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Frameworks Underpinning Corporate Governance: Evidence on Ugandan Perceptions

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ABSTRACT

Manuscript Type: Empirical
Research Question/Issue: This paper sets out to investigate perceptions about corporate governance practices in the developing African nation of Uganda. The study employs interview and questionnaire analysis to examine the part played by a range of factors in supporting effective governance.
Research Findings/Results: The findings suggest that pervasive corruption and weaknesses in underlying frameworks have hampered attempts to improve practice. The results indicate that the mere emergence of detailed governance codes in developing countries does not necessarily mean that de facto practices will improve.
Theoretical Implications: The results suggest that corporate governance standards in developing countries may appear on paper to be broadly similar to those in developed countries. However, a widespread perception exists that Ugandan frameworks are not yet strong enough to support what might normally be considered to be “good” practice. Sound corporate governance is seen as being a multi-faceted notion, with a range of political and social frameworks requiring strengthening before meaningful improvements can be made.
Practical Implications: The evidence indicates that attempts to improve governance standards in a particular nation require more than the simple publication of codes of best practice. Root and branch changes in a wide-range of contextual factors, including at political and cultural levels, are required to provide the conditions in which meaningful improvements in corporate governance will occur.

Keywords: Corporate Governance, Africa, Business Ethics, Stakeholders, Government

INTRODUCTION

Professionals and academics have searched extensively for explanations of recent large-scale financial failures. Although most of this attention has been devoted to prominent cases in the world’s richest nations, developing countries have not been immune from such difficulties, with Uganda alone experiencing four major bank failures in 1999 (Wanyama, Burton and Helliar, 2006). Clearly, poor corporate governance practices could be a cause of or a contributory factor to these scandals and governments and private sector organizations in many countries have made efforts to promote high standards of behavior. This renewed interest in improving corporate behavior is reflected in the emergence of numerous governance guidelines and codes (see Laing and Weir, 1999; Monks and Minow, 2004; Solomon, 2007). The particular importance of a robust corporate governance regime in developing countries is evident in the fact that several recent studies have suggested that a strong system is necessary to encourage inward investment and nourish long-term economic growth (Johnson, Boone, Breach and Friedman, 2000; Lynham, Taylor, Dooley and Naidoo, 2006; Visser, McIntosh and Middleton, 2006).

A recent analysis of Nigeria by Okike (2007:188) reports that while efforts to improve governance standards in Africa are “commendable,” endemic corruption still exists and any improvements in practices will be dependent on strong enforcement mechanisms; de jure codes of conduct alone will not be sufficient to bring about necessary changes. However, although the following sections of the present study indicate an increased research focus on governance issues in developing countries, this fundamental point – the extent to which inadequate structures mean that detailed rules in themselves will fail to make any substantive difference – has not featured to any meaningful degree in the empirical work. It is this latter issue, and the lack of focus thereon to date, that provides the motivation for this study’s

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primary research question i.e., whether, in a developing country where detailed governance rules have been introduced, concerns about underlying frameworks and structures are sufficient to suggest that *de facto* governance standards will not improve simply because new regulations have come into force.

Using data collected from interviews and questionnaires administered to a number of stakeholder groups in Uganda – a developing country that has attempted to overhaul the regulation of corporate governance – this study suggests that the underlying political, economic, accounting, social, and ethical frameworks are seen as having a major influence on corporate behavior. Given weaknesses therein, the publication of guidelines alone will not significantly reduce the extent of corporate abuses. The descriptive results are then used as the basis for induction regarding a possible model of governance practice determinants in developing countries. This approach is common in studies in this area (see e.g., Klapper and Love, 2004; Boubakri, Cosset and Guedhami, 2005; Hamann, Kapleus, Mackenzie, Holleson and Sonnenberg, 2005). The choice of an African context reflects the fact that, as Visser *et al.* (2006:17) note, while "significant attention" has been given to the topic of governance by scholars in recent years, work of this nature focusing on Africa has been "scant" in comparison.

The paper is structured as follows. The next section provides detailed background about Uganda's recent political history and how this has shaped modern regulatory structures, as well as outlining why Uganda represents a suitable context for an exploration of corporate governance in developing countries. The third section outlines the various frameworks underpinning the study before the fourth section details the research methods employed. The fifth section discusses the empirical findings while the final section summarizes the results and offers some concluding thoughts.

THE UGANDAN CONTEXT AND THE FOCUS OF THE STUDY

Politics and Government

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.

Uganda has had a turbulent political history since gaining 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 January 25, 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 2 months), Godfrey Binaisa (11 months), and Paul Muwanga (4 months).

Obote was returned to power in 1980 following elections and was sworn in as President for the second time on December 11, 1980. He was subsequently overthrown for the second time on July 27, 1985. Tito Okello was sworn in as President, only to be forcefully removed from office on January 26, 1986, by a group led by Yoweri Kaguta Museveni. Museveni became President of Uganda and has been in power since that time.

Uganda has a judicial system that is divided into: the Supreme Court; the Court of Appeal; the High Court; the Commercial Court; and the Magistrates Courts. Corporations and statutory entities are regulated and supervised by a range of bodies. Private companies are regulated by the Registrar General's office (Companies Act, 1964). However, other government agencies such as the Uganda Revenue Authority, the National Environment Management Authority, and the Institute of Certified Public Accountants of Uganda (ICPAU) have an interest in the running of corporations in the form of 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 Parliamentary Statutes and Acts that set up the entities. The Registrar General has regulatory powers over 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 (IGG), and the Ministry of Ethics and Integrity.

Economy, Markets and Investment Environment

Uganda has been trying to market itself as a suitable destination for foreign direct investment, with a reasonable measure of success, in the context of strong economic growth and rapid expansion of the service sector (OECD, 2007). To this end 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.[1]

In addition to the Uganda Investment Authority, Uganda has a Capital Markets Authority, which is responsible for regulating capital markets in Uganda, plus the Uganda Securities Exchange (USE), responsible for regulating the companies listed on the Ugandan Stock Exchange and the Uganda Manufacturers Association whose stated objective is to "promote, protect and coordinate" industrialists in Uganda.[2]

Most Ugandan businesses are either sole-proprietorships or family owned, while others are privately-owned.[3] According to the OECD (2007), in 2006 90 per cent of the country's non-farming workers were employed in "micro" and "small" enterprises. However, two forms of limited liability companies (private limited liability companies and public limited liability companies) are also mandated in the 1964 Companies Act (as are partnerships, via the Partnership Act of 1950). Most foreign investors setting up a business in Uganda do so via the private liability route, although the law specifically recognizes "Foreign Branch" entities for firms

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incorporated outside the country, provided a Ugandan branch is registered and US$1000 sum is paid. In each case, the requirements are broadly in line with UK law, reflecting the colonial influence. For example, for a private limited liability company, the requirements are: articles and memorandum of association; a statement of nominal capital; names of two members plus two directors; and a fee of US$1000 plus stamp duty of 1 per cent of any opening capital (the opening capital can be zero).[4]

In 1993, the government enacted *The Public Enterprises Reform and Divestiture Statute* (PERD), which put into effect the PERD (1991) and the Action Plan for PERD (1991). Of the 137 state-owned enterprises existing at the time, 106 were targeted for privatization under PERD. Each enterprise was categorized as being either: *class one* (companies in which the state was required to retain 100 per cent of equity); *class two* (companies where the government retained a majority ownership); *class three* (state retains a minority shareholding); *class four* (where the government had to fully divest its interest); and *class five* (companies to be liquidated). As of June 2008 there were only nine companies listed on the USE. Of these firms, six were incorporated in Uganda, while three were registered in Kenya and cross-listed on the USE. Another company, Safaricom, has just undertaken an initial public offering that has been marketed internationally, but is listed on the Kenya Securities Exchange. It is sold to nationals of other countries (including Uganda) through the Central Depository System.

