Stakeholders, accountability and the theory-practice gap in developing nations' corporate governance systems: evidence from Uganda

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Abstract

Purpose – *The purpose of this paper is to examine perceptions about the nature and role of corporate governance in Uganda, with the emphasis on accountability within a stakeholder framework.*

Design/methodology/approach – *The study employs interviews and questionnaires to gauge the views of key players in Uganda about the way the nation's firms are governed, in the context of the stakeholder notion and the need for corporate accountability.*

Findings – *The results suggest that the research participants take a broad view of the corporate governance concept, with recognition of a wide range of stakeholders evident. However, issues relating to corruption and the de-facto legal framework mean that practices depart markedly from any reasonable understanding of what might represent ''best-practice''.*

Practical implications – *The results suggest that there is a gap between the theory and practice of corporate governance in Uganda, and regulators need to address this issue and deal with the endemic corruption and extant legal weaknesses that have given rise to this situation.*

Originality/value – *This is one of the first studies to explicitly examine perceptions about governance standards within an accountability framework in a developing nation.*

Keywords *Uganda, Corporate governance, Accountability, Stakeholder analysis, Corruption, Developing countries*

Paper type *Research paper*

Introduction

The notion of ''good'' corporate governance in emerging and developing economies has grown in importance in recent years, largely as multinational companies and institutional investors increase their emphasis on these markets (Diamonte *et al.*, 1996). While the macro-economic problems experienced in the world's developing markets and economies have been heavily-documented (e.g. Fischer, 1988) relatively little attention has focused on the many micro-level failures that have occurred in such nations.

Although some research has been carried out on corporate governance in Africa, notably by Okike (1985, 2000, 2007) and others (e.g. Kayizzi-Mugerwa, 2002; Osuagwu, 2002), most focus on Southern or Western Africa; there are few published studies that focus on corporate behaviour in Uganda. The governance literature (e.g. de Hoyos, 1999; Ddumba-Ssentamu and Mugume, 2001; Tangari and Mwenda, 2001; Otweyo, 2001; Brownbridge, 2002; Fick, 2002; Manibog, 2003; Caprio *et al.*, 2005; Tangari and Mwenda, 2006; Visser *et al.*, 2006) either mentions Uganda merely in the generality of African practices or focuses on specific issues such as privatisation and banking sector failures.

It was only in 1962 that Uganda attained its political independence from Britain; by then Uganda had a vibrant economy and was regarded as a model nation in the Sub-Saharan

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Africa. The economic development of Uganda stalled when Idi Amin overthrew Milton Obote as President of Uganda in 1971 (Saul, 1981; Deininger, 2003). Amin decided to ''Ugandanise'' the business sector which, up to now, had been dominated by the Asian community who had come to Uganda while the Kenya-Uganda Railway was being built between 1896 and 1901. The colonial government had encouraged the Asian community to be actively involved in the business sector while allowing Ugandans to continue as peasant farmers. President Obote's Government began to nationalise several multi-national companies in the late 1960s as a left-leaning political philosophy came to the fore (Otweyo, 2001). This policy was continued by Amin, with non-Ugandan Asians being expelled in 1972 under the guise of giving businesses to indigenous Ugandans; however, this process of Ugandanisation was carried out haphazardly, resulting in the loss of many people with business acumen (Saul, 1981). The consequence was a total breakdown in the economy after 1972, not only because of a lack of management skills, but also because of the political instability that Amin caused and a lack of the foreign exchange required to import urgently needed goods and raw materials. Following Amin's expulsion of non-Ugandan business owners, the private sector went underground and engaged in smuggling (Otweyo, 2001). Capacity utilisation of industries declined to between 10 per cent and 25 per cent and the quality of products deteriorated.

The difficulties were recognised by the Heads of State and Government belonging to the New Partnership for Africa's Development (NEPAD) who highlighted the need to improve economic and corporate governance in Africa and agreed, in 2001, to set up parameters for ''Good Governance'' to guide their activities at both the political and economic level. Subsequently, in 2002, the Economic Commission for Africa (ECA) published their ''Guidelines for Enhancing Good Economic and Corporate Governance in Africa''; these were to form part of the basis for evaluating the performance of African countries through the African Peer Review (APR) mechanism.

The aim of the present study is to examine the perceptions of stakeholders about extant corporate governance and accountability standards in Uganda and the need for improvements therein. The views of various categories of individuals who either have a prominent role in shaping the governance of companies, or who are representatives of the key constituencies in Ugandan society are sought; these include: investors; regulators; legislators; company employees; company executives; executive directors; non-executive directors; owner-managers; lawyers/judiciary; accountants; academics and civil servants. Given these aims, the research attempts to address the following specific questions:

- How is corporate governance understood in the Ugandan context?
- What do stakeholders perceive the current state of corporate governance and accountability in Uganda to be?
- What factors influence the day-to-day practice of corporate governance in Uganda?
- To what extent (in both theory and practice) does the Ugandan legal system protect the rights of shareholders and other stakeholders?

