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A STUDY OF THE IMPLEMENTATION AND IMPACT OF CORPORATE GOVERNANCE IN MAURITIUS

Final Report

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ACKNOWLEDGEMENT I

LIST OF TABLES VI

LIST OF FIGURES X

EXECUTIVE SUMMARY XII

CHAPTER 1 - INTRODUCTION 14

1.1 Background 14

1.2 Motivation and Benefits 15

1.3 Study Objectives 19

1.4 Data and Research Methods 20

1.5 Structure of the Report 21

CHAPTER 2: CORPORATE GOVERNANCE: CURRENT STATE OF PLAY 23

2.1 Corporate Governance implementation and impact worldwide 23

2.2 Corporate Social Responsibility (CSR) and Corporate Governance 34

2.3 Corporate Governance: Previous Research and Evidence in Mauritius 39

2.4 Implications and Themes for this Study 44

2.4.1 Corporate governance implementation as an 'organisational change' process: 44

2.4.2 Corporate governance implementation as an 'evolving' process: 44

2.4.3 Corporate governance implementation as a 'disclosure' process: 45

2.4.4 Corporate governance implementation as a 'people-centred' process: 46

2.4.5 Corporate governance implementation and its contribution to the CSR process: 46

2.5 Reflections and justifications of Research Methods 47

2.6 Conclusion 48

CHAPTER 3: CORPORATE GOVERNANCE ENVIRONMENT IN MAURITIUS 50

3.1 Introduction 50

3.2 Country Context 50

3.3 Corporate Governance Environment 51

3.3.1 External environment 52

The Mauritius Institute of Directors (MIoD) 56

3.3.2 Internal Environment 60

3.3.3 Reputational Agents 63

3.4 Conclusion 65

CHAPTER 4 – DATA, METHODS AND ANALYSIS TECHNIQUES 66

4. 1 Introduction 66

4.2 Target companies and periods under study 66

4.3 Data Collection 68
4.3.1 Secondary Data: Annual Reports 69
4.3.2 Primary data: Interviews 72
4.3.3 Profile of interviewees 74

4.4 Data Preparation and Organisation... 76
4.4.1 Input of annual reports data 76

4.5 Methods adopted for Data Analysis 78
4.5.1 Qualitative analysis of interviews 78
4.5.2 Content analysis of Documents 79
4.5.3 Volumetric Word Count 80
4.5.4 Scoring System 81
4.5.5 Exploratory correlation analysis 84

4.6 Conclusion.. 85

CHAPTER 5: FINDINGS AND ANALYSIS (LISTED COMPANIES) 86

5.1 Introduction 86

5.2 Implementation, Disclosure, CSR and Total Scores 86

5.3 Detailed Implementation Scores 93
5.3.1 Board composition 93
5.3.2 Audit Committee, Risk Management and Internal Audit 97
5.3.3 Corporate Governance Committees 102
5.3.4 Executive / Board Remuneration Policies... 104
5.3.5 Director Appraisal, Training, Conflicts of Interest and Board Ethics 106

5.4 Detailed Disclosure and Transparency Scores 108
5.4.1 Corporate Governance Report and Compliance Statements 109
5.4.2 Board and Committee Composition and Related Disclosures............................ 111
5.4.3 Disclosures of Directors Remuneration and Interests 113

5.5 Concluding reflections on the implementation and disclosure scores 117

5.6 Concluding Analysis and Reflections... 124

CHAPTER 6: FINDINGS AND ANALYSIS (LARGE PUBLIC / PRIVATE COMPANIES) 127

6.1 Introduction 127

6.2 Overall Implementation Disclosure, CSR and Total Scores 127

6.3 Detailed Implementation.. 139
6.3.1 Board composition 139
6.3.2 Committee Structures, Risk Management and Internal Audit 143
6.3.3 Remuneration and Other Director-related Policies 147

6.4 Detailed Disclosure and Transparency **150**
6.4.1 Corporate Governance Reports and Compliance Statements 150
6.4.2 Board and Committee Composition and Related Disclosures 153
6.4.3 Disclosures of Directors Remuneration and Interests 155
6.4.4 Exploratory Correlation Analysis 158

6.5 Concluding Analysis and Reflections **166**

CHAPTER 7: FINDINGS AND ANALYSIS (STATUTORY BODIES) **170**

7.1Introduction **170**

7.2 Definitional Issues and Poor Access to Annual Reports **171**

7.3 Implementation **172**
7.3.1 Board composition 172
7.3.2 Committee Structures 174

7.4 Disclosure **176**
7.4.1 Corporate Governance Report and Compliance Statement 176
7.4.2 Board-related and Remuneration disclosures 177

7.5 Concluding analysis and reflections **178**

CHAPTER 8: FINDINGS AND ANALYSIS (INTEGRATED SUSTAINABILITY REPORTING) **181**

8.1 Introduction **181**

8.2 Listed Companies **183**
8.2.1 Extent of CSR Disclosures 2004-2007 183
8.2.2 CSR Disclosure ‘Behaviour’ by listed companies: Explanatory Factors 190
8.2.3 Interview Data and Analysis 199

8.3 Large Public / Private (LPP) Companies **201**
8.3.1 Extent of CSR Disclosures 2004-2007 201
8.3.2 CSR Disclosures by LPP companies: Explanatory Factors 207
8.3.3 Interview Data and Analysis 216

8.4 Statutory Bodies **217**

8.5 Concluding Analysis and Reflections **219**

CHAPTER 9: KEY FINDINGS, RECOMMENDATIONS AND CONCLUSION **223**

9.1 Introduction **223**

9.2 Research constraints **223**

9.3 Key research findings and overall analysis **224**

9.4 Recommendations **231**

REFERENCES 239

APPENDICES 250

List of Tables

Table 4.1: Summary of Annual Reports Received 70

Table 4.2: List of Interviewees 75

Table 4.3: Weights Assigned to Scoring Items 83

Table 5-1: Mean Weighted Scores for Implementation, Disclosure, CSR and Total Scores of Listed Companies (2004-2007) 86

Table 5-2: Standard Deviation (SD) and Minimum (Min) / Maximum (Max) for the Implementation Disclosure, CSR and Total Scores of Listed Companies (2004-2007) 87

Table 5-3: Board Composition Statistics for Listed Companies (2004-2007) 94

Table 5-4: Mean Board Composition Scores of Listed Companies (2004-2007) 95

Table 5-5: Audit Committee Implementation Scores of Listed Companies (2004-2007) 99

Table 5-6: Risk Management and Internal Audit Implementation Scores of Listed Companies (2004-2007) 100

Table 5-7: Corporate Governance Committees (including remuneration and nomination committees) Implementation Scores of Listed Companies (2004-2007) 102

Table 5-8: Executive / Board Remuneration Policies Implementation Scores (Listed Companies (2004-2007) 105

Table 5-9: Director Appraisal, Training and Ethics Implementation Scores of Listed Companies (2004-2007) 106

Table 5-10: Disclosure of a Corporate Governance Report and Compliance Statements of Listed Companies (2004-2007) 109

Table 5-11: Corporate Governance Report and Compliance Statement Disclosure Scores of Listed Companies (2004-2007) 109

Table 5-12: Examples of Compliance Statements of Listed Companies 110

Table 5-13: Board / Committee Composition and Related Disclosures Scores of Listed Companies (2004-2007) 112

Table 5-14: Remuneration disclosures (2004 – 2007) 113

Table 5-15: Directors’ Remuneration Disclosure Scores of Listed Companies (2004-2007) 114

Table 5-16: Directors' Interests Disclosure Scores (Listed Companies 2004-2007) 114

Table 5-17: Correlation Matrix (Listed Companies 2004) 118

Table 5-18: Correlation Matrix (Listed Companies 2005) 121

Table 5-19: Correlation Matrix (Listed Companies 2006) 122

Table 5-20: Correlation Matrix (Listed Companies 2007) 123

Table 6-1: Mean Weighted Scores for Implementation, Disclosure, CSR and Total Scores for LPP Companies (2004-2007) 128

Table 6-2: Standard Deviation (SD) and Minimum (Min) / Maximum (Max) for the Implementation Disclosure, CSR and Total Scores for LPP Companies (2004-2007) 128

Table 6-3: Comparison of Implementation, Disclosure Scores, CSR and Total Scores (Large Public/Private Companies vs. Listed Companies, 2004-2007) 129

Table 6-4: Comparison of Implementation, Disclosure Scores, CSR and Total Scores (Legal status of 'Public' vs. 'Private' Companies in LPP category) 131

Table 6-5: Mean Board Composition Scores of LPP Companies (2004-2007) 139

Table 6-6: Frequency Counts of Independent Non Executive Directors and Executive Directors in Large Public/Private Companies (2004-2007) 140

Table 6-7: Frequency Distributions of Separation between CEO/Chairperson and Status of Chairperson in Large Public/Private Companies (2004-2007) 140

Table 6-8: Audit Committee, Corporate Governance Committee and Risk Management Scores of LPP Companies (2004-2007) 144

Table 6-9: Frequency Counts of Companies with Audit and Corporate Governance Committees in Large Public/Private Companies (2004-2007) 146

Table 6-10: Board / Executive Remuneration and Director Appraisal, Training and Ethics Score of LPP Companies (2004-2007) 148

Table 6-11: Frequency Counts for the Disclosures of a Corporate Governance Report and a Compliance Statement by LPP Companies (2004-2007) 151

Table 6-12: Corporate Governance Report and Compliance Statement Disclosure Scores of LPP Companies (2004-2007) 151

Table 6-13: Examples of Compliance Statements of LPP Companies 152

Table 6-14: Board / Committee Composition and Related Disclosures Scores of Listed Companies (2004-2007) 154

Table 6-15: Remuneration disclosures (2004 – 2007) 155

Table 6-16: Directors' Remuneration Disclosure and Directors' Interests Scores of LPP Companies (2004-2007) 156

Table 6-17: Correlation Matrix of LPP Companies (2004) 160

Table 6-18: Correlation Matrix of LPP Companies (2005) 162

Table 6-19: Correlation Matrix of LPP Companies (2006) 163

Table 6-20: Correlation Matrix of LPP Companies (2007) 165

Table 7-1: Ministerial Representatives and Composition on Boards of Statutory Bodies (2004-2007) 172

Table 7-2: Number and Type of Sub-Committees in Statutory Bodies (2004-2007) 175

Table 7-3: Corporate Governance Report and Compliance Statements by Statutory Bodies (2004-2007) 176

Table 7-4: Board-related Disclosures by Statutory Bodies (2004-2007) 177

Table 7-5: Board Remuneration Disclosures by Statutory Bodies (2004-2007) 178

Table 8-1: Listed Companies reporting on each CSR category (2004 – 2007) 183

Table 8-2: Weighted Mean scores for CSR items of Listed Companies (2004 -2007) 183

Table 8-3: Standard Deviation (SD) and Minimum (Min) / Maximum (Max) for CSR Weighted Scores of Listed Companies (2004-2007) 184

Table 8-4: Word Count of CSR Disclosures by Listed Companies (2004-2007) 186

Table 8-5: Average Word Count of CSR Disclosures by Listed Companies (2004-2007) 186

Table 8-6: Examples of CSR Disclosures (Listed Companies) in 2007 187

Table 8-7: Classification of listed companies by sector 190

Table 8-8: Frequency of Environmental Disclosures by Sector (Listed Companies) 191

Table 8-9: CSR Disclosure Word Count by Sector of Listed Companies (2004-2007) 192

Table 8-10: CSR Correlation Matrix (Listed Companies 2004): Firm-based variables and corporate governance scores. 193

Table 8-11: CSR Correlation Matrix (Listed Companies 2005): Firm-based variables and corporate governance scores. 194

Table 8-12: CSR Correlation Matrix (Listed Companies 2006): Firm-based variables and corporate governance scores. 196

Table 8-13: CSR Correlation Matrix (Listed Companies 2007): Firm-based variables and corporate governance scores. 197

Table 8-14: LPP reporting on each CSR category (2004-2007). 202

Table 8-15: Weighted Mean scores for CSR items (LPP Companies 2004-2007) 202

Table 8-16: Standard Deviation (SD) and Minimum (Min) / Maximum (Max) for CSR Weighted Scores (LPP Companies 2004-2007) 203

Table 8-17: Word Count of CSR Disclosures by LPP Companies (2004-2007) 204

Table 8-18: Average Word Count of CSR Disclosures by LPP Companies (2004-2007) 205

Table 8-19: Examples of CSR Disclosures (LPP Companies) in 2007 206

Table 8-20: CSR Disclosure Word Count by Sector for LPP companies (2004-2007) 207

Table 8-21: CSR Disclosure Word Count by Sector by CSR theme

(LPP companies, 2004-2007) 208

Table 8-22: CSR Correlation Matrix (LPP Companies 2004): Firm-based variables and corporate governance scores 210

Table 8-23: CSR Correlation Matrix (LPP Companies 2005): Firm-based variables and corporate governance scores 212

Table 8-24: CSR Correlation Matrix (LPP Companies 2006): Firm-based variables and corporate governance scores 213

Table 8-25: CSR Correlation Matrix (LPP Companies 2007): Firm-based variables and corporate governance scores 215

Table 8-26: Frequency of CSR Disclosures by Statutory Bodies 218

Table 9-1: A Summary of the Impact of Corporate Governance in Mauritius 230

List of Figures

Figure 3-1: Corporate Governance Environment 53

Figure 3-2: Organisational structure of the Mauritius Institute of Directors 57

Figure 3-3: Financial Services Sector 58

Figure 4-1: Schema for data collection process 69

Figure 4-2 Data Input for Listed and Large Pubic and Private Companies 77

Figure 4-3: Volumetric word count for Social Issues 80

Figure 4-4: Input exercise for Scoring System 83

Figure 5-1: Corporate Governance Implementation Scores per sector and all companies for the years 2004 – 2007 for listed companies with maximum score of 83. 89

Figure 5-2: Corporate Governance Disclosures Scores per sector and all companies for the years 2004 – 2007 for listed companies with maximum score of 42 90

Figure 5-3: Corporate Governance Implementation and Disclosure Mean Scores per sector and all companies for the years 2004- 2007 for listed companies with maximum score of 142. 90

Figure 5-4: CSR Disclosure Scores per sector and all companies for the years 2004- 2007 for listed companies with maximum score of 21. 91

Figure 5-5: Total Corporate Governance Scores per sector and all companies for the years 2004 - 2007 for listed companies with maximum score of 146. 91

Figure 5-6: Risk Management Scores for the years 2004- 2007 for listed companies with maximum score of 9. 101

Figure 5-7: Audit Committee and Corporate Governance Scores (2004 – 2007) of Listed Companies. 103

Figure 5-8: Board and Committee Disclosure Scores for listed companies (2004 – 2007) with a maximum score of 18. 112

Figure 5-9: Directors' Remuneration and Interests Disclosure Scores for listed companies (2004-2007) 114

Figure 6-1: Total Corporate Governance Score per category of Company (2004 – 2007) with maximum score of 146. 132

Figure 6-2: Corporate Governance Implementation Scores per sector and all companies (2004 – 2007) for LPP companies with maximum score of 83. 133

Figure 6-3: Corporate Governance Disclosure Scores per sector and all companies (2004 – 2007) for LPP companies with maximum score of 42. 134

Figure 6-4: Corporate Governance Implementation and Disclosure Scores per sector and all companies (2004 – 2007) for LPP companies with maximum score of125. 134

Figure 6-5: CSR Disclosure Scores per sector and all companies (2004 – 2007) for LPP companies with maximum score of 21. 135

Figure 6-6: Total Corporate Governance Scores per sector and all companies (2004 – 2007) with maximum score of 146. 136

Figure 6-7: Audit Committee Score, Corporate Governance Committee Score and Risk Management and Internal Audit Score for LPP companies (2004- 2007). 145

Figure 6-8: Directors' Remuneration and Directors' Interest Mean Scores compared to the Corporate Governance Disclosure Score of LPP companies (2004- 2007). 156

Figure 8-1: Weighted Overall and Detailed CSR Scores for Listed Companies (2004 – 2007) 185

Figure 8-2: Weighted Overall and Detailed CSR Scores for Large Public and Private Companies (2004 – 2007). 203

Figure 9-1: Percentage Corporate Governance Implementation – Listed, Large Public and Private companies. 225

Figure 9.2: The Corporate Governance 2.0 Agenda for Mauritius 238

Executive Summary

The term ‘corporate governance’ has gradually broadened to encompass many different aspects, notably a redefining of a board’s leadership and role within organisations, increased accountability for executive and non-executives vis-à-vis owners and debt-holders, greater transparency and disclosure enabling market participants to assess value and risk, increased use of ethical standards, and a formal engagement with the corporate social responsibility agenda. Overall, this can be seen as a significant change in attitudes and practices for organisational actors, particularly for the people situated at the apex of the hierarchy. However, the extent to which such attitudes and practices have really change worldwide and locally is put into question, as is highlighted by our literature review. Throughout the course of this study, this question has continually emerged as a central one and has informed its specific objectives, analysis, findings and recommendations.

The World Bank Report on the Observance of Standards and Codes (ROSC, 2002) - relating to the assessment of corporate governance in Mauritius - made several policy recommendations aimed at unlocking shareholder value and increasing investor confidence via the strengthening of regulatory mechanisms, the professionalising of directors in Mauritius and greater disclosure/transparency to the market/public. One of the main planks underpinning these developments was the adoption of a Code of Corporate Governance. The latter was enacted since the financial year ending 2005 after nearly two years of government-sanctioned discussion, debate and consultation.

Further to the publication of the corporate governance code, we sought to 1) investigate the progress and the state of corporate governance implementation in Mauritius, by focusing on listed, non-listed large companies and State Owned Entities (SOEs), 2) examine the impact of corporate governance on the immediate actors and “wealth maximising” stakeholders of the company, and 3) assess the extent and progress of ‘integrated sustainability reporting’ performed by local organisations.

A scoring system based on a content analysis of annual reports has been devised to measure comparative positions and trends in reporting on a number of aspects disclosed in annual reports over a four year period (2004 to 2007). In addition a series of semi-structured interviews were also performed since one commonly reported weakness of corporate governance studies is that they solely depend on annual report disclosures. The use of interviews is believed to be more suitable in unearthing the different meanings and perceptions.

We found that the level of implementation of the code amongst listed companies has shown a marked improvement which may due to the fact that adherence to the code is a listing requirement. However, this state of things needs to be contrasted to a picture of low implementation in Large Public and Private (LPP) companies and an even poorer adoption level among statutory bodies. Furthermore, an increasing number of listed (and a few LPP) companies appear to review their traditional attitude towards an *ad hoc behaviour* of charitable (and political) donations, and are moving towards sustainability reporting - with the aim of developing a structured approach to Corporate Social Reporting (commonly referred to as strategic CSR). However, directors' perceptions of these developments remain overwhelmingly focused on charitable endeavours (albeit in a better thought out way) and so far pay considerably less attention to integrating other key societal aspects of integrated sustainability reporting (such as environment, health and safety, promoting diversity/social harmony, human resource practices, ethics). Informed by the above findings, we formulate recommendations which would be of interest to relevant government agencies, professional associations and directors in ensuring that the positive aspects of a corporate governance code can be appropriately implemented and on a more comprehensive and targeted basis in Mauritius.

Chapter 1 - Introduction

This chapter sets out the context in which the research team established and finalised the study's objectives and parameters in investigating the extent of implementation and impact of the code of corporate governance in Mauritius.

1.1 Background

The simplest and perhaps best definition of corporate governance still remains the one uttered by Sir Adrian Cadbury, who viewed it *"….as a system by which corporations are directed and controlled".* However, considering that there has always been a 'system' by which such entities are directed and controlled since the legal creation of the corporate body, it is therefore important to point out at the outset there are key values, principles, rules and practices that have been gradually formalised over the last twenty years and these are now more generally understood to reflect the notion or concept of 'corporate governance'. For instance, supra-national institutions such as the World Bank and the Organization for Economic Co-operation and Development (OECD) have singled out corporate governance principles to be about the rights of shareholders, the equitable treatment of shareholders, the role of stakeholders, disclosure and transparency and the responsibilities of the board (OECD, 2004).

In considering these principles, there is no argument that the roots of traditional corporate governance squarely lie in the Western-oriented perspectives of private ownership, market economy, market deregulation, globalisation, the free flow of capital, the primacy of international financial markets and the central objective of shareholder wealth maximisation. However, confidence and belief in this so-called 'shareholder-oriented' perspective to corporate governance has been regularly shaken in the last twenty years, and not least in light of the recent worldwide financial and banking crisis. But well before these recent (and arguably radical) turn of events, there were already two categories of events that have caused regulators, legislators, society and even some corporations to question this unbridled notion of shareholder-oriented corporate governance. First, a number of corporate collapses and scandals, whose origins could be significantly associated to unethical (or even illegal practices) by board members and/or top executives, have demonstrated the weaknesses of traditional corporate control structures and the initial corporate governance practices set out to protect shareholders and other financial providers (e.g. debt-holders). The apparent inability by anyone (let alone the shareholder) to control levels of executive remuneration was (and perhaps remains) a vivid illustration of executive dominance over ownership. In particular, cases such as the Enron debacle paved the way for stronger regulation and enforcement of all US-listed corporations and a more in-depth review of corporate governance practices in the UK and elsewhere. Secondly, a combination of societal-led priorities have taken firmer ground in mainstream politics and society such as poverty alleviation, national / international wealth redistribution, climate change and related environmental concerns (e.g. the sustainability agenda), employees' working conditions, consumer safety, ethical and non-corrupt behaviours in business and government, and local community needs.

Whilst there was an initial belief (and hope) that a laissez-faire capitalist mechanism would eventually and somehow lead to better societal conditions (the so-called trickle down effect), a more nuanced approach has now emerged as to the role of corporations in society. This is illustrated by the development of a 'stakeholder' and inclusive approach to corporate governance, which is in many ways reflected in Cadbury's own re-conceptualising of corporate governance, stating that:

> *"Corporate governance is concerned with holding the balance between economic and social goals, and between individual and communal goals...the aim is to align as nearly as possible the interests of individuals, corporations and society."(Cadbury, Par 2.5, 1992)*

Over the last decade, the term 'corporate governance' has thus gradually broadened to encompass many different aspects notably a redefining of a board's leadership and role within organisations, increased accountability for executive and non-executives vis-à-vis owners and debt-holders, greater transparency and disclosure enabling market participants to assess value and risk, increased use of ethical standards, and a formal engagement with the corporate social responsibility agenda. Overall, this can be seen as a significant change in attitudes and practices for organizational actors, particularly for the people situated at the apex of the hierarchy. However, the extent to which such attitudes and practices have really change worldwide and locally is put into question, as will be highlighted in our literature review, to be presented in the next chapter. Throughout the course of this research, this question has continually emerged as a central one for our study and has informed its specific objectives, analysis, findings and recommendations.

1.2 Motivation and Benefits

Corporate Governance supporters put forward numerous benefits that may arise from the widespread and consistent adoption of a code of corporate governance. For the company, it allows for a better accountability and transparency of the executive management's decisions and actions vis-à-vis its financial backers i.e. investors and lenders. Corporate governance not only has a 'control' dimension but also provides the appropriate forum and opportunities for a balanced debate and effective decision-making, particularly within the board. For an African developing economy such as Mauritius, a consistently adopted (and monitored) corporate governance provides confidence to foreign investors on the probity, accountability and transparency of its businesses and entrepreneurs For the society as a whole, a 'stakeholder-oriented' code provides some assurances that the profit-oriented enterprise is also actively acknowledging its social responsibility towards the environment, its employees and customers, whilst promoting ethical behaviours and societal values.

However, the literature remains divided on the actual or observed benefits of the code of corporate governance, in terms of its impact on share prices, company performance and/or board/management effectiveness. At the same time, there are increasing dissenting voices in the literature as to the applicability and usefulness of a 'Western-inspired' Code of Corporate Governance in developing nations, particularly in Africa. Mauritius is specifically hailed as one of the few African countries to have initiated the development of a code of corporate governance (Rossouw, 2005, p. 95). But to the best of our knowledge, there has not been any systematic study of the implementation of the code of corporate governance in Mauritius.