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. One of the objectives set by the treaty establishing the East African Community is to strengthen and consolidate the long-standing political, economic, social, cultural, and traditional ties among partner-states and associations between the people of the region, and promoting a people-centered mutual development. Notwithstanding these moves, it remains the case that Uganda's regulatory framework reflects its colonial past. However, as Yapa (1999: 337) notes – in the context of the accounting profession in Brunei-Darussalam – differences at the political economy level create market conditions so dissimilar to those in the former ruling state that de facto practices can be "quite different" in the two environments.

Corporate Governance in Africa and the Need for a Study of Practices in Uganda

The OECD (2004) principles explicitly recognize the fact that it is not possible to formulate corporate governance principles that will apply to all countries at all times. Moreover, the OECD acknowledges that its principles need to be adapted by individual 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 regard to the type of codes adopted (La Porta, Lopez-de-Silanes, Shleifer and Vishny, 1998). Several nations, including the UK, have stressed the shareholder view and adopted a voluntary approach to compliance with codes of best practice (e.g., Combined Code, 2006) while others, such as the US, have opted for the legal approach to corporate governance rule enforcement (e.g., the Sarbanes-Oxley Act, 2002 in the US). Much of mainland Europe and Japan have instead opted for a broader stakeholder approach that reflects the social traditions prevailing in each nation.

Research on the practice of corporate governance in emerging economies has been relatively scarce until recently; analyses of the topic in an African context have been particularly rare (with some notable exceptions, including Tangari and Mwenda, 2001; Fick 2002; Manibog, 2003; Caprio, Fiechter, Litan and Polmerleano, 2005; Visser *et al*. 2006; Okike, 2007). Arguably, improvements in corporate governance in Africa may be difficult to achieve in the absence of the financial and regulatory structures that are found in developed countries (Lynham *et al*., 2006). However, Rossouw (2005) analyses corporate governance developments across the continent and notes that all African countries to date, except Nigeria, have adopted an inclusive model of corporate governance that reflects accountability to a wide range of stakeholders.

The approach in Africa has been influenced by three sets of codes, namely: the OECD principles, the King Report(s), and the pronouncements made by the Commonwealth Association for Corporate Governance. Rossouw notes that 14 of the 53 African countries have now adopted or are adopting a bottom-up approach whereby national codes are first formulated, sponsored by institutes of directors or professional bodies, such as accountants, recognized by a country's stock exchange, incorporated into the rules for professional bodies, and finally legislated for by government.

Finally, and again at a pan-African level, the New Partnership for Africa's Development (NEPAD) may assist in the development of corporate governance practices. NEPAD is a commitment by African leaders to eradicate poverty, place their countries on a sustainable growth path, and eliminate the marginalization of Africa from global trade. NEPAD's work reflects the assumption that Africans want to determine their own destiny, prevent conflict, protect human rights, improve education and health, promote the role of women, and enhance democracy via clear standards of accountability, improvements in economic and political leadership, and the introduction of institutional, legal, and regulatory frameworks that support these goals. As part of this process, a task force is reviewing economic and corporate governance practices in various countries and will make recommendations on standards and codes of good practice and build the capacity to enforce legal frameworks.

This study focuses on a particular African country, Uganda, a nation where several major corporate governance failures have occurred recently (Wanyama *et al*. 2006). The experiences of Uganda provide clear illustrations of the problems that can be caused by unstable political structures, particularly in a developing nation. As discussed above, Idi Amin overthrew the elected Ugandan government in 1971 and this set into motion policies that destroyed the economy of an otherwise flourishing country (Saul, 1981). This change in turn resulted in an era of moral degeneration, extensive corruption, and unethical business activities, such as smuggling, because of commodity shortages (Mulumba, 2006). The need for a robust system of corporate governance to

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tackle such unethical practices is one of the central questions examined in the present study.

The corporate governance regime in Uganda reflects the relevant laws and requirements of various regulatory and supervisory authorities, such as the Institute of Corporate Governance of Uganda (ICGU), the USE, the Uganda Capital Markets Authority (UCMA), and the Institute of Certified ICPAU. For example the UCMA's (2003) *Capital Markets Corporate Guidelines* define corporate governance as:

> [T]he 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 stakeholders (sec. 3).

While such a definition is consistent with conventional Western thinking regarding best practice, Manual on Corporate Governance (2001) issued by the ICGU suggests that the situation in present day Uganda differs markedly from any such normative prescriptions; in particular it states that:

> The lack of sound corporate governance practices has provided fertile ground for the emergence and flourishing of vices like bribery, crony capitalism, and other corrupt practices and suppression of sound and sustainable economic decisions (ICGU, 2001: 7).

The Manual on Corporate Governance further observes that both the public and private sectors are saddled with problems of corruption, inefficiency, poor record keeping, lack of accountability and transparency, greed, bad leadership, public mistrust, and poor governance. To this end, the manual recommends that:

> In order to attract both local and foreign resources and investors, public as well as private sector enterprises must, as a matter of necessity, undergo structural, moral, and ethical reforms aimed at transforming them into competitive enterprises of the new global order (ICGU, 2001: 8).

The manual also suggests that government has a responsibility to provide an enabling environment for both the public and private sectors, in order to improve the governance of their constituent companies. This context plays an important role as the foundation for possible improvements in governance standards in developing countries (Hansen and Ryan, 2006). The present study therefore examines the perceptions of stakeholders regarding the current framework of corporate governance in Uganda, in particular the extent of its suitability for the task of promoting best practice in the nation's firms.

The Approach of the Present Study

This study of Ugandan governance practices takes a broad stakeholder approach rather than testing hypotheses from a traditional agency theory (i.e., shareholder-focused) model. Although some countries' governance rules – implicitly or explicitly – reflect the central tenets of the agency notion (e.g., in the UK), other countries adopt a more pervasive approach. This alternative perspective is evident in the OECD (2004) principles, the King Report II (2002), and the ECA (2002). Indeed, the Pan-African Consultative Forum on Corporate Governance (2001) concluded in its final press release that, "The key elements of good corporate governance are accountability, transparency, responsibility, and fairness to all stakeholders."

South Africa became one of the leaders in the field in corporate governance, not only on the African continent, but also on a global scale, by setting up the King Committee in 1992 with a mission to improve corporate governance in South African companies. The King Reports I and II pre-dated the Pan African framework in recommending accountability, transparency, and responsibility, as well as fairness, independence, and social responsibility in governance practices. The first King Report went even further and included a code of business ethics for companies. Following from such a wide focus on governance codes, the Global Reporting Initiative (GRI) (2000) recognizes that companies not only need to consider their economic performance, but they should also evaluate their environmental and social performance. The need for such a broad focus when examining governance systems on the African continent is also evident in the analyses of both Visser *et al*. (2006) and Lynham *et al.* (2006).