The stakeholder and accountability approach was selected for this study because of the communal way of perceiving relationships and managing entities in Africa. Traditionally, a person is seen as being born in a family, a clan and a tribe. No member is considered to live or operate in isolation of other members of the community, starting with the family and including the tribe to which one belongs; what affects one member is perceived to affect the other members of the nuclear, and wider, family (Willis, 1997). Clan and Tribal leadership is exercised by a council of elders who consult widely before arriving at a balanced decision. Wealth of one member of the community is the pride of the whole community, which benefits collectively from that wealth. Improper conduct by a community member is expected to lead to misfortune for the whole group, with sanctions being imposed on the offender and ceremonies held to remove the looming evil. In this way members are encouraged to behave in an appropriate manner and to be accountable for their actions. All members of the nuclear and wider family conduct themselves as stakeholders in whatever happens to any member of their group (Edel, 1965). This communal concern provides an important contextual

dimension for the empirical results presented here and is one of the main reasons for the adoption of a broad stakeholder focus[1]. The stakeholder approach is also in line with a statement made in the introduction to the second report of the King Committee on Corporate Governance (King Report II, 2002) which 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[2].

The remainder of this paper reviews the relevant literature and theory on corporate governance and accountability, outlines the research method, discusses the empirical findings and their implications before concluding by drawing together the main insights from the study and suggesting where priorities might best lie in future attempts to improve governance practices in the Ugandan corporate sector.

Motivation for the study

Uganda has witnessed several large scale corporate failures in recent years; for example, The Co-operative Bank, The Greenland Bank, The Trans-Africa Bank and The Trust Bank all collapsed in 1998 and 1999 (Brownbridge, 2002; Wanyama *et al.*, 2006)[3]. A Commission of Inquiry set up by the Ugandan Government to review the collapse of these banks revealed that the factors that led to their failure included: poor governance mechanisms; insider lending; lack of transparency; and fraud. The failure of these banks had repercussions that went beyond the shareholders, since clients who had deposited more than three million Ugandan Shillings lost their (uninsured) deposits.

Uganda experienced economic collapse as a result of bad political governance during the time of Idi Amin, resulting in moral degeneration as a result of the struggle for survival; the consequences were dire for corporate governance practices in companies as corruption and other malpractices spread (Saul, 1981; Deininger, 2003). However, the developing countries of Africa appear to be realising that if they are to attract capital from both local and foreign investors, *de facto* internal governance of companies has to meet standards that are acceptable to both current and potential investors (Lynham *et al.*, 2006). Sound corporate governance systems are increasingly being seen as a prerequisite for both social and economic development in less developed countries (Hansen and Ryan, 2006); good governance is also synonymous with the achievement of better economic growth rates, particularly when institutions that support markets are established (Johnson *et al.*, 2000; Economic Commission for Africa, 2002).

Uganda has taken steps to try and improve its corporate governance standards since the time of Amin. Otweyo (2001) notes the crucial role played by the World Bank in promoting good governance, starting with the Economic Recovery Programme in 1982 and the emphasis placed on rebuilding the public enterprise sector (albeit with limited success). This effort was followed by a further Economic Recovery Programme in 1987, which aimed to foster development of a self-sustaining economy. The key policies adopted were a reduction in the direct role of Government in the Ugandan economy, and promotion of a correspondingly greater role for the private sector.

In 1993, *The Public Enterprises Reform and Divestiture Statute (PERD) – Uganda* (Ugandan Government, 1993) was enacted to give effect to the Government's Public Enterprise Reform and Divestiture Statute (1991) and the Action Plan for Public Enterprise Reform and Divestiture (1991). A total of 106 out of the 137 state-owned enterprises were targeted for privatisation via the PERD. These enterprises were divided into five classes: class one, consisting of companies in which the State was required to retain a 100 per cent shareholding; class two, including companies where the Government was to retain a majority ownership; class three, for firms in which the State was to retain a minority shareholding; class four, made up of firms from which the Government was required to fully divest; and class five, encompassing companies which were to be liquidated.

The PERD statute paved the way for the development of a modern governance system for the nation's corporate sector. Central to this process was the publication of the Recommended Guidelines for Corporate Governance in Uganda (2001) by the Institute of Corporate Governance of Uganda (ICGU). In addition, the formation of the Capital Market Authority of Uganda (CMA) in 1996 ultimately resulted in the publication of The Capital Markets Corporate Governance Guidelines (2003), governing companies trading their securities on the Uganda Securities Exchange (USE) as part of the requirements for their continued listing. Given these changes in recent years, it seems reasonable to argue that the lack of evidence about current perceptions and attitudes towards the corporate governance system in Uganda represents a substantive omission from the literature.

Theoretical background and Ugandan context

Corporate governance and the stakeholder notion

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; Mallin, 2004; Letza *et al.*, 2004). This debate is reflected in the existence of two conflicting standpoints regarding corporate purpose, normally termed the shareholder and the stakeholder views. For example, the Anglo-Saxon system 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 (La Porta *et al.*, 1998). Letza *et al.* (2004, p. 242) 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.

Mallin (2004, p. 9) 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 groups such as employees, providers of credit, suppliers, customers and the local community.

Shareholders' rights are normally enshrined in law (Mallin, 2004), while the theory underpinning management action is based on the separation of ownership and control, as stated originally by Berle and Means (1932). 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 (Jensen and Meckling, 1976; Keasey *et al.*, 1997; Letza *et al.*, 2004).

