA, ACAD)	Gp (EDO ACAD)
Number of times	8	6	10	10	12	20	9	22	23	23

NOTE: This table summarises the total number of times that the MW test identified differences in averages between the respective groups for questions 2 to 14. (See Appendix 7.6 for details.)

This chapter has provided detailed evidence about the views of a wide cross-section of Ugandan stakeholders regarding corporate governance, accountability and closely-related issues such as corruption. The next chapter attempts to draw these findings together with those documented in Chapter 6 from the interviews to establish an overall picture of perceptions in Uganda regarding the key research questions examined in this thesis.

Chapter 8

Synthesis of Findings

Chapter 8
Synthesis of Findings

8.1 Introduction

This study set out to examine the perceptions of stakeholders towards corporate governance in Uganda from an accountability perspective. These perceptions were studied in the context of the general literature on corporate governance, which is mainly based upon Western models of corporate governance. To this end, the key concepts underlying the notion of corporate governance in the literature (and the various codes of corporate governance adopted across the globe) were examined and presented to a cross-section of stakeholders in Uganda to elicit views regarding their applicability and relevance in Uganda. Perceptions of stakeholders were also sought regarding the state of corporate governance and the factors that influence the practice of corporate governance and accountability in Uganda; the framework within which this governance is practised was also examined. The aim of this chapter is to summarise the material in the previous seven chapters, drawing together the key findings from the interviews and questionnaire survey in the context of the accountability framework set out in Chapter 5, in particular Stewart's ladder model.

The following research questions were identified in Chapter 1:

1. How is corporate governance understood in the Ugandan context?
2. What do stakeholders perceive to be the current state of corporate governance and accountability in Uganda?

3. What factors influence the practice of corporate governance in Uganda?
4. Does Uganda have an adequate framework to support the practice of corporate governance?
5. Are there any stakeholder suggestions on how corporate governance practices can be improved in Uganda?
6. To what extent are Western norms applicable to a developing nation such as Uganda?

These questions appear to have been answered to a significant degree in the various chapters that make up this thesis.

8.2 Understanding of The Concept of Corporate Governance

The first research question concerned the issue of how corporate governance was understood in the Ugandan context. The interviews and the questionnaire survey addressed this question in Sections 6.2 and 7.2 respectively.

Each of the interviewees defined the term "corporate governance" in a manner that was consistent with conventional stakeholder theory. The aspects that were mentioned most often in the context of defining corporate governance were: mechanisms or systems for directing, controlling, managing and regulating organisations; concern for stakeholders that extends beyond shareholders; the promotion of probity, transparency and accountability in companies; and corporate social responsibility. One of the notable aspects of the concept of corporate governance referred to by the interviewees was the

importance of a wide range of stakeholders extending beyond the firms' owners. Most interviewees appeared to adhere to the broad notion of corporate citizenship, arguing that corporations had to integrate into the economic and societal concerns of their community if they were to operate on a sustainable basis.

The responses received from the questionnaire survey supported the views of the interviewees in that the statement to which the respondents agreed with most was one describing "corporate governance" in terms of an organisation's relationship with all those stakeholders who are affected by, or who affect, the organisation's decisions and activities. There was also strong agreement with the view that the term "corporate governance" refers to an organisation's relationship with all members of society, irrespective of whether they affect or are affected by the operations of the organisation. The concern for a wider cross-section of stakeholders implies that companies are accountable for the effect of their policies, not only on the shareholders, but also to society as a whole. Examples of this latter type of accountability would relate, for example, to the impact of a company's operations on the ecological environment, employment and the level of economic development in a particular location and the country as a whole. The statement which received least support with respect to the definition of "corporate governance" was one describing the term narrowly, in terms of an organisation's relationship with its owners.[221] This evidence is consistent with the African view of each member of society acting in a manner that is consistent with the well-being of the tribe, clan or family to which one belongs (although these traditions are

[221] Respondents also agreed that corporate social responsibility was an integral aspect of good corporate governance.

now beginning to fade as society evolves and as interaction with other cultures grows). The stakeholder notion of corporate governance highlights the need for a form of accountability that is consistent with Stewart's ladder of accountability since his ladder is aimed at government being accountable to different types of stakeholders. In the stakeholder context, businesses are perceived to be accountable not only to shareholders but also to others such as employees, customers, suppliers, government, regulatory authorities and others who affect or are affected by the activities and decisions of firms. The problem of applying Stewart's ladder to private companies is the difficulty of establishing and enforcing the bond of accountability. Among the proposals made in this thesis are the use of shareholders who have substantial shareholdings and the use of legislation to provide enforceable protection for the rights of other stakeholders.

Companies are artificial persons that come into existence in accordance with specific laws in each country; these laws and regulations also govern the manner in which companies operate and relate to various stakeholders in society. For example, in Uganda all companies are governed by the Companies Act (1964); this Act specifies the conditions for a company to be registered and managed, and the various obligations of companies with respect to shareholders, employees, as well as the various reports to be submitted to the respective regulatory authorities. Non-compliance can lead to prosecution in courts of law which assist in enforcing compliance with the various requirements of the law. There are also various acts and statutes passed by parliament to regulate companies. Some of these laws relate to a company's relationship with other stakeholders such as employees and society at large; examples include: labour laws, as

well as laws governing minimum wages[222], social security and protection of the environment. In this way, companies are perceived as legal persons who have both rights and obligations under the law. Conformity with these laws and regulations plays a role in Stewart's (1984) notion of accountability for legality. Companies are also required to be conscious of the effect of their activities on other stakeholders, even if there are no specific laws protecting stakeholders in certain instances; companies would, therefore, need to examine their policies and activities to determine whether they are proper and whether they portray good citizenship in promoting good neighbourliness. Such issues concern accountability for policy and probity. The question in such cases is whether communities can enforce their rights when these are not protected by law, and whether they can hold companies accountable for their policies and activities. Interviewees and questionnaire survey respondents asserted that communities could sanction companies by either refusing to do business with them or by denying them licence to operate, possibly by bringing pressure to bear on the various Government agencies responsible for granting the licences. Some of the community concerns might arise from the processes used by companies to manufacture their products; society could also hold companies accountable for the processes they use, in conformity with Stewart's notion of process accountability.

8.3 The Current State of Corporate Governance in Uganda

The second research question set out to examine the current state of corporate governance and accountability in Uganda. This question was answered in Sections 6.2.3, 6.2.6, 6.4.2,

[222] The Uganda Government has still to establish meaningful laws that govern minimum wages for employees in the country.

7.2.5, 7.26 and 7.9. The interviews established that the ICGU had published guidelines to govern corporate governance in Uganda in 2001; these guidelines were based on Western principles such as the OECD Principles (1999), the King Report I (1999) and the Principles for Corporate Governance in the Commonwealth (1999). Both the interviewees and the questionnaire respondents observed that the Ugandan guidelines need revision to make them more relevant to the present situation in Uganda. Participants pointed to shortcomings in enforcement of compliance and argued that general compliance with corporate governance guidelines was poor in Ugandan firms, most especially in public sector corporations. However, both the interviewees and the questionnaire respondents agreed that the good governance of Ugandan corporations was important as it would improve accountability in Ugandan firms, reduce the level of corruption and help to attract both local and foreign investment. The ICGU has been conducting three-day seminars for board members to update them on good corporate governance principles; to-date, however, these seminars have largely been aimed at public sector board and senior management members in Kampala. Research participants highlighted the need for extending the courses in corporate governance to all parts of the country, thereby promoting knowledge of the principles and at the same time increasing the pool from which board members could be selected.

8.4 Factors Influencing Corporate Governance in Uganda

The third research question aimed at establishing the factors that influence the practice of corporate governance in Uganda. Interviewees identified the following factors as being

among those that affect the good governance of both private and public sector firms: corruption and bribery; conflicts of interest; sectarianism; non-compliance with laws and regulations; inadequate infrastructure (and resources) for regulatory and enforcement agencies; and insignificant fines that fail to encourage compliance with laws and regulations. The questionnaire respondents confirmed these factors but also noted that corruption and bribery, conflicts of interest and sectarianism affect public sector corporations more than private sector ones. These respondents also noted that public sector corporations tend to be less accountable than private sector ones.

These views may reflect the fact that most private sector companies in Uganda are either sole proprietorships or family owned and there is no necessary separation of beneficial ownership and management. This would eliminate the need for management's accountability to shareholders (unless it is accountability to members of the family – in the case of family ownership). What would be left is accountability to other stakeholders such as employees, regulatory agencies, relevant Government organs and the community, where applicable. Listed companies would still need to account to shareholders and the other stakeholders as required. With respect to public sector firms, the ownership is not so clearly defined in the sense that there are no specific beneficial owners; Government seems to be an amorphous entity with specific individuals not gaining or suffering loss from the performance of these firms. Management and board members, therefore, do not have the same pressure to be accountable, as in private sector companies, since the funds belong to everybody. These firms are supposed to be overseen by the line ministers through the designated departments of the relevant ministry, with the line minister

appointing board members and senior management, on the advice of technical committees. However, interviewees noted that ministers do not necessarily appoint the best candidates for the job and may base their selection on political considerations and personal allegiances. These factors may affect the extent of accountability of those board members and senior management since there are no shareholders to hold them accountable. Such appointments may also result in political interference, without board members and senior management being able to stand up against it since they depend on these politicians for their continued employment.

The above issues affect the accountability of firms when it comes to accounting for the different rungs of the ladder proposed by Stewart. For example, there has been an outcry against corruption in Uganda, especially in public sector corporations. Corruption and bribery are illegal and are against the laws of the country. Conflicts of interest are specifically mentioned in the Companies Act of Uganda; any involvement in such acts without proper disclosure at the relevant levels is also in violation of the Companies Act which is backed by the force of law. Non-compliance with the various laws and regulations is also contrary to the requirement for companies to act within the laws of the country in which they operate. These factors, therefore, directly relate to accountability for legality and are enforceable through courts of law. The factors identified in the study may fall under Stewart's notion of accountability for probity in as far as they reflect the conduct of company officials and bring into judgement the appropriateness of their conduct in carrying out their duties.

8.5 Adequacy of Framework to Support Corporate Governance

The fourth research question asked whether there was an adequate framework to support the practice of corporate governance in Uganda. This question was examined under the following headings: legal framework; regulatory and supervisory framework; accounting framework; political framework; and cultural, social, ethical and economic factors. The process of privatisation in Uganda was also taken into account when seeking answers to this question. Interviewees' perceptions were presented in detail in Section 6.3, while those of the questionnaire survey respondents are covered in Section 7.10.

8.5.1 Legal Framework

One of the interviewees stressed that companies must conduct their affairs in accordance with the laws of the country concerned and that the board and senior management of a company have to ensure that no laws are violated. The basic law that governs all companies in Uganda is the Companies Act of 1948 (last revised in 1964).[223] It is worth noting that most of the interviewees perceived the laws that govern corporate governance in Uganda as either not being adequate or as being outdated and needing revision. Issues such as the protection of minority shareholders, minimum wages for employees, protection of whistleblowers, the independence of the judiciary and the monetary value of fines in cases of non-compliance with regulations were mentioned as needing attention in Uganda. Other issues concerned selective enforcement of laws (particularly in the case of

[223] There are also various Acts and Statutes passed by Parliament to regulate the management of companies.

corrupt officials who had protection from high ranking political figures). and obsolete information systems and lack of human, material and financial resources. The questionnaire survey respondents had similar perceptions regarding the legal framework in Uganda (see Section 7.10.1). These views highlight the need to act in accordance with the law and to be held accountable for non-compliance; the need for companies to be held accountable for ensuring that they act in accordance with applicable laws is therefore evident in the responses. Due to the importance of legal issues, many Ugandan companies hire lawyers to act as company secretaries or retain law firms to advise them on legal issues. The views of the research participants, however, indicate that there are some weaknesses in implementing accountability for legality due to inadequate or obsolete laws and selective enforcement, in addition to minimal fines that do not encourage compliance. It is evident from these findings that the Ugandan legal framework needs attention in order to promote good corporate governance.

8.5.2 Regulatory and Supervisory Framework

The regulatory and supervisory framework was covered in Sections 6.3.2 and 7.10.2. Interviewees noted that there are various regulatory and supervisory agencies that are entrusted with the responsibility of ensuring that companies adhere to Ugandan laws and regulations. Examples of these agencies were given in Section 6.3.2. While some of these agencies, for example the BoU, were thought to be effective, others, such as the Registrar General's Office were perceived to be ineffective in enforcing governance regulations. Some of the problems encountered by these agencies in playing their roles were:

inadequate financing, personnel, transport and obsolete information technology. Other factors mentioned included companies not keeping proper financial and other required records, as well as corruption and insufficient training for regulatory and supervisory personnel. Some interviewees also mentioned that various regulations were imposed on companies without consultation and were not tailored to the Ugandan environment; these participants argued that due consultation would improve the quality of regulations and also ensure backing by companies.

The questionnaire survey respondents expressed similar views as those of the interviewees. Because of the corruption that was perceived to be prevalent in Uganda, neither the interviewees, nor the questionnaire respondents, could categorically affirm that regulatory agencies had the power and authority to enforce laws and regulations in Uganda. There was, therefore, general agreement among both the interviewees and the respondents that there was poor enforcement of laws and regulations relating to the nation's system of corporate governance. Respondents also noted that there appeared to be poor supervision of public sector corporations by their parent ministries. Poor supervision of compliance with laws and regulations brings into question the extent to which true accountability for legality and probity exists among Ugandan firms. Compliance with laws and regulations would foster such accountability and would be considered desirable, but it appears that the regulatory and supervisory authorities have limitations which affect their ability to enforce compliance and administer effective sanctions against companies that do not comply. The question of inadequate fines also emerged from the research and regulation might usefully re-examine this issue.

8.5.3 Accounting Framework

The accounting framework was examined in Sections 6.3.3 and 7.10.3 of the preceding chapters. Interviewees pointed out that various companies use a range of different accounting standards; some employ those of the UK, while others use the US standards published by the Financial Accounting Standards Board (FASB). The interviewees suggested that this diversity makes it difficult to undertake meaningful evaluation and comparison of performance between different companies. The questionnaire survey established that most of the respondents' companies use IFRS, with the rest adopting UK or Ugandan Accounting standards. This situation points to the need for harmonisation in the use of accounting standards in preparing financial statements in Uganda. During the interviews, the CEO of the ICPAU admitted that the Institute did not have sufficient resources to monitor companies, or to follow up the work of accountants in Uganda to enforce compliance with the IFRS. Avenues should, therefore, be sought on how to improve the situation so that accounting information can be prepared and disclosed in accordance with high quality standards of accounting as well as financial and non-financial disclosure. Business Schools could also usefully promote IFRS by teaching accounting based upon them; the researcher's personal experience indicates that, currently, lecturers in Ugandan schools appear to choose textbooks on an ad-hoc basis without verifying the standards used in those books.

The evidence of a perceived need for a coherent and robust accounting framework highlights the need for adequate and reliable information which can be used to evaluate the performance, processes and policies used by company officials in achieving company goals and objectives. Relevant parties such as shareholders and tax authorities can then hold the companies accountable for maximising shareholder value and paying due taxes, as well as paying dividends and meeting other company commitments. Within Stewart's ladder framework, accounting information thereby enables stakeholders to assess the company's accountability for performance, processes, programmes and policies. The information also enables the regulatory authorities to ascertain when companies have complied with legal requirements to record transactions in accordance with the accounting standards sanctioned by law in a given country, therefore leading to accounting for legality. It is evident from the views of the interviewees and the questionnaire survey respondents that the mechanisms and systems in place need improvement and harmonisation in order to provide the information required for proper accountability. Auditing practices were also perceived to be inadequate and subject to corruption in some cases. There was, therefore, little confidence in the audit function providing independent and reliable assurance that financial statements fairly reflect the substance of the transactions of the companies. The disclosures (or lack of disclosure) made by companies in their financial and other annual reports can assist in evaluating the appropriateness of the judgements behind company transactions and so help in providing information for holding the officials accountable for probity.

8.5.4 Political Framework

The political framework was examined in Sections 6.3.4 and 7.10.4. The general consensus among the interviewees was that a nation's political environment does affect the practice of corporate governance in that country in several identifiable ways. The interviewees argued that factors such as Government's fiscal and monetary policies (as well as security, stability and political leadership in a nation) could have a strong influence on corporate governance. There was concern that political interference with the work of regulatory and supervisory bodies, as well as in the management of public sector corporations, was adversely affecting corporate governance practices in Ugandan companies. On the whole, the interviewees doubted the ability of the current Ugandan parliament to enact laws that were appropriate for assisting in the practice of good governance. This opinion reflected perceptions of corruption, lack of integrity and vested interests among some of the parliamentarians; there was also a feeling that some Members of Parliament did not understand the concepts underlying good corporate governance. In addition, respondents to the questionnaire survey did not agree with a statement suggesting that the political climate in Uganda was conducive to the practice of good corporate governance in private or public sector companies. Further concerns were expressed via the survey that the prevailing political climate does not promote respect for the rights of stakeholders, and that continued ownership of shares in "privatised" firms was a breeding ground for political interference in the running of those companies.

Clearly, there are major concerns about the political climate in Uganda with respect to promoting corporate governance in Ugandan firms; this appears to be more pronounced

in the case of public sector corporations where political interference is perceived as being rampant. The findings reported here indicate that political interference affects public sector corporations more than private sector ones, and suggest that lack of political will to combat corruption also affects the public sector more than the private sector.[224] Although the private sector is also affected by the political climate (including Governmental fiscal and monetary policies), the responses seem to point to the fact that poor governance in private sector companies cannot be entirely blamed on the political framework. It appears that the focus of attention should also be directed to the management and board of private sector companies if tangible improvements are to be effected; various stakeholders, such as shareholders, might need to take a more active role in ensuring the good governance of the companies in which they have a stake.

Within Stewart's ladder framework, political decisions which affect the operations of companies fall under "policy" accountability. Governments are held accountable for the fiscal and monetary policies that they formulate to govern the business sector in a country; these policies, together with various legislation and infrastructure put in place by Government, affect the way companies are managed, as well as the social and economic development of a country. Political interference brings into question the appropriateness of those actions thereby relating to the notion of accountability for probity within Stewart's framework. In this context, the question might relate to the identity of those best suited to holding Government and politicians as a whole accountable for their policies and inappropriate behaviour. Stewart himself suggested that the electorate should

[224] Lack of political will to enforce compliance was also thought to affect the public sector more than the private sector.

hold Government and political figures accountable by voting out of office those officials who fell short of voters' expectations and standards. This mechanism for discharging accountability does not seem to be working in Uganda, as some political figures act in a manner that suggests they see themselves as being above the law. Proper accountability for policy and probity, therefore, seems to be lacking in Uganda with public sector firms affected most strongly.

8.5.5 Economic, Social, Cultural and Ethical Factors

The interviewees viewed a range of cultural and social factors as having an impact on the practice of corporate governance in Ugandan companies, including: pressure from extended families and clan members for financial support; respect for elders (allied to due deference to one' superiors and non-confrontation of those in authority); the head of a family making decisions for family-owned businesses without expecting to be questioned about those decisions; attitudes towards employment; attitudes towards women (and the dominance of men); tribalism; and the practice of glorifying those who acquired wealth – irrespective of the means used to acquire it. Interviewees also pointed out that a range of ethical factors could affect the practice of corporate governance; these included: threats of a person being sacked for exposing an official who was doing something wrong; sexual harassment against staff; compromising behaviour of management in dealing with junior staff; political appointments that failed to take account of qualifications or competence regarding assigned duties; recruitment of unqualified and incompetent individuals on other grounds; corruption and bribery; insufficient disclosure of accounting information; non-adherence to the codes of conduct governing various

corporations; lack of integrity, honesty and accountability; and the tendency of some politicians to demand favours from the officers of public sector corporations under peril of losing jobs if the demands were not satisfied. The interviews also revealed that some economic factors (such as the level of remuneration, poverty, inflation and high taxes) were thought to have the potential to affect the behaviour of company board members and employees, although one interviewee argued that being rich is not a pre-requisite for honesty and that not all poor people are thieves or corrupt. Respondents to the questionnaire survey generally agreed with the views of the interviewees, however, they suggested that fear and respect for those in authority (rather than fear and respect for the authority of elders *per se*) seem to affect the practice of corporate governance in private sector corporations; in contrast, public sector corporations seem to be affected by both.

The findings from both the interviews and questionnaire survey indicate that economic, social, cultural and ethical factors have an impact on the level of accountability in Ugandan firms. Company officials seem to be under pressure to present financial statements with positive and improved results. As a consequence of this, officials may be tempted to evade taxes or to manipulate their financial statements so that they appear more profitable than in reality. Uganda is not alone in this respect, as examples of cases such as Enron and Parmalat demonstrate. Within Stewart's ladder framework, such machinations are relevant to the issues of accountability for performance and, arguably, legality. Social, cultural and ethical factors may have a bearing on accountability for probity if the officials are drawn to use of inappropriate means to satisfy the demands and tendencies arising from such factors. It therefore follows that the appropriateness of

one's actions in conducting company affairs is an important aspect of corporate governance irrespective of whether the companies concerned are private or public sector-based.

