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Full Length Research Paper

Corporate governance and maximization of shareholder value: Theoretical analysis from Francophone countries in Africa

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This research looks at the theoretical impact of corporate governance on shareholder value maximization in some Francophone countries in the CFA Zone in Africa. Data from Burkina Faso, Cameroon, Côte d'Ivoire and Gabon covering the period 2005 to 2009 were used and theoretical analysis done. Theoretical results show that, though highly dispersed, both within and between enterprises, corporate boards in the selected countries are relatively not independent. Our paper also shows that both sector and country-specific effects have an impact on shareholder value maximization. While the mining sector is dominant in maximizing shareholder value, it also suffers from higher taxes and interest payments.

Key words: Corporate governance, shareholder value, corporate performance.

INTRODUCTION

"The governance of the corporation is now as important in the world economy as the government of countries" (Wolfensohn, 1999). This sentiment of the former president of the World Bank underscores the critical position corporations have come to play in both our economic and social lives. It may also speak to the global reach and political power of corporations, which, in many cases, now transcend the reach and power of governments. Indeed, during the past decade, several events are responsible for the heightened interest in corporate governance especially in developed countries in America, in Europe, and in some African developing countries. First, there has been a proliferation of corporate scandals (Enron, 2001; WorldCom, 2002; Parmalat, 2003) and crises (Asian financial crises, 1997; Russian financial crises, 1998; Lehman Brothers, 2008) across the globe in which the behavior of the corporate sector affected entire economies and deficiencies in corporate governance endangered the stability of the global financial system. These scandals serve as evidence of the failure of the 'shareholder theory' that managers primarily have a duty to maximize shareholder returns. Second, the private, market-based investment process is now more important for most economies than it used to be, and that the entire process is underpinned by better corporate governance. With the size of firms increasing and the role of financial intermediaries growing, mobilization and allocation of capital have become more complex as a result of liberalization of financial and real markets, structural reforms including price deregulation and increased competition. These developments have the monitoring of the use of capital more complex in certain ways, enhancing the need for good corporate governance.

Corporate governance is the set of processes, customs, policies, laws and institutions affecting the way in which a corporation is directed, administered or controlled. The aim of corporate governance is to ensure that companies that are not managed by their owners are run in the best interest of the shareholder. Although in recent years, too much focus has fallen on deterring fraudulent activities and on issues of transparency owing to some scandals of big corporations in the major economies of the world. The concept of corporate governance is being revisited not only in light of these scandals with means / ways to counter such attempts in future, but also in terms of taking the concept further/

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beyond to make it a way of "corporate life" rather than just an option that may be followed for mostly gaining investors' confidence. The level or the state of corporate governance in a country plays an important role in attracting and holding the foreign investments, for building a robust capital market and for maintaining / restoring the confidence of both domestic and foreign investors.

Corporate governance is also defined as the system by which companies are directed and controlled and this responsibility principally lies with the board of directors, shareholders and the management is by so, playing a principal role in the corporate governance process. Besides the board of directors, shareholders and the management, other stakeholders included in the process are employees, suppliers, customers, creditors, regulators, the environment and the community at large. The main objective of corporate governance is establishing transparency and accountability throughout the organization defined as a "nexus of contract" (Coase, 1937). From very early in the debate, the financial market discipline view prevailed among most economists and financial. Finance theorists developed a compelling theoretical argument to support this view. The so-called market for corporate control, through which financial investors could remove poorly performing managers, was viewed as a helpful, even necessary part of the arrangements that reigned in potentially wayward managements (Jensen, 1986; Shleifer and Vishny, 1988). Advocates of this view produced voluminous evidence that the stock prices of companies rose when they became a target of a hostile takeover, and the fact of higher stock prices was taken as proof that the acquirer expected to manage the companies more efficiently than existing management.