Stakeholder theory, in contrast, extends the scope of corporate governance beyond the relationship between management and shareholders, to include other relevant parties that have an interest in the operations of corporations (Freeman, 1984; Doyle, 1994; Donaldson and Preston, 1995; Wheeler and Sillanpaa, 1998). The theory is premised on the notion of the firm as 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)[4].

While the Capital Markets Corporate Governance Guidelines (2003) appear to adopt a shareholder perspective, the Recommended Guidelines for Corporate Governance in Uganda (2001) generally espouse a broader stakeholder perspective, requiring a board to identify a company's internal and external stakeholders and agree on how the firm should relate to them and address their interests. This difference between the two possibly reflects

the fact that the guidelines published by the CMA were developed specifically for companies listed on the Uganda Securities Exchange, while those developed by the ICGU are intended to be applicable to all companies operating in Uganda. However, the ICGU and the CMA are currently collaborating in training board members and executives from public enterprises, listed and privately-held firms[5].

Governance, stakeholders and accountability

Questions regarding the concept of corporate governance, and the identity of the stakeholders who have a right to expect a robust system to be in place, cannot be answered meaningfully without acknowledging the link with the notion of accountability (Tirole, 2001). Letza *et al.* (2004, p. 242) attempt to address this issue by describing corporate governance as:

> . . . 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.

The Pan-African Consultative Forum on Corporate Governance held at the Eskom Convention Centre, Johannesburg, South Africa (16-18 July 2001) points to the close relationship between the governance and stakeholder concepts thus:

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

By viewing corporate governance in a stakeholder context, questions are raised as to whether the former notion is limited to a ''set of relationships'' and whether stakeholders are able to control and participate in corporate decision-making and setting direction for the firms. There is also the issue of a potential conflict between balancing economic goals and social and communal concerns in view of the common understanding that management's primary role is to maximize the wealth of shareholders.

In the light of: the broad (stakeholder) focus of recent African- and Ugandan-based corporate governance guidelines; and the significance of the wider community's interests in Uganda's tribal and clan-based social systems, the present study seeks views about various forms of the accountability notion, including its widest sense, i.e. involving all stakeholders with ''the capacity to give an account, explanation, or reason'' (Munro, 1996, p. 3). This definition provides for the extension of the concept of accountability to all stakeholders, whether they affect, or are affected by, the operation of the firm and does not limit accountability to those with direct contractual or transactional relations with the corporation. Drawing on this wide notion of accountability, Benston (1982a, b) claims that its key role is in providing assurance to shareholders and other stakeholders (including employees, creditors, consumers and the local community) that their interests are being served by the functioning of a free market system in conjunction with internal and external monitoring systems[6].

McLaren (2004) observes that many companies claim to be accountable to a wide range of stakeholders, but few actively seek to make their businesses accountable to them. 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 refers to this relationship as the ''bond of accountability'', which implies that the information is evaluated against some standard or expectation, and that sanctions are applied accordingly; accountability thereby presumes responsibility and answerability for actions undertaken by a subject (Dunshire, 1978). 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, 1992). 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 (1984) argues that these rights and responsibilities have to be enforceable for an accountability relationship to exist, while Ijiri (1975) notes that the rights can stem from ''a constitution, a law, a contract, an organisational rule, a custom or even an informal obligation''[7].

In a stakeholder context, the requirement of a bond of accountability with enforceable rights and responsibilities may challenge the adequacy of regulations and the enforceable mechanisms. Some stakeholders such as customers, creditors, government, regulatory and enforcement agencies may be able to enforce their rights and responsibilities if enforcement mechanisms are in place and are not compromised, whether by corruption or inadequate resources, but other stakeholders who do not have legally binding contractual rights and obligations may find it difficult to hold companies accountable in the strict sense of the word (Tricker, 1984). Given the social and cultural context of Uganda set out earlier, in particular the issues regarding corruption and morality that have arisen since Amin's time, one of the key questions underpinning this study is the extent to which the reality of governance practices diverges from the ideals that Ugandan stakeholders might reasonably expect.

Ugandan corporate and market background

> Uganda has a mix of industrial and financial firms that includes, inter alia: public enterprises (state-owned businesses), public listed companies, family companies, partnerships and sole-proprietorships; in terms of numbers, the latter three dominate, with membership generally not exceeding 50. To-date, there are only nine companies listed on the Uganda Securities Exchange (USE). Of these, six are listed in Uganda and the other three are listed in Kenya and cross listed in Uganda. In addition to these firms, there are 29 fixed income securities listed.

Seven out of the nine companies listed on the Ugandan Securities Exchange are majority owned by multinational companies; domestic ownership does not exceed 10 per cent in some of these firms, and even where it does, the individual stakes are not of the order commonly considered substantial enough to influence corporate thinking (Mallin, 1999). In such cases, minority Ugandan shareholders may not have sufficient stakes to demand accountability from the companies concerned, and the laws in existence may not provide the protection required. This reasoning in turn suggests that regulators and enforcement agencies should play a stronger role in monitoring companies where the potential to violate the rights of minority shareholders exists.

