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THE IMPACT OF BOARD GOVERNANCE ON DIRECTOR COMPENSATION IN WEST AFRICAN IPO FIRMS

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Abstract

This paper undertakes a unique study of the determinants of corporate governance in the West African developing region and their impact on director compensation. A new measure of director total remuneration is constructed providing a conservative estimate of expropriation of private benefits of control. Using a hand-collected sample of 51 West African IPO firms from 2000 and 2011 we find evidence that increased presence of true independent nonexecutives that are unconnected to CEO or dominant insider groups within firm and nominally independent board level committees are highly associated with expropriation inferring that firm's with directors engaging in this behavior are more likely to adopt measures indicative of governance best practice.

Keywords: IPO; Board of Directors; Institutional Theory

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1. Introduction

There has been considerable impetus at policy level for developing countries worldwide to adopt what are universally considered as optimal corporate governance best practice recommendations and legislation that are largely modelled or influenced on Anglo-American shareholder value or European stakeholder models (Heugens and Otten, 2007). Furthermore this has led to a debate on optimal governance structures in developing countries where authorities are advised to adopt market or bank orientated governance systems which themselves are informed on the successes of United States (US) and United Kingdom (UK) models, German bank-dominated systems or Japanese keiretsu systems (Rwegasira, 2000). While many of the elements of newly drafted national corporate governance codes across developing countries such as West Africa have been transplanted from dominant Anglo-American and European models the process has led to conjecture of institutional convergence (Branson (2001); Chizema (2008)). However considerable recent uncertainty has been expressed over the concept of convergence given that the shareholder value model in particular has been formed on the concept of widely dispersed ownership (Berle and Means, 1932) and particular institutional landscape of US and UK political economies (Hansmann and Kraakman, 2001) which differs considerably from that encountered in many developing countries and regions (Mueller, 2006). Consequently we are motivated to study the applicability of widely accepted Anglo-American shareholder value governance measures in the developing region of West Africa which is our first contribution to literature.

Study of the West region is motivated as this region shares many of the structural and institutional issues hindering development and economic growth with other developing regions such as Latin America and Asia. These typically centre on economic stagnation created by an incongruous institutional mix of informal institutions formed from indigenous culture and behavioural norms together with formal institutions based on transplanted political, governmental and legal systems inherited from former, predominantly European, colonial metropoles. However the historical evolution of institutional environment in West Africa has been particularly problematic through an inherited institutional legacy from the period of European colonial domination which was common to much of the developing world resulted in narrow distant political economies controlled by indigenous social elites empowered at independence able to exert considerable influence over the polity owing to their considerable private benefits of control which in turn resulted in ongoing stifling of any possibility of longer term change to economic and social governance (North, 1990). Furthermore following the ethnic fractionalization and accentuation of ethnic differences that resulted from indirect rule in colonised countries, the universal adoption of European legal systems at independence, despite the lack of trained and competent indigenous practitioners, and the subsequent wholesale subsuming of indigenous traditional structures for conflict resolution, resulted in countries being caught in development traps with a lack of institutions to facilitate adoption of new technology that would otherwise result in enhanced economic productivity (North (1990); Joireman (2001); Hopkins (2009)). This is especially pertinent in West Africa as with other developing regions where the historical evolution of institutional structures including transplantation from colonial metropoles is mirrored by their absorption into the culture and values of the indigenous society thereby cementing the informal institutions which are relatively impermeable to short term changes (Williamson (2000, 2002)). Given the inability of human actors to capture and interpret all available information subjective informal institutions facilitate understanding and interpretation of events and guide behaviour (North (1989); Williamson (2000)). These in turn lead to the ability of societies to absorb new technological innovations and compete economically through enhanced productivity and growth opportunities or to alternatively stagnate which has happened across much of West African region (Collier, 2008) where societies have become immersed in self-reinforcing and self-perpetuating development traps. Consequently West African societies are typically characterised by dense network of social ties with a strong emphasis on relationships in order to effectively mitigate some of the highest transactions costs in the world (North, 1989). This creates a largely unique environment in which to study the universal adoption of corporate governance legislation such as the Anglo-American shareholder value model where the underdeveloped nature of institutions inhibits external financing solutions and particularly market-orientated finance as envisaged in neoclassical economics. It also further motivates the use of West African region to study the hypothesized worldwide convergence in corporate governance on the Anglo-American shareholder value model.

Individual nations corporate governance frameworks are best practice guidelines or recommendations that are designed to address deficiencies in the contracting environment for firms and stakeholders alike (Chizema, 2008). The majority of African countries have recently established formal corporate governance codes during the last decade (Rossouw, 2005) with many being informed by either UK Cadbury, Hampel and Greenbury reports (Branson, 2001), South Africa's King I and II reports which are particularly prevalent in Southern African states (Rossouw, 2005) and continental European stakeholder models. Equally independent not-for-profit institutes of directors have been established in Ghana while Nigeria hosts a branch of the established UK Institute of Directors. Cote d'Ivoire is more unique in being a central part of UMEAO[1] where corporate governance is based on a voluntary set of principles established by the regional "Conference des Directeurs Financiers et Contrôleurs de Gestion". These in turn further reinforce the Anglo-American shareholder value and European stakeholder value models of governance through executive education courses and best practice recommendations. Much of the literature on corporate governance codes in Africa has been largely descriptive in nature such as Tsamenyi et al (2007) for Ghana, Wanyama et al (2009) for Uganda, Okike (2007) for Nigeria and Vaughan and Ryan (2006) for South Africa. Rossouw (2005) extends this body of literature into the consideration of corporate governance and business ethics introducing the concept of African Ubuntu philosophy which centres on coexistence, consultation and consensus reflecting the communitarian nature of traditional African society. Earlier work by Rwegasira (2000) contrasted market-orientated as opposed to bank-based governance systems concluding that the latter had benefits in the context of the African business environment given the underdeveloped nature of many of the continents stock markets and the general lack of a market for corporate control. However this is limited in trying to find the best fit of governance

[1] Union Monétaire et Économique de l'Afrique de l'Ouest (UMEAO) countries include Cote d'Ivoire, Benin, Togo, Burkina Faso, Mali, Niger, Senegal and Guinea-Bissau.

