Open Access article distributed in terms of the
Creative Commons Attribution License
[CC BY 4.0] (http://creativecommons.org/licenses/by/4.0)

AN EXPLORATORY STUDY ON CORPORATE GOVERNANCE PRACTICES OF THE SELECTED OIL AND GAS COMPANIES IN TANZANIA

Siasa Issa Mzenzi[1], Neema Mori[2] and Alfred Kurt[3]

ABSTRACT

The main objective of this study was to explore the governance practices of ten oil and gas companies operating in Tanzania. Using content analysis of annual reports of the studied companies, the study sought to particularly examine board structure and composition as well as functioning of the board and audit committees. The findings revealed that given the size and scale of operations, the number of board members in the studied oil and gas companies ranged from six to eleven and most of these board members were foreigners. In terms of gender, most companies had both male and female members in the board of directors, with an exception of two companies which had all male members on their boards. Also, the number of executive and non-executive directors varied from one company to another, the majority being non-executive directors. Findings further revealed that all CEOs were executive members of the board; however, they were not chairpersons. In addition, board meetings were being conducted and the practice of board evaluation was noted for some companies. The audit committees of the studied companies were found to be effective in assisting the board to discharge its financial oversight roles. Our findings support both the Agency Theory and Resource Dependency Theory.

Key words: *Agency Theory, Corporate Governance, Oil and Gas, Resource Dependency Theory, Tanzania*

INTRODUCTION

Following the recent world economic and financial crisis, several governments across the global are adopting amendments that are specifically aimed at improving their corporate governance systems (Mitton, 2002). However, Maher and Anderson (2000) argued that the major setback facing government policies in this regard is how to develop a good corporate governance framework that would protect benefits of stakeholders and spearhead development of capital markets. Therefore, it can be asserted that corporate governance does affect the development and functioning of the capital markets as well as behaviour and performance of firms and innovative activities (Maher & Anderson, 2000). In general, corporate governance is something investors of big companies look forward to in the sense that it helps in cleaning up the governance environment, exposes insider relationship and injects the value of transparency and accountability in both private and public transactions. In any corporate institution, it is its corporate governance system that defines the owner of the firm and dictates the rules by which all financial returns are to be disseminated among employees, managers and other stakeholders. In this regard, it is portrayed that corporate

[1] Department of Accounting, University of Dar es Salaam Business School, P.O. Box 35046, Dar es Salaam, Tanzania. Contacting author: siasa.mzenzi@gmail.com
[2] Department of Finance, University of Dar es Salaam Business School, P.O. Box 35046, Dar es Salaam, Tanzania.
[3] Tanzania Revenue Authority (TRA), Dar es Salaam, Tanzania.
Business Management Review 22 (1), pp.150-167 ISSN 0856-2253 (eISSN 2546-213X) ©Jan-June 2019
UDBS. All rights of reproduction in any form are reserved

governance has a great role to play in the performance and economic growth of companies and the country at large (Maher & Anderson, 2000).

Therefore, corporate governance is generally relevant in both developing and developed countries, although in some cases, major corporate scandals such as Enron, Xerox, WorldCom, Maxwell, Parmalat and Regal Bank have been associated with corporate governance failures (Dibra, 2016a, 2016b; Parker *et al.*, 2002). In relation to oil and gas, for example, failure of the responsible individuals at Enron to appropriately follow the code of corporate governance partly contributed to the collapse of the company (Dibra, 2016a). The same trend was also noticed in developing countries like Nigeria where companies such as Cadbury Nigeria Public Limited Company, Intercontinental Bank Plc, Union Bank of Nigeria and Afribank were part of Nigeria's share of corporate governance failures (Okike, 2007; Sanda *et al.*, 2005).

Currently, in Tanzania, the oil and gas business has proven a promising financial gain as it has raised the country to the peak of potential gas suppliers within and outside Africa. According to Deloitte (2014) and Roe (2016), success in the oil and gas exploration has raised Tanzania's profile as a potential supplier of Liquefied Natural Gas (LNG) to Asian markets, along with its neighbour, Mozambique. Despite this promise, there is a need to ensure that oil and gas companies operate profitably for the benefit of the country and individual companies. This, as hinted earlier, calls for proper corporate governance practices. Corporate governance has a great role to play in helping the company to accomplish its goals, meet legal requirements and at the same time ensure accountability to stakeholders and investors (Solomon & Solomon, 2004; Brennan & Solomon, 2008). On the other hand, a company with poor governance is likely to be confronted with inefficiencies in its operations which lead to various negative effects on sustainability, social responsibility and to the society as a whole (Kolk, 2008; Maher & Anderson, 2000).

There are a number of studies which have been conducted in Tanzania to examine the corporate governance structures, practices and governance failure in different sectors as well as corporate social responsibility (see for example, Fulgence, 2016). There are also a number of fraud related studies which could potentially suggest ineffective corporate governance practices of the victim organisations (Assad, 2011). Corporate governance of the Tanzanian public sector entities has also received considerable attention of authors (Melyoki, 2005; Adam, 2010, 2012, 2014, 2015). Despite this promising trend, little is known on the corporate governance practices of the oil and gas companies operating in Tanzania. Being one of the key emerging sectors for economic development of the country, there is a need for in-depth studies to examine its corporate governance practices. It is important to find out the extent to which corporate governance is being practiced by the oil and gas companies in Tanzania. This study specifically explored the ways in which boards of directors of oil and gas companies are structured and composed.

After the introductory remarks as section one, the rest of the article is organised into four sections. The following section reviews the extant literature on corporate governance. This is followed by section three which present the methodology adopted in this study. Section four provides results and discussions followed by a conclusion and implications in section five.