Since the late 1990s, Mauritius - as a developing country seeking to improve private investment (local and foreign) - has resolutely embarked on various regulatory and modernisation policies to its financial/legal systems involving the stock exchange (e.g. listing rules), company legislation (e.g. shareholders' rights, duties of directors), global business (offshore) companies, financial regulation (e.g. Financial Services Commission) and accounting/auditing (e.g. International Accounting Standards, Financial Reporting Council). Although some of the changes may have been influenced by local events, it is generally believed that most of these changes have been spurred by the transparency and accountability agendas set out by supra-national bodies (e.g. World Bank, IMF, EU, SADC) and developed countries (e.g. OECD)[1].

In particular, the World Bank Report on the Observance of Standards and Codes (ROSC, 2002) - relating to the assessment of corporate governance in Mauritius - made several policy recommendations aimed at unlocking shareholder value and increasing investor confidence via the strengthening of regulatory mechanisms, the professionalising of directors in Mauritius and greater disclosure/transparency to the market/public. One of the main planks underpinning these developments was the adoption of a Code of Corporate Governance - as put forward by the responsible Minister at that time in a local business publication:

> *"A key objective to corporate governance reform is to enhance shareholder value and corporate efficiency. The production of this code is not a cosmetic exercise. [In addition]…. by improving the conditions for greater value and wealth creation, good corporate governance will attract larger flows of much needed capital and allocate these more efficiently for investment and growth".(Minister Responsible for Corporate Affairs, Business Magazine, October 8, 2003).*

The final version of the code came into effect as from 2004-2005 (financial year ending in 2005), after nearly two years of government-sanctioned discussion, debate and consultation. Hence, to enable us to reliably assess changes in corporate governance, the starting point for this study has been the decision by the government to support the design and publication of a Code of Corporate Governance (thereafter known as the Code), which was finalised by the National Committee on Corporate Governance (NCCG). It required listed and other major corporate entities (non-listed and

[1] International Monetary Fund (IMF), European Union (EU), South African Development Community (SADC), Organisation for Economic Co-Operation and Development (OECD),

state owned enterprises) to comply (or explain otherwise) with the requirements of the code as from financial year 2004-2005 (i.e. by 30 June 2005).

However, we need to acknowledge that corporate governance practices existed well before this date and were being introduced by some companies as a result of best practice reviews, advice from consultants and/or professional bodies, ad hoc decisions by boards and specific requirements in related legislation (e.g. Companies Act). In contrast, the Code came from a more structured and holistic process involving government, business and external consultants and whose development was preceded by several World Bank reports on the state of corporate governance, accounting/auditing, insolvency and rights of creditors. The Code is in many ways a model one used in many other countries and its requirements include (i) board composition, duties and responsibilities and the types of directors, (ii) the establishment of board committees, their composition and duties/responsibilities, (iii) risk management, internal control and audit (iv) integrated sustainability reporting and (v) communication and disclosure. The code principally addresses 'investor-oriented' and owner management issues raised in the ROSC report but it also adopts a 'stakeholder or inclusive' framework which expects companies to respond to the needs of a larger constituency of stakeholders (e.g. lenders, customers/suppliers, employees, society) and community interests (e.g. environment, ethical behaviour, and social support). The code provided the research team with the benchmarks by which it would seek to assess its implementation and impact in Mauritius.

A professional and academic literature search was subsequently carried out to situate the current state of knowledge in corporate governance implementation and impact both from a local and an international perspective. This allowed us to gauge the recent developments in the study of corporate governance, as informed by findings on the field and by arguments from theoretical insights. Whilst these are presented in detail within Chapter 2, the following key points can be highlighted at this initial stage:

(a) Corporate governance codes are increasingly being adopted worldwide but the extent to which these are used, understood, conceptualised and acted upon varies considerably across national borders and in many cases across economic sectors (industries). This diversity of application does not necessarily apply to the case of developing countries. A number of statistical analysis have identified various explanatory factors for implementation, namely size, ownership structure, industry, debt (gearing) levels, board size and composition.

(b) Corporate governance can refer to the adoption of a particular board structure or practice (e.g. separation between Chief Executive Officer and Board Chairperson), stricter legal mechanisms to protect shareholders, and/or also the public disclosure of information deemed relevant for external stakeholders and capital markets. Research studies tend to investigate one or any combination of these elements as being a 'study' of corporate governance. Consistently however, external stakeholders express the view that such information is critical in their decision-making models and where possible, do pressure companies in disclosing more relevant and detailed information.

(c) More recently, discussions on the possible overlap between corporate governance and corporate social responsibility (CSR) have surfaced in empirical and theoretical studies, in terms of how (if at all) one affects the other. Whilst these two concepts have traditionally been studied in much depth but rather separately, the stakeholder (or inclusive) approach is now part of mainstream corporate governance thinking. One example of such overlap and inter-linkage is in the area of ethics, where both corporate governance and CSR seek to improve ethical behaviour at corporate and societal level respectively.

(d) Partly as a result of the above points, the 'impact' of corporate governance is now being measured in a multi-faceted, and thus arguably in a more realistic way. Whilst it was historically about the impact of corporate governance on share prices, the absence of consistent empirical results from research studies has compelled researchers to examine more closely the influence of corporate governance in companies. For instance, the implications of corporate governance for board decision-making can be assessed more directly using primary data (e.g. surveys, interviews, observations) rather than assuming that board decision-making processes are being *de facto* improved. In a similar vein, studies investigate how audit committees *actually* carry out their work to ensure that management is adequately made accountable, rather than simplistically expecting that the establishment of an audit committee will lead to higher profitability.

(e) Annual reports are the main medium by which companies communicate their adherence to corporate governance practices and disclose relevant (but un-audited) information. As a result, these are the main source of secondary data for researchers although there are issues of reliability and completeness on the information disclosed. The use of word counts, disclosure scores and other numerical measures also allow for the use of statistical analysis to assess associations and causalities. In other corporate governance studies, interview and survey data are used but in most cases there is little use of mixed methods and triangulation.

This study on corporate governance is a timely one since the enactment of a code provides an ideal 'critical event'; a point at which one can reliably observe and document the progress of implementation (or the lack thereof) over a four year period - with the first financial year (2004) being one year before the code became applicable. The use of a longitudinal approach will explore the *process* (rather than merely the outcomes) of implementation and its impact (if any) before the code became formally applicable. This will also shed light on the corporate behaviour towards corporate governance on a longer time scale in contrast to the majority of studies that report on implementation at one point in time.

This study aims to provide a comprehensive appraisal of the implementation of the local code in Mauritius. The research will reveal the implementation concerns which have cropped up over the past years and recommend on the future actions which need to be taken to ensure a smoother adoption of the code by local organisations (where relevant). The recommendations made will be practical-oriented and will be customised to be used by government/regulators, directors/companies as well as users of corporate governance information. Essentially, the investigators hope to provide direction for the future evolution of the local Code of Corporate Governance, as well as provide up-to date evidence on the state of corporate governance in Mauritius.

1.3 Study Objectives

To sum up, we can identify a significant and emerging interest in the *behavioural* as well as the *procedural* aspects of corporate governance in the professional as well as in the academic circles. From the literature review we present in Chapter 2, we thus conclude that corporate governance implementation and impact could be seen from five different perspectives, namely as (i) an organizational change process, (ii) an evolving process, (iii) a disclosure process, (iv) a people-centred process and (v) contribution to CSR process. This therefore informs our final objectives for this study.

The research team now presents its final objectives of the study, namely that further to the publication of the corporate governance code, we seek to:

Objective 1: Investigate the progress and the state of corporate governance implementation in Mauritius, by focusing on listed, non-listed large companies and State Owned Enterprises (SOEs).

Objective 2: Examine the impact of corporate governance on the immediate actors and “wealth maximising” stakeholders of the company, further to the publication of the corporate governance code.

Objective 3: Assess the extent of ‘integrated sustainability reporting’ performed by local organisations.

The three objectives will be mapped on the five specific implications/themes we have conceptualised, namely:

Corporate Governance Implementation as:	**Relevant Study Objectives**
An organisational change process	*Objectives 1 and 2*
An evolving process	*Objectives 1 and 2*
A disclosure process	*Objectives 1 and 3*
A people centred process	*Objectives 2 and 3*
Contributing to the CSR process	*Objectives 2 and 3*

1.4 Data and Research Methods

The annual report is an important data source which will provide the initial evidence on the extent of corporate governance implementation - as a result of the disclosure requirements from the code. A more in-depth analysis of the progression of disclosure (from year to year) would highlight the changes made. As such, a scoring based on a content analysis of annual reports will be the preferred methods to measure comparative positions and trends in reporting or a number of aspects disclosed in annual reports. Content analysis is traditionally viewed as a method of codifying the text of writing into various groups or categories based on selected criteria. In this case, we will use the corporate governance code's requirements to identify the relevant elements. A scoring procedure is then carried out to assess the existence and importance of the subject matter. The numerical score(s) will then reflect the degree of implementation of the code by a particular company at a particular point in time, which can then be compared over time, across companies and considered in relation to other numerical variables. For certain aspects however, a qualitative analysis will be also carried out in parallel to assess the importance/relevance of the disclosure. However, the above cannot provide the motivations and real implications for the company decision-makers as well as the users of those reports. This is one of the main weaknesses of the corporate governance studies that solely depend on annual report disclosures.

Furthermore, a part of the literature considers corporate governance as a social construct, which reflects the periodic patterns of continuously shifting ideas, paradigms, social norms, mode of thinking, emerging in specific social and historical contexts (Letza and Sun, 2002). Also, corporate governance is about how individuals act and interact within these contexts, rather than merely being rules and guidelines to follow (Heracleous, 2001). In this respect, the use of interviews is believed to be more appropriate in teasing out the different meanings and perceptions, allowing room for flexibility in the prompting and questioning (Rapley, 2004, p. 30l). However, certain assumptions are germane to this qualitative-based approach. Firstly, the respondents' perceptions are viewed as a reflection of the interviewees' reality outside the interview rather than reflecting a reality jointly constructed by the interviewee/interviewer (Rapley, 2004). Secondly, whilst the essence of the interviews is its attempt to 'illuminate' a phenomenon (why, how and what result?) and to formulate 'analytic' generalisations (Yin, 1994, p.10), we are not seeking statistical generalisations as would have been the case for a quantitative study. Given the study's focus on implementation and impact at company level, our interviewees will be primarily company directors and to a lesser extent, stakeholders such as institutional shareholders, lenders, analysts, trade unionists and NGO representatives.

Finally, the majority of previous studies have so far focused on listed companies only. In the case of Mauritius, the code applies as well to other non-listed private enterprises (i.e. referred to as large companies) and public sector enterprises (referred to as state-owned enterprises). The relative 'visibility' of listed companies does compel such companies to take a greater interest in the implementation and impact of the corporate governance code. Hence, the 'listed' nature of the company may be in itself a explanatory factor for higher implementation rather than being symptomatic of a general level of implementation at country level. Also, as a result of the different ownership (i.e. family vs. dispersed) and financing (i.e. debt vs. equity) dynamics in developing countries, many companies may not find it attractive to be listed but yet have a relatively dispersed ownership and a separate professional management cadre. Similarly, state-owned corporations display very different features, notably in being closely affiliated to government and in providing a quasi-public service. There is thus an opportunity to compare the different levels of implementation by different corporate constituencies within the same country.

1.5 Structure of the Report

Chapter 2 will provide a detailed literature review of the international and local evidence regarding corporate governance implementation and impact.

Chapter 3 presents the Mauritian context and the business, legal, regulatory and professional environment prevailing at the time of the implementation of the code of corporate governance.

Chapter 4 presents an account of the data, methods and analysis techniques used for this study and the notable challenges encountered during the data collection stages (for both annual reports and interviews).

Our findings and analysis on corporate governance implementation and impact will be considered in four separate chapters, regarding namely listed companies (Chapter 5), large public/private (LPP) companies (Chapter 6) and statutory bodies (Chapter 7). Chapter 8 will however consider findings relevant to corporate social responsibility (CSR) for all types of organisations. Finally, Chapter 9 will present a generic analysis and formulate specific recommendations

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Chapter 2: Corporate Governance: Current State of Play

We present this review of the academic and professional literature in the following sub-sections, namely (i) international evidence on corporate governance implementation and impact, (ii) international evidence on corporate social responsibility and its links to corporate governance, (iii) existing evidence on corporate governance implementation in Mauritius. We subsequently present our key reflections that have informed the objectives and perspectives of this study.

2.1 Corporate Governance implementation and impact worldwide

Over the last decade, there has been a sustained effort towards the promotion of better 'governance' standards in developing/emerging nations, whether this related to government, companies and non-governmental organisations. A number of efforts have emerged over this period - such as the World Bank's Standards and Codes Initiative - have been designed to promote greater financial stability through a worldwide dissemination, adoption, and implementation of international standards/codes. Amongst a number of aspects (e.g. accounting/auditing, banking supervision, financial transparency), the remit of the World Bank's Report on Observance on Standards and Codes (ROSC) has been towards encouraging the adoption of a corporate governance code based on the Organization for Economic Cooperation and Development (OCED) framework. Also, local governments are keen to adopt these standards and codes in a bid to enhance the level of foreign direct investment (FDI), since it is argued this provides an additional bargaining tool when competing for international investors (Rueda-Sabater, 2000). In turn, the corporate governance agenda is pursued by private-sector funded institutions such as the Commonwealth Association of Corporate Governance and other interested parties (e.g. consulting firms and business schools) towards educating, consulting and informing corporate governance in developing countries. Finally, corporate governance has recently taken further prominence on the African continent, following its inclusion in the African Peer-Review Mechanism (APRM) - an African-led initiative whereby countries engage into a self-assessment exercise and program actions towards improving the country's governance.

On the academic front, various proponents (e.g. Cadbury, 2000; Mallin, 2001; Bhasa, 2004; Thomsen, 2005; Elsayed, 2007; Nowland, 2008) have put forward various impacts and benefits that arise from the widespread and consistent adoption of a corporate governance code. Firstly, for the company, it allows for a better accountability and transparency of the executive management's decisions and actions vis-à-vis its financial backers i.e. shareholders/investors and lenders, thereby reducing its risk premium and rates of return. Secondly, from the point of view of directors, corporate governance not only has a 'control' dimension but also provides the appropriate forum and opportunities for a balanced debate and effective decision-making. The adoption of corporate governance principles and practices involves fundamental changes to the structure and mindset at the top management level. In some cases, decades-old conventions relating to board composition/membership, strategic decision making, and accountability processes are being challenged. Thirdly, corporate governance involves a greater level of disclosure and transparency of matters, which helps to reduce the risk and uncertainties pertaining to a company's operations. Fourthly, for the professional advisers involved in accounting, auditing or consulting activities, the introduction of corporate governance not only represents challenges in terms of understanding how a code will impact on the target enterprises but also involves opportunities for assisting businesses in the change process. Finally, for those supporting the development and/or enhancement of corporate social responsibility (CSR), OCED-based corporate governance codes take a stakeholder-oriented approach - as opposed to a shareholder-oriented one - and it is argued that the embodiment of social, environmental and community objectives within the corporate governance implementation process can influence profit-making enterprises in better responding to social obligations, whether these relate to issues such as environmental/climate change, local community support, promoting business ethics, and enhancing employee welfare. Rather than viewing such stakeholders or interests as mere instruments or 'means' to economic success, some even see corporate governance (and other CSR developments) as a mechanism that seeks to assert the corporation as a 'social' entity i.e. stakeholders become the 'end' to the company activities (Letza et al., 2004, p. 250). This intertwining between corporate governance and CSR has recently come to the fore in a qualitative study by Jamali et al. (2008).

However, the above-mentioned expected benefits, and largely positivistic views, would be dependent on how corporate governance codes actually operate in practice and in different environments (Rayman-Bacchus, 2003). For example, Bhasa (2004) contends there are now four different CG models (known as the 'governance quadrilateral') in practice, namely the market-centric, the relationship-based, the transition (i.e. former planned/communist countries) and the emerging model (i.e. developing countries). Considering the relevance of the latter model for Mauritius, the following characteristics relating to 'Type IV economies' by Bhasa (2004, p. 13-14) clearly set the scene for this research project:

> *"Much less discussed in the literature is the Type IV governance model……Characterized by a successful transition from state held specialty sectors to widely held firms…….existence of an emerging managerial labour class; formal and functional legal systems; existence of both family-held firms as well as widely-dispersed firms"*
>
> *"….Families with ancestral property that have entered the business scene some decades ago have now established themselves as frontrunners of the national economic system. With the accrual of increasing profits, families that have started businesses in one industry have diversified and entered other industries, and have gradually amassed a number of publicly traded firms to their credit" (Bhasa 2004, p. 13-14)*

In other words, there is the emergence of a context-based and context-oriented practice of corporate governance, which needs to be ascertained and documented. The way corporate governance is actually being understood and perceived in this specific 'Type IV' environment is an important step towards appreciating its impact (or lack thereof) and suggesting likely recommendations. At the same time, its impact can no longer be viewed solely from an 'economic' lens but also from a societal perspective (Kakabadse and Kakabadse, 2004, p. 4). Indeed, a recent study by Wanyama et al. (2009) provides a vivid example of corporate governance is being seen in an African context.

In most developed and developing economies, the Codes of Corporate Governance are enforced on a 'comply or explain' basis. In other words, companies are not expected to fully comply with the requirements of the national Code but they need to explain the reasons for non-compliance - in effect creating a disclosure obligation. The origin of the 'comply of explain' principle can be traced to its initial application in the so-called Anglo-Saxon environments (e.g. UK, USA), where it was argued that flexibility in corporate governance implementation was necessary to account for the diversity in size, structure and organization of companies (MacNeil and Li, 2006, p. 486). In addition, the role of the (fairly sophisticated) stock markets in UK or USA is viewed as primordial in 'penalizing' non-compliance (lower share prices) or alternatively, markets would accept non-compliance under certain circumstances. In considering the evidence from the UK environment, MacNeil and Li (2006) assert that full compliance with the Code's requirements remain below 50%. However, selected but critical requirements such as the separation of Chairman/Chief Executive positions, the proportion/number of non-executive directors, the number of independent directors, the establishment of important committees (audit, corporate governance, remuneration) have been massively adopted i.e. beyond 85% - 99%. MacNeil and Li (2006) thus argues that the remaining non-complying company have 'satisfied' the market as to the reasons (namely better than expected financial performance) and circumstances for not adopting the Code's rules, or else would have been penalized in terms of lower share prices or higher risk premiums. In effect, the authors take the view that there are rational economic justifications that explain the acceptance, and practice, of non-compliance by users and companies respectively.

Interestingly however, this reasoning appears to be less extended to the developing and emerging context. In this respect, a number of recent studies investigating corporate governance implementation in these countries can now be briefly reviewed. A selected summary of the studies is also tabulated in Appendix 2.1. For instance, in Malaysia, Ow-Yong and Guan (2000) carried out a questionnaire survey amongst nearly 800 listed companies. 304 of them responded and an overwhelming number of respondents (93%) agreed that corporate governance improvements are necessary. At the same time however, the results showed that 31% do not split the CEO/Chairman role. In this country, a large proportion of shareholders also acted also as directors (including executive positions) but there were generally an equal proportion of independent directors on boards. Whilst all of the responding companies had established an audit committee, about 80% of them did not have a remuneration committee. The strong presence of controlling shareholders on the company boards was identified as one of the key reasons for the non-establishment of remuneration committees, since executives perceive that the shareholders will have too much control on executive remuneration decisions (Ow-Young and Guan, 2000, p. 130). Whilst the existence of strong family control was viewed as an impediment to the separation between corporate management and ownership control, the authors concluded by highlighting 'historical and cultural' characteristics that shape business ethics, corporate practices, the behaviour of board members, and whether independent directors can truly operate. As a result, Ow-Young and Guan (2000, p. 131) contended that owner-managers remain not fully aware of the implications of implementation and as such, many companies pay *"lip service or comply with the form and not the spirit"* of the Code.

To a large extent, similar findings were apparent in Hussain and Mallin (2002) and Solomon et al. (2003) - who investigated corporate governance practices in Bahrain and Taiwan respectively. They also used the questionnaire survey aimed at the listed companies, with varied success (i.e. about 50% response rate in Bahrain and 20% in Taiwan). Again, a number of company boards were dominated by, or substantially made up of, shareholders. Whilst there was a separation between chairman/chief executive, there was little reported progress towards the setting and establishment of committees and this despite some relatively strong support for corporate governance harmonization when it came to the analysis of questionnaire perceptions (e.g. Solomon et al., 2003, p. 246). Family-based ownerships and control over boards, particularly in Taiwan, were considered by some of the respondents as a hindrance and Solomon et al. (2003, p. 247) concurred in that the extent of family control needs to be diminished - possibly through the use of legislation. This empirical evidence from these three Asian countries is also corroborated by a holistic analysis of the Asian corporate governance by Classens and Fan (2002). The latter contend that the inherent characteristics of Asian businesses (ownership concentration, incentives, limited legal rights for minority shareholders, weak board of directors, rare occurrence of hostile takeovers, limited financial disclosure/transparency) present a number of challenges, that cannot purely addressed by the use and enforcement of corporate governance codes (Classens and Fan, 2002, p. 86). The empirical findings based on questionnaires also highlight the seemingly contrasting situation between general positive views on corporate governance adoption/enforcement as opposed to limited action on the ground, namely amongst company boards, management and large shareholders. This contrast may in fact reflect the deep seated differences that exist between Anglo-Saxon Codes and the way business is actually done in other contexts. In addition, the use of close-ended questionnaire surveys provides a limited picture of the actions, perspectives, and processes adopted by companies and directors (in Asia, for example). The formulation of close-end questions may in fact have an element of bias whereby respondents may feel more inclined to respond positively. E.g. One of the questionnaire items in Solomon et al. (2003, p. 241) states *"I* *believe that Taiwan companies should adopt a more Anglo-Saxon mode of corporate governance"*. In addition, there are the usual sampling and response rate difficulties associated with the use of a questionnaire, notably when one seeks views from higher ranking officials of an organisation. For example, refer to Van der Stede et al.'s (2005) comments on the contribution of survey-based research in management accounting, but which are equally applicable to the corporate governance research context.

In contrast to the use of questionnaires, the next three reviewed studies relied on the secondary data included in annual reports. As mentioned before, the Code places an obligation – whether it is legal, quasi-legal or constructive – on companies to adopt corporate governance requirements and to disclose the extent to which these have been adopted or not. Traditionally, the annual report has been (and remains) the main medium to disseminate information relating to corporate governance practices, although company websites do often provide more up-to-date information. Most Codes (including in Mauritius) require publication of a corporate governance report within the annual report. The application of the Code and relevant disclosures has become a normal part of the company secretary's remit, whether he/she is internally located in the company or is an external provider (e.g. legal firm appointed as secretary). Although the content of the report is not technically part of the external auditor's scrutiny, directors have the legal responsibility to ensure the information is reasonably free from material errors. Hence, disclosures on corporate governance in the annual report possess an acceptable level of reliability, which can be used to indirectly assess the extent of Corporate Governance implementation.

For instance, Krambia-Kapardis and Psaros (2006) studied the annual report disclosures of 160 listed Companies in Cyprus. Only 46 (39%) annual reports lodged had a corporate governance report, with 40 (25%) achieving full or partial compliance. The analysis of the reports indicated that the majority of them did not split the Chief Executive/Chairman role and there were a low proportion of independent and non-executive directors on Board. Almost every complying company had an audit, nomination (appointment) and remuneration committee but the members of the nomination committees did not appear independent. In addition, the real status of independent and non-executive directors remained questionable, with no evidence of regular meetings of committees and suggestions that these were in fact *"tokenistic"* (Krambia-Kapardis and Psaros, 2006, p. 134). Again, the unique cultural, legal and economic characteristics was put forward as a reason for low compliance and that family-owned managers were not fully aware of corporate governance implications, thus needing to be *"educated".* However, the authors have not explicitly considered these claims by, for example, using interviews to support their rather 'anecdotal' conclusions.