regime from Anglo-American market-orientated and European bank-centred models for African systems. The nuances of the African governance environment are highlighted by Okike (2007) in a study of corporate governance in Nigeria where significant concerns regarding corruption and expropriation were cited in the context of a narrow relationship-based political economy with a polity reluctant to engage in change owing to the significant private benefits of control of state machinery. In line with evidence from Kenya in Barako et al (2006), Okike (2007) questions the ability of nonexecutive directors and board level committees to be genuinely independent given the nuances of the densely social networked business environment. The successful establishment of corporate governance regimes is contingent on firm's being incentivized in being able to access cost effective external (market or bank orientated) finance (Doidge et al, 2007) together with these transplanted institutions being palatable with the underlying informal institutions and societal matrix prevailing in the country (Judge et al, 2011). However Doidge et al (2007) argues the primacy of state-level institutions over and above those of a firm-level nature given that the relative strengths of those at state-level in encouraging growth and development of financial markets and thus enhanced cost effective external financing opportunities for firms that then makes the adoption of firm board level governance measures worthwhile. This is a critical feature of the African and West African business environment that is similar to other developing regions where there is significant dichotomy between transplanted political, governmental and legal machinery which engender social and economic outcomes at odds with the underlying informal institutions (Judge et al, 2011). However the ability to access cost effective finance remains a powerful incentive for executives to voluntarily adopt international best practice governance measures (Doidge et al, 2007). As such executives and insider groups face a dilemma between ability of firm in accessing cost effective finance which ensures the longer term economic viability of firm's operations and their personal engaging in increasingly costly expropriation technology, which ranges from outright stealing through uninhibited access to retained earnings to the establishment of offshore firms in tax havens to less mundane measures which are considerably harder to prove in court such as preferential allocation of suppliers to the firm and transfer pricing (Doidge et al, 2007). This forms our second contribution to the literature where we are motivated to study the impact of several standard firm-level board governance measures and their impact on director remuneration and self-rewarding behaviour.

Finally the study of firms undergoing initial primary offerings (IPOs) offers additional unique insights into corporate governance that is not otherwise possible from a focus on larger firms with more established trading histories (Allcock and Filatotchev, 2010). The IPO itself represents a key milestone in the lifecycle of the firm in divesting ownership for the first time and introducing agency issues and associated costs into its organizational structure. However while Jensen and Meckling (1976) viewed the opening of the firm's organizational structure for first time as the divestment of ownership from owner-founder entrepreneur to outsider minority shareholders more recently Arthurs et al (2008) question this view in the light of multiple agency issues between various different insider entities within the firm such as family, private equity, state and corporate block-shareholders, each with their own individual agency relationship with their different principals. This subjects the firm and directors decision making process susceptible to the very different motivations of often incongruous external principals with very different investment time horizons varying from shorter term return orientation of private equity to longer term strategy of families viewing the firm as a vehicle facilitating intergenerational transfer of wealth and capital.

This paper is structured as follows. The next section outlines the conceptual framework and details historical evolution of institutions in the West African context. Section 3 details hypothesis construction while section 4 outlines data and methods. Section 5 involves discussion of results and the final section concludes.

2. Conceptual Framework

The study of the impact of corporate governance measures on director compensation in West Africa necessitates first an overview of the historical evolution of economic institutions in the region and then a review of the theoretical perspectives concerning compensation.

2.1. Institutional development in West Africa

The historical evolution of institutions in the West African region is complex, controversial and emotive. A significant limitation to mainstream economic and development literature is that it has almost invariably adopted a single dimensioned focus with little or no regard to the historical evolution of indigenous institutions and deeper societal matrix (North (1989, 1990); Hopkins (2009)). This is especially prevalent in African economic and business history (Hopkins, 2009) where analysis often starts from the point many countries gained independence from their former colonial metropoles. Consequently this has led to the wholesale omission of large and highly relevant tracts of historical development that largely explain modern social, political and economic issues of current relevance. This has led to explanations of the continents economic woes and divergence from rest of world ranging from the disease environment experienced by early European settlers regarding the early stages of institutional development (Acemoglu, 2002) to more plausible causes relating to differences in ethnicity dis-incentivizing actors in effecting the neoclassical concept of price coordination in economies (Easterly and Levine, 1997). However consideration of historical development across SSA merits an equally deeper insight into the context of institutional development. While there is considerable cultural and linguistic diversity across the SSA region this is largely underscored by a communitarian Ubuntu philosophy (Lutz (2009); Rossouw (2001)). Davidson (1984) argues that traditional African societies remained largely agrarian with little industrialization owing to minimal division of labour from the communal and highly democratic nature of devolved power structures with often extensive networks of checks and balances to mitigate potential abuses of political power. However extensive transactions costs from devolved power structures amongst sub-kings and localised rulers largely limited the absolute size of empires such as those of Mali, Songhai, and ancient Ghana in West Africa and caused their gradual demise (Hopkins (2009); Davidson (1984)). While military capability was on a par with that of medieval Europe the lack of organizational definition beyond that of a communal structure often centred around villages and the community as opposed to individualistic notions of property rights together with complex traditional inheritance practices limited industrial development and intergenerational transmission of wealth and capital (Davidson, 1984). This caused the region to lag behind Europe where innovations in inheritance practices with priority being given to eldest male sibling, the advent of first joint-stock corporations and then limited liability facilitating the pooling of resources and enabling directors to effectively engage in risky development projects can be attributed productive advantages and longer term economic prospects in Europe as opposed to Africa. However while the West African early institutional environment lacked in competitiveness with European innovations in organizational structure, law and inheritance practices the inception of the West African Atlantic slave trades where otherwise largely benign indigenous African institutions were subjected to commercial and military pressures transformed indigenous societies (Davidson (1984); Fage (1969); Heywood (2009)). This caused indigenous institutional development inimical to economic productivity and long-term growth and discouraged the formation of institutions that could facilitate the adoption and of technological and other innovations of the period setting in motion the long term decline of West African indigenous societies (Hopkins, 2009). The historical period following the gradual dissolution of slave trading institutions is dominated by European colonialism from approximately 1700 to independence for most African countries during the 1960's (Hopkins, 2009). Joireman (2001) argues that this colonial period was largely characterised by two-tier legal systems in many countries with formal European courts administering justice to commercial enterprise and European social elites on one hand and a combination of traditional courts in English common law countries and indigenat in French and Portuguese civil code countries. However the application of uniform legal systems based on transplanted European systems inherited from former colonial metropoles and subsequent disbandment of traditional structures together with a lack of professionally trained indigenous lawyers and body of supportive bureaucracy in civil code or case law in common law countries further disadvantaged West African nations (Joireman, 2001). This facilitated the empowerment of indigenous social elites having taken over from European colonial predecessors (Lavelle, 2001). These social elites are both adept at the manipulation of political, governmental and legal apparatus while having substantial private benefits of control acquired from skewed polities in many countries that discourage genuine change or adoption of legislation that will inhibit their relative ease of expropriation (North, 1990). Consequently many African countries at independence acquired narrow political economies dominated by agricultural or extractive industries and dominated by polities reluctant to encourage real change in equitable income distribution owing to their substantial private benefits of control over state machinery. Furthermore underdevelopment and a lack of capitalization as well as sufficiently trained personnel with human and social capital together with a reluctance of genuine reform on part of entrenched polity has inferred many West African countries maintain archaic legal systems largely derived from the original civil code formed by Napoleon without recourse for change. This together with a disenfranchised wider population has caused the unproductive economic stagnation of West African countries and an effective governance trap with idiosyncratic ability to successfully adopt foreign governance regimes such as shareholder value.

