

## 1. Introduction

The recruitment of foreign independent nonexecutives to boards of directors in indigenous national firms is a subject mired by controversy. Many countries have varying stringencies of foreign ownership restrictions on indigenous firms owing to fears of overseas ownership of national assets as well as perceived potential for expropriation. However there is a counter perception that increasing foreign participation in boardroom infuses managerial efficiencies through their drawing on international best practice at the same time as their ability to add value to the firm through their knowledge and understanding of potentially lucrative yet complex foreign markets. The perception of foreign directors in terms of the managerial efficiencies and resources they bring is especially strong in developing regions where human and social capital is scarce. Consequently we study the relationship between three types of foreign nonexecutive director, namely those representing a foreign partner, a foreign venture capital entity, or those that are unaffiliated in having been recruited externally by focal firm, and aggregate board compensation levels.

The presence of foreign nonexecutives on boards is commonly ascribed with reflecting either the monitoring and surveillance concerns of external shareholders who demand a representation on board or to more resource-dependency notions of the firm being able to draw upon their intimate understanding of business, cultural and linguistic environments in potentially lucrative foreign markets. Issues surrounding identity and national culture are often central to the operational performance of foreign nonexecutives with these notable differences often being reflected in their degree of confidence to engage and question the decision-making processes of their executive counterparts. In particular “in emerging markets, quite often the culture is consensus driven”<sup>1</sup> [Annabel Parsons in Financial Times (2011)] as opposed to engendering notions of critically appraising decisions. Cultural differences and values in the form of socio-cognitive institutions that shape an

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<sup>1</sup> Interview with Annabel Parsons, partner at executive search firm Heidrick & Struggles, The Financial Times, 27 November 2011 <http://www.ft.com/cms/s/0/f7704090-1902-11e1-b490-00144feabdc0.html>

individual's cognitive perceptions of reality between directors from civil code law as opposed to common law countries are likely to engender more centralised and bureaucratic management forms and stakeholder-forms of governance eschewed by the former as opposed to a more competitive Anglo-American governance model practiced by the latter. These individualistic differences, engendered in socio-cognitive institutions, are reflective of broader national differences documented in La Porta et al (1999, 2000, 2008). As a consequence our second contribution to the literature is in differentiating between foreign directors originating from common law as opposed to civil code law countries in their contrasting impact on aggregate board compensation.

The study of monitoring effects arising from common law as opposed to civil code law origin foreign nonexecutives that are positioned in focal firm by either a foreign partner, a foreign venture capital entity, or from direct overseas recruitment is particularly pertinent in the case of initial primary offerings (IPOs). The IPO process is a significant milestone in lifecycle of firm where ownership is divested away from insiders for the first time (Fama (1980); Jensen and Meckling (1976)). As such new agency relationships are revealed for the first time as wealth, in terms of share value, is divested to often very different minority external shareholders participating in firm's organizational structure for first time. These distinct types of external investor are often themselves subject to their own agency relationships with their own investors and owners that are remote from the focal IPO firm. Consequently long term foreign corporate partners have very different external agency relationships with parent multinational enterprise (MNE), inferring very different roles for their representative nonexecutives on board of focal IPO firm, than those of foreign venture capitalists who are primarily motivated by short-term profitability with a focus on viable exit from investment. We focus on foreign corporate partners and venture capitalists given their prevalence as investment entities across developing world and in particular Africa (Hearn, 2013). Consideration of these differences in behavioural agency and contrasting investment time horizons motivates our application of the recently developed multiple agency

perspective advanced by Arthurs et al (2008). However in contrast to the rich explanations behind the recruitment of independent, unaffiliated foreign nonexecutives to the board of firms advanced by resource dependency theory, their impact on board-level compensation incentives and ability to monitor is less clear according to agency and multiple agency perspectives. Consequently we build on the inaugural work of Masulis et al (2012), that considers only the impact of generic foreign nonexecutives on performance in a sample of US S&P1,500 firms, in extending the multiple agency perspective to study the impact on aggregate board-compensation, or self-reward, from different categories of foreign director. Equally in studying IPO firms we study the impact of the organizational structure of focal firm being opened to external shareholders for the first time and agency relationships created surrounding this event. This underscores the omission of shareholder returns as a conventional measure of shareholder wealth while providing a more direct perspective on efficacy of impact of governance mechanisms on board compensation.

We use two measures of aggregate board compensation, the fixed base salary disclosed in IPO listings filings, and a total remuneration measure that takes into account the initial base salary as well as income derived from individual equity holdings in firm and additional stated perks. This is based on a unique and comprehensive hand-collected sample of 190 IPO firms from across Africa. Our findings support the evidence in literature regarding the subsidiary board role in IPO firms with long term foreign partners, where the board composition itself is a function of reducing transactions costs and enhancing negotiation of cash flow rights by foreign partner over its indigenous host counterpart. As such there is no significant association between foreign partner affiliated nonexecutives and either board compensation measure. In contrast increasing proportions of foreign venture capitalist affiliated nonexecutives are associated with increasing aggregate board compensation, although this relationship is particularly large in civil code law foreign-VC nonexecutives in contrast to their common law counterparts. Finally we find evidence that increasing proportions of unaffiliated and independent foreign nonexecutives of common law

origin are associated with increasing levels of aggregate board total remuneration while this association is smaller and lacking in significance for their civil code law counterparts. Overall this evidence supports the earlier findings of Masulis et al (2012) on a large US dataset comprised of S&P 1500 listed firms where the evidence questioned the ability of foreign independent directors to effectively monitor and question board decision-making. In our sample of African IPO firms, factors such as physical, psychic and cultural distance from foreign nonexecutive origin country and the African headquarters of IPO firm collude to hinder the ability of foreign nonexecutives in effective monitoring. Furthermore we find evidence that increasing proportions of military directors are associated with higher aggregate board base salary while governmental directors are associated with a lower base salary while increasing proportions of directors from governmental and especially commercial backgrounds are associated with significantly higher board total remuneration. Finally we find evidence that higher board total remuneration is associated with fewer nonexecutives but greater numbers of these being independent, inferring the adoption of Anglo-American shareholder value governance model is nominal at best across firms.

We proceed as follows. In the next section we outline the theoretical concepts while section 3 outlines hypothesis formation and section 4 discusses data, defines variables and outlines empirical methods. Section 5 discusses results and the final section concludes.

## **2. Theoretical framework**

The theoretical antecedents behind our study are drawn exclusively from recently developed multiple agency theory of Arthurs et al (2008). This offers valuable additional insights otherwise unavailable from the more restrictive perspective of traditional agency theory (see Jensen and Meckling (1976) and Fama (1980)). In particular agency theory perceives the IPO being a key event in the focal firm's lifecycle where the structure and composition of board of directors is viewed as resulting from the need to alleviate asymmetric information arising from interaction for first time between incumbent insiders (agents) and minority

outsider owners (principals). Jensen and Meckling (1976) view insiders as being entrepreneurial founders while Fama (1980) widens this definition to more generic insider entities including corporate and family entities. Both adopt the perspective that agency theory is closely tied with the downside potential for poor management, shirking, expropriation by insiders at the expense of outside principals necessitating a variety of board monitoring devices to minimize these agency costs. The multiple agency perspective advanced by Arthurs et al (2008) incorporates tenets of behavioural agency theory (Wiseman and Gomez-Mejia, 1998) to make a distinction between a variety of actors central to a myriad of complex agency relationships transcending the focal IPO firm. This attributes differences in behaviour of actors within the focal IPO firm to their own behavioural risk preferences as well as investment time horizons. Arthurs et al (2008) define three principal categories of actor: insider managerial agents (executive directors and incumbent management) who are principals monitoring other agents; principals to a focal IPO firm who are themselves subject to agency from external investors (such as VC's subject to investment appraisal by their own investors and their need for both liquidity and short term returns); agents with multiple agency relationships, such as IPO firm underwriters who are agents to both focal IPO firm as well as their own institutional investors. Each of these defined categories of actor have very different generic behavioural characteristics that impacts on alleviation of agency cost. A major difference with traditional agency theory, based on Jensen and Meckling (1976) and Fama (1980), is in the view of insiders within the focal IPO firm. As such where agency theory views these in terms of the downside risks associated with their entrenched position within firm, multiple agency theory adopts an opposing view which is based on their psychological affiliation with the focal firm (Cardon et al (2001); Nelson (2003)) and consequential longer term investment time horizon inferring a decrease in agency costs not a potential increase as viewed in simple agency terms.