LITERATURE REVIEW

Corporate governance and boards

Corporate governance refers to the manner in which corporate entities are directed and controlled (Cadbury, 1992). It also refers to the processes, structures and organisational traditions that determine how power is exercised, how stakeholders have their say, how decisions are taken and how decision makers are held to account (Gill, 2008). Focusing on the sources of finance, Shleifer and Vishny (1997) regarded corporate governance as a way in which suppliers of finance to companies assure themselves of getting a return on their investment. In the context of Tanzania, corporate governance is defined as the "process and structure used to direct and manage business affairs of the company towards enhancing prosperity and corporate accounting with the ultimate objective of realising shareholders' long-term value, while taking into account the interests of other stakeholders" (CMSA, 2002:5). The current study views corporate governance in line with these definitions. In a corporate world, a board of directors is expected to play a major role in ensuring that a corporate entity is properly directed and controlled. In other words, it is the responsibility of the board of directors to ensure that a company is run in such a way that it achieves its objectives (Mwaura, 2007).

From the diversity perspective, Mori *et al.* (2013) argued that a board of directors is required to be composed of both executive directors (such as CEOs) and non-executive directors: male and female, members of different backgrounds and experiences, people with qualifications and some international orientation. This diversity gives a board the mix of human capital that it can draw upon in undertaking its roles. One of the critical roles of the board of directors is audit and financial reporting. This is normally exercised through the audit committee of the board (DeZoort & Salterio, 2001). The audit committee of the board of directors is expected to oversee financial reporting and disclosure of an entity and this can be exercised through receipts of financial and audit reports of the entity's operations (Cai *at al.*, 2009). Therefore, in order to ensure its effectiveness, the audit committee is required, among other things, to be properly composed and should meet regularly (Charan, 2005). In this context, the article explores the composition of boards of directors and audit committees of the studied oil and gas companies in Tanzania.

Theoretical perspectives

Corporate governance and the role of boards of directors are grounded by the Agency Theory and Resource Dependence Theory, among others. The first emphasises the separation of interests between management and other stakeholders, thus incentives and controls have to be provided to induce managers (agents) to maximise organisational goals (Mori *et al.*, 2015). According to this theory, boards play an important role in screening, monitoring, and enforcing contracts with managers. These board roles may safeguard the organisation against the misuse of resources by managers, which reduces the agency's costs (Fama & Jensen, 1983; Jensen & Fama, 1983). The Agency Theory further argues that board composition and diversity are key in enabling its monitoring role. The second key role of the board is to provide resources and advice to the management and shareholders. This is grounded by the Resource Dependence Theory which views organisations as open systems, dependent on external organisations and environmental contingencies (Pfeffer & Salancik, 1977, 1978). In this regard, boards are viewed as those that manage external dependency, reduce environmental uncertainty, and reduce the transaction costs associated with environmental interdependency, by linking the organisation with its external environment. This view

suggests that each board member is supposed to bring different linkages and resources to the board. The board therefore reflects the matching of an organisation's dependency with the resource acquisition potential of its directors (Mori, *et al.,* 2015; Hillman & Dalziel, 2003). Therefore, as argued by Hillman and Dalziel (2003), taken together, both theories suggest that board capital affects both board monitoring and the provision of resources.

Empirical review

Board structure and composition

There are various studies that have looked at board size. Studies such as Newell and Wilson (2002), Garcia-Torea *et al.* (2016), McNamara (2008) and Klein (2002), argue that for a board to be efficient, its size should be between five and nine members. From the Agency Theory perspective, small boards operate more effectively, for example they are better at monitoring the CEO. When the size exceeds nine members, it provides room for higher coordination costs and free-rider problems (Meckling & Jensen, 1976; Yermack, 1996). For instance, Lipton and Lorsch (1992) argue that when a board has more than ten members it becomes more difficult for them all to express their ideas and opinions. Similarly, Jensen (2010) conjectures that keeping boards small helps to improve their performance. In contrast, resource dependence scholars suggest that large boards are the source of various resources (Hillman *et al.,* 2009; Pfeffer & Salancik, 1978). In the current article, these contradicting views are clarified.

Board composition has also received considerable attention in the extant literature. Garcia-Torea *et al.* (2016) argued that board composition distinguishes four main issues, namely, independence of the members, CEO duality, presence of women in the board and the director's experience. With regard to board independence, studies argue that presence of non-executive directors provides independence of the board in executing their roles (Klein, 2002). Empirical evidence shows that there is a positive relationship between the board's independence and the board's monitoring functions (Klein, 2002; Garcia-Torea *et al.,* 2016; McNamara, 2008). Additionally, Duchin *et al.* (2010) noted that as far as financial performance and board independence are concerned, board independence improves financial performance of an organisation.

On the other hand, CEO duality gives power to the CEO (who is also board chairperson) to set board meeting agenda which suit his/her interests, and thereby avoiding intense scrutiny from the board members (Klein, 2002). In this regard, CEO duality can lead to negative financial performance and can lead the organisation into bankruptcy because it jeopardises corporate survival (Duchin, 2010). Additionally, Tuggle *et al.* (2010) reported that CEO duality weakens the relationship between past performance and attention to monitoring. As a solution to CEO duality, Mehta and Rachana (2009) suggest that the roles of the chairperson of the board with that of CEO should be separated. This position is also advocated in the Tanzanian listed companies: "Every public listed company should, as a matter of best practice, separate the role of the chairperson and chief executive in order to ensure balance of power and authority and provide for checks and balances" (CMSA, 2002:15).

Apart from CEO duality, composition of women in the board of directors has been widely discussed in literature. Some argue that women bring different perspectives to the boards (Mori *et al.,* 2015). Others believe that nearness of female directors enhances execution in associations with frail investor's right since ladies are touchier to the enthusiasm of others; hence, they provide intense scrutiny during monitoring (Kramer *et al.,* 2006). Furthermore,

Adams and Ferreira (2009) showed that women on boards are good monitors and contribute to the performance of organisations. This was further shown by Mori *et al.* (2013) who found that having women on boards is associated with greater outreach of services to customers. This means that having women on boards does not only bring equality but also benefits the businesses through, among other things, providing needed information and enhancing monitoring by boards (Mersland & Strøm, 2009). Nielsen and Huse (2010a, 2010b) further identified female values and attitudes as some of the unique features that help them exert influence on boards' monitoring and resource provision roles. Literature further shows that women have greater compassion and do not tolerate ethical lapses.