These aspects of the accountability debate are clearly relevant to corporate governance in developing countries and the dearth of literature on modern governance practices in developing countries in general, and East Africa in particular, was one of the main stimuli for the present study. To some extent, the governance problems in the Ugandan corporate sector reflect the nation's socio-political history outlined earlier. In particular, societal governance based on traditional values broke has broken down as elders do not have practical ways of enforcing their authority in the new environment, where moral fibre had broken down (Saul, 1981; Deininger, 2003). The new business generation lived in cities and towns beyond the reach of the community structure and had different values from those of the traditional society. This moral degeneration and lack of ethical values by some officials extended to both the public and private sectors (Otweyo, 2001), again pointing to the importance of re-establishing robust governance practices and sound frameworks that can promote confidence in Ugandan firms, whether they be of the state, semi-state or private type.

Empirical research findings

Sample selection and methods

The empirical research was carried out in two phases. The first took place in September 2004, and consisted of semi-structured interviews with 16 individuals occupying various industrial, regulatory and judicial positions in Uganda (see Table I). Each interview lasted for

Table I Interviewees

Interviewees (September 2004)	*Number*
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 lists the stakeholders that were interviewed in this study

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.

The selection of the interviewees was based on the assumption that regulators, legislators and enforcement agencies would not necessarily share the same views as company employees, company executives, and executive directors of any description. Other stakeholders who are not directly involved in the management of companies, such as academics, civil servants and lawyers might also be expected to have their own views. The sample was therefore selected with the aim of eliciting the views of a representative range of stakeholders in Ugandan corporations. Apart from differences in stakeholder groups, the individuals selected for the study were chosen on the basis of a likely awareness of governance practices in Uganda and/or a close connection to the day-to-day running of companies.

The second phase of the empirical research consisted of a questionnaire survey administered between April and June 2005. The survey, which used conventional five-point Likert scale analysis throughout (with a 5 indicating ''strongly agree'' and a 1 indicating ''strongly disagree)[8] was informed by both the general literature on corporate governance and accountability, and the results of the interviews that were conducted in the first phase of the research. The choice of recipients (see Table II) was motivated by a desire to include a wide variety of Ugandan stakeholders, while capturing the perceptions of individuals with an understanding of the main issues relating to corporate governance and accountability in Uganda. The specific selection of individuals to whom questionnaires were distributed was influenced by cost and time considerations and was limited to those working around Kampala (the capital city of Uganda). In all, 382 questionnaires were distributed, out of which 158 were returned; the response rate of 41.4 per cent is high in comparison with other recent surveys that examine the views of a range of stakeholders (e.g. Helliar *et al.*, 2001; Burton *et al.*, 2004).

The concept of corporate governance

Table III summarises the main points raised by the interviewees regarding the concept of corporate governance. Inspection of the table reveals that all 16 interviewees concurred with the notion that a stakeholder, rather than a narrow shareholder focus, is appropriate in a corporate governance context. For example, the Chief Executive Officer of the ICGU stated that:

> 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

Table II Questionnaire survey recipients

Participants (April-June 2005)	*Number*
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 lists the individuals to whom the questionnaires were distributed

Table III Concept of corporate governance (interviews)

Viewpoints	*Interviewees supporting particular viewpoint*	*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 reports the number and percentage of interviewees who mentioned particular aspects of corporate governance

> 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.

In a similar vein, one of the Company Secretaries pointed to the important role that society and the wider environment can play:

> In law, management is accountable to the company and to shareholders as a collective. However, if you look at society as a whole, depending on 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.

All of the interviewees, irrespective of stakeholder grouping, indicated that one of the objectives of corporate governance was the promotion of probity, transparency and accountability in companies. Both the Cadbury Report (1992) and the Commonwealth Principles (1999) require boards to be accountable to shareholders. Moreover, company laws such as The Companies Act of Uganda (1964) give legal backing to the obligation of

boards to be accountable to shareholders, yet the interview results suggest that accountability is viewed much more holistically in Uganda.

This stakeholder view is not backed by concrete laws in Uganda, and raises questions about how such a perspective could ever be enforced. The interviewees' opinions may reflect the traditional model of Ugandan tribal leadership where a council of elders would meet, transact their views in an open and transparent manner and only come to a decision after hearing alternative views and deliberating with individuals perceived as being knowledgeable (Willis, 1997). However, several interviewees acknowledged that this traditional structure of communal responsibility and accountability had broken down, with the advent of other cultures in society through natural development. The only exception quoted was Karamoja in the North Eastern part of Uganda where communal values and the council of elders' authority were still thought to exist. This change in cultural values suggests that specific action may be needed to ensure that a broad stakeholder view of corporate governance is reflected in Ugandan firms' responses to the new environment. In the absence of such measures, the support for a pervasive governance viewpoint evident in Table III may remain an idealised goal than a reality.

Support for the stakeholder view was also evident in the questionnaire responses; Table IV indicates that respondents perceived corporate governance in terms of an organisation's relationship with all those who are affected by, or who affect, its decisions and activities. It is notable that there was also significant support (although with a lower average level of agreement; mean response = 3.43 versus 4.29 for the former) for extending corporate governance to an organisation's relationship to all members of society, while significant disagreement (mean = 2.72) was detected for the shareholder view.

This evidence confirms the impression gained from the interviews that the stakeholder view of corporate governance dominates Ugandan thinking. However, evidence presented later in this study suggests that such laudable aims are hindered from being translated into *de facto* practices by a range of weaknesses in the nation's underlying moral and legal framework.