Shareholder theory asserts that shareholders advance capital to a company's managers, who are supposed to spend corporate funds only in ways that have been authorized by the shareholders. In the one hand, there is one and only one social responsibility of business- to use its resources and engage in activities designed to increase its profits, so long as it engages in open and free competition, without deception or fraud (Friedman, 1962). On the other hand, stakeholder theory asserts that managers have a duty to both the corporation's shareholders and "individuals and constituencies that contribute, either voluntarily or involuntarily, to [a company's] wealth creating capacity and activities, and who are therefore its potential beneficiaries and/or risk bearers" (Post et al., 2002). Note that we have considered only the 'normative' version of the theory, which states how managers 'ought to' behave. There are also 'descriptive' versions of the stakeholder theory, which describe actual behavior of managers, and 'instrumental versions', which predict outcomes (for example, higher profits) if managers behave in a certain way. These distinctions had been drawn crisply in Jones and Wicks (1999).

In extension, the shareholder value should be the single, guiding principle of corporate governance, and that, to support this goal, enhanced investor control and oversight should be encouraged, has a number of assumptions and beliefs behind it, and implications that flow from it. So the shareholder value principle of corporate governance incorporates or implies the following set of fundamental beliefs: maximizing value for shareholders is the right social goal for corporations because it is equivalent to maximizing the overall wealth being created by a-corporation. Financial markets do a good job of assessing the true value of financial securities such as common stock. Hence stock price performance is the best measure of value being created for shareholders. Maximizing share value also helps to discipline managers. Introducing other metrics would confuse things and make it easier for managers to use their positions to advance their own interests rather than the interests of shareholders. Managers and directors will do a better job of maximizing share value if they are given high-powered incentives in the form of compensation packages tied to stock price performance, such as stock options.

This research is a contribution to the ongoing debate on the examination of the impact of corporate governance on shareholder value maximization. Mixed and tenuous findings have been made from previous studies especially those ones that were conducted in some Anglophone sub-Saharan Africa countries, particularly Ghana, Kenya, Nigeria, and South Africa. More so, few studies have been conducted so far, on the Francophone countries in Africa. Hence, the study intends to reduce the knowledge gap by analyzing the case of some countries in the CFA Zone in Africa. The CFA Zone is basically composed of two sub-zones, characterized by significant structural economic and political differences within and between its member countries: the West African Economic and Monetary Union (WAEMU/UEMOA) and the Economic and Monetary Community of Central Africa (EMCCA/ CEMAC). The growing structural divergences between UEMOA and CEMAC have been intensified by the recent development of world oil markets, booming production in Equatorial Guinea and the arrival of Chad in the club of oil producers.

Nevertheless, these two sub-zones have been considered as model case for economic and monetary integration in Africa. Yet, neither of these sub-zones meets the classical criteria of the optimum currency area (OCA). In contrast, they show a low degree of diversification of production and exports, low factor mobility (except of labor in some countries) and price and wage flexibility, different levels of infrastructure and of inflation, low intra-regional trade and a strong exposure to asymmetrical external shocks (e.g. violent political conflicts, different terms of trade development for oil- and agricultural exports). The informal sector is more important in structuring the CFA Zone than the institutions and policies of the formal economic sector, including its monetary institutions. Data from selected countries in

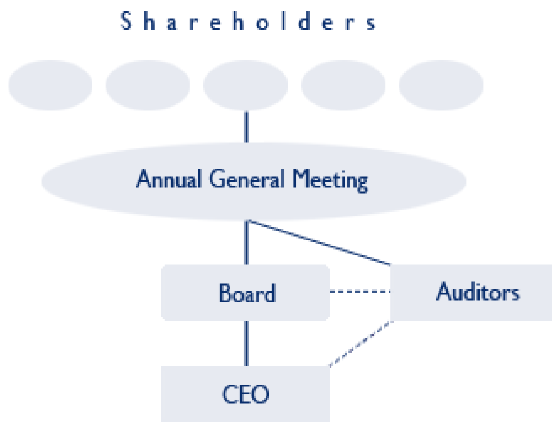

Figure 1. Basic structure of a corporate governance system.

CFA Zone, Burkina Faso, Cameroon, Côte d'Ivoire and Gabon covering the period 2005 to 2009, were used and analysis done within the panel data framework. This work is theoretical review in nature and will utilize empirical data of 103 firms from the three sectors listed or not listed on the regional or national stock market.