As stated earlier, the main aim of this paper is to provide evidence on the extent to which weaknesses in key supporting frameworks are perceived as likely to impact negatively on attempts to improve governance in the corporate sector of developing countries. The discussion above has outlined the extent to which the stakeholder notion has been at the heart of many attempts to improve global, but African in particular, standards of governance. In the light of this point, the study examines the views of a wide constituent of parties potentially affected by or affecting corporate governance practices in Uganda.

Views are sought regarding the extent to which current practice is affected by the range of contextual issues described in the following section of the paper, in particular: the law, the judiciary, regulatory bodies, and enforcement agencies; societal, cultural, and family values, such as tribal and clan allegiances; economic conditions in the country; business ethics, corruption, and bribery; the government and political situation; and accounting and auditing practices. The multi-faceted nature of influences on the governance system is evident in Letza's (2004) suggestion that observed practices reflect "economic logic," "politics." "social conventions," and "culture," among others.

FRAMEWORKS IMPACTING ON CORPORATE GOVERNANCE

This section of the paper provides details about the range of frameworks listed above that prior literature has suggested can impact on corporate governance[5] practices. The specific ways in which each factor has the potential to impact upon firms and nations is emphasized throughout.

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The Legal and Regulatory Framework

Section I of the revised OECD principles of Corporate Governance (OECD, 2004) stresses the importance of regulatory, supervisory and enforcement agencies for an effective corporate governance framework thus:

> 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, 2004: 17).

Such a stance implies that the bodies responsible for setting up principles or codes of corporate governance should ensure that there is no conflict between the proposed principles and the existing law of the country concerned; in the event of a possible conflict appropriate legislation would need to be enacted. There may also be cases where there is no conflict with the existing laws, but legislation is nevertheless required to support a specific aspect of corporate governance. For example, Arun and Turner (2004) point to the need for appropriate laws to protect investors, increase financial disclosure, impose fiduciary duties on directors and company executives, and reduce political interference in the management of companies.

The OECD principles also suggest that supervisory, regulatory, and enforcement authorities should have the power, integrity, and resources needed to fulfill their duties in a professional and objective manner, although the rulings of these authorities should always be timely, transparent, and fully explained. The *Guidelines for Enhancing Good Economic and Corporate Governance in Africa* (ECA, 2002) note that separating the government's policymaking and regulatory roles by establishing independent regulatory mechanisms and fostering the development of regulatory expertise can help to assure stability in the regulatory environment.

Rossouw (2005) argues that the lack of an effective legal and regulatory framework hinders good corporate governance as it deters firms from listing because they come under increasing scrutiny and have to increase their levels of disclosure. This openness can be exploited by the state and by competitors. Thus, a legal framework is essential to offer sufficient incentives for firms to become more transparent and open.

The Economic Framework

The economic conditions existing in a given country may have a role to play in effective governance; in this context the OECD (2004) principles state that:

> 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 (OECD, 2004: 12).

Okike (1994) notes that in Nigeria, a country that experienced a rapid transformation from being an agrarian economy to one based on oil revenues, the changing economic environment resulted in cultural shifts that were greater because of interfaces with other countries. The cultures of other nations were diffused into society, affecting economic progress.

Coffee (2005) specifically associates corporate scandals with the state of the economy and underlying ownership structures, and notes that the most recent global economic downturn was associated with pervasive accounting scandals, fraud, and financial irregularities including earnings manipulation; the author suggests that the main motivation for earnings management is often pressure from stock markets to support share prices. The extent of equity value manipulation may vary according to market-wide price trends. In particular, 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 (Coffee, 2005). Good corporate governance can contribute to economic success, long-term stability, the attraction of local and foreign investors, the encouragement of market discipline and transparency, and improvements in a country's reputation (Rossouw, 2005). Similarly, Doidge, Karolyi and Stulz (2007) suggest that economic and financial development have more influence on a nation's corporate governance practices than do firm characteristics. They find that corporate governance is positively related to growth opportunities and the need for external finance and that country factors affect the costs that firms incur and the associated benefits of adopting good governance practices.

In a country with poor financial and economic development there is less access to external funding and, thus, it is possible that large shareholders will extract private benefits more readily as there is less monitoring by outsiders. The economic framework may, therefore, be an important influence on corporate governance practices.

The Cultural, Social, and Ethical Frameworks

The cultural and social framework may also play a role, in the context of the ethical environment in which modern firms operate. For example, Vintiadis (2004) observes that conflicts of interest, regulatory inefficiency, unsound ethics, and greed are among the causes of major corporate failures. According to Monks and Minow (2004), the notion of what they term an "ethical contract" has developed, whereby it is assumed that executive legitimacy can only be sustained by the interaction of a company's "relationships" with other stakeholders. Rossouw (2005) argues that the focus on stakeholders assists managers looking to foster the long-term stability of their companies, by encouraging respect for the local community and society at large, and thereby earning a "license" to operate from all interested parties. Ultimately, however, the way in which firms treat stakeholders reflects their ethical standards (Chryssides and Kaler, 1996).

However, as the King Report notes, corporate governance and ethical values must be attuned to the value-system of the system within which they operate (Rossouw, 2005). The African value system includes that of Ubuntu,[6] which is a commitment to co-existence, consensus, and consultation. From the point of view of the modern corporate governance literature, the most closely related ethical concepts are transparency, accountability, responsibility, and probity, and their

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reflection in board composition and/or function, reporting, disclosure, and risk management, as well as respect for the rights of all shareholders (Rossouw, 2005).

Monks and Minow (2004) 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. In this context, the personal ethic is seen as operating through conscience, while corporate and societal ethics work through the internal and external systems of scrutiny, each of which is strengthened by the existence of mechanisms for enforcement (Cannon, 1992).

In a similar vein, Chryssides and Kaler (1996) note the pervasive nature of the "business ethics" concept, evidenced by its manifestation in a range of areas including advertising, accounting, employee relations, and environmental issues. The authors contend that, given this wide sphere of influence, legislation alone is unlikely to be sufficient to protect stakeholders. However, while Chryssides and Kaler (1996: 6) assume that many firms may act ethically "for no other reason than that it is wrong not to do so," Webley (2003) suggests that companies that adopt codes of ethical practice tend to outperform their competitors in financial terms.

The OECD (2004) principles (2004) suggest that business ethics, in tandem with corporate awareness of environmental and societal interests, could have an impact on reputation and long-term success. More comprehensive recommendations on the governance of ethics are contained in the second King Report, which outlines a six-stage process, including the integration of ethical performance into performance appraisal and the promotion and recruitment processes. However, Keasey, Thomson and Wright (1997) note that an effective system of accountability may ultimately require trade-offs between ethical and wider efficiency issues, while Solomon (2007) suggests that ethical behavior is part of a company's underlying social responsibility.

In terms of the benefits of such a foundation, Potts and Matuszewski (2004) argue that "ethical" companies should be able to recruit and retain the best workforces and foster positive, long-term relationships with vendors, customers, investors, and stockholders. These authors 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 firms and capital markets can only be built on the actions, values, and beliefs of those in corporate boardrooms.