Stakeholders, board accountability and responsibility

The questionnaire also sought to identify which groups of stakeholders were important and Table V indicates that all the suggested categories were seen as having relevance, albeit with shareholders at the top of the list (with a mean response of 4.71)[9]. This recognition of a wide stakeholder constituency was also evident in the views expressed by some of the interviewees. For instance, one of the legislators stated that:

> Stakeholders include all 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.

Table IV Concept of corporate governance (questionnaire survey)

Statements	*Mean*	p-*value*
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	0.000*
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	0.001*
The term ''corporate governance'' refers to an organisation's relationship with its owners	2.72	0.014*

Notes: * Indicates a significant difference at the 5 per cent level; this table reports the mean questionnaire responses to statements relating the notion of corporate governance to alternative classes of stakeholder; a 5 = "strongly agree'' while a 1 = "strongly disagree''. The *p*-values relate to a two-tailed test of the hypothesis that the mean response = 3

Table V Stakeholder groups

Question: Please note the extent of your agreement with the view that the term ''Stakeholder'' includes the following:	*Mean*	p-*value*
Shareholders	4.71	0.000*
Customers	4.55	0.000*
Suppliers	4.53	0.000*
Financial institutions	4.53	0.000*
All persons who affect or are affected by the company's activities	4.53	0.000*
The Government	4.34	0.000*
Regulatory and enforcement agencies	4.22	0.000*
Environmental groups	4.16	0.000*
Society as a whole	4.03	0.000*
Members of Parliament	3.44	0.002*
The Judiciary	3.29	0.016*

Notes: * Indicates a significant difference at the 5 per cent level; this table reports the mean questionnaire responses to statements regarding the identity of stakeholder groups; a 5 = "strongly agree'' while a 1 = "strongly disagree''. The *p*-values relate to a two-tailed test of the hypothesis that the mean response = 3

While the managing director interviewee pointed to the diffuse range of aims that each group might possess:

> 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.

Table VI compares views about:

1. board accountability to various stakeholders; with
2. the more limited responsibility for ''maintaining relations with'' each of the groups[10].

In most cases there was stronger support for (2), but there was significant backing for the notion of accountability extending to 10 of the 11 groups (the exception being suppliers), although shareholders again topped the list. Taken together, the evidence in Tables V and VI

Table VI The board and accountability to stakeholder groups

	Boards are accountable to:		*Boards are responsible for maintaining relations with:*	
Stakeholder groups	*Mean*	p-*value*	*Mean*	p-*value*
Shareholders	4.7	0.000*	4.8	0.000*
Regulatory and enforcement agencies	4.2	0.000*	4.1	0.000*
The Government	4.1	0.000*	4.4	0.000*
Members of Parliament	4.0	0.000*	4.1	0.000*
Financial institutions	3.9	0.000*	4.1	0.000*
All persons who affect or are affected by the company's activities	3.8	0.000*	4.0	0.000*
Society as a whole	3.8	0.000*	3.9	0.000*
Customers	3.6	0.000*	4.0	0.000*
Environmental groups	3.6	0.000*	3.7	0.000*
The Judiciary	3.5	0.000*	3.6	0.000*
Suppliers	3.0	0.772	3.7	0.000*

Notes: * Indicates a significant difference at the 5 per cent level; this table reports the mean questionnaire responses to statements regarding board accountability and responsibility for maintaining relations with various stakeholder groups; a 5 = "strongly agree'' while a 1 = "strongly disagree''. The *p*-values relate to a two-tailed test of the hypothesis that the mean response = 3

suggests that respondents see shareholders as the most important stakeholder group, but by no means the only one.

Factors affecting governance practices in Uganda

While all the interviewees and questionnaire survey respondents agreed that widespread accountability was desirable in theory, inspection of Table VII reveals that a number of factors are thought to adversely affect the reality of governance practices. The mean responses documented in Table VII indicate that most of the 12 suggested factors were perceived to exert a significant influence in both private and public sector companies. Although the level of agreement was always stronger in the case of public rather than private sector firms, it is notable that the respondents agreed that both types exhibit: a prevalence of conflicts of interest; corruption and bribery; insignificant fines; non-compliance with laws and regulation; inadequacy in infrastructure and resources among regulatory and enforcement agencies; sectarianism; and fear and respect for those in authority. The only differences related to incompetent personnel and fear and respect for the authority of elders which, according to the respondents, only affected the public sector. Consistent with this apparent deficiency in governance standards among Ugandan firms, a Chief Accountant in one of the Government Ministries made the following comment relating to accountability practices during the interviews:

> Accountability in Uganda is cosmetic in the sense that we reduce accountability to paperwork which may not reflect the reality of what has actually transpired.

Similarly, an MP expressed the following reservations about the effectiveness of the Inspector General of Government (IGG)[11], 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.