In the case of China, Qu and Leung (2006) analysed the annual report disclosures of a sample of 120 listed companies. The authors report that 85% of the sample disclosed least one aspect or element corporate governance but there was evidence of very low adoption of audit and remuneration committees (less than 25%). 50% of the companies released general information on executive remuneration but there were no specific details provided and no disclosure of related party transactions. Qu and Leung's study (2006) was a notable one not only because it related to a fast developing, but yet strongly controlled, economy but also because the authors sought to deepen an understanding of the cultural changes that might have affected corporate governance disclosures. Indeed, a number studies mention the 'culture' variable without seeking to define it. Qu and Leung (2006) thus considered Hofstede's conceptualisations of culture but failed empirically to make a conclusive link between culture and corporate governance disclosures. Incidentally, the issue of remuneration disclosures is not wholly related to the Chinese or developing country contexts. For instance, Chizema (2008) documents the resistance of a significant proportion (about 25%) of German listed companies to the disclosure of individual executive compensation during a period of three years. Various reasons put forward by some companies include the fact that the competitors do not publish such information, that the information is an interference in private life and that the disclosure does not provide an additional benefit for the shareholders (Chizema 2008, p. 363). Based on the analysis of the firms' characteristics, the author finds that variables such as institutional ownership, dispersed ownership are positively associated to disclosure of individual executive pay whilst the size of the supervisory board and firm age are negatively associated to disclosure.

Recently as well, Tsamenyi et al. (2007) examined the disclosures of 22 listed companies in Ghana and used a standard score sheet to assess quantitatively the level of disclosure. The average disclosure score (48%) was deemed similar to other emerging markets (e.g. Hungary and Thailand). No detailed scores were made available to assess what were the elements and aspects of corporate governance that were specifically not being implemented. Also, companies with dispersed shareholdings have higher disclosure scores. However, the scoring system (Table 1, page 324, 2007) provides an equal weight to each and every item in the disclosure list such that for example, the absence of information on changes in board appointments is weighted to be as important as the absence of information relating to audit committees. Crucially however, and apart from the influence of larger shareholders limiting the extent of company disclosures, the Ghanaian evidence has shed some light on a different, and perhaps more 'African' phenomenon relating to the fact that a number of listed companies are owned by government or state-owned institutions. Tsamenyi et al. (2007, p. 322) thus contends that there may be an element of government or political interference in the way corporate governance practices are implemented (and disclosed). However, and perhaps owing to its sole reliance on one source of data (disclosures), the research has not specifically identified the issue of state-ownership. This may have a particular resonance for this research project for two reasons. Firstly, a number of listed (and non-listed) private companies in Mauritius may have institutional shareholders that are directly (or indirectly) government-owned or at the very least significantly influenced by an institutional shareholder e.g. state pension/insurance or state investment company. Secondly, the local Code was also made mandatory for all state-owned enterprises. As a result, this provides a research opportunity to consider in more detail the interactions of a Code with its organisational context that is heavily influenced by government-led practices/philosophy, ministerial discretion and party political interventions.

The need to explicitly acknowledge the context in which corporate governance codes are being implemented is at the centre of Wanyama et al.'s (2009) study of perceptions of corporate governance practices in Uganda. The authors argue that adequate national structures, embodied in legal/regulatory, economic, cultural, social and ethical, political, and accounting frameworks, are critical in enabling corporate governance practices (and codes) to operate effectively (Wanyama, 2009, p. 162). Using a combination of 16 semi-structured interviews and 158 questionnaire respondents, the study examines the perceptions of a wide range of interest parties on the ability of these structures/frameworks to support corporate governance developments. The findings indicate that whilst the above-mentioned structures are already in existence, many were not perceived to be working. For instance, the legal and regulatory structures need more resources to enable agencies to enforce the code and other rules. Also, corruption, other unethical/illegal practices and political interference remain too ingrained in society in general to allow for the development of 'good' corporate governance and the authors do suggest the possibility that the major political upheavals that have plagued Uganda since the early 1970s remain a root cause. Social and cultural factors (respect for the elder, primacy and protection of the family) are also identified. Wanyama et al (2009) thus conclude that the detailed rules (or codes) of corporate governance will fail to make any substantive difference in the absence of adequate structures and that the mere publication of a code of corporate governance will not improve corporate governance as such. Wanyama et al.'s (2009) provides some empirical evidence in support of the relevance of the five broad frameworks in 'encouraging' the implementation of corporate governance practices and this clearly informs our own understanding of corporate governance in Mauritius. However the study does not explicitly assess the extent to which the corporate governance code is being implemented in Uganda and relies on perceptual statements to implicitly suggest that it is the case. In our opinion, there would be a greater benefit in both assessing the apparent extent of implementation / impact of the corporate governance code and the perceptions associated to its implementation / impact.

The evidence detailed above on the varying levels of implementation worldwide suggests that companies and stakeholders perceive a different level of usefulness in the various requirements and structures set out by codes of corporate governance. This section now briefly considers, directly and indirectly, the perceptions of the wealth-maximising oriented users i.e. the parties that would benefit from a better structured and governed corporation namely, shareholders, lenders and managers - the traditional parties to the agency perspective. Indeed, agency theory predicts that the separation of owners and managers potentially leads to managers of firms taking actions which do not maximize shareholder value and as a result, agency theorists suggest that internal control systems - such as a code of corporate governance - will help to ensure that directors implement policies consistent with the maximisation of shareholders' wealth (Jensen and Meckling, 1976; Laing and Weir, 1999) These control systems would thus be beneficial in the form of higher share prices, better ownership (shareholder) protection, lower cost of capital and lower risk profiles (company and lender), and more efficient/effective management. It was also argued that a number of high-profile corporate collapses/scandals (e.g. Polly Peck, BCCI) occurring during the late 1980s could have been avoided if some of the corporate governance practices/mechanisms were in place.

An early study into the effectiveness of UK corporate governance practices was performed by PIRC (2004), a consulting company. It involved the measuring of best governance practices of companies that were part of the FTSE 350 (Financial Times Stock Exchange) over a five-year period. The governance profile of each company was examined according to three categories, namely board balance, board function and board policy. Because the UK Code (known as the Cadbury Code) was often seen as dealing with 'negative' aspects – emphasizing the prevention of failure rather than success creation, PIRC (2004) sought to provide evidence that governance had a role to play in better performance. This led to the (still in use) PIRC Governance Index attributed to companies on the basis of how they scored on the governance variables. Companies with the best index were then linked with those companies with best performance, based on its total shareholder return (a combination of stock market appreciation assuming reinvested dividends). It was found that companies having higher shareholder return were also those having the highest score, thus concluding that governance practices were positively correlated with performance.

Subsequently, Laing and Weir (1999) examined in more detail the linkage between company performance and some of the key code's requirements, namely the existence of dual leadership (CEO and Chairman posts separated), the number/proportion of non-executive directors on the boards, and the existence of CG committees (remuneration and audit). The data related to 115 randomly selected companies from the 1,000 largest companies in the UK. Laing and Weir (1999) selected two specific financial periods, relating to the publication of the Cadbury Report (in 1992) and three years after publication (1995). Firstly, the authors report on a significant (but not overwhelming) improvement in the percentage of companies having complied with the key requirements. However, when the corporate governance practices were related to a measure of performance (return on assets), there was little evidence of an improvement in performance for those companies having adopted the recommended corporate governance practices. The only exception related to a significant difference in performance as a result of the establishment of audit and remuneration committees. In a recent paper, Elsayed (2007) reviews the literature on the effect of dual leadership and finds conflicting evidence on its influence on company performance.

Consistent with the contingency arguments set out in Rhoades et al. (2001), Elsayed (2007) argued that a dual leadership may have different effects depending on the circumstances and investigated this assertion in the Egyptian context. Based on a sample of 92 listed companies, he did not find a significant relationship between dual leadership and performance. However, significant and positive relationships were found in specific industries and for companies whose financial performance was low. Hence, this result concurs with Laing and Weir's (1999 p.462-463) initial findings and arguments that the general adoption of corporate governance mechanisms may be not be appropriate for all firms. They are also sceptical as to the benefits of non-executive directors on boards:

> *"…Simply adding to the number of non-executives directors on boards may in fact create inertia problems as they struggle to understand the various parts of the business, request information and slow the decision-making process.." (Laing and Weir, 1999, p. 463)*

The absence of empirical links between corporate governance and company performance was first critically reviewed by Kakabadse et al. (2001) and the authors also conclude from the evidence that there is little systematic evidence of a substantive relationship between board composition and financial performance (see also Bauer et al., 2004). However, it has to be acknowledged that there has been an over-focus on the financial dimensions of performance (Kakabadse et al. 2001, p. 27). Similarly, Heracleous (2001) argues that the absence of positive results may be linked to the use of simplistic models of association between performance and corporate governance. He states the possibility that:

> *"The influences on organizational performance are too complex to find significant relationships in narrow studies of board attributes…..it is apparent that board attributes per se may be of little consequence; except in so far as they influence strategic choice and implementation"* (Heracleous 2001, p. 169)

Jackson (2001) surveyed the views of both directors and institutional investors on the developments in CG in the UK. Whilst the institutional shareholders were marginally positive about the benefits of corporate governance reforms, the company directors were generally more negative on corporate governance, particularly statements relating to whether corporate governance 'increased focus on shareholder value', 'enhanced the performance of the business', and 'better informed decision-making from disclosures' (Jackson 2001, p. 200). The positive aspects mentioned above however seemed to apply more to large and listed companies and significant differences in usefulness (more precisely, the lack thereof) were found for respondents from smaller companies (Jackson 2001, p. 202). The evidence on the effectiveness of audit committees (AC) was reviewed by Turley and Zaman (2004) and they concluded there is no automatic relationship between the adoption of AC structures or characteristics and the achievement of particular governance effects (e.g. audit function, quality of financial reporting etc).

Furthermore, a more recent survey of UK directors funded by the Association of Chartered Certified Accounts (ACCA) found that the corporate governance codes were increasingly becoming too bureaucratic and costly to implement (Moxey, 2004). A recent case study (Durden and Pech, 2006) indicated that the corporate governance codes were ineffective and merely increasing administrative burdens on companies, and thereby slowing decision-making and organizational efficiency. In addition, the recent high-profile instances of corporate collapses/or frauds – most of them directly involving company directors (e.g. Enron, Tyco, Worldcom, Parmalat, HIH, Air Mauritius) - have highlighted the common observation that these companies had adopted some or all of the corporate governance practices (e.g. Mardjono, 2005). However, these mechanisms failed to prevent or deter actions detrimental to the shareholders and investors. In response to these recent events, authors such as Marnet (2007), question altogether the 'rational actors' assumption under which it is believed that agency monitoring and control mechanisms (such as corporate governance practices) will operate successfully in practice.

On the other hand, the above findings can sometimes be at odds with the perceptions from external stakeholders, particularly in studies carried out in other contexts. For example, in an earlier study (Tsui et al., 1994) found that bankers in Australia did consider loan applications more favourably from companies that had an audit committee. This translated into a lower rate premium than those companies which reported on the absence of audit committees. However, this study was based on a small sample (20) and did not extend to other aspects of the Code. Ho and Wong (2001) surveyed chief financial officers (CFOs) from listed companies and financial analysts in Hong-Kong. Based on an overall response rate of 17%, the authors found that analysts attached a significant importance (higher than CFOs) to the existence of an audit committee, to the non-dominance of the board by family members, to the inclusion of independent non-executive directors and to a separation between chairman and CEO roles. More recently, Markarian et al. (2007, p. 298, Table 1) reported on the detailed expectations of seven of the most active institutional shareholders in terms of board/committee membership, independent directors and remuneration policies. The authors argue that the increasing equity shareholdings these global institutional investors possess on a worldwide basis have influenced the corporate governance changes in Europe and in Asia. Thus, this last section is suggestive of a more positive reaction from the 'wealth maximising stakeholders' (i.e. shareholders, lenders, market players) to corporate governance practices/disclosures but the empirical evidence overall - particularly when it is related to share prices and accounting measures - is more mixed and contradictory. Indeed, after nearly twenty years of research, the academic literature remains divided on the actual or observed benefits of the corporate governance, in terms of its impact on share prices, company performance and/or management effectiveness (Mallin, 2001; Daily et al., 2003; Leblanc, 2004; Mueller, 2006). The debate is in part reflected in Daily et al's (2003, p. 371) comments *that "…knowledge of what is known about the efficacy of corporate governance mechanisms is rivalled by what is not known"*.

In many ways, the above statement is symptomatic of the continued scepticism amongst some members of the academic and business community as to whether corporate governance codes and practices are (i) credible solutions for the many control issues and problems highlighted (and predicted) by agency theorists and (ii) 'enabling' mechanisms which can make board decision-making more efficient and effective, thereby increasing company performance. For instance, Burton (2000, p. 194) notices that the effects of corporate governance on performance are largely ignored or under-emphasised in the formal reports and documents setting the case for implementing corporate governance codes in the UK (e.g. the reports by Cadbury and Hampel). He expresses surprise as to the speed at which corporate governance codes were enacted without much research on how this would affect organizational behaviour and effectiveness. Incidentally, it may be worth noting that evidence on the 'beneficial' features of corporate governance is particularly limited in the Mauritius report, in terms of purely relying on data / surveys carried out by McKinsey (cited in the report on corporate governance 2004, p. 10-11). In parallel, there are calls to 'expand' the type of data and methods (questionnaire-based, annual report disclosures, share prices/accounting numbers, regression/correlation analysis) traditionally used in corporate governance research. For example, the combination of interviews, focus groups, observations and qualitative analysis appears to constitute a more relevant approach at understanding how directors behave in the board structures and committees (e.g. refer to Huse, 2005; Roberts et al., 2005; Pye, 2002; Samra-Fredericks, 2000a; 2000b). The relevance of qualitative methods was also put forward by Turley and Zaman (2004) in the context of audit committee research. They state:

> *"Much of the existing body of audit committee (AC) research has been based on large samples, utilising publicly available and/or questionnaire data which rarely reflect the practical reality of AC's operation and their effects…..qualitative research methods incorporating case studies and interviews provide significant potential for researching ACs' activities in the organizational and institutional context in which they operate.."* (Turley and Zaman 2004, p. 325).

Whilst the extant literature remains undecided on the exact consequences of corporate governance practices on companies and their wealth-maximising oriented stakeholders, the previous section highlights the increasing awareness amongst researchers that credible and systematic answers on the impact of corporate governance would not be necessarily obtained from quantitative-based and cross-sectional research. In addition, there is an increasing voice in the literature about the primacy of the 'organizational and institutional context' in corporate governance research, rather than believing that corporate governance codes can be universally applied. For instance, Huse (2005, p. 44) contended that a contingency perspective on corporate governance would be more appropriate in that there is no one best way of designing board structures and other governance practices. A number of 'traditional' contextual factors have been already put forward, such as national, geographic, cultural, industry/industrial environment, firm size, firm life cycle, and CEO tenure/characteristics. This is partly supported by empirical evidence e.g. Aguilera and Jackson (2003). A country illustration of this is from Buchanan (2007), where identified and reported on the principle of 'internalism' in Japanese corporate governance practice, whereby companies prefer to appoint directors within their staff rather than seek independent executives. In Africa however, there is still a continuing discussion on whether a 'Western-inspired' Code would be more helpful. This is reflected in recent discursive papers on corporate governance in Africa (e.g. Okike, 2007; Vaughn and Ryan, 2006; Rossouw, 2005; Yakasai, 2001). In the case of Mauritius, the focus of the authorities have been on encouraging companies to adopt a Code to attract more foreign direct investment (FDI) but there has been little work to actually understand how the traditional 'wealth maximizing' users within such contexts perceive and/or apply the information in their decision models. This could again assist companies and regulators in assessing the adequateness of the corporate governance requirements, both of in terms of policies and disclosures. In consideration of the extant literature and mixed evidence, gathering data – by concentrating on qualitative methods - from these wealth-maximizing users (shareholders, lenders and directors) appears to be critical.

Finally, whilst authors such as Yakasai (2001, p. 239) and Wanyama et al. (2009) question altogether the relevance of the current model in some of the Third World countries due to the unstructured and informal nature of their economies, others (e.g. Rossouw, 2005; Vaughn and Ryan, 2006) are more hopeful and optimistic in that they see the Code operating beyond its traditional wealth-maximising realm in Africa, principally as a way to improve business ethics, employee welfare, social/environmental accountability and relationships with local communities. In fact, Rossouw (2005, 101) singles out a small number of African countries (including Mauritius) who have adopted stakeholder-oriented and ethical elements in their corporate governance codes and who are promoting the use of *'triple bottom-line reporting'*. However, it remains to be seen how this has been (if at all) translated in practice.

2.2 Corporate Social Responsibility (CSR) and Corporate Governance

Firstly, it has to be acknowledged that issues/discussions relating to corporate social responsibility (CSR), social and environmental reporting/disclosure, and business ethics are already separate academic areas that have spanned and developed independently in the management, business, accounting and sociology literatures, and so for the best part of the last four decades. For example, social and environmental reporting is already an established area of the accounting literature (e.g. refer to Deakin et al., 2007; Deegan, 2002; Cormier and Gordon, 2001; Gray et al., 1995). In addition, there are already disclosure requirements being developed and encouraged, for instance via the global reporting initiative (GRI) e.g. refer to GRI (2002, 2006). This review however focuses more narrowly on the incremental contributions and implications of corporate governance on the social and ethical aspects. For the sake of this discussion, this report uses the term 'CSR' as a generic one, encompassing the various environmental, social, and ethical elements, that are acknowledged in many codes worldwide.

It may be argued that the initial links made between corporate governance and CSR are rooted in the origin, and assumptions of stakeholder theory - which seemingly rejects the primacy of the shareholder. For instance, Slinger (1999, p. 136) offers the following definitions:

> *"A company's stakeholders are those whom it has non-contractual effects for which, in principle, society would prefer that contracts were drawn".*

> "*A stakeholder approach in business means regarding stakeholders as people with their own values and aims, with whom the company tries to interact for mutual benefit."*

From a corporate profit-making perspective, the stakeholder theory was promptly embraced as a guiding principle in how businesses 'deal' with its 'social' partners and environment, but often with the ultimate motive of improving efficiency, becoming more competitive and achieving higher profitability. This is referred to as the instrumental stakeholder theory (Letza et al. 2004, p. 251), which is viewed as one of the most popular perspective amongst stakeholder theorists. Indeed, one of its supporters (Campbell, 1997) explicitly acknowledges that *"I support stakeholder theory not from some left wing reason of equity, but because I believe it to be fundamental to understanding how to make money in business" (*Campbell1997, p. 446). As an illustration, one may argue that the increased disclosure and targets relating to human resources may be more to do with the communication of intellectual capital and labour efficiency rather than being a pure CSR-related disclosure. For example, Cuganesan (2006) studied the disclosures of a sample of Australian banks and found diverging perspectives being adopted in the way the disclosures and information was communicated. There are also studies that examine contexts in which employees are traditionally represented on company boards or on supervisory boards (e.g. Japan, Germany) as a result of strong unionization (e.g. Lewis et al., 2004; Jackson, 2005; Buchanan, 2007). However, the underlying perspective in considering this more 'active' participation of employees in company affairs and governance appears to be again related to the instrumental stakeholder theory. Finally, there is also the view that human resource disclosures are largely symbolical with the primary view of projecting an image of a 'a good employer' whilst refraining from providing detailed and comparable data and information on more 'controversial' issues – such as redundancy programmes and outsourcing policies. A recent illustration of such findings is from Vuontisjarvi (2006), who investigated the human resource disclosures of 160 leading companies in Finland.

On the other hand, the normative stakeholder theory emphasises the intrinsic value of stake-holding and has its origins in the social entity conception of the company. As such, the justification of 'intrinsic value' as good or morally right and ideal does not necessarily depend on factual reasons, but rather on an emotional faith and social belief (Letza et al., 2004, p. 250). As a result, corporations are granted by the state not only as an economic entity for a commercial purpose, but more importantly as a social entity for general community needs. As partly revealed by Cuganesan's (2006) study, companies' actual behaviours and disclosures seem to indicate that they in fact 'hover' between these perspectives, whilst academic researchers view the normative and instrumental models to be mutually exclusive (Letza and Sun, 2002, p. 53). In terms of available evidence, there seems to be no recently published study that examines in more detail how these disclosures are actually the reflection of the normative stakeholder perspective - whether this is perceived from the company's or stakeholders' point of view.

In addition, a crucial variable in the development of an intrinsic relationship between stakeholder-company is trust. Indeed, Swift (2001) argues that trust is important in facilitating interdependent relationships in which stakeholders are given a voice to influence corporate social behaviour for the welfare of society. In many cases however (including Mauritius), companies and governments select a form of relationship and engagement with local stakeholders (employees, consumers, etc) which is sometimes seen as being scripted, legalistic and opaque thereby potentially causing distrust and a perceived lack of accountability. As a result, the type of CSR disclosures/statements in annual reports become the consequence of this lack of trust and accountability rather than being the reflection of good stakeholder relationships. Already, the London Stock Exchange (LSE, Anonymous, 2006) argues that CSR reporting is an excessive burden and that it should stay clear of requiring companies to report on corporate social responsibility. The LSE stated that a lack of a clear definition of corporate social responsibility combined with the fact that investors can sell their shares if they want to means CSR reporting is not strictly 'investor-useful' and should remain a voluntary exercise.

Nonetheless, Campbell (2000) comments that it has been generally difficult to assess the reasons for CSR disclosures. He refers to two main theoretical explanations which are both derived from the stakeholder approach. Firstly, the political economy of accounting asserts that there is an inherent information asymmetry between agents (i.e. company managers and owners) and its non-economic constituents and as a result, CSR disclosures represent the agents' perceptions of the local reality surrounding the company and how best they ought to provide accountability and thus address this asymmetry of information between the organization and its constituents. Secondly, legitimacy theory complements the previous perspective in that there is an express or implied social contract which enables the organization to exist and operate in society i.e. its presence is legitimized by society as long as it fulfils societal expectations (e.g. it pays taxes, treats employees well, respects health and safety laws, sponsors community projects etc). More interestingly however, there is an expectation that organizations will design (and revised) their disclosure behaviour in such a way so as to satisfy their most important stakeholders. Legitimacy theory is a well established theoretical framework that is capable of being empirically tested, and has been found to be of relevance in explaining the extent of CSR disclosures (e.g. refer to Guthrie and Parker, 1990; Gray et al., 1995).

One other important dimension that often emerges in the context of corporate governance in Africa relates to the potential benefits of accountability and ethics. Indeed, within the African context, corporate governance adoption is associated to more ethical, more accountable and less corrupt behaviour (e.g. Rossouw, 2005; Vaughn and Ryan, 2006; Wanyama et al., 2009), whilst also developing more stakeholder engagement. According to Roberts (2001), corporate governance mechanisms can also enable the development of both an 'individualizing' as well a 'socialising' form of accountability. Whilst the first form of accountability addresses oversight/control purposes consistent with agency assumptions that managers are self-interested, socializing accountability is a broader and informal form of accountability, privileging communication, dialogue, interdependence, trust and collaboration. This form of accountability is hence more appropriate in describing the potential relationships between the social 'stakeholders' and the company. There is also an aspiration that corporate governance adoption may help develop a more ethical and accountable behaviour within the local business community which would then 'cascade' in the other spheres of society. In particular, there is yet little evidence that the code has had a positive effect on corporate actions, policies and disclosures in the CSR domain. Anecdotal evidence seems to suggest that listed companies in Mauritius at least provide CSR-based information in the annual reports (well before the Code implemented) but these appear to be merely slogans and general statements rather than actionable policies. There is also no evidence of how this information is perceived by the relevant users or interested parties.