Comments made by both the interviewees and the respondents to the questionnaire survey indicate that there is a need for moral rehabilitation at all levels of Ugandan society, so as to improve the level of corporate governance in the country. Education in moral, ethical and social values based upon a sound cultural background seems to be in order and the researcher would support the calls made by the participants in this research for this process to start in Ugandan citizens' early formative years, including the teaching of civics in primary schools and ethics in higher institutions of learning. This development should take place concurrently with the imposition of stiff punitive measures, sufficient to dissuade any individual from contemplating behaviour contrary to the notion of good corporate governance in both private sector and public sector corporations. The researcher believes that, ultimately, it is up to each individual to appreciate the value of good corporate governance and to practise it.

8.5.6 Privatisation in Uganda

The Ugandan Government decided to privatise most of the nation's state-owned corporations in the 1990s in the hope that *de-facto* corporate governance would improve in those firms, thereby encouraging private investment, and relieving the Government of the need for subsidies. In principle, the interviewees expressed support for the

privatisation programme, arguing that it would help to improve accountability, the quality of products and services, and the quality of management. However, the interviewees also expressed the view that the privatisation process had not been handled in a transparent and accountable manner and that there was some political interference in the selection of potential buyers for those companies. Concern was also expressed regarding accountability for the proceeds from the sales, and the manner in which that money was used. Moreover, participants in the questionnaire survey did not seem to agree with the view that the privatisation of state-owned enterprises had improved the practice of corporate governance and accountability therein. These respondents felt that the Ugandan Government had failed to put in place mechanisms to help improve the governance of the companies that were being privatised. This evidence suggests that for future privatisations, Government should consider the ability of the potential buyers to improve the governance of target companies and, more generally, that there should be a mechanism for monitoring and enforcing the good governance of all companies in Uganda.

The issues raised regarding privatisation relate to the implementation of programmes and the processes used to achieve them. Research participants also questioned whether the objectives of privatisation in improving corporate governance had been achieved. The findings of the research indicate that stakeholders were concerned about programme, process and policy accountability, as well as performance accountability. Privatisation itself was a result of a statute passed by parliament and so had some elements of legality. While the policy itself seems to have received support, apart from the fact that some

participants would have preferred a greater extent of ownership by Ugandans, the general assessment of programme, process and performance was not very positive. Issues of accountability and transparency seem to have marred the success of the programme.

8.6 Stakeholder Suggestions

The fifth research question was whether there were any stakeholder suggestions on how corporate governance practices could be improved in Uganda.

Research participants suggested a number of tangible ways in which corporate governance in Uganda could be improved, and accountability to stakeholders enhanced. First, courses for actual and potential board members should be conducted in all regions of Uganda, and not restricted to Kampala. Second, there should be ongoing courses or seminars for board members to deepen their understanding of corporate governance principles and also to keep them up-to-date with current developments in theory and practice. Third, the establishment of an Institute of Directors for Uganda would potentially help in terms of providing technical support to directors and helping them perform better in their roles. Fourth, the formation of stakeholders' advocacy groups would assist stakeholders such as shareholders to make decisions about their companies, and might be useful in promoting the rights of groups such as employees, customers and suppliers. Fifth, there is a clear need for a forum for major participants in the corporate governance framework such as regulators, legislators, accountants, the ICGU, academics, investors and other relevant parties to enable them to develop a more robust but workable corporate governance framework in Uganda. Sixth, it would be desirable to companies to

spell out how accountability to a diverse group of stakeholders can be discharged at a practical level. For example, the reasonable expectations and rights of employees, as key contributors to a firm's activities, could be laid out in a formal way. Seventh, clear recommendations should be considered regarding the composition of the board and its committees, as well as the term of service for board members, on-going re-election of board members and the notion of independence. Eighth, The Companies Act of Uganda (and other related Acts and Statutes of parliament that govern corporate governance in Uganda) need urgent revision to make them relevant to the promotion of corporate governance in Uganda. Ninth, enforcement of corporate governance principles in both listed and un-listed companies needs to be planned for in conjunction with ICGU, the USE, the CMA and the Registrar General's office. In terms of the last two points, careful consideration needs to be given to whether a self-regulatory regime (such as in the UK) or a legally mandated system (such as in the US) is required. The evidence in this thesis suggests that the latter approach is more appropriate in the current Ugandan climate, particularly if accountability to stakeholders underlies the nation's corporate governance practices. There is also a need to consider how the moral rehabilitation of Ugandans can be carried out at all levels of society; the teaching of civics, political education and ethics in schools and institutions of higher learning should be considered so as to instil good citizenship and social responsibility. In short, the thesis has demonstrated a real and urgent need for improvements in Ugandan corporate governance practices, if any meaningful level of accountability to interested stakeholders is to develop.

8.7 Applicability of Western norms to Developing Nations

The sixth, and last, research question asked to what extent Western norms of corporate governance were applicable to a developing nation such as Uganda. The findings of this study indicate that Western norms of corporate governance are applicable to a developing nation such as Uganda. However, the actual implementation has to take into account the country specific factors so as to be practicable.

It was noted in Section 8.2 that the research participants' concept of corporate governance placed importance on a wide range of stakeholders extending beyond the firms' owners. This stakeholder approach is similar to the German corporate governance principles where, for instance, employees are perceived as stakeholders in companies. However, there is increasing worldwide concern about the effect of companies' activities on the environment (both human and ecological), as is seen in Greenpeace movements and laws relating to environmental protection, in addition to the growing interest in ethical funds. Concern for accountability, transparency and integrity also seems to be universal in character and applies to all nations, irrespective of the level of economic development.

It was also pointed out that developing nations often base their company law on Western models. The Companies Act of Uganda, which contains various regulations regarding the governance of Ugandan companies, was given as an example; the Act is based on the British Companies Act of 1948. It was, therefore, argued that developing nations have already been using Western norms of corporate governance to manage their companies.

Questionnaire respondents generally concurred with the principles of corporate governance laid out in the UK Combined Code and the OECD Principles. There was support for the principles contained in these Western norms of corporate governance regarding the composition of the board (Section 7.5.1), the responsibilities of the board (7.5.2), board committees (7.5.3), composition of board committees (7.5.4) and the rights of stakeholders (including shareholders). There was also support for companies that do not conform to the principles having to comply or explain, while other respondents felt that companies that do not comply should be de-listed. There was also support for companies providing relevant and timely information (including annual reports) to board members, regulatory agencies and other concerned stakeholders. It can, therefore, be concluded that Western norms of corporate governance are applicable to developing nations such as Uganda, but they have to be adapted to local circumstances.

8.8 Summary

As discussed in Chapter 5, Stewart's (1984) "ladder" framework appeared to provide a useful potential lens for viewing the findings, since the governance of private, state and semi-state owned enterprises was being examined. Stewart primarily designed the ladder to examine public sector accountability by government but also acknowledged that it could be used to examine managerial and commercial accountability in both public and private sector enterprises. Stewart's main assumption was that for accountability to hold there must be a bond of accountability whereby one party is required to give an account

to another party in a specified area and the party receiving the account has enforceable powers to hold the account giver accountable. Stewart's ladder consists of probity and legality, process, performance, programme and policy accountability; the present study was therefore analysed in the context of these five bases, but most especially using the steps of probity and legality.

Ugandan companies are incorporated in accordance with specific laws which regulate their operation in the country. In addition, companies have to conform to various laws that regulate the conduct of their business; these laws are supposed to be enforceable in courts of law either by regulatory authorities or by stakeholders who are affected and are entitled to legal remedy. However, both the interviewees and questionnaire respondents expressed concern about the poor compliance by companies with some of the laws and regulations in Uganda. Regulatory agencies which are supposed to enforce these laws and regulations are ill-equipped or compromised by corruption in enforcing accountability for legality. The evidence from the current research, therefore, suggests that Stewart's accountability for legality needs attention in Ugandan companies in order to promote compliance with applicable laws and regulations.

Accountability for probity also seems to be an issue of great concern in Ugandan private sector corporations. Both the interviewees and the questionnaire respondents decried the prevailing levels of corruption, bribery and fraud in some of the Ugandan firms, particularly the public sector ones. These concerns touch on accountability for both legality and probity since they are against the law in Uganda. The preparation of financial

statements which are presented to shareholders was also questioned since some research participants expressed the view that some accounts did not reflect the true state of affairs of the companies concerned. Other factors that were believed to influence the governance of companies were ethical, cultural, social and economic factors, as well as political interference. All these issues may have an impact on the appropriateness of the conduct of board members and company executives. In all cases where company officials' conduct was thought to be illegal, concerned stakeholders and regulatory agencies have the option to seek enforceable legal remedies. The details of participants' views were presented in the sections dealing with the framework of corporate governance in Uganda. The evidence from the research, therefore, indicates that Ugandan companies are subject to accountability for probity; however, research participants were of the view that this accountability left a lot to be desired in practice.

Research participants were concerned about the processes used by firms and the impact of those processes on the community where specific industries are located in Uganda. Potential harmful processes include disposal of industrial waste and air pollution arising from emission of gases from factories. Stakeholders would be affected by these processes and would be entitled to legal redress if they could prove that they were negatively affected. This could be done either directly by affected stakeholders going to courts of law, or indirectly through regulatory agencies such as the National Environment and Management Authority. Although interviewees and questionnaire survey respondents did not address the question of processes such as efficiency of procedures, as well as time

and effort spent, these issues are of interest to stakeholders in as far as they affect the wealth and well-being that is supposed to accrue to them.

Interviewees expressed concern about remuneration policies in Uganda and noted that they were not linked to the actual performance of company executives, especially in public sector corporations. However some interviewees noted that some private sector companies had similar problems and gave examples of some multinational companies which siphon off revenue from Uganda by using management contracts where remuneration was not necessarily linked to performance. The corollary to this practice is that the revenue left for Ugandan shareholders is decreased while that accruing to the shareholders of parent companies increases. Performance measurement and compensation was, therefore, an issue where interviewees were of the view that there was need for greater accountability. The performance of companies is also measured by comparing actual and budgeted activities and revenue. This is an area that research participants were also of the view that company executives should be held accountable for, with performance reflected in their compensation. Another concern was about the evaluation of the performance of board members and who should perform those evaluations as well as how they should be performed. The participants felt that those members whose performance was unsatisfactory should not continue as members of the board. This point needs attention and standards against which board members are to be evaluated should be specified. In all these cases the need for performance accountability was highlighted by research participants.

The notion of programme accountability was highlighted, particularly in the interviews where participants felt that there was poor accountability for programmes especially in the public sector. The privatisation process of formerly state-owned entities in Uganda was mentioned as a glaring example of lack of programme accountability. There was a feeling that the programme had not been properly planned and that both the implementation and accountability for funds raised from the process were poor. Although the private sector was not specifically examined under programme accountability, it may be noted that companies have various programmes such as staff welfare, setting up a new branch, capturing a specified market share or introducing new products and new markets. Stewart's notion of programme accountability is applicable in the sense that boards of directors can hold company executives answerable for the implementation of planned programmes, just as shareholders (where shareholders have the power to do so) can hold boards and top management answerable for the achievement of programmes approved in shareholder meetings. Shareholders can express their displeasure by not approving board and executive remuneration packages which are incentive related in the event of set goals and objectives not being attained by companies. Accountability for programmes might be more difficult to enforce in the stakeholder context but, presumably, this could be done by civic organisations not approving planning permissions or even boycotting doing business with companies that do not implement programmes that are beneficial to society. Power centres and enforceable sanctions that can be used to hold those individuals accountable need to be specified. This may be through courts of law where legal remedies are specified or through other sanctions against individuals whose programme accountability is found wanting.

Both performance and programme evaluation are aspects of a board's responsibilities as board members assess the performance of company executives regarding whether they have achieved specified goals and objectives; financial and non-financial incentives such as promotions and various perks and remuneration packages may be linked to the findings of such an evaluation. A negative evaluation could result in some members of management having their services with the company terminated due to poor performance or failure to meet specified goals and objectives. In the case of Uganda, there seems to be little accountability by companies for performance and programmes. Ugandan shareholders do not have effective powers to impose sanctions against board members and senior company executives because of their minority shareholdings. The stock market is not very active and shareholders do not have many alternative investment opportunities; market control by exit or voice option may not work just as threats of takeovers are not relevant in Uganda. The evidence from the research suggests that, while there is a need for both performance and programme accountability, the actual practice in Uganda does not reflect that companies are actually being accountable to stakeholders in those respects.

The views gathered from interviewees and questionnaire survey respondents indicate that there is poor accountability for policy in both public and private sector entities. Participants argue that, although there is need for companies to be held accountable for the policies they follow (or do not follow), the actual implementation of policy accountability is poor due to ineffective enforcement of laws and regulations.

Shareholders and other stakeholders do not have much say in evaluating the policies followed, or not followed, by boards and company executives in private sector companies. There has been some selective action by government following public outcries by stakeholders regarding the activities of certain public sector entities; some boards have been suspended and others appointed. This is a step in the right direction but more needs to be done. The USE and CMA need to take action to strengthen the rights of Ugandan minority shareholders and other stakeholders who affect, or are affected by, the activities of private sector firms, especially where these rights are not presently protected by law. These bodies also need to follow up companies that do not respect the rights of stakeholders that are protected by law. Boards, as the ultimate policy-setting organs for both private and public sector entities should bear more responsibility and accountability for the activities and policies of companies.

8.9 Observations on Stewart's Ladder of Accountability

Stewart's intention was to address public accountability and the information requirements for such an accountability to be discharged. To this end, the areas or "bases" of accountability which were identified as forming this ladder of accountability were: probity and legality; process; performance; programme and policy. Although Stewart argues for the bond of accountability between a person or institution giving the account and the specific person or group of persons receiving the account (with the understanding that this latter person or group has powers to act on the report), he also recognises the difficulty of implementing this, particularly when it comes to civil servants who cannot be sanctioned directly by the electorate. Stewart reasons that the doctrine of ministerial

responsibility for the acts of officials within a department loses much of its meaning when the department employs many thousands of civil servants. There is, therefore, an apparent gap identified in public accountability and a similar situation applies to large companies with thousands of employees who may operate in different countries, as is the case with several multinationals that have Ugandan operations. However, there is a need for accountability at all levels of an entity's operation. To the researcher, this need cannot be satisfied by the five ladders of accountability advanced by Stewart.

8.10 Accountability to Stakeholders

Jensen (1988) argued that market forces would discipline boards and senior management through the existence of a liquid market for managerial talent, and a vigorous takeover environment. The evidence from the research carried out in Uganda does not seem to indicate that such market forces are effective. Research participants indicated that management and board's accountability to shareholders and other stakeholders in Uganda is poor; minority shareholders do not have a say in who should serve as a board member or a senior executive in companies listed on the Uganda Stock Exchange. Ugandans cannot, therefore, hold boards or management accountable by exercising their voting rights. The legal remedies specified in the Companies Act of Uganda are also not favourable to minority shareholders as they require certain percentages of share ownership (and the meeting of legal costs by those shareholders) if their complaints are to be acted upon. The legal framework in Uganda may therefore need to be revised in order to give any meaningful voice to Ugandan minority shareholders.

Section 7.7.3 of the thesis established that Ugandan companies are not seen as being respectful of the rights of stakeholders, whether they are established by law or not, and that employees could not freely communicate their concerns about illegal or unethical practices to the board without fear of adverse consequences to themselves for doing so; there was a general feeling that legal protection for Ugandan stakeholders was not adequate. It is very difficult for meaningful accountability of any sort to be exercised in such an environment. What passes for accountability seems to be merely a communication of information (which Stewart calls a "link of account") rather than a form of true accountability, largely because stakeholders cannot take enforceable sanctions against board members and senior management of companies.

Board structure and conduct are an important aspect of corporate governance and there is an obvious need to enforce a meaningful level of board accountability. There is therefore a need to identity those responsible for ensuring that only individuals who meet the requirements of competence and integrity are appointed to boards; the identity of those with the *de-facto* power to apply sanctions in the event that such conditions are not met also needs to be specified. The UK Combined code recommended that boards should have nomination committees that are responsible for identifying individuals to be proposed to shareholders for appointment as board members. However, some interviewees noted that in practice individuals can be appointed as board members and then submitted to shareholders for ratification. It is rare that shareholders would vote against such individuals being board members. The Companies Act (1964) of Uganda

devotes Sections 177 to 205 to "Directors and other Officers". The Act specifies that for a person to be eligible to be a board member, that individual must be at least 21 and not more than 70 years old. However, the age limit can be overridden by a special resolution at a General Meeting.[225] Although these provisions exist in the Companies Act, the results of this study indicate that Ugandan shareholders have little say on who is a director of the listed companies in Uganda since they are minority shareholders and their views do not seem to be respected. The question of who controls the appointment of Ugandan board members and their activities as board members is therefore pertinent, especially given that the nation's market forces do not seem to have much effect on board membership and there seems to be little accountability to minority shareholders. Similar problems exist with respect to other stakeholders, since multinational companies wield a lot of power based on their tax contribution to the national budget; they may, therefore, have influence over regulatory and other authorities and can use their muscle to fight off unwanted "interference" by concerned stakeholders. The discharge of accountability by board members, therefore, appears to need attention in Uganda so that the composition, activities and policies of boards can be monitored and effective and enforceable sanctions taken against violation of stakeholders' rights or poor management of companies. One way of achieving this would be through the establishment of an independent ombudsman, possibly attached to (and paid by) the Uganda Securities Exchange or Capital Markets Authority. Stakeholder groups could also be set up to mobilise and advise shareholders and other stakeholders on pertinent issues relating to the governance structures and practices in Ugandan companies and on how to vote on them (or take some other action) as required.

[225] Other restrictions include individuals who have undischarged bankruptcy or who are fraudulent.

Such effective monitoring and enforcement of sanctions against boards would be extended to the board's responsibility to account for legality and probity, process, performance, programme and policy. The board's supervisory role in relation to a company's management would also be monitored and assessed and the board held accountable for the recruitment, performance and conduct of company officials. The ombudsman or other monitoring bodies should have the power of law to protect and enhance their roles so that their decisions or recommendations are enforceable in the event that particular companies do not comply with relevant laws and regulations or fail to fulfil their responsibilities to concerned stakeholders (including minorities). Stakeholders who have concerns could then direct them to the ombudsman or relevant body for investigation without being discouraged by the current legal costs that individuals are required to bear if they seek legal redress from Ugandan courts.

8.11 Conclusion

This chapter has presented a synthesis of the research findings within the context of Stewart's ladder framework, made suggestions regarding the development of a new form of accountability to stakeholders in Uganda and examined the applicability of Stewart's model to private sector entities. The conclusion chapter of the thesis reviews the thesis as a whole, sets out the main limitations of the study and makes some suggestions regarding further work in the area.

Chapter 9

Conclusions and Recommendations

Chapter 9
Conclusions and Recommendations

9.1 Introduction

The aim of this chapter is to provide an overview of the thesis as well as to highlight some of the study's limitations and make suggestions for further work in the area. The chapter concludes with some final thoughts on the research undertaken.

This study was undertaken following the prominent scandals involving Enron, Worldcom, Parmalat and others (in the West) and some Ugandan banks that collapsed as a result of inappropriate governance practices in those companies. The research set out to establish how corporate governance is understood in the Ugandan context, the perceived state of the nation's corporate governance system, and the framework under which both private and public sector firms are governed. The research findings were interpreted using an accountability perspective. The answers to the research questions were synthesised in Sections 8.2 – 8.7.

Chapter 2 reviewed the general literature on corporate governance and highlighted some of the important issues in the field of corporate governance; these included: the concept of corporate governance; the relevance of corporate governance; the board of directors and its committees; shareholders; disclosure and transparency; and the framework of corporate governance. Chapter 3 provided a detailed review of the relevant corporate governance literature in both developed countries and those in Africa.

Chapter 4 outlined the research methodology and methods to be used for the study. As the discussion therein highlights, an interpretive paradigm was adopted for the study because the main thrust of the research was an attempt to develop an understanding of the perceptions of stakeholders from the point of view of the stakeholders themselves. However, the study assumed that stakeholders were likely to be influenced by their historical and present experiences and the values held by the society in which they live; in addition, it was assumed that participants' perceptions could also be influenced by their interaction with the researcher. Semi-structured interviews and questionnaire surveys were selected as the main methods for collecting research data. Chapter 5 presented the theoretical framework adopted for interpreting the research data and findings; given the state and semi-state nature of many Ugandan firms, Stewart's ladder of accountability was adopted for this purpose and was used to analyse the findings from the interviews (Chapter 6) and questionnaire survey results (Chapter 7). Although Stewart's ladder proved to be largely applicable in interpreting the results, one of the problems encountered, in using the ladder in the stakeholder context, was the identification of actual and enforceable bonds of accountability between company management and boards and specific groups of stakeholders. Berle and Means (1932) recognised this problem and noted that actual power over the management and direction of companies lay in the hands of those who were in a position to nominate and appoint board members and senior management. Different groups of stakeholders are not likely to have this power and so do not have direct means of enforcing the required bond of accountability. Berle and Means pointed out that under such circumstances, minority

shareholder rights could only be protected by government enacting laws that offer such protection. McLaren (2004) further proposed that socially responsible investment managers could play an active role in representing the interests of stakeholders; stakeholders could, therefore, enforce their rights indirectly through institutional and other majority shareholders who took an interest in issues affecting a wider cross-section of stakeholders as a result of investor-activism. In effect, McLaren (2004) proposed that the legal framework and the participation of sympathetic majority shareholders could be used as a means of establishing an indirect bond of accountability between companies and multiple stakeholders.