The literature discussed above suggests that the ethical framework within which a company operates has an important contextualizing role regarding corporate governance practices. Such a framework includes the values held by culture and society, as well as internal corporate practices and the moral values held by firms' employees (Lozano, 2000). Whether companies should be concerned about ethics because it makes business sense, or because it is good for the company's reputation, or simply because that is what they "should" do, is clearly open to discussion. However, it is obvious from the literature that a company might reasonably expect to be affected by the cultural, societal, and ethical framework within which it operates and should take a position with regard to these issues as part of the on-going development and maintenance of a healthy corporate governance system.

The Political Framework

The role played by government in shaping society has also been purported to influence the likelihood of sound governance practices emerging. For example, the ECA (2002) guidelines state that:

> 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 (sec. 2.1, par. 4).

Businesses operate in accordance with laws, rules, regulations, and policies that are put in place as a result of political decisions by government. Effective development of fiscal and monetary policies and laws governing commercial interactions, with meaningful enforcement thereof, should arguably provide a stable framework for business operations (Chryssides and Kaler, 1996). A robust and fully operational legislative branch, passing, and monitoring, appropriate laws, setting up regulatory and supervisory agencies, and providing examples of best practice at the macro-level may be necessary to promote sound corporate governance (LaPorta *et al.*, 1998). In addition, Parliament's oversight function may be instrumental in the process of developing meaningful levels of accountability (Neal, 2003).

However, corruption remains endemic in certain developing African nations, including Uganda (Tangari and Mwenda, 2001), and in some cases has become institutionalized as the result of collective behaviors (Okike, 2004). Okike argues that corruption is determined by the wealth and economic well-being of a country, with fast-growing economies becoming more prone to corruption, and internal control systems often being absent because all employees on the control trail of a transaction can be bribed. Often conscience is sold when there is economic hardship; political processes themselves thus become corrupt and perpetuate the problems in society as a whole (Okike, 2004).

The Accounting Framework

The OECD (2004) 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)." In such a case, accounting information may play a major role in the effective corporate governance of a firm as it enables relevant parties to monitor the perfor-

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mance of managers and use that information to hold management accountable (Matthews, 1993; Gray, Owen and Adams, 1996). Annual audits conducted by independent, competent, and qualified auditors, as recommended by the OECD principles, should provide an external and objective assurance to the board and shareholders about the financial position and performance of a company (Monks and Minow, 2004). Consistent with this line of reasoning, Combined Code (2008: 16) requires the boards of London-listed firms to provide a "balanced and understandable assessment" of the company's position and prospects. The earlier Cadbury Report (1992) also highlights the necessity for a financial reporting system that ensures that financial transactions are accounted for in a consistent manner, suggesting that:

> 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).

Thus, the accounting standards that are used in recording and presenting the transactions of a company are instrumental in conveying financial information to the users of the statements issued by companies and in discharging management's accountability to stakeholders. The use of consistent accounting principles by different firms enables users to evaluate the performance of companies using similar yardsticks (Jones and Wolnizer, 2003); this should in turn enable users to assess the performance of management in terms of their governance of companies and their accountability to stakeholders.

The body that is responsible for the setting of a nation's accounting standards needs to consider their adequacy in encouraging the reporting of a true and fair view of the transactions and ensuring that these standards are applied uniformly across companies in the manner intended by the standard setters (Bushman and Smith, 2001). The quality of the standards, and their implementation, is likely to have an impact on the confidence of the users of the information (DeAngelo, 1988; Bushman and Smith, 2001). Indeed, some regulators go beyond the usual financial reporting requirements and provide information about sustainability and social and environmental factors. For example, the Johannesburg Stock Exchange introduced its Socially Responsible Investment Index in 2004, the first in an emerging market, to crystallize the recommendations of the King II Report with regard to triple bottom-line reporting and influence companies and investors to pay greater regard to their social responsibilities (Newton-King and le Roux, 2007).

On a wider scale, the GRI encompasses 30,000 stakeholders and more than 1000 organizations that collaborate to advance the cause of sustainability reporting. The Sustainability Reporting Guidelines can be used to benchmark organizational performance with respect to laws, norms, and codes, and includes special guidance for small- and medium-sized enterprises, which are often the types of business that operate in African countries. Indeed, the second King Report follows a triple bottom line reporting and disclosure model based on the GRI initiative (Rossouw, 2005).

Further, voluntary bodies have been established to improve the transparency and reporting of certain industries in emerging markets. The Extractive Industries Transparency Initiative (EITI) is such an example. The EITI suggests that if transparency and accountability are weak, the extractive industries may contribute to poverty and corruption and that the use of natural resources should be used for sustainable economic growth that reflects the engagement of civil society. For these reasons, the robustness of the underlying accounting framework in Uganda was also included as one of the areas for empirical investigation in the study.

RESEARCH METHOD AND METHODOLOGY

Semi-structured interviews and a questionnaire survey, with questions based on international corporate governance norms, as well as the extant academic literature on corporate governance, were used to elicit views from individuals who were understood either to have an important role in shaping the governance of companies or who were representatives of the key constituencies in Ugandan society. In terms of methodology, adoption of a qualitative approach reflects the desire to garner perspectives on governance from a wide, non-homogeneous, sample of those close to the issues in Uganda on a day-to-day basis. In so doing, the study is intended to provide descriptive evidence on the current reality of governance in the nation's corporate sector, which can then form the basis for the induction of a theoretical model that explains the salient features of practice.

Sixteen interviews were carried out during the fall of 2004. The selection of interviewees was guided by the researcher's wish to gauge the views of individuals likely to have a direct interest in the manner in which companies were managed. With this in mind, the researcher tried to contact all the relevant regulators to seek an appointment. Only those who responded favorably were interviewed. Other interested stakeholders, such as the chairpersons of parliamentary committees that were responsible for monitoring economic affairs, the CEO of the ICGU, and the Chairperson of Transparency International were interviewed. In addition to these, high court judges and lawyers who are actively involved in administering justice and trying to enforce good governance of companies, as well as external auditors whom shareholders rely on to monitor the financial affairs of companies, took part. A company secretary of a listed company and some shareholders were also among the interviewees.[7]

A questionnaire survey was then administered in the spring of 2005 to a cross-section of Ugandan stakeholders. The survey was conducted after the interviews to help establish the extent to which views expressed by the former were generalizable across a wider sample. 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

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TABLE 1
Categories of Respondents for the Questionnaire

Category	Group	No.	% Resp.	Category	Group	No.	% Resp.
1	Legislators	7	23.30	8	Owner-managers	3	60.00
2	Regulators	6	100.00	9	Individual Investors	9	22.50
3	Company Employees	36	72.00	10	Institutional Investors	0	.00
4	Civil Servants	16	32.00	11	Non-Executive Directors	4	57.10
5	Academics	21	60.00	12	Executive Directors	7	14.00
6	Accountants	16	80.00	13	Judiciary or Legal	4	40.00
7	Company Executives	25	39.10	14	Other	4	40.00

Note: This table shows the number of respondents and percentage response from each group of stakeholders.

companies. There was also a practical issue relating to cost and time constraints – only those stakeholders living within Kampala, the capital city of Uganda, were selected as research participants because it would have been too expensive for the researchers to travel to different locations outside of Kampala. More specifically, the questionnaires were distributed to: the heads of regulatory agencies, legislators who were on Parliamentary committees that were relevant to monitoring economic performance, company directors, and other stakeholders. The rationale behind the selection of specific individuals was the relevance of one's position to corporate governance, as well as accessibility to, and availability of, other stakeholders given the time and cost constraints of the research.