Directors' experience is also key for boards to accomplish their roles. Kroll *et al.* (2008) noted that boards need to have individuals who are experts in different fields, especially functional and firm specific experience and skills to increase board effectiveness. This is especially important for oil and gas companies where specialised expertise is needed. Therefore, from the structure and composition perspectives, our article explores five key elements: board size, independence of board members, CEO duality, presence of women on the board and experience of board members.

Board functions and audit committees

The functioning of the board of directors is assessed based on frequency of holding board meetings and board committees whereby frequency of meetings is related to the internal administrative structure of the board (Kroll *et al*., 2008). According to literature on governance, many board meetings are conducted when companies are facing problems (years of low performance), and less meetings are observed when the company is performing exceptionally well (Garcia-Torea *et al.*, 2016). In this regard, board meetings contribute to financial performance in the long-term and monitoring increases when firms face problems. In the context of oil and gas companies, for instance, Searle (2010) argued that board meetings are relevant in ensuring that the board increases value to the shareholders.

In the course of exercising board oversight roles, the functions of the audit committee are paramount. It is expected that the board audit committee shall assist the board in providing an independent survey of the adequacy of the financial procedure, internal control and accountability mechanisms within the organisation (Klein, 2002). The board audit committee also plays a critical role in creating the right environment for quality auditing through review procedures (Klein, 2002; Searle, 2010). However, for the board audit committee to be able to effectively execute its financial oversight responsibilities, it should be properly composed and should conduct regular meetings as per its Audit Committee Charter. In the context of Tanzania's public listed companies, an audit committee shall be composed of at least three independent and non-executive directors and in particular, the chairperson of the audit committee shall be an independent or non-executive director (CMSA, 2002). In terms of skills and competencies of the members of the audit committee, Guidelines on Corporate Governance Practices by Public Listed Companies in Tanzania (CMSA, 2002) provide four main attributes. These attributes are broad business knowledge relevant to the company's business, keen awareness of the interests of the investing public, familiarity with basic accounting principles, and objectivity in carrying out their mandate and no conflict of interests. Therefore, from the board functions, this article explores board meetings, decision making and board evaluation. In terms of audit committee, the article focused on the existence of the committee, number and competence of the members, number of meeting and nature of communication.

RESEARCH METHODOLOGY

Content analysis is the approach that has been used in this study. The method has been increasingly applied in the extant literature (Mzenzi & Gaspar, 2015; Beck *et al.*, 2010; Guthrie & Abeysekera, 2006; Milne & Adler, 1999; Montabon *et al.*, 2007; Guthrie *et al.*, 2004; Kamath, 2008). In particular, the study used secondary data from the annual reports of the ten oil and gas companies operating in Tanzania to explore corporate governance practices of the studied companies. All the studied governance related to board structure and composition as well as functioning of the board and audit committee was derived from the latest annual reports of the studied companies for the year ended 31st December 2017. The actual names of the studied companies are withheld for confidential reasons. The annual reports were obtained from the websites of the studied companies. In general, the reports contained five sections: introduction, strategic information, governance information, financial statements and supplement and additional information. In order to understand governance related issues, the current article focused on the governance section of the reports where descriptions related to board of directors and audit committee are presented. These include profile of the board members, conduct of the meetings, number of the board members, CEO position in the board, and descriptions related to the board audit committee. The reports were read and these governance issues were noted based on the analysis scheme developed earlier. This process continued for all the studied companies until all governance aspects of interest to this article were recorded. In the process of interpreting corporate governance related phenomenon in the analysed reports, the scheme developed earlier in the article was used.

FINDINGS

Context of the Tanzania's oil and gas sector and studied companies

In this section, the findings obtained from this study are presented; however, in order to clearly understand the research findings, it is important to provide a brief description of the context of the study. Tanzania is one of the East African countries which has been intensively involved in oil and gas exploration for many years now. Searching for oil and gas in Tanzania started in early 1950s where BP and Shell were awarded concessions along the coast, including the islands of Mafia, Zanzibar and Pemba. After nearly twenty-four years, the first discovery of gas was made at Songo Songo Island in Lindi Region. Since then, the country, through the Tanzania Petroleum Development Corporation (TPDC), has signed about 17 Production Sharing Agreements (PSAs) with various International Oil Companies (IOCs) including the ones covered in this study, for exploration and production of oil and gas in the country. Currently, Tanzania has discovered only natural gas reservoirs with the estimated recoverable reserve of more than 57 trillion cubic feet and exploration activities are still being conducted in different parts of the country.

Therefore, given such a huge potential of oil and gas discovery in Tanzania, there are about 17 IOCs currently operating in the country. This article focused on ten IOCs which are relatively more active and vibrant in the field; and in order to ensure anonymity, these companies are referred throughput in this article as Company A to J. Company A is a multinational oil and gas corporation with headquarters in the United Kingdom. The company has been operating in partnership with another oil giant since 2016 after selling a huge chunk of its shares to another European oil and gas giant. The company has been operating in Tanzania since 2010, after starting as an oil and gas exploration company. On the other hand, Company B, involves itself in the energy sector overall. It is involved in the exploration of oil and gas as well as mining of metals and minerals. The group, which moved

its headquarters from Mumbai to Dubai in 2003, is a global multinational with a range of activities in the engineering, procurement, and construction in the energy sector, a developer of infrastructure projects and an explorer in mining for hydrocarbons, minerals and metal. Back in 2007, the company signed a production sharing agreement with the then Ministry of Energy and Minerals (MEM) and the Tanzania Petroleum Development Corporation (TPDC) for exploration of oil and gas in a block which is approximately 15,300 square kilometres.