However, a recent study by Jamali et al. (2008) sheds new conceptual and empirical light on the links between CSR and corporate governance. The authors challenge the strict duality inherent in the stakeholder models and argue that the literature has fallen short in capturing the nature and essence of the relationship between CSR and corporate governance (Jamali 2008, p. 444). They find an overlap in terms of how the stakeholder notion is understood in both the CSR and the corporate governance literature. In addition, both concepts give prominence to the notions of accountability, transparency and honesty. Relying on the conceptualisations of Hancock (2005), Jamali et al. (2008) present three different relational models of the links between CSR and corporate governance, namely that

(i) *Corporate governance is a pillar of CSR* i.e. the other key pillars of CSR being human capital, stakeholder capital and environment. As a result, from a broad societal perspective, corporate governance is 'merely' seen as one CSR's building blocks. As mentioned by Elkington (2006), CSR is part of the board's responsibilities and in turn, good corporate governance is seen as a foundational requirement of sustainable CSR (Jamali et al., 2008, p. 447).

(ii) *CSR as a dimension of corporate governance* i.e. CSR is viewed as an additional dimension of corporate governance, thus widening the scope of corporate governance and the responsibilities of the board. According to Ho (2005), there is an inherent and unequivocal responsibility to the society at large and internally to employees and these should be embedded in corporate governance formulations and structures.

(iii) *CG and CSR as part of a continuum* i.e. this conceptualisation is put forward by Bhimani and Soonawalla (2005) who portray corporate governance and CSR as complementary constituents of the same corporate accountability continuum. The authors argue that poor board governance and poor disclosure/transparency in financial statements are one side of the corporate coin and the other side being reflected in poor CSR practices (cited in Jamali et al., 2008, p. 448).

Relying on these different models, Jamali et al. (2008) carry out a field study in Lebanon by interviewing directors of eight large companies (both locally and foreign owned) on their CSR and corporate governance practices. Interestingly, some of the interviews revealed situations where company boards were too operationally- rather than strategically- focused and other cases where the boards were passive rubber stamps or too focused on imposing the wishes of the majority shareholders – this being a general observation amongst family-owned or directed companies. In relation to the CSR - corporate governance links, the authors first report that most companies are involved in 'philanthropic' CSR which involves genuine optional caring, irrespective of whether the firm will reap financial benefits or not. This is contrasted to strategic CSR which combines the achievement of strategic business goals whilst also promoting societal welfare. From most of the interviews, Jamali et al. (2008) contend that the directors were not really concerned with achieving a triple bottom line and that the level of CSR 'sophistication' was quite limited. However, the authors also find that the interviewees appear more attuned to the fact that good corporate governance must be achieved to ensure a genuine and sustainable CSR and at the same time, CSR and corporate governance must be tackled hand in hand i.e. at one extreme, formal accountability systems are being improved as a result of the code of corporate governance whilst at the same time, voluntary social performance is being given more importance and due regard. As a result, Jamali et al. (2008) develop a combined model of the links between CSR and corporate governance and convincingly make the case for a two-way relationship between these two seemingly disconnected elements. Hence, the authors conclude that notions such as the triple bottom line and CSR concerns should not be merely seen as an 'additional' requirement of corporate governance codes but rather that CSR is an integral part of corporate governance.

In conclusion, this part of the literature review has indicated a dearth of empirical studies on how corporate governance has actually or actively led to positive (or negative) consequences for the company and/or for the stakeholders, insofar as corporate social responsibility is concerned but this was until the study by Jamali et al. (2008). The above review has also highlighted many theoretical conceptualisations (instrumental vs. normative stakeholder theories, individualizing vs. socializing accountability, philanthropic vs. strategic CSR, CSR and corporate governance as continuum) that would form the basis of the analysis methods for this part of the research project. We now firstly present briefly the local regulatory framework.

2.3 Corporate Governance: Previous Research and Evidence in Mauritius

As part of a modernisation initiative set out by the government, a Corporate Governance Assessment report was completed as part of the joint World Bank-IMF program of Reports on the Observance of Standards and Codes (ROSC) in October 2002. It provided a benchmark against the OECD principles of the state of corporate governance in Mauritius. Several notable points were raised in this report, namely:

Family-owned companies in Mauritius: The report stated that in Mauritius, the ownership structure of companies is dominated by a small group of family-owned companies which listed their stock in response to tax and other incentives provided by the Mauritian government. Many of these companies are controlled by a family holding company or a partnership acting as the holding company. These holding companies often control a range of diverse enterprises and typically own vast landholdings that have failed to produce satisfactory earnings. Unlocking shareholder value in such firms is a key issue for the Mauritian economy. In addition, the holding companies typically own a variety of different enterprises for instance, textiles, tourism and sugar plants that have little if any cross-synergies and might therefore be more viable as separate operations. For many of these family-dominated firms, unlocking shareholder value is critical, particularly because the values of many of these companies' assets are high (due to large landholdings), while actual earnings paid to the Government are low.

Benchmarking to the main OECD rules - The report showed that although the legal and regulatory framework is fully compliant with the OECD Principle, practices and enforcement diverge. For instance, the publishing of semi-annual and annual statements in two daily newspapers within three months of the fiscal year's end or a given semi-annual period is not consistently implemented. The same applies for the sending of annual reports to all shareholders within six months after the fiscal year, and at least 14 days before the Annual General Meeting (AGM). Although the rules and procedures are there, companies in Mauritius do not comply fully to it. For instance it is stated in the Companies Act that a director's duties are owed to the company, rather than to shareholders but in reality it is the contrary that was observed. In January 2001, the Joint Economic Council published a code of conduct for Mauritian companies, stating that they must comply with occupational health and safety laws, achieve equal opportunity and treatment for all employees and safeguard employees' dignity, individuality, and record confidentiality but here again compliance was perceived to be very low.

Disclosure practices: The report observed that the level of disclosure in Mauritius has increased with the coming into force of the Companies Act 2001, which requires adherence to International Accounting Standards. According to the OECD rule, every company's directors must ensure that financial statements be completed within six months of the end of the financial year. Generally, the financial statements must present fairly the financial position, performance and for companies above a certain size, the company's cash flow statement. The financial statements must also include a balance sheet and a profit and loss statement, along with notes or documents giving information relating to the balance sheet and a statement of accounting policies. Except for smaller companies, financial statements must also include a statement of changes in equity between the last two balance sheet dates. In addition, when a company has one or more subsidiaries, it must present its financial statements on a consolidated basis. The financial statements must be submitted to the Registrar for registration within 28 days of being certified by the company's directors. However, such disclosure was not very much observed in the 2002 (ROSC).

Directors: As per the OECD rules, directors have to be exercise their powers in good faith and in the company's best interests, as well as with a certain degree of care, diligence and skill of a reasonably prudent person. However, in Mauritius such qualities are partially being observed by the World Bank and the IMF. Hence it was recommended to establish a Mauritius Institute of Directors (MIoD), as part of a regional consortium that would play a key role in training directors. In addition, consideration should be given to capping the number of directorships that a single individual may hold which would help to reduce potential conflicts of interest while ensuring that directors spend due care and time on company affairs.

Corporate governance code: Lastly, the report recommended the establishment of a voluntary corporate governance code which has to be dealt as a priority. The code would provide details on board member roles, responsibilities, structure, board composition and remuneration of board members. The composition of board members should take into consideration a minimum number of independent directors, mandatory cumulative voting, and a mandatory audit and nomination committee comprised entirely of independent directors. It was hoped that the Mauritian Government would also abide by these rules when nominating directors to companies in which they have an ownership interest, that is, State owned companies (SOEs). This last point was the starting point led to the publication of the Code of Corporate Governance.

In terms of more quantitative evidence relating to Mauritius, two reports were made available. The first one (KPMG, 2005) has surveyed the Top 100 companies to gauge the level of adherence to the recent adoption of the national code of corporate governance. Based on responses from 58 organisations (34 private sector and 24 public sector), about 83% of the respondents agreed that corporate governance was a very important aspect in their respective company. However, their questions relating to specific aspects such as the composition of boards, directors eligibility and selection, and the use of audit committees indicate a very mixed level of implementation. The study of KPMG (2005) also showed that in the public sector most boards today have an average number of 11 directors while for private sector companies, this number was scaled down to 8. In terms of board members' independence, the public sector scores higher with 78% of respondents admitting that a majority of board members are neither main shareholders or executive directors compared to only 30% for the private sector. It also appears that directors' independence is harder to achieve in private sector as 70% of companies admitted that the majority of board directors are present in a number of boards are not independent. The study also attempts to determine if the same person holds the post of CEO and Chairman. It was interesting to note that all the public sector companies considered answered 'no' to that question and only 18% of private sector companies admitted that this is the case. The study also showed that the public sector responded poorly (26%) to the presence of an officer responsible for corporate governance while the private sector account for a more positive (although still low) response of 58%. With regards to the setting up of an audit committee composed of independent non-executive directors, the results of the KPMG study point out that 41% of public sector entities and 36% of private sector firms do not have independent non-executive directors as part of their audit committees. Furthermore, 79% of private sector and 64% of public sector companies acknowledged that the audit committee members have significant, recent and relevant financial experience. However, this study was purely based on questionnaire responses and was not corroborated to actual practice or annual report disclosures.

In contrast, Boolaky (2006) carried out a content analysis of the annual reports for a sample of Mauritian banks and insurance companies (6 companies each) in the first year of corporate governance implementation. These institutions are subject to additional regulatory requirements from the relevant authorities (Bank of Mauritius (BOM) and Financial Services Commission (FSC)). The author sought to compare the differences in compliance between the two types of companies and finds a fairly high level of compliance (above 70%) for aspects such as board composition, audit committee, and disclosures of policies/practices. Whilst Boolaky (2006) and KPMG (2005) make an attempt at exploring implementation from different sources of data, there appears to be an insufficient detail on the extent of corporate governance implementation and there is little in-depth analysis of the overall findings. This therefore calls for more detailed and more comprehensive approach to the data collection process. The study revealed that the major difficulty in Mauritius is the identification of a Non Executive Director who is wholly independent as per the definition. This can be explained by the small size of the island and according to (Boolaky, 2006), the presence of 'communal proximity' makes it difficult to obtain an independent director. A possible solution will be to have recourse to the services of Independent Non Executive Directors (INEDs) from foreign countries but this possibility is constrained by its cost implication. It was also observed that there were no 100% compliance with regards to the disclosure of policies and practices (business goals and strategies) in the banking sector. However, concerning the non-financial sector (including insurance companies), it was found that there is 95% compliance with regards to the board composition and number of Non Executive Directors. Disclosure of policies and practices are less than 75% compliant on average and many of these companies do not disclose the business goals and strategy. On the whole, Boolaky (2006) found that the banking sector is more compliant to the National Code of Corporate Governance than the insurance sector. There is also a significant difference between the level of compliance in the banking sector and insurance with regards disclosure of policies and procedures. Overall compliance to the Code in the financial services sector is beyond 75%. Considering the level of scrutiny and regulation operating in this sector, that is, the FSC and the Bank of Mauritius, the level of compliance is perhaps not that surprising. However, the evidence does not extend to other types of companies in Mauritius.

For instance, there is little evidence on SOE performance except by considering extracts of the National Audit Office's reports. For instance, the Code highlights an important section on the clear division of responsibilities between the chairman and the CEO. The 2005-2006 Report of the Director of Audit however stated that the poor performance in many of the government enterprises as the result of a conflicting relationship between the CEO and chairperson.

In relation to the corporate social responsibility requirement, the Code states that companies need to have a code of ethics and are expected to exercise a certain degree of corporate citizenship vis-à-vis all its stakeholders and not only its shareholders. Stakeholders are understood in this context to be society, the environment, the employees, the consumers and local community. According to one study carried out by the Mauritius Employers Federation (MEF, 2007) on the level of corporate citizenship of Mauritian enterprises, the following information was obtained:

- 79% percent of surveyed businesses are involved in internal social initiatives for the benefits of their own employees like training, medical schemes and health and safety standards which are perceived to be the most common types of CSR initiatives.
- This is compared to 69% percent of enterprises, which are engaged in external social activities for the benefits of the wider community like donations and sponsorships. Some of the data collected by the MEF for internal CSR initiatives adopted by companies are presented below:
- More than 75 percent of respondents in the survey of the MEF do not have a well-defined CSR policy. The social involvement for the majority of enterprises is mainly characterised by ad-hoc activities, unrelated to business operations and strategy. Less than 28 percent of surveyed enterprises have regular budget allocations for CSR activities. Insufficient information about how to get involved in CSR initiatives and the lack of financial and human resources are the main barriers to participate in CSR activities.

98 percent of the surveyed enterprises from the MEF study would welcome more guidance and encouragement as well as greater collaboration between the private sector, NGOs and Government to promote CSR activities.

Appropriate recommendations to increase the level of CSR practices in Mauritian companies is for government to:

- Raise awareness on CSR through education and sensitisation of employers on CSR issues;
- Identifying major CSR initiatives and inviting enterprises to participate;
- Setting up of well structured social and environmental programmes that enterprises can contribute to;
- Facilitating public/private partnerships/initiatives;
- Improving the business environment so that enterprises can be more competitive and profitable, thereby enabling them to participate more actively in CSR activities.

Insofar as the CSR performance is concerned for SOEs, the objectives of the state owned companies are obviously divergent from the private sector companies but most of them remain profit-oriented. SOEs in Mauritius play a strategic role in the provision of goods and services to the betterment of living conditions. Compared to private companies, SOEs have a distinct set of corporate governance challenges given that they have an obligation towards the nation in addition to running the enterprise profitably. In view of addressing the issue of ethics and social responsibility in SOEs, the government has come up with many proposals in the 2007/2008 budget to improve efficiency in the use of public expenditures. However, there is virtually no published evidence on the CSR practices and disclosures by SOEs.

In summary, evidence on corporate governance in Mauritius remains scant except for a number of anecdotal and newspaper-based information (i.e. Best Annual Report Awards by Price Waterhouse Coopers (PWC) and other interviews by leading local figures in corporate governance) and the two mentioned published reports by KPMG (2005) and Boolaky (2006). There is little published and verifiable data on the current state of corporate governance since the enactment of the code as from 2004/5. It also needs to be mentioned that the outcome/report of the African Peer Review Mechanism (APRM) for Mauritius - which includes a section on corporate governance - has to yet to become public. There are existing regulatory agencies and authorities which have a direct or indirect interest in corporate governance implementation (e.g. Bank of Mauritius, Financial Services Commission, Stock Exchange authorities, Financial Reporting Council, Registrar of Companies, and National Audit Office) but there is no publicly available information regarding whether there is a regular monitoring and enforcement of the Code. The likely influence of these institutions will be elaborated in Chapter 3. At this stage however, we now provide our reflections from the analysis of the published literature.

A UNDP report (2007) defined Mauritius as a “Capable State” with the appropriate capabilities torespond effectively, efficiently and timely to the domestic needs and demands of its citizens as well as to meet the global challenges of the 21st century. This would suggest that at the national level, Mauritius appears to disseminate good governance practices and is striving to implement good governance. A list of tasks to be accomplished by the state on a long run basis is towards meeting the Millennium goals has been drawn: eradicating poverty, providing universal primary education, promoting gender equality and empowering women, reducing child mortality, improving maternal health, combating HIV/AIDS, ensuring environment sustainability and developing a global partnership for development. Furthermore, the introduction of the Prevention of Corruption Act in 2000 to combat corruption also lead to the setting up of the Independent Commission against Corruption (ICAC) and more recently, the Equal Opportunities Bill aims at stamping out discrimination done on the basis of political opinions, creed, sex or colour. However, a study undertaken by StraConsult (2002) highlighted certain weaknesses in the system of good governance in Mauritius. For instance, the gender representation mechanism in Mauritius is very low and the political system does not give fair representation to all parties.

2.4 Implications and Themes for this Study

In Chapter 1, we already highlighted the multi-faceted nature of corporate governance and the implications this would have for companies implementing a code of corporate governance. This is partly due to the involvement of different academic and professional domains (e.g. accounting, finance, management, economics, business ethics) in the study of corporate governance. From our reading of the literature, we argue that there are five themes that would be of particular interest in guiding our research on the implementation and impact of corporate governance in Mauritius.

2.4.1 Corporate governance implementation as an ‘organisational change’ process:

We adopt a broad understanding of corporate governance and the requirements of the Mauritius code in that we first recognise that change in structure and mindset is being advocated, particularly within the decision-making processes of the organization’ leaders. Structures such as the audit committee or the remuneration committee are being required as a way to improve decision-making and board involvement but also as way to develop accountability, responsibility, fairness and transparency process in the organisation. Also, the separation between CEO/Chairperson and the requirement for independent non-executive directors (INED) are also seen as mechanisms to improve debate, oversight and strategic development in the interests of the company and stakeholders. We therefore consider the extent of implementation as a measure of this organizational change. Unlike many of the published studies, our interest lies in the corporate governance change process in a variety of organisational contexts, rather than being typically limited to the listed companies.

2.4.2 Corporate governance implementation as an ‘evolving’ process:

In his foreword to the Code, the NCCG Chair (Mr Taylor) acknowledged that the Code is not an end in itself but rather an evolving process. In addition, the ‘comply or explain’ approach inherently provides for the possibility that companies do not need to comply with all the requirements of the Code due to their particular circumstances or context. For the research team, the above implies the following (i) an understanding of possible circumstances (e.g. industry/sector, size, profitability, shareholding structure) which may (partly or wholly) explain a certain level of implementation by a company, and (ii) that corporate governance implementation must be investigated over a longer period of time (i.e. a *longitudinal* approach) to appreciate this 'evolving' process, thereby identifying patterns in the type / nature of implementation. At the moment, the published literature studies implementation primarily at one point in time e.g. recent annual reports and/or questionnaire survey or interview. This may provide a 'snapshot' of corporate governance implementation but for obvious reasons, such approach would be unable to assess progress and evolution (or the lack thereof). For example, a recent study by Markarian et al. (2007) attempted to examine convergence in the disclosure and governance practices of large firms by comparing their annual report data in two time periods (1995 and 2002). By using the first point of reference, they were able to conclude that there was evidence of convergence in disclosure practices amongst the firms.

2.4.3 Corporate governance implementation as a 'disclosure' process:

Disclosure and transparency are two central aspects of corporate governance. Whilst companies may be engaging (internally) with the requirements of the Code and revising their decision-making processes / structures, there is also an expectation that the relevant information is made publicly available to ensure that market participants and other stakeholders can adequately impound information in their own decision models e.g. share valuation, risk estimation, credit worthiness etc. Disclosure also communicates information on stewardship and promotes accountability. From the literature, we can observe that the main 'vehicle' via which corporate governance practices are communicated to the outside world is the annual report - although it is acknowledged that other methods of communication exist such company websites, direct meetings / correspondence with analysts and with shareholders/lenders/other stakeholders. The published evidence and research is overwhelmingly dependent on this secondary source of data since most codes of corporate governance (including the one in Mauritius) do require a separate section (corporate governance report) with a fairly definite list of information required within this section (e.g., refer to Section 8 of the Code). However, the research team would like to draw attention to an important - but often implicit - distinction between **implementation** of corporate governance structures/practices and the **disclosure** of information regarding certain corporate governance-related policies. For example, the corporate governance code recommends that the board *implement* a remuneration philosophy/method for directors and that the company *disclose* remuneration earned by directors. The annual report may give information as to the implementation of the former but may not disclose detail remuneration details regarding the latter. Hence, some implementation has occurred (as evidenced by its disclosure) but disclosure of another required piece of information has not been carried out. At the same time therefore, there is needs to be a consistent approach for the measurement of implementation and disclosure separately.

2.4.4 Corporate governance implementation as a 'people-centred' process:

First and foremost, corporate governance codes impact on the directors i.e. the people who are at the apex of the organisation. The literature clearly expects that the values and principles set out in the Code will eventually filter through the whole organisation but it is important to note that people are at the centre of all the new structures and practices set out by the Code. For instance, the board composition requirement relates to an appropriate balance of individuals on the board of directors, namely executive, non-executive and independent non-executive. The literature expects that a more fruitful 'group dynamic' would result, thereby improving outcome and organisational performance. However, this is all dependent on the willingness, awareness, understanding, perceptions and appreciation of what is corporate governance by the board members and senior management. The extent to which this new group dynamic would function adequately cannot be simply understood from secondary sources, such as annual reports. Arguably, the use of annual report disclosures brings 'hard' (but indirect) evidence on the implementation of corporate governance practices in companies, as opposed to questionnaire surveys. At the same time however, annual report disclosures merely display the outcomes and there would be an interest in understanding the perceptions, challenges and debates that have eventually resulted in the final disclosure. This is one of the reasons the use of semi-structured interviews is warranted to flesh out these additional perspectives. Our interest is primarily focused on company directors but the implication would equally apply to other company stakeholders. Furthermore, the people-centred nature of corporate governance makes it a harder task to assess quantitatively its impact organisational outcomes (e.g. share prices, profits, financial ratios etc). Much of the traditional agency theory-inspired literature has attempted to model a direct relationship between corporate governance structures or practices and a financial-led outcome with varied levels of success. After reviewing the relevant literature, the research team is less inclined to rely on exclusively financial measures of impact and would favour a more mixed approach to an evaluation of the 'impact' of the corporate governance code.

2.4.5 Corporate governance implementation and its contribution to the CSR process:

Although CSR and corporate governance substantially remain two different areas of study in the mainstream literature, there is a growing realisation of the linkages between the two concepts, as evidenced by Jamali et al.'s (2008) conceptual and empirical findings. The Mauritian Code has given notable weight to the CSR agenda via the over-arching concept of integrated sustainability reporting (ISR, Section 7). Beyond the 'usual' elements of ethics, environment, safety and community support, the Code acknowledges the sometimes difficult and controversial 'social' issues in Mauritius regarding ethnic and/or religious affiliations and unequal wealth distributions. This therefore provides a rich context in which the contribution of corporate governance to the CSR agenda could be further explored and linked to the emerging literature on CSR and corporate governance. Again, the evolving and perceptual nature of both CSR and corporate governance requires us to seek insights from more than one data source i.e. using interviews.

2.5 Reflections and justifications of Research Methods

The literature review has shown the use of a wide range of data, methods and analysis techniques in corporate governance studies, although most studies would rely on one data source (typically annual report) and/or analysis method (typically quantitative-ld). For instance, Appendix 2.1 reports on the use of annual report disclosures to ascertain and proxy for the implementation of corporate governance codes (e.g. Tsamenyi et al., 2007; Qu and Leung, 2006; Krambia-Kapardis and Psaros, 2006). However, the 'measurement' of implementation differs in that some studies report a % count (e.g. 50% of - or 20 out of 40 - companies have an audit committee) whilst others use a binary score (0 for non-implementation, 1 for implementation) for every item required by the corporate governance code. The former method appears simplistic but has the benefit of being understandable and comparable, although further numerical analysis from such counts is limited. The latter method enables the 'totting up' of a numerical score (i.e. as a score of 60 out 100) which can then be compared to other studies, provided that a similar scoring sheet is used. In addition, the 'translation' of such implementation into a numerical score facilitates further statistical analysis (descriptive, correlative, and causal).

Although we were eventually drawn to the use of both counts and scoring, there was a particular issue with the use of un-weighted scores for statistical analysis. For instance, Tsamenyi et al. (2007) uses an un-weighted scoring system whereby one 'minor' corporate governance practice has the same importance as a more crucial one. This may give an impression of a 'good' score for a particular company but on closer inspection, the company may have implemented fairly peripheral requirements of the code as opposed to the more important ones. In addition, the use of a binary score (0 and 1) may be inadequate in the context of corporate governance implementation since there is an expectation that companies will implement in part certain practices but not fully. These are two key issues respectively raised by Strenger (2004) and Tsipouri and Xanthakis (2004). In particular, Strenger (2004, p. 15) advocates the use of the *Deminor* rating approach that rejects the use of binary scores and un-weighted scores. The authors acknowledge the subjective nature of the scoring process as opposed to the perceived objectivity of a binary and un-weighted score. However, we are drawn to the argument that the measurement of corporate governance implementation is not as simplistic as for example compared to other elements in an annual report (e.g. use of an accounting practice or not; disclosure of information or not) and to the fact that many countries have devised their own Deminor-based rating system (Strenger, 2004, p. 14). In a similar vein, we believe that a rating system could be designed and eventually used on a consistent basis to monitor corporate governance implementation and disclosure in Mauritius.