Stakeholder rights

Arguably, the legal and regulatory framework should enforce compliance with the requirements for proper governance and accountability of Ugandan firms. However, the

Table VII Factors affecting corporate governance practice

	Private sector		*Public sector*	
	Mean	*p-value*	*Mean*	*p-value*
Question: 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				
Conflicts of interest	3.79	0.000*	4.50	0.000*
Corruption and bribery	3.71	0.000*	4.77	0.000*
Insignificant fines which do not encourage compliance with laws	3.66	0.000*	3.82	0.000*
Non-compliance with laws and regulations	3.62	0.000*	3.99	0.000*
Inadequate infrastructure and resources for regulatory and enforcement agencies	3.51	0.000*	3.82	0.000*
Sectarianism	3.36	0.002*	4.02	0.000*
Fear and respect for those in authority	3.34	0.004*	3.76	0.000*
Political interference	3.19	0.098	4.78	0.000*
Lack of political will to combat corruption	3.18	0.148	4.49	0.000*
Lack of political will to enforce compliance	3.17	0.140	4.36	0.000*
Incompetent personnel	2.97	0.757	4.02	0.000*
Fear and respect for the authority of elders	2.69	0.007*	3.08	0.536

Notes: * Indicates a significant difference at the 5 per cent level; this table reports the mean questionnaire responses to statements regarding factors that affect the practice of corporate governance in Uganda; a 5 = "strongly agree'' while a 1 = "strongly disagree''. The *p*-values relate to a two-tailed test of the hypothesis that the mean response = 3

evidence in Table VII suggests that a range of factors impact negatively on day-to-day practices. Moreover, the responses in Table VIII to questions regarding stakeholder rights indicate participants' disagreement with the view that even when these are established by law they are respected by Ugandan firms; neither did they think that companies generally acted in a responsible manner or respected the rights of the community. Equally concerning was the perception that employees cannot freely communicate their concerns about illegal or unethical practices to the board without fear of adverse consequences to themselves for doing so. The perception of deep-rooted moral failings in wider Ugandan society was evident in a comment made by the President of the CMA regarding trends 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.

Although the questionnaire survey respondents agreed that stakeholders had the opportunity to obtain effective redress where their interests are protected by the law, the evidence in Tables VII and VIII suggests that there is a perception of inadequate legal protection for the rights of stakeholders, with enforcement of rights being adversely affected by factors such as conflicts of interest, corruption and a poorly-facilitated regulatory framework[12]. La Porta *et al.* (1998) argue that minority shareholder rights are protected more rigorously in countries with common law, rather than civil law, legal systems. However, the evidence in Table VIII suggests that in Uganda – where a common law system exists[13] – only cursory protection is afforded to stakeholders as a whole. This evidence suggests that La Porta *et al.*'s contentions may not extend fully to developing countries, especially those where pervasive corruption and bribery exists in tandem with a lack of enforcement of theoretically robust legal protection for shareholders and other stakeholders. The potential consequences of this state of affairs are obvious in terms of attracting overseas (and domestic) capital into Uganda and facilitating future economic growth. Johnson *et al.* (2000) argue that corporate governance weaknesses play a crucial role in the worsening of a wide

Table VIII Rights of stakeholders

Statements	*Mean*	p-*value*
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	0.000*
The rights of stakeholders that are established through mutual agreements are respected by companies	3.13	0.135
There is adequate legal protection of stakeholders such as creditors, in the event of a company becoming insolvent or bankrupt	2.91	0.344
In Uganda, the rights of stakeholders that are established by the law are respected by companies	2.77	0.016*
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	0.000*
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	0.000*

Notes: * Indicates a significant difference at the 5 per cent level; this table reports the mean questionnaire responses to statements regarding stakeholder rights; a 5 = "strongly agree'' while a 1 = "strongly disagree''. The *p*-values relate to a two-tailed test of the hypothesis that the mean response = 3

range of macro-economic characteristics, including currency depreciation and falls in the value of financial assets.

Board structure and function

Table IX reports questionnaire responses to a series of propositions about the priorities in recent governance codes issued in developed countries relating to board structure and function. Panel A summarises responses regarding a series of statements about the composition of the Board. 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:

1. the majority of the members of the board should be independent non-executive directors;
2. the Chairman of the Board should be an independent non-executive director; and
3. the Chief Executive should not at the same time be the Chairman of the Board.

These views are all consistent with the recommendations of the revised Combined Code (2006) in the UK. In the open-ended section of the questionnaire, respondents mentioned a range of issues 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. In addition, some board members were thought by respondents to put personal interests above the interests of the companies on whose boards they served. The Managing Director interviewee gave a specific example of a way in which Ugandan directors' propensity to exercise independent judgment can be compromised:

> 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

Table IX Board structures and sub-committees

Statements	*Mean*	p-*value*
Panel A – Board structure and leadership		
The Chief Executive should not at the same time be the Chairman of the board	4.61	0.000*
The Chairman of the board should be an independent non-executive director	4.27	0.000*
The majority of the members of the board should be independent non-executive directors	4.18	0.000*
Panel B – Sub-Committees		
Ugandan companies should have Audit Committees to oversee the accounting and financial reporting policies and processes and to liaise with internal and external auditors	4.71	0.000*
Ugandan companies should have Governance Committees to scrutinise all matters relating to corporate governance in the company	4.36	0.000*
Ugandan companies should have Remuneration Committees to assist in determining the company's policy on executive remuneration and specific remuneration packages for each of the Executive Directors	4.28	0.000*
Ugandan companies should have Risk Committees to assess and monitor the risks that the company is facing, especially financial risks	4.23	0.000*
Ugandan companies should have Nomination Committees to lead the process for board appointments, make recommendations to the board and be involved with succession planning in the company	4.15	0.000*
Audit Committees should be composed of *only* non-executive directors who are independent of the company	3.91	0.000*
Nomination committee – the majority of members of the nomination committee should be independent non-executive directors	3.87	0.000*
Remuneration committees should be composed of *only* non-executive directors who are independent of the company	3.61	0.000*

Notes: * Indicates a significant difference at the 5 per cent level; this table reports the mean questionnaire responses to statements relating to various statements regarding board and sub-committee structure and function; a 5 = "strongly agree'' while a 1 = "strongly disagree''. The *p*-values relate to a two-tailed test of the hypothesis that the mean response = 3

> 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.