In this light the role of incentive-based monitoring (on behalf of minority external investors, or principals) crucially depends on the distinctive type of agency costs encountered

in firms, which in turn itself is contingent on the nature of the parties involved in the focal IPO firm and their own external agency relationships. As such given the dominant role played by venture capital and particularly corporate partners in foreign investment in developing regions such as Africa (Boateng and Glaister (2002); Hearn (2012, 2013)) together with the significance of indigenous firms in recruiting unaffiliated foreign nonexecutives both in terms of securing additional resources and managerial competencies as well as monitoring, the nascent multiple agency perspective provides a uniquely insightful theoretical framework. This motivates our central use of this perspective to study the impact of foreign nonexecutives in focal IPO firms and their impact on board compensation.

While there is a significant literature centred on resource-dependency theory that ascribes the recruitment of nonexecutive directors in terms of their ability to span the organizational boundaries of the focal firm, the recent evidence of Manulis et al (2012) alludes to the role of foreign outside directors in terms of their ability to monitor. As such it adopts a traditional agency perspective approach. It is also limited in scope in only studying US firms constituent to the S&P 1,500 index and in only considering unaffiliated outside nonexecutives. As such significant risks posed through firms adopting foreign independent nonexecutives are in their lack of incentive to effectively monitor. Factors such as physical distance play a significant role in inhibiting the ability of foreign nonexecutives in regularly attending board meetings (Masulis, 2012). This follows from earlier evidence in Lerner (1995) where the findings suggested that venture capitalists in particular are reluctant to sit on boards of geographically distant firms. Equally Coval and Moskowitz (1999, 2001) argue that foreign directors far removed from the regions where the headquarters of the focal firm is located lack being able to benefit from valuable “soft information” that would otherwise be acquired at no significant cost simply from geographical proximity. Furthermore issues such as psychic (centred on an individual’s perceptions of differences) and cultural distance are well known determinants of foreign direct investment (FDI). These are often significant in the case of African countries in contrast to OECD countries and rest of world.

However the most significant differences in monitoring role ascribed to foreign nonexecutives arises from the very nature of their recruitment to boards. As such foreign nonexecutives affiliated to long term foreign corporate partners that are engaged with a local domestic host entity, be this state or corporate, are likely to sit on a subsidiary board. This is a specially constructed entity designed specifically to minimise transactions costs and enhance negotiation of cash flow rights of the venture for the foreign partner over its domestic indigenous counterpart (Kriger, 1988). Board compensation typically takes the form of a management fee while there is little genuine incentive for nonexecutives to monitor effectively owing to their very different role in the mitigation of transactions costs with local partner entity that is host recipient to FDI (Kriger, 1988).

Contrastingly the role of foreign nonexecutives affiliated to venture capital firms is primarily in monitoring their investments in focal IPO firm. There is considerable evidence of the relationship-based nature of early-stage private equity investors, such as business angels and venture capitalists. In particular venture capitalist firms are extremely selective in terms of their investments and routinely employ multiple layers of screening prior to actual investment through detailed in-depth study of management, organizational structure, economic and operational viability of the focal firm. Venture capitalists cede considerable human and social capital, often through board participation or active working with incumbent management, which also serves as an on-going intimate monitoring process enhancing the value of their investment. However venture capitalists themselves are subject to an agency relationship with their own fund investors. At IPO these necessitate a drive for a realization of optimal short-term value in investments in investee firms where the IPO itself commonly offers the first viable opportunity to divest involvement (exit ownership) from the focal firm.

A final shortfall in the previous literature (for example Masulis et al (2012)) is the generic terming of directors as “foreign”. A considerable literature, exemplified by La Porta et al (1999, 2000, 2008), broadly classifies national legal and judicial systems worldwide in terms of their originating from one of four European legal families, namely Scandinavian,

French and German civil code law on one side and English common law on the other. Law itself is formed in the former three civil code systems through a bureaucratic process with the judiciary being relegated to a more administrative role in ascribing laws written by legislators. Civil code law systems tend to be characterised by a greater promotion of the centralised authority of state or corporate insiders over the rights of the individual. Common law by contrast forms law through a competitive arguments-based process and thus by the notion of legal precedent on a case-by-case basis, underscoring an enhanced role for the rights of the individual. The cognitive psychology literature provides evidence that directors from countries with fundamentally different legal traditions as well as social and political governance structures will have different impacts in their functions within the board (Stein, 1997; Langevoort, 1998). In particular cognitive dissonance has been advanced as a basic concept in social psychology in referring to the tendency of individuals to unconsciously adjust their beliefs and attitudes to conform to voluntary choices previously made (Akerlof and Dickens, 1982; Langevoort, 1998). Behavioural decision theory encapsulates these constructs in advancing a perspective that humans are subject to heuristics, biases and other subjective reasoning that are both systematic and predictable across a group or society that cause departures from rational decision making processes envisaged in neoclassical economics (Langevoort, 1998). This socio-cognitive perspective of the governance structures governing human behaviour within a society relies heavily on institutions and their role in enabling individuals otherwise constrained or bounded in their ability to interpret all information available (Kahneman and Tversky, 1982; North, 1989) as well as provide further subjective guidance on the interpretation of situations and information arising from decisions which in turn informs the progressive modification of these underlying mental constructs in terms of shared inter-subjective perceptions of reality across a society (Stein, 1997). Institutions inform the establishment of routines and patterns of behaviour which through an on-going process of replication and modification across transactions within a society can outlive the historical context that gave rise to the establishment of the institutions in their



original form. Given this evidence of the pervasive nature of deeper routines and inter-subjective perceptions of reality arising from across a society shaping human choices through bounded or constrained decision making then individuals from fundamentally different societies are likely to reflect contrasting norms, values and belief structures (Anderson, 1990; Williamson, 2002). This merits the consideration of foreign directors in terms of two broad categories of their origin: common law as opposed to civil code law.

### **3. Hypothesis development**

In order to study the impact of nonexecutives that are affiliated to long term foreign corporate partner, foreign venture capitalists, or that have been recruited from foreign managerial labour markets we develop three distinct hypotheses based primarily on multiple agency theory. Each of these hypotheses is further sub-divided to take account of foreign nonexecutives with either common law or civil code law origins.

A major cornerstone of the African, and in particular the Sub Saharan African, business environment is the prevalence of local firms that are the result of FDI by foreign MNEs (Hearn, 2013). This commonly takes the form of a local joint venture or a wholly owned subsidiary and the attraction of foreign partners is a key strategy of indigenous governments in their gradual privatization of moribund state-owned enterprises (SOEs) (Hearn (2013); Perotti (1995)). Consequently the resulting subsidiary boards of directors have very different functionality from their contemporary counterparts. In particular subsidiary boards function to reduce transactions costs involved in the joint ownership of assets and cash flows arising from local venture, while they also serve as a means for MNE parent firms to exert control and influence over local entity and to infuse values, skills and organizationally embedded human and social capital that is not otherwise easily transferrable (Kogut, 1988). It also serves to promote organizational learning and flow of information about local host country economic, political and social conditions to the parent MNE (Kriger, 1988). However while the local subsidiary entity lists on indigenous stock exchange through

an IPO the evidence from Hearn (2013) suggests that there are few, if any incentives, to introduce corporate governance controls to remedy any informational asymmetries with local indigenous investors. As such board remuneration is commonly in the form of a management fee with those foreign nonexecutives affiliated to foreign partner serving roles other than those envisaged in more traditional boards of directors than necessitate a more dominant role for monitoring of executive decision-making. Consequently we test the following hypotheses:

**Hypothesis 1a.** The ratio of foreign common law origin corporate partner nonexecutives has no association with IPO-firm aggregate board compensation

**Hypothesis 1b.** The ratio of foreign civil code law origin corporate partner nonexecutives has no association with IPO-firm aggregate board compensation