2.2. Executive Remuneration

There is a considerable body of literature relating firm-level board governance measures to CEO, executive and director compensation. However while this literature has permeated across economics (Becker, 1975), finance (Jensen and Murphy (1990); Core et al (1999)), management (Allcock and Filatotchev (2010); Finkelstein and Boyd (1998); Buck et al (2008)) and industrial organization (Brunello et al, 2001) it is generally confined to single country studies with these being primarily US and UK based (e.g. Conyon and Peck (1998); Conyon (1997)) with a few prominent exceptions such as Italy (Brunello et al, 2001), China (e.g. Buck et al (2008); Du and Choi (2010)) and a largely unique developing country study on the Philippines (Unite et al, 2008). Consequently to our knowledge this is the first paper of its kind to focus on West African emerging markets.

Human capital theory is primarily a theory relating the scarcity of CEOs to increases in salary necessary to attract suitably qualified individuals (Harris and Helfat, 1997). However this suggests a largely integrated and relatively liquid international market for CEOs and directors alike while also assuming that foreign CEOs and directors are in sufficiently short supply owing to the additional demands implied within their role in handling extra international issues over and above those of their domestic counterparts that they attain a degree of asset specificity (Oxelheim and Randoy, 2005). It is this specificity in terms of handling international relationships involved in the role and consequential short supply of suitably qualified individuals that attracts a salary premium. An extension of this in terms of narrow political economies characterised by dense social networks such as those across the developing world (North, 1989) is in the attraction of individuals of sufficiently high standing in indigenous societies (social elites) that owing to the density of social relations is able to add value through enhanced access to networks both to secure factors of production at preferential rates but also in product marketing and finance too. As such this would assume a premium for high society CEOs and directors over more general individuals.

Oxelheim and Randoy (2005) cite managerial discretion theory is having a qualitatively different focus from that of supply-orientated human capital theory with a much greater emphasis on demand-side factors. Sanders and Carpenter (1998) and Finkelstein and Boyd (1998) both cite the increasing internationalisation of firms as bringing with it a complex task environment where CEOs and directors are faced with nuances of international consumer marketing for increasingly competitive product markets together with complex international regulations and demanding foreign regulatory authorities. As such firms are more motivated to pay a higher salary in order to attract a sufficiently highly qualified and experience individual able to handle these additional rigors of international operations. Oxelheim and Randoy (2005) argue that the firm benefits from a foreign director in terms of their enhanced ability to handle "domestic and foreign regulators, domestic and foreign board members, domestic and foreign investors and domestic and foreign customers and suppliers". However while this applies to the demand-orientated salary premium that firms are prepared to pay to secure high quality foreign individuals it also applied to those of high standing in local indigenous society. These individuals are able to secure resources on better terms for the firm owing to their connections from their elevated status in the local indigenous society. Consequently in narrow political economies that typically characterise developing regions firms are prepared to pay more to secure directors with considerable connections that can cost effectively secure access to resources.

The prescriptions of agency theory largely owe their origins to the inaugural work of Jensen and Meckling (1976) on the gap between utility of minority outsider investors (principals) and insider senior management and executives (agents). However this is primarily focussed on the agency caused through owner-founders divesting ownership for the first time to outside minority principals and lacks in establishing a more informed theoretical framework for the analysis of more sophisticated ownership structures including state, family, corporate block and private equity involvement where each of these entities is subject to its own agency relationship with external principals that often have incongruous motives with each other (Arthurs et al, 2008). This multiple agency is also reflected in the often very different investment time horizons of each entity where family groups are likely to adopt longer term investment horizons underscored by altruistic motives bonding members to a common cause (Schulze et al (2003); Lubatkin et al (2006)) although there is evidence of a detrimental effect arising from significant separation of ownership and control in family firms from enhanced opportunities to engage in shareholder tunnelling practices (Almeida and Wolfenzon, 2006). Contrastingly private equity investors and especially foreign private equity investors are likely to be subject to more formalised rule regarding their approach to decision making and will likely have shorter time horizons with a focus on exit strategy through IPO or merger and acquisition activity and be interested in higher returns in relation to their initial investment (Arthurs et al, 2008). Oxelheim and Randoy (2005) argue that CEO salaries have an extra premium owing to the internationalisation of the firm and that CEO's (and more general directors in this paper) are subject to greater pressures (threat of dismissal) from having to cope with greater number of exogenous factors such as macroeconomic fluctuations (Oxelheim and Wihlborg, 1997), and for being evaluated by demanding performance-orientated foreign (Anglo-American) board members and regulatory authorities. However while there is some divergence in the literature over the nature of CEO's with an extent literature relating to their character in being risk-averse or risk-neutral (Donaldson (1961); Williamson (1963)) which is at odds with more recent perceptions of their being active risk-takers (Wiseman and Gomez-Meija, 1998) the salary premium is related to the harder working environment and being exposed to greater internal pressures. One additional method cited in literature for aligning the interests of insider directors with those of outsider principals is for the addition of performance related stock options and derivatives packages (Conyon and Peck (1998); Brenner and Schwalbach (2009)). However these concerns are largely mitigated in this study owing to the wholesale lack of derivatives markets in Africa with the prominent exception of South Africa (Hearn and Piesse, 2009) and the consequential extremely rare use of stock options. This adds further support in the use of agency theory in terms of studying director risk aversion.