REVIEW OF THE LITERATURE

Fundamentally, the economics of agency theory (Berle and Means, 1932) and incomplete contracting theory (Coase, 1937) and the problem of information asymmetry (Akerlof, 1970) provide the theoretical basis for effective corporate governance. Thus, there is no gainsaying of that fact that the principal-agent theory is generally considered as the starting point for any debate on the issue of corporate governance. The main requirements for effective corporate governance that are identified are transparency, equity and accountability. Indeed, the theoretical underpinnings for the extant research in corporate governance comes from the classic thesis, "The Modern Corporation and Private Property" by Berle and Means (1932). The thesis describes a fundamental agency problem in modern firms where there is a separation of ownership and control- a problem that has bothered students of corporations from Smith (1776) to Berle and Means (1932), Jensen and Meckling (1976) and Fama and Jensen (1983). They are run by professional managers (agents), who are unaccountable to dispersed shareholders (principals).

The basic structure of a corporate system funded on the interplay between the four main corporate bodies (Figure 1), each with its specific role can be illustrated as follows:

The shareholders' meeting is a company's highest decision-making body and the forum where the shareholders can directly exercise their power. Shareholders meet at least once a year to approve the company's annual report, discharge the directors and the CEO from liability and decide on the appropriation of profits for the previous financial year. The AGM also elects board members and, when required, auditors for the coming term. The board of directors is appointed at the shareholders' meeting to manage the company's affairs on behalf of the shareholders. The board has broad powers to manage the company without the involvement of the shareholders. However, the shareholders always have the right to call an extraordinary general meeting, (EGM), at any time and replace the board members.

All public companies must have a Chief Executive Officer. The CEO is appointed by the board and is responsible for the day-to-day management of the company according to the instructions issued by the board of directors. The division of responsibilities between the board and the managing director is stipulated in a set of written instructions that is approved by the board of directors. The managing director may or may not be a member of the board. The auditors – one or more – are appointed by the shareholders at the annual general meeting, (AGM), to audit the company's annual report and accounts, as well as the running of the company by the board of directors and the managing director. Formally, the auditors report to the shareholders, but in practice they also have an important role in supporting the board in its task of overseeing the CEO's running of the company.

In corporations, the decision making rights are delegated to the managers by the shareholders to act in the best interests of the principal. This separation of ownership from control implies a loss of effective control by shareholders over managerial decisions and as a result of this, a system of corporate governance controls is implemented to assist in aligning the incentives of the managers with those of the shareholders. The structure of the market has changed over time. Many years ago, buyers and sellers of corporation stocks worldwide were individual investors like wealthy businessmen or families, who often had a vested, personal and emotional interest in the corporations whose shares they owned. Over time, markets have become largely institutionalized: trading of shares significantly moved within the hands of institutions (pension funds, insurance companies, mutual funds, hedge funds, investor groups, and banks). Shareholding structure of firms has likewise changed. The rise of the institutional investors has brought with it the advantage of increased professional diligence which has tended to improve regulation of the stock market, although not necessarily in the interest of the small investors.

This process occurred simultaneously with the direct growth of individuals investing using professionals to manage their funds. In this way, the majority of investment now is described as “institutional investment” even though the vast majority of the funds are for the benefit of individual investors. Previously, the Board of Directors of large corporations used to be chosen by the principal shareholders, who usually had an emotional as well as monetary investment in the company, and the Board diligently kept an eye on the company and its principal executives. Nowadays, if the owning institutions do not like what the President/CEO is doing and they feel that firing them will likely be costly and/or time consuming, they simply sell out their interest in those corporations. Now, the Board is mostly chosen by the President/CEO, and may end up being made up primarily of their friends and associates. Since the shareholders rarely object, the President/CEO generally takes the Chair of the Board position, making it more difficult for the institutional owners to terminate him. Occasionally, but rarely, institutional investors support shareholder resolutions on such matters as executive pay and anti-takeover measures.