Other studies (e.g. Tsipouri and Xanthakis, 2004; Solomon et al., 2003) rely on questionnaire surveys to assess perceptions and seek information directly from target companies. The use of a primary data collection method is obviously of more interest since researchers can design questions to exactly ask what they require as opposed to relying on secondary data with incomplete and sometimes ambiguous data being provided in annual reports. However, during the course of this research, the team could not find any compelling reason to engage in or consider the questionnaire option. As outlined in the original proposal, the researchers have had prior and negative experience with the use of questionnaires, particularly with respect to poor response rates, non-response bias (i.e. only one type of respondents would return the questionnaires thus introducing an element of bias in the findings), language / terminology issues (would respondents be confused by some terminologies?) and the distinct possibility that the target respondents (senior management / directors) would be inclined to delegate the questionnaire completion to other members of staff. Many studies rely on close-ended questionnaires and therefore sometimes make pre-conceived judgements of what needs to be asked and what type of answers one can expect. The exploratory nature of this study thus limits the possibility of using a questionnaire survey. However, with particular regards to objectives 2 and 3, it was imperative that we gather the perceptions and views of the organizational actors. We were drawn - and comforted - to the fact that use of semi-structured interviews (on its own) appeared to have become more prominent in the recently published literature (e.g. Jamali et al., 2008; Wanyama et al., 2009), although there are as well challenges with the use of interviews (access to interviewees, analysis of large amounts of text etc). Finally, we also see the use of interviews data as a first stage in developing more adequate questionnaire surveys for future studies in corporate governance. As a result of the above reflections, the research team resolved to keep to the original plan of using a mixed methods (annual reports and semi-structured interviews) approach to maximise the amount and quality of findings and insights, and on the account that such approach will ensure that our objectives can be reliably achieved.

2.6 Conclusion

In summary, the extant literature has shown a recent and earnest interest in the 'type VI' model (emerging economy), the more so when one considers the dearth of studies within the African region. However, the review also indicates that one now has to critically examine annual report disclosures beyond its simple descriptive 'façade' and to consider in more depth the reasons for implementation and disclosure of corporate governance practices. The fact that this study also seek to examine corporate governance implementation in a number of diverse organisations (listed companies, non-listed large companies and state-owned enterprises) over several periods will provide a richer data set.

Chapter 3: Corporate Governance Environment in Mauritius

3.1 Introduction

This chapter outlines the local context with a particular emphasis on the current legal, regulatory, professional and business environment in Mauritius. This will be certainly of relevance to the reader in assessing the level of corporate governance implementation and its impact on companies.

3.2 Country Context

Mauritius forms part of various African political and trade blocks, and its past economic and social situation has usually been compared to countries located in Sub-Saharan Africa. In this respect, and particularly since the 1980s, Mauritius has performed generally well in terms of economic growth, education, health and living standards. In 2006, the per capita income was US$ 6,431 (World Bank, 2006). Prior to the current worldwide financial and economic depression, an economic slowdown was already observed and was due in part to the dismantlement of various preferential trade agreements (mainly in sugar and textile export) and declining foreign direct investment (FDI). Recently however, more worrying trends have emerged from the tourism and export sectors as markets (mainly US, UK, and EU) feel the brunt of a full-scale recession.

In a government-sanctioned World Bank Report on the Observance of Standards and Codes (ROSC, 2002, p. 1-2), it was concluded that the ownership structure of listed companies in Mauritius remains dominated by a small group of family-owned companies. In addition, these family-owned holding companies typically own a variety of different enterprises that have little, if any cross-synergies and might therefore be more viable as separate operations. Many of the companies' asset values are high – due to large landholdings – but the earnings generated are relatively low, and the ROSC report contended that CG could help in "*unlocking shareholder value"* (ROSC 2002, p. 15). The continued influence of family-driven management also leads to a perceived high level of opacity in the running of private-sector companies. Coincidentally, close to the time of the publication of the World Bank report, the business community came under significant scrutiny, following various cases of frauds occurring in three high-profile public-listed companies, which involved some of their directors and senior managers. Irrespective of these fraud cases, the government at that time had already committed to the rapid adoption of 'foreign investor-friendly' measures, aimed at re-starting the FDI flows. For example, all listed and large public companies were already required to adopt all international financial reporting and auditing (IFRS/ and ISA) standards and a new Financial Reporting Council was set up to regulate auditors and monitor the quality of financial statements. In a similar thrust, the development of a corporate governance code in Mauritius was viewed as a way to maintain and improve international investment whilst enhancing the level of transparency, efficiency and accountability in private companies.

Initially, there was some resistance and stone-walling amongst directors during the consultation stage. Some of them perceived the CG code to be mismatched to the local 'realities' (e.g. *why should everyone know so much details about a private business*) and somehow impractical (e.g. *where can one find an independent director in such a small business community?).* On the other hand, public opinion - freshly aware of the recent corporate scandals - was generally more positive in that the government was finally starting to "control" the perceived excesses of the private sector. It has to be said that the portraying of the private sector as an economic 'villain' with unfair and opaque employment practices is part of the rhetoric used in Mauritian society and politics - undoubtedly originating from its colonial past and the collective memory of slave descendants and indentured labourers, and particularly in relation to the European settlers who owned the sugarcane land and industry. To a certain extent, this is even acknowledged in the corporate governance code. Under the heading of "Diversity" and "Social Issues", the authors reported on the need to contend with the fact that:

> *"Mauritius is very diverse in terms of ethnic groups, religions and culture. As a result of this diversity a number of prejudicial behaviour patterns have evolved in corporate Mauritius…"* (CCG 2004, p.8)
>
> *A common public perception is that employment and promotion within the private and public sectors are linked to the "community" of the employee and that of the company's shareholders.* (CCG 2004, p. 113).

Indeed, in 2005, the issue remains a potent one as one political party (now in power) successfully campaigned on the need to *'democratise'* the economy i.e. to reduce the influence of the 'few families', whilst the outgoing party was perceived to have been 'too close and sympathetic' to the private sector demands. In such a context, one may argue that the recent requirement for listed companies to adopt the corporate governance code takes a peculiar and 'local' connotation - which is beyond the rational efficiency arguments put forward in the mainstream corporate governance literature.

3.3 Corporate Governance Environment

In order to gain a clearer understanding of the corporate governance environment in Mauritius, it is important to become familiar with the internal and external environments in which its companies operate. The environments consist of direct and indirect entities that influence the behaviours of companies in Mauritius. Thus, the framework below (figure 3.1) (developed by the World Bank Group, 1999) is used to situate the actors in the local CG environment, and is broadly classified into the internal and external architectures. The framework provides an indication of the relationship between internal motivations and external forces that control the behaviour of firms.

3.3.1 External environment

Legal system

The main piece of legislation is the Company Act 2001 which brought in new developments, particularly with the new reporting requirements set out by the International Accounting Standards. The Companies Act 2001 replaced most of the previous Companies Act of 1984 and was modeled on New Zealand Company law. Appendix 3.1 lists the main sections of the Act. This law sets out the minimum rules regarding the conduct and process of boards and directors, with the primary aim of protecting the shareholders and lenders. The study on hand is examining CG reports published as part of companies' annual reports of listed companies and large public and private Companies which are governed by this Act. However, section 218 (2) of the Act states "that shareholders of a private company or small private company may resolve by unanimous resolution that this section, that is, ***obligation to prepare an annual report***, shall not apply to the company. This was confirmed during the data collection process whereby some large private companies do not feel the need to prepare an annual report. The annual report is considered a confidential document which remains for internal use of the organisation.

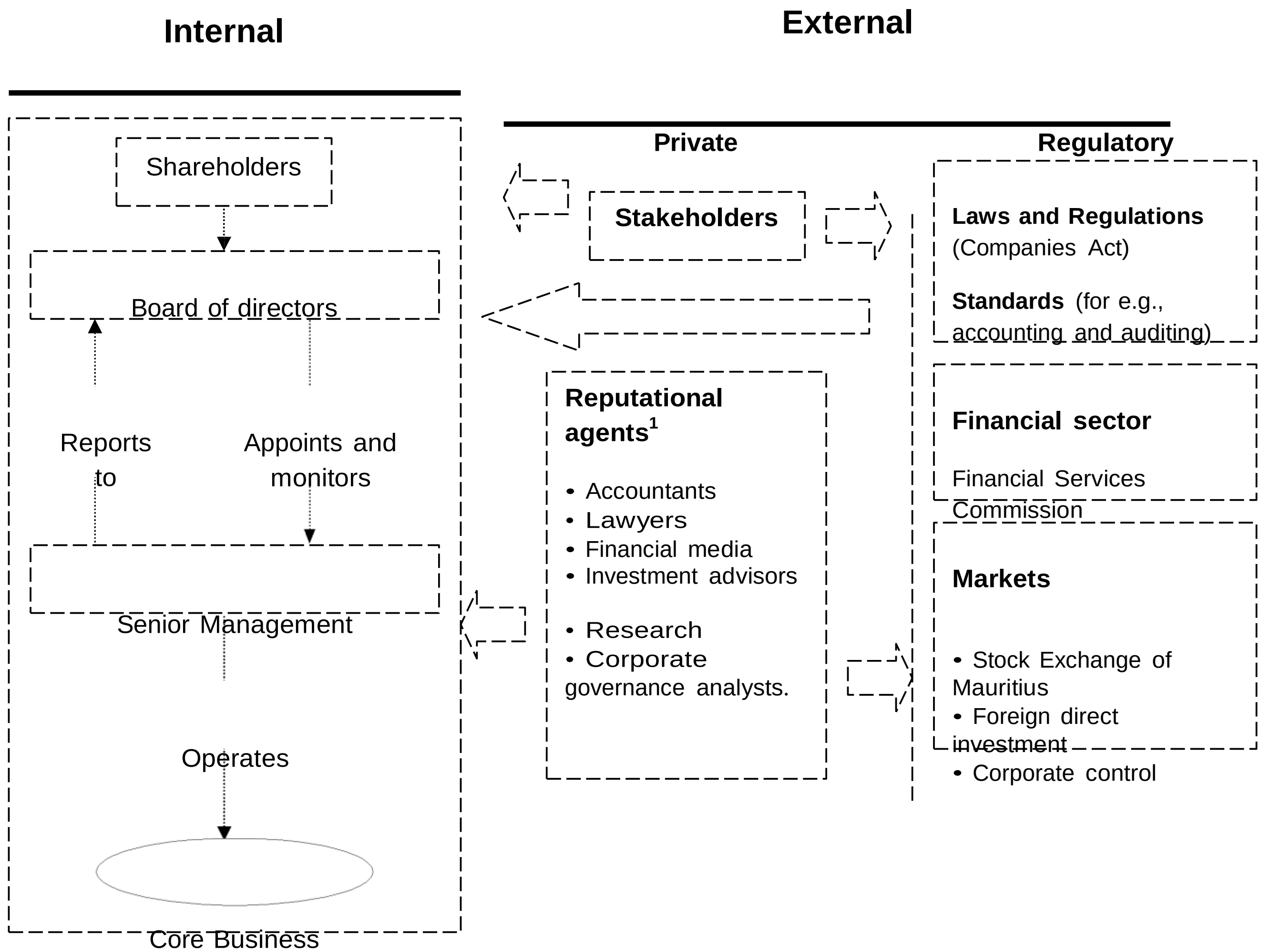


Figure 3.1 Corporate Governance Environment

(Source: World Bank Group Report, 1999)

[1] *Reputational Agents* refer to private sector agents, self-regulating bodies, the media, and civic society that reduce information asymmetry, improve the monitoring of firms, and shed light on opportunistic behaviour.

Financial Reporting Act

The Financial Reporting Act (FRA) was enacted in 2004 and the most updated is FRA (2008). As stated in the Financial Reporting Act (2008), the objectives of the Act is to enhance credibility of financial reporting, to improve the quality of accountancy and audit services and to promote the highest standards among licensed auditors. Furthermore, an important aim of this Act is also to provide the legal framework for the already existing National Committee on Corporate Governance (NCCG), which would then monitor compliance with the reporting requirements specified in the code of corporate governance. This Act specifies that the legislation would apply to all public interest entities (PIEs) and at this stage it defines the latter as any entity having an overall revenue exceeding Rs. 200 Million.

Furthermore, Section 1.10 of the code acknowledged that the definition of SOEs needed clarification and this was eventually addressed in the Financial Reporting Act 2004. As a result of more enquiries with relevant government officials, the research team was made aware of the Financial Reporting Act's (FRA, 2004) schedule which listed the names of 41 so-called state owned enterprises. In addition the National Audit Office's report (2006/2007) enumerated a list of 33 statutory bodies (Appendix 4.5) which coincided with the FRA list of 41 SOEs as shown in Appendix 4.3.

IFRS

The International Financial Reporting Standards (IFRS) are standards and interpretation as issued by the International Accounting Standards Board (IASB). The standards were previously known as International Accounting Standards (IAS) and Mauritius adopted IAS on a piecemeal basis (by issuing them as Mauritius Accounting Standards) from 1989. Following the changes in the Companies Act 2001, listed and large private/public companies were required to apply on a wholesale basis IFRS requirements whilst small private companies would still provide summary financial statements, as determined by the Financial Reporting Council.

Statutory Bodies Act

All the eighty-nine statutory bodies in Mauritius are governed by the Statutory Bodies (Accounts and Audit) Act (1972). Each individual statutory body is also governed by its own Act of Parliament.

The Financial Services Act (2007)

The Financial Services Act was introduced in 2007 after the Financial Services Development Act (2001) was repealed. Under the newly Act, is established the Financial Services Commission. This Commission has for objectives to ensure the administration of financial services activities, ensure sound conduct of business in the financial services sector, elaborate policies that are directed to fairness, efficiency and transparency and to ensure, in collaboration with the Bank of Mauritius, the soundness and stability of the financial services sector. The Act has for aim to license, regulate, monitor and supervise the business activities of companies in the financial sector and also set rules and guidance governing the conduct of businesses in this sector. Basically, this Act is applicable to the Listed and Large and Private companies in cases where companies are involved in financial services.

Regulators and Professional Bodies

Financial Reporting Council (FRC)

The Financial Reporting Bill was introduced in 2004, as a result of the World Bank Report on the Observance of Standards and Codes (ROSC). The Financial Reporting Council (FRC) is the body corporate set up by the legislation to enforce accounting and auditing practices/services in Mauritius. During the period July 2007 to June 2008 the Chairperson was Mr. D B Seetulsingh and had eleven other council members. The FRC was expected to be better equipped to enforce the Companies Act requirements relating to accounting and auditing. The FRC would have full autonomy in the conduct of its day-to-day administration, performance of its duties and would also ensure compliance with the code of corporate governance. The FRC would work closely with the Registrar of Companies, the Bank of Mauritius and the Financial Services Commission. Within the same legislation of FRC, it was proposed to have a National Committee on Corporate Governance and the setting up of a Mauritius Institute of Directors. As mentioned previously, the FRC's remit includes all public interest entities (PIEs, including state owned, private or public companies) with an overall revenue of Rs 200 Million and the monitoring of company information is carried out by the Financial Reporting Monitoring Panel (FRMP). The FRMP has already set out its charter, policies and procedures regarding the monitoring of the contents of financial statements (including corporate governance) and likely actions to be undertaken if companies are not found to be materially complying with standards and guidelines. However, the spirit of the FRMP's actions remains primarily one of collaboration and discussion with companies with formal enforcement being seen as a last resort. As a result, these activities are carried out in confidence. The last published FRC annual report (2007-2008) describes a number of monitoring mechanisms being established or finalized (p. 6) as well as the fact that the reviewing of company financial statements is ongoing.

Mauritius Institute of Professional Accountants (MIPA)

The Mauritius Institute of professional Accountants was founded in January 2005 and acts as an umbrella professional body for professional and public accountants. Its board consists of seven members of the professional accountancy bodies and its establishment was enabled by the FRA (2004). The objectives of MIPA are to supervise and regulate the accountancy profession and to promote the highest standards of professional and business conduct of, and enhance the quality of services, offered by professional accountants in Mauritius. The MIPA fills in a perceived void in local regulation since most accountants in Mauritius would be only accountable to their professional bodies located primarily in the UK (e.g. ICAEW, ACCA). Although the MIPA has been set up by legislation, it operates more as a local professional body and therefore seeks to provide confidence to the market on reliability of accounting services generally.

The National Committee on Corporate Governance (NCCG)

This was the initial committee set up in 2001 by the then Minister for Economic Development, Financial Services and Corporate Affairs and which was chaired by Mr. Tim Taylor. Over a period of 12 months, the NCCG constituted task teams focusing on (i) Boards and Directors, (ii) Auditing and Accounting, (iii) Risk Management, Internal Control and Internal Audit, (iv)Integrated Sustainability Reporting and (v) Compliance and Enforcement. These task teams represented a large spectrum of directors, executives, government official and other regulatory agencies. The NCCG also relied on Mervyn King (Chairman of the King Committee in South Africa, dealing with corporate governance development) to act as consultant in the design of a Code for Corporate Governance in Mauritius. Subsequent to the publication of the Code in October 2003 (and revised in its current form in April 2004), this committee has not had any formal operation. The Financial Reporting Act provided a legal grounding to the creation of a permanent NCCG but there is no evidence of further developments, other than a set of guideline for Corporate Governance in State-Owned-Enterprises (2006).

The Mauritius Institute of Directors (MIoD)

The Financial Reporting Act 2004 came into operations in January 2005 and section 70 of the Act provides for the setting up of the Mauritius Institute of Directors with the following mandate:

- To promote the highest standards of corporate governance, and of business and ethical conduct of directors serving on the boards of companies and state-owned enterprises (SOEs);
- To assess the needs of directors and organise conferences, seminars, workshops and training; and to co-operate with the Financial Reporting Council and the National Committee on Corporate Governance and with other institutions and organisations having similar objectives to those of the Mauritius Institute of Directors.

The Mauritius Institute of Directors is a non-profit organisation and is incorporated under the Companies Act. The Vision of the MIoD is “to be a major driver of effective corporate governance”. Its board is constituted of 11 members and all the directors are non-executives except the CEO. The Institute is dedicated to the improvement of the professional practice of corporate directorship in the country in line with international principles, and to the promotion of corporate governance reforms in companies in order to improve their efficiency and performance, and the wellbeing of the economy and society in general. The Institute aims at providing orientation, training and advisory services to its members, as well as undertaking research in matters affecting corporate directorship. The training programmes are intended to enhance the levels of knowledge, skills and values demanded by modern corporate governance practices. The aim of the Institute is also to assists, if called upon, in the formulation and implementation of corporate improvement programmes in boards where its members are serving. Another objective of the MIoD is to provide relevant and up to date information to its members by way of publications and its website, as well as services relating to coaching, mentoring and arbitration. Figure 3.1 shows the organisational structure of the Institute and the institution's vision is encapsulated in its vision and mission statement. Hence, as in the case of the MIPA, the MIoD seeks to professionalise directors on a local basis, thereby providing confidence to the markets on the 'profession' of director in Mauritius.

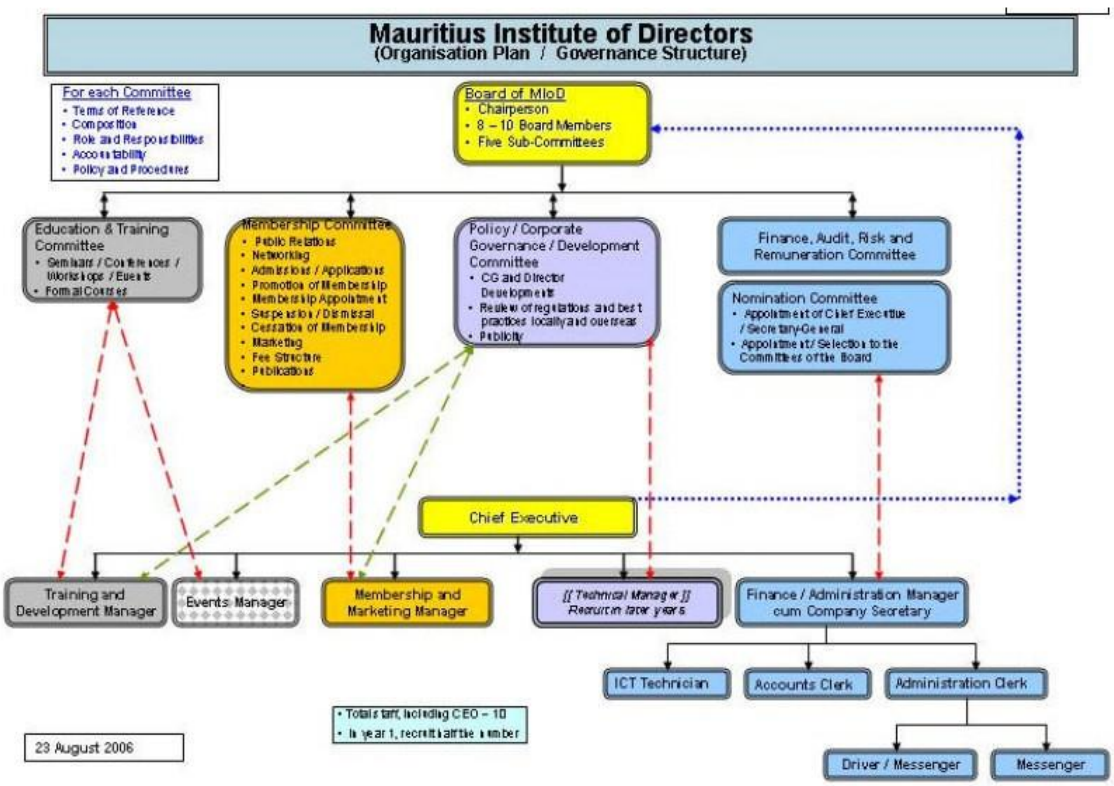


Figure 3.2: Organisational structure of the Mauritius Institute of Directors

Source: MIoD Report available at www.gov.mu/portal/site/MOFsite

The Registrar of Companies

The Registrar of Companies and the Companies Division have traditionally played, and continues to play, an important role in enforcing the requirements of the Companies Act. It is the lead agency which ensures that companies operate within the boundaries of the Companies Act and prior to the FRA (2004), it was solely responsible for inspecting financial statements and annual reports to ensure that these complied with the legislation and relevant accounting standards. It is the Registrar of Companies which provides public access to company documentation and annual reports.

Financial Services Commission (FSC)

In 2001, the Financial Services Development Act created the Financial Services Commission (FSC) (figure 3.3 below) as the new regulatory body for non-banking services.

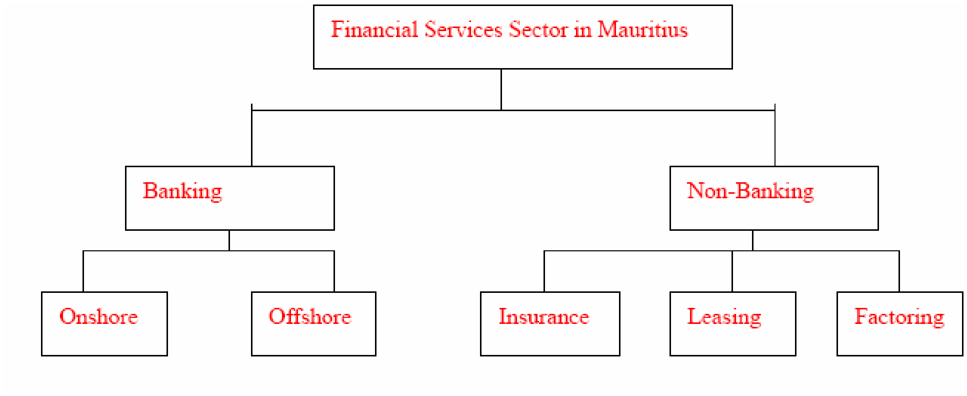


Figure 3.3: Financial Services Sector in Mauritius

Source: Corporate Governance in the Financial Sector (Boolaky, 2006)

The FSC replaces a fragmented regulatory system with a unified regulatory concept. As a practical matter, the small size of the FSC staff, which comprises of about 60 people, limits the FSC's ability to supervise regulated entities. The FSC also does not supervise auditors. The non-bank financial sector includes institutions involved in Insurance & Pensions, Capital Market operations, Leasing and Credit Finance as well as Global Business activities. The FSC is committed to the sustained development of Mauritius as a sound, stable and competitive international financial services centre. Consequently, the Commission promotes the development, fairness, efficiency and transparency of non-bank financial institutions and capital markets in Mauritius whilst ensuring the protection of investors. All companies operating in the non financial sector are regulated by the FSC, which has issued its own guidance on corporate governance matters (2005).