While considerable historical institutional differences exist in the types of capitalism between market-orientated financial systems, such as US and UK, and bank-centred systems, typified by much of continental Europe and especially in France, Germany and Netherlands, the global venture capital industry itself was first established in US and spread to Europe and Asia by US firms and US experienced venture capital managers (Ooghe et al, 1991). However while essentially US normative institutions were adopted and spread worldwide through intra-industry coercive and mimetic pressures, marked differences do exist between common law venture capitalists and their civil code law counterparts (Bruton et al, 2005). In particular VC firms in continental Europe tend to be owned by established banks, with funds provided by parent banking firm, in contrast to common law countries such as US and UK, where investment capital is provided by a VC fund, itself recipient to sourced capital from external providers (Bruton et al, 1995). Consequently the agency relationships are fundamentally different between the two types of VC firm, namely those from common law as opposed to civil code law countries. As such the need for short-term realization of

shareholder value is of greater importance in VC firms originating from common law countries, in contrast to their civil code law counterparts. As such both Sapienza et al (1996) and Bruton et al (2005) find substantial evidence of far greater interaction between CEO's of focal investee firms and their VC managers in common law countries than civil code law. Furthermore Bruton et al (2005) extends these findings to Asia where interactive distances between CEO's of focal firms and VC managers are greater which is a region with greater similarities to Africa. In the light of evidence from Lerner (1995) that there is a reluctance in VC managers to sit on boards of more distant investee firms the presence of foreign VC-affiliated nonexecutives is more likely to be associated with weaker monitoring, which is likely to be particularly prevalent issue in civil code law countries than their common law counterparts. This would infer less effective questioning and critical appraisal of executive and insider decision-making and less restriction on their potential opportunism in civil code law countries. As one outlet for managerial opportunism is in self reward we test the following hypotheses:

**Hypothesis 2a.** The ratio of foreign common law origin venture capitalist nonexecutives is negatively associated with IPO-firm aggregate board compensation

**Hypothesis 2b.** The ratio of foreign civil code law origin venture capitalist nonexecutives is positively associated with IPO-firm aggregate board compensation

The multiple agency theoretical view of the monitoring role and impact of foreign independent nonexecutives does not differ from the traditional agency perspective. As such the ability of foreign nonexecutives to provide effective monitoring owing to the often considerable geographical distances encountered across Africa together with significant additional costs in terms of visa entry restrictions and bureaucratic restrictions. Psychic and cultural distances tend to be significant while the often extremely narrow political economies controlled by a handful of social elites necessitates particularly dense social networks in

order to mitigate otherwise prohibitively high transactions costs. The dense nature of these social networks is commonly reinforced through affiliations to indigenous ethnic groups and fluency in indigenous languages. As such these geographic, social, cultural, psychic and linguistic differences cumulatively serve to reduce the effectiveness of foreign independent nonexecutives in their ability to monitor decision-making by dominant insider groups or executives within firms.

Contrastingly there is an argument that the socio-cognitive institutions inherent in nonexecutives from civil code law countries would lead their promotion of social values and norms engendering insiders within a centralised bureaucratic management style as opposed to their common law counterparts, where questioning of decision-making is more commonplace. As such this would define differences in the monitoring ability of foreign nonexecutives from common law as opposed to civil code law origin countries. However in the light of earlier arguments in relation to geographic, cultural, psychic and linguistic distances it is more likely that foreign independent nonexecutives from both common and civil code law backgrounds are less likely to be able to monitor decision-making effectively, despite likely significant socio-cognitive institutional differences between these two categories of director. Less monitoring will have important impact on insider opportunism and self-reward. Consequently we test the following hypotheses:

**Hypothesis 3a.** The ratio of foreign common law unaffiliated independent nonexecutives is positively associated with IPO-firm aggregate board compensation

**Hypothesis 3b.** The ratio of foreign civil code law unaffiliated independent nonexecutives is positively associated with IPO-firm aggregate board compensation

## **4. Data and methodology**

### **4.1 Data**

The dataset construction is in two stages. First, a list of Initial Primary Offerings (IPOs) on African markets between January 2000 and November 2012 was constructed. In North Africa these include Algeria, Egypt, Morocco and Tunisia, and in SSA Cape Verde Islands (Bolsa de Valores de Cabo Verde), Cameroon (Bourse de Douala), BRVM (Cote d'Ivoire), Sierra Leone, Malawi, Kenya, Uganda, Rwanda, Tanzania, Zambia, Namibia, Botswana, Mozambique, Mauritius and Ghana. Nigeria was also included but on data between January 2002 and October 2012 were available. The primary source was the national stock exchanges and their associated websites and these were cross checked with lists sourced from major brokerage houses to ensure accuracy in the case of Nigeria and Zambia. This resulted in 260 listings in total.

Secondly, the IPO prospectuses were obtained. These are IPO's or offerings with genuine diversification of ownership amongst a base of minority shareholders as opposed to private placements involving the preferential allocation of stock with institutional or corporate block holders in pre-arranged quantities and prices. Furthermore IPO's are defined as listings of ordinary shares with single class voting rights, that is, excluding preferred stock, convertibles, unit and investment trusts as well as readmissions, reorganizations and demergers and transfers of listings between main and development boards. They were collected from the financial market regulator websites for Algeria and Morocco while a combination of Thomson Corporation Perfect Information and Al Zawya databases were used for Egyptian prospectuses. The Al Zawya database, the national stock exchange and direct contact with individual firms, were used to source prospectuses for Tunisia. Similarly in SSA prospectuses were from the Ghana and Tanzania (Dar Stock Exchange) stock exchanges and Bolsa de Valores de Cabo Verde (Cape Verde Islands exchange) and from the stock exchange website for the Bourse de Douala (Cameroon exchange) (DSX website, 2010). Thomson Corporation Perfect Information database was used in the first instance to source prospectuses from Nigeria, Malawi and Kenya. Pangea Stockbrokers (Zambia) as well as individual floated firms provided prospectuses for the Zambian stock market. In

Sierra Leone the national stock exchange was used to obtain prospectus for Mano Holdings, which is currently undergoing a lengthy listing process. However the annual reports and accounts were obtained for period spanning listing direct from CFO in case of Rokel Commercial Bank's listing on Freetown exchange. Finally, in SSA, the African Financials website (African Financials website, 2011) provided information relevant to listing from annual reports. This resulted in a sample of 190 IPOs in total. US\$ Exchanges rates were from Bloomberg.

Considerable care was taken in the interpretation of information from IPO listings prospectuses given the considerable variation in size and quality of these filings across the continent (see Hearn (2013a) for detailed discussion on this issue). Attempts to verify data from prospectuses with additional sources such as firm websites, annual reports and mandatory filings of annual accounts were taken where possible. The declaration of board compensation in Egypt's Ghabbour Auto firm is one such example of successful additional verification, where the total value, in numerical millions, was stated alongside units, also denominated in millions, equating to a total figure in billions or even trillions. Following additional verification with firm's annual reports the value used here is in millions. Similarly omissions and inaccuracies are notable in the balance sheets of many smaller Nigerian prospectuses, while there is a notable absence from reporting the salaries of individual board members in preference to a statement of the salaries of generic top 1, 5, 10 earners in the firm. It is notable that individual director salaries were only reported in the case of firms that had produced listings prospectuses for joint-IPO's between local and major international markets, such as Safaricom and Kengen in Kenya or Orascom in Egypt. The exceptions are only firms in South Africa, Namibia and Botswana which are subject to stringent disclosure requirements under South Africa's onerous King II and III corporate governance legislation.

## 4.2 Variables

### 4.2.1 Dependent variables: director compensation measures

We adopt two measures of aggregate director compensation. The first, being fixed base salary, is the aggregate total of cash remuneration to the board. This is stated in IPO listings prospectuses either as a single aggregate value or as a sum of stated individual amounts attributable to each director. It also includes cash sitting fees, also known as “jetons de presence” in Francophone countries, for nonexecutive directors. Nonexecutives are included in the aggregate board fixed base salary value owing to the significant differences in corporate governance across Africa, which largely mirrors differences across wider developing world. In particular firms that are subordinate members of large extended business groups or family networks have the control and domination of their affairs, that would be normally attributable to a CEO in Anglo-American shareholder value system, vested through the Chairman or nonexecutive entities with the CEO and executive directors being viewed more as a hired management team. This structure is especially common in Nigeria as well as being prevalent across remainder of Africa (Hearn and Piesse, 2013).