Lastly, this change in shareholding structure in corporations by the large institutions is based on the strategy of eliminating individual company, financial or other risks by investing funds in a very large number of different companies with sufficient liquidity. One must point out that the concept of corporate governance has been a priority on the policy agenda in developed market economies for over a decade especially among very large firms. Further to that, the concept is gradually warming itself as a priority in the African continent. Indeed, it is believed that the Asian crisis and the relative poor performance of the corporate sector in Africa have made the issue of corporate governance a catchphrase in the development debate (Berglof and von Thadden, 1999). A number of recent studies show that good corporate governance increases valuations and boosts the bottom line. For example, a study by Gompers et al. (2003) showed that companies with strong shareholder rights yielded annual returns that were 8.5% greater than those with weak rights. Related to that, it was also observed that the more democratic firms also enjoyed higher valuations, higher profits, higher sales growth, and lower capital expenditures.

In regard to the principal-agent paradigm, the fundamental question is how to ensure that managers follow the interests of shareholders in order to reduce cost associated with principal-agent theory? The principals in this wise are confronted with two main problems. First, they face an adverse selection problem: selecting the most capable managers. They are also confronted with a moral hazard problem: giving the managers the right incentives to put forth the appropriate effort and make decisions aligned with shareholders interests (e.g., take the right amount of risk and do not engage in empire building). Jensen and Meckling (1976) further defined agency relationship and identified agency costs. Agency relationship is a contract under which “one or more persons (principal) engage another person (agent) to perform some service on their behalf, which involves delegating some decision-making authority to the agent”. Conflict of interests between managers or controlling shareholder, and outside or minority shareholders refer to the tendency that the former may extract “perquisites” (or perks) out of a firm’s resources and less interested to pursue new profitable ventures.

Agency costs include monitoring expenditures by the principal such as auditing, budgeting, control and compensation systems, bonding expenditures by the agent and residual loss due to divergence of interests between the principal and the agent. The share price that shareholders (principal) pay reflects such agency costs. To increase firm value, one must therefore reduce agency costs. This is one way to view the linkage between corporate governance and corporate performance. Fama (1980) aptly comments that separation of ownership and control can be explained as a result of “efficient form of economic organization”. One difference between countries corporate governance systems is the differences in the ownership control of firms that exist across countries. Systems of corporate governance therefore can be distinguished according to the degree of ownership and control and the identity of controlling shareholders. While some systems are characterized by wide dispersed ownership (outsider systems), others tend to exhibit concentrated ownership of control (insider systems). In the outside systems of corporate governance especially in USA and UK, there exist a basic conflict of interest between strong managers and widely dispersed weak shareholders.

On the other hand, in insider systems (notably Germany and Japan), the basic conflict is between controlling shareholders (or blockholders) and weak minority shareholders. Corporate governance, as a concept, has attracted various definitions. Metrick and Ishii (2002) define corporate governance from the perspective of the investor as “both the promise to repay a fair return on capital invested and the commitment to operate a firm, efficiently given investment”. The implication of this definition is that corporate governance has an effect on a firm’s ability to access the capital market. These authors argue that firm level governance may be more important in developing markets with weaker institutions as it helps to distinguish among firms. Cadbury (1992) defines corporate governance as “the system by which companies are directed and controlled”. Governance system can also be defined as the complex set of constraints that shape the ex-post bargaining over the quasi rent registered by the firm.

Corporate governance is in one hand concerned with ways of bringing the interests of (investors and managers) into line and ensuring that firms are run for the benefit of investors. Also, in the other hand, it is concerned with the relationship between the internal governance mechanisms of corporations and society's conception of the scope of corporate accountability (Deakin and Hughes, 1997). It has also been defined to include the structures, processes, cultures and systems that engender the successful operation of organizations. Corporate governance is also seen as the whole set of measures taken within the social entity that is an enterprise to favor the economic agents to take part in the productive process, in order to generate some organizational surplus, and to set up a fair distribution between the partners, taking into consideration what they have brought to the organization (Maati, 1999).