9.2 Research Findings from Interviews

Chapter 6 outlined the findings from the semi-structured interviews conducted in Uganda during 2004. The sample of interviewees included: legislators; regulators; members of the judiciary; civil servants; accountants; executive and non-executive directors; senior management and others who were actively involved in the promotion of corporate governance in Uganda. The individuals concerned were selected based upon their knowledge of and/or participation in issues relating to corporate governance in Uganda. All the 16 individuals interviewed perceived corporate governance from a stakeholder perspective and were of the view that companies should be held answerable to a wider cross-section of stakeholders than just the shareholders. However, the interviewees were of the view that stakeholders might not be aware of their rights and how to find remedies in cases where companies violate those rights. There was a feeling that companies did not

respect stakeholders' rights (whether those rights were protected by law or not); this appears to be due to a lack of a clear bond of accountability between stakeholders and company officials, in addition to stakeholders not being aware of their rights. The minority position of Ugandan shareholders also affected their ability to hold companies accountable. Some interviewees pointed to the attitudes of board members and company executives, which affected their ability to manage companies with integrity and fairness. Interviewees also alleged that the various political and social changes that have been taking place in Uganda have affected the values of the participants in the governance of companies and also of the stakeholders who are evaluating the performance of companies. Despite these shortcomings in actual implementation, corporate governance was perceived to be important in the social and economic development of the country, as well as in promoting transparency and accountability, managing risk, improving the performance of companies, protecting stakeholder interests and attracting both local and foreign capital.

The interviewees acknowledged that a country should have an effective and supportive framework for a strong corporate governance system to flourish. In this respect, they identified the legal, regulatory and supervisory, accounting, political, cultural, social and ethical frameworks as being crucial in providing an environment within which the governance of companies is practised. In the case of Uganda, the general view among the interviewees was that, although the structures were in place, the frameworks were not adequate in the promotion of corporate governance. Some of the laws, such as the Companies Act of Uganda (1964), were considered to be outdated and in need of

revision, while others, such as those governing minimum wages for employees and protecting whistleblowers, were lacking. Political appointees in senior management positions and on boards, as well as political interference in the management of companies (especially public sector ones) was seen as having a negative impact on governance practices. Research participants were also of the view that Uganda should have unified and enforceable accounting and auditing standards which could be used to add reliability to financial and operating reports from companies and facilitate the evaluation of information provided by different companies using similar standards. Some cultural aspects, such as financial demands to support extended families and to hire relatives (even if they were not sufficiently qualified), were perceived to have an impact on the ethical behaviour of some of the company officials and, consequently, the governance of companies. However, interviewees were of the view that the political and social upheavals that have been taking place in Uganda since the time of Idi Amin (in the 1970s) might have affected the moral values of some Ugandans; there was, therefore, a need to strengthen moral values and a sense of social responsibility to a wide cross-section of stakeholders (as used to be the case in Ugandan traditional society). It was observed by interviewees that the Ugandan Government had undertaken privatisation of state-owned enterprises as a way of freeing resources used to subsidise those companies and to improve their performance; however, there was scepticism as to whether the governance of those companies had actually improved. Interviewees felt that there was need for government - and all other concerned parties - to take positive steps to enforce measures that would actually improve the governance of Ugandan companies. Other factors such as poverty and shortage of employment, as well as lack of adequate laws to

protect workers, were perceived as playing a contributory role to poor governance as employers can afford to treat employees as they want without fear of industrial action by those affected.

The top most pressing corporate governance issues identified by the majority of interviewees (more than 50%) were: a lack of accountability, transparency and disclosure; corruption and bribery; political interference and sectarianism (especially in public sector firms); poor implementation and compliance with laws and regulations; the need for training of board members and senior executives to improve their understanding of the principles of corporate governance; the need for proper and up-to-date laws that are enforceable; and the need to select board members with the required qualifications, competence and experience. The personal qualities of senior management and board members were also perceived as being important in enhancing their credibility and enabling them to perform their duties with competence and integrity.

9.3 Research Findings from Questionnaire Surveys

The findings of the questionnaire survey that was conducted in Uganda during 2005 were reported in Chapter 7. The purpose of the questionnaire was to verify whether the views of the interviewees were shared by a wider cross-section of Ugandans; the questionnaires were also a convenient way of gathering views from a larger sample at a lower cost and in a time efficient manner whilst also providing anonymity to the respondents. The sample of respondents included: legislators; regulators; company employees; civil

The responses to the questionnaires indicated that the participants supported the proposals of the UK Combined Code (2003) relating to the composition of the board, the responsibilities of the board and the board committees that each company should have, together with their composition. The factors that were perceived as affecting the practice of corporate governance in Ugandan private sector companies were: conflicts of interest; corruption and bribery; insignificant fines that do not compel compliance with laws and regulations; inadequate infrastructure and resources for regulatory and enforcement agencies; and fear and respect for those in authority. In addition to the above factors, public sector companies were also thought to be affected by political interference; lack of political will to combat corruption; lack of political will to enforce compliance; and incompetent personnel. There was no significant support among the questionnaire respondents for the view expressed by interviewees that fear and respect for the authority of elders affected the practice of corporate governance in Ugandan companies.

Respondents also supported the opinion of the interviewees that the rights of stakeholders, whether established by law or not, were not respected by Ugandan companies; instead, there was a feeling that companies did not act in a responsible manner in dealing with issues that affected the rights of the community. Overall, Ugandan laws that relate to the governance of companies were perceived as either being archaic or inadequate. Consistent with several of the interviewees' statements, the questionnaire respondents noted that employees' rights and those of whistleblowers needed to be protected better. Respondents also expressed concern about the fact that Ugandans have insignificant minority shareholdings in the companies listed on the

Uganda Securities Exchange, which means that they have no real control over management. Research participants stated that the views of the Ugandan shareholders were not respected and these shareholders did not have adequate remedies as the legal requirements do not favour the protection of their rights; instead, the present laws require a certain percentage of ownership and the meeting of legal costs which makes it difficult for Ugandan minority shareholders to enforce their rights. The ownership structure was, therefore, seen as affecting the enforcement of the rights of the Ugandan minority shareholders in listed companies, which are mainly multinational companies owned by foreign majority shareholders who dictate policies to their subsidiary companies.

Respondents supported the views of interviewees regarding the need to harmonise the accounting and auditing principles used by Ugandan companies and improve on the enforcement of those principles so as to have a uniform reporting system. Political, economic, social, cultural and ethical factors were also seen as affecting the practice of corporate governance for the same reasons given by interviewees in Chapter 6. The respondents were, however, equivocal as to whether the privatisation of the former state-owned companies had improved the governance of those companies.

9.4 Stakeholder Suggestions and Policy Implications

The research participants made a number of suggestions on what needs to be done so as to improve corporate governance in Uganda. The main suggestions were as follows:

1. The governance of companies depends on the quality of the people who manage those companies. Respondents therefore suggested that the processes and criteria used to select board members and senior management should be examined to ensure that technical competence, experience, qualifications and personal characteristics such as integrity and values held by potential candidates are taken into account in the appointment of those officials.
2. Formal induction of newly-appointed board members, as well as ongoing training (in-service and external) for continuing members and senior management, were perceived to be essential in keeping those officials up-to-date with developments in corporate governance and in the promotion of the good governance of the companies that they manage.
3. It was also proposed that there should be a clear definition of roles within corporations so as to avoid role conflicts and undue interference between board members, management and company owners.
4. Research participants called for the strengthening of both internal and external audits so as to improve their effectiveness. They also suggested that corporate governance reports should be made a mandatory component of annual financial and operating statements prepared by companies and that mechanisms should be set up to monitor compliance with these requirements.
5. Participants suggested that the laws and regulations relating to the governance of Ugandan companies should be reviewed for relevance, adequacy and effectiveness; stiffer penalties should be introduced to discourage malpractices and non-compliance in companies. Relevant and enforceable laws should be

enacted to protect minority shareholders as well as other stakeholders against violation of their rights.

6. It was suggested that adequate resources should be provided to the regulatory and enforcement agencies to enable them carry out their duties effectively.
7. Stakeholders also suggested that government should exhibit stronger and more transparent political will in supporting efforts to improve the governance of companies and laws should be applied to all individuals without fear or favour.
8. The creation of advocacy groups, such as the institute of directors and others representing shareholders, employees and/or other special interest groups should be encouraged in Uganda so as to provide a forum to support the interests of the group members.

9.5 Limitations of the Study

The major limitation of this study relates to the generalisability of the findings, since a relatively small sample of interviewees and respondents was used. Only 16 individuals were interviewed, while 382 questionnaires were administered and 158 returned. In addition, as with any project using these methods, those taking part are necessarily a self-selecting group of those willing to become involved. However, as demonstrated in the previous chapter, the views expressed by the respondents in the questionnaire survey were generally consistent with those expressed during the interviews. It is therefore hoped that the results provide a broadly representative picture of the views of stakeholders in Uganda.

sector. Researchers such as Caprio et al. (2005), Manibog (2003), Fick (2002) and Tangari and Mwenda (2001) have stressed that good corporate governance is essential for attracting investment, improving commercial performance and contributing to economic development; factors such as bad or unclear corporate governance, corruption, inadequate legal and judicial systems and lack of democracy are seen as not being conducive to investment. The Africa Competitive Report of 2000/2001 re-iterated the same issues and stressed the need for the regulatory framework to be tightened to provide for improved corporate governance and mandate prompt corrective measures.

The current research project has exposed a number of areas that may need to be investigated further. Each of the major sections of the research may need to be investigated further so as to establish why respondents to the questionnaire held certain views and what can be done on a practical basis to improve corporate governance and accountability in Uganda. Issues such as board composition, board committees, independent board members, as well as transparency and accountability in the stakeholder context need to be investigated to establish how they can be made manifest. The notions of corporate governance seem to be taking root in Uganda, but their implementation needs to take place urgently. How this can be done substantively is a topic of significance in Uganda. There may also be a need to widen the stakeholder groups whose views were examined, for example to include trade unions and other types of pressure groups. It would also be helpful to carry out studies in other developing countries to establish whether the findings of this study are unique to Uganda or are common to other developing countries in Africa and elsewhere.

9.7 Concluding Thoughts

The research questions set out in Chapter 1 appear to have been answered to a significant degree in the various chapters that make up this thesis. These answers were synthesised in Sections 8.2 – 8.7.

However, as a result of the study, the researcher has come to the view that while guidelines (and the various elements that make up and support the framework of corporate governance) are important, the most crucial element in the governance of companies is the inherent attitude of the individuals who are entrusted with the management of companies. Many well-publicised violations of corporate governance principles, whether accounting-related or not, appear not to have been committed because company officials and board members did not know what to do, but rather because the individuals occupying various positions of responsibility manipulated systems to their advantage with total disregard for accountability for legality (and probity), process, performance, programme and policy. In the light of the findings presented in this thesis, it seems to the researcher that the main focus in Uganda should be on putting in place a governance system whereby individuals with appropriate personal qualities, including integrity and competence, are identified and appointed to positions of trust and responsibility. Ultimately, it is such people who are best placed to implement meaningful corporate governance guidelines. Unfortunately, such a development does not feature significantly in conventional normative analyses of corporate governance, with the

emphasis being placed instead on developing guidelines, rulebooks and principles. Further study is needed on how *the people element* can be addressed in the attempt to develop robust corporate governance practices.

With hindsight, the questionnaire seems to have been longer than in the ideal situation and a more concise version might have been preferable. However, the questionnaire survey that was used in the research was designed to cover all the important topics in corporate governance and a trade-off had to be made between shortening the questionnaire in order to get a higher response rate and lengthening it in order to cover more topics. In any event, the survey yielded a response rate of more than 41%.

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Appendix 1.1

Recommended Guidelines for Corporate Governance in Uganda (2001)

1. Introduction

The basic mission of the ICGU is to nurture and promote good corporate governance by setting, enforcing and practicing the highest standards of commercial probity, efficiency and ethical conduct through training and advocacy.

The ICGU was set up to complement the efforts other institutions in the country are making towards improving the manner in which corporate entities, both private and public, operate.

Professional associations, for example The Uganda Institution of Professional Engineers and The Institute of Certified Public Accountants of Uganda, are one category of institutions helping to shape corporate governance. The Regulatory agencies like the Electricity Regulatory Authority, Bank of Uganda, The National Bureau of Standards (UNBS), Uganda Communications Commission (UCC) and the Media Council, are the second category.

Guidelines for corporate governance have been developed by a number of countries and international organisations, for example the Commonwealth. The principles in all cases are the same, but each country may modify these to suit the domestic conditions of the country. The guidelines, though with an international touch, must be suitable to the local setting of each country. The principles of the CAGG, OECD and the Kings Report will serve as an important benchmark for Uganda on which to build the national code of corporate governance.

Below are the guidelines recommended to set out the basic framework within which good corporate governance will thrive in Uganda. These are generic in nature and each individual firm, organization or association will be expected to develop its own code based on this framework to suit its peculiar circumstances. The guidelines are by no means exhaustive but diverse enough to provide the necessary building blocks to move the process.

The guidelines are recommended for use by all corporate bodies in Uganda irrespective of the form of ownership and size of entity. It is also worth noting from the onset that corporate governance may not be implemented effectively on the basis of the guidelines

without the support structures, policies and institutions in the public sector. It is, therefore, recommended that government formulates and implements similar codes for its diverse structures and stakeholders.

2. The Board of Directors

2.1 Primary Objective of the Board

The Board's primary objective is to ensure that the company is properly managed to enhance and protect shareholder value and to ensure that the company meets its obligations to all stakeholders, the industry and the law. Accordingly the Board shall:

i. Adopt, approve and review corporate strategy and planning;

ii. Monitor corporate performance and identify and manage risk;

iii. Establish performance objectives and hurdles for directors, management and employees;

iv. Ensure that appropriate systems and controls are in place for monitoring compliance with accounting, financial, audit, transparence and reporting requirements, and with the law;

v. Establish and maintain the company's communication policy to ensure effective communication with all stakeholders;

vi. Annually review, using established objective criteria, the company's performance in order to assess and ensure the company's future solvency, and the board's conclusion should be reported in the financial statements.

2.2 Board composition, appointments and elections

Directors should be appointed or elected in accordance with the law (by the shareholders), and the election or appointment should follow a formal and transparent procedure that allows the board to select nominees for election or appointment by the shareholders.

i. The board should be composed of qualified individuals who reflect a diversity of training, experience and backgrounds.

ii. The board's composition should include a balance of executive and non-executive directors such that no individual or group of individuals can dominate the board's decision making.

iii. To ensure director independence in decision-making non-executive directors should not have any benefits from the company other than their fee, which must be determined by the board. Director independence signifies being independent of management and any controlling shareholder and possessing the ability for independent judgement.

iv. Non-executive directors should have the necessary skill and experience to bring independent judgement on issues of strategy, performance, resources, key appointments and standards.

2.3 Induction, Orientation and Training of Directors

i. Directors should formally be advised of their rights, duties, obligations and responsibilities, and the Chair should ensure the non re-election or resignation or removal of non-performing directors.

ii. Orientation and training of board appointees/candidates should follow a defined procedure and should focus on the company's business, strategic plans and objectives, market position, resources, systems and management structure.

iii. Board appointees with no relevant training or previous board experience should participate in a training course for directors.

iv. Directors should receive training from time to time on matters including relevant new laws and regulations, changing commercial risks, among others.

2.4 The Board Chairman and Chief Executive Officer

i. The roles of chairman and chief executive officer should be separate.

ii. Where the roles must be combined, a strong and independent element must exist on the board and the board must enact a system that ensures the independence of the board from management, e.g. the appointment of an independent non-executive director as deputy chairman.

2.5 The Board and Other Stakeholders

The board should identify the company's internal and external stakeholders and agree a policy or policies of how the company should relate to them and address their interests.

i. Directors should recognize that companies do not act independently of the societies in which they operate, and that the continued and ultimate

success of a company depends on the support and goodwill of different resource providers, including investors, employees, creditors, suppliers, bankers, etc., whose interests must therefore be specifically addressed.

ii. Directors and shareholders should further recognize that society now expects companies to act responsibly in regard to matters such as the environment, health and safety of workers and society at large, employee relations, ethical business conduct, standards, etc.

iii. The Board should therefore outline a policy or policies to regulate the company's conduct and relationships with all relevant stakeholders and also to promote goodwill and a reciprocal relationship with these stakeholders.

2.6 The Board's sole responsibility for the company's performance

The Board should ensure the existence of an effective management for implementation of the company's strategic and financial objectives and, accordingly, the Board should appoint the Chief Executive Officer and Senior Management.

i. The Board should promote a system that recognizes and rewards enterprise and innovation, with performance-related rewards that motivate management and employees effectively and productively.

ii. The Board should safeguard the company's inherent assets by ensuring the motivation of management and employees and the protection of the company's intrinsic intellectual capital.

iii. The Board should also ensure that there is adequate training for employees and management.

iv. The Board should implement a remuneration policy that will recruit, motivate and retain high quality executive directors, management and employees.

2.7 Internal systems and controls

Directors should ensure that appropriate internal systems and controls are in place for monitoring compliance with accounting, financial and audit reporting requirements, and with the law. Boards, therefore, should:

i. Create and maintain relevant board committees with clear terms of reference. The most relevant committees that Boards should have include the nomination, remuneration, audit and governance. Board committees should be:

(a) Given reasonable resources to enable them to discharge their functions properly.

(b) Facilitated to obtain expert/professional advice, whether internal or external, necessary for the execution of their duties.

(c) Given the discretion to invite any director, company officer or outsider with relevant experience to attend their meetings where necessary.

ii. The Board should meet as regularly and frequently as is necessary for the directors to execute their duties and responsibilities.

(a) There must be adequate notice to all directors of the dates and time of the meetings and of issues to be discussed at the meeting.

(b) Directors (or alternates where permissible) should be physically present at meetings and should effectively participate through preparation before the meeting and in the proceedings of the meeting.

2.8 The Audit Committee

i. The board should establish an audit committee and the majority of its members should be independent non-executive directors with adequate knowledge of finance, accounts and basic elements of company law and should be mentioned in the annual report. The audit committee should have clear and written terms of reference.

ii. The audit committee should serve as a necessary channel of communication with external auditors for purposes of audit quality and effectiveness and on matters relating to and arising out of the external audit.

iii. The audit committee should enjoy direct communication with management, the Finance Director, Chief Finance Officer and internal and external auditors.

iv. The audit committee should have explicit authority to investigate matters under its terms of reference and full access to information to enable it to do so.

v. The audit committee should have unrestricted access to and the co-operation of management and the internal and external auditors and have full discretion to invite any director and executive officer to attend its meetings.

vi. The audit committee should report to the Board on all issues regarding its operating standards of accounting.

2.9 Compliance with Laws and Regulations

The Board should ensure compliance by the company and company officers with all relevant laws, regulations and codes of best business practice.

i. The directors should be conversant with the statutory and regulatory requirements affecting the company and ensure the company's compliance with them.

ii. The annual Directors' Report should disclose the Board's confirmation of statutory and regulatory compliance.

2.10 Communication

The Board should ensure that there is effective communication among/between shareholders, directors, management and other stakeholders.

i. The Board should ensure that all communication is timely and accurate and is received by all relevant people/entities.

ii. The Board should communicate long term strategic decisions to the shareholders, management, employees, and other stakeholders to get their co-operation for the success of the strategy/decisions.

2.11 Good faith and confidentiality

The Board as a whole and each director as an individual should ensure that they always act in good faith and in the best interests of the company.

i. The Board should ensure that at no point in time do the personal interests of a director take precedence over those of the company and shareholders.

ii. Directors must not disclose or make improper use of sensitive confidential information acquired by them by virtue of their position as a director.

iii. In the event of any potential or actual conflict of interest between a director and the company, the director should refrain / be refrained from debating or voting on the matter.

2.12 Assessment of Company, Board and Management Performance

The Board should constantly monitor and review management's implementation of the strategic plans and objectives.

i. The Board and management must establish mutually agreed management performance criteria and business plans and use them as the basis for monitoring and evaluating management's performance.

ii. The Board (through the appropriate committee) should establish criteria and procedures for regularly assessing the effectiveness of the Board as a whole and of the committees and the individual directors.