Company C is an American multinational oil and gas company with its headquarters in USA - Texas. In collaboration with other players in the energy sector, the company has completed four natural gas discoveries in Tanzania. Majoring in oil and gas exploration in Tanzania, the company discovered a gas reserve off-shore. This company was formed in 1999 by the merger of the two oil giants, to form Company D which is an oil and gas company specialising in the production of hydrocarbons. It is listed on Euronext Paris and has its registered office in Paris. The company generates most of its business in Africa through the exploitation of onshore production assets (in Gabon and Tanzania) and a significant stake in Nigeria's leading indigenous operators. The company was registered and incorporated by the laws of Tanzania back in 2003. Since then, the company has been actively involved in exploration and production of hydrocarbons in Tanzania. Company E, which is based in Dar es Salaam, provides oil and natural gas exploration and production in Tanzania. The company has been working closely with the government (through the Ministry responsible for energy) in a number of joint venture productions with TPDC, running a number of blocks in different parts of the country.

Company F is based in London, with offices in over ten countries around the world. The company was awarded a 100% interest in Block 1 in 2005, and in Block 3 and 4 in 2006. Drilling began in 2010 and since then, sixteen wells have been drilled. Out these wells, eleven have been successful exploration wells and five have been appraisals, and flow tests have been completed on new discoveries. On the other hand, Company G is a Tanzanian first natural gas producer, supplying gas for power generation at Ubungo Power Plant in Dar es Salaam. The company also supplies natural gas to 38 industrial and commercial customers in Dar es Salaam area, reducing their operation costs and contributing to Tanzania's industrial growth. In addition, the company supplies Compressed Natural Gas (CNG) for vehicles. Since 2003, the company has been operating as a subsidiary of a large multinational oil and gas company.

Company H is a large multinational corporation which has been operating in Tanzania since 2007 with the main office in Dar es Salaam and a liaison office in Mtwara. In 2007, the company signed a Production Sharing Agreement (PSA) for Block 2 with TPDC. This company has offices in over 30 countries, covering all the habitable continents in the world. It has also been working to open new renewable energy opportunities in several international wind farm projects. Company I is an oil and gas exploration company which explores oil and gas reserves in Tanzania. The company was incorporated in 2011 with its headquarters in Dar es Salaam. However, it operates as a subsidiary of a larger Australian independent oil and gas exploration company, which is actively exploring the East African Rift Valley System. The company holds substantial equity in assets in Tanzania and Kenya, and has an active business development programme in Sub-Saharan Africa. The last company studied, Company J, is an independent oil and gas company with natural gas production, exploration and appraisal opportunities and large scale gas monetisation initiatives, all in the Ruvuma Delta Basin of coastal southern Tanzania and northern Mozambique. The company has been producing

natural gas at Mnazi Bay and selling it to industrial customers. A brief profile of the studied companies is presented in Table 1 below.

Table 1: Brief profile of the studied oil and gas companies

Company name[4]	Year started operations in Tanzania	Focus of business	Head office
A	2010	Oil and gas exploration	United Kingdom
B	2007	Oil, gas, metals and minerals	India
C	1999	Oil exploration	America
D	2003	Oil and gas exploration	France
E	2007	Oil and gas exploration	Not established
F	2005	Oil and gas exploration	United Kingdom
G	2003	Oil and gas exploration	Not established
H	2007	Oil and gas exploration	Norway
I	2011	Oil and gas exploration	Australia
J	2010	Gas exploration	Not established

Source: Annual reports of the studied companies (Various)

Board structure and composition

Number of board members (Board size)

The findings show that all the studied oil and gas companies operating in Tanzania had boards of directors which are more or less the same as those of other private and listed companies. In terms of the number of board members, the findings revealed that oil and gas companies operating in Tanzania have varying numbers of board members, ranging from six members to eleven. As presented in Table 2, a minimum of six members was found in three companies (Company E, I and J) while the maximum of eleven members was found in two companies (Company A and C). The rest of the companies had a range of seven to ten members of the board of directors. This is more akin with previous studies like Newell and Wilson (2002), Garcia-Torea *et al.* (2016), McNamara (2008) and Klein (2002) who pointed out that the average board size should be between five and nine for a board to be effective. From the findings (see Table 2), three quarters of the companies fall within this limit of five to nine board members, whereas few of the companies had ten and eleven board members. The results also collaborate agency theorists who claim that small boards are better in monitoring company operations.

Table 2: Board size and foreign members of the board

Company name	Board size	Foreign board members	Female board members	Non-executive board members
A	11	9	4	6
B	8	6	3	6
C	11	11	4	6
D	7	7	1	4
E	6	5	2	4
F	8	8	2	5
G	9	9	3	5

[4] The actual names of the studied companies are withheld for confidential reasons

H	10	10	4	7
I	6	1	0	5
J	6	6	0	4

Source: Annual reports of the studied companies (Various)

Foreign members of the board of directors

Regarding the ratio of foreign and local members on the board of directors, the findings show that boards from six companies (Company C, D, F, G, H and J) were composed of foreign board members only, while four companies (Company A, B, E and I) had both foreign and local board members. Even most of those with a combination of both foreign and local board members had a bigger number of foreign board members compared to local members. The only exception was Company I which had five local board members and only one foreign member. This is partly attributed to the fact that Company I was incorporated in Tanzania and it is actively involved in the exploration of the East African Rift Valley System and holds substantial equity in assets in Tanzania and Kenya.

These findings further revealed that there were limited skills and experience within the country, in relation to the oil and gas sector. Being a new sector, arguably, the country lacks human resource with appropriate expertise to serve in the board of directors of oil and gas companies. Notwithstanding this fact, the findings are also in line with prior literature on corporate governance which points out that a company can be composed of local directors, or foreign directors representing the company from the headquarters in case the company is a multinational corporation. Oxelheim and Randøy (2003) also found that boards with international members have advantage of skills and expertise that locally-based boards miss. The findings further support resource dependence theorists such as Hillman and Dalziel (2003) and Mori *et al.* (2015) who opine that existence of members from different nationalities could potentially enrich resources in the organisations.

Female members of the board of directors (gender)

In terms of gender representation, women are fewer in the board of directors of the studied oil and gas companies than men (see Table 3).