In the light of the foregoing analysis, it may be stated more generally that different systems of corporate governance will embody what are considered to be legitimate lines of accountability by defining the nature of the relationship between the company and key corporate constituencies. Thus, corporate governance systems may be thought of as mechanisms for establishing the nature of ownership and control of organizations within an economy. In this context, corporate governance mechanisms are economic and legal institutions that can be altered through the political process-sometimes for the better (Shleifer and Vishny, 1997). Company law, along with other forms of regulation (including stock exchange listing rules, and accounting standards), both shape and is shaped by prevailing systems of corporate governance. The effect of regulation on corporate governance occurs through its effect on 'the way in which companies are owned, the form in which they are controlled and the process by which changes in ownership and control take place (Jenkinson and Mayer, 1992). Ownership is established by company law, which defines property rights and income streams of those with interests in or against the business enterprise (Deakin and Slinger, 1997). Corporate governance describes how companies ought to be run, directed and controlled. It is about supervising and holding to account those who direct and control the management.

Previous empirical studies have provided the nexus between corporate governance and firm performance (Yermack, 1996; Claessens et al., 1999; Klapper and Love, 2002; Gompers et al., 2003; Black et al., 2003; Sanda et al., 2003) with inconclusive results. Others, Bebchuk and Cohen (2004) and Bebchuk et al. (2004) have shown that well governed firms have higher corporate performance. The main characteristic of corporate governance identified in these studies include board size, board composition, and whether the CEO is also the board chairman. There is a view that larger boards are better for corporate performance because they have a range of expertise to help make better decisions, and are harder for a powerful CEO to dominate.

However, recent thinking has leaned towards smaller boards. Jensen (1993) and Lipton and Lorsch (1992) argue that large boards are less effective and are easier for a CEO to control. When a board gets too big, it becomes difficult to co-ordinate and process problems. Smaller boards also reduce the possibility of free riding by individual directors, and increase their decision taking processes. Empirical research supports this. For example, Yermack (1996) documents that for large U.S. industrial corporations, the market values firms with smaller boards more highly. Eisenberg et al. (1998) also find negative correlation between board size and profitability when using sample of small and midsize Finnish firms. Kyereboah-Coleman and Biekpe (2005), with the case of Ghana, have identified that small board sizes enhances the performance of microfinance institutions. Mak and Yuanto (2003) echo the aforementioned findings in firms listed in Singapore and Malaysia when they found that firm valuation is highest when board has five directors, a number considered relatively small in those markets. Sanda et al. (2003) in a Nigerian study, found that firm performance is positively related with small, as opposed to large boards.

Though, the issue of whether directors should be employees of or affiliated with the firm (inside directors) or outsiders has been well researched, yet no clear conclusion is reached. On the one hand, inside directors are more familiar with the firm's activities and they can act as monitors to top management if they perceive the opportunity to advance into positions held by incompetent executives. On the other hand, outside directors may act as "professional referees" to ensure that competition among insiders stimulates actions consistent with shareholder value maximization (Fama, 1980). John and Senbet (1998), argue that boards of directors are more independent as the proportion of their outside directors increases. Though its been argued (Fama and Jensen, 1983; Baysinger and Butler, 1985; Baysinger and Hoskinsson, 1990; Baums, 1994) that the effectiveness of a board depends on the optimal mix of inside and outside directions, there is very little theory on the determinants of an optimal board composition (Hermalin and Weisbach, 2002).

A number of empirical studies on outside directors support the beneficial monitoring and advisory functions to firm shareholders (Brickley and James, 1987; Weisbach, 1988; Byrd and Hickman, 1992; Brickley et al., 1994). Baysinger and Butler (1985) and Rosenstein and Wyatt (1990) showed that the market rewards firms for appointing outside directors. Brickley et al. (1994) found a positive relation between proportion of outside directors and stock-market reactions to poison pill adoptions. Also, Kyereboah-Coleman and Biekpe (2005) found a positive relationship between proportion of outside board members and performance of microfinance institutions in Ghana. However, Forsberg (1989) found no relation between the proportion of outside directors and various performance measures. Hermalin and Weisbach (1991) and Bhagat and Black (2002) found no significant relationship between board composition and performance.

Yemack (1996) also showed that the percentage of outside directors does not significantly affect firm performance. This was also confirmed by Kyereboah-Coleman and Biekpe (2005) when studying nontraditional export firms in Ghana. Agrawal and Knoeber (1996) suggest that boards expanded for political reasons often result in too many outsiders on the board, which does not help performance.