The Bank of Mauritius (BOM)

In contrast to the FSC's remit, the Bank of Mauritius regulates the operation of banking services. As a result, all institutions providing banking services (wholly or partly) must comply with the rules, regulations and guidelines prescribed by the Bank of Mauritius guidelines. Banking supervision is by definition a very strict regime and this includes the need to comply with the code of corporate governance and all additional corporate governance requirements set out by the Bank of Mauritius. Indeed, the code of corporate governance specifically requires that all banks (whether listed, public, private or other legal identity) comply with the code.

Stock exchange of Mauritius

The Stock Exchange of Mauritius (SEM) was incorporated in Mauritius on 30th March 1989 under the Stock Exchange Act 1988 as a private limited company responsible for the operation and promotion of an efficient and regulated securities market in Mauritius. Since, the 6th October 2008, the SEM has become a public company and over the years the SEM has experienced an overhaul in its operational, regulatory and technical framework to reflect worldwide standards. The SEM operates on two markets: The Official Market and the Development & Enterprise Market (DEM). The Official Market started its operations in 1989 with five listed companies and a market capitalisation of nearly USD 92 million. Currently, there are 40 companies listed on the Official Market representing a market capitalisation of nearly US$ 2,891.56 million as at 31 March 2009. The DEM has been launched on 4 August 2006 and there are presently 49 companies listed on this market with a market capitalisation of nearly US$ 1,129.42 million as at 31 March 2009. One of the category of companies the research team is investigating on, are listed companies which are listed on the Official Market. Listed companies have to abide to all criteria specified in the Listing Rules of SEM in order to safeguard their listing on market.

Accounting and Auditing Systems

Accounting and auditing practices in Mauritius have traditionally followed UK practice and standards, as a result of the training and experience background of the majority of Mauritian accountants. The main professional qualifications pursued by accountants are the seeking of professional membership to the major UK professional bodies such as the ICAEW and the ACCA. From the 1990s onwards, the gradual implementation of international accounting and auditing standards (IFRS and ISA) has meant that accountants and auditors apply international standards of practice but they overwhelmingly still train as UK Chartered or Certified accountants. The perceived lack of local regulation for accountants and auditors was also a major concern and this key aspect was the first one to be addressed by the Financial Reporting Council (e.g. licensing of auditors, registration of accountants with MIPA, audit practice reviews etc).

As is the case on a worldwide basis, local offices of international accounting firms dominate the accounting, auditing and advisory markets. International firms such as PricewaterhouseCoopers, Ernst & Young, KPMG, Kemp Chatteris Deloitte thus control a significant part of the local market, together with the major local and regional firm, De Chazal du Mee (DCDM). These five firms thus collectively influence the financial reporting decisions of the largest enterprises in Mauritius and can arguable influence as well disclosure practices regarding corporate governance - although they are not legally required to report on corporate governance compliance.

On the other hand, statutory bodies are externally audited by the National Audit Office, which is the external auditor of central government. Organizations which are responsible for external activities of Government (such as statutory bodies) are termed as Supreme Audit Institutions (SAI). The objective of the NAO is to act as an external independent body which will give its opinions on the report and financial statements of organizations and on the legality and regularity of operations. The NAO has also for responsibility to evaluate the efficiency and effectiveness programmes implemented by Government so as to ensure compliance with environmental standards and the promotion of good governance.

Furthermore, the Management Audit Bureau (MA) operates under the aegis of the Ministry of Finance and Economic Empowerment. This body was set up in 1984 to provide management consultancy and financial management services to Ministries, departments, statutory bodies and other organizations in the public sector. It regularly intervenes to advise government on plans of action but is not independent from government influence.

Stakeholders

According to the report on corporate governance for Mauritius (2004), corporate governance is not just a matter of regulating the relationship between shareholders, the board and managers. It is also a question of recognizing the relationship between the corporation and stakeholders and dealing consistently on a holistic basis to align the different interests of each group. Most corporations have the following stakeholders:

1. Shareholders
2. Employees
3. Customers
4. Suppliers
5. The national community/communities in which the corporation is established and operates
6. the local community/communities in which the corporation conducts its business
7. The government of the day.

However, corporations may have other stakeholders and an essential role of the board is to identify all the corporation's stakeholders. This stakeholder orientation was described by the report as an inclusive approach and which is now an international trend in corporate governance developments. In the inclusive approach to corporate governance, the corporation recognizes its responsibility to its various stakeholders.

3.3.2 Internal Environment

After having examined the external environment pertaining to the corporate governance framework in Mauritius, the inside environment will be considered which is made up of the board, management, and shareholders.

Board

The Code of Corporate Governance stated at section 2.3 that the board is the focal point of the corporate governance system and is ultimately accountable and responsible for the performance and affairs of the company. It follows that it is the board's responsibility to provide effective corporate governance. Below are some of the important functions of the board as described by the code of corporate governance:

1. Determine the company's purpose, strategy and values.
2. Exercise leadership, enterprise, intellectual honesty, integrity and judgment in directing the company so as to achieve sustainable prosperity for the company.
3. Ensure that procedures and practices are in place that protects the company's assets and reputation. Therefore, the board should regularly review processes and procedures to ensure the effectiveness of the company's internal control systems.
4. Consider the necessity and appropriateness of installing a mechanism by which breaches of the principles of corporate governance could be reported;
5. Monitor and evaluate the implementation of strategies, policies, management performance criteria and business plans. In effect, the board must provide guidance and maintain effective control over the company, and monitor management in carrying out board plans and strategies.
6. Define levels of materiality, reserving specific powers for itself and delegating other related matters with the necessary written authority to management. These matters should be monitored and evaluated by the board on a regular basis. Such delegation by the board must have due regard for the directors' statutory and fiduciary responsibilities to the company, while taking into account strategic and operational effectiveness and efficiency.
7. Identify key risk areas and key performance indicators of the business enterprise in order for the company to generate economic profit, so as to enhance shareholder value in the long term. The wider interests of society should at the same time be recognized.
8. Ensure that the company complies with all relevant laws, regulations and codes of best business practice.
9. Record the facts and assumptions on which the board relies to conclude that the business will or will not continue as a going concern in the financial year ahead, and in the latter case, the steps the board is taking.
10. Determine a policy for the frequency, purpose, conduct and duration of its meetings and those of its formally established committees. The board should meet at least once a quarter if not more frequently as circumstances require.

11. Ensure that there are efficient and timely methods for informing and briefing board members prior to meetings. This should include an agreed procedure whereby directors may, if necessary, obtain independent professional advice at the company's expense.
12. Ensure that non-executive directors have access to management without the presence of executive directors. The appropriate procedure in this regard should be agreed collectively by the board.
13. Identify, monitor and report regularly on the non-financial aspects relevant to the business of the company.
14. Ensure that the board communicates with shareholders and relevant stakeholders (internal and external) openly and promptly with substance prevailing over form.

Management

Management is the executive function of the board and seeks to translate the shareholders' expectations and the board's strategy and vision into action. One of the central assumptions underlying the corporate governance code is that management and owners come from separate constituencies. The need to provide clear direction and appropriate incentives to management is at the core of the relationships between managers, board and shareholders. In situation where these constituencies overlap significantly (i.e. family owned and family-managed companies), there are obviously different dynamics at play. In other cases however, the agency perspective predicts that there is potential for management to act in its own interest, possibly in a bid to enhance its short term gains (e.g. bonuses) at the expense of long-term gains (e.g. shareholder value). As a result, control mechanisms need to be put in place to align management and shareholders' interests and one may argue that this is the role of a properly balanced board to ensure that such control mechanisms are in place and are operating effectively - whilst at the same time allowing management to operate flexibly and address challenges and opportunities on a timely basis.

Shareholders

The Report on Corporate Governance (2004) stated that shareholders obtain their power from the democratic process of voting by which means they can elect or dismiss directors, who carry out the objectives of the company. The relationship between the company and the shareholders arises out of the articles of association, which are nothing more than a contract between the two parties. This is said to be the only means of shareholder protection, which is generally quite ineffective in practice. Hence, because the shareholders have limited protection, the quality of governance is of absolute importance to them. In Mauritius, we have typically have small, major and institutional shareholders, with the last two having more influence on company's strategy.

Institutional Investors

From the research literature, Institutional investors are seen to play an important role in corporate governance. Typically, individual investors do not have enough knowledge and experience to evaluate companies' management and it is often hard for them to act collectively and exert significant force on corporate governance or other issues. However, the size of shareholdings that institutional investors hold at any time means they can significantly exert pressure on the boards and at shareholder meetings. In public and in some private companies in Mauritius, these types of investors are often categorized as investment companies, investment trusts, insurance companies, pension and provident funds and other corporate bodies. These can be set up and controlled by private interests or they may be investment arms of the government.

3.3.3 Reputational Agents

Reputational agents/intermediaries

The creation and maintenance of reputation is one of the central underpinnings of corporate governance. Much of the infrastructure of modern business transactions is built on reputational intermediaries also known as reputational agents that make transactions possible between parties who have no knowledge of each other in the shareholder-centric form of capitalism. Internationally, these reputational agents constitute a hidden ingredient that can promote global corporate governance by influencing policy and process. These include accounting and auditing professionals, lawyers, investment bankers and analysts, consumer activists, environmentalists, and the media. These agents helped to keep an eye on corporate performance and insider behaviour. Their existence in the corporate governance framework help to apply pressure on companies to disclose relevant information, improve human capital, recognise the interests of outsiders, and hence indirectly forced companies and organisations to behave as good corporate citizens. Their impact can go as far as to put pressure on government through their influence over public opinion. As a result, the main functions of these groups are to reduce the information gap between corporate insiders and outside players. They play important roles in monitoring companies, informing investors and other stakeholders, and setting professional standards. Their key roles in the framework are not to be neglected and they have to remain active and well informed.

The media group is one of the reputational agents that exercise pressure on directors and managers of organisations. The scandals of Air Mauritius and MCB are good examples where the media (newspapers, TV programs like Business Watch, and radio) can stimulate actions from the authorities or the companies themselves to remedy situations. They are present in the framework to inform, advice and question the ways adopted by companies for better governance.

Moreover, investment advisors which may include stockbrokers can be classified as another important reputational agent. In Mauritius we have the CIM stockbrokers, the MCB stockbrokers among others which have to remain active in knowing the corporate governance status of specific companies in order to be able to sell their shares and advice the potential shareholder willing to buy the shares. Adding to that, there are organisations like the University of Technology, Mauritius, University of Mauritius and UNDP among others who carry out research in this field. Corporate Governance Analysts and consultancy firms like Asset4 or PWC supplement the work of stockbrokers and other analysts by providing to an investor enough information, through reports publications, on the governance and corporate governance status of the organisations and the country in general.

Additionally, the non-audit functions of accountants and auditors organisations are also a significant reputational agent that the research team deemed appropriate to include in the structure. While glossing over annual reports of companies, the research team has more than once noticed external directors' remarks on the corporate governance report of the company, that is, whether it has complied fully or partly to the Code though it does not form part of the audit process. KPMG is one of such firm where advisory/consultancy services are provided to clients in addition to with its traditional accounting/auditing functions. These include: business performance services, corporate recovery, financial risk management, corporate recovery, corporate finance and accounting advisory services. Kemp Chatteris Deloitte another audit firm provides consulting services to its clients comprising of business performance, driving shareholder value and fostering competitive advantage. Same kind of services is also performed by audit organisations like PricewaterhouseCoopers and Ernst &Young. These add-on services can help companies to implement corporate governance structures.

Above and beyond these reputational agents, there are also lawyers who can act as intermediaries between the insiders of the organisations and the outsiders such as potential investors. One good example is the MC Law Offices which is a full service law firm found in Port-Louis. The firm is involved in promoting corporate governance of organisations in Mauritius, advice on corporate and commercial law in Mauritius, provides legal advice in relation to all sectors of the Mauritian economy, and is also involved in human resource law among others. Companies in Mauritius are dependent upon such firms to project a good image of the country and their sector of activity in order to be in a position to attract FDI and shareholders. Furthermore, there is the whole range of financial advisers (analysts, brokers) working within organisations or who independently advise interested parties on investment opportunities. Finally, there is evidence of an active and also dedicated financial media in Mauritius that covers local and regional business news.

3.4 Conclusion

This chapter has highlighted the various elements of the Mauritius context that are of relevance to the reader when he/she will consider the various findings and analysis of this study. Based on the governance framework (World Bank Report, 1999), we identify what we believe is a fairly elaborate system of regulation and enforcement that has been put into place over the last 8 years. It however remains to be seen whether there is any evidence of its actual operation, insofar as the implementation of the corporate governance code is concerned. This evidence is based on the data collected and the analysis methods we will employ for this study. These are elaborated in the next chapter.

Chapter 4 – Data, Methods and Analysis Techniques

4. 1 Introduction

This chapter provides a detailed account of the research team's efforts and achievements regarding the collection of secondary and primary data from the targeted companies. Appendix C provides a holistic picture of the research design used for this study. Sampling procedures regarding the selection of companies are set out as well as those relevant to the identification of potential interviewees. Other aspects include the input/coding of annual report data, the use of content analysis where applicable, the design of interview checklists and the transcription of interviews. We first start by briefly relating our selection of data, methods, and analysis techniques to the corporate governance literature.

4.2 Target companies and periods under study

The determination of the targeted companies was influenced by the requirements of the code of the corporate governance. In particular, Section 1.1. (2004, p. 17) defined the 'designated' institutions which would need to apply (or explain non compliance to) the provisions of the code, namely (i) companies listed on the official list of the Stock Exchange of Mauritius, (ii) Banks and non-banking financial institutions, (iii) Large public companies (individual or group with a turnover of more than Rs. 250 Million), (iv) State-Owned Enterprises (statutory corporations and parastatal bodies), and (v) Large private companies (same turnover threshold of Rs. 250 Million). The same section also encourages but does not require compliance by other companies that do not fall under one of the above-mentioned categories.

Interestingly, for listed and banks/non-banking financial institutions, the code re-iterates that all such companies *"….shall comply with* ***all the provisions*** *of the code…"* (2004, p. 17, emphasis added) but this is not made explicit for other types of companies/organisations who are nevertheless expected to comply with the code. Furthermore, Section 1.9 stated that the definition of a large public/private company will be provided at a later stage (which to our knowledge has not been defined yet) but in any case the definition provided in Section 1.1 seemed clear enough to allow for the determination of the sample to be studied. In a similar vein, Section 1.10 acknowledged that the definition of SOEs needed clarification. It is however worth noting that beyond the mere 'spirit' and accepted principle of the code that listed companies, large public/private companies and SOEs shall comply (or explain non-compliance) with the code's provisions, the contents of Sections 1.1, 1.9 and 1.10 include a number of subtleties and ambiguities that may be interpreted differently - particularly if one felt compelled to merely follow the 'letter' of the code - and perhaps convey the impression that companies or SOEs have a latitude to comply partly, fully or not at all with the provisions of the code. The ambiguity particularly appeared to be a problematic one for large public/private companies and SOEs. In any case, the research team resolved to target the three main categories of organisations, namely listed companies, non-listed large/public companies and statutory bodies. Whilst there was no difficulty in identifying companies on the official list of the Stock Exchange of Mauritius (SEM), definitive lists of large non-listed private/public companies and SOEs were less forthcoming. Till date, there is no centralised database or directory of Mauritian companies which can be used to narrow down to a specific list based on the criteria mentioned previously. However, a well known and fairly reliable starting point is the Top 100 list of companies published annually by *Business Magazine*. It ranks companies (whether listed, non-listed and even some SOEs) by performance (profits) and activity (turnover). In light of the use of the turnover threshold (i.e. Rs. 250 Million) by the code of corporate governance, the Top 100 (2006) thus provided the initial list of companies which could then compared to the 2006 SEM Handbook and to other lists of entities (e.g. list of statutory bodies). Appendix E shows the list of Top 100 companies retrieved from the Top 100 list of companies published by *Business Magazine*. Out of the 100 companies, there are 47 public companies (among there are 21 listed) and 53 private companies. This identification was made possible by the Companies Division website.

However, whilst action was being taken to request for annual reports, issues regarding the exact nature of SOEs (and also for a few non-listed companies) compelled the research team to investigate further. Our initial expectations of SOEs were based on those institutions registered under the Statutory Bodies (Accounts and Audit) Act but this criterion may have been too wide-ranging to be appropriate to the research objective. In particular, the criterion whereby a government owned organization would have a 'board of directors' at the apex of its executive structure (as opposed to say, a council or management committee) would be more practical and useful. Also, as a result of more enquiries with relevant government officials, the research team was made aware of the Financial Reporting Act's (FRA, 2004) schedule which listed the names of 41 so-called state owned enterprises (Appendix F). In addition the Director of Audit report (2006/2007) provided enumerated a list of 37 statutory bodies (Appendix G) which almost coincided with the FRA' list of 41 SOEs. After further investigation 33 companies were retained for investigation (Appendix G).

As a result of the above revisions and fine-tuning with the list of other companies (i.e. subsidiary part of a group, foreign-owned subsidiaries or branches), the research team ended up with a final potential list of target companies/organisations (42 listed, 79 large public/private companies and 33 statutory bodies).

In light of the literature review and resulting analysis, the research team had resolved to investigate the implementation of the corporate governance code as reported by companies over several financial years rather than relying on a single period. Such approach will enable us to monitor changes in the level of implementation as revealed by the information in the annual reports and mitigate the possibility that our findings may be merely related to, or explained by, a particular one-off factor. This is line with our identified themes of studying corporate governance as an organisational change and as an evolving process. To enable comparisons with a reliable benchmark, the starting year is formally set at one year (2003-2004) before the financial year in which companies are expected to comply with the code (i.e. 2004-2005). Since the Code was made public in October 2003 (revised version in April 2004) and the Code explicitly encouraged early compliance, there is however a possibility that some companies might have implemented the Code since 2003-2004. Finally considering the lead time it usually takes for annual reports to be approved and made public, the research team thus decided to request financial reports up to 2006-2007 assuming that all reports would be made available by the beginning to mid-2008 (many companies have different financial year ends). This came to a window of observation of four financial years (2003-04, 2004-05, 2005-06 and 2006-07) during which the implementation of the corporate governance code will be investigated from a theoretical number 632 annual reports (158 companies x 4 years). The next section now presents the actual outcomes of the annual report collection process.

4.3 Data Collection

The schema (Figure 4.1) below describes the main source of secondary data collected from targeted companies' annual reports. Other documents such as the Director of Audit reports and so on were also collected and used for analysis. This secondary data collection process was supported by interviews which represents in itself primary data. The idea was to explore the companies' perceptions (i.e. from directors) on the implementation of the corporate governance code by having a face to face discussion with board members who have been directly involved with the process of implementation.

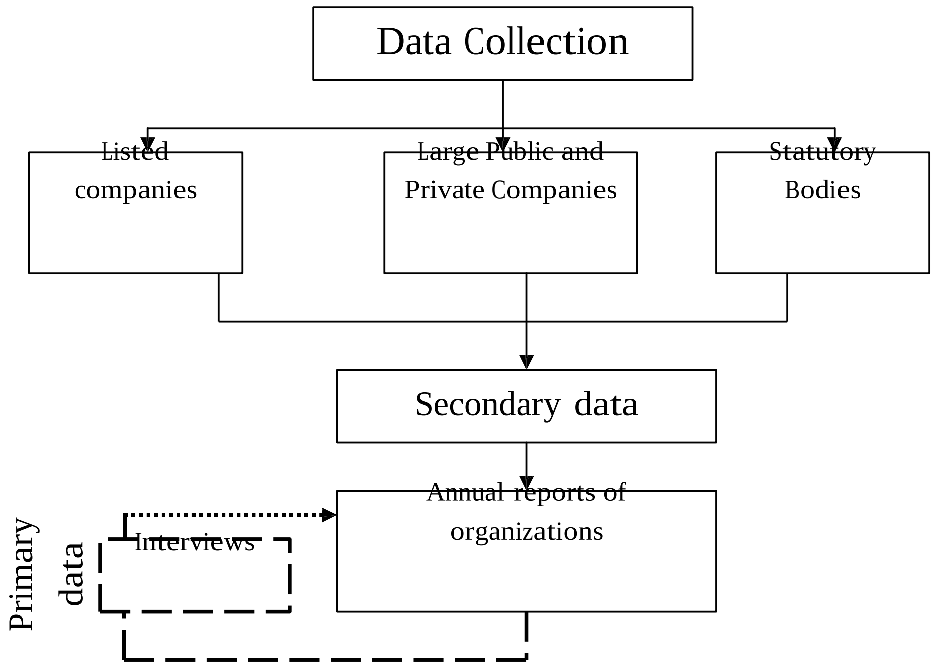


Figure 4.1: Schema for data collection process

4.3.1 Secondary Data: Annual Reports

Three strategies have been devised to carry out the collection of annual reports, namely, 1) by an online search on company websites, 2) visits to the National Library and Registrar of Companies and 3) a formal request to the company (see Appendix H for the template letter of request).

During the first two to three weeks following the formal requests, the response rate was quite high. Thereafter, the research team made follow-ups phone calls to the companies which helped to increase the response rate to some extent. Most of the annual reports were received by email, post and some had to be collected at the company. The table below (table 4.1) summarises the team's achievements:

Table 4.1: Summary of Annual Reports Received

	Listed Companies	**Large Companies**		**Statutory bodies**	**Total**
		Public***	Private***		
Initial number of organisations to be surveyed	42	47	53	41 (FRC list)	183
Organisations that have been excluded from the category	-	21 publicly listed	-	8**	(29)
Updated Number of Organisations	42	26	53	33	154
1. Expected number of annual reports to be received	{40 (yr 2004) + 41 (yr 2005) + 42 (yr 2006) + 42 (yr 2007)} **= 165**	(26 X 4) {4 reports from each company} **= 104**	(53 X 4) {4 reports from each company} **= 212**	(33 X 4) {4 reports from each organization} **= 132**	**613**
2. Actual number of reports received	{40 (yr 2004) + 41 (yr 2005) + 41 (yr 2006) + 42 (yr 2007)} = 165	{18 (yr 2004) + 18(yr 2005) +19 (yr 2006) +19(yr 2007)} =74	{17 (yr 2004) +18 (yr 2005) +18 (yr 2006) + 19(yr 2007)} =72	{10 (yr 2004) + 13 (yr 2005) + 8 (yr 2006) + 5 (yr 2007)} = 36	**347**
3. Number of reports ***not*** *received on the basis of: (no report prepared, confidentiality of report, lost in archives, not applicable to the co., not ready etc.)*	-	6+6+5+5 = 22	34 + 33 + 33 + 32 = 132	18 + 18 + 18 + 15 = 69	223
4. Non responses to this date in terms of number of reports		2 + 2 + 2 + 2= 8	2 + 2 + 2 + 2= 8	5 + 2 + 7 + 13 = 27	43
1= 2 + 3 + 4	**165**	**104**	**212**	**132**	**613**

Response rate in terms of annual reports

The above table thus indicates a 100% response rate (in terms of annual reports) for listed companies or 100% {Expected annual reports **/** Actual number of reports received X 100}. However, lower results were obtained for the other categories of companies: - Large Public companies {74 **/** 104 X 100} = 71%, Large Private companies {72 **/** 212 X 100} = 34% and Statutory Bodies {36 **/** 132} = 27%. (Refer to Appendices 4.7 to 4.9 for annual reports received from each company/organisation).