2.13 Code of Ethics

The Board should ensure the development/creation of, and implementation of, a code of ethics for the enterprise which meets/satisfies the principles essential for corporate governance including transparency, disclosure, accountability and probity. The code of ethics should:

i. Commit the company and its shareholders, directors, managers and all other stakeholders to the highest standards of behaviour.

ii. Be developed in such a way as to involve all stakeholders to infuse its culture.

iii. Receive total commitment from the Board and the Chief Executive Officer of the Company.

3. Shareholders

3.1 Shareholders' meetings

Shareholders protect, preserve and actively exercise the supreme authority of the company through the Annual General Meetings and the Extra Ordinary Meetings. Shareholders therefore have a duty to:

i. Elect competent and reliable persons to the Board of Directors, capable of fulfilling the objectives of the entity;

ii. Put in place constraints so that no one single shareholder or group of shareholders, even if it is the majority shareholder(s), can solely elect the Board;

iii. Confer authority and power on the elected members of the Board of Directors to enable them carry out their duties efficiently;

iv. Regularly assess the performance of the Board fairly in light of the objectives of the entity;

v. Exercise their right to vote according to the procedure in the Articles of Association of the company and the law;

vi. Keep themselves informed of the issues to be voted on and of the consequences of their vote.

3.2 Communication

Shareholders should regularly communicate with the Board and with management on the performance of the company and their other interests.

All shareholders should have equal access to the information concerning the performance of the company regardless of their shareholding.

3.3 Evaluation of the company's performance

The shareholders should be familiar with the concepts of good corporate governance and they should be able to relate the concepts of good corporate practice to the policies and objectives of the company and to evaluate the company's performance in the light of these.

3.4 Shareholders' duties to each other

Shareholders have a duty to ensure that no shareholder dishonestly manipulates the prices of the shares of the company or the interests of the enterprise to the prejudice of the other shareholders. Accordingly shareholders, individually or collectively, should:

i. Desist from using information that comes to their knowledge for their personal gains and to the detriment of the other shareholders;

ii. Be informed of the financial position of the company in case of issuance of new shares, liquidation or a takeover of or by the entity;

iii. Be informed of the possibilities and arrangements that enable certain shareholders to obtain a degree of control which is disproportionate to their shareholding.

3.5 Duties to the Employees and the Community

In voluntary winding up of the company by the shareholders, they must take cognizance of the impact of the closure of business on the employees of the company and the community in which the business operates.

The entity should further avoid any negative impacts on the community, for example possible environmental hazards from disposal of any raw materials where the entity was involved in manufacturing.

4. Audits

Companies should have effective internal audit systems that have the respect of both the board of directors and management.

i. Internal auditors should have unrestricted access to the board and audit committee.

ii. The internal auditors should be independent from their personal interests, management and the Board's interference.

iii. The annual audits should be conducted by an independent external auditor in order to provide an external and objective assurance on the way in which financial statements are prepared and presented.

5. Management

The management of a company, including the Chief Executive Officer, is responsible for implementing the board corporate decisions and there should be a clear flow of information between management and the board in order to facilitate the evaluation and appraisal of the company's performance.

i. Management should act honestly and in good faith and should act within their powers and in the interest and benefit of the company.

ii. Managers should carry out their duties with the skill and care expected of a person of knowledge and experience and exercise their own judgement.

iii. Managers should report accurately to the owners on the performance and prospects of the company and justify the confidence reposed in them.

iv. Managers should furnish the auditors with all the information and explanations required and should not permit wastage of the assets of the company.

v. Management should not carry on the business of the company negligently or recklessly and should not permit wastage of the assets of the company.

vi. Managers should not place themselves in positions where their personal interests could conflict with their duties and in particular they should:

- Not divulge confidential information of the company to its competitors;
- Not carry on any business which is forbidden by the company;
- Not accept bribes, commissions or other unconscionable benefits.

6. Employees

Employees support and assist management to fulfill its commercial and ethical obligations.

i. Employees should avoid unreasonable disruption of production and wastage of company resources including time.

ii. Employees should act honestly at all times and report any discrepancies at the work place.

iii. Employees should honour their agreed terms and conditions of employment.

iv. Employees should not abuse their bargaining positions or engage in unreasonable industrial action.

v. Employees should have due regard to environmental and public health considerations in and around the workplace.

7. Government

The government should provide an environment that is conducive for the operations of the entity and should ensure compliance by the statutory corporations of the relevant laws, regulations and codes of best practice.

i. Government should make laws and policies that encourage investment and good corporate practice and investment without unnecessary restrictions, for example for environmental preservation at the detriment of development and machinery for the maintenance of order and justice.

ii. Government should provide a conducive environment and physical infrastructure for the efficiency and effectiveness of every business entity.

8. Regulatory bodies

The regulatory bodies should enforce compliance with the laws and regulations to ensure the protection of the investors and all stakeholders.

9. Suppliers of a company

i. Suppliers should strive to provide good quality products complying with the agreed standards at competitive prices and according to the contract terms.

ii. Suppliers should not engage in restrictive trade practices.

10. Lenders of the company

i. Lenders should not withdraw credit without justification.

ii. Lenders should not charge unjustified interest.

11. Customers of the company

i. Customers should pay for the products/services in accordance with the terms concluded with the company and should not make false allegations for defects in the product/services provided to them.

ii. Customers should not engage in restrictive practices and should not claim for refund for damage of goods where it occurs when the goods are in their possession.

12. Investors

i. Investors should enter into dialogue with the company in order to determine mutual objectives.

ii. Investors should desist from finding out about the company from unauthorized means, for example through employees or competitors.

13. The community

i. The environmentalists should advise the business entities on environmental matters in accordance with environmental laws.

ii. The requirement to preserve the environment should always be considered in light of the need for development and should therefore not be used to deter development and investment where the development would not have a negative impact on the environment.

Appendix 1.2

The Capital Markets Corporate Governance Guidelines.

(Under section 102 of the Capital Markets Authority Statute, 1996;
Statute No. 1 of 1996)

IN EXERCISE of the powers conferred on the Capital Markets Authority ("Authority") by sections 6 and 102 of the Capital Markets Authority Statute, 1996 ("Statute"), these Guidelines are made this 25th day of February, 2003.

PART I – PRELIMINARY.

1. These Guidelines shall be referred to as the Capital Markets Corporate Governance Guidelines.
2. The Authority has developed these Guidelines as a minimum standard for good corporate governance practices by public companies and issuers of corporate debt in Uganda, in response to the growing importance of governance issues both in emerging and developing economies and for promoting domestic and regional capital markets growth. It is also in recognition of the role of good governance in corporate performance, capital formation and maximization of shareholders value as well as protection of investors' rights.
3. Corporate governance, for the purposes of these Guidelines is defined as the process and structure used to direct and manage business affairs of the company towards enhancing prosperity and corporate accounting with the ultimate objective of protecting and promoting shareholders' rights and realizing shareholders' long term value while taking into account the interests of stake holders.
4. These Guidelines have been developed taking into account work which has been undertaken extensively in several jurisdictions through many task forces or committees, including but not limited to the United Kingdom, Malaysia, South Africa, the Commonwealth Association for Corporate Governance and the OECD principles of Corporate Governance.
5. The Authority has also supported the development of a code of best practices for corporate governance in Uganda issued by the Institute of Corporate Governance of Uganda, whose efforts have also been useful in the development of these Guidelines and are supplementary thereto.
6. The objective of these Guidelines is to strengthen corporate governance practices by listed companies in Uganda and promote the standards of self-regulation so as to bring the level of governance in line with international trends.

7. The Authority, in developing these Guidelines has adopted both prescriptive and non-prescriptive approaches in order to provide for flexibility and innovative dynamism to corporate governance practices by public listed companies.

8. Good corporate governance practices must be nurtured and encouraged to evolve as a matter of best practice but certain aspects of operation in a body corporate must of necessity require minimum standards of good governance. In this regard the Authority expects the Directors of every listed company to undertake or commit themselves to adopt good corporate governance practices as part of their continuing listing obligations.
9. In these Guidelines, the following words and expressions shall carry the meaning attributed to them:
"Authority" shall mean the Capital Markets Authority as established under section 5 of the Capital Markets Authority Statute 1996;
"Independent director" shall mean a director who:
(a) has not been employed to the company in an executive capacity within the last five years;
(b) is not affiliated to an adviser or consultant of the company or a member of the company's senior management or a significant customer or supplier of the company or with a not-for-profit entity that receives significant contributions from the company; or within the last five years, has not had any business relationship with the company (other than service as a director) for which the company has been required to make disclosure;
(c) has no personal service contract (s) with the company or a member of the company's senior management;
(d) is not employed by a public company at which an executive officer serves as a director;
(e) is not a member of the immediate family of any person described above;
(f) has not had any of the relationships described above with any affiliate of the company.
"Non-executive director" means a director who is not involved in the administrative or managerial operations of the company;
"Substantial shareholder" means a person who holds not less than fifteen percent of the voting rights of a listed company and has the ability to exercise a majority voting, for instance, in the election of Directors.

10. The extent of compliance of these Guidelines shall form an essential part of disclosure obligations in corporate annual reports. Disclosure of all areas of non-compliance or alternative practices shall also form part of these disclosure requirements.
11. Where a company is not fully compliant with these Guidelines, the Directors shall indicate the steps being taken to adhere to full compliance and the reasons for departure.

PART II – BEST PRACTICES RELATING TO THE BOARD OF DIRECTORS

12. Every listed company should be headed by an effective Board to offer strategic guidance, lead and control the company and be accountable to its shareholders and responsible to its stakeholders.
13. The Board of Directors should assume a primary responsibility of fostering the long-term business of the company consistent with their fiduciary responsibility to the shareholders.
14. Board members should accord sufficient time for their functions and act on a fully-informed basis, while treating all shareholders fairly in the discharge of the following functions (among others):

(a) Defining the company's vision, mission, values, strategy, goals, risk management policy, plans and objectives;
(b) Approving its annual budgets and accounts;
(c) Overseeing the management and operations of the company, its major capital expenditures, acquisitions and divestitures and reviewing corporate performance and strategies, including management accounts at least on a quarterly basis;
(d) Identifying corporate business opportunities as well as principal risks in its operating environment including the implementation of appropriate measures to manage such risks or anticipated changes impacting on the corporate business;
(e) Developing appropriate staffing and remuneration policies including the appointment of a Chief Executive and senior staff, particularly the finance director, operations director and the company secretary as may be applicable;
(f) Reviewing on a regular basis the adequacy and integrity of the company's internal control, accounting and financial reporting and management of information systems including compliance with applicable laws, regulations, rules and guidelines;
(g) Establishing and implementing a system that provides necessary information to the shareholders including a shareholder communication policy for the company.

(h) Monitoring the effectiveness of the corporate governance practices under which it operates and proposing revisions as may be required.
(i) Taking into consideration the interest of the company's stakeholders in its decision-making process.
15. The Board of Directors should reflect a balance between independent, non-executive Directors and executive Directors of diverse skills or expertise, in order to ensure that no individual or group of individuals dominates the Board decision-making processes.
16. The independent and non-executive Directors should form at least one-third of the membership of the Board.
17. The composition of the Board should fairly reflect the company's shareholding structure and should not be biased towards representation by a substantial shareholder. In addition, it should contain an element of representation of the minority shareholders without undermining the collective responsibility of the Directors.
18. In circumstances where there is no majority shareholder but there is still a single substantive shareholder, the Board should exercise judgment in determining the Board representation of such shareholder and those of the other shareholders, which reflects the shareholding structure of the company.
19. The size of the Board should not be too large to undermine an interactive discussion during Board meetings or too small such that the inclusion of a wider expertise and skills to improve the effectiveness of the Board is compromised.
20. The Board should monitor and manage potential conflicts of interest at management, Board and shareholder levels.
21. The Board should ensure that it obtains relevant, accurate and timely information to enable it discharge its duties.
22. The Board should maintain an effective communication policy that enables both management and the Board to communicate effectively with its shareholders, stakeholders and the public in general.

23. There should be a formal and transparent procedure in the appointment of Directors to the Board and all persons offering themselves for appointment as Directors should disclose any potential area of conflict that may undermine their position or service as Director.
24. All Directors should be required to submit themselves for re-election at regular intervals or at least every three years.

25. Executive Directors should have a fixed service contract not exceeding five years with a provision to renew subject to regular performance appraisal.
26. Disclosure should be made to the shareholders at the Annual General Meeting and in the annual reports of all Directors approaching their seventieth (70th) birthday that respective year.
27. (1) The Board of every listed company should appoint a Nominating Committee composed of majority non-executive Directors with the responsibility of proposing new nominees for the Board and for assessing the performance and effectiveness of Directors to perform their role in the company.
(2) The Nominating Committee should consider only persons of high caliber and credibility and who have the necessary skills and expertise to exercise independent judgment on issues that are necessary to promote the company's objectives and performance in its area of business.
(3) The Nominating Committee should also consider candidates for Directorship proposed by the Chief Executive and shareholders.
(4) The Board, through the Nominating Committee, should on an annual basis, review its required mix, skills and expertise of which the executive Directors as well as independent or non-executive Directors should bring to the Board and make disclosure of the same in the annual report.
(5) The Nominating Committee should recommend to the Board candidates for Directorship to be filled by the shareholders as the responsibility of nominating rests on the full Board, after considering the recommendations of the nominating committee.
28. The Board, through the Nominating Committee, should also implement the process of assessing the effectiveness of the Board as a whole, Committees of the Board, as well as individual Directors.
29. Newly appointed Directors should be provided with necessary orientation in the area of the company's business in order to enhance their effectiveness on the Board.
30. The process of appointment of Directors should be sensitive to gender representation.
31. No person should hold more than five Directorships in any listed company at any one time, in order to ensure effective participation on the Board.
32. (1) The Board of Directors of every listed company should appoint a Remuneration Committee or assign a mandate to the Nominating Committee consisting mainly of independent and non-executive Directors to recommend to the Board the remuneration of the executive Directors and the structure of their compensation package.

(2) The determination of the remuneration for non-executive Directors should be a matter for the whole Board.

(3) The remuneration of executive Directors should include an element that is linked to corporate performance including a share option scheme so as to ensure the maximization of shareholder value.

33. Every Board should disclose in its annual report, its policies for remuneration including incentives for the Board and senior management, particularly the following:

(a) Quantum and component of remuneration for Directors including non-executive Directors on a consolidated basis in the following categories:

(i) Executive Directors fees;

(ii) Executive Directors emoluments;

(iii) Non-executive Directors' fees;

(iv) Non-executive Directors' emoluments.

(b) Share options and other forms of executive compensation that have to be made or have been made during the course of the financial year; and,

(c) Directors' loans.

PART III – BEST PRACTICES RELATING TO THE POSITION OF CHAIRPERSON AND CHIEF EXECUTIVE

34. There should be a separation of the role and responsibilities of the Chairperson and Chief Executive, which will ensure a balance of power of authority and provide for checks and balances such that no individual has unfettered powers of decision-making.

35. Where such roles are combined, a rationale for the same should be disclosed to the shareholders in the annual report of the company; and the position should be:

a) For a limited period;

b) Approved by the shareholders;

c) Include measures that have been implemented to ensure that no individual has unfettered powers of decision-making in the company; and,

d) Include a plan for the separation of the roles where such combined role is deemed necessary during a restructuring or change process.

36. The Chairpersonship of a public listed company should be held by an independent or non-executive Director.

37. Every listed company should have a clear succession plan for its Chairperson and Chief Executive in order to avoid unplanned and sudden departures, which could undermine the company and shareholder interest.

38. No person shall be Chairperson of more than two public listed companies at any one time.

39. (1) The Chief Executive should be responsible for implementing Board corporate decisions and there should be a clear flow of information between management and the Board in order to facilitate both quantitative and qualitative evaluation and appraisal of the company's performance.

(2) The Chief Executive should undertake a primary responsibility of organizing information necessary for the Board to deal with and for providing necessary information to the Directors on a timely basis.

(3) The Chief Executive is obliged to provide such necessary quality information to the Board in the discharge of the Board's business.

PART IV – BEST PRACTICES RELATING TO THE RIGHTS OF SHAREHOLDERS

40. The Board of every public listed company should ensure equitable treatment of shareholders including the minority and foreign shareholders.
41. All shareholders should receive relevant information on the company's performance through distribution of regular annual reports and accounts, half yearly results and quarterly results as a matter of best practice.
42. There should be shareholder's participation in all major decisions of the company. The Board should therefore provide the shareholders with information on matters that include but are not limited to major disposal of company assets, restructuring, takeovers, mergers, acquisitions or reorganizations.
43. The shareholders should receive a secure method of transfer and registration of ownership as well as a certificate or statement evidencing such ownership in the case of a central depository environment.
44. Every shareholder shall have the right to participate and vote at the general shareholders meeting including the election of Directors.
45. Every shareholder shall be entitled to ask questions or seek clarification on the company's performance as reflected in the annual reports and accounts or in any matter

that may be relevant to the company's performance or promotion of shareholder's interest and to receive explanation by the Directors and /or management.
46. Every shareholder shall be entitled to distributed profit in form of dividend and other rights for bonus shares, scrip dividends or rights issues as applicable and in the proportion of its shareholding in the company's share capital.
47. The annual report and accounts to shareholders must include highlights of the operations of the company, financial performance and a list of the ten major shareholders of the company and their shareholding.
48. (1) Listed companies are encouraged to organize regular investor briefings when the half-yearly and annual results are declared or as may be necessary to explain their performance and promote shareholder interaction.
(2) Listed companies should endeavor to establish a company website and encourage its use by shareholders to ease communication and interaction between shareholders and the company.
49. Every listed company should encourage and facilitate the establishment of a Shareholder's Association to promote dialogue between the company and the shareholders. The Association should play an important role in promoting good governance and actively encourage all shareholders to participate in the annual general meeting of the company or assign necessary voting proxy.

PART V – BEST PRACTICES RELATING TO THE CONDUCT OF GENERAL MEETINGS

50. The Board of a listed company should provide to all its shareholders sufficient and timely information concerning the date, location and agenda of the general meeting as well as full and timely information regarding issues to be decided during the general meetings.
51. The Board should make shareholder's expenses and convenience primary criteria when selecting venue and location of annual general meetings.
52. The Board of a listed company should ensure that the shareholder's rights of full participation at general meetings are protected by:

(a) Giving shareholders information in a simplified and generally understandable manner;
(b) Giving shareholders sufficient information on voting rules and procedures;
(c) Giving shareholders the opportunity to quiz management, for this purpose, the Directors should provide sufficient time for shareholders questions on matters pertaining to the company's performance and seek to explain to their shareholders their concerns;

(d) Giving shareholders the opportunity to place items on the agenda at general meetings;
(e) Giving shareholders the opportunity to vote in absentia;
(f) Giving shareholders the opportunity to consider the costs and benefits of their votes.
53. All shareholders should be encouraged to participate in the annual general meetings and to exercise their votes.
54. Institutional investors are particularly encouraged to make direct contact with the company's senior management and Board members to discuss performance and corporate governance mattes in addition to exercising their vote during annual general meetings.
55. Shareholders while exercising their right of participation and voting during annual general meetings of their company should not act in a disrespectful manner as such conduct may undermine company interest.

PART VI – BEST PRACTICES RELATING TO ACCOUNTABILITY AND THE ROLE OF AUDIT COMMITTEES

56. The Board should present an objective and understandable assessment of the company's operating position and prospects.
57. The Board should ensure that financial statements are presented in line with International Financial Reporting Standards. To this end, any departure from these standards and the impact thereof, should be explained in the annual report.
58. The Board should maintain a sound system of internal control to safeguard the shareholders investments and assets.
59. The Board should establish a formal and transparent arrangement for shareholders to effect the appointment of independent auditors at each annual general meeting.
60. The Board should establish a formal and transparent arrangement for maintaining a professional interaction with the company's auditors.
61. The Board shall establish an audit committee with a majority of independent and non-executive Directors, who shall report to the Board, with formal terms of reference addressing its authority and duties.
62. The Chairperson of the audit committee should be an independent or non-executive Director, and the Board should disclose in the annual report, whether it has an audit committee and the mandate of that committee.
63. Important attributes of the audit committee members should include:
(a) Broad business knowledge relevant to the company's business;
(b) Keen awareness of the interests of the investing public;
(c) Familiarity with basic accounting principles; and,
(d) Objectivity in carrying out their mandate with no conflict of interest.
64. The Audit Committee should have adequate resources and authority to discharge their responsibilities, and it shall:
(a) Be informed, vigilant and effective overseers of the financial reporting process and the internal controls of the company;

(b) Review and make recommendations on management programs established to monitor compliance with the code of conduct;
(c) Consider the appointment of the external auditor, the audit fee and any questions of resignation or dismissal of the external auditor;
d) Discuss with the external auditor before the audit commences, the nature and scope of the audit and ensure co-ordination where more that one audit firm is involved;
e) Review management's evaluation of factors related to the independence of the company's external auditor. Both the audit committee and management should assist the external auditor in preserving its independence;
f) Review the quarterly, half-yearly and year-end financial statements of the company, focusing primarily on:

- Any changes in accounting policies and practices;

- Significant adjustments arising from the audit;

- The going concern assumption; and

- Compliance with International Financial Reporting Standards and other legal and regulatory requirements.