Some respondents were of the view that the selection process of board members was not transparent and lacked the participation of shareholders. In addition, respondents felt that merit, rather than political or sectarian considerations, should be used as a basis for appointing directors and senior company executives.

Panel B of Table IX summarises respondents' perceptions regarding the type and nature of sub-committees that Ugandan boards should operate. Inspection of the results reveals strong agreement with the views that companies should have: an Audit Committee, a Remuneration Committee, a Nomination Committee, a Governance Committee and a Risk Committee. However, a number of respondents pointed out that some of these committees could be combined instead of each operating independently.

Respondents also recommended Audit committees for all companies as a means of improving accountability. The strengthening of both internal and external audits for effectiveness, and making the corporate governance report a mandatory part of a company's annual financial statements were also suggested. The integrity of the accounting profession[14] was seen as a pre-requisite for audited 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. 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 are independent of the company (mean = 3.61). In addition, the respondents felt that the majority of members on the Nomination Committee should be independent non-executive directors (3.87). In general, the evidence in Table IX suggests that while there is recognition of a wide range of stakeholders in Uganda - and a perception of pervasive corruption - the governance mechanisms emphasised in developed countries are still seen as having a significant role to play.

Discussion

The evidence presented in this study indicates that both the interviewees and questionnaire survey respondents overwhelmingly support the view that Ugandan companies should have a concern for stakeholders that extends beyond shareholders, although the latter appear to be considered the most important. The notion of accountability in this context presents some challenges depending on how one understands the term, but the evidence in this study suggests that marked differences exist in the extent to which alternative standpoints are held. The widest possible understanding of the concept of accountability (i.e. where stakeholders are seen as having the right to be given information without necessarily having any direct relationship with the organisation) received some support among the research participants, although the view which drew the strongest level of support was one based on relationships between companies and those that affect, or are affected by, corporate activities and policies. Stakeholders with enforceable rights should be able to hold companies accountable if these rights are protected by law both in theory and in practice. However, the evidence presented here suggests that the latter two aspects differ markedly in present day Uganda, with weaknesses in enforcement mechanisms and the existence of dishonest behaviour hampering the effectiveness of relevant laws and regulations.

From a normative point-of-view, participants in the present study stressed the importance of firms respecting and upholding stakeholders' rights. What emerges from the research findings, however, is a widespread perception that Ugandan companies are not accountable to stakeholders in any meaningful sense, and just pay lip service to the notion of accountability. The questionnaire evidence presented in Table VIII indicates a

widespread view that Ugandan firms ignore the rights of stakeholders, while the findings in Table VII suggest that this may reflect the simultaneous existence of endemic corruption and an inadequate legal system that fails to ensure fulfillment of contractual obligations and performance, and imposes no meaningful redress in the event of breaches. It appears reasonable to argue that the altruistic feelings of Ugandans evident in this study may be based on nostalgic memories of what used to exist in Africa, when communal values existed and the authority of elders prevailed and bound communities together (Edel, 1965).

Berle and Means (1932) suggest that in cases where shareholders do not have sufficient voting power to enforce compliance, a legal device should be considered to protect minority shareholders and promote accountability in companies. While the results suggest that Ugandan perceptions match those of Western thinkers in terms of the important characteristics of board (and sub-committee) structure and function, the evidence also suggests that the need for tougher corporate laws is pressing in Uganda, and this should be examined with a view to protecting the interests of minority shareholders in particular. Specific questions that may be relevant in this context include: the provision of adequate, timely and accurate information to board members and relevant stakeholders; development of board members' ability to exercise independent judgement on issues that are pertinent to the proper governance of firms; and how to route out undesirable behaviour such as conflicts of interest, corruption, bribery, political interference, and employment of unqualified/incompetent personnel. This legal option could also be extended to the protection of stakeholders' rights so that they can be enforceable through legal backing, but the results of this study suggest that the practical enforceability of any rules in Uganda would remain a major problem.

Conclusions and recommendations

The evidence presented in this study suggests that corporate governance is perceived in Uganda in terms of both accountability and the maintenance of relationships with a wide range of stakeholders. These two factors should, therefore, be a key feature of the governance structures operating in Ugandan companies; by implication, firms should identify the relevant stakeholders and agree on a policy of how to implement appropriate relationships with them.