In all, 382 questionnaires were distributed, out of which 158 were returned, representing a response rate of 41.40 per cent.[8] A breakdown of the rates across groups of respondents is provided in Table 1.[9]

EMPIRICAL FINDINGS

Legal, Regulatory, and Enforcement Structures

Both the interviewees and the questionnaire respondents believed that the level of implementation of corporate governance guidelines in Uganda is poor. The CEO of the ICGU attributed this to the lack of an appropriate framework to support implementation and enforce compliance with the guidelines. Similarly, several questionnaire survey respondents suggested that board members, company directors, employees, and other stakeholders had little knowledge about the main concepts underlying the notion of corporate governance and that this affected implementation of the guidelines.

The interviewees stressed that meaningful interaction between the directors, managers, shareholders, and other stakeholders must take place, in order to ensure that: no laws are violated; all shareholders' interests (whether minority or majority owners) are protected; and that the rights of other stakeholders are respected. In Uganda, the basic law governing the operation of all companies is The Companies Act 1948 (based on Companies Act, 1948), as revised in 1964. The Act covers a range of topics including: shareholders' rights (including minority shareholders); composition and responsibilities of board members; requirements to report to regulatory agencies and shareholders; contractual obligations to creditors and debenture holders; and accounting and auditing rules.

An area of particular concern for several of the interviewees was the protection of minority shareholders, especially in multinational companies. An example was given regarding one of the multinational companies listed on the USE. The parent company of this subsidiary owned 90 per cent of the shares while Ugandans owned only 10 per cent. The concern related to the way in which the interests of the Ugandan shareholders could be afforded due prominence as, 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 had been on the board as its inception. The law thus did not appear to be fair, or in accordance with the ECA (2002), which state 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, the ECA (2002) also outline the attributes required if a judiciary is to be considered independent:[10]

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.

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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.

Some of the interviewees argued that, although in theory the courts of law represent an effective enforcement mechanism, the court system itself is overstretched as the number of judges is insufficient to handle all pending cases expeditiously. Concern was also expressed that some members of the judiciary were being influenced by bribes when cases were brought before them.[11]

Table 2 summarizes the responses to the questionnaire. Panel A of the table focuses on views regarding a series of broad questions relating to regulatory and supervisory issues. The respondents clearly thought that the laws promoting corporate governance in Uganda are neither adequate nor effective, as evidenced by the mean response to the question on this issue of 2.55, significantly less than the mid-point of 3.[12] This perception suggests that attention from the relevant authorities is needed, so that stakeholders can develop confidence in the legal system as a basis for promoting high standards of de facto governance in Uganda. Although there are clearly concerns about the state of current practice, Panel A of Table 2 also reveals that there was general agreement among the respondents that the legal system could help to improve corporate governance and accountability, as well as reduce corruption in Ugandan companies; mean responses to the relevant questions of 4.09, 4.00, and 3.89, respectively, are documented.

Various laws and statutes governing different types of corporations also exist in Uganda and Table 3 lists the most important of these. The act or statute establishing each public sector corporation outlines the corporate governance guidelines that they are required to follow. However, several of the interviewees pointed out that implementation of the various laws in Uganda that address corporate governance-related issues remains a major problem. It was also noted that some companies implement selective sections of the Companies Act, while private corporations can find other ways of getting around the requirements of the law. These views are consistent with the findings in the World Bank/IMF Reports on the Observance of Standards and Codes (ROSCs), which assess the observance of selected standards that are relevant to a country. The ROSCs take into account a country's overall development strategy and tailor them to individual country circumstances. A Ugandan example is provided in an August 1999 report, which suggested that "a more rigorous adherence to, and enforcement of, the existing legal framework" was needed in the nation's banking sector.

Some of the interviewees claimed that Ugandan regulatory authorities are not effective in enforcing governance regulations even though they have the authority to do so. However, the Registrar General outlined a range of problems that have affected the ability to enforce 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 that, considering the number of companies involved, made it difficult to keep track of developments. Neither was the Registrar's office able to verify information supplied by existing and prospective companies because of the geographical spread of companies and the insufficiency of resources. Most of the companies did not keep proper financial and other required records, and this inevitably affected the quality of data collected.

Other factors mentioned in the interviews as potentially affecting implementation of the rules and regulations were the inadequacy of fines designed to encourage compliance, ignorance of laws and regulations, 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.

The evidence appeared to indicate a perception among the participants of a need for the strengthening of Ugandan regulators' powers, with greater resources possibly being required to help enforce compliance. For example, the IGG is supposed to enforce The Leadership Code of 2002, which is intended to ensure accountability on the part of Uganda's politicians. However, an interviewee who was a member of the Ugandan parliament at the time of the study 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.

Both the interviewees and the questionnaire respondents recommended that listed companies that fail to explain and justify their non-compliance with corporate governance guidelines should be de-listed. The latter's views are reflected in the significant mean response to the question on this issue of 3.66 shown in Panel A of Table 2. In this context, the UCMA (2003) recommend in their guidelines that:

> 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 (par. 8).

However, while the UCMA requires companies to disclose the extent of any non-compliance with the guidelines, and indicate the steps being taken to adhere to full compliance and state the reasons for any departures, the guidelines do not specifically state that non-compliance could lead to de-listing of the companies in question.

The views of questionnaire survey respondents also suggested that Ugandan authorities are ineffective to some degree as regards enforcement of compliance with laws and

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TABLE 2
Views Regarding Governance Frameworks in Uganda

Panel A – The Regulatory and Supervisory Framework		
Statement	Mean	p-value
Ugandan regulatory and enforcement authorities are effective in enforcing compliance with laws and regulations.	2.20	.000
There are adequate and effective laws that promote the practice of good corporate governance in Uganda.	2.55	.000
The enforcement agencies have the power and authority to enforce compliance with laws and regulations in Uganda.	3.00	1.000
Listed companies that do not explain and justify their non-compliance with corporate governance guidelines should be de-listed.	3.66	.000
The legal system could help to reduce corruption in Ugandan companies.	3.89	.000
Corruption in Uganda affects the ability of regulatory authorities to enforce compliance with corporate governance principles and accountability.	3.99	.000
The legal system could help to improve accountability in Uganda.	4.00	.000
The legal system could help to improve corporate governance in Uganda.	4.09	.000
Panel B – Cultural and Social Factors		
Statement	Mean	p-value
Cultural factors affect the practice of corporate governance in Uganda.	3.40	.000
Social factors affect the practice of corporate governance in Uganda.	3.57	.000
Panel C – Economic Factors		
Statement	Mean	p-value
Good corporate governance is important in attracting local investment in Uganda.	3.84	.000
Good corporate governance is important in attracting foreign investment in Uganda.	4.32	.000
Good corporate governance is important for the Ugandan economy.	4.55	.000
Panel D – Corruption and Ethical Factors		
Statement	Mean	p-value
Ethical factors affect the practice of corporate governance in Uganda.	3.95	.000
Improvements in corporate governance will help to reduce the level of corruption in Uganda.	4.10	.000
Improvements in corporate governance will improve the accountability of Ugandan firms.	4.35	.000
Panel E – Political Factors		
Statement	Mean	p-value
The political climate in Uganda is conducive to the practice of good corporate governance in public sector companies.	2.37	.000
The political climate in Uganda is conducive to the practice of good corporate governance in private sector companies.	2.67	.001
Panel F – Accounting Factors		
Statement	Mean	p-value
The Institute of Certified Public Accountants of Uganda is effective in enforcing good accounting and financial reporting practices.	2.81	.031