Considerable attention has been given to the role of boards in monitoring managers and in removing non-performing CEOs. Jensen (1993) voices his concern that a lack of independent leadership makes it difficult for boards to respond to failure in top management team. Fama and Jensen (1983) also argue that concentration of decision management and decision control in one individual reduces board's effectiveness in monitoring top management. Thus, the literature reveals a board structure typology, the one-tier system and the two-tier system. In the one-tier system, the chief executive officer (CEO) is also chairman of the board, whilst the two-tier system has a different person as the board chairman and is separate from the CEO. It has been noted though that the one-tier board structure type leads to leadership facing conflict of interest and agency problems (Berg and Smith, 1978; Bickley and Coles, 1997) thus giving preference for the two-tier system. Agency problems tend to be higher when the same person holds both positions. Yermack (1996) argues that firms are more valuable when the CEO and board chair positions are separate. Relating CEO duality more specifically to firm performance, researchers however find mixed evidence.

Daily and Dalton (1992) find no relationship between CEO duality and performance in entrepreneurial firms. Brickley et al. (1997) show that CEO duality is not associated with inferior performance. Rechner and Dalton (1991), however, report that a sample of fortune 500 companies with CEO duality have stronger financial performance relative to other companies. Goyal and Park (2002) examine a sample of United States companies and find that the sensitivity of CEO turnover to firm performance is lower for companies without CEO duality. Sanda et al. (2003) found a positive relationship between firm performance and separating the functions of the CEO and Chairman. Kyereboah-Coleman and Biekpe (2005) realized that while CEO duality is positively important for microfinance institutions; it is relatively inconclusive on several performance measures in the non-traditional export sector in Ghana. Klapper and Love (2002) examine corporate governance and performance in a sample of firms in14 countries, most of which are developing economies.

They find that better corporate governance is associated with better performance in the form of Tobin's q and ROA and that good governance seems to matter more when the legal environment of a country provides investors with weaker protections. Related to the aforestated discussion, John and Senbet (1998) provide a comprehensive review of the stakeholder theory of corporate governance. The main issue raised in the theory is the presence of many parties with competing interests in the operations of the firm. They also emphasized the role of non-market mechanisms such as the size of the board, committee structure as important to firm performance. Jenson (2001) critique the Stakeholder theory for assuming a single-valued objective. They, thus, propose an extension of the theory called an enlightened stakeholder theory. However, problems relating to empirical testing of the extension have limited its relevance (Sanda et al., 2003). Corporate governance generally refers to the set of mechanisms that influence decisions made by managers when there is a separation of ownership and control. As discussed earlier, some of the conventional variables used as measures of corporate governance are board size, board composition and CEO duality.

THEORETICAL MODEL

We specify in this theoretical work the basic framework, and the economic model for our analysis in the form of the following regression equation which was in line with what is mostly found in the literature:

$$Y_{it} = \beta X_{it} + \alpha Z'_i + u_{it} \tag{1}$$

Where i = 1, 2, …, N and t = 1, 2, …, T and X_{it} is a k-dimensional vector of explanatory variables not including the constant.

The heterogeneity or individual effect is $\alpha Z'_i$ where Z'_i represents a constant term and a set of observable and unobservable variables. With Z' containing only a constant term, Ordinary Least Squares (OLS) thus provides consistent and efficient estimates of the common and the slope vector β. However, if Z' is unobserved and correlated with X_{it}, then the OLS estimators are biased and inconsistent due to an omitted variable. Dealing with this situation, this study uses either the fixed or random effects estimations technique by carrying out the Hausman specification test. Our study also employs a modified version of the econometric model of Wen et al. (2003) and Kyereboah-Coleman (2007) which is given as follows:

$$D_{i,t} / V_{i,t} = \beta_0 + Z'_{i,t}\beta_1 + Control_{i,t}\beta_2 + \eta_i + \lambda_i + u_{i,t} \tag{2}$$

Where i = 1, 2, …, 103 firms and t = 1, 2, …, 5 is time (2000 to 2005) and $D_{i,t} / V_{i,t}$ is a normalized measure of dividend and earnings per share for firm i at time t. β_0 is the intercept, $Z'_{i,t}$ is a $1 \times k$ vector of observations on k explanatory variables for firm i at time t and $Control_{i,t}$ is a $1 \times k$ vector of control variables for firm i at time t. β_1 and β_2 are a $k \times 1$ vector of parameters, η_i and λ_i are respectively categorical country and sector specific variables, and $u_{i,t}$ is the term of error.