The response rates of the different categories of companies highlight two extremes: the listed and large public companies on the positive side and the statutory bodies and large private companies on the negative side. The reluctance displayed by latter organisations to provide copies of their annual reports is already indicative of the challenges for policy-makers in improving the governance nationwide culture, whether for the benefit of the wealth-maximizing stakeholders (e.g. shareholders, lenders, customers) and the non-wealth maximizing ones (e.g. community organisations). The fact that a registered company can still argue (in 2008) that its accounts are 'confidential'- whilst the law (Company Act 2001) provides for it to be accessed by any member of the public - is again testimony to a long standing awkwardness with concepts such as transparency and accountability in Mauritius. Appendix 4.10 lists the companies which refused access to their annual reports on the basis of confidentiality. It is important to note that 25 of them are private companies and a further 3 are public companies. Also, Section 218 (2) of the Companies Act states "that shareholders of a private company or small private company may resolve by unanimous resolution that this section (i.e. the obligation to prepare an annual report) shall not apply to the company. This was confirmed during the data collection process whereby some large private companies do not feel the need to have an annual report and even if they do, they do not wish to provide to any third party outside the organisation and considered to be confidential.

Similarly, some State-Owned Enterprises (SOE) have used the argument that their annual report can only be released by the parent Ministry and thus are unable to provide a copy for research purposes. Furthermore, the majority of the large private and public companies have redirected the team to the Registrar of Companies to obtain a copy of their annual reports. Some claim that such documents are considered as 'internal' documents and are made available to shareholders and company directors only. In essence, access to annual reports appears to have been made as difficult as possible and one cannot ignore the possibility that this is sometimes done to discourage access to company information. Additionally, there are some cases where the large private and public companies have two or more subsidiaries, with separate annual reports. In such cases, the research team made use of the annual report that reflects the group and not the company situation. Moreover, for some large private and public companies, annual reports consisted of two or three pages of statutory disclosures only whilst financial statements and notes to financial accounts were considered to be internal.

4.3.2 Primary data: Interviews

The use of annual report disclosures brings reliable (but indirect) evidence on the implementation/adoption of practices in companies. At the same time however, annual report disclosures merely display the outcomes and there would be an interest in assessing the processes, challenges and debates that have eventually resulted in the final disclosure. As mentioned earlier, the interview stage is seen as one which supports and informs the analysis of annual reports. One of the main advantages of having interviews lies in the quality of the data obtained at the end of the interview which exceeds that of survey questionnaires.

Directors were selected for interview from the list of directors made available in company annual reports. All three categories of directors were surveyed i.e. executive, non-executive and independent directors (directorship details are provided in the table 4.2 below). In a few cases the views of the Company Secretary was also sought. In a few instances, the directors requested the list of questions prior to the interview sessions. The research team then provided the interviewee with the structured part of the questionnaire and the unstructured part of the interview was performed face to face. The first round of interviews was carried out with directors of listed companies. At a later stage, interviews were performed with directors from large private and public companies, officers of statutory bodies and other stakeholders.

It is important to note that the research team encountered a great deal of difficulty to obtain appointments for interviews with company directors or officers of regulatory institutions. The main reasons were the busy schedule of the interviewees and/or their reluctance to participate in surveys. In some cases, appointments were sought for over period of more than one month. The team requested and performed interviews over seven months (August 2008 to December 2009 and April to May 2009) and was able to achieve the targeted 30 interviews. In consideration of the difficulties encountered and the quality of the interviews performed, the research team is satisfied that the interview data was found to adequately assist in addressing the objectives of the study.

Interview checklist

Upon confirmation of an interview date and time, the team reviewed all the annual reports in which the interviewee holds directorships. Other important data were also analysed e.g. shareholding, remuneration disclosure, CSR disclosure, corporate governance statements and so on. This exercise was important because it helped the research team to tailor the interview questions to fit its particular context

An interview checklist was subsequently prepared for the interviewer to have a better control over time and to ensure that all interview themes were addressed (see Appendix K - L). The schedule also allowed the interviewee to freely express himself/herself without being confined to a limited set of questions. Some of the questions were general while others were set based on annual reports data of the companies where the interviewee was a director.

Interview protocol

The following procedure was determined and used for all interviews:

- All interviews were conducted face-to-face and on an individual basis.
- Interviewees were briefed on the objectives of the research project prior to starting off the interview session.
- All interviews lasted between 45- 60 minutes.
- Interviewees were assured that their identity and that of their company(s) will be kept anonymous.
- They were informed that their responses to the interview questions will also be treated with utmost confidentiality.
- Each interviewee was asked whether they are agreeable to the use of the recording equipment during the interview. In cases whereby the directors declined the use of the recording device, handwritten notes were taken.
- Interviewees were also asked whether they wanted to have a transcription of the interviews at a later stage to ensure that their responses were adequately reflected. In such cases the transcription was emailed to the interviewee and necessary amendments were made to the document.
- Each interview was transcribed as soon as possible. Members of the project team cross-checked the content to ensure that everything said by the interviewee was captured.
- Interviews (or part interviews) held in French were translated to English.

Initial observations made during the interview sessions:

- Interviewees perceived the study as a useful and interesting one.
- Many unstructured questions were prompted from the emerging discussions.
- Some of the interviewed directors were or have been members of the National Committee of the Code of Corporate Governance.
- In few cases it was interesting to note that directors were not exactly aware of the specific requirements of the Code.

Another set of interviews was also performed for other stakeholders, namely investment analysts, lenders, NGOs, trade unions, institutional shareholders, stockbrokers and from regulatory bodies. Thirteen interviews were carried out in this category. Questions asked were indirectly linked to the code of corporate governance. Because they are from different backgrounds, questions set were also amended to fit the purpose. Appendix L illustrates the interview questions of each one of them. The website of MACOSS (Mauritius Council of Social Service) also assisted in the selection of the representatives of NGOs to be interviewed. The team also contacted banking institutions (lenders) and investment analysts while the list of stockbrokers was obtained from the Yellow Pages.

4.3.3 Profile of interviewees

A summary of the profiles of the interviewees is provided in Table 4.2 below. Throughout the report, we will use an anonymous serial character (A, B, C . etc) to refer to the comments or opinions of the specific interviewee.

4.4 Data Preparation and Organisation

Before performing an in depth investigation of data collected from annual reports and interviews, the team organised and coded the data to enable its analysis and interpretation.

4.4.1 Input of annual reports data

After the collection of annual reports from the targeted companies, the relevant information was input in an MS Excel file with different sheets representing the financial years under investigation, that is, 2003/2004, 2004/2005, 2005/2006 and 2006/2007. This was considered to be the most efficient way of tabulating information obtained from annual reports. This exercise was time consuming, but already revealed interesting patterns of corporate governance implementation, disclosure and practices in Mauritius.

Data input exercise for listed and large private and public companies

This exercise focused on identifying the crucial blocks of text, information and numbers to be retrieved from each annual report of listed and large public and private companies over the four year period. The information recorded were as follows:

- financial data (turnover, profit figures, gearing and staff costs/number),
- the board composition (i.e. number of directors)
- number of directorships,
- training organised for directors,
- presence of an appraisal system for board performance,
- disclosure of conflict of interest for directors,
- number of executive directors and non executive directors,
- the percentage of independent directors,
- presence of a risk management policy
- presence of an internal audit function
- the status of the chairperson (non executive, executive or independent non-executive),
- the directors' interests in the shares of the company,
- the presence of a service contract for executives
- the presence of a corporate governance report and compliance statement,
- remuneration (a statement of remuneration philosophy, indication of remuneration per director, remuneration of executive and non executive directors),
- board and sub committees of the board (what are the committees, the terms of reference,

the number of meetings per committee, the number of members in each committee and the number of committee meetings),

- the attendance reports of directors at board meetings,
- indication of the split in functions between the chairman and the CEO,
- related party transactions,
- external auditor and company secretary,
- integrated sustainability reporting (in terms of ethics, social, environment, health and safety),

The above are the annual report disclosures which were analysed and compared to the Code for listed and large private and public companies. Figure 4.2 below provides a snapshot of the data input in the excel sheet for listed companies for the year 2005.

	A	B	C	D	E	F
1	**Company**	**Presence of service contract**	**CG statement of compliance**	**CG section**	**Remuneration philosophy**	**Indication of REMper Director**
2	Air Mauritius	The CEO has a service contract for a period of 3 years with the company	The directors fully understand the importance of corporate governance and are taking steps to improve governance across the group	Yes	etc…	etc…
3	Automatic Systems Limited	etc…	etc…	etc…	etc…	etc…
4	etc…	etc…	etc…	etc…	etc…	etc…
5	etc…	etc…	etc…	etc…	etc…	etc…
6	etc…	etc…	etc…	etc…	etc…	etc…

Figure 4.2 Data Input for Listed and Large Pubic and Private Companies

The data input exercise for statutory bodies

In the case of statutory bodies the information to be recorded was different from listed and large public and private companies. Hence, the research team determined another set of text, information and numbers to be retrieved from annual reports and recorded. These were as follows:

- The relevant parent ministry,
- financial data (turnover, profit figures and staff costs),
- composition of the board,
- board size,
- number of different Ministries and/or other bodies present on boards,

- training/workshops/seminars organised on corporate governance,
- presence of a Register of Interest,
- presence of the respective Company Act within the report,
- presence of a corporate governance report,
- presence of a statement of compliance,
- presentation of the remuneration figures of board members,
- presence of a risk management policy,
- presence of an internal audit function,
- presence of sub committees (occurrence and terms of reference),
- number of board meetings,
- related party transactions,
- integrated sustainability reporting (in terms of ethics, social, environment and health and safety).

Cross checking of data from annual reports

After the initial input of data from annual reports, it was deemed important to cross checked the data for the four years for all categories of companies in case there were wrong entries in the excel sheets. The idea was to make ensure that the excel sheets were error free to be able to start the analysis. The cross checking exercise lasted two months.

4.5 Methods adopted for Data Analysis

After the preparation and coding of data collected, the team moved on to perform the analysis. The aim being the identification of a method which could be used to analyse data form the three categories of companies and allow comparison. The main methods adopted were 1) calculation of descriptive statistics (mean, min and max values and frequency distributions). 2) A scoring system was devised (refer to Section 2.5.5) to enhance data analysis for listed and large public and private companies. 3) Qualitative analysis of interview data and content analysis of text data were also performed.

4.5.1 Qualitative analysis of interviews

The research team identified emerging themes from the interviews as well as other pertinent one off ideas which came up during the interview session. It is assumed that this procedure will result in a rich and coherent picture of the research context in general. According to Gilbert & Mulkay (1984), one difficulty with such a methodology is that different interviewees tell different stories and over an entire interview, it is often exceedingly difficult to reconstruct or summarise the views of one interviewee, because each one of them has many different perceptions and opinions. For this study, each interview transcript was printed and read thoroughly. Each time, the research team came across a theme that can add value to the subject, it was written down on a blank page together with some comments and the name of the respondent who stated it. This allowed the team to perform a count of common themes and the number of converging and diverging opinions.

4.5.2 Content analysis of Documents

Content analysis is a research tool used to determine the presence of certain words or concepts within texts or sets of texts. Researchers quantify and analyse the presence, meanings and relationships of such words and concepts, then make inferences about the messages within the texts. For this study, content analysis of annual reports and other documents (such as Director of Audit Report, Company Act, FRC Act and so on) were performed. A complete list of all supporting documents used in the study is provided in Appendix M. Krippendorff (2004) outlines the following advantages of content analysis:

(a) It looks directly at communication via texts or transcripts, and hence gets at the central aspect of social interaction;
(b) It allows for both quantitative and qualitative operations;
(c) It provides insight into complex models of human thought and language use.

A number of disadvantages of content analysis were also highlighted, such as:

(a) It can be extremely time consuming;
(b) It is devoid of theoretical base;
(c) It tends to often simply consist of word counts.

MS Excel was used to input columns of data that were in text, for instance, statement of compliance to the Code of Corporate Governance, statement on Risk Management, statements and actions on ethics, social, environmental and health and safety issues and so on. Such data deserved a more in depth content analysis to provide a clearer picture of what the companies are in fact doing. Apart from the fact that content analysis is very time consuming, it has proved to be very useful for this study.

4.5.3 Volumetric Word Count

This method was chosen to explore and analyse the reporting of integrated sustainability issues made by listed, large public and private companies and public entities. The code of corporate governance advocates that integrated sustainability reporting be subdivided into the following categories: ethics, social, environment and health and safety. Data was recorded for each of these categories (e.g. figure 3 is a snapshot for social issues is provided in the diagram below) by performing a word count of sentences and phrases discussing the sustainability issues.

Corporate Social Responsibility

Social issues

Statement	Word count	Actions
any is committed to projects aimed at uplifting f the communities in which The commitment arises trong belief that success m recognising the ıdent nature of companies ıunities in which they	42 for statement and 38 for actions	The company contributed to several charities in the form of free rebated tickets, community fundraising ventures and other promotional activities. A donation amount to Rs 167,600 was made by the company. No donation was made to political parties.

Figure 4.3: Volumetric word count for Social Issues

The use of words as the unit of analysis was critically discussed by authors like Milne and Adler (1999) but was nevertheless employed in a number of studies such as Deegan and Gordon (1996), Deegan and Rankin (1996) and Wilmshurst and Frost (2000). According to Wilmshurst and Frost (2000) words are the smallest unit of measurement of analysis and can be expected to provide the maximum robustness in assessing the quantity of disclosure. Furthermore, it was stated by the authors that word count is a preferred measure when it is intended to measure the total amount of space devoted to a topic or to ascertain the importance of that same topic. Words are the smallest unit of measurement for analysis and can be expected to provide the maximum robustness in assessing the quantity of disclosure (Wilmshurst and Frost, 2000). As per Campbell (2006), a word count is capable of expressing the importance placed on a particular category of disclosure by reporting the entity based upon a semiotic conception which suggests that volume of disclosure signifies the importance placed upon the disclosure by reporting this entity. The word count column in the excel sheets (as shown in the diagram above) includes separate word counts for statements and actions for each component forming integrated sustainability reporting. In Chapter 6, word count and average word count for social activities, for example, for the past four years are recorded and analysed using graphs and tables. The objective is to assess the extent to which these four themes are reported by companies.

4.5.4 Scoring System

A scoring grid (see Appendices M and N) was devised to perform a more in depth statistical analysis of listed companies and large public and private companies which had annual reports for all four years. A scoring sheet containing a number of different items to be rated as per the code was prepared for each company. Each sheet was divided into 3 categories, 11 headings and a number of sub-headings. The list is elaborated as follows (refer to Appendix O for more detail of each of the item below)*:*

A: Implementation

1. Board composition
2. Audit committee
3. Corporate Governance and other committees
4. Risk management and Internal Audit
5. Executive remuneration
6. Director Appraisal, Training and Ethics

B. Disclosure and Transparency

7. A separate corporate governance report and statement of compliance
8. Disclosure of board composition and committees
9. Disclosure of directors' remuneration
10. Disclosures of directors' interests

C: Corporate Social Responsibility Disclosure

11. Donation information (charitable and political)
12. Integrated Sustainability Reporting statements
13. Ethics (statement and actions)
14. Environment (statement and actions)
15. Health and safety (statement and actions)
16. Social (statement and action)

Once the different headings have been identified, the team decided on scores which reflect the relative importance of each item in the scoring system. Based on the published literature (e.g. Stringer, 2004), a weighing system was applied. This weight describes the importance of each corporate governance practice based on the team members' perspective and relative to other practices. For example, a properly balanced board is clearly more important than the disclosure of the terms of reference of committees or the attendance statistics of directors. The following table (table 4.3) lists the main headings and sub headings that were assigned different 'weights'. However, we do recognise that weighted scores can be perceived as being subjective and difficult to replicate/compare to other contexts or benchmarks.

Table 4.3: Weights Assigned to Scoring Items

Main Headings	**Weight assigned**
Board composition	5
Audit committee/ corporate governance committee set up	5
Chairperson for Audit committee/ corporate governance committee	3
Composition Audit/corporate governance committee	3
Audit committee/corporate governance committee meetings	3
Risk, Remuneration and Nomination committees set up	3
Risk management and Internal Audit established	3
Executive remuneration details	3
Adoption of a board appraisal system	3
Formal training and developed programme for Directors	1
Reporting mechanism for directors to disclose conflict of interests	3
The presence of a formal code of conduct for board members	1
A separate corporate governance report	3
Statement of compliance	5
Identification of EDs, NEDs and INEDs including profile	3
Information on board meetings and attendance	1
Audit committee/Corporate governance committee information on composition	3
Audit committee/Corporate governance committee information on attendance	1
Terms of reference of sub committees	1
Statement of remuneration philosophy	3
Explanation of remuneration and reward policies applicable to executives	3
Details of executive service contracts	3
Remuneration details for directors (ranging from aggregate to per director)	5
Shareholding by directors	3
Related Party Transactions relevant to directors	3
Disclosure of other directorships	1
CSR/ Integrated Sustainability Reporting/ ethics, environment/Health and Safety or social policies	3
Ethics, environment/Health and Safety or social practices/actions	1

Additionally, as the weights are now ascribed, three ratings or input scores were considered namely 0, 0.5 or 1. 0 means that any given practice (or disclosure) of corporate governance is not present in the company or the organisation has not deemed it necessary to report on its non-compliance to it. 0.5 means that the company has partly complied with the code. For example, the board is expected to have a formal training programme for directors but in most cases the team identified that the corporate secretary gave advice and counseling to directors as and when needed. Hence, we cannot state that this is a training programme as specified by the code. In such cases, a rating of 0.5 is considered to be adequate. Thus, a 1 rating means that the company has met expectations in a given practice or disclosure required by the code of corporate governance.

Given the Input Scores and their respective Weights, the Weighted Score is calculated as follows:

Weighted Score = Weight x Input Score

This exercise was done for all the four years and for each given company. The figure below (figure 4.4) illustrates an extract of the scoring grid of company X for the heading 'Board composition.'

A	B	C	D	E	F	G	H	I	J	K
Corporate Governance Implementation and Disclosure Scoring Company Name: X										
1. Implementation (if evidence at all cannot be deduced from the annual report, then zero score)										
		2004			2005		2006		2007	
		Weight	Input score	Weighted score	Input score	Weighted score	Input score	Weighted score	Input score	Weighted score
1.1	**Board composition**									
1.1.1	Balance of ED, NED & INED	5	0.5	2.5	0.5	2.5	0.5	25	0.5	2.5
1.1.2	At least 2 EDs	5	0	0	0	0	0	0	0	0
1.1.3	At least 2 INEDs	5	0	0	0	0	0	0	0	0
1.1.4	Chairperson must be a NED or INED (independent attracts higher score)	5	0.5	2.5	0.5	2.5	0.5	25	0.5	2.5

Figure 4.4: Input exercise for Scoring System

As can be observed, the weight for the criteria 'Board composition' is taken to be 5 as well as for the other sub headings. For the sub-heading "Balance of EDs, NEDs and INEDs", an input score of 0.5 was deemed appropriate for the year 2004 which can remain the same for the other years or it can change depending on the progress of the company in the area of corporate governance, hence the weighted score was found to be (5 X 0.5) = 2.5. The exercise is repeated for the remaining three years. Hence, the research team first computed the total weighted score with a *Maximum Weighted*

Score (MWS) calculated for each of the three sections (CG implementation, CG Disclosure and CSR) by adding the different weights assigned to each section. For instance, CG Implementation has a MWS of 83, CG Disclosure has a MWS of 42 and CSR has a MWS of 21, and this leads to a maximum weighted corporate governance score of 146 (83+42+21). This exercise was carried out for both listed and large public and private companies. One further ethical consideration relating to this scoring process is that the names of the companies and their respective scores will not be divulged in this report. Companies interesting in finding their detailed scores will need to request for the information and if they so wish, they can agree to it being made available publicly.

Furthermore, two excel documents namely, *the input excel sheet* prepared earlier and the scoring grids, would be used prepare *a combined excel sheet*. This combined excel sheet is built by retrieving specific data from the input excel sheet that was not considered in the scoring grids, for instance, major shareholders or even profits and turnover of the company and also qualitative data like statement of compliance or policy for risk management and so on. For instance, for a given company, the latter's profit figures were entered in the combined sheet for all the four years with variables name as follows: Prof2004, Prof2005, Prof2006 and Prof2007 same was for turnover, the variable names were Turn2004, Turn2005, Turn2006 and Turn2007 and so on and so forth. Adjacent to the all the input for a given company (not found in scoring grid), the total input score [see Company X extract for top heading 'board composition' where the total input score for 2004 would be 0.5 + 0 + 0 + 0.5 = 1] and total weighted score [see Company X extract for top heading 'board composition' where the total weighted score for 2004 would be 2.5 + 0 + 0 + 2.5 = 5] for each top heading were input for all the four years. This exercise was repeated for all listed companies. Once the combined grid was completed, the research team made use of SPSS version 11 to statistically analyse the data (i.e. mean, standard deviations etc). For example, our combined grid, by means of the weighted scores, allows the team to interpret how crucial board composition was throughout the four years in relation to changes in other scores and firm-based variables.

4.5.5 Exploratory correlation analysis

Finally, an exploratory correlation analysis was adopted to flesh out any association (but not causality) between 9 variables and corporate governance scores of listed companies only. But, given the small size of the population of listed companies (39) and the fact that some of the weighted scores display features compatible with that of a non-normal distribution, we rely on non-parametric correlations (Spearman's rank correlation coefficients). Four tables were prepared displaying the significant correlations (at 0.01 or 0.05 level) for each of the financial years from 2004 to 2007. The Spearman's Rank Correlation Coefficient is used to discover the strength of a link between two sets of data. Again, the availability of the data over a four year period allowed for the analysis of the change in associations (correlations) over time.

4.6 Conclusion

This chapter has elaborated on the diverse data, methods and analysis techniques that have been used in this study. In our opinion, the mixed method strategy has met our expectations in terms of gathering relevant, reliable and sufficient data to enable a holistic analysis of corporate governance implementation and impact in Mauritius. It is granted however that a mixed-method approach like the one we adopted will inevitably cause delays. For instance, the research design required that we had accessed and analysed annual reports prior to carrying out interviews. Although companies would have been expected to have 2007 audited accounts by mid-2008, there were nevertheless delays in accessing these annual reports. The content analysis, coding and scoring also took significantly more time. In addition, delays in accessing annual reports created a time pressure and delayed the possibility of securing interviews at a later stage. Nonetheless, the subsequent findings chapters do reflect the breadth and depth of the data that was successfully collected during this project.

Chapter 5: Findings and Analysis (Listed Companies)

5.1 Introduction

This chapter provides a detailed account of the findings regarding the implementation and impact of the corporate governance code on companies listed on the Stock Exchange of Mauritius. The overall implementation scores are first presented and assessed and then the more detailed elements of corporate governance implementation and impact are presented and analysed. As mentioned earlier, the focus in this first analysis chapter will be on the implementation and disclosure aspects of the corporate governance code, from point of the view of the wealth-maximising perspective. All scores referred to in the findings are weighted scores, using the weightings and scoring procedures described in Chapter 4. Finally, where relevant, excerpts from interviewees will be presented.

5.2 Implementation, Disclosure, CSR and Total Scores

The implementation, disclosure, total implementation and disclosure, CSR and total corporate governance weighted mean scores for the listed companies are presented in Table 5-1 below.

Table 5-1: Mean Weighted Scores for Implementation, Disclosure, CSR and Total Scores Of Listed Companies (2004-2007)

Corporate Governance N=39	**2004 score**	2004 %	**2005 score**	2005 %	**2006 Score**	2006 %	**2007 score**	2007 %
Implementation (max score 83)	**21.49**	25.89	**43.53**	52.45	**48.12**	57.98	**48.76**	58.75
Disclosure (max score 42)	**14.74**	35.1	**25.74**	61.29	**27.90**	66.43	**28.83**	66.64
Implementation and Disclosure (max score 125)	**36.23**	28.98	**69.27**	55.42	**76.01**	60.81	**77.59**	62.01
CSR overall score (max score 21)[2]	**4.77**	22.7	**7.53**	35.9	**7.19**	34.2	**8.91**	42.4
Total Corporate Governance score (max score 146)	**41.0**	28.1	**76.8**	52.6	**83.21**	57	**86.5**	59.2

In addition, the standard deviation and minimum/maximum scores for each of the above overall scores are presented in Table 5-2:

[2] Whilst we present the CSR scores on an overall basis for completeness purposes, the detailed findings regarding the elements of CSR disclosure will be presented and discussed in more detail in Chapter 8.