(g) Discuss problems and reservations arising from the interim and final audits, and any matter that the external auditor may wish to discuss (in the absence of management where necessary);
(h) Review the external auditor's letter(s) to the management and management's response;
(i) Consider any related party transactions that may arise within the company group;

(j) Consider the major findings of the internal investigations and management's response;
(k) Have explicit authority to investigate any matter within its terms of reference, the resources that its needs to do so and full access to information;
(l) Obtain external professional advice and to invite outsiders with relevant experience to attend, if necessary; and,
m) Consider other topics as defined by the Board including
regular review of the capacity of the internal audit function.
65. The Board should establish an internal audit function.
66. In relation to the internal audit function, the audit committee's functions should include:
(a) Review the adequacy, scope, functions and resources of the internal audit function and ensure that it has the necessary authority to carry out its work;
b) Review the internal audit program and results of the internal audit process and where necessary ensure that appropriate action is taken on the recommendations of the internal audit function;
(c) Review any appraisal or assessment of the performance of the members of the internal audit function;
(d) Approve any appointment or termination of senior staff members of the internal audit function;

(e) Ensure that the internal audit function is independent of the activities of the company and is performed with impartiality, proficiency and due professional care;
(f) Determine the effectiveness of the internal audit function;
(g) Be informed of resignations of internal audit staff members and provide the resigning staff members an opportunity to submit reasons for resigning.
67. The finance director, head of internal audit (where such function exists), a representative of the external auditors or any Board members may attend the meetings of the Audit Committee upon invitation by the audit committee.
68. The Audit Committee shall meet with the external auditors at least once a year, in the absence of executive Board members.

69. The Audit Committee should meet regularly with due notice of issues to be discussed and should record its conclusions in discharging its duties and responsibilities.
70. The Board should disclose in an informative way, details of the activities of the Audit Committee, the number of audit committee meetings held in the year and details of attendance of each Director in respect of such meetings.
Issued this 1st day of October, 2003.

LEO KIBIRANGO
Chairman Capital Markets Authority (Uganda)

Appendix 2.1

Corporate Governance Codes, Best Practice Guidelines & Reports (UK)

1. Institute of Directors, (2001) Standards for the Board – Improving the effectiveness of your board, London: Kogan Page
2. Committee on Corporate Governance, Hampel Committee, Final Report (January 1998)
3. Department for Trade and Industry Report on the Committee on the Financial Aspects of Corporate Governance, Cadbury, (December 1992)
4. Department for Trade and Industry, Higgs Review on the Role and Effectiveness of Non-Executive Directors (January 2003)
5. Department for Trade and Industry, Myners Committee. Developing a Winning Partnership: How Companies and Institutional Investors are Working Together (1995)
6. Financial Reporting Council, The Smith Guidance on Audit Committees, (January 2003);
7. Department for Trade and Industry, The Tyson Report on the Recruitment and Development of Non-Executive Directors, (June 2003)
8. Hermes Investment Management Ltd, International Corporate Governance Principles, (December 1999)
9. Institute of Chartered Accountants in England and Wales, Internal Control: Guidance for Directors on the Combined Code, Turnbull (Sept 1999)
10. London Stock Exchange, Combined Code: Principles of Good Governance and Code of Best Practice, (July 2003)
11. Study Group on Directors' Remuneration, Final Report (Greenbury Report) (July 1995)
12. The Institute of Chartered Accountants in England and Wales, Closing the Communications Gap: Disclosure and Institutional Shareholders (April 1997) and Audit Committees: A Framework for Assessment (May 1997)
13. Cadbury A (2002) The Chairman and Corporate Governance, London
14. ICSA A Guide to Best Practice for Annual General Meetings, London, ICSA
15. ICSA A guide to the Statement of Compliance, London, ICSA
16. ICSA Duties of a Company Secretary, London, ICSA
17. ICSA The Appointment and Induction of Directors, London, ICSA
18. ICAEW, Internal Control and Financial Reporting, Rutteman Report, 1994
19. CIPFA, The good governance standard for public services, 2005

Appendix 3.1

List of Some of the Articles written on Government Influencing the Work of Members of Parliament

1. "Kisanja Cash Ambush" in *The Sunday Vision Online* (31/10/2004), http://www.sundayvision.co.ug/detail.php?mainNewsCategoryId=7&newsCategoryId=416&newsId=396870. 3/11/2004.

2. Maseruka, J. (2004). "75 MPs to sue NRMO" in *The Sunday Vision Online* (31/10/2004), http://www.sundayvision.co.ug/detail.php?mainNewsCategoryId=7&newsCategoryId=123&newsId=396765. 3/11/2004.

3. Kamya, B. T. (2004). "NRM-O should declare source of the sh5m" in *The Sunday Vision Online* (31/10/2004), http://www.sundayvision.co.ug/detail.php?mainNewsCategoryId=7&newsCategoryId=255&newsId=396858. 3/11/2004.

4. Etyang, J. (2004). "Reject kisanja bribe – Muntu" in *The New Vision Online* (1/11/2004), http://www.newvision.co.ug/detail.php?mainNewsCategoryId=&newsCategoryId=13&newsId=396992. 3/11/2004.

5. Gyezaho, E. (2004). "Kisanja money mere show off by NRMO" in *The Monitor Online* (3/11/2004), http://www.monitor.co.ug/inspol/inspol11034.php. 8/11/2004.

6. Bogere, H. (2004). "Ministers queued for kisanja cash" in *The Monitor Online* (3/11/2004), http://www.monitor.co.ug/news/news11031.php. 3/11/2004.

7. Namutebi, J. (2004). "UPC to sue Movt over kisanja cash" in *The New Vision Online* (4/11/2004), http://www.newvision.co.ug/detail.php?mainNewsCategoryId=&newsCategoryID=13&newsId=397705. 7/11/2004.

8. Bidandi-Ssali (2004). "Bidandi letter in full" in *The Monitor Online* (5/11/2004), http://www.monitor.co.ug/news/news11053.php. 5/11/2004.

9. Mwenda, A. (2004). "Bidandi quits NRM-O post" in *The Monitor Online* (5/11/2004), http://www.monitor.co.ug/news/news11051.php. 5/11/2004

10. Museveni, Y. K. (2004). "Museveni responds to Bidandi resignation" in ***The Monitor Online*** (6/11/2005), http://www.monitor.co.ug/insights/ins11076.php. 8/11/2004.

11. Mwanguhya, C. M. (2004). "Kisanja cash records stolen – paymaster" in *The Monitor Online* (7/11/2004), http://www.monitor.co.ug/news/news11072.php. 7/11/2004.

12. Nandutu, A. (2004). "30 MPs demand kisanja cash probe" in *The Monitor Online* (8/11/2004), http://www.monitor.co.ug/news/news11081.php. 8/11/2004.

13. Mutaizibwa, E. (2004). "NRMO raises stakes to Sh15m" in *The Monitor Online* (8/11/2004), http://www.monitor.co.ug/news/news11082.php. 8/11/2004.

14. Olara, S. (2004). "The 'brown envelope' has become a trade mark" in *The Monitor Online* (13/11/2004), http://www.monitor.co.ug/oped/oped11132.php. 13/11/2004.

15. Gyezaho, E. (2004). "223 MPs got Shs5m cash" in *The Monitor Online* (16/11/2004), http://www.monitor.co.ug/news/news11166.php. 16/11/2004.

16. Mutumba, R. (2004). "How NRM plans to explain MPs' cash" in *The Monitor Online* (16/11/2004), http://www.monitor.co.ug/news/news11161.php. (16/11/2004).

17. Butime, J, T. Mboijana and S. Jubilee (2004). "Uganda at crossroads: Transition hits a snag" in *The Monitor Online* (16/11/2004), http://www.monitor.co.ug/oped/oped11162.php. 16/11/2004.

18. Namutebi, J. and M. Olupot (2004). "Kisanja fight in parliament" in *The New Vision Online* (17/11/2004).

19. Mutaizibwa, E., R. Mutumba and A. B. Atuhairwe (2004). "Kisanja cash sparks fight in Parliament" in *The Monitor Online* (17/11/2004), http://www.monitor.co.ug/news/news11171.php. 17/11/2004.

20. Atuhairwe, A. B. (2004). "We won't account for cash – NRMO" in *The Monitor Online* (19/11/2004), http://www.monitor.co.ug/news/news11191.php. 19/11/2004.

21. Nalugo, M. (2004). "Bishops warn MPs, Ssekandi" in *The Monitor Online* (20/11/2004), http://www.monitor.co.ug/news/news11201.php. 20/11/2004.

Note: "Kisanja" refers to President Yoweri K. Museveni's project to remove a clause in the Constitution of Uganda which limits a president to only two consecutive terms in office. This would allow an incumbent president to stay in office indefinitely as long as the electorate keep electing him or her.

Appendix 3.2

A Selection of Articles on Corruption in Uganda

1. Mubiru, A. (2005). "Punish AIDS fund culprits – donors" in *The New Vision Online* (29/10/2005), http://www.newvision.co.ug/D/8/12/463229. 29/10/2005.

2. Walulya, G. and P. Nyanzi (2005). "Kigongo chaired meetings on Movt corruption" in *The Monitor Online* (29/10/2005), http://www.monitor.co.ug/news/news10292.php. 29/10/2005.

3. Atuhaire A. B and S. Kasyate (2005). "Museveni defends Gen. Saleh on graft" in *The Monitor Online* (29/10/2005), http://monitor.co.ug/news/news10293.php. 29/10/2005.

4. Luggya, J. (2005). "People mistook Global Fund for free money" in *The Monitor Online* (29/10/2005), http://www.monitor.co.ug/news/news10294.php. 29/10/2005.

5. Atuhaire, A. B. (2005). "Uganda may miss US cash over graft" in *The Monitor Online* (17/10/2005).

6. Olupot, M. (2005). "Get rid of corruption, govt told" in ***The New Vision Online*** (7/10/2005), http://www.newvision.co.ug/D/8?13/459436. 7/10/2005.

7. Nyakairu, F. and H. Bogere (2005). "Ogoola warns Global Fund witnesses" in *The Monitor Online* (22/09/2005), http://www.monitor.co.ug/news/news09226.php. 22/09/2005.

8. Etyang, J. (2005). "Global Fund hearings start tomorrow" in *The New Vision Online* (22/09/2005), http://www.newvision.co.ug/D/8/13/457080. 22/09/2005.

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10. Nsangi, K. (2005). "Findings on Global Fund to be published" in *The Monitor Online* (17/09/2005), http://www.monitor.co.ug/news/news09176.php. 17/09/2005.

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12. Osike, F. (2005). "IGG to pay informers" in *The New Vision Online* (16/08/2005), http://www.newvision.co.ug/D/8/13/450679. 16/08/2005.

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14. Mukisa, L. (2005). "URA officials jailed over Shs280m theft" in *The Monitor Online* (10/08/2005), http://www.monitor.co.ug/news/news08106.php. 10/08/2005.

15. Onapa, P. (2005). "Private sector is antidote to corruption" in *The Monitor Online* (5/08/2005), http://www.monitor.co.ug/oped/oped08054.php. 5/08/2005.

16. Kibuuka, C. (2005). "Corruption Africa's worst calamity" in *The Monitor Online* (5/07/2005), http://www.monitor.co.ug/oped/oped07053.php. 5/07/2005.

17. Gariyo, Z. (2005). "Uganda lacks political will to fight corruption" in *The Monitor Online* (2/07/2005), http://www.monitor.co.ug/oped/oped07022.php. 2/07/2005.

18. Karugaba, M. (2005). "W/Bank refuses to cancel debts" in *The New Vision* (25/03/2005), http://www.newvision.co.ug/D/8/220/425295. 25/03/2005.

19. Etyang, J. and F. Nakaayi (2005). "Ex-Stanbic manager charged" in *The New Vision Online* (10/03/2005), http://www.nevision.co.ug/D/8/12/422495. 10/03/2005.

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32. "Integrating ethics and integrity in all sectors" in *The Monitor Online* (29/10/2004), http://www.monitor.co.ug/specialincludes/mplsups/corrption/crr10313.php. 4/11/2004. (The name of the author was not indicated in the article).

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Appendix 4.1

Strands of the Interpretive Paradigm

Solipsism

Solipsists are extreme idealistic subjectivists who believe that the world is the creation of the mind and does not have any distinct independent existence. Solipsism is associated with Bishop Berkeley (1685 – 1753) although Berkeley himself did not follow that extreme standpoint himself. Burrell and Morgan (1979) explained that the solipsist position resulted in complete relativism and scepticism and did not give any significance to the notions of regulation and radical change. They, however, argue that solipsism is consistent with both the interpretive and radical humanist paradigms but point out that solipsism is of little importance within the context of contemporary sociology.

Hermeneutics

Burrell and Morgan (1979) were of the view that:

> Hermeneutics is concerned with interpreting and understanding the products of the human mind which characterise the social and cultural world. ... Human beings in the course of life externalise the internal processes of their minds through the creation of cultural artefacts which attain an objective character. Institutions, works of art, literature, languages, religions and the like are examples of this process of objectification. Such objectifications of the human mind are the subject of study in hermeneutics (p.236).

Dilthey (1976) argued that hermeneutics was tied to re-creating and re-living what transpired in the past and developing historical consciousness and that this would help

in interpreting the written records of human existence such as in exegesis. Dilthey further argued that social phenomena should be analysed in detail, and interpreted as texts, to reveal their essential meaning and significance. The tradition of hermeneutics was developed by Gadamer (1988) who argued that in order to understand social or cultural phenomena, the observer must enter into dialogue with the subject of study whereby there is an interchange of the frames of reference of the observer and the observed; language is used as the medium of intersubjectivity and as the concrete expression of "forms of life". As Giddens (1976) explained, hermeneutics consists in understanding literary art through grasping the form of life which gives it meaning and not just trying to place oneself "inside" the subjective experience of a text's author.

Phenomenology

The phenomenological methodology originated from German idealism (most notably, the work of Husserl) and developed different strands as a result of interaction with sociological positivism (Burrell and Morgan, 1979).

> As a result intermediate points of view have emerged, each with its own distinctive configuration of assumptions about the nature of social science. They have all spawned theories, ideas and approaches characteristic of their intermediate position (Burrell and Morgan, 1979: 8)

Burrell and Morgan argued that:

> The task of epistemology is to explore and reveal the essential types and structures of experience. Phenomenology studies essences and clarifies the relationships between them; mt seeks to delve into experiences and clarify the very grounds of knowledge. In this endeavour the methods of "direct intuition" and "insight into essential structures" are offered as the principal means of penetrating the depths of consciousness and transcending the world of everyday affairs in search of subjectivity in its pure form (p.233).

Burrell and Morgan (1979) divided phenomenology into (i) transcendental (or pure) phenomenology, and (ii) existential phenomenology.

Transcendental phenomenology is represented by Edmund Husserl (1859 – 1938)[228], who is widely regarded as the founder and leading exponent of the phenomenological movement in philosophy. Husserl characterised himself as a transcendental idealist and insisted that he was not a realist (Sawicki, 2005); Husserl argued that phenomenology studied essences and clarified the very grounds of knowledge using the methods of direct intuition and insight into essential structures. Burrell and Morgan (1979) argued that:

> Husserlian phenomenology is based upon a fundamental questioning of the common-sense, "taken for granted" attitudes which characterise everyday life and the realms of natural science (p.233).

This is done in order to render the natural attitude of daily life an object for philosophical scrutiny and in order to describe and account for its essential structure (Natanson, 1966).[229] Husserl himself adopted an extremely subjectivist position in relation to the subjective – objective dimension of Burrell and Morgan's paradigms. Husserl also argued that transcendental-phenomenological idealism did not deny the actual existence of the real world, but sought instead to clarify the sense of this world (which everyone accepts) as actually existing (Sawicki, 2005). However, although phenomenological analysis had to penetrate way beyond a superficial description of appearance or intuition, there were no external means of verifying reality's existence (Burrell and Morgan, 1979). Husserl argued that some perceptions arose directly from

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[228] Husserl's formulations of his pure phenomenology are presented in "*Ideen zu einer renen Phenomenologie und phanomenologischen Philosophie (Ideas Pertaining to a Pure Phenomenology and to a Phenomenological Philosophy)*. The first volume of *Ideen* appeared in the first volume of Husserl's *Jahrbuch fur Philosophie und phanomenologische Forschung* in 1931." (Sawicki M. in *The Internet Encyclopedia of Philosophy*, http:/www.iep.utm.edu/h/Husserl.htm, 5/10/2005).
[229] Quoted by Burrell and Morgan (1979: 233).

things, while others arose as objectifications of what was inherent in the very act of knowing (Sawicki, 2005).

This specific research will not adopt pure phenomenology since it will assume that the perceptions of stakeholders, although subjective, will be based on a middle ground between idealism and realism. Husserl did not want his pure phenomenology to be identified with realism.

The existential wing of the phenomenological movement is most often associated with the work of Heidegger (1889-1976)[230], Merleau-Ponty (1908-1961), Sartre (1905-1980) and Schutz (1899-1959). Heidegger was influenced by Husserl's phenomenology which concerned itself with the science of consciousness and its objects but extended it to "being" or "existence" and thus gave rise to existentialism (Korab-Karpowicz, 2005). Sartre was instrumental in developing a philosophy of existence known as "Existentialism" (Onof, C.J., 2004). Sartre himself claimed that the focus of existentialism was the individual as belonging to a certain social situation, but not totally determined by it (Sartre, 1964).[231]

Merleau-Ponty was of the view that both empiricism and intellectualism (idealism) were eminently flawed positions. However, Merleau-Ponty does not deny the possibility of cognitive relations between subject and object and accepts the fact that many scientific endeavours fruitfully rely upon the methodological ideal of a detached

[230] Martin Heidegger, a German philosopher, developed existential phenomenology and is regarded as the most original 20th century philosopher. He was a student of Edmund Husserl at the University of Freiburg. Heidegger was also influenced by pre-Socrates, Soren Kierkegaard and Friedrich Nietzsche (http://www.connect.net/ron/heid.html.)

[231] Quoted by Onon, C.J (2005) in "Jean-Paul Sartre (1905-1980): Existentialism", http://www.iep.utm.edu/s/sartre-ex.htm (4/10/2005).

consciousness observing brute facts about the world. For Merleau-Ponty, the seer and the seen condition one another and the capacity for seeing depends on the capacity for the object being seen (Reynolds, 2005). Merleau-Ponty held that perception was a "creative receptivity" and expressed the view that:

> Perception … involves the perceiving subject in a situation, rather than positioning them as a spectator who has somehow abstracted themselves from the situation. There is hence an interconnection of action and perception …" (Reynolds, 2005).[232]

For Merleau-Ponty, perception was, therefore, was not grounded in either an objective or subjective component but by a reciprocal openness which resides between the object and the subject. Merleau-Ponty also argued that perception was learnt primarily through imitation, in an embodied and communal environment (Reynolds, 2005).

Schutz searches the phenomenological analysis of meaning in the "stream of consciousness" and argues that consciousness is fundamentally an unbroken stream of lived experiences which have no meaning in themselves. Meaning is dependent upon reflexivity (the process of turning on oneself and looking at what has been going on and, thus, attaching meaning retrospectively to what has already been experienced). Schutz also argues that this process of attributing meaning reflexively is dependent upon the actors' identifying the purpose or goals which they are supposedly seeking. This introduces the notion of being able to attribute meaning, in advance, to future experiences. The concept of meaningful action thus contains elements of both the past and anticipated future (Burrell and Morgan, 1979). However, as Schutz proceeded to the study of the social world, he abandoned the strictly phenomenological method. He accepted the existence of the social world as presented in the natural attitude and

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[232] This quotation is taken from Reynold's (2005) article: "Maurice Merleau-Ponty (1908-1961)" in *The Internet Encyclopedia of Philosophy*, http://www.iep.utm.edu/m/merleau.htm, 5/10/2005.

focused upon the problem of intersubjective understanding. Immanuel Kant (1724 – 1803) argued that there must be inherent, in-born organising principles within man's consciousness by which any and all sense data is structured, arranged and thus understood. Kant saw *a priori* knowledge as independent of any external reality and the sense data which it "emits"; he saw *a priori* knowledge as the product of "mind" and the interpretive processes which were within the mind. Shutz postulated that actors applied constructs derived from the experience of everyday life and the stock of knowledge or common-sense understandings which comprised the natural attitude and that it was through the use of typifications that we classify and organise our everyday reality. The typifications are learned through our biographical situation. They are handed to us according to our social context; knowledge of everyday life is thus socially ordered. The stock of knowledge which we use to typify the actions of others and understand the world around us, therefore, varies from context to context.

Phenomenological Sociology

Burrell and Morgan (1979) examine phenomenological sociology under the headings of (i) ethnomethodology, and (ii) phenomenological symbolic interactionism.