The modification of the model involves the inclusion of both country and sector categorical variables. This is to enable us to capture the effect of country and sector specific impacts on the dependent variables of shareholder wealth as showing in the data as follows.

THEORETICAL RESULTS

By defining what constitutes these sectors, our study largely depended on the classifications given by the various stock exchanges. There is a possibility of non-uniform classification which could pose a problem with regard to the analysis and results. However, we are of the opinion that such differences are marginal and thus have little impact on compromising the validity of our results. The banking and finance sectors were omitted in tandem with researches on corporate governance (Faccio and Lasfer, 2000). The date covers the period 2005 to 2009. The various stock exchange (UEMOA's BRVM in Abidjan, CEMAC's BRVM in Libreville, and Douala stock exchange, DSX, in Cameroon) fact book served as the main sources and supplemented with the field work for some of the governance variables.

Describing and justifying our variables, we identified in the literature that several studies have looked at corporate governance and firm performance and others, to some extent, have looked at corporate governance and investor protection by essentially looking at legal and accountability issues related to firms (Klapper and Love, 2004). While some have contended that the creation of value enhancing the performance of a firm indirectly ensures shareholder value maximization (Kyereboah-Coleman, 2007) counter, such argument and advance the point that the performance of a firm may not necessarily impact on shareholders. In this research, we continue with Kyereboah-Coleman's (2007) work by measuring shareholder value looking at dividend using the ratio:

Dividend per share = Total annual dividend pay-out / Total shares (3)

And earnings per share with the ratio:

Earnings per share = EAIT / Total shares (4)

EAIT = Earning after interest and taxes (as the dependent variables). Indeed, both the dividend per share and earning per share are popular direct measurable benefits that accrue to shareholders. With regard to the independent and governance variables, we capture the size of the board, the independence of the board, whether the CEO doubles as board chairman or otherwise, the tenure of the CEO, and the size of the audit committee.

Our study also include both country, with listed and non listed firms, and sector categorical variables to ascertain whether country and sector specific have any significant impact on shareholder value maximization. The size of the board is measured by the number of members of the board and the independence of the board by the ratio of the number of outside or non-executive directors (NEDs) to total board size (John and Senbet, 1998). The duality of the CEO is measured as a dummy variable with a value of 1 when CEO doubles as board chairman and 0 when two people are entrusted with the two responsibilities. The tenure of the CEO is measured by the length of time a CEO serves in that capacity. One important variable captured in this paper is the size of the audit committee. Kyereboah-Coleman (2007) has recognized the importance of audit committees in a corporate governance structure. By doing so, this research capture firm specific characteristics such as firm size (measured by employee size), asset tangibility (measured by ratio of fixed assets to total assets), debt ratio (measured by the ratio of the total debts to total assets), firm level risk (Equation 5) and firm age, as possible control variables.

Firm level risk = [Std. deviation (Δ EBIT/Total assets)] (5)

EBIT = Earning before interest and taxes.

The firm level risk also measure risk earnings volatility as the standard deviation of the first difference of the ration of earnings before interest and taxes (EBIT) to total assets. For the purposes of regression, we find the natural log of employee size and firm age due to the wide variations in these variables at levels.

Conclusion

This research looks at the theoretical impact of corporate governance on shareholder value maximization in some countries in the CFA Zone in Africa. Data from Burkina Faso, Cameroon, Côte d'Ivoire and Gabon covering the period 2005 to 2009 were used and the analysis will be completed within the panel data framework. Theoretical results show that, though highly dispersed, both within and between enterprises, corporate boards in the selected countries are relatively not independent.

In the future, the regression model will be use to show that large board sizes enhance corporate performance and shareholder value maximization. Our theoretical paper also shows that both sector and country-specific effects have an impact on shareholder value maximization. While the mining sector is dominant in maximizing shareholder value, it also suffers from higher taxes and interest payments.

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