The second measure is that of aggregate board total remuneration. This includes the fixed base salary cash component of compensation and additionally evaluates the total of individual directors additional personal income derived from dividends on stock ownership in focal firm as well as the stated value of equity options and derivatives, performance-related bonuses and additional income in form of items such as social club membership fees, accommodation and housing costs and travel expenses. As such this total remuneration measure is a more all-encompassing measure providing a conservative estimate at the full director income derived from focal firm. It should be noted that the use of performance-related bonuses is minimal across Africa while the use of equity options and derivatives as incentive-based compensation is extremely rare, mirroring a lack of established derivatives markets across the continent with sole exception being South Africa. As such equity options are only used in a very small handful of IPO firms in South Africa and Egypt. This second total remuneration measure of compensation captures both a degree of additional equity-risk incentive structure, inferred from agency perspective, as well as being viewed as a measure

of board-level compensatory self-reward, also acknowledged in agency terms. The conservative nature of estimate follows the assertion of Dyck and Zingales (2004) that private benefits of control are intrinsically difficult to quantify as a controlling party will only extract resources when it is difficult to prove this is the case.

Both measures of compensation are natural logarithmically transformed. This is in line with literature (Core et al, 1999) as well as adhering to common practice in human resource consultancy “guide charts” where this is usually related to the logarithm of firm size which in this case is the log of firm revenues. Furthermore the use of log-transformed value facilitating the measure of proportionate effects of variables on compensation through the regression coefficients rather than the dollar value effect as would otherwise be the case in non-log transformed compensation data.

#### 4.2.2 Control Variables

Board composition controls: Four controls are introduced to account for different social elite directors in proportion to board size. These are the ratio of directors with military background, government, academic and commercial backgrounds respectively to overall board size. Political theory advanced by Ball (1981) suggests a prominent role for military in politics in narrow political economies across developing world, where significant degrees of control are vested in social elites with substantial state-level private benefits of control. Government is also a source of social elites given the importance of this as a societal institution (Pfeffer and Salancil, 1978), while the intrinsic levels of human and social capital between universities and commercial sector infer that social elites within these institutions are likely to have access to innovation and technology diffusion as well as to start-up funds and capital to support new ventures.

Board controls: All board controls are drawn from prescriptions of the agency perspective. As such we use four controls. Board size, defined as total number of executive and



nonexecutive directors in unitary split board systems, or number of nonexecutive directors plus members of executive management committee in supervisory two-tier board systems. This follows the literature that suggests that larger boards are more difficult to coordinate and there is less effective communication between directors, resulting in greater dominance by the CEO or insider groups (Boyd (1994); Yermack (1996)). Board independence ratio is the proportion of nonexecutive directors to total board size, as defined above. However while this measure is a common control in agency literature it is limited in not distinguishing between insider-associated and outsider, or independent, nonexecutives and their levels of personal stock ownership, if any. This motivates the construction and use of the next three controls. CEO role is separate from that of chairman is a dummy taking value 1 if roles are separated and 0 otherwise. Finally the ratio true independence measures the proportion of outside nonexecutive directors to total board size.

Economic determinants: Four economic determinant controls are used. The first is the natural logarithm of firm revenues in year preceding IPO. Rosen (1982) and Smith and Watts (1992) ascribe higher firm revenues to firms that are larger and in having greater economic growth opportunities inferring more complex task environments for directors. The second is return on assets (ROA) measured in terms of accounting earnings before tax on total asset value, with both denominated in US\$ and measured in year preceding IPO. This provides a measure of firm operating performance. The third control is natural logarithm of firm age, measured in years from IPO year to year of establishment of firm. This provides an indication of risk with younger firms having less operating history possessing more risk than their counterparts with well-established trading histories. Finally we use a measure of institutional quality. The quality of the institutions is measured using the World Bank Governance Indicators (2011), developed by Kaufman et al (2009). These are a set of six indices that capture aspects of state-level institutions and citizens' perceptions of them. These were first constructed in 1996, then updated every two years until 2002 and annual

thereafter. The indicators are compiled from the responses on the quality of governance obtained from 35 data sources in 33 organizations and are drawn from a large sample of firms, citizens and experts in industrial and emerging countries, with added information from institutes, think tanks, non-governmental organizations, and international organizations (Kaufman et al, 2009). The six indicators are constructed using an unobserved components methodology (see Kaufman et al (2009), with values ranging from approximately -2.5 to +2.5 and where higher values denote better governance outcomes.

The six governance indices are defined by the World Bank (World Bank Governance website, 2011) as follows:

Control of Corruption –capturing perceptions of the extent to which public power is exercised for private gain, including both petty and grand forms of corruption, as well as capture of the state by elites and private interests

Government Effectiveness –capturing perceptions of the quality of public services, the quality of the civil service and the degree of its independence from political pressures, the quality of policy formulation and implementation, and the credibility of the government's commitment to such policies

Political Stability and Absence of Violence/Terrorism –capturing perceptions of the likelihood that the government will be destabilized or overthrown by unconstitutional or violent means, including politically-motivated violence and terrorism

Regulatory Quality –capturing perceptions of the ability of the government to formulate and implement sound policies and regulations that permit and promote private sector development

Rule of Law – capturing perceptions of the extent to which agents have confidence in and abide by the rules of society, and in particular the quality of contract enforcement, property rights, the police, and the courts, as well as the likelihood of crime and violence

Voice and Accountability –capturing perceptions of the extent to which a country's citizens are able to participate in selecting their government, as well as freedom of expression, freedom of association, and a free media

In order to form an aggregate institutional quality index a second stage rescales each governance indicator to fit on a scale of between 0 and 10 using equation (1):

$$Institutional\ Quality = \left( \frac{x_{jt} - X_{Min}}{X_{Max} - X_{Min}} \right) * 10 \quad (1)$$

where j indicates the measure's value for country j at time or year t. The rescaling of the indicators facilitates their aggregation into a single aggregated governance indicator. This is achieved through the simple addition of each of the six individual governance indicators.

Ownership controls: Five ownership control categories are used to control for the impact of different types of block-holder in terms of concentration of cash flow rights pre-IPO. These are corporate block entities, family, state, insider-director, and long-term foreign partner. This last category of owner is prevalent in partial privatizations that are prevalent across Africa involving a long term foreign partner gradually absorbing the shareholding divested by state entities.

#### 4.3 Methods

Estimation is by pooled ordinary least squares. In each case the six World Bank institutional quality index measures are recursively added to the base model composed only of the controls and then a regression that includes all variables.

$$\begin{aligned} Compensation_{it} = & \alpha \\ & + \beta_1 Board\ Composition_{it} \\ & + \beta_2 Board\ Controls_{it} \\ & + \beta_3 Economic\ Deter\ min\ ant_{it-1} \\ & + \beta_4 Ownership_{it-1} \\ & + \varepsilon_{it} \end{aligned} \quad (2)$$

with subscripts  $i$  for firm level,  $j$  for country level variables and  $t$  for time period. Country fixed effects are used across all models in preference to using dummy controls to account for industry or country effects. All institutional quality variables and controls are defined above.

## **5. Results**

### **5.1 Descriptive statistics and correlations**

The evidence from Table 1 reveals several general trends across African markets. The first is the prevalence of IPO firms that have long term foreign corporate partners, where many of these are also recipient to foreign venture capitalists investment, underscoring their relative attractiveness as potential investments. Secondly and in line with evidence from Bruton et al (2005) and board size tends to be lower in countries and regions with higher institutional quality as exemplified across southern Africa in contrast to the other African regions. The third notable observation is that where the difference between mean base salary and total remuneration is greatest, such as in countries of Nigeria, Ghana and Sierra Leone the ratio of outsider foreign nonexecutives is lowest. There are some prominent exceptions to this third observation with Botswana, Mozambique and Tunisia being notable.

**Table 1**

Correlation analysis undertaken in Table 2 reveals that all are extremely low while few are statistically significant in excess of 90% confidence level. The only principal exception is the high and significant correlation between the two board compensation measures which is intuitively expected as total remuneration measure is based on the base salary. Overall this evidence mitigates any potential concerns over collinearity following their joint inclusion in regression models.