Note: This table summarizes the mean questionnaire responses on a 5-point Likert scale (where 1 = strongly disagree and 5 = strongly agree). The p-values relate to a two-tailed t-test of the hypothesis that the mean = 3.

regulations; responses to this question generated the lowest mean in Panel A of Table 2, or anywhere in the questionnaire, of only 2.20. Relatedly, the respondents agreed that corruption in Uganda affects the ability of regulatory authorities to enforce compliance with corporate governance principles and accountability (mean = 3.99). However, the responses were equivocal regarding the question of whether enforcement agencies have the power and authority to

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TABLE 3
Examples of Ugandan Acts and Statutes

The Companies Act, 1964
The Investment Code, 1991
The Accountants Statute, 1992
The Public Enterprises Reform and Divestiture Statute, 1993
The National Environment Statute, 1995
The Capital Markets Authority Statute, 1996
The Uganda Registration Services Bureau Act, 1998
The Public Enterprises Reform and Divestiture (Amendment) Act, 2000
The Workers' Compensation Act, 2000
The Leadership Code Act, 2002
The Collective Investment Schemes Act, 2003
The Public Finance and Accountability Act, 2003
The Public Finance and Accountability Regulations, 2003
The Financial Institutions Act, 2004

Note: This table details the Ugandan Acts of Parliament most relevant to the study.

enforce compliance with laws and regulations; the only mean in the entire study not significantly different from the mid-point of 3 resulted in this case. These results together suggest that the underlying problem in Uganda relates to the impact of corruption on de facto practices, despite rules existing on paper that would have substantive impact if they were actually operationalized.

Societal, Cultural, and Family Factors

The interviewees took the view that both cultural and social factors had the potential to affect the practice of corporate governance in Ugandan corporations. The specific cultural and social factors mentioned by the interviewees included: pressure from extended families and the clan for financial support (which might encourage corruption and bribery); respect for elders, allied to due deference to one's 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 his decisions; attitudes towards employment; attitudes towards women (and the dominance of men); and tribalism. These issues were suggested 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. For example, in reference to pressure from extended families and clan members for financial and other support, an interviewee who was the senior partner and solicitor at a law firm 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.

The questionnaire survey respondents also agreed that cultural and social factors affect the practice of corporate governance in Uganda, with significant means of 3.40 and 3.57, respectively, shown in Panel B of Table 2 for the questions relating to these issues. Overall, these results suggest that cultural and social factors are seen as an important part of the corporate environment and therefore have a major potential influence on governance practices.

Another, more specific, aspect of societal influences that emerged in the interviews relates to the protection of employees and the payment of a decent living wage. In the interviews, a judge from the High Court of Uganda expressed strong feelings about the need to protect employees and to pay fair wages, pointing out that there was no current law covering the setting of minimum wages and that The Workers' Compensation Act (2000) was silent on this issue. Employers were therefore free to pay what they wanted, leading to the exploitation of some employees who were paid, in this interviewee's words, a "pittance."

The need for monetary rewards was perceived to be a feature of corporate life, even at managerial levels where remuneration might be expected to be higher than for the vast majority of Ugandans. For example, one of the interviewees claimed that some board members are heavily focused on their financial rewards and, as a consequence, simply accept what company executives tell them about, or decide for, the organization. This behavior was seen as being likely to affect the board's oversight function. Some interviewees asserted that poor wages often underpin any corrupt tendencies, especially if employees think that their behavior will remain undetected. It was also pointed out that some of the Ugandan organizations struggling to survive under stiff competition might not be following good corporate governance practices as a result of expedient responses to their financial circumstances.

Economic Factors

In addition to the effect of personal wealth on the propensity for Ugandan corporate governance standards to improve, the interviewees also expressed the view that macroeconomic policies affect the way in which large organizations are managed. Economic factors such as the level of taxes, remuneration, poverty, inflation, and the individual circumstances of company officials, were mentioned as potential influences on the conduct of directors in managing their company. 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 impression to shareholders and thereby reduce managerial accountability.

One of the interviewees stressed the relevance of corporate governance to economic development in Uganda, stating that:

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> 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.

The questionnaire survey respondents also supported the view that good corporate governance was important for the Ugandan economy, as can be seen in Panel C of Table 2; the highest level of support anywhere in the study (mean response = 4.55) was recorded for the statement in this regard. Significant support was also expressed for the view that good governance is important in attracting both local and foreign investment. This evidence suggests a link between the state of the domestic economy and governance practices in Ugandan corporations. In the light of these findings, it appears reasonable to suggest that the government should closely scrutinize the impact of its fiscal and monetary policies on corporate governance practices.

The comments made by the interviewees suggested that they perceived a poor economy, characterized by poverty, inadequate remuneration, high inflation, and high tax rates, as being likely to act as a potential breeding ground for poor corporate governance, because of its association with an inherent lack of accountability and the propensity for adopting unethical practices as a means of survival. In this context, some of the interviewees believed that high unemployment compromised the practice of good governance, as Ugandan workers were often seen as being desperate for jobs and prepared to work under almost any conditions. A lack of opportunities for career development was also seen as affecting the commitment of company employees. More generally, poor remuneration of regulators, employees, management, and directors was thought to have an effect on governance standards as it might encourage officials to be involved in corruption and bribery. These issues are explicitly examined next.

Corruption, Bribery, and Business Ethics

The evidence in Panel D of Table 2 suggests that the questionnaire respondents believed that, in accordance with the findings of other studies in developing countries (e.g., Okike, 2007) ethical issues affect Ugandan corporate governance practices in a substantive manner (with a significant mean response of 3.95), although improvements therein were thought to have the potential to improve accountability and reduce corruption levels (means = 4.35 and 4.10, respectively).

Similarly, the interviewees appeared to see a clear 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: threats of a person being sacked for exposing an official who was doing something wrong; sexual harassment against staff; compromising behavior 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 non-meritorious grounds; corruption and bribery, particularly in the public sector; insufficient disclosure of accounting information; non-adherence to codes of conduct governing corporations; lack of qualities, such as integrity, punctuality, honesty and accountability; and the tendency of some politicians to demand favors from the officers of public sector corporations – in particular, it was thought that an officer who refused to grant the favors could find himself out of a job.