However, while there appears to be general agreement that there is a need to be accountable to, and to maintain relationships with, several stakeholders, a substantive problem exists regarding the practical application of this notion. While a strong *de jure* regulatory system may exist, a range of stumbling blocks remain in the path of implementing a robust corporate governance and accountability framework in Uganda. Multinational companies predominate among those listed on the Ugandan stock market, with Ugandan nationals holding only a minority of the shares in such companies. The protection of minority shareholders is therefore a pertinent issue since these shareholders cannot enforce their rights through their voting power. Effective legal mechanisms need to be sought to protect the interests of Ugandan minority shareholders; as a common law country, Uganda has (consistent with La Porta *et al.*, 1998) extensive theoretical protection for such investors, but the evidence in this study suggests that, in practice, these rights are heavily diluted in the wake of pervasive corruption and bribery. In this context, Ugandan regulatory agencies also need to be strengthened and provided with adequate human, financial and material resources to enable them to carry out their duties effectively and protect the interests of the relevant stakeholders who may be affected by the operation of companies in their midst. Without these measures, ''accountability'' is likely to remain a meaningless phrase which is limited to a company giving an account of its activities without protecting stakeholders – including domestic investors – who do not have the ability to enforce their rights in practice. Critically, without the existence of (and belief in) a working system of governance, with some degree of genuine accountability built in, the macro-economic problems alluded to by Johnson *et al.* (2000), including a failure to attract significant inward investment, may continue to hamper Uganda's efforts to achieve substantive increases in national income that benefit the nation's population.

This study is limited in scope in that it concentrates on domestic perspectives within a single developing nation. Future work could usefully take place in several related areas, but might best add to the evidence presented here by:

- performing similar analyses for other developing countries, in Africa and elsewhere, to establish the extent to which the findings reported here are generalisable; and
- investigating the views of those overseas organisations who make the decisions on whether (and how) to undertake investment in developing nations, with specific regard to concerns about weaknesses in underlying corporate governance structures in potential investee countries.

Notes

1. It should be noted, however, that this communal approach does not hold in all cases due to changing values as a result of either normal evolution or interaction with other cultures (Edel, 1965).
2. The King Report quoted Sir Adrian Cadbury's (1999) statement in Corporate Governance Overview, World Bank Report.
3. These banks together held 12.1 per cent of the Ugandan banking system's deposits (Brownbridge, 2002).
4. The European Bank for Reconstruction and Development (EBRD) argues that the success of a company in the long-term depends not only on having a sound strategy, a competent management, valuable assets and a promising market, but also hinges on 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 (European Bank for Reconstruction and Development, 1997).
5. The CMA Guidelines specifically state that: ''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 realising shareholders' long term value while taking into account the interests of stakeholders'' (par. 3).
6. Accountability is also seen as helping to minimise the potential risks of fraud and to boost investor confidence (Abbott *et al.*, 2000; Burton *et al.*, 2004; Bushman and Smith, 2001, 2003; Cadbury Report, 1992; ICAEW, 1999; Treadway Commission Report, 1992). Gray *et al.* (1996) and Stanton (1997) note that the requirement to report financial information to shareholders is one of the very few instances of accountability being established explicitly in law.
7. Rights can 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).
8. Full details regarding (and a copy of) the questionnaire are available from the authors on request. In addition to the specific questions asked about corporate governance in Uganda, respondents were given the opportunity to make additional comments relating to any aspect of the topic that they felt to be relevant.
9. In addition to analysing mean responses, the total numbers agreeing and disagreeing with each question underlying Tables IV–IX were compared using a sign test. The results of these tests reinforce the analysis of means reported here, but full details are available from the authors on request.
10. This is the precise distinction made in paragraph 1.17 of the UK's Hampel Report (1998), with the conclusion being offered that accountability is restricted to the owners of the firm.
11. The IGG is charged with enforcing ''The Leadership Code'' of 2002, whereby officials are required to declare their income, assets and liabilities.
12. These perceptions are consistent with Transparency International's Global Corruption Report of 2006, which notes that in Uganda ''corruption by Politicians and Officials is one of the biggest challenges'' (Transparency International, 2006, p. 262).

13. In modern day Uganda, aspects of both civil and criminal law systems are operational but, in the broad sense of the term as employed in La Porta *et al.* (1998), it falls within the common law category, in that the system was originally based on the central doctrines and procedures of English law. African customary law also operates, but only where it does not conflict with statutory law.
14. Only one of the accountants that responded to the survey was an external auditor. Attempts were made to contact external accountants (including PWC) but none of the major accounting firms responded to the questionnaire. Only one of the smaller accounting firms responded to the questionnaire. Given this lack of response, additional discussions took place with accounting practitioners in 2007; these highlighted the problem of the independence of external audits, despite the *de-jure* system being well laid out in regulations and statute (for example, Ugandan firms are required to have audit committees according to both the ICGU and Ugandan capital market guidelines; the Companies Act of 1964 empowers shareholders with the choice of audit firm). The interviewees claimed that some of the multinational firms who use the big accounting firms exert undue pressure for audits to be completed within a limited time, thus not giving sufficient time to the auditors to perform their duties adequately. In addition, some of the companies use the influence of their parent companies to restrict what the auditors in subsidiary firms can do. Instances were cited where the auditors on the ground made some recommendations regarding the accounts being audited but these recommendations were reversed by their superiors as a result of interventions by parent companies of the subsidiary companies through the headquarters of the audit firms. There was, therefore, apparent lack of independence by auditors in certain instances and the audited accounts could not be considered as providing assurance to shareholders and other users. This, in turn, affected the quality of accountability that could be expected from companies.

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