Table 3: Board size and proportion of female board members

Company name	Board size	Female board members	Proportion of female board members
A	11	4	36.4%
B	8	3	37.5%
C	11	4	36.4%
D	7	1	14.3%
E	6	2	33.3%
F	8	2	25.0%
G	9	3	33.3%
H	10	4	40.0%
I	6	0	0.0%
J	6	0	0.0%

Source: Annual reports of the studied companies (Various)

As shown in Table 3, eight companies have boards with both male and female board members, though the number of females is very small. The maximum number of female

directors was noted to be four in Company A, C and H and the minimum was one and this was found in Company D. On the other hand, two companies (Company I and J) have boards with only male directors. In terms of proportion, the highest rate of female directors was noted in Company H where female directors accounted for about 40% of all directors. These findings show that female representation (board diversity) is still low in most of the studied companies. It is further surprising to note that this low representation exists even in the multinational companies where most of the countries where these companies originate have established laws of increasing female members in leadership positions (see for example, Huse and Solberg, 2006). However, in part, our findings are supporting the extant literature in other sectors where representation of women in the board of directors is less than 30% as suggested by countries that form the Organisation for Economic Co-operation and Development.

Non-executive members of the board of directors

The findings from this study revealed further that most boards are mostly represented by non-executive members – which is a good indication of board independence (Table 4).

Table 4: Board size and proportion of non-executive directors

Company name	Board size	Non-executive board members	Proportion of non-executive board members
A	11	6	54.5%
B	8	6	75.0%
C	11	6	54.5%
D	7	4	57.1%
E	6	4	66.7%
F	8	5	62.5%
G	9	5	55.6%
H	10	7	70.0%
I	6	5	83.3%
J	6	4	66.7%

Source: Annual reports of the studied companies (Various)

As shown in Table 4, the boards of directors of the studied companies are made up of more than 50% of non-executive members. It was noted that the exact number varies depending on the board size but the majority have higher numbers of non-executive directors. The highest proportion of non-executive directors was found to be 83.3% in Company I and the lowest proportion was 54.5% in Company A. In fact, Company I had only one executive director, that is, the CEO. Since Company I was incorporated in Tanzania, the observed number of executive directors is in compliance with the CMSA Guidelines on Corporate Governance of Public Listed Companies which states that the "board should be composed of a balance of executive directors and non-executive directors (including at least one third independent non-executive directors) of diverse skills or expertise in order to ensure that no individual or small group of individuals can dominate the board's decision-making processes" (CMSA, 2002: 8). Nevertheless, it is important to note here that all boards of directors of the studied companies had a proportion of executive and non-executive directors, which is a sign of independence of the board of directors.

CEO duality

The findings show that CEOs of all the studied oil and gas companies were executive members of the board but none was the chairperson. This means there is no CEO duality. These findings support what has been stipulated by different authors on the separation of positions between the CEO and the chairmanship of the board of directors (see for example, Klein, 2002; Duchin, 2010). According to Klein (2002), for instance, CEO duality gives power to the CEO (who is also the board chairperson) to set board meeting agenda which would suit his/her interests, and thereby avoiding intense scrutiny from the board members. Therefore, CEO duality can lead to negative financial performance and can lead the organisation into bankruptcy because it jeopardises corporate survival (Duchin, 2010). This position also is recommended by Guidelines on Corporate Governance of the Public Listed Companies in Tanzania which state that "there should be a clear separation of the role and responsibilities of the chairman and chief executive which will ensure a balance of power of authority and provide for checks and balances such that no one individual has unaffected powers of decision-making" (CMSA, 2002:10).

Skills and experience of members of the board of directors

Both Agency Theory and Resource Dependence Theory advise that board members need to be experts and should have a variety of experience for them to efficiently contribute to company development. Our findings show that the board members of the studied oil and gas companies were derived from different sectors with varied experience. Out of a total of 72 board members of the ten studied companies, nineteen were derived from the financial sector, nineteen others were from the technical and communication sectors, fourteen were from the marketing sector, ten were from academic institutions, and ten were obtained from other sectors. Therefore, in view of these findings, it can be concluded that board members of the studied oil and gas companies have enough experience, different expertise and are well-educated to allow them to qualify to sit in the boards of directors of the oil and gas companies. In relation to this observation, Kroll *et al.* (2008) noted that the board of directors needs to have individuals who are experts in different fields, especially functional and firm specific experience and skills to increase board effectiveness.

Functioning of the board of directors and audit committee

Functioning of the board of directors

The functioning of the board is examined through a number of board meetings, decision making processes and board evaluation. In terms of board meetings, the study found that five companies conduct regular board meetings (three times per year), while four companies conduct only two regular board meetings per year. Surprisingly, only one company conducts four regular board meetings per year as suggested by good corporate governance practice. Regarding the decision making process, it was found that the boards of directors from five companies were reaching decisions through voting while three boards were using the consensus approach. On the other hand, two boards of directors were making decisions by a combination of both, voting and consensus. This is in line with what is available from prior literature on corporate governance, which emphasises that the board of directors has a mandate to make decisions on behalf of the shareholders, be it hiring or firing, adopting a new approach in attaining organisation goals or steering the company in the right direction, while choosing the right mode of reaching a decision as they deem right (voting or consensus building to reach a decision).

Board evaluation is key in determining the functionality of the board. Findings from this study show that the boards of directors of the eight studied companies conduct board evaluation regularly. The findings further revealed that these companies conduct their board evaluation annually and this was done either by the board audit committee or the company's shareholders. This is in line with literature on governance which counsels that board evaluation helps in improving board performance (Mori *et al.,* 2015). In addition, from the resource dependence perspective, board evaluation helps in identifying areas of expertise which the board overlooked during the year and through that decide what to do to improve. Despite the value of board evaluation, it is worth noting that the practice was not seen in the board of directors of the two studied companies.