Ethnomethodology (Garfinkel, 1967; Burrell and Morgan, 1979; Douglas, 1970b; and Wittgenstein, 1973) seeks to understand interactions between people from within taking into account the experiences of those people and the assumptions that they take for granted in accounting for their activities. Ethnomethodology also assumes Shutz's notions of reflexivity and indexicality. Shutz's notions of reflexivity and indexicality (the process of organising and ordering experiences using expressions and activities which are shared even though they are not explicitly stated; this is based on

reflexivity) help the participants to formulate typifications to classify and organise their lived experiences and also to anticipate the future play an important part in ethnomethodology. These typifications are assumed to vary according to the social context of the participants since, according to Shutz, typifications are learned through the biographical situation of the actors (Burrell and Morgan, 1979). These typifications draw upon various assumptions, conventions, practices and other types of resources available within the situation of the participants and help to shape the encounters of those participants (Garfinkel, 1967).

Douglas (1970b) explains that ethnomethodology is not concerned with providing causal explanations of observably regular, patterned, repetitive actions by some kind of analysis of the actor's point of view but with how members of society go about the task of *seeing, describing, and explaining* order in the world in which they live" (Douglas, 1970, pp. 287 – 9).

> The ethnomethodologists are interested in the way in which actors make evident and persuade each other that the events and activities in which they are involved are coherent and consistent. They are interested in understanding the methods which characterise this accounting process. From the ethnomethodological point of view, "order" in human affairs does not exist independently of the accounting practices employed in its discovery. (Burrell and Morgan, 1979, p. 250).

Whereas the ethnomethodologist usually focuses upon the way in which individual actors account for and make sense of their world, the phenomenological symbolic interactionist focuses upon social contexts in which interacting individuals employ a variety of practices to create and sustain particular definitions of the world. Burrell and Morgan (1979) explain that phenomenological symbolic interactionism:

> … is typified by its emphasis upon the emergent properties of interaction, through which individuals create their social world rather than merely reacting to it. Meaning is attributed to the environment, not derived from and imposed upon individual actors … (p.251)

Appendix 6.1

Guiding Questions for Semi-Structured Interviews On the Framework of Corporate Governance in Uganda (September 2004)

Introduction

The OECD Principles (1999, revised 2004) cover the following areas:

I. Ensuring the Basis for an Effective Corporate Governance Framework

II. The Rights of Shareholders and Key Ownership Functions

III. The Equitable Treatment of Shareholders

IV. The Role of Stakeholders in Corporate Governance

V. Disclosure and Transparency

VI. The Responsibilities of the Board.

Objective of Research

This research project will examine the extent to which stakeholders in Uganda perceive the country's present corporate governance framework as being effective in providing confidence about the corporate sector. The corporate governance framework is treated as encompassing cultural, political, economic, legal, ethical and technological dimensions. The analysis is conducted in the context of the division of responsibilities between supervisory, regulatory and enforcement authorities existing in Uganda.

Outline of topics to be covered:

1. Concept of Corporate Governance

a) What do you understand by corporate governance and what areas do you think are important in corporate governance? Do you think that corporate governance is important in Uganda? Why should we be concerned about corporate governance?

b) What is your assessment of the present corporate guidelines that were developed by the Institute of Corporate Governance in Uganda in 1999?

c) Are you aware of the OECD guidelines? If so, are they relevant to Uganda? In your view, are the "Western" models of corporate governance such as the UK and the US codes relevant to Uganda?

d) Do you think that the corporate governance guidelines should apply to all companies, whether listed or not?

2. Accountability

a) Which stakeholder groups have an interest in good corporate governance? Why?

b) What is your definition of accountability? Does accountability apply to corporate governance in Uganda, and do you think that it should apply?

c) Do you think that management and boards should be accountable, and, if so, to whom should they be accountable, and how?

3. Legal, Regulatory and Supervisory Frameworks

a) Do you think that the laws we have in Uganda are adequate in ensuring an effective corporate governance framework? What laws, if any, need to be revised or added?

b) Do we have an effective system of enforcing the laws that are relevant to corporate governance? What factors affect the enforceability of these laws?

c) Which bodies regulate and supervise corporate governance in Uganda, and what are their roles?

d) Is there a clear division of responsibilities between the different supervisory, regulatory/legislative, and enforcement authorities?

e) Do these regulatory and supervisory bodies have the powers and resources necessary to enforce the regulations?

4. Political Framework

a) Which political factors affect the practice of corporate governance in Uganda and what, in your view, should be done to ensure a political climate that supports an effective corporate governance framework?

b) What is the role of parliamentarians in ensuring an effective corporate governance framework in Uganda?

5. Cultural Factors

a) What cultural aspects affect the practice of corporate governance in Uganda?

b) What position should be taken regarding these cultural factors?

6. Ethical Factors

Are there any ethical factors that affect the practice of corporate governance in Uganda? How can these be handled? What ethical factors should be taken into account that might have an impact on the relationship with stakeholders and what is the role of stakeholders as far as ethical factors are concerned?

7. Economic Factors

Do economic factors influence the practice of corporate governance and, if so, (i) which of these affect the practice of corporate governance in Uganda and (ii) how do they do so?

8. Privatisation in Uganda

Do you think that the privatisation process in Uganda has taken into account the corporate governance implications for the privatised companies? Explain.

9. General

a) What other aspects of the corporate governance framework in Uganda should be considered and why?

b) What other remarks would you like to make regarding the practice of corporate governance and the effectiveness of the corporate governance framework in Uganda?

Appendix 7.1

Letter of Introduction

Accountancy & Business Finance

Head of Department
Robert A. Lyon MA CA CMA

To Whom It May Concern

Dear Sir / Madam,

On behalf of the Department of Accountancy and Business Finance at the University of Dundee, Scotland, UK, we could be most grateful if you could take the time to complete the attached questionnaire survey. The survey forms a key part of Simeon Wanyama's doctoral research project, which is aimed at investigating corporate governance practices and attitudes in Uganda. It would be greatly appreciated if you could take the time to answer the questions. We are happy to guarantee anonymity regarding the questionnaire; your identity will not be revealed in the dissertation or in any related presentations or publications.

If you require any further information please feel free to contact us.

Thanking you again for your time,

Yours faithfully,

Professor Christine Helliar
e-mail: c.v.helliar@dundee.ac.uk

Dr. Bruce Burton
b.m.burton@dundee.ac.uk

UNIVERSITY OF DUNDEE Dundee DD1 4HN Scotland, UK +44(0)1382 344193 +44 (0) 1382 348421

Appendix 7.2

UNIVERSITY OF DUNDEE

Questionnaire Survey

On

Governance and Accountability in Uganda.

Contact:

Simeon Wanyama
Department of Accountancy & Business Finance
University of Dundee
DUNDEE DD1 4HN

UNITED KINGDOM – SCOTLAND.

E-mail: s.wanyama@dundee.ac.uk.

Q 1. Please indicate the primary category that you belong to by ticking the appropriate box (please tick only one box).

Legislator	☐	Regulator	☐
Company Employee	☐	Civil Servant	☐
Academic	☐	Accountant	☐
Company Executive	☐	Owner-managers	☐
Individual Investor	☐	Institutional Investor	☐
Non-Executive Director	☐	Executive Director	☐
Judiciary or Legal	☐		

Other (please specify)

....

In the remainder of the questionnaire, please note the extent of your agreement with the following statements on a scale of 1 to 5 by ticking the appropriate box, where a 1 indicates strong disagreement and a 5 strong agreement; please do not tick any box if you do not know the answer to the question.

Q. 2 Concept of Corporate Governance

1 = Strongly Disagree 5 = Strongly Agree

Statement	**1**	**2**	**3**	**4**	**5**
(a) The term "corporate governance" refers to an organisation's relationship with its owners.					
(b) The term "corporate governance" refers to an organisation's relationship with all those stakeholders who are affected by, or who affect, the organisation's decisions and activities.					
(c) The term "corporate governance" refers to an organisation's relationship with all members of society, irrespective of whether they affect or are affected by the operations of the organisation.					
(d) Improvements in corporate governance will improve the accountability of Ugandan firms.					
(e) Improvements in corporate governance will help to reduce the level of corruption in Uganda.					
(f) All companies, whether listed or not, should be governed by the same principles of good governance.					
(g) Good corporate governance is important in attracting foreign investment in Uganda.					
(h) Good corporate governance is important in attracting local investment in Uganda.					
(i) Good corporate governance is important for the Ugandan economy.					
(j) Corporate social responsibility is an integral aspect of good corporate governance.					

Q. 3 International Corporate Governance Guidelines

1 = Strongly Disagree 5 = Strongly Agree

Statement	1	2	3	4	5
(a) International guidelines of corporate governance that have been developed by the Western World are relevant to Uganda.					
(b) International guidelines can be adopted by developing countries (including Uganda) without the need to adapt them to the individual circumstances of these countries.					

Q. 4 Disclosure and Transparency

Companies in Uganda should make a timely and accurate disclosure to relevant stakeholders on all material matters regarding the corporation in the following aspects:

1 = Strongly Disagree 5 = Strongly Agree

Statement	1	2	3	4	5
(a) the financial and operating results of the company					
(b) the company objectives					
(c) major share ownership and voting rights					
(d) remuneration policy for members of the board and key executives					
(e) information about board members, including their qualifications, the selection process, other company directorships and whether they are regarded as independent by the board.					
(f) related party transactions					
(g) foreseeable risk factors					
(h) governance structures and policies, in particular, the content of any corporate governance code or policy and the process by which it is implemented.					
(i) material interest in any transaction or matter directly affecting the Corporation.					
(j) the impact of the organisation's activities on society and the environment.					

Q. 5 Compliance with Corporate Governance Guidelines

The following companies should comply with the principles of corporate governance issued by the Institute of Corporate Governance of Uganda:

1 = Strongly Disagree 5 = Strongly Agree

Statement	1	2	3	4	5
(a) companies that are listed and publicly traded on the Uganda Securities Exchange.					
(b) all private sector companies irrespective of whether they are listed or not.					
(c) all state-owned corporations.					

Q. 6 **The Framework of Corporate Governance**

1 = Strongly Disagree 5 = Strongly Agree

Statement	1	2	3	4	5
(a) There are adequate and effective laws that promote the practice of good corporate governance in Uganda.					
(b) The legal system could help to improve corporate governance in Uganda.					
(c) The legal system could help to improve accountability in Uganda.					
(d) The legal system could help to reduce corruption in Ugandan companies.					
(e) The enforcement agencies have the power and authority to enforce compliance with laws and regulations in Uganda.					
(f) Ugandan regulatory and enforcement authorities are effective in enforcing compliance with laws and regulations.					
(g) Corruption in Uganda affects the ability of regulatory authorities to enforce compliance with corporate governance principles and accountability.					
(h) The Institute of Certified Public Accountants of Uganda is effective in enforcing good accounting and financial reporting practices.					
(i) The privatisation of state-owned enterprises has improved the practice of corporate governance in those companies.					
(j) The practice of corporate governance in listed companies in Uganda is satisfactory.					
(k) The practice of corporate governance in un-listed companies in Uganda is satisfactory.					
(l) Foreign owned companies have better corporate governance practices than Ugandan-owned companies.					
(m) The political climate in Uganda is conducive to the practice of good corporate governance in private sector companies.					
(n) The political climate in Uganda is conducive to the practice of good corporate governance in public sector companies.					
(o) The state of the economy in Uganda affects the practice of corporate governance.					
(p) Social factors affect the practice of corporate governance in Uganda.					
(q) Cultural factors affect the practice of corporate governance in Uganda.					
(r) Ethical factors affect the practice of corporate governance in Uganda					
(s) Listed companies that do not comply with corporate governance guidelines should explain and justify their non-compliance.					
(t) Listed companies that do not explain and justify their non-compliance with corporate governance guidelines and should be de-listed.					
(u) Voluntary corporate governance guidelines should be replaced with regulations which are legally binding and enforceable.					

Q. 7 Factors that affect corporate governance:

Please indicate the extent of your agreement as to whether the following factors affect the practice of corporate governance in private sector and public sector (Government-owned) corporations.

1 = Strongly Disagree 5 = Strongly Agree

	(i) Private Sector Corporations					(ii) Public Sector Corporations				
Statement	**1**	**2**	**3**	**4**	**5**	**1**	**2**	**3**	**4**	**5**
(a) Corruption and bribery										
(b) Conflicts of interest										
(c) Political interference										
(d) Lack of political will to combat corruption										
(e) Lack of political will to enforce compliance										
(f) Incompetent personnel										
(g) Sectarianism										
(h) Non-compliance with laws and regulations										
(i) Inadequate infrastructure and resources for regulatory and enforcemejt agencies										
(j) Insignificant fines which do not encourage compliance with laws										
(k) fear and respect for the authority of elders										
(l) fear and respect for those in authority.										

Q. 8 The Composition of the Board

1 = Strongly Disagree 5 = Strongly Agree

Statement	**1**	**2**	**3**	**4**	**5**
(a) The majority of the members of the board should be independent non-executive directors.					
(b) The Chairman of the board should be an independent non-executive director.					
(c) The Chief Executive should not at the same time be the Chairman of the board.					

Q. 9 The Responsibilities of the Board

1 = Strongly Disagree 5 = Strongly Agree

Statement	1	2	3	4	5
(a) All Board members in Uganda should be provided with sufficient information about the company to enable them make informed decisions.					
(b) All Board members should be provided with equal, accurate, timely and cost efficient access to relevant information about the company.					
(c) All Board members should act in good faith, with due diligence and care, and in the best interests of the company and its shareholders.					
(d) All Board members should play an important role in ensuring the integrity of the corporation's accounting and financial reporting systems.					
(e) Non-executive board members should play an important role in ensuring that the board exercises objective independent judgement on corporate affairs.					
(f) The nomination and election process of board members should be formal and transparent.					
(g) All Boards should always treat all shareholders fairly, particularly when board decisions may affect different shareholder groups differently.					
(h) All Boards should take into account the interests of other stakeholders when making decisions.					
(i) All Boards should monitor the effectiveness of their company's Governance practices and make changes as needed.					
(j) All Boards should align key executive and board remuneration (incentives) with the longer-term interests of the company and its shareholders.					
(k) All Boards should be responsible for selecting, compensating, monitoring and, when necessary, replacing key executives and overseeing succession planning.					
(l) All Boards should monitor and manage potential conflicts of interest of management, board members and shareholders, including the misuse of corporate assets and abuse in related party transactions.					

Q. 10 Board Committees

Companies should have the following committees of the board:

1 = Strongly Disagree 5 = Strongly Agree

Statement	1	2	3	4	5
(a) **Audit Committee** – to oversee the accounting and financial reporting policies and processes and to liaise with internal and external auditors.					
(b) **Remuneration Committee** – to assist in determining the company's policy on executive remuneration and specific remuneration packages for each of the Executive Directors.					
(c) **Nomination Committee** – to lead the process for board appointments, make recommendations to the board and be involved with succession planning in the company.					
(d) **Governance Committee** – to scrutinize all matters relating to corporate governance in the company.					
(e) **Risk Committee** – to assess and monitor the risks that the company is facing, especially financial risks.					

Q. 11 Composition of Board Committees

1 = Strongly Disagree 5 = Strongly Agree

Statement	1	2	3	4	5
(a) **Audit Committees** should be composed of ONLY non-executive directors who are independent of the company.					
(b) **Remuneration Committees** should be composed of ONLY non-executive directors who are independent of the company.					
(c) **Nomination Committee** - the majority of members of the nomination committee should be independent non-executive directors.					

Q. 12 Stakeholders and corruption.

Please note your agreement with the following statements:

1 = Strongly Disagree 5 = Strongly Agree

	(i) The term "stakeholder" includes the following:					(ii) The following are affected by corruption in Ugandan corporations:				
	1	2	3	4	5	1	2	3	4	5
(a) Shareholders										
(b) Suppliers										
(c) Customers										
(d) Financial Institutions										
(e) Environmental groups										
(f) Regulatory and enforcement agencies										
(g) Members of Parliament										
(h) The Judiciary										
(i) The Government										
(j) All persons who affect or are affected by the company's activities										
(k) Society as a whole.										

Q. 13 The Board and accountability to stakeholders

1 = Strongly Disagree 5 = Strongly Agree

	(i) The Boards are accountable to the following:					(ii) The Boards are responsible for maintaining relations with the following:				
	1	2	3	4	5	1	2	3	4	5
(a) Shareholders										
(b) Suppliers										
(c) Customers										
(d) Financial Institutions										
(e) Environmental groups										
(f) Regulatory and enforcement agencies										
(g) Policy makers (including the Members of Parliament)										
(h) The Judiciary										
(i) The Government										
(j) All persons who affect or are affected by the company's activities										
(k) Society as a whole.										

Q. 14 Rights of Stakeholders

1 = Strongly Disagree 5 = Strongly Agree

Statement	1	2	3	4	5
(a) In Uganda, the rights of stakeholders that are established by the law are respected by companies.					
(b) The rights of stakeholders that are established through mutual agreements are respected by companies.					
(c) Where stakeholder interests are protected by the law, stakeholders have the opportunity to obtain effective redress through the courts of law for violation of their rights.					
(d) Employees can freely communicate their concerns about illegal or unethical practices to the board without fear of adverse consequences to themselves for doing so.					
(e) There is adequate legal protection of stakeholders such as creditors, in the event of a company becoming insolvent or bankrupt.					
(f) Companies generally act in a responsible manner and respect the rights of the community, even though some of these rights are not enshrined in the law.					

Q. 15 Ownership Structure and Corporate Governance

Does the ownership structure of companies affect the practice of corporate governance in Ugandan companies?

Yes ☐

No ☐

I do not know ☐

The following Section should be completed by respondents who work in companies. Non-company respondents, please go to Q. 20.

Q. 16 Biographic Data

Your Position in the Organisation..

Number of Years in the Organisation ....

Name of Organisation (Optional) ....

Q. 17 Ownership

Please indicate the approximate percentage of your company that is owned by the following:

Category	**Percentage**
Owner-managers	
Family	
Individual investors	
Institutions	
Government	
Other (specify)	

Q. 18 Please indicate the total sales (turnover) of your company in Ugandan Shillings:

Shs ....

Q. 19 Accounting Standards

(a) Please indicate which accounting standards your company uses by ticking the appropriate box.

(i) US Accounting Standards ☐

(ii) UK Accounting Standards ☐

(iii) International Accounting Standards ☐

(iv) Ugandan Accounting Standards ☐

(v) I do not know ☐

(vi) Other (please specify)

....

(b) Does your company have an annual audit conducted by an independent, competent and qualified, auditor?

Yes ☐

No ☐

I do not know ☐

(c) Are the external auditors accountable to the shareholders?

Yes ☐

No ☐

I do not know ☐

Please go to Q. 20.

Q. 20 Please list any other factors that you feel may affect the practice of corporate governance in Uganda.

a. ....

b. ....

c. ....

d. ....

e. ....

f. ....

g. ....

h. ....

Q. 21 Other Comments

Please make any other comments that you think are relevant to the practice of corporate governance in Uganda.

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Thank you for taking time to respond to this questionnaire.