A high court judge noted the direct impact of endemic corruption on levels of accountability in Uganda:

> 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, as corruption will solve all your problems. This is connected to a lack of accountability; a person involved in corruption will not want accountability as 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 the perceived role of bribery in "moving things," i.e., some officials tend to demand bribes before undertaking certain tasks, or simply slow down the decision-making process until appropriate rewards are forthcoming. This interviewee also referred to the possibility that key documents might be hidden so as to frustrate individuals who did not want to give a bribe, as well as noting the possibility that some government officials require bribes before awarding contracts to private businesses.[13]

There was some evidence of concern among interviewees that the perception of corruption among government officials could affect the enforcement of compliance with corporate governance principles; in line with this possibility, a former director of the Central Bank observed that:

> If there is corruption within 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 views expressed by the interviewees indicated that they did not consider business to be divorced from ethics. They were instead of the view that people's attitudes towards moral values might affect their integrity, accountability, and the practice of corporate governance as a whole. It was also argued that there should be moral rehabilitation in Uganda through education, starting from the early formative years. A specific recommendation was made that a course in "civics," stressing good citizenship and the responsibilities of a good citizen, should be introduced in schools from primary level, and that business ethics should be made a compulsory part of the curriculum of all institutions of higher learning.[14] These views suggest that the ethical and moral issues mentioned by the research participants should be considered as Uganda attempts to improve its standards of corporate governance.

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The CEO of the ICGU hoped that corporate governance improvements would address the issue of corruption, lead to better utilization of scarce resources, and enable people to have a better quality of life and standard of living. This interviewee expressed the belief that good governance allows a company to examine its long-term sustainability and assess the extent to which value is being added to the company; he also pointed to its role in controlling management's handling of owners' resources, so that the entity is managed in line with the latters' objectives.

Governmental and Political Factors

The interviewees appeared to agree that a nation's political environment affects the practice of corporate governance, arguing that fiscal and monetary policies, as well as security, stability, and the political leadership in a nation, could all have a strong influence. Some of the specific political factors that were mentioned as affecting the practice of corporate governance in Uganda were: political interference with the work of regulatory and supervisory bodies; the protection of certain entities that have political connections when these entities do not comply with certain legal and regulatory requirements; 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 the awarding of tenders to political supporters, and the denial of business to entities that are critical of government.

The interviewees also felt that the underlying political climate fails to promote respect for the rights of stakeholders, while the specific point was made that government's continued ownership of shares in privatized corporations is a breeding ground for political interference in the running of the organizations concerned. High tax rates were mentioned as an incentive for company executives to use illegal means such as smuggling, under-declaring goods' values, or managing trading accounts in order to evade taxes. These responses support the notion that government's fiscal and monetary policies can affect corporate behavior in a tangible and substantive manner.

The impression of endemic failure in the regulation of business activities in Uganda was furthered by the interviewees' suggestion that supervision of public sector corporations by parent ministries is inadequate and that the respective ministries must play a stronger role in monitoring and fostering compliance with governance principles. As Panel E of Table 2 documents, the survey respondents held similar beliefs to the interviewees, with significant disagreement being registered with the view that the political climate in Uganda is conducive to the practice of corporate governance in both public and private sector corporations.

Accounting Factors

The final factor examined in this study is the accounting and auditing environment. An ICPAU statute was enacted in 1992 to regulate the Ugandan accounting profession and to guide government in accounting-related matters. However, one of the interviewees noted that although the ICPAU had recommended the use of International Financial Reporting Standards (IFRS), these were not yet mandatory in Uganda, except for listing purposes. More generally, as Panel F of Table 2 documents, there was significant disagreement with the view that the ICPAU is effective in enforcing good accounting practices, with a mean response of 2.81 resulting.

Despite the ICPAU's stated objective, the general view amongst the research participants was that the accounting framework in Uganda remains weak. Some of the interviewees noted that part of the problem relates to the fact that the nation's practicing accountants belong to several different professional bodies, a number of which are international and do not have sufficient mechanisms for liaising with their Ugandan members. This state of affairs is not unique to Uganda, but is common in many African countries, as Uche (2007) reports. Similarly, the chief executive of the ICPAU stressed the difficulties involved in monitoring and regulating accounting practitioners in Uganda given the limited resources at the organization's disposal and the number and geographical spread of practitioners.

It was clear from the interviews that the accounting framework in Uganda is seen as needing attention to ensure that financial statements are 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.

The respondents to the questionnaire indicated that not every company in Uganda uses IFRS and that, in several cases, there appeared to be uncertainty about which standards were being used. Out of the 80 respondents who answered this question,[15] 67.50 per cent stated that their companies used IFRS, while others said that they employed UK Accounting Standards (8.80 per cent) or Ugandan Accounting Standards (12.50 per cent), with the others (11.20 per cent) claiming that they did not know which standards their companies used. The overwhelming majority of respondents (98.80 per cent) indicated that their companies had annual audits. Companies Act (1964) requires all companies to have annual audits by independent, qualified auditors and any company not having annual audits would be contravening the law. Nominally, firms whose accounts are unaudited would be subject to financial sanctions imposed by the Registrar General; however, it was suggested to the researchers that a lack of resources represents a hindrance to monitoring and enforcing compliance by all companies. Nonetheless, given the propensity for corruption documented in this study, pertinent questions remain regarding the quality and extent of the audits that these companies receive and whether the auditors are truly independent and objective. This is an important consideration if shareholders and other stakeholders, such as regulators and government, are to place reliance on the opinions of auditors in judging and evaluating corporate performance.

Companies Act (1964) places the responsibility for appointing auditors on shareholders at an Annual General Meeting. In the light of the findings reported here regarding the difficulties faced by Ugandan shareholders, and the

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general climate of inconsistent respect for the law, it is worth speculating whether the owners of firms have genuine responsibility for the appointment of auditors (and, where necessary, sanctioning) as stipulated by the Companies Act, or if instead 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, as, as minority shareholders, their voting power is not significant enough to influence the decision.

CONCLUSION AND DISCUSSION

This paper has investigated perceptions regarding the strength of a number of key frameworks underpinning corporate governance practices in the developing country of Uganda. The results suggest that although several attempts to develop governance guidelines have occurred in recent years, a number of concerns exist regarding the contextual factors important in facilitating the emergence of a robust regulatory framework. The structures that have been examined here are: the political, legal, regulatory, and enforcement framework; social and cultural factors; the economic environment; corruption and business ethics; the governmental and political climate; and the accounting and auditing framework.

The findings indicate that many of the structures required for a sound system of corporate governance in Uganda are already in existence, but they are not perceived to be working. Change is thought to be needed in many of the mechanisms and practices underpinning behavior. For example, the evidence suggests that extra resources might be needed to enable the legal, regulatory, and enforcement agencies to perform their work adequately, while the governance framework may also need to reflect more closely the specific cultural context of Uganda, where respect for elders and the protection of the family is a major concern. The education system could be utilized in order to instill in the population a sense of ethics, such that illegal business and personal practices are recognized as unhealthy for the economic development of the country. The evidence in the present study suggests that, even when controlling for a wide range of influences on the governance process, including those touched on in related studies of financial regulation in developing countries such as Yapa (1999), corruption is likely to have a strong impact. The extent to which this propensity varies across national boundaries and cultures is an important research issue.

It is also apparent that the accounting framework could be clarified so that uniform financial reporting and auditing standards are followed by all companies, thereby facilitating the interpretation and comparison of results between different companies and across financial periods. Despite the differences in national culture, political background, and economic status, these results are similar in nature to Wallace (1992) and Okike's (1998, 2004, 2007) evidence regarding Nigeria. For example, Wallace (1992) finds that there has not always been convergence between societal values and the professional culture of accountancy bodies, because the traditions of society made it difficult for younger experienced accountants to question less-skilled older colleagues in case it caused offence; in a society of extreme corruption it can be difficult to maintain ethical standards. Okike's findings indicate that politicians and civil servants manipulate laws that would be for the general good for their own personal desires.