Board Audit Committee

The Audit Committee is one of the important committees of the Board of Directors. Assessment of the committees in this study focused on the existence of the committee, number of members and their competence, number of meetings and nature of communications. In terms of establishment, all the studied companies had audit committees in place. This is good practice in corporate governance and which is in line with a PwC (2017) report calling for the presence of audit committees which would ensure integrity and transparency of corporate reporting. In terms of number of members, our study found that members of an audit committee ranged from two to six. Prior literature suggests that the committee should be large enough to represent a balance of views and experience and yet small enough to operate efficiently. The report suggests an optimal number of between three and six members. Our findings are not far from this suggestion which is also advocated by CMSA (2002).

Despite the importance of the audit committees, the findings indicate that most of them sit only twice a year. The justification of this could be due to the nature of the business and ownership of these companies. Since all these companies are multinational and engage in exploration and production of oil and gas in different countries, there might be requirements from their home countries that the number of meetings should be cut down. It is also important to note that most of the studied companies are subsidiaries, and arguably, some of the important issues to be discussed in the audit committee are also discussed or expected to be discussed in the board of directors of the company.

In terms of education, findings show that members of the board of directors of the studied oil and gas companies had education qualifications ranging from a Bachelor Degree to Doctor of Philosophy (PhD). Also, members were found to possess professional qualifications in areas of accounting, finance, and auditing. This is in line with earlier literature on audit committees which proposes that each member of the audit committee should have the ability to read and understand primary financial statements. There are also members with industrial expertise in the area of marketing, engineering, communication and technology. Therefore, the majority of the members of audit committees of the studied oil and gas companies had sufficient expertise and experience in the related field. This is in compliance with CMSA (2002) which recommends that members of audit committees should have broad business knowledge relevant to the company's business and should be familiar with basic accounting principles.

With regard to how the audit committee communicates with the internal audit unit, the findings show that audit committees of some of the studied oil and gas companies hold meetings with the internal audit units, while others communicate with the internal audit units

through submission of annual reports. With regard to how the audit committee communicates with the board of directors, it was found that there were two common practices: through board meetings and by circulars. However, these findings are contradictory to the observation by Craig and Lattman (2010) that the audit committees should maintain communication with the company's Chief Financial Officer (CFO) and Controller. Nevertheless, our findings support common practice in the corporate world where the internal audit unit communicates with the audit committee of the board of directors in order to enhance its independence and effectiveness in carrying out its oversight functions.

CONCLUSION AND IMPLICATIONS

The main objective of this study was to examine governance practices of selected oil and gas companies operating in Tanzania. The study sought to examine two broad aspects of corporate governance: board structure and composition, as well as its functioning and functioning of the audit committee. With regard to board structure for the studied oil and gas companies operating in Tanzania, the study found that they do not have the same number of board members. While some had as few as six, in other companies the number was as high as eleven. These members consist of executive board members and non-executive board members, with varying numbers from one company to another. The study found that the boards of directors of the studied oil and gas companies operating in Tanzania have a determined composition of members, including nationality, gender, qualifications, experience and whether one is an executive or non-executive director, with the mandate to oversee the performance of the company on behalf of shareholders.

With regard to the functioning of the board of directors, the study found that the boards of directors conduct two to three meetings annually. Decisions are made by voting, consensus or combination of the two methods, with strict adherence to an agreed quorum. Board evaluation was being carried out and such activity was conducted by either the audit committee or shareholders. As far as the audit committee is concerned, it was found that audit committee members were well-educated, with varying expertise and had enough experience to perform their duties. These committees meet two to four times, with variation seen from one company to another. The audit committee communicates with the internal audit unit and board of directors through meetings and sharing of reports.

This study has theoretical implications. First, the study shows that small boards are also efficient in the oil and gas sector as advocated by the Agency Theory. The minimum number of members is six while only one company had eleven members. This study also shows that competence and expertise among boards differ. Diversity in terms of gender and local content is still low on these boards, which implies that the arguments of agency and resource dependence theories are not helpful in this aspect. On the other hand, the Resource Dependency Theory argues that those who have control of strategic resources have power to influence organisations in various ways (Pfeffer & Salancik, 1977, 2003). In this study, we found that most of the board members were foreigners. This, among other things, signifies influence of the parent company (all are foreign) in the appointment of members to serve on the board of directors. The same observation could explain why there are only two audit committee meetings per year.

The study would like to offer a number of recommendations. First, boards of directors and stakeholders of oil and gas companies in Tanzania should pay more attention towards sustaining the independence of their audit committees and the extent of their corporate

governance disclosure, in order to enhance their level of transparency. Secondly, in order to benefit from local content, legitimacy, and resource provision, it is important to have a relatively higher proportion of local members on the board. This will help to ensure that the interests of Tanzanians, as one of the major stakeholders in the industry, are also protected. Furthermore, since parent companies of most of the studied companies are listed in the various stock exchanges in their home countries, they should also be listed at the Dar es Salaam Stock Exchange (DSE). This will improve disclosure of operations of these companies and provision of financial resources for the benefit of the companies and the sector in general. This will also enhance compliance with the Guidelines on the Corporate Governance of the Public Listed Companies issued by CMSA (2002).

Our study is limited in various areas and therefore a lot of generalisation might not be appropriate. First the study is limited by the context as the focus was only on ten companies operating in Tanzania. Future studies could expand the scope to include more African countries which have similar companies. The study is also limited in terms of the methodology as it was an exploratory study focusing on secondary data (annual reports) as the major source of information. Due to the sample size, the results may be biased towards the methodology used. Further studies could also examine the link between governance practices and performance of respective companies and whether or not such governance practices of these oil and gas companies are in line with Tanzania's governance framework.

REFERENCES

Adam, J. (2015). Parastatal organisations oversight in Tanzania: The Treasury Registrar (Powers and Functions) Act Revisited. In Mjema, G., & Kaganda, G. (2015). *Social economic dynamics in Tanzania: Lessons and experience*. Dar es Salaam: Dar es Salaam University Press, 107-120.

Adam, J. (2014). Governance of public sector institutions in Tanzania: Challenges to the members of parliament. In Mjema, G., & Kaganda, G. (2014). *Socio-economic development in Tanzania: A multidisciplinary perspective.* Dar es Salaam: Dar es salaam: University Press.