**Table 2**

### **5.2 Regression results**

The evidence regarding aggregate board compensation in the form of fixed base salary and total remuneration is outlined between Tables 3 and 4 respectively. Similar results were obtained from using average (per head) director fixed base salary and total remuneration which are available from authors upon request. The evidence from both Tables 3 and 4 reveals substantial support for hypotheses 1a and 1b in respect of a lack of any discernible association between ratios of foreign corporate partner nonexecutives, from both common and civil code law origins, and either measure of aggregate board compensation. Coefficients in models 2 and 3 (Table 3) and models 10 and 11 (Table 4) are very small in absolute size and lack statistical significance at any discernible confidence level inferring strong support for hypotheses 1a and 1b.

In contrast there is mixed support for hypotheses 2a and 2b. In particular the small coefficients and complete lack of statistical significance at any discernible confidence level in models 4 (Table 3) and 12 (Table 4) infers a lack of support for hypothesis 2a. This postulated an association between ratio of foreign venture capital affiliated nonexecutives and aggregate board compensation for which there is no statistical support. However a likely explanation is the greater reliance of common law venture capital managers on greater ownership stakes and more frequent interaction with investee firm CEOs while having much less of a presence of representative nonexecutives on board. This is highlighted in Appendix Table 1 where the majority of common law directors are from common law countries such as Saudi Arabia and United Arab Emirates (UAE) while comparatively few nonexecutives come from countries such as US, UK and South Africa. This is despite the prevalence of development-related venture capital finance originating from IFC (US), CDC and Aquila (UK) and indigenous South African firms such as Old Mutual and Brait Partners. In contrast the very large coefficients in model 5 (6.234) and model 13 (6.374), between Tables 3 and 4 respectively, which are highly statistically significant in excess of 95% confidence margin reveal considerable statistical support for hypothesis 2b. This is also reflected in increased explanatory power ( $R^2$ ) over that of models with control variables alone. This strong

association between ratio of foreign venture capital affiliated nonexecutives, from civil code law origin, and aggregate board compensation also retains its size, direction and significance between both grand regressions (models 8 and 16) where all variables are jointly included.

Finally there is very mixed support in relation to hypotheses 3a and 3b. While there is a complete lack of statistical significance in coefficients of association between both common law and civil code law foreign independent nonexecutives and the fixed base salary board compensation measure the association between common law foreign directors does attain both absolute size (0.737) and statistical significance (95% confidence level) in its association with board total remuneration. The association also retains its size, direction and statistical significance in the grand regression model 16. This would infer some partial support for hypothesis 3a and is also reflected in increased explanatory power ( $R^2$ ) over that of models with control variables alone.

In terms of the controls across all the models between the Tables 3 and 4 and there is a notable direction (sign) change across the ratios of various categories of social elites on board from fixed base salary to total remuneration. The more risk averse military social elites are associated with increased levels of board cash compensation while the reverse is true for the more risky (largely equity based – through personal director dividend payments being included) total remuneration measure. The opposite is true for all other social elites, namely those of government, commercial and academic backgrounds.

More generally across board controls and larger boards and separation of roles of chairperson and CEO are associated with higher compensation, in terms of both salary measures. Equally boards that have fewer nonexecutives but more of these being independent outsiders are associated with higher aggregate levels of compensation. This is in line with Canadian evidence in Mehran et al (1995) in relation to corporate earnings. IPO firms with higher revenues, inferring larger size and more complex operations, and older, more established trading histories, are associated with increasing levels of aggregate board compensation. However it is notable that there is a very large negative relationship between

institutional quality and board fixed base salary, inferring base salary increases as institutional quality deteriorates, which is not present for the total remuneration measure. Finally in terms of ownership and that of family (extended family business networks) and insider-director are associated with elevated aggregate board compensation while the opposite is true of long term foreign corporate partners. This provides further evidence of the management fee paid to subsidiary boards in joint ventures or wholly owned local enterprises that have foreign partners in conjunction to local host corporate or state entities. Finally increasing state ownership is associated with higher aggregate board fixed base salary as opposed to total remuneration.

### **Tables 3 and 4**

## **6. Discussion and Conclusions**

This study assesses the impact on aggregate board compensation from three different types of foreign nonexecutive: those affiliated to foreign corporate partners, foreign venture capitalists, and finally those that are independent and recruited from overseas managerial labour markets. A further distinction is made in each case to account for differences between foreign nonexecutives from common law and civil code law countries. Two measures are used to estimate aggregate board compensation. The first is fixed board salary as stated in listings filings while the second is a recently developed board total remuneration measure that takes into account dividend income, perks, bonuses, and other forms of self-reward based expropriation. A unique and comprehensive hand-collected sample of 190 IPO firms from across Africa was used.

We find evidence that foreign partner affiliated directors, associated with FDI from MNE firms into local joint ventures and wholly-owned enterprises, from both common and civil code law backgrounds have no impact on aggregate board compensation. In direct contrast the weaker monitoring of civil code law foreign venture capitalist nonexecutives in contrast to their common law counterparts, where far fewer board representatives are used

instead of higher ownership stakes and more frequent interaction with CEOs of focal firms, is associated with higher board compensation. Finally evidence is found of more general weaker monitoring associated with independent foreign nonexecutives, recruited from overseas, where those of common law origin in particular are associated with higher board self-reward in terms of total remuneration. Overall this reveals substantial differences in monitoring arising from different types of foreign director on boards across Africa, which shares many of the business environment characteristics of wider developing world.



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Table 1. Descriptive statistics for board compensation

This table presents the descriptive statistics, in form of mean, median and standard deviation, for board base salary and total remuneration for sample of 189 IPO firms. Both director compensation terms are delineated in US\$ thousands in year immediately preceding IPO. Values reported are country averages formed from across individual firm values. Board size is total number of directors, board independence ratio is proportion of nonexecutive directors to total board size, while ratio outsider nonexecutives is the proportion of outsider (or independent) nonexecutives to total board size.  $N_{\text{sample}}$  is sample size of IPO firms,  $N_{\text{Foreign vc}}$  is number of IPO firms with foreign venture capital involvement and  $N_{\text{FP}}$  is number of firms with long term foreign partners involved. All variables are sourced direct from IPO listings prospectuses.

	$N_{\text{sample}}$	$N_{\text{Foreign vc}}$	$N_{\text{FP}}$	Board Base Salary (US\$ '000)			Board Total Remuneration (US\$ '000)			Board Size	Board Independence Ratio	Ratio Outsider Nonexecutive
				Mean	Median	Std. dev.	Mean	Median	Std. dev.	Mean	Mean	Mean
<b>North Africa</b>												
Algeria	4	0	0	38.85	43.73	23.64	219,190.10	56.82	438,281.59	12.00	0.45	0.17
Egypt	10	1	0	138,353.75	2,867.15	323,122.69	455,662.15	11,316.50	1,020,348.50	11.60	0.70	0.27
Morocco	39	3	2	655.10	609.62	516.76	1,182.78	859.59	1,289.34	11.90	0.52	0.16
Tunisia	25	6	2	3,123.89	379.97	8,206.09	5,206.81	1,080.25	8,813.56	8.80	0.61	0.12
<b>West Africa</b>												
BRVM	7	4	7	1,642.75	2,139.04	1,040.21	1,642.75	2,139.04	1,040.21	10.86	0.70	0.30
Cameroon	2	0	2	509.35	509.35	229.82	509.35	509.35	229.82	14.00	0.61	0.32
Cape Verde Is.	4	0	2	303.95	283.78	43.86	303.95	283.78	43.86	8.75	0.47	0.13
Ghana	16	1	2	672.40	92.86	2,126.15	1,211.08	326.70	2,188.02	7.56	0.67	0.08
Nigeria	26	3	2	865.17	209.47	1,925.63	534,934.01	1,298.73	2,674,645.60	9.19	0.70	0.15
Sierra Leone	2	0	0	141.24	141.24	148.31	1,753.35	1,753.35	2,099.17	7.50	0.60	0.10
<b>East Africa</b>												
Kenya	10	1	3	369.81	310.16	312.56	643.89	518.29	589.68	7.90	0.83	0.31
Uganda	6	2	5	232.62	108.89	244.38	285.35	170.56	306.91	7.33	0.71	0.12
Tanzania	9	1	6	391.70	34.57	729.93	483.62	79.45	719.40	10.11	0.65	0.53
Rwanda	2	0	1	1,051.58	1,051.58	3.81	1,138.82	1,138.82	127.20	18.50	0.46	0.13
<b>Southern Africa</b>												
Botswana	6	1	0	493.89	380.14	460.28	4,445.85	2,470.18	6,209.38	8.67	0.73	0.50
Malawi	4	2	2	166.50	99.78	154.02	198.61	152.46	142.31	6.75	0.88	0.19
Mauritius	1	0	0	137.45	137.45	0.00	141.70	141.70	0.00	7.00	0.86	0.86
Mozambique	2	0	1	367.21	367.21	159.50	374.41	374.41	169.69	8.50	0.57	0.00
Namibia	2	0	0	1,362.57	1,362.57	971.12	2,151.54	2,151.54	132.60	9.50	0.72	0.37
Zambia	6	1	4	433.19	441.97	162.51	433.19	441.97	162.51	5.50	0.79	0.21
South Africa	7	0	1	854.92	469.97	694.72	1,902.46	1,082.54	1,752.02	10.29	0.69	0.54