One other proposition that Oxelheim and Randoy (2005) attribute to exerting an upwards effect on CEO and director compensation is that of organisational power theory. This attributes increases in compensation to be potentially beyond those anticipated by either supply side factors (human capital theory) or demand side factors (managerial discretion theory) and is more closely linked to the concept of self-rewarding behaviour of executives and insider directors. In particular CEO or insider domination over the board (Boyd, 1994) and board-level remuneration committees (Zajac and Westphal, 1996) and a lack of genuinely independent directors, owing to insider domination of recruitment, to monitor board level decision making processes that would otherwise reign in managerial excesses empowers insiders and facilitates self-rewarding behaviour. In line with findings of La Porta et al (1998) in a study of 49 countries worldwide where they found evidence that block shareholder ownership is universal worldwide, which is at odds with the original dispersed model of ownership of Berle and Means (1932), Boulton et al (2009) cite evidence of the benefits of ownership concentration in terms of effectively monitoring insiders and discouraging self-rewarding behaviour which is actually beneficial to the interests of outsider minority shareholders who have relatively negligible influence. While Oxelheim and Randoy (2005) document organizational power theory as an additional lens for the study of CEO and director compensation it is equally useful in providing insights into deeper expropriation of private benefits of control.

However while much of the above reasoning has impact on fixed director base salaries and their comparative levels there are additional issues to be taken into consideration when considering the factors influencing director total remuneration and the expropriation of private benefits of control. This is especially important given the wider definition of total remuneration in taking into account conservative estimates of the trappings from private benefits of control in directors having substantial levels of influence and control over firm affairs in excess of strict cash flow (equity) rights. Much of the study of private benefits of control is centred in the finance literature (Dyck and Zingales (2004); Doidge et al (2007)) which is based on agency theory. This typically focuses on violations of duty of care and duty of loyalty aspects of director mandates and involves the empirical estimation of these private benefits of control (Dyck and Zingales, 2004). Dyck and Zingales (2004) argue that private benefits of control are inherently difficult to quantify thereby limiting recourse by outsider investors through the legal court system. However two methods are used in the finance literature to estimate their numerical value. The first is based on estimating the control premium on purchase or sale of a controlling block of shares from the price paid on sale (purchase) to share price one day following the transaction having been developed by Barclay and Holderness (1989). The second that is used by Zingales (1994, 1995) and Nenova (2001) estimates the price difference between two classes of stock that differ only in their voting rights. These studies though are limited in estimating private benefits of control in a single developed country context with equally developed institutional environment and optimal corporate governance legislation. Consequently the inaugural work by Doidge et al (2007) is unusual in considering the contrasting effects of firm-level versus state-level governance in terms of expropriation of private benefits of control. Doidge et al (2007) however focuses on contrasting levels of stock market development and consequently the firm's ability to access cost effective forms of market-based external finance in motivating firm-level governance arrangements. As a consequence the primacy of state-level institutional development is argued to precede firm-level governance owing to the necessity in facilitating market development thereby enabling firm's access to external finance necessitating board governance changes that would mediate its ability to attract finance on more competitive terms. Overall the arguments relating to the impact of different board governance mechanisms such as increasing proportion of foreign or high society directors and increasing proportions of nonexecutives that are genuinely independent relate are based on agency theory and the relative ability of these mechanisms to mitigate agency costs through their acting to realign the interests of incumbent executives (agents) and outsider minority owners (principals). Despite the considerable literature relating to the board governance impact on CEO, executive and director compensation none to the best of our knowledge is extended to any measures of levels of expropriation of private benefits of control by insider directors.

3. Hypotheses

The mainstream international corporate governance literature views an IPO as being the first major "liquidity event" in the life cycle of fast growing firms when founders and initial investors (corporate insiders) begin the process of realizing the value of their ownership stake in the firm (Brav and Gompers, 2003). However the IPO process introduces a number of potential agency conflicts for the various principal and agent parties involved (Bruton et al, 2009). Adverse selection and moral hazard problems arise from the asymmetric information between new owners (investors) and incumbent managers (agents) as there are incentives for the latter to mislead or even worse expropriate the former (Bruton et al (2009); Boulton et al (2009)). As such the board of directors itself can be viewed as being a tool which can act to better align incentives of various principals and agents and facilitate communication and information disclosure thereby reducing asymmetric information (Jensen and Meckling, 1976). While there is considerable literature relating to the role of nonexecutives in the decision monitoring and surveillance process of their executive counterparts thereby acting as a device protecting outsider shareholder interests (such as Boyd (1994); Kosnik (1990); Zajac and Westphal (1994) and Conyon and Peck (1998)) little if any relates to the role ascribed to genuinely independent nonexecutives. Westphal and Zajac (1995) express uncertainty regarding the genuine level of independence of nonexecutives owing to recruitment practices commonly being administered by CEO's and dominant insiders while a lack of financial incentives in rewarding effective monitoring is also cited as an issue affecting nonexecutives (Conyon and Peck, 1998). However an additional overlooked issue regarding the effectiveness of nonexecutives and their ability to act credibly against dominant insider groups is from their lack of recognition in both formal and informal institutions. A very real lack of institutional support or even recognition would render their ability to question decisions and effectively monitor decision making process ineffective. As such given insider dominance over audit, compensation and executive committees they can act with virtual impunity from sanctions that would otherwise be imposed by nonexecutives in their role of monitoring. Equally their presence is more likely associated with a necessity for firms to adhere to formal institutions rather than being a genuinely effective governance measure with any sanction. Under these circumstances their presence is more likely to signal a greater probability of reward-seeking and expropriation by insider groups and directors. Consequently we test the following hypothesis:

H1. The ratio of true independent nonexecutives is positively associated with IPO-firm director compensation

The concept of "gray committees" is derived from a similar term used in Core et al (1999) which alludes to director with interlocking interests. There is considerable evidence that board level committees as a firm-level governance device may actually lack the necessary independence from CEO and insider groups to perform their monitoring and surveillance tasks as envisaged under the Anglo-American shareholder value governance model (Barako et al (2006); Mueller (2006)). The independence of committees away from CEO or executive domination and control is essential for provision against agency and potentially unchecked self-rewarding behaviour of corporate insiders (Core et al, 1999). Consequently we test the following hypothesis:

H2. The presence of gray committees is positively associated with IPO-firm director compensation

The literature ascribes levels of disclosure and information revelation as being a critical feature of Anglo-American shareholder value and European stakeholder value corporate governance models (Chizema, 2008). As such complete disclosure and transparency of board level earnings for individuals is a key element of transparent governance with an increasing opacity in accurate reporting inferring a greater likelihood of expropriation and self-reward by insiders. Consequently we test the following hypothesis:

H3. Opacity in declarations of director level earnings is positively associated with IPO-firm director compensation

The literature regarding the influence of boards on remuneration centres on its role as a primary corporate governance device and last defence for outsider shareholders from expropriation by self-rewarding insider groups and directors (Conyon and Peck, 1998). Jensen (1993) finds evidence suggesting that larger boards lack cohesiveness that reduces director's ability to communicate and effectively coordinate corporate strategy thus increasing agency costs (Jensen, 1993). Contrastingly smaller boards are more likely to be the result of technological and organizational change that facilitates reduction of costs and corporate downsizing (Jensen, 1993). Furthermore Hermalin and Weisbach (2003) present evidence that smaller boards are more effective than large boards as agency costs increase owing to a greater number of board members adopting the role of free-riders. A common theme across the literature is that larger boards are more likely to be ineffective in corporate decision making which in turn increases the possibility of such a board being effectively dominated by a smaller group of insiders with potential for relatively unchecked expropriation and reward-seeking. Consequently we test the following hypotheses:

H4. Board size is positively associated with IPO-firm director compensation

The literature regarding proportions of independent directors in relation to total board size largely focuses on their positive monitoring and surveillance role in developed OECD markets (see Boyd (1994); Zajac and Westphal (1994) for a detailed discussion) while uncertainty relating to levels of genuine independence are raised by Westphal and Zajac (1995) owing to recruitment practices commonly being administered by CEO's and dominant insiders. A lack of financial incentives in rewarding effective monitoring is also cited as an issue affecting nonexecutives (Conyon and Peck, 1998). However an additional overlooked issue regarding the effectiveness of nonexecutives and their ability to act credibly against dominant insider groups is from their lack of recognition in both formal and informal institutions. A very real lack of institutional support or even recognition would render their ability to question decisions and effectively monitor decision making process ineffective. As such given insider dominance over audit, compensation and executive committees they can act with virtual impunity from sanctions that would otherwise be imposed by nonexecutives in their role of monitoring. Consequently we test the following hypotheses:

H5. Board independence ratio is positively associated with IPO-firm director compensation

4. Data and methodology

4.1. Data

The dataset construction involved two sequential steps. The first involved forming an accurate and comprehensive list of Initial Primary Offerings (IPOs) to have been undertaken across the West African markets of Cape Verde Islands (Bolsa de Valores de Cabo Verde), Cameroon (Bourse de Douala), BRVM (Cote d'Ivoire) and Ghana for the period of 2000 to 2011. Nigerian lists were only available from 2002 to 2011. The primary source for lists were 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. This resulted in a list of 102 listings having taken place across Africa.

The second stage involved the procurement of IPO prospectuses that entailed the listing of ordinary shares with single class voting rights thereby excluding preferred stock, convertibles, unit and investment trusts as well as readmissions, reorganizations and demergers and transfers of listings between main and development boards. Flotation prospectuses were hand-collected from the Ghana and Bolsa de Valores de Cabo Verde (Cape Verde Islands exchange) as well as from the stock exchange website for the Bourse de Douala (Cameroon exchange) (DSX website, 2010) while the Thomson Corporation Perfect Information database was used in the first instance to source Nigerian prospectuses. This was further augmented by a final source which was the African Financials website (African Financials website, 2011). This entailed the extraction of information relevant to listing from annual reports available. This final stage resulted in a sample of 51 IPOs in single class voting rights ordinary shares to have occurred across West Africa. Share prices were obtained from Bloomberg, DataStream and direct from the national stock exchange in Cape Verde and Cameroon. US$ Exchanges rates were obtained from Bloomberg.

4.2. Measures of director compensation

Director remuneration is commonly classified in the literature in terms of base level emoluments and then performance related additional salary (Conyon and Peck (1998); Unite et al (2008); Lausten (2002)). The motivation behind the additional performance related increments to director and in particular executive and CEO emoluments is in order to provide these incumbent actors (or agents) to have similar incentives and goals as outsider shareholders (principals) (Conyon and Peck (1998); Brenner and Schwalbach (2009)). As such performance related pay acts as an additional governance device in mitigating agency costs (Jensen and Meckling, 1976). However in countries with formal and particularly informal institutions that inhibit market-orientated performance and outcomes, such as those across the SSA region, and with generally weak formal institutions ill-equipped to protect outsider minority investors from expropriation there are likely other reward mechanisms incentivizing directors and insider groups. As such and in the spirit of Forbes methodology (Forbes billionaire methodology, 2011) for conservative estimation of total wealth extraction from the firm in terms of perks (such as social club membership fees, accommodation and housing costs and travel expenses) and entitlements to dividends and significant portions of retained earnings I introduce a new measure of total remuneration for directors. A broad all inclusive director level measure is also justified on the basis of a lack of reporting of individual CEO or executive salaries and also that control across firms controlled within pyramidal structures is not necessarily effected by executives with nonexecutives or Chairman being from controlling family or insider group. The conservatism in this new total remuneration measure is reinforced by the acknowledgement in 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 if not impossible to prove that this is the case. Consequently the total remuneration value is formed through a combination of stated monetary value of various perks and calculations/ estimates of dividend return based on formalised ownership entitlements which also takes into account indirect holdings and named nominee account holdings. As such two measures of director level remuneration are used: base level salary and total remuneration.