These findings suggest that many of the results may be generalizable across the African continent. Political democracy is seen as "work-in-progress" in many African countries such as Nigeria, Zimbabwe, Kenya, Sudan, Chad, Egypt, and Libya (see, e.g., de Hoyos, 1999; Okike, 2004). Moreover, political interference in business entities is not limited to Uganda as has been illustrated most starkly in Zimbabwe where private ownership of property has not been respected and political upheaval has grossly affected the management and development of the economy. Development of effective legal and regulatory systems, unhindered by undue political influences, seem to represent major challenges to many other African countries and other emerging nations, such as those in Eastern Europe and Southeast Asia. Corruption and other questionable ethical behaviors are not unique to these contexts though, and appear to extend to all countries irrespective of the level of economic development, as has been evidenced by such prominent cases as Enron and Parmalat. Full immunity from the development of questionable accounting practices appears to be lacking across the globe and there is a need for appropriate and effective controls to guard against these tendencies in most countries.

The results of the present study indicate that perceptions of the state of corporate governance are a function of several parameters. Inductive reasoning based on the evidence suggests that a model in which de facto corporate governance depends on the five broad groups of factors outlined here (cultural/social, economic, corruption/ethical, political, and accounting) might have a degree of empirical grounding. Precise specification of the parameters – and assessing the extent of generalizability across eastern Africa, Africa, developing nations and the global economy as a whole – will clearly present challenges to researchers in the future. However, at a more general level, it is reasonable to induce from the descriptive evidence presented here that in emerging markets, underlying weaknesses in key frameworks mean that even when robust and exacting rules are in place, corporate governance standards may fall below those existing in developed countries.

Solomon (2007) suggests that corporate governance can be viewed from three theoretical perspectives – agency theory, transaction cost economics, and stakeholder theory – while Mallin (2007) suggests that these three, with the addition of stewardship theory, are most germane. The evidence presented in this study suggests that while elements of each theory may have relevance in the Ugandan environment, it is equally evident that none of them fully explain the current situation, where excessive institutional power and a disenfranchised stakeholder body, without the power to impose the external agency or internal transaction cost mechanisms required to improve behavior, are dominant features.

Instead, present practice resonates more strongly with the type of modern institutional theory evident in the work of Scott (2005: 2) where "schemas, rules, norms, and routines, become established as authoritative guidelines for social

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behavior." The evidence presented here suggests that this is precisely the type of entrenched structure that pertains in modern-day Uganda, at both the corporate and governmental level (e.g., in Panel A of Table 2 where the respondents agree that key institutions have the potential to encourage better governance practices, but simply fail to do so) and which will require the type of root-and-branch change at early educational level advocated here if substantive improvements in governance are to occur.

Of most relevance to corporate executives, both within and beyond Uganda's borders, is the evidence that a number of fundamental weaknesses exist in the frameworks underpinning the nation's governance system, which in turn suggest a need for a cautious approach to the commitment of new investment funds. In particular, legal mechanisms that should play an important part in enforcing robust governance standards in the corporate sector appear not to do so – certainly, this is how they are perceived. Ultimately, it may be the case that only those running corporations, particularly those based overseas with experience of investing in markets governed in a more vigorous fashion, have the power to influence the key institutions (including the government and legal system) to take the actions needed to improve the situation, and bring about the changes required to provide investors and lenders with confidence in Ugandan firms.

One limitation of the present study is that it deliberately focuses on conduct and behavior in the corporate sector. It is argued here that, given the extent to which the current regulatory framework is believed to be failing, development in ethical thinking is needed at such a fundamental level that even the values instilled in school children may need to alter. However, full justification for such a deep-rooted change would require analysis of the impact of unethical behavior across all types of organizations operating in Uganda, which is obviously a bigger research task.

The present study has employed evidence from one country to identify the areas where efforts to improve corporate governance in emerging nations are most at risk from weaknesses in underlying economic, political, and structural frameworks. However, Africa, and the developing world as a whole, is by no means homogeneous in terms of culture, market structure or political economy (Rossouw, 2005). Ultimately therefore, only the gathering of empirical evidence from other nations can provide conclusive proof about the extent to which the single country-based evidence presented here is generalizable. In addition, the pervasiveness of the present study's conclusions is tempered by the fact that the respondents were all domestic, and that, ultimately, it is only perceptions of reality that are being examined here. Further analyses that allow these weaknesses to be addressed are clearly needed, e.g., by seeking the views of overseas investors and studying, over time, the extent to which perceptions alter in response to changes in the de jure regulations.

Notwithstanding these points, the evidence presented suggests that, in the Ugandan corporate sector at least, the basic underlying conditions required for a reliable governance system are absent and this is seen as having the potential to continue to cause harm to the national economy. The urgent attention of regulators, investors, educators and others with the interest of Ugandans at heart is thus required.

NOTES

1. Official website of the Uganda Investment Authority.
2. See official website of the Uganda Manufacturers Association.
3. See Ellis, Manuel and Blackden (2006).
4. Public limited liability status also requires seven shareholders and a prospectus.
5. The present study deliberately avoids making any definition of corporate governance explicit. Most such attempts originate in developed countries and, as Solomon (2007: 12) notes, "substantial differences" exist in understanding of the term across national boundaries.
6. The word "Ubuntu" originally derives from the Bantu languages of Southern Africa and other areas of Africa. The notion reflects the idea of togetherness as human beings, where consideration for one another is fundamental.
7. Further details regarding the interviewees and questionnaire recipients and respondents are available from the authors on request.
8. This response rate is high relative to many studies in the broad accounting and governance area, but reflects the efforts made by the researchers to deliver the questionnaires personally.
9. The survey used conventional 5-point Likert scale analysis throughout (with a 5 indicating "strongly agree" and a 1 indicating "strongly disagree"). A copy of the questionnaire is available from the authors on request.
10. An example of possible political interference in the independence of the Ugandan judiciary is the fact that 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.
11. The Solicitor General has now been suspended from office pending investigation of the handling of some cases where possible corruption is suspected; questions have also been raised about how he has amassed his wealth. Further, a High Court Judge suspected of corruption has had his services terminated.
12. The interviewees suggested that some of these laws are outdated and need revision; the Companies Act was singled out in this context. A number also claimed that there was sometimes no proper consultation before the passing of statutes and laws governing corporations.
13. Since the time of this study some government ministers who were involved in the Global Fund Scandal have been dropped from the cabinet. Further, the Office of the IGG has been strengthened with the appointment of a high court judge as IGG. She has been very active and has caused a number of government ministers and officials to be investigated in cases of suspected corruption or abuse of office. Three former ministers have also been taken to court over suspected corruption involving misuse or embezzlement of funds that were intended to be used for the immunization of children in Uganda.
14. Some universities in Uganda, such as Uganda Martyrs University, have already made the study of Business Ethics mandatory for all their students.
15. Further details regarding this and other background information asked for in the questionnaire (e.g., position in the organization, years in post) is available from the authors upon request.

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