Appendix 7.3

Frequencies								
Variable	**Choices**					**Total**	**Missing**	**Grand**
	1	**2**	**3**	**4**	**5**			**Total**
Q2(a)	40	18	44	28	15	145	8	158
Q2(b)	4	5	18	38	82	147	6	158
Q2(c)	21	22	25	26	50	144	9	158
Q2(d)	4	3	18	34	87	146	7	158
Q2(e)	6	9	26	31	77	149	4	158
Q2(f)	7	5	13	27	97	149	4	158
Q2(g)	5	4	18	31	87	145	8	158
Q2(h)	12	11	26	38	60	147	6	158
Q2(i)	1	2	15	26	102	146	7	158
Q2(j)	2	3	16	39	86	146	7	158
Q3(a)	18	16	34	50	29	147	6	158
Q3(b)	32	30	32	33	19	146	7	158
Q4(a)	0	0	10	28	114	152	1	158
Q4(b)	0	1	9	21	121	152	1	158
Q4(c)	1	6	14	40	88	149	4	158
Q4(d)	6	9	17	33	83	148	5	158
Q4(e)	2	4	13	40	91	150	3	158
Q4(f)	7	8	26	43	65	149	4	158
Q4(g)	3	7	28	39	69	146	7	158
Q4(h)	1	3	17	34	95	150	3	158
Q4(i)	4	7	30	29	80	150	3	158
Q4(j)	2	7	13	40	89	151	2	158
Q5(a)	2	0	5	16	123	146	7	158
Q5(b)	9	11	26	38	64	148	5	158
Q5(c)	2	0	5	13	130	150	3	158
Q6(a)	34	40	41	19	12	146	7	158
Q6(b)	3	3	26	64	54	150	3	158
Q6(c)	6	5	22	67	50	150	3	158
Q6(d)	7	16	22	47	59	151	2	158
Q6(e)	18	31	49	37	15	150	3	158
Q6(f)	37	65	28	10	6	146	7	158
Q6(g)	12	12	16	36	74	150	3	158
Q6(h)	17	34	60	27	7	145	8	158
Q6(i)	22	30	46	44	9	151	2	158
Q6(j)	11	44	50	33	8	146	7	158
Q6(k)	32	51	41	9	10	143	10	158
Q6(l)	8	10	50	46	36	150	3	158
Q6(m)	28	35	48	29	7	147	6	158
Q6(n)	46	38	35	21	8	148	5	158
Q6(o)	6	10	38	51	44	149	4	158
Q6(p)	9	14	44	48	35	150	3	158
Q6(q)	18	16	33	53	29	149	4	158
Q6(r)	5	13	24	48	57	147	6	158
Q6(s)	3	5	13	37	90	148	5	158
Q6(t)	18	15	24	33	58	148	5	158
Q6(u)	15	12	24	35	62	148	5	158

Variable	Choices					Total	Missing	Grand
	1	2	3	4	5			Total
Q7(a)(i)	10	28	22	23	65	148	5	158
Q7(a)(ii)	1	2	4	17	125	149	4	158
Q7(b)(i)	9	13	29	40	52	143	9	158
Q7(b)(ii)	3	3	9	36	98	149	4	158
Q7(c)(i)	22	27	33	27	36	145	8	158
Q7(c)(ii)	1	2	4	15	125	147	6	158
Q7(d)(i)	25	25	28	28	36	142	11	158
Q7(d)(ii)	5	4	10	22	104	145	8	158
Q7(e)(i)	24	20	33	36	28	141	12	158
Q7(e)(ii)	3	6	15	32	87	143	10	158
Q7(f)(i)	25	33	32	30	24	144	9	158
Q7(f)(ii)	6	13	20	41	67	147	6	158
Q7(g)(i)	15	26	29	35	36	141	12	158
Q7(g)(ii)	2	3	22	40	77	144	9	158
Q7(h)(i)	11	22	25	35	48	141	12	158
Q7(h)(ii)	2	14	26	43	58	143	10	158
Q7(i)(i)	13	24	31	29	47	144	9	158
Q7(i)(ii)	12	14	22	41	59	148	5	158
Q7(j)(i)	13	15	28	35	49	140	13	158
Q7(j)(ii)	8	13	19	41	64	145	8	158
Q7(k)(i)	34	35	32	23	18	142	11	158
Q7(k)(ii)	30	26	27	27	35	145	8	158
Q7(l)(i)	18	22	36	28	39	143	10	158
Q7(l)(ii)	15	13	22	40	58	148	5	158
Q8(a)	5	6	22	42	77	152	1	158
Q8(b)	9	10	13	20	101	158	0	158
Q8(c)	5	2	10	14	121	152	1	158
Q9(a)	0	0	4	10	139	158	0	158
Q9(b)	1	1	4	23	124	158	0	158
Q9(c)	0	0	4	21	128	158	0	158
Q9(d)	1	0	7	30	114	152	1	158
Q9(e)	2	4	11	37	96	150	3	158
Q9(f)	0	1	11	21	119	152	1	158
Q9(g)	0	2	2	34	113	151	2	158
Q9(h)	3	3	12	22	112	152	1	158
Q9(i)	2	3	15	26	105	151	2	158
Q9(j)	1	3	14	35	98	151	2	158
Q9(k)	4	2	16	33	97	152	1	158
Q9(l)	3	4	8	33	105	158	0	158
Q10(a)	2	2	8	14	126	152	1	158
Q10(b)	3	6	22	35	85	151	2	158
Q10(c)	6	10	21	33	82	152	1	158
Q10(d)	4	6	14	35	93	152	1	158
Q10(e)	6	9	20	26	91	152	1	158
Q11(a)	14	15	19	28	77	158	0	158
Q11(b)	14	20	31	34	53	152	1	158
Q11(c)	11	8	30	42	60	151	2	158

Variable	Choices					Total	Missing	Grand
	1	2	3	4	5			Total
Q12(a)(i)	4	2	6	9	129	150	3	158
Q12(a)(ii)	3	5	4	17	122	151	2	158
Q12(b)(i)	4	5	9	22	110	150	3	158
Q12(b)(ii)	5	3	8	17	120	158	0	158
Q12(c)(i)	4	6	8	17	114	149	4	158
Q12(c)(ii)	7	3	8	19	115	152	1	158
Q12(d)(i)	4	6	10	35	93	148	5	158
Q12(d)(ii)	8	9	22	23	89	151	2	158
Q12(e)(i)	5	10	22	29	80	146	7	158
Q12(e)(ii)	7	18	28	24	72	149	4	158
Q12(f)(i)	6	10	18	25	89	148	5	158
Q12(f)(ii)	3	10	19	30	85	147	6	158
Q12(g)(i)	21	23	25	26	52	147	6	158
Q12(g)(ii)	16	16	27	25	64	148	5	158
Q12(h)(i)	24	23	28	28	43	146	7	158
Q12(h)(ii)	17	17	31	21	61	147	6	158
Q12(i)(i)	8	8	9	23	99	147	6	158
Q12(i)(ii)	3	6	12	22	106	149	4	158
Q12(j)(i)	5	3	12	16	111	147	6	158
Q12(j)(ii)	4	5	20	25	95	149	4	158
Q12(k)(i)	11	16	16	17	86	146	7	158
Q12(k)(ii)	8	3	8	22	109	150	3	158
Q13(a)(i)	4	4	2	13	126	149	4	158
Q13(a)(ii)	1	2	5	14	123	145	8	158
Q13(b)(i)	30	24	36	27	31	148	5	158
Q13(b)(ii)	18	12	24	25	64	143	10	158
Q13(c)(i)	18	16	24	35	54	147	6	158
Q13(c)(ii)	13	10	21	26	73	143	10	158
Q13(d)(i)	10	9	27	42	60	148	5	158
Q13(d)(ii)	6	8	26	28	75	143	10	158
Q13(e)(i)	9	19	35	36	45	144	9	158
Q13(e)(ii)	7	25	33	20	55	140	13	158
Q13(f)(i)	4	5	25	39	72	145	8	158
Q13(f)(ii)	5	11	23	30	73	142	11	158
Q13(g)(i)	7	12	26	33	68	146	7	158
Q13(g)(ii)	5	13	19	33	74	144	9	158
Q13(h)(i)	13	26	27	37	40	143	10	158
Q13(h)(ii)	13	23	27	23	52	138	15	158
Q13(i)(i)	8	8	16	36	77	145	8	158
Q13(i)(ii)	1	8	17	29	85	140	13	158
Q13(j)(i)	10	18	24	33	58	143	10	158
Q13(j)(ii)	7	16	23	23	70	139	14	158
Q13(k)(i)	14	15	24	28	65	146	7	158
Q13(k)(ii)	9	18	19	23	71	140	13	158
Q14(a)	25	31	57	25	11	149	4	158
Q14(b)	12	22	63	39	13	149	4	158
Q14(c)	9	23	41	42	32	147	6	158
Q14(d)	55	48	20	19	6	148	5	158
Q14(e)	18	33	53	30	13	147	6	158
Q14(f)	33	45	38	24	8	148	5	158

Appendix 7.4

Andersen-Darling Normality Test

	Average	StdDev	A-Squared	P-Value
Q2(a)	2.72	1.33	5.896	0.000
Q2(b)	4.29	0.99	15.456	0.000
Q2(c)	3.43	1.46	7.433	0.000
Q2(d)	4.35	0.97	17.256	0.000
Q2(e)	4.10	1.14	13.435	0.000
Q2(f)	4.36	1.08	21.864	0.000
Q2(g)	4.32	1.03	17.484	0.000
Q2(h)	3.84	1.27	9.490	0.000
Q2(i)	4.55	0.79	24.292	0.000
Q2(j)	4.40	0.87	16.950	0.000
Q3(a)	3.38	1.26	6.102	0.000
Q3(b)	2.84	1.35	4.976	0.000
Q4(a)	4.68	0.59	30.811	0.000
Q4(b)	4.72	0.60	34.565	0.000
Q4(c)	4.40	0.87	17.625	0.000
Q4(d)	4.20	1.12	16.031	0.000
Q4(e)	4.43	0.86	18.503	0.000
Q4(f)	4.01	1.12	10.503	0.000
Q4(g)	4.12	1.02	11.421	0.000
Q4(h)	4.46	0.82	20.257	0.000
Q4(i)	4.16	1.07	14.379	0.000
Q4(j)	4.37	0.92	16.950	0.000
Q5(a)	4.77	0.64	36.476	0.000
Q5(b)	3.93	1.21	10.165	0.000
Q5(c)	4.79	0.63	40.351	0.000
Q6(a)	2.55	1.22	5.187	0.000
Q6(b)	4.09	0.89	10.081	0.000
Q6(c)	4.00	0.99	10.340	0.000
Q6(d)	3.89	1.17	9.597	0.000
Q6(e)	3.00	1.16	4.792	0.000
Q6(f)	2.20	1.03	8.354	0.000
Q6(g)	3.99	1.28	13.770	0.000
Q6(h)	2.81	1.03	5.943	0.000
Q6(i)	2.92	1.15	5.719	0.000
Q6(j)	2.88	1.02	5.859	0.000
Q6(k)	2.40	1.11	6.367	0.000
Q6(l)	3.61	1.09	6.467	0.000
Q6(m)	2.67	1.14	5.229	0.000
Q6(n)	2.37	1.21	6.434	0.000
Q6(o)	3.79	1.07	7.085	0.000
Q6(p)	3.57	1.13	5.985	0.000
Q6(q)	3.40	1.26	6.498	0.000
Q6(r)	3.95	1.10	9.140	0.000
Q6(s)	4.39	0.93	18.422	0.000
Q6(t)	3.66	1.40	9.187	0.000
Q6(u)	3.79	1.34	10.095	0.000
Q7(a)(i)	3.71	1.37	10.784	0.000
Q7(a)(ii)	4.77	0.63	37.040	0.000
Q7(b)(i)	3.79	1.21	7.704	0.000
Q7(b)(ii)	4.50	0.86	21.611	0.000
Q7(c)(i)	3.19	1.40	5.208	0.000

	Average	StdDev	A-Squared	P-Value
Q7(c)(ii)	4.78	0.63	37.851	0.000
Q7(d)(i)	3.18	1.44	5.492	0.000
Q7(d)(ii)	4.49	0.99	25.843	0.000
Q7(e)(i)	3.17	1.36	4.952	0.000
Q7(e)(ii)	4.36	0.97	17.769	0.000
Q7(f)(i)	2.97	1.35	4.616	0.000
Q7(f)(ii)	4.02	1.15	11.301	0.000
Q7(g)(i)	3.36	1.33	5.260	0.000
Q7(g)(ii)	4.30	0.90	14.075	0.000
Q7(h)(i)	3.62	1.31	6.998	0.000
Q7(h)(ii)	3.99	1.05	9.201	0.000
Q7(i)(i)	3.51	1.34	6.478	0.000
Q7(i)(ii)	3.82	1.28	9.599	0.000
Q7(j)(i)	3.66	1.31	7.133	0.000
Q7(j)(ii)	3.97	1.20	10.847	0.000
Q7(k)(i)	2.69	1.34	5.027	0.000
Q7(k)(ii)	3.08	1.47	5.803	0.000
Q7(l)(i)	3.34	1.36	5.339	0.000
Q7(l)(ii)	3.76	1.33	9.590	0.000
Q8(a)	4.18	1.04	13.513	0.000
Q8(b)	4.27	1.21	23.585	0.000
Q8(c)	4.61	0.92	34.243	0.000
Q9(a)	4.88	0.40	48.229	0.000
Q9(b)	4.75	0.60	34.886	0.000
Q9(c)	4.81	0.46	40.124	0.000
Q9(d)	4.68	0.62	29.343	0.000
Q9(e)	4.47	0.85	20.539	0.000
Q9(f)	4.70	0.63	33.457	0.000
Q9(g)	4.71	0.56	29.898	0.000
Q9(h)	4.56	0.87	28.225	0.000
Q9(i)	4.52	0.86	24.629	0.000
Q9(j)	4.50	0.80	21.336	0.000
Q9(k)	4.43	0.93	20.577	0.000
Q9(l)	4.52	0.87	24.354	0.000
Q10(a)	4.71	0.74	37.187	0.000
Q10(b)	4.28	0.99	16.002	0.000
Q10(c)	4.15	1.13	15.087	0.000
Q10(d)	4.36	0.99	19.254	0.000
Q10(e)	4.23	1.13	18.430	0.000
Q11(a)	3.91	1.36	14.027	0.000
Q11(b)	3.61	1.33	7.482	0.000
Q11(c)	3.87	1.21	9.435	0.000
Q12(a)(i)	4.71	0.83	40.706	0.000
Q12(a)(ii)	4.66	0.85	35.291	0.000
Q12(b)(i)	4.53	0.95	28.018	0.000
Q12(b)(ii)	4.59	0.93	33.376	0.000
Q12(c)(i)	4.55	0.96	30.952	0.000
Q12(c)(ii)	4.53	1.02	31.067	0.000
Q12(d)(i)	4.40	0.97	20.061	0.000
Q12(d)(ii)	4.17	1.20	17.788	0.000
Q12(e)(i)	4.16	1.12	14.787	0.000
Q12(e)(ii)	3.91	1.26	12.021	0.000
Q12(f)(i)	4.22	1.15	18.245	0.000
Q12(f)(ii)	4.25	1.05	16.626	0.000
Q12(g)(i)	3.44	1.46	7.771	0.000
Q12(g)(ii)	3.71	1.40	10.069	0.000

	Average	StdDev	A-Squared	P-Value
Q12(h)(i)	3.29	1.45	6.323	0.000
Q12(h)(ii)	3.63	1.42	9.263	0.000
Q12(i)(i)	4.34	1.16	23.875	0.000
Q12(i)(ii)	4.49	0.95	25.921	0.000
Q12(j)(i)	4.53	0.97	29.325	0.000
Q12(j)(ii)	4.36	1.01	20.290	0.000
Q12(k)(i)	4.03	1.35	17.874	0.000
Q12(k)(ii)	4.47	1.06	28.354	0.000
Q13(a)(i)	4.70	0.85	39.143	0.000
Q13(a)(ii)	4.77	0.65	37.277	0.000
Q13(b)(i)	3.03	1.42	5.182	0.000
Q13(b)(ii)	3.73	1.42	10.680	0.000
Q13(c)(i)	3.62	1.39	8.431	0.000
Q13(c)(ii)	3.95	1.33	13.240	0.000
Q13(d)(i)	3.90	1.20	9.534	0.000
Q13(d)(ii)	4.10	1.14	13.224	0.000
Q13(e)(i)	3.62	1.23	6.220	0.000
Q13(e)(ii)	3.65	1.30	8.417	0.000
Q13(f)(i)	4.17	1.02	12.295	0.000
Q13(f)(ii)	4.09	1.14	12.760	0.000
Q13(g)(i)	3.98	1.19	11.029	0.000
Q13(g)(ii)	4.10	1.15	13.250	0.000
Q13(h)(i)	3.45	1.31	5.875	0.000
Q13(h)(ii)	3.57	1.38	7.563	0.000
Q13(i)(i)	4.14	1.16	14.629	0.000
Q13(i)(ii)	4.35	0.95	17.495	0.000
Q13(j)(i)	3.78	1.29	8.869	0.000
Q13(j)(ii)	3.96	1.26	12.136	0.000
Q13(k)(i)	3.79	1.36	10.525	0.000
Q13(k)(ii)	3.92	1.32	12.694	0.000
Q14(a)	2.77	1.14	5.397	0.000
Q14(b)	3.13	1.04	6.353	0.000
Q14(c)	3.44	1.17	5.159	0.000
Q14(d)	2.14	1.17	9.172	0.000
Q14(e)	2.91	1.13	4.885	0.000
Q14(f)	2.52	1.16	5.423	0.000

APPENDIX 7.5

Averages for the different categories

Q	1	2	3	4	5	6	7	8	9	11	12	13	14	Overall Mean
Q2A	3.33	3.33	2.56	2.19	2.89	2.47	3.20	4.00	3.00	2.00	2.00	2.75	2.25	2.72
Q2B	3.57	4.50	4.20	4.13	4.39	4.40	4.79	4.33	4.00	4.00	3.57	4.75	4.00	4.29
Q2C	2.29	3.00	3.12	3.87	3.61	3.93	3.72	2.67	4.00	2.75	3.86	2.50	3.25	3.43
Q2D	3.29	4.83	4.09	4.31	4.28	4.47	4.68	5.00	4.25	4.75	4.57	5.00	3.75	4.35
Q2E	3.86	4.67	4.00	3.56	3.89	4.36	4.36	5.00	3.75	4.75	4.43	5.00	2.75	4.10
Q2F	4.43	5.00	4.06	4.13	4.53	4.60	4.40	5.00	4.50	4.25	4.29	4.50	4.25	4.36
Q2G	4.00	5.00	4.03	4.43	4.41	4.20	4.71	5.00	3.00	4.50	4.57	4.50	3.75	4.32
Q2H	4.14	4.33	3.69	3.20	3.78	3.87	4.04	4.33	3.00	4.75	4.29	4.50	3.25	3.84
Q2I	4.71	5.00	4.39	4.13	4.39	4.87	4.76	5.00	4.50	5.00	4.33	4.50	4.33	4.55
Q2J	5.00	4.33	4.33	4.13	4.41	4.73	4.33	4.67	4.25	5.00	4.00	4.00	4.67	4.40
Q3A	3.29	4.17	3.29	3.50	2.70	3.67	3.39	3.33	4.25	4.00	3.43	4.25	2.50	3.38
Q3B	3.43	2.67	2.77	3.07	2.15	3.00	3.52	2.67	3.50	2.00	2.71	1.75	2.33	2.84
Q4A	4.71	5.00	4.61	4.44	4.62	4.87	4.84	4.33	5.00	5.00	4.86	4.50	4.00	4.68
Q4B	4.86	5.00	4.58	4.50	4.81	4.73	4.80	4.33	4.75	5.00	5.00	4.50	5.00	4.72
Q4C	4.57	4.67	4.03	4.38	4.52	4.79	4.33	4.67	4.50	5.00	4.50	4.50	4.25	4.40
Q4D	4.43	4.67	3.64	4.25	4.43	4.27	4.20	3.67	5.00	5.00	4.43	4.00	5.00	4.20
Q4E	4.57	4.67	4.06	4.38	4.38	4.67	4.44	4.33	5.00	5.00	4.71	4.50	5.00	4.43
Q4F	4.57	4.67	3.56	3.93	3.71	4.47	4.04	4.33	5.00	5.00	4.29	3.75	3.67	4.01
Q4G	4.00	4.17	4.00	3.79	4.21	3.93	4.20	4.33	4.50	5.00	4.57	4.00	4.33	4.12
Q4H	4.43	4.67	4.19	4.31	4.38	4.60	4.63	4.33	4.75	4.50	5.00	4.75	4.67	4.46
Q4I	4.43	4.50	3.94	3.88	3.90	4.47	4.08	4.33	5.00	5.00	4.43	4.75	4.00	4.16
Q4J	4.71	4.67	4.08	4.63	4.29	4.40	4.16	4.67	5.00	4.50	5.00	4.00	5.00	4.37
Q5A	4.57	5.00	4.83	4.60	4.53	4.73	4.96	5.00	5.00	5.00	4.29	5.00	5.00	4.77
Q5B	4.29	4.17	3.63	4.19	3.95	3.53	3.88	3.67	5.00	5.00	3.57	4.00	5.00	3.93
Q5C	5.00	5.00	4.83	4.81	4.45	4.80	4.96	5.00	5.00	5.00	4.14	4.75	5.00	4.79
Q6A	3.14	2.50	2.44	2.21	2.47	2.60	2.68	3.00	2.50	2.50	2.29	2.50	3.50	2.55
Q6B	3.86	4.17	4.19	3.75	3.60	4.13	4.21	4.67	4.25	4.50	4.57	4.75	3.75	4.09
Q6C	3.86	4.33	4.17	3.50	3.40	4.27	4.25	4.67	3.50	4.75	4.14	4.25	3.50	4.00
Q6D	4.00	4.50	4.03	3.56	3.40	4.33	3.80	4.67	3.50	4.50	3.86	4.75	2.75	3.89