4.3. Firm-level board governance measures

The firm-level board governance measures used are the ratio of genuinely (true) independent nonexecutives to total number of nonexecutives on board, gray committees, opaque director-level earnings disclosure, board size and board independence ratio. The proportion of true or genuine independent nonexecutives to total number of nonexecutives is formed from the total number of nonexecutives that do not state in prospectus they have family, political or societal connections to the CEO or dominant insider groups on the board (Westphal and Zajac (1995); Conyon and Peck (1998)). A similar line of reasoning regarding a lack of independence is applied to the second variable, gray committees, which takes the value 1 if CEO or dominant insider group is involved in board level remuneration committee and 0 otherwise. Opaque director level earnings disclosure relates to the opacity or lack of clarity in director level earnings as stated and disclosed in IPO listings prospectuses and takes a value 1 if director income and earnings are clearly stated and 0 if there is ambiguity in transparency which would be more indicative of potential expropriation (Doidge et al, 2007). Board size is the total number of directors which in the case of supervisory boards in civil code law countries, namely Cape Verde, BRVM (Cote d'Ivoire) and Cameroon includes both the nonexecutive supervisor directors as well as appointed general manager and members of executive committee. This follows from evidence that larger boards infer lower coordination and less effective communication between directors thereby facilitating their dominance by CEO or insider groups (Boyd (1994); Yermack (1996)). Finally board independence ratio is defined as the proportion of nonexecutive directors to total board size. The definition of board size is as defined immediately above while nonexecutives are taken as nonexecutive members of supervisory board in civil code law countries. The literature regarding nonexecutives is divided with proponent of their perceived benefits in monitoring executives (Fama and Jensen, 1983) and bringing with them considerable knowledge and experience to internal decision making mechanisms and internal organizational control (Fama and Jensen (1983); Weisback (1988)). However there is also evidence contrary to their perceived benefits from their being minimally remunerated commonly through low attendance fees (or "jetons de presence") paid for annual and extraordinary general meetings of board (Finkelstein and Hambrick, 1996). A second more serious contention is from the common domination of recruitment by either CEO or dominant insiders inferring a lack of genuine independence of nonexecutives in decision process monitoring (Conyon and Peck, 1998). However despite pervasive questions about their true independence their presence in various numbers necessitates using board independence ratio as a board level control.

4.4. Control Variables

While testing the hypotheses for each of the five governance mechanisms we control for economic and ownership factors. In terms of economic determinant controls and the use of firm revenues is justified in prior literature (Rosen (1982); Smith and Watts (1992)) as a control for the significant variation across the sample with larger firms having greater economic growth opportunities which in turn demands a more complex task environment for directors that in turn attracts higher compensation to attract higher quality and experienced individuals in line with managerial discretion theory. Variations across the sample in firm performance are controlled through the use of accounting return on assets (calculated as ratio of earnings before tax to total assets and delineated ROA). We also use contract enforcement as an economic determinant to control for quality of legal and judicial institutions given these are generally weak across the West African region. This is defined as the number of days taken to resolve commercial disputes and wind up a business as outlined in World Bank Doing Business in Africa report (World Bank, 2005).

The use of three ownership categories, namely family, state and insider director shareholder is necessitated by the need to control for each of these entities that commonly cause ownership concentration in developing regions (La Porta et al, 1998). These also account for the anticipated retained ownership in the focal IPO firm which in turn is representative of the multiple agency influence on each category of owner where each is subject individually to agency with their own external principals that often have incongruous motives (Arthurs et al, 2008).

4.5. Method

The models used to test the five firm-level board governance hypotheses are cross sectional pooled ordinary least squares. In each case each variable of interest is recursively added to base model composed only of the controls and then a grand regression is estimated including all variables. A major consideration in the smaller datasets of IPO firms inherent in West Africa is the effect of small sample bias on the statistical inference of models used. Attempts to mitigate these concerns centre on the employment of unbalanced cross sectional pooled OLS models that draw statistical strength from both longitudinal and cross sectional elements as well as the use of a smaller number of independent variables in line with recommendations in Good and Hardin (2009). The reduction in the number of independent variables is even more important owing to the presence of missing data in some of the IPO firms that is itself responsible for the small sample sizes encountered in the models. Consequently the effects of potential small sample bias should be taken into consideration when interpreting the results.

Furthermore the motivation for using log transformed director compensation is owing to the use of log-converted salary is cited as being 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 (Core et al, 1999). As such in order to maintain continuity we use non-log converted values of contract enforcement and firm revenues in regression model with similarly non-transformed dependent variable of compensation, while these are log-transformed in case of log-transformed compensation values. 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. Consequently we develop two models, one using log-transformed variables and the other using non-log transformed data:

$$
\begin{aligned}
&Log\,!Director\ Compensation!\,!\ /\\
&\quad !\ /_{1} Board\ Governance_{t!1}\\
&\quad !\ /_{2} Economic\ Deter\min ant_{t!1}\\
&\quad !\ /_{4} Ownership_{t!1}\\
&\quad !\ /_{i}
\end{aligned}
\qquad (1)
$$

$$
\begin{aligned}
Director\ Compensation &= \alpha \\
&+ \beta_1 Board\ Governance_{t-1} \\
&+ \beta_2 Economic\ Deter\min ant_{t-1} \\
&+ \beta_4 Ownership_{t-1} \\
&+ \varepsilon_i
\end{aligned} \qquad (2)
$$

where compensation relates to the two dependent variables, base salary and total remuneration, as defined earlier. Economic determinants of salary are natural logarithm of US$ converted revenues of the firm in year immediately prior to IPO and return on assets (ROA), defined as US$ converted net income in year immediately preceding IPO to US$ converted total asset value in same year. A final economic determinant is contract enforcement, defined as number of days taken to wind up a business and is a proxy representative of quality of legal and judicial institutions. Ownership controls are the percentage of pre-IPO shareholding for insider directors, family and state respectively.