Adam, J. (2012). Determinants for effective governance for Tanzania parastatal organisations. *The African Journal of Finance and Management,* 21(2), 74-86.

Adam, J. (2010). Sources of power and their implications toward effective governance of Tanzanian parastatal organisations. *The African Journal of Finance and Management, 19*(1), 44-53.

Adams, R. B., & Ferreira, D. (2009). Women in the boardroom and their impact on governance and performance. *Journal of Financial Economics*, *94*, 291-309.

Assad, M. J. (2011). Fraud at the Central Bank of Tanzania. *Emerald Emerging Markets Case Studies Collection, 1*(1), 1-12.

Beck, A. C., Campbell, D., & Shrives, P. J. (2010). Content analysis in environmental reporting research: Enrichment and rehearsal of the method in a British-German context. *The British Accounting Review*, *42*(3), 207-222.

Bell, E. (1993). *The practices of social research*. Belmont: Wadsworth Publishing Company.

Brennan, N. M., & Solomon, J. (2008). Corporate governance, accountability and mechanisms of accountability: An overview. *Accounting, Auditing and Accountability Journal*, *21*(7), 885-906.

Cadbury, A. (1992). *Report of the committee on the financial aspects of corporate governance*. London: Gee and Co. Ltd. London. United Kingdom (UK) (accessed on 26th December 2018).

Cai, J., Garner, J. L., & Walkling, R. A. (2009). Electing directors. *Journal of Finance, 64*(5), 2387-2419.

Charan, R. (2005). *Boards that deliver-advancing corporate governance from compliance to competitive advantage*. New York: John Wiley & Sons.

Chepkilot, K. (2005). *Content analysis: An introduction to its methodology*. London: Sage.

CMSA (2002). *Guidelines on corporate governance practices by public listed companies in Tanzania Capital Markets and Securities Authority (CMSA), 2002*. Dar es Salaam, Tanzania.

Craig, S., & Lattman, P. (2010). *Companies may fail, but directors are in demand*. New York Times.

Creswell, J. W. (2004). *Research design: Qualitative, quantitative and mixed methods approaches*. Thousand Oaks, California: Sage.

Dawson, C. (2002). *Practical research methods: A user-friendly guide to mastering research*. Oxford: How to Books Ltd.

Deloitte (2014). *The Deloitte guide to oil and gas in East Africa* (2014 Edition). Available at: http://www2.deloitte.com/global/en/pages/energy-and-resources/articles/deloitte-guide-oil-gas-eastafrica.html (accessed on 19 May 2016).

DeZoort, F. T., & Salterio, S. E. (2001). The effects of corporate governance experience and financial reporting and audit knowledge on audit committee members' judgments. *AUDITING: A Journal of Practice & Theory 20*(2) 31-47.

Dibra, R. (2016a). Corporate governance failure: The case of Enron and Parmalat. *European Scientific Journal, 12*(16), 283-290.

Dibra, R. (2016b). The role of corporate governance failures in the banking sector. *European Scientific Journal, 12*(34), 68-74.

Duchin, R. (2010). Cash holdings and corporate diversification. *The Journal of Finance, 65*(3), 955-992.

Eisenhardt, K. (1989). Agency Theory: An assessment and review. *The Academy of Management Review, 14*(1), 57-74.

Fama, E., & Jensen, M. (1983). Agency problems and residual claims. *The Journal of Law and Economics, 26*(2), 301-325.

Fulgence, S. E. (2016). Corporate social responsibility in Tanzania. In Vertigans, S., Idowu, S., & Schmidpeter, R. (Eds). *Corporate social responsibility in Sub-Saharan Africa.* Heidelberg: Springer.

Garcia-Torea, N., Feijoo, B. F., & de la Cuesta, M. (2016). Board of director's effectiveness and the stakeholder perspective of corporate governance: Do effective boards promote the interests of shareholders and stakeholders? *Business Research Quarterly, 19*, 246-260.

Gill, A. (2008). Corporate governance as social responsibility: A research agenda. *Berkley Journal of International Law, 26*(2), 452-477.

Guthrie, J., & Abeysekera, I. (2006). Content analysis of social, environmental reporting: What is new? *Journal of Human Resource Costing & Accounting, 10* (2), 114-126.

Guthrie, J., Petty, R., Yongvanich, K., & Ricceri, F. (2004). Using content analysis as a research method to inquire into intellectual capital reporting. *Journal of Intellectual Capital, 5*(2), 282-293.

Hillman, A., & Dalziel, T. (2003). Boards of directors and firm performance: Integrating agency and resource dependence perspectives. *The Academy of Management Review, 28*(3), 383-396.

Huse, M., & Grethe, S. A. (2006). Gender-related boardroom dynamics: How Scandinavian women make and can make contributions on corporate boards. *Women in Management Review*, *21*(2), 113-130.

Jensen, M. C. (2010). Active investors, LBOs, and the privatisation of bankruptcy. *Journal of Applied Corporate Finance*, *22*(1), 77-85.

Jensen, M., & Fama, E. (1983). Separation of ownership and control. *Journal of Law and Economics, 26*(2), 301-325.

Kamath, B. (2008). Intellectual capital disclosure in India: Content analysis of "TecK" firms. *Journal of Human Resource Costing & Accounting*, *12*(3), 213-224.

Klein, A. (2002). Audit committee, board of director characteristics, and earnings management. *Journal of Accounting and Economics*, *33*(3), 375-400.

Kolk, A. (2008). Sustainability, accountability and corporate governance: Exploring multinationals reporting practices. *Business Strategy and the Environment*, 17(1), 1-15. DOI: 10.1002/bse.511

Kothari, C. R. (2004). *Research methodology - methods and techniques* (2nd Revised edn.). New Delhi: K. K. Gupta for New Age International (P) Ltd.

Kramer, V. W., Konrad, A. M., & Erkut, S. (2006). *Critical mass on corporate boards: Why three or more women enhance governance*. Wellesley Centres for Women. Report WCW 11. Accessed on 26th December 2018.