Table 2. Pearson correlations for IPO firm variables

	1	2	3	4	5	6	7	8	9	10	11	12
1 Log (Base Salary)	1.00											
2 Log (Total Remuneration)	0.59††	1.00										
3 Ratio FP Nonexecutive Comm.	-0.08	-0.12*	1.00									
4 Ratio FP Nonexecutive Civil	-0.04	-0.11*	-0.03	1.00								
5 Ratio VC Nonexecutive Comm.	0.05	0.06	-0.03	-0.03	1.00							
6 Ratio VC Nonexecutive Civil	0.05	0.00	-0.04	-0.03	-0.02	1.00						
7 Ratio Foreign Nonexecutive Comm.	-0.01	0.05	-0.08	-0.07	-0.04	-0.04	1.00					
8 Ratio Foreign Nonexecutive Civil	0.00	-0.01	-0.07	-0.06	-0.03	-0.04	-0.03	1.00				
9 Ratio Social Elites Military	-0.04	0.01	-0.04	-0.04	-0.02	-0.02	-0.05	-0.05	1.00			
10 Ratio Social Elites Gov.	-0.18††	-0.16**	0.01	-0.03	-0.05	-0.05	0.03	-0.10	-0.04	1.00		
11 Ratio Social Elites Comm.	-0.15**	0.15**	-0.02	0.04	0.03	-0.06	-0.05	-0.08	0.08	-0.03	1.00	
12 Ratio Social Elites Univ.	-0.12*	0.09	-0.06	-0.06	-0.04	-0.04	0.03	-0.08	0.03	0.08	0.13†	1.00
13 Board Size	0.22††	0.24††	-0.12	-0.03	0.00	0.08	-0.05	0.10*	-0.01	-0.17†	-0.03	-0.01
14 Board independence ratio	-0.03	-0.05	-0.04	0.14**	0.02	-0.03	0.09	-0.14**	0.00	0.18†	0.01	0.11*
15 CEO <> Chairperson	-0.10*	0.07	0.14**	0.08	-0.05	-0.06	0.23††	-0.08	0.11*	0.23††	0.17**	0.23††
16 Ratio outsider nonexecutives	0.10*	0.06	-0.02	0.15**	0.02	-0.01	0.08	-0.05	-0.10	0.23††	-0.12*	-0.05
17 Log (Revenue)	0.40††	0.32††	-0.05	-0.07	0.00	-0.05	0.04	0.03	-0.05	0.01	-0.08	-0.10
18 ROA	-0.12*	0.07	-0.01	0.21††	-0.04	-0.01	-0.03	-0.02	-0.05	0.02	0.42††	-0.06
19 Log (Firm Age)	0.22††	0.05	0.13**	-0.01	0.00	-0.02	-0.07	0.16**	-0.08	-0.04	-0.14**	-0.17†
20 Institutional Quality	0.07	-0.06	-0.03	-0.04	0.06	0.02	0.31††	-0.03	-0.04	-0.09	-0.10	-0.26††
21 Corp. Block Own	0.00	-0.09	-0.01	-0.09	-0.05	-0.05	0.13*	0.09	-0.06	-0.01	-0.05	-0.04
22 Family Own	0.22††	0.32††	-0.13	-0.14**	0.06	-0.08	-0.15**	0.09	-0.07	-0.34††	-0.03	-0.12*
23 State Own	0.02	-0.17†	0.01	0.06	-0.07	0.01	-0.01	-0.05	-0.09	0.38††	-0.09	-0.05
24 Director Own	-0.07	-0.02	-0.11*	-0.11*	-0.06	0.11*	0.07	-0.05	0.19††	-0.03	0.04	0.08
25 Foreign Partner Own	-0.13*	-0.20††	0.51††	0.44††	-0.06	-0.06	-0.02	0.00	-0.08	0.18††	0.05	-0.11*

Table 2 (continued). Pearson correlations for IPO firm variables

	13	14	15	16	17	18	19	20	21	22	23	24	25
1 Log (Base Salary)													
2 Log (Total Remuneration)													
3 Ratio FP Nonexecutive Comm.													
4 Ratio FP Nonexecutive Civil													
5 Ratio VC Nonexecutive Comm.													
6 Ratio VC Nonexecutive Civil													
7 Ratio Foreign Nonexecutive Comm.													
8 Ratio Foreign Nonexecutive Civil													
9 Ratio Social Elites Military													
10 Ratio Social Elites Gov.													
11 Ratio Social Elites Comm.													
12 Ratio Social Elites Univ.													
13 Board Size	1.00												
14 Board independence ratio	-0.07	1.00											
15 CEO < > Chairperson	-0.14**	0.32††	1.00										
16 Ratio outsider nonexecutives	-0.12*	0.11*	0.10*	1.00									
17 Log (Revenue)	0.23††	0.04	0.02	0.18†	1.00								
18 ROA	-0.07	-0.04	0.07	-0.04	0.03	1.00							
19 Log (Firm Age)	0.17**	-0.10	0.00	-0.01	0.21††	-0.02	1.00						
20 Institutional Quality	-0.08	-0.05	-0.10	0.19†	0.06	0.08	-0.03	1.00					
21 Corp. Block Own	-0.08	0.08	0.05	0.18†	-0.03	-0.05	-0.07	0.25††	1.00				
22 Family Own	0.08	-0.30††	-0.40††	-0.14**	0.09	0.00	0.05	0.03	-0.22††	1.00			
23 State Own	0.16**	0.06	0.14**	-0.13**	0.21††	-0.05	0.15†	-0.09	-0.15**	-0.31††	1.00		
24 Director Own	-0.23††	-0.04	-0.09	0.04	-0.22††	-0.01	-0.19††	0.17†	-0.09	-0.21††	-0.22††	1.00	
25 Foreign Partner Own	-0.16**	0.03	0.32††	0.11*	-0.03	0.25††	0.21††	-0.10*	-0.11*	-0.28††	0.05	-0.20††	1.00

Notes: (1) The data have been sourced manually from the last prospectus lodged with the relevant securities exchange or national regulator immediately prior to listing.

All financial variables are expressed either as ratios or in thousands of US dollars.

(2) \* Significant at 10% confidence level; \*\* Significant at 5% confidence level; † Significant at 1% confidence level; †† Significant at 0.5% confidence level

Table 3. The impact of external institutional quality on director fixed base salary

Regression models are pooled cross section OLS regressions relating control variables and board characteristics to director remuneration. Board governance, economic determinants and ownership variables are as defined in Table 2.