5. Results

5.1. Descriptive statistics and correlations

The evidence from descriptive statistics in Table 1 reveals considerable differences between the fixed base salary and the corresponding total remuneration. However it is notable that the only increases occur in the cases of Ghana (US$ 771.44 base salary to US$ 1,135.10 total remuneration) and Nigeria (US$ 899.77 base salary to US$ 10,423.37 total remuneration). This is further reflected in the remuneration difference, which is indicative of expropriation, within panel A, where country averages of firm director's variation between their base salary and total remuneration amounts to US$ 462,330 in Ghana and a considerable US$ 1,666,860 in Nigeria. This would indicate that self-rewarding behaviour is stronger between these two countries than elsewhere in the West African region although it is notable that the majority of IPO listings in civil code law countries of Cote d'Ivoire, Cameroon and Cape Verde are formed from the listing of international joint-venture firms (Boateng and Glaister, 2002). Following from this observation it is also noticeable that the civil code law countries have the highest proportions of genuinely (true) independent directors, the lowest proportions of gray committees, i.e. those dominated by dominant CEOs and insider groups, and opacity in declarations of director-level earnings. The three civil code law countries also have the highest participation of the state and correspondingly lowest ownership by insider directors and family groups too.

Table 1

The evidence from correlation analysis in Table 2 reveals a many statistically significant correlations while almost all of these are low in value largely mitigating concerns over potential multicollinearity.

The only very high correlation (0.74 and statistically significant at 99.95% confidence level) is between base salary and total remuneration compensation measures which indicates that both follow a largely similar data generating process, or are likely caused by similar underlying factors.

Table 2

5.2. Impact of board governance attributes on IPO firm director base salary

The study of regression residuals did not reveal any issues regarding either heteroskedasticity or non-Normality in distributions[2]. The evidence from Table 3 reveals a large, positive and statistically significant (at 90% confidence level) relationship between ratio of true independent nonexecutives and the natural logarithm of both base salary. However this relationship lacks any statistical significance in non-log transformed base salary. Overall this provides support for hypothesis H1 and is indicative of a lack of legal and judicial institutional recourse in order to effectively support their role in monitoring executive decisions and self-rewarding practices. The large, negative and highly statistically significant (at 99-95% confidence level) relationship between presence of gray committee (dominated or controlled by CEO or insider groups) is the opposite of the anticipated relationship from hypothesis H2. Consequently this would reveal that as fixed declared base salary increases so does the genuine independence of committees such as those responsible for remuneration, accounting and audit. This unexpected result however would fit with similar findings in literature such as in Kenya in Barako et al (2006) and in Nigeria in Okike (2007) where the entire principle of independence is questioned in the context of narrow densely socially networked political economies such as those typical in Sub Saharan African region and in particular West Africa. The relationship with opacity of declared director level earnings is less strong with only a large, positive and statistically significant (over 90% confidence level) in the grand regression model 6. This is also notable as it continues to be a strong relationship in model 7 which uses non-log transformed data. As such this provides some support for hypothesis H3. The general lack of any significant relationships between base salary and board size renders a lack of any support for hypothesis H4 while there is only minimal fragile support for hypothesis H5 owing to a large positive relationship in the non-log transformed model 7 which is barely statistically significant at 90% confidence level.

In terms of relationships between controls and base salary and there are persistently large, positive and statistically significant relationships between firm size, represented as natural logarithm of firm revenues as well as negative relationship with firm performance, accounting return on assets and base salary. Similarly there is a persistently positive and statistically significant relationship between natural logarithm of contract enforcement (days) and base salary. These results together indicate that base salary is likely to be higher with larger firms, which have higher revenues, lower performance, in terms of return on assets, and in weaker legal and judicial institutional environments.

[2] The results of regression diagnostic statistics are available from the authors upon request

Persistently smaller but positive and statistically significant relationships between fixed base salary and both insider director and state ownership reveal that self-rewarding behaviour is likely to be higher with increased ownership and participation of state and insider entities.

Table 3

5.3. Impact of board governance attributes on IPO firm director total remuneration

The evidence from Table 4 reveals the relationships between each of the five firm level board governance measures and total remuneration. There is an immediate noticeable improvement in explanatory power (R-squared) from those across all earlier models 1 to 7 in preceding section explaining the related fixed base salaries. A similar large, positive and statistically significant (confidence level 90% in models 8 and 13 and 95% in model 14) between ratio of true independent nonexecutives and the total remuneration measure, both for natural logarithm transformed (models 8 and 13) and non-transformed data (model 14). This lends strong support for hypothesis H1 and is in line with evidence from preceding section. However in terms of the relationship between gray committee and total remuneration and while this lacks significance at any discernable confidence level in models 9 and 13 using log-transformed data it has a large, positive and statistically significant relationship (albeit at meagre 90% confidence level) with the non-log transformed total remuneration in model 14. This lends weak support for hypothesis H2. Similarly small positive and statistically significant relationships (at 90% confidence level) between opaque director earnings and income disclosures and total remuneration between models 10 and 13 using log-transformed data which lacks significance in model 14 using non-log transformed data only provides weak support for hypothesis H3. Equally there is only weak support for hypothesis H4 in terms of a small positive but weakly significant relationship between board size and total remuneration (at 90% confidence level) which lacks significance in the grand regression model 13 but acquires statistical significance in the grand regression model 14 that uses non-log transformed data. The total lack of statistical significance between board independence ratio and total remuneration infers a complete lack of support for hypothesis H5. Overall these results together infer that higher levels of expropriation of private benefits of control, or at least conservative estimates of self-rewarding behaviour, are more likely with increasing proportions of genuinely independent nonexecutives, CEO/ insider domination over remuneration committees, with greater opacity of director level disclosed earnings and income, and in larger boards. These results do lend considerable support with similar findings in the literature in single country studies such as Okike (2007) in Nigeria and Barako et al (2006) in Kenya and are more likely to be more of a function of the distinctive narrow political economies of West Africa that are underscored by dense networks of social relationships and characterised by weak legal and judicial systems.