Kroll, M., Walters, B. A., & Wright, P. (2008). Board vigilance, director experience, and corporate outcomes. *Strategic Management Journal*, *29*(4), 363-382.

Lipton, M., & Lorsch, J. W. (1992). A modest proposal for improved corporate governance. *The Business Lawyer*, *48*(1), 59-77.

Maher, M. E., & Andersson, T. (2000). Corporate governance: Effects on firm performance and economic growth. Available at SSRN: https://ssrn.com/abstract=218490 or http://dx.doi.org/10.2139/ssrn.218490

McNamara, C. (2008). *Overview of roles and responsibilities of corporate board of directors*. Free Management Library. Authenticity Consulting, LLC. Accessed on 26th December 2018.

Mehta, S., & Rachana, S. (2009). *Reasons for corporate government failures*. Skyline Institute of Engineering, Greater Noida.

Meckling, W. H., & Jensen, H. (1976). Theory of the firm: Managerial behaviour, agency costs and ownership structure. *Journal of Financial Economics*, *3*(4), 305-360.

Melyoki, L. L. (2005). Determinants of effective corporate governance in Tanzania. Unpublished PhD Thesis, University of Twente, The Netherlands, October 2005 (accessed on 26th December 2018).

Mersland, R., & Strøm, R. Ø. (2009). Performance and governance in microfinance institutions. *Journal of Banking & Finance*, *33*(4), 662-669.

Milne, M. J., & Adler, R. W. (1999). Exploring the reliability of social and environmental disclosures content analysis. *Accounting, Auditing & Accountability Journal*, *12*(2), 237-256.

Montabon, F., Sroufe, R., & Narasimhan, R. (2007). An examination of corporate reporting, environmental management practices and firm performance. *Journal of Operations Management*, *25*(5), 998-1014.

Mori, N., Gholersorkhi, S., Randøy, T., & Hermes, N. (2015). Board composition and outreach performance of microfinance institutions: Evidence from East Africa. *Strategic Change: Briefings in Entrepreneurial Finance*, *24*, 99-113.

Mori, N. (2014). Directors' diversity and board performance: Evidence from East African microfinance institutions. *Journal of African Business, 15*(2), 100-113. doi:10.1080/15228916.2014.920654.

Mitton, T. (2002). A cross-firm analysis of the impact of corporate governance on the East Asian financial crisis. *Journal of Financial Economics, 64* 215-241.

Mwaura, K. (2007). The failure of corporate governance in state-owned enterprises and the need for restructured governance in fully- and partially-privatised enterprises: The Case of Kenya. *Fordham International Law Journal, 31*(1), 34-75.

Mzenzi, S. I., & Gaspar, A. F. (2015). External auditing and accountability in the Tanzanian local government authorities. *Managerial Auditing Journal*, *30*(6/7), 681-702.

Newell, R., & Wilson, G. (2002). A premium for good governance. *McKinsey Quarterly*, *3*, 20-23.

Nielsen, S., & Huse, M. (2010a). The contribution of women on boards of directors: Going beyond the surface. *Corporate Governance: An International Review*, *18*(2), 136-148.

Nielsen, S., & Huse, M. (2010b). Women directors' contribution to board decision making and strategic involvement: The role of equality perception. *European Management Review*, *7*(1), 16-29.

Okike, E. N. M. (2007). Corporate governance in Nigeria: The status quo. *Corporate Governance: An International Review*, *15*(2), 173-193.

Oxelheim, L., & Randøy, T. (2003). The impact of foreign board membership on firm value. *Journal of Banking & Finance*, *27*(12), 2369-2392.

Parker, S., Gary, F. P., & Howard, F. T. (2002). Corporate governance and corporate failure: A survival analysis. *Corporate Governance: The International Journal of Business in Society*, 2(2), 4-12. https://doi.org/10.1108/14720700210430298

Pfeffer, J., & Salancik, G. R. (1977). Organisational context and the characteristics and tenure of Hospital Administrators. *Academy of Management Journal*, *20*, 74-88.

Pfeffer, J. & Salancik, G. R. (1978). *The external control of organisations. A resource dependence perspective*. New York: Harper & Row.

Robert, H. M. (2011). *Robert's rules of order newly revised* (11th ed.). Philadelphia, PA: Da Capo Press.

Roe, A. R. (2016). Tanzania: From mining to oil and gas. WIDER Working Paper, No. 2016/79, ISBN 978-92-9256-122-2, The United Nations University World Institute for Development Economics Research (UNU-WIDER), Helsinki, Finland.

Sanda, A., Mikailu, A. S., & Garba, T. (2005). Corporate governance mechanisms and firm financial performance in Nigeria. AERC Research Paper 149, African Economic Research Consortium, Nairobi, March 2005.

Saunders, M., Lewis, P., & Thornhill, A. (2000). *Research methods for business students* (2nd ed.). New York: Prentice Hall.

Schambra, W. A. (Winter 2008). *Board compensation: To pay or not to pay?* Philanthropy Magazine, Philanthropy Roundtable. Retrieved 2 May 2017.

Searle, R. (2010). *Corporate governance in the major oil and gas companies*. University of Massachusetts, Lowell, United States of America (USA).

Shleifer, A., & Vishny, R. W. (1997). A survey of corporate governance. Working Paper 5554. National Bureau of Economic Research, Cambridge, United States of America (USA) (accessed on 26th December, 2018).

Smith, N., Smith, V., & Verner, M. (2006). Do women in top management affect firm performance? A Panel Study of 2500 Danish Firms, MPRA, 2006, Aarhus University, Denmark.

Solomon, J., & Solomon, A. (2004). *Corporate governance and accountability*. Chichester: John Wiley & Sons Ltd.

Tuggle, C. S., Sirmon, D. G., Reutzel, C. R., & Bierman, L. (2010). Commanding board of director attention: Investigating how organisational performance and CEO duality affect board members' attention to monitoring. *Strategic Management Journal, 31*, 946-968.

Yermack, D. (1996). Higher market valuation of companies with a small board of directors. *Journal of Financial Economics, 40*, 185-211.