	<b>Ln (Board fixed base salary)</b>							
	Model 1	Model 2	Model 3	Model 4	Model 5	Model 6	Model 7	Model 8
Intercept	1.666 [2.10]**	1.664 [2.06]**	1.680 [2.05]**	1.671 [2.09]**	1.661 [2.11]**	1.667 [1.99]**	1.649 [2.09]**	1.657 [1.90]**
<b>Foreign Nonexecutives</b>								
H1a: Ratio FP Nonexec. Common		-0.017 [-0.02]						-0.050 [-0.06]
H1b: Ratio FP Nonexec. Civil			-0.164 [-0.18]					-0.126 [-0.14]
H2a: Ratio VC Nonexec. Common				0.442 [0.37]				0.447 [0.37]
H2b: Ratio VC Nonexec. Civil					<b>6.234 [2.01]**</b>			<b>5.952 [1.80]**</b>
H3a: Ratio Foreign Nonexec. Common						-0.006 [-0.02]		0.014 [0.04]
H3b: Ratio Foreign Nonexec. Civil							-0.416 [-0.93]	-0.328 [-0.70]
<b>Board composition controls</b>								
Ratio Social Elites Military	0.947 [1.28]*	0.947 [1.29]*	0.964 [1.29]*	0.979 [1.28]*	1.055 [1.30]*	0.947 [1.29]*	0.915 [1.29]*	1.069 [1.28]*
Ratio Social Elites Government	-0.562 [-1.96]**	-0.564 [-1.83]**	-0.575 [-1.80]**	-0.565 [-1.98]**	-0.528 [-2.01]**	-0.563 [-1.96]**	-0.568 [-1.96]**	-0.549 [-1.72]**
Ratio Social Elites Commerce	-0.289 [-0.42]	-0.289 [-0.42]	-0.282 [-0.41]	-0.306 [-0.44]	-0.238 [-0.34]	-0.289 [-0.42]	-0.331 [-0.47]	-0.286 [-0.40]
Ratio Social Elites University	-0.118 [-0.11]	-0.116 [-0.11]	-0.121 [-0.12]	-0.087 [-0.08]	0.02 [0.02]	-0.117 [-0.11]	-0.202 [-0.20]	-0.020 [-0.02]
<b>Board controls</b>								
Board Size	0.022 [1.07]	0.022 [1.06]	0.022 [1.04]	0.022 [1.06]	0.021 [1.03]	0.022 [1.07]	0.022 [1.03]	0.021 [0.96]
Board independence ratio	-0.047 [-0.19]	-0.048 [-0.19]	-0.03 [-0.11]	-0.046 [-0.19]	-0.039 [-0.16]	-0.047 [-0.19]	-0.050 [-0.20]	-0.031 [-0.11]
CEO < > Chairperson	0.312 [1.41]*	0.313 [1.41]*	0.303 [1.30]*	0.309 [1.38]*	0.289 [1.29]*	0.312 [1.41]*	0.313 [1.41]*	0.281 [1.16]
Ratio true independence	0.603 [2.15]**	0.603 [2.14]**	0.612 [2.04]**	0.597 [2.09]**	0.607 [2.15]**	0.603 [2.11]**	0.588 [2.09]**	0.597 [1.89]**
<b>Economic determinants</b>								
Log (Revenue)	0.198 [1.94]**	0.198 [1.88]**	0.197 [1.94]**	0.196 [1.92]**	0.203 [1.98]**	0.198 [1.94]**	0.200 [1.95]**	0.200 [1.91]**
ROA	0.118 [0.59]	0.117 [0.54]	0.128 [0.55]	0.127 [0.65]	0.104 [0.52]	0.118 [0.59]	0.119 [0.60]	0.121 [0.48]
Log (Firm Age)	0.296 [2.96] ††	0.296 [2.94] ††	0.294 [3.01] ††	0.296 [2.96] ††	0.305 [2.99] ††	0.296 [2.93] ††	0.305 [3.02] ††	0.309 [3.07] ††
Institutional Quality	-2.302 [-1.33]*	-2.296 [-1.28]*	-2.325 [-1.29]*	-2.312 [-1.33]*	-2.405 [-1.38]*	-2.305 [-1.30]*	-2.267 [-1.32]*	-2.376 [-1.28]*
<b>Ownership</b>								
Corp. Block Own	0.002 [0.93]	0.002 [0.93]	0.002 [0.91]	0.002 [0.97]	0.003 [1.07]	0.002 [0.93]	0.003 [1.02]	0.003 [1.14]
Family Own	0.004 [1.99]**	0.004 [1.99]**	0.004 [1.95]**	0.004 [2.06]**	0.004 [2.19]**	0.004 [1.98]**	0.004 [2.02]**	0.004 [2.24]**
State Own	0.006 [3.05] ††	0.006 [2.90] ††	0.006 [2.89] ††	0.006 [3.55] ††	0.006 [3.14] ††	0.006 [2.99] ††	0.006 [3.06] ††	0.006 [3.28] ††
Director Own	0.003 [2.14]**	0.003 [2.13]**	0.003 [2.16]**	0.003 [2.37] †	0.003 [2.02]**	0.003 [2.10]**	0.003 [2.12]**	0.003 [2.23]**
Foreign Partner Own	-0.004 [-1.28]*	-0.004 [-0.85]	-0.004 [-1.40]*	-0.004 [-1.28]*	-0.003 [-1.28]*	-0.004 [-1.28]*	-0.004 [-1.28]*	-0.003 [-0.72]
Country Fixed Effects	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
F-test	3.92 [0.00]	3.79 [0.00]	3.79 [0.00]	3.80 [0.00]	3.89 [0.00]	3.79 [0.00]	3.81 [0.00]	3.32 [0.00]
Observations	168	168	168	168	168	168	168	168
Adjusted R <sup>2</sup>	0.3930	0.3883	0.3885	0.3889	0.3964	0.3883	0.3897	0.3737
Change in R <sup>2</sup> (over controls only)		-0.0047	-0.0045	-0.0041	<b>0.0034</b>	-0.0047	-0.0033	-0.0193

Notes: (1) \*p<0.10; \*\*p<0.05; †p<0.01; ††p<0.005. T-statistics are in parentheses (2) White cross-section standard errors & covariance (d.f. corrected).



Table 4. The impact of external institutional quality on director total remuneration

Regression models are pooled cross section OLS regressions relating control variables and board characteristics to director remuneration. Board governance, economic determinants and ownership variables are as defined in Table 2.