In terms of relationships between controls and total remuneration and there is a large positive and highly statistically significant relationship between natural logarithm of firm revenues ad total remuneration and a generally positive and statistically significant relationship between natural logarithm of contract enforcement (days) and total remuneration. There is a small positive relationship which varies considerably in statistical significance between insider director ownership and total remuneration while this relationship is highly statistically significant (at 99-95% confidence level) between family ownership and total remuneration. These results infer that expropriation of private benefits of control is more likely in larger higher revenue firms and in countries with weak legal and judicial institutions while it is much more likely in family-controlled firms.

Table 4

6. Conclusions

This paper investigates the relationship between five firm-level board governance measures and both fixed director base salaries as well as total remuneration. The total remuneration is a new measure that provides a conservative estimate of director's total expropriation of income, earnings and wealth extraction from the firm. The study focuses on a unique sample of 51 West African IPO firms with data uniquely sourced from hand collected listings prospectuses.

We find considerable evidence against the postulated global convergence of governance institutions on the Anglo-American shareholder and European stakeholder models primarily owing to the distinctive nature of West African political economies being characterised by dense networks of social relationships and weak legal and judicial institutions inferring a very real lack of genuine independence of nonexecutives and equally a complete lack of recourse in their role monitoring executive decision making inferring their complete inability to act effectively. Furthermore an increased presence of genuinely independent nonexecutives and nominally independent board level committees is highly associated with expropriation inferring that firm's that are more likely to have directors engaging in expropriation and self-rewarding behaviour are more likely to strenuously adopt visible governance measures demonstrating visible compliance with international best practice.

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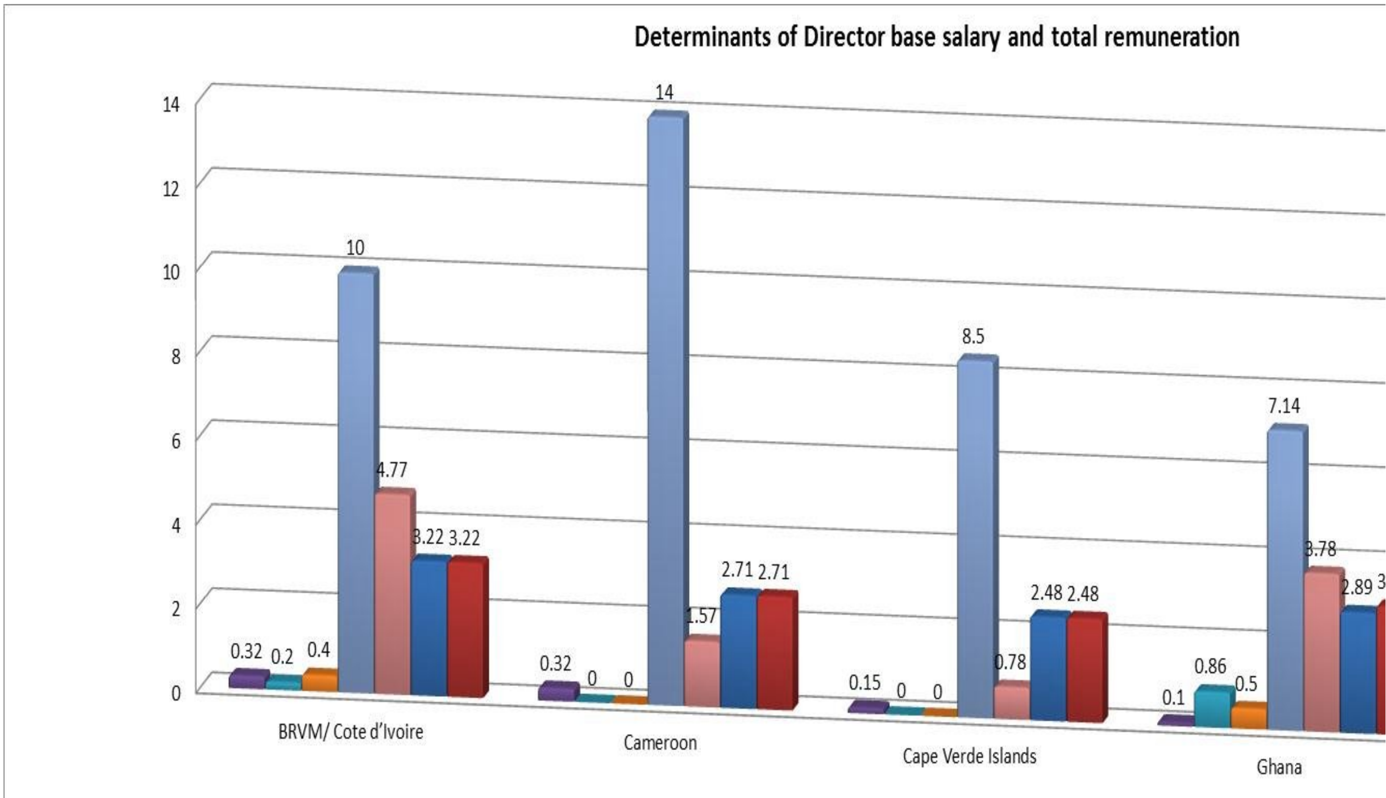

	BRVM/ Cote d'Ivoire	Cameroon	Cape Verde Islands	Gh
True Ind Ratio	0.32	0.32	0.15	0.
Gray Committees	0.2	0	0	0.
Opaque Earnings	0.4	0	0	0.
Board Size	10	14	8.5	7.
Board Ind Ratio	4.77	1.57	0.78	3.
Log(Base Salary)	3.22	2.71	2.48	2.
Log(Total Remuneration)	3.22	2.71	2.48	3.

Graphical Abstract