Q	1	2	3	4	5	6	7	8	9	11	12	13	14	Overall Mean
Q6E	3.14	4.33	2.83	2.94	3.00	3.20	2.67	3.33	2.75	2.75	2.71	4.00	3.50	3.00
Q6F	2.00	3.17	2.18	1.93	2.29	2.40	2.09	1.67	2.00	2.25	2.43	2.00	2.00	2.20
Q6G	3.71	4.33	4.12	3.69	4.38	3.20	3.72	5.00	4.50	3.00	4.29	5.00	4.75	3.99
Q6H	3.00	3.50	2.82	2.67	2.65	3.00	2.50	2.33	3.25	3.25	3.00	2.75	3.25	2.81
Q6I	3.14	3.50	2.92	2.69	2.81	2.80	3.50	3.33	1.75	2.50	3.00	2.00	2.25	2.92
Q6J	2.71	3.50	2.86	2.71	2.74	2.87	3.00	3.33	1.75	3.75	3.14	2.75	2.75	2.88
Q6K	2.71	1.83	2.41	2.36	2.32	1.87	2.91	4.00	2.25	2.25	1.86	1.75	3.00	2.40
Q6L	3.43	4.00	3.91	3.40	3.43	3.20	4.08	4.00	3.50	2.50	2.71	4.00	3.25	3.61
Q6M	3.14	3.33	2.61	2.88	2.75	2.60	2.44	3.00	2.25	2.50	3.00	1.75	2.67	2.67
Q6N	3.00	2.50	2.20	2.38	2.55	1.93	2.32	3.00	2.25	3.25	3.00	1.50	2.00	2.37
Q6O	3.14	4.17	3.80	3.44	3.85	3.29	3.92	4.33	4.50	4.50	4.00	4.00	3.75	3.79
Q6P	3.14	4.50	3.67	3.44	3.57	3.13	3.56	4.33	3.75	4.00	3.86	3.33	2.67	3.57
Q6Q	2.71	4.50	3.54	3.25	3.10	3.47	3.56	3.67	3.25	3.25	3.57	3.00	2.33	3.40
Q6R	3.43	4.67	3.91	3.56	3.30	4.14	4.28	4.00	5.00	4.75	3.71	4.50	4.00	3.95
Q6S	4.00	4.83	4.44	3.81	4.19	4.73	4.58	4.67	4.00	5.00	4.43	4.75	4.00	4.39
Q6T	4.43	4.67	3.76	3.53	3.33	3.93	3.40	3.33	2.75	4.75	4.29	3.00	2.00	3.66
Q6U	4.00	4.00	3.89	3.13	3.30	3.40	4.48	3.00	5.00	3.50	4.14	3.25	4.00	3.79
Q7A_I	4.00	4.17	3.42	3.27	4.20	3.50	3.42	4.67	4.67	4.00	4.43	3.00	4.75	3.71
Q7A_II	4.86	4.83	4.78	4.75	4.60	4.75	4.88	5.00	4.75	4.75	4.50	4.75	5.00	4.77
Q7B_I	4.50	4.50	3.53	3.71	3.84	4.00	3.46	3.00	3.33	3.75	4.67	4.25	4.25	3.79
Q7B_II	4.43	4.67	4.42	4.73	4.00	4.56	4.71	5.00	4.50	4.75	4.67	4.50	4.50	4.50
Q7C_I	4.50	2.00	3.34	3.50	3.53	2.81	2.83	4.00	2.33	2.50	3.00	2.50	4.50	3.19
Q7C_II	4.86	4.67	4.85	4.69	4.60	4.81	4.92	5.00	4.50	5.00	4.33	5.00	4.75	4.78
Q7D_I	4.17	3.33	3.03	3.27	3.76	3.13	2.61	4.00	3.00	2.50	2.86	2.25	5.00	3.18
Q7D_II	4.43	4.67	4.53	4.06	4.44	4.63	4.63	5.00	5.00	3.50	4.17	4.75	5.00	4.49
Q7E_I	3.83	4.00	3.12	3.27	3.69	3.00	2.46	4.00	3.00	4.25	2.67	2.50	3.75	3.17
Q7E_II	4.29	4.67	4.39	4.06	4.44	4.13	4.65	5.00	4.50	5.00	3.83	4.25	3.50	4.36
Q7F_I	3.17	3.17	2.86	2.80	3.26	3.19	2.79	4.00	2.00	2.00	3.33	3.00	3.00	2.97
Q7F_II	4.14	3.83	3.89	4.06	4.40	4.00	4.17	4.00	3.75	4.25	4.20	3.25	2.67	4.02
Q7G_I	3.00	3.40	3.33	3.14	3.17	3.31	2.88	5.00	4.00	3.50	4.43	3.75	4.75	3.36
Q7G_II	4.00	3.80	4.50	4.20	4.53	4.06	4.38	5.00	3.75	3.00	4.33	4.50	4.75	4.30

Q	1	2	3	4	5	6	7	8	9	11	12	13	14	Overall Mean
Q7H_I	3.50	4.17	3.21	3.43	3.89	3.63	3.71	4.67	4.00	3.50	4.43	3.75	2.75	3.62
Q7H_II	3.71	4.17	4.00	4.07	3.95	4.00	4.17	5.00	4.33	3.25	4.00	3.75	3.00	3.99
Q7I_I	3.83	4.50	3.31	3.79	3.68	3.06	3.61	4.67	2.00	3.25	3.71	3.50	2.67	3.51
Q7I_II	3.71	4.00	3.75	4.33	3.43	3.50	4.13	5.00	3.50	3.25	4.67	3.75	3.00	3.82
Q7J_I	4.00	4.17	3.64	3.50	3.67	3.19	3.83	4.00	3.00	3.75	3.86	4.00	3.33	3.66
Q7J_II	3.86	4.17	4.09	4.00	3.86	3.50	4.00	4.50	4.25	3.75	4.67	4.00	3.33	3.97
Q7K_I	1.60	4.00	2.69	2.40	2.67	2.00	3.22	4.00	1.67	2.00	3.00	2.50	3.00	2.69
Q7K_II	2.14	4.00	3.57	2.63	2.58	2.53	3.75	4.00	1.75	2.75	3.17	2.00	3.33	3.08
Q7L_I	3.20	4.50	3.14	3.00	3.79	2.60	3.65	4.00	3.67	2.25	3.14	3.75	4.00	3.34
Q7L_II	3.57	4.33	3.78	3.19	3.95	3.33	4.04	4.50	3.50	4.25	3.67	3.75	4.00	3.76
Q8A	4.43	4.83	4.14	3.63	4.10	4.07	4.24	4.33	4.50	4.00	4.86	4.25	4.50	4.18
Q8B	4.43	4.67	3.94	4.13	4.05	4.38	4.48	3.67	4.50	5.00	5.00	4.25	4.50	4.27
Q8C	4.71	4.83	4.22	4.00	4.76	5.00	4.72	5.00	5.00	5.00	5.00	5.00	4.67	4.61
Q9A	4.57	4.83	4.86	4.75	4.95	5.00	4.88	5.00	5.00	5.00	5.00	5.00	4.75	4.88
Q9B	4.57	4.83	4.67	4.69	4.90	4.50	4.84	5.00	5.00	5.00	4.86	5.00	4.50	4.75
Q9C	4.29	5.00	4.72	4.69	4.90	4.94	4.84	5.00	5.00	5.00	5.00	5.00	4.50	4.81
Q9D	4.57	4.67	4.66	4.69	4.76	4.38	4.76	5.00	4.75	5.00	4.86	5.00	4.25	4.68
Q9E	4.43	4.83	4.23	4.56	4.57	4.31	4.54	5.00	3.75	4.75	4.86	5.00	4.33	4.47
Q9F	4.14	4.83	4.53	4.69	4.81	4.81	4.72	5.00	5.00	5.00	4.86	5.00	4.33	4.70
Q9G	4.29	4.67	4.56	4.75	4.85	4.63	4.76	5.00	4.75	5.00	5.00	5.00	4.67	4.71
Q9H	4.71	4.83	4.31	4.69	4.67	4.25	4.60	5.00	4.50	5.00	4.86	4.75	4.67	4.56
Q9I	4.14	4.83	4.25	4.69	4.76	4.31	4.46	5.00	4.50	5.00	5.00	5.00	4.00	4.52
Q9J	3.57	4.83	4.33	4.50	4.67	4.38	4.71	5.00	4.75	4.75	4.86	4.50	3.67	4.50
Q9K	4.00	4.50	4.19	4.25	4.52	4.25	4.71	4.67	4.75	5.00	5.00	5.00	3.75	4.43
Q9L	4.57	4.67	4.28	4.13	4.71	4.50	4.80	5.00	4.00	5.00	4.86	5.00	4.00	4.52
Q10A	4.57	5.00	4.77	4.69	4.52	4.63	4.80	5.00	5.00	5.00	4.43	4.50	4.75	4.71
Q10B	3.71	4.50	4.03	4.25	4.52	4.31	4.58	5.00	3.75	3.25	4.57	4.25	4.50	4.28
Q10C	3.57	3.83	4.14	4.31	4.19	3.75	4.48	4.33	4.50	3.00	4.14	4.50	4.75	4.15
Q10D	3.57	4.00	4.49	4.25	4.62	4.31	4.40	5.00	4.75	3.50	4.29	4.50	4.25	4.36
Q10E	3.57	4.50	4.03	4.25	4.57	3.88	4.40	5.00	4.50	4.25	4.71	4.00	3.75	4.23
Q11A	4.00	4.17	3.86	3.75	3.76	3.50	4.28	4.67	4.75	3.50	3.43	3.75	4.50	3.91
Q11B	3.71	4.33	3.44	3.38	3.19	3.81	4.13	4.67	3.25	3.25	3.29	3.75	3.25	3.61

Q	1	2	3	4	5	6	7	8	9	11	12	13	14	Overall Mean
Q11C	3.14	4.50	3.94	3.94	3.67	3.81	4.29	4.00	4.25	4.00	3.71	2.00	3.75	3.87
Q12A_I	4.86	5.00	4.56	4.88	4.67	5.00	4.54	4.00	5.00	5.00	4.57	5.00	5.00	4.71
Q12A_II	4.71	4.00	4.63	4.60	4.38	4.69	4.92	5.00	4.75	5.00	4.71	4.75	4.75	4.66
Q12B_I	4.43	4.50	4.17	4.56	4.71	4.93	4.50	4.00	5.00	5.00	4.29	5.00	5.00	4.53
Q12B_II	4.57	4.67	4.50	4.56	4.33	4.63	4.84	4.67	4.75	5.00	4.57	4.75	4.50	4.59
Q12C_I	4.57	4.50	4.22	4.60	4.57	4.93	4.54	3.00	5.00	5.00	5.00	5.00	5.00	4.55
Q12C_II	4.86	3.83	4.22	4.80	4.62	4.44	4.52	5.00	5.00	5.00	4.86	4.75	4.50	4.53
Q12D_I	4.57	3.83	4.17	4.53	4.60	4.67	4.42	4.00	4.50	5.00	4.29	4.25	4.33	4.40
Q12D_II	4.29	2.83	3.83	4.36	4.14	4.69	4.52	5.00	4.25	4.25	4.14	4.00	3.50	4.17
Q12E_I	4.29	4.33	3.86	4.13	4.45	4.53	4.09	3.67	3.50	5.00	4.57	3.25	4.33	4.16
Q12E_II	4.14	4.17	3.65	3.67	4.10	4.00	4.08	5.00	4.00	4.00	4.00	2.75	4.00	3.91
Q12F_I	4.14	4.17	4.00	4.33	4.50	4.31	4.25	3.00	4.25	5.00	4.29	4.00	4.33	4.22
Q12F_II	4.43	3.67	4.14	4.07	4.20	4.47	4.57	5.00	4.00	3.75	4.33	4.50	4.00	4.25
Q12G_I	4.43	2.83	3.25	3.47	3.95	3.33	3.42	2.33	3.50	4.25	3.57	1.75	4.00	3.44
Q12G_II	4.29	3.67	3.49	3.64	3.76	3.88	4.13	4.67	3.50	2.25	3.71	2.50	3.75	3.71
Q12H_I	4.00	2.67	3.06	3.87	3.63	2.94	3.45	1.33	3.75	4.00	3.43	1.75	3.67	3.29
Q12H_II	4.43	3.50	3.35	3.73	3.76	3.27	4.04	4.33	3.25	3.75	3.43	2.75	3.50	3.63
Q12I_I	5.00	4.00	4.17	4.53	4.42	4.40	4.54	3.67	4.75	5.00	4.00	2.25	5.00	4.34
Q12I_II	4.57	4.00	4.47	4.60	4.33	4.56	4.68	4.67	4.25	5.00	3.83	4.75	4.50	4.49
Q12J_I	4.86	4.67	4.17	4.53	4.70	4.73	4.35	5.00	5.00	5.00	5.00	4.00	5.00	4.53
Q12J_II	4.71	4.33	4.00	4.40	4.60	4.60	4.38	5.00	4.50	5.00	4.00	3.75	4.50	4.36
Q12K_I	4.43	3.83	3.91	4.13	4.30	3.73	4.17	3.33	5.00	3.75	4.57	2.25	4.00	4.03
Q12K_II	4.57	3.83	4.17	4.60	4.57	4.67	4.79	5.00	4.50	5.00	3.86	4.25	4.75	4.47
Q13A_I	4.71	5.00	4.58	5.00	4.62	4.94	4.26	4.67	5.00	5.00	5.00	5.00	4.75	4.70
Q13A_II	5.00	5.00	4.54	5.00	4.76	4.69	4.71	5.00	5.00	5.00	4.71	5.00	5.00	4.77
Q13B_I	3.71	3.50	2.91	3.47	3.30	2.50	2.87	3.33	1.50	3.25	3.14	2.75	3.50	3.03
Q13B_II	4.50	3.33	3.18	4.50	4.52	3.06	3.71	4.33	3.00	4.75	3.14	4.00	4.00	3.73
Q13C_I	3.86	4.33	3.51	3.67	3.85	3.13	3.43	4.00	3.50	4.00	3.86	3.25	4.00	3.62
Q13C_II	4.50	3.50	3.47	4.57	4.62	3.44	4.00	5.00	3.00	4.75	3.57	4.00	4.00	3.95
Q13D_I	4.00	3.50	4.00	4.07	4.30	3.44	3.74	4.33	4.25	4.00	3.57	3.25	4.00	3.90
Q13D_II	4.67	3.50	4.09	4.07	4.62	3.63	4.20	5.00	2.75	4.50	4.00	3.50	4.33	4.10
Q13E_I	3.43	4.00	3.55	3.67	3.85	3.63	3.62	3.33	3.25	3.75	3.43	3.00	4.00	3.62

Q	1	2	3	4	5	6	7	8	9	11	12	13	14	Overall Mean
Q13E_II	4.00	3.83	3.15	3.93	4.33	3.63	3.58	4.00	4.00	4.00	3.14	2.50	4.00	3.65
Q13F_I	3.71	4.67	4.29	4.14	4.58	3.94	4.04	4.67	3.50	4.50	4.00	4.00	3.50	4.17
Q13F_II	4.33	4.67	3.79	4.20	4.52	3.94	4.24	5.00	3.25	4.00	3.17	4.25	4.00	4.09
Q13G_I	4.43	3.67	4.03	4.07	4.16	3.69	3.96	3.67	4.00	4.00	4.71	2.75	3.50	3.98
Q13G_II	4.50	4.33	3.89	4.00	4.15	4.06	4.43	4.67	3.00	3.75	4.14	4.25	4.33	4.10
Q13H_I	3.71	3.67	3.26	3.60	4.18	2.94	3.50	4.33	3.00	3.75	3.29	2.25	3.50	3.45
Q13H_II	4.33	3.00	3.44	3.86	3.95	3.06	3.90	4.33	3.00	3.00	3.00	2.75	4.00	3.57
Q13I_I	4.43	3.67	4.17	4.07	4.68	4.06	3.68	4.00	4.67	5.00	4.43	2.75	4.50	4.14
Q13I_II	4.83	4.00	4.26	4.20	4.33	4.40	4.67	4.33	3.50	4.75	4.14	3.75	4.67	4.35
Q13J_I	3.71	4.17	3.70	3.93	4.42	3.75	3.00	4.67	3.50	4.75	4.00	3.00	3.75	3.78
Q13J_II	4.33	4.20	3.81	3.87	4.30	3.81	3.85	5.00	4.00	4.75	3.86	2.50	4.00	3.96
Q13K_I	3.71	4.00	3.70	4.00	4.38	3.50	3.23	4.67	4.00	3.75	4.00	2.50	4.75	3.79
Q13K_II	4.50	3.80	3.97	3.64	4.29	3.56	4.10	5.00	3.25	3.50	3.71	2.25	5.00	3.92
Q14A	2.71	2.67	2.71	3.27	2.42	2.56	2.88	2.33	2.75	3.50	2.57	3.25	3.00	2.77
Q14B	3.00	2.67	3.00	3.53	2.68	3.31	3.52	3.33	3.25	2.75	2.43	3.75	3.25	3.13
Q14C	3.29	3.67	3.40	3.86	3.32	3.06	3.60	3.33	3.67	4.00	3.00	3.75	3.25	3.44
Q14D	2.14	2.00	2.17	2.71	2.00	1.94	2.28	2.00	1.50	1.50	2.00	1.25	3.25	2.14
Q14E	3.00	2.17	2.46	2.79	3.21	2.94	3.04	3.33	3.00	4.00	3.00	3.75	3.50	2.91
Q14F	2.29	2.17	2.47	2.60	2.32	2.50	2.92	3.00	2.50	1.50	2.71	1.50	3.50	2.52

* Categories:

1 Legislators
2 Regulators
3 Company Employees
4 Civil Servants
5 Academics
6 Accountants
7 Company Executives
8 Owner-managers
9 Individual Investors
11 Non-Exec. Directors
12 Executive Directors
13 Judiciary/Legal
14 Other.

APPENDIX 7.6

Summary of the Mann Whitney Test

Q	Gp (LRJ, CIO)	Gp (LRJ, CEA)	Gp (LRJ, EDO)	Gp (LRJ, ACAD)	Gp (CIO, CEA)	Gp (CIO, EDO)	Gp (CIO, ACAD)	Gp (CEA EDO)	Gp (CEA, ACAD)	Gp (EDO ACAD)
Q2(a)	0.05*									
Q2(c)	0.01*	0.05*	0.02*	0.03*						
Q2(d)						0.01*		0.05*		
Q2(e)	0.01*				0.02*	0.00*				
Q2(g)						0.02*		0.02*		
Q2(h)	0.00*				0.05*	0.00*				
Q2(i)						0.05*				
Q3(a)				0.01*						0.03*
Q3(b)							0.02*		0.04*	0.01*
Q4(a)					0.05*	0.01*				
Q4(b)								0.04*		
Q4(d)					0.05*					
Q4(f)				0.02*						0.02*
Q4(g)			0.04*			0.04*		0.04*		
Q4(j)					0.01*		0.04*			
Q5(b)					0.01*					
Q6(b)						0.02*			0.05*	0.01*
Q6(c)					0.01*	0.00*			0.02*	0.01*
Q6(d)	0.02*			0.04*	0.02*				0.04*	0.15
Q6(e)		0.00*	0.00*	0.05*						
Q6(i)						0.01*				
Q6(j)						0.05*				
Q6(o)								0.04*		
Q6(r)										0.01*
Q6(s)						0.03*				
Q6(t)	0.03*									
Q6(u)										0.01*
Q7(a)(i)									0.05*	
Q7(b)(i)	0.05*	0.05*	0.03*							
Q7(b)(ii)										0.02*
Q7(d)(i)									0.05*	0.03*
Q7(e)(ii)						0.03*		0.05*		
Q7(h)(i)								0.05*		
Q7(i)(i)		0.05*								
Q7(i)(ii)			0.03*					0.03*		
Q7(k)(i)								0.04*		
Q7(k)(ii)			0.05*			0.01*				0.02*
Q7(l)(i)		0.03*							0.03*	
Q8(b)								0.04*		0.04*
Q8(c)						0.02*		0.05*		
Q9(g)								0.04*	0.05*	
Q9(h)								0.01*		
Q9(i)								0.01*	0.02*	
Q9(j)								0.01*	0.05*	
Q9(k)						0.01*		0.01*		
Q9(l)						0.00*	0.02*	0.01*		
Q10(d)				0.05*						
Q10(e)								0.04*	0.04*	0.66
Q11(b)										0.04*
Q11(c)			0.05*							

Q	Gp (LRJ, CIO)	Gp (LRJ, CEA)	Gp (LRJ, EDO)	Gp (LRJ, ACAD)	Gp (CIO, CEA)	Gp (CIO, EDO)	Gp (CIO, ACAD)	Gp (CEA EDO)	Gp (CEA. ACAD)	Gp (EDO ACAD)
Q12(a)(ii)										0.05*
Q12(b)(ii)						0.03*	0.83	0.04*	0.65	0.03*
Q12(d)(ii)			0.02*							
Q12(g)(i)									0.05*	
Q12(g)(ii)									0.67	0.97
Q12(h)(i)	0.05*				0.03*					
Q12(h)(ii)								0.04*		
Q12(j)(ii)									0.05*	
Q13(a)(i)						0.05*				
Q13(a)(ii)		0.04*	0.04*		0.02*	0.02*				
Q13(b)(ii)					0.01*			0.05*	0.00*	0.03*
Q13(c)(ii)					0.04*				0.00*	
Q13(d)(i)				0.05*						
Q13(d)(ii)				0.03*			0.03*		0.03*	
Q13(e)(ii)				0.04*					0.00*	0.02*
Q13(f)(i)							0.04*			
Q13(f)(ii)									0.02*	
Q13(h)(i)				0.04*					0.00*	0.05*
Q13(i)(i)				0.01*			0.04*			0.05*
Q13(j)(i)									0.02*	0.01*
Q13(k)(i)									0.02*	0.03*
Q14(a)							0.04*			
Q14(b)							0.04*			
Q14(e)								0.01*		
Q14(f)			0.04*							
Total #	**8**	**6**	**10**	**10**	**12**	**20**	**9**	**22**	**23**	**23**