	<b>Ln (Board total remuneration)</b>							
	Model 9	Model 10	Model 11	Model 12	Model 13	Model 14	Model 15	Model 16
Intercept	-0.147 [-0.11]	-0.128 [-0.10]	-0.163 [-0.12]	-0.146 [-0.11]	-0.152 [-0.12]	-0.352 [-0.26]	-0.136 [-0.10]	-0.353 [-0.25]
<b>Foreign Nonexecutives</b>								
H1a: Ratio FP Nonexec. Common		0.256 [0.34]						0.392 [0.55]
H1b: Ratio FP Nonexec. Civil			0.196 [0.22]					0.358 [0.43]
H2a: Ratio VC Nonexec. Common				0.096 [0.10]				0.155 [0.16]
H2b: Ratio VC Nonexec. Civil					<b>6.374 [1.90]**</b>			<b>6.804 [1.90]**</b>
H3a: Ratio Foreign Nonexec. Common						<b>0.737 [1.82]**</b>		<b>0.773 [1.90]**</b>
H3b: Ratio Foreign Nonexec. Civil							0.266 [0.52]	0.372 [0.71]
<b>Board composition controls</b>								
Ratio Social Elites Military	-0.532 [-0.49]	-0.524 [-0.48]	-0.552 [-0.49]	-0.525 [-0.48]	-0.421 [-0.39]	-0.497 [-0.44]	-0.511 [-0.47]	-0.361 [-0.29]
Ratio Social Elites Government	0.185 [0.97]	0.201 [0.92]	0.199 [0.97]	0.184 [0.96]	0.220 [1.18]	0.200 [1.04]	0.188 [0.99]	0.295 [1.30]*
Ratio Social Elites Commerce	1.470 [1.96]**	1.473 [1.95]**	1.462 [1.97]**	1.466 [1.94]**	1.522 [2.02]**	1.481 [1.99]**	1.497 [1.99]**	1.559 [2.06]**
Ratio Social Elites University	1.127 [0.81]	1.094 [0.79]	1.131 [0.82]	1.134 [0.83]	1.268 [0.88]	0.968 [0.70]	1.181 [0.83]	1.152 [0.80]
<b>Board controls</b>								
Board Size	0.063 [2.40] †	0.063 [2.37] †	0.063 [2.36] †	0.063 [2.38] †	0.063 [2.39] †	0.064 [2.39] †	0.064 [2.42] †	0.063 [2.29]**
Board independence ratio	-0.224 [-0.83]	-0.207 [-0.74]	-0.245 [-0.89]	-0.224 [-0.83]	-0.216 [-0.80]	-0.200 [-0.73]	-0.222 [-0.82]	-0.201 [-0.68]
CEO < > Chairperson	0.897 [4.07] ††	0.893 [4.05] ††	0.908 [4.01] ††	0.896 [4.02] ††	0.873 [3.95] ††	0.886 [4.01] ††	0.896 [4.04] ††	0.871 [3.71] ††
Ratio true independence	0.520 [2.35] †	0.515 [2.32] †	0.509 [2.19]**	0.518 [2.25]**	0.524 [2.33] †	0.554 [2.22]**	0.529 [2.40] †	0.545 [2.03]**
<b>Economic determinants</b>								
Log (Revenue)	0.230 [1.87]**	0.234 [1.84]**	0.232 [1.91]**	0.230 [1.87]**	0.235 [1.91]**	0.225 [1.79]**	0.229 [1.85]**	0.237 [1.86]**
ROA	0.213 [1.04]	0.227 [1.00]	0.200 [0.81]	0.215 [1.07]	0.199 [0.98]	0.222 [1.09]	0.212 [1.03]	0.210 [0.81]
Log (Firm Age)	0.241 [1.55]*	0.244 [1.57]*	0.244 [1.56]*	0.241 [1.54]*	0.250 [1.60]*	0.249 [1.55]*	0.236 [1.52]*	0.259 [1.60]*
Institutional Quality	0.833 [0.34]	0.740 [0.30]	0.861 [0.34]	0.831 [0.34]	0.727 [0.31]	1.188 [0.47]	0.811 [0.33]	0.966 [0.36]
<b>Ownership</b>								
Corp. Block Own	0.0002 [0.07]	0.0002 [0.06]	0.0002 [0.09]	0.0002 [0.08]	0.0005 [0.20]	0.0001 [0.06]	-5.54E-06 [0.00]	0.0004 [0.16]
Family Own	0.006 [2.63] †	0.006 [2.62] †	0.006 [2.57] †	0.006 [2.70] ††	0.007 [2.70] ††	0.006 [2.64] ††	0.006 [2.60] ††	0.007 [2.69] ††
State Own	-0.003 [-1.04]	-0.003 [-1.06]	-0.003 [-1.06]	-0.003 [-1.05]	-0.003 [-1.01]	-0.003 [-0.97]	-0.003 [-1.01]	-0.003 [-1.01]
Director Own	0.004 [2.73] ††	0.004 [2.71] ††	0.004 [2.75] ††	0.004 [2.82] ††	0.004 [2.62] ††	0.005 [2.87] ††	0.004 [2.70] ††	0.004 [2.87] ††
Foreign Partner Own	-0.005 [-1.89]**	-0.006 [-1.37]*	-0.005 [-2.63] †	-0.005 [-1.89]**	-0.005 [-1.82]**	-0.005 [-1.74]**	-0.005 [-1.89]**	-0.006 [-1.78]**
Country Fixed Effects	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
F-test	4.64 [0.00]	4.49 [0.00]	4.49 [0.00]	4.49 [0.00]	4.58 [0.00]	4.56 [0.00]	4.49 [0.00]	3.98 [0.00]
Observations	168	168	168	168	168	168	168	168
Adjusted R <sup>2</sup>	0.4467	0.4428	0.4427	0.4424	0.4486	0.4475	0.4428	0.4341
Change in R <sup>2</sup> (over controls only)		-0.0039	-0.0040	-0.0043	<b>0.0019</b>	<b>0.0008</b>	-0.0039	-0.0126

Notes: (1) \*p<0.10; \*\*p<0.05; †p<0.01; ††p<0.005. T-statistics are in parentheses (2) White cross-section standard errors & covariance (d.f. corrected).

Appendix Table 1. Descriptive statistics for foreign nonexecutive characteristics

	Number of Foreign Partner affiliated Nonexecutives, per origin country		Number of Foreign VC affiliated Nonexecutives, per origin country		Number of unaffiliated Foreign Nonexecutives, per origin country	
	Common Law	Civil Code Law	Common Law	Civil Code Law	Common Law	Civil Code Law
<b>North Africa</b>						
Algeria	---	---	---	---	---	---
Egypt						
Saudi Arabia	---	---	2	0	---	---
Italy	---	---	---	---	0	1
UK	---	---	---	---	1	0
Morocco						
France	0	7	0	2	0	23
Tunisia						
Saudi Arabia	5	0	---	---	---	---
GCC	0	2	---	---	---	---
Kuwait	1	0	---	---	---	---
UAE	---	---	5	0	---	---
Italy	0	1	---	---	---	---
<b>West Africa</b>						
BRVM						
France	0	12	---	---	0	3
Benin	0	0	---	---	0	1
Togo	0	1	---	---	0	1
Niger	0	1	---	---	---	---
Morocco	0	8	---	---	---	---
UMEAO	0	3	---	---	---	---
Cameroon						
France	0	10	---	---	---	---
Cape Verde Islands						
Angola	0	1	---	---	---	---
Portugal	0	1	---	---	0	1
Ghana						
UK	---	---	2	0	1	0
France	0	4	---	---	---	---
Togo	0	1	---	---	---	---
Cote d'Ivoire	0	1	---	---	---	---
Gambia	---	---	---	---	8	0
Nigeria						
Greece	---	---	---	---	0	2
China	---	---	---	---	0	2
Pakistan	2	0	---	---	---	---
Sierra Leone	---	---	---	---	---	---

	Number of Foreign Partner affiliated Nonexecutives, per origin country		Number of Foreign VC affiliated Nonexecutives, per origin country		Number of unaffiliated Foreign Nonexecutives, per origin country	
	Common Law	Civil Code Law	Common Law	Civil Code Law	Common Law	Civil Code Law
<b>East Africa</b>						
Kenya						
UK	4	0	---	---	1	0
India	1	0	---	---	---	---
Australia	---	---	---	---	1	0
Uganda						
UK	5	0	---	---	---	---
South Africa	1	0	---	---	---	---
India	1	0	---	---	---	---
Tanzania						
Netherland	0	4	0	1	0	1
United States	1	0	---	---	---	---
Switzerland	2	0	---	---	0	1
Germany	0	1	---	---	---	---
Kenya	---	---	---	---	1	0
Rwanda						
UK	---	---	---	---	1	0
Netherlands	---	---	---	---	0	3
Mexico	---	---	---	---	0	1
Burundi	---	---	---	---	0	1
Georgia	---	---	---	---	0	1
<b>Southern Africa</b>						
Botswana						
UK	---	---	---	---	5	0
South Africa	---	---	---	---	8	0
Ghana	---	---	---	---	1	0
Tanzania	---	---	---	---	1	0
Greece	---	---	---	---	0	1
Malawi						
UK	1	0	---	---	---	---
South Africa	1	0	---	---	---	---
Kenya	3	0	---	---	---	---
Mauritius						
South Africa	---	---	---	---	1	0
Mozambique						
South Africa	5	0	---	---	---	---
Namibia						
South Africa	---	---	---	---	4	0

	Number of Foreign Partner affiliated Nonexecutives, per origin country		Number of Foreign VC affiliated Nonexecutives, per origin country		Number of unaffiliated Foreign Nonexecutives, per origin country	
	Common Law	Civil Code Law	Common Law	Civil Code Law	Common Law	Civil Code Law
Zambia						
UK	-- --	-- --	-- --	-- --	1	0
India	-- --	-- --	-- --	-- --	2	0
Netherlands	0	2	0	1	-- --	-- --
Czech Republic	0	1	-- --	-- --	-- --	-- --
Kenya	1	0	-- --	-- --	-- --	-- --
South Africa	1	0	-- --	-- --	-- --	-- --
South Africa						
UK	-- --	-- --	-- --	-- --	1	0
United States	-- --	-- --	-- --	-- --	3	0
South Africa*	-- --	-- --	-- --	-- --	2	0

Note: (1) Compiled by authors from individual IPO firm prospectuses and listings filings (2) \* indicates a special case where South African nonexecutives are present in a firm established and wholly controlled by Royal Bafokeng nation, a semi-autonomous indigenous African nation state within South Africa. Given this unique status we differentiate South African nonexecutives in board as being “foreign” to Bafokeng nation (3) UMEAO represents Union Monétaire et Économique de l’Afrique de l’Ouest and includes including Cote d’Ivoire, Benin, Togo, Burkina Faso, Mali, Niger, Senegal and Guinea-Bissau, while GCC represents member states of Arabian Gulf Cooperation Council.