Table 5-2: Standard Deviation (SD) and Minimum (Min) / Maximum (Max) for the Implementation Disclosure, CSR and Total Scores of Listed Companies (2004-2007)

Corporate Governance	2004	2004	2004	2005	2005	2005	2006	2006	2006	2007	2007	2007
N=39	SD	Min	Max	SD	Min	Max	SD	Min	Max	SD	Min	Max
Implementation (83)	21.1	0	61.5	15.2	0	72	16.9	0	75	15.9	0	74.5
Disclosure (42)	9.0	4	36.5	7.4	6	37.5	6.7	5.5	37.5	6.6	5.5	37.5
Implementation and Disclosure (125)	29.6	4	98	21.7	6.5	107	22.6	5.5	109	21.3	5.5	104
CSR overall score (21)	4.68	0	19	5.66	0	21	5.77	0	18.5	5.90	0	21
Corporate Governance score (146)	32.85	6	107	25.19	8.5	119.5	26.47	7.5	120	25.19	7.5	119

Both tables point to four initial findings. Firstly, there has been a sharp rise in the mean scores from 2004 to 2005 with implementation scores doubling from 21.49 to 43.53. From Table 5-1, the disclosure scores have also increased significantly (using independent samples t-tests) from 14.74 to 25.74, achieving a disclosure score percentage of nearly two thirds in 2006. This provides a clear indication that listed companies are engaging with the requirements of the corporate governance code and this from the first financial year where compliance was being expected. Secondly, given the fact that issues relating to, and the relevance of, corporate governance were not a new phenomenon in Mauritius, there were already indications that some companies had already implemented some corporate governance requirements that were eventually included in the code. In addition, the first publication date of the code (Oct 2003) provided an early notice of the implications which a few companies appear to have considered in the 2003-2004 financial year. As a result, one can observe in Table 5-2 a fairly high maximum score of 61.5, 36.5, 98, 19 and 107 respectively for implementation, disclosure, the total of implementation/disclosure, CSR score and the total corporate governance score. Thirdly, the standard deviations (SD) indicate a relatively high level of variability in the scores particularly in 2004 and this can be viewed as an initial ambivalence amongst listed companies. The standard deviations are visibly reduced from 2005 onwards as can be seen by the implementation scores SD falling from 21.1 in 2004 to 15.9 in 2007. Fourthly, one can note that the total corporate governance score is materially affected by the relatively slower pace of progress in CSR disclosure scores. Indeed, from Table 5-1, the mean scores in percentage terms indicate a fairly healthy progress in implementation and disclosure aspects by 2005 and onwards, with percentages being above 50% and reaching 66% in 2007 for the disclosure aspects of corporate governance (excluding CSR). Over the same period, CSR percentage mean scores rose only from 35% to 42%. As a result, the total corporate governance score (inclusive of CSR) does not entirely reflect the progress in implementation and disclosure of the main requirements of the code.

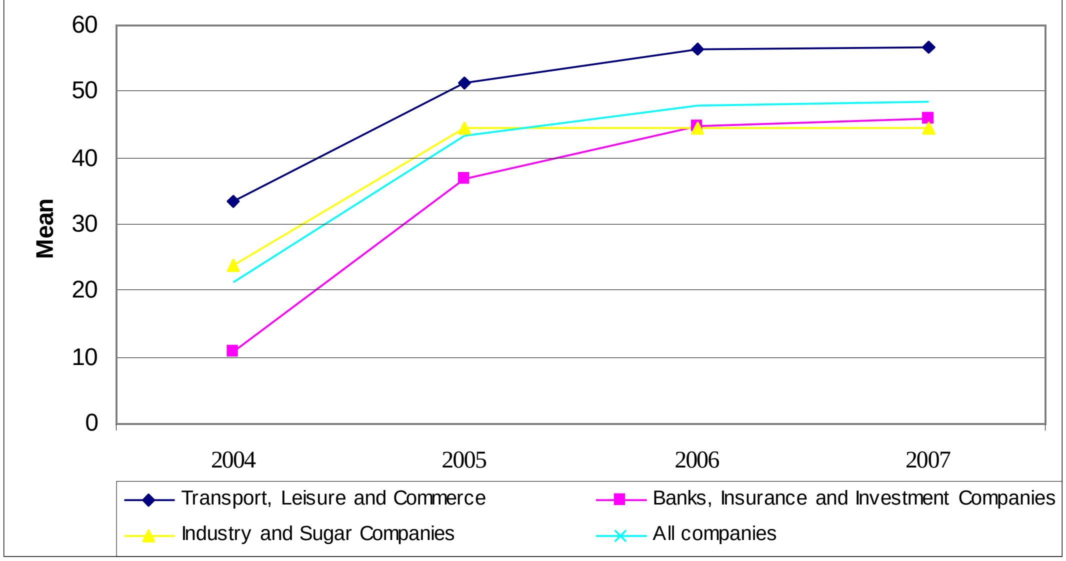
Nevertheless, the very low minimum scores and the SDs reflect a diversity of behaviour regarding the companies' attitudes to the corporate governance code. For instance, one can consider the fairly contrasting views expressed by some of the interviewed directors:

> *"..There needs to be a certain level of compliance but not to the extent of having the code in your hand all the time. There needs to be a balance between the application of the code and the productivity of the company. I do what is necessary to be compliant with the code but only the future will tell us whether the code will add value to the board and the company"* (Interviewee D)
>
> *"At the beginning, there were some companies that were reluctant in complying with the code. I still have in mind the reactions of some directors when it comes to disclose some very important information. Today [i.e. in 2008], the code is more accepted and there is less resistance to its application. At the level of the company, we are improving each year to disclose more items. Definitely, there is a tendency for more disclosures"* (Interviewee F).
>
> *"At the beginning, the code was new to everybody….we are very much for this code and processes are put in place to ensure that all the criteria of the code are being respected and abided to. In the years to come, corporate governance will evolve even more and will become an important tool for each and every company in Mauritius"* (Interviewee G).

The above both reflect an initial 'drive' in addressing the requirements of the code but at the same time, there have been many apprehensions and doubts as to how best one can tackle the changes made explicit by the code. It is worth noting how directors emphasise the different types of changes, namely structural changes (e.g. new board members, new decision processes) and disclosure changes (new and more information being made public). Furthermore, the notion of a 'balance' (mentioned by the first director quoted above) between a so-called "conformance" and "performance" is also a very popular argument made by many of the interviewed directors. It is in fact a direct reference from the Code (e.g. pages 18 and 21, 2004) whereby a dichotomy has been created namely between, on one hand complying with all the code's requirements and on the other hand, ensuring the company's actual business activities are allowed to perform adequately. It is akin to the 'comply or explain' approach (as analysed by MacNeil and Li, 2006) where companies are allowed to not comply with specific provisions of a corporate governance code by disclosing such non-compliance and explaining the reasons it. However, MacNeil and Li (2006) concluded that such flexibility could be abused and could lead to non-compliance with little explanation, disclosure or reasons for such non-compliance (as in Krambia-Kapardis and Psaros, 2006) i.e. essentially companies could 'cherry-pick' the parts of the code they would prefer and disregard the more 'difficult' or controversial ones, as highlighted in Tsipouri and Xanthakis (2004) and Ow-Yong and Guan (2000). In light of this, we believe that the same issues could arise from this logic of a dichotomy between conformance and performance and we intend to assess this more closely in the subsequent sections.

In addition to the above key findings, the scores from 2005 onwards indicate a different corporate behaviour regarding the progress in the implementation of the corporate governance code. Already from Table 5-1, one can notice that the mean scores appear to remain stable, notably in 2006 and 2007. This can best be viewed from Figure 5.1, which displays the corporate governance implementation scores for all listed companies and for the three main economic sectors[3].

FIGURE 1 - Corporate Governance Implementation scores per sector and all companies for the years 2004-2007 for listed companies (max score 83)



As noted in Figure 5.1, there is modest improvement in the mean scores from 2005 to 2006 (although not statistically significant) and virtually no change from 2006 to 2007. In other words, the companies' interests in implementing further aspects of the corporate governance code appear to die down and remain stable at a percentage implementation rate of 57% to 58%. This is in sharp contrast to some of the interviewees who had predicted a gradual and continuous increase in implementation as companies would increasingly become conversant with the code's requirements. Figure 5- 2 highlights a similar pattern for the mean disclosure scores, which is equally reflected in the combined implementation/disclosure scores (Figure 3). Figures 4 and 5 provide the trend of weighted mean scores for CSR disclosures (max score 21) and the total corporate governance score (max score 146).

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[3] Transport, Leisure and Commerce (11 companies), Industry and Sugar Companies (12 companies), Banks, Insurance and Investment Companies (16 companies) give a total of 39 companies.

FIGURE 2 - Corporate Governance Disclosure scores per sector and all companies for the years 2004-2007 Listed Companies (max score 42)

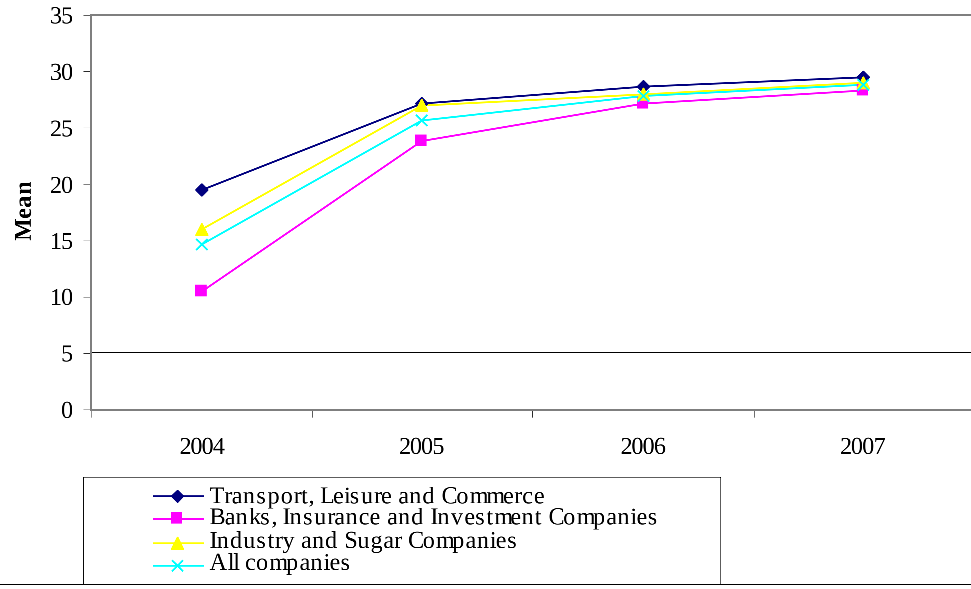


FIGURE 3 - Corporate Governance Implementation and Disclosure Mean Scores per sector and all companies for the years 2004-2007 for listed companies (max score 125)

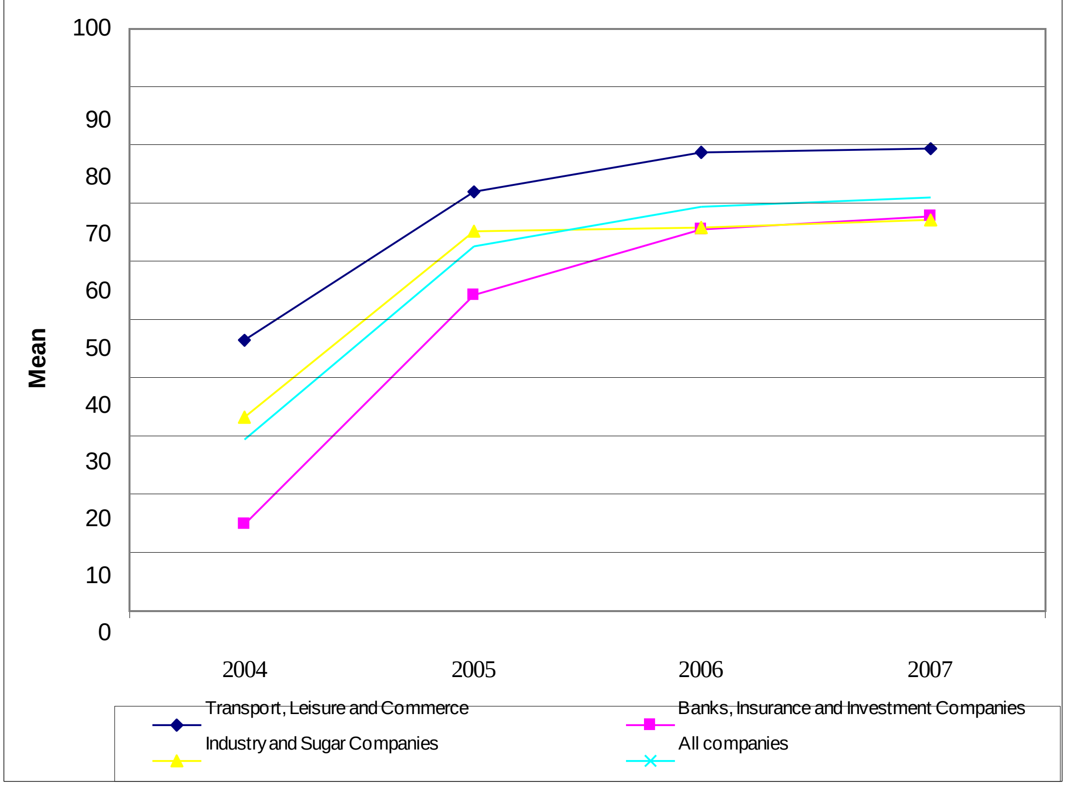


FIGURE 4 - CSR Disclosure Scores per sector and all companies for the years 2004-2007 for listed companies (max score 21)

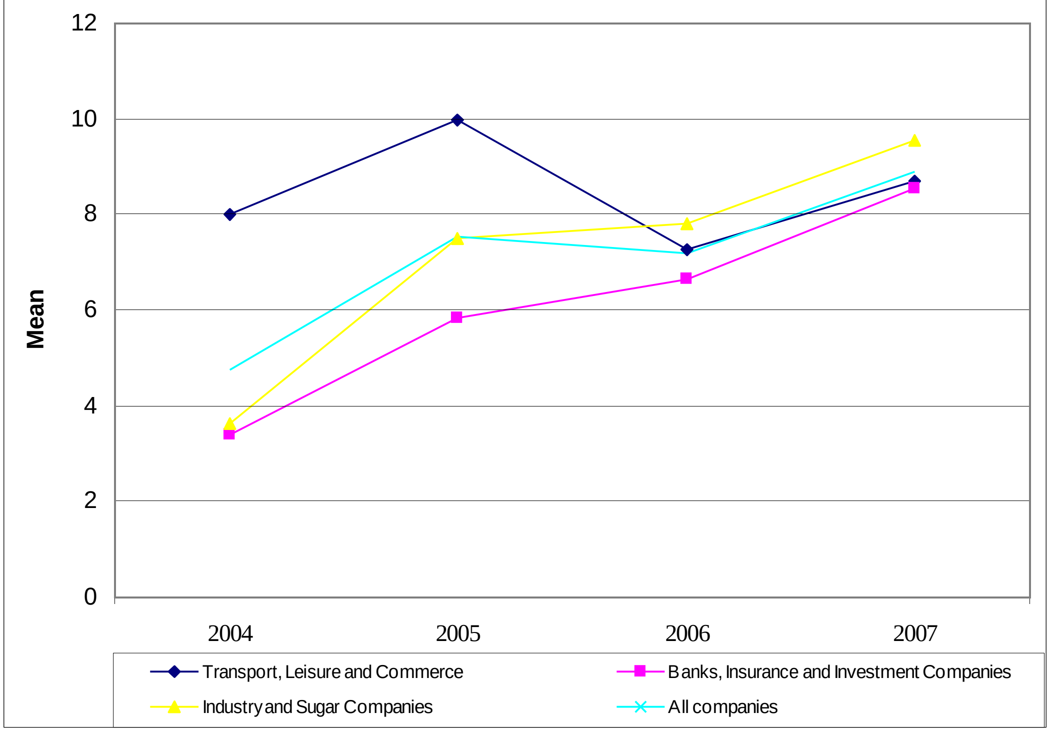
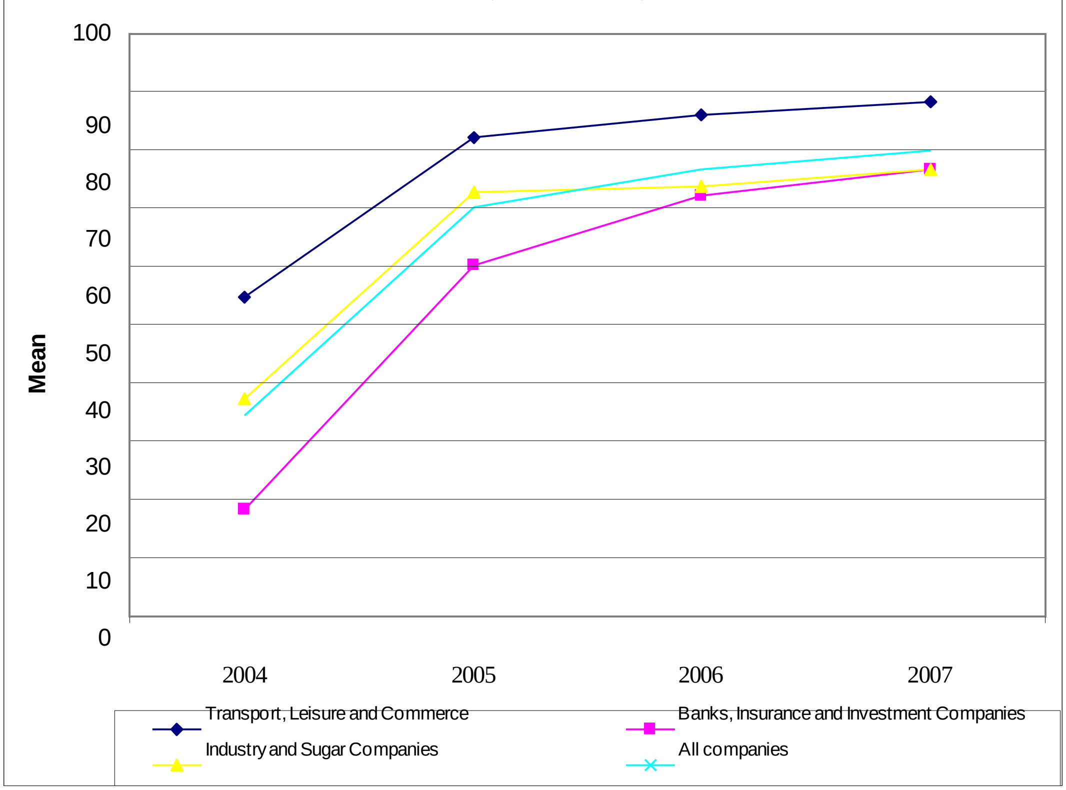


FIGURE 5 - Total Corporate Governance Scores per sector and all companies for the years 2004-2007 for listed companies (max score 146)



91

Figures 5- 2, 5- 3 and 5- 5 shows how the scores improves marginally from 2005 onwards and now cluster at a mean score of 28-30 (over 42) or percentage of about 66%. It is noticed that although some differences appear to exist between the economic sectors, the ANOVA tests were not conclusive in this respect from 2005 onwards. Significant differences were only found for 2004 where the 'transport, leisure and commerce' sector was outperforming the 'industry and sugar companies' and the 'banks, insurance and investment' companies (lowest scores). As a result, we do not find current differences in corporate governance implementation and disclosure by economic sectors. Figure 5- 4 shows a marginally different trend for CSR disclosures in 2005, with the 'transport, leisure and commerce' disclosing more CSR than other sectors but differences make non-significant by 2007. Overall, this brings new evidence in relation to Boolaky's (2006) initial study of banks and insurance companies where he found indication of very good compliance amongst the surveyed companies in the first year of implementation (2005). He associated this performance to a strong regulatory framework set out by the Bank of Mauritius (BOM) and the Financial Services Commission (FSC). However, and although the weighted scores in this study cannot be directly compared to the un-weighted scores of Boolaky (2006), it appears that the performance of banks and insurance companies is no better than other listed companies that are generally subject to a lesser regulatory regime. Hence, the BOM's and FSC's regulatory regimes appear to have little effect beyond the current level of implementation and disclosure displayed by listed companies in general. Obviously, and as a result of the 'comply or explain' approach in the corporate governance code, we should not expect a continuous progression to implementation / disclosure rates of 100% for all companies. However, some degree of change from some or a few companies would be expected but from Table 5- 2, there appears to be little increase in terms of the maximum and minimum scores whilst the SDs have remained fairly constant. Consequently, we explore one possible reason for such a dampening behaviour, which are partly informed by our interview data.

From the interviews, there appears to have been a growing realisation of the costs involved in complying with the code and the equally growing realisation that the benefits have yet to be reaped from the implementation of the code. Many interviewees have dwelled upon the practical difficulties in the implementation of the code:

> *"Definitely the size and contents of an annual report have trebled compared to what it was five years ago, which sometimes kills the will of the shareholders to have a look at it – and this is not helpful at all. The reports are however not allowed to be submitted to the Registrar in CD format because the Companies Act does not authorise so. The code does make life easier by increasing the reporting process to get shareholders' interest and attention. However, this lengthy reporting is costly" (Interviewee A)*

> *"It's difficult to make the link between companies which disclose generously all information required and its impact on the bottom line….. If we have to relate the impact of the code on the bottom line, I will say it's in the reverse direction. Instead of bringing profits, it brings additional costs to the company….. What I can tell you is that it takes a lot of time and is frustrating" (Interviewee F)*

> *"Annual reports are getting thicker and there is an increase in paper work….the question is, is it necessary to disclose that much? From the company's end, the work is demanding and tedious. I wonder whether the shareholders are looking for that extent of disclosure" (Interviewee B)*

From the interviews, we note a much higher level of dissatisfaction with the cost implications relating to the disclosure and communication of corporate governance rather than with the costs of implementing corporate governance within the company i.e. setting up new committee structures, conducting meetings, finding and inducting new directors etc. The implementation of the code also came on the back of major international accounting and financial reporting developments which resulted in significant increases in annual report disclosures. In addition, the apparent legal restriction on companies not to use digital formats for the dissemination of annual reports to shareholders (and use printed formats instead) has been voiced out quite vocally. Interestingly, the published literature is not particularly focused on the influence of compliance and disclosure costs on corporate governance implementation, except for UK survey and case findings respectively by Moxey (2004) and Durden and Pech (2006). Thus, the interview responses bring some evidence from the developing country context on the significant relevance of compliance costs in corporate governance implementation. Finally, the widespread perception amongst directors that not many shareholders (and other users) read the relevant corporate governance disclosures may strengthen a general and negative attitude towards implementing more requirements of the code. However, whilst we assert that the cost implication may have a direct (but yet partial) impact on additional corporate governance corporate disclosure decisions, this argument is less tenable when it comes to the implementation of corporate governance structures.

At this stage therefore, it is timely to explore the implementation and disclosure scores in greater detail and assess more closely the reasons for the recent dampening of corporate governance implementation. The disclosure scores presented in the remaining part of this chapter will focus on the non-CSR disclosures, to enable a comparison with the corporate governance literature that examines disclosure aspects such as board composition, committee structures, directors' interests and remuneration.

5.3 Detailed Implementation Scores

5.3.1 Board composition

One of the key structural and organisational changes enacted by the code of corporate governance relates to the re-definition and re-composition of the board of directors. In particular, it pertains to the separation of the chief executive and chairperson roles, the nomination of independent non-executive directors (INEDs), and the existence of an appropriate balance of executive directors (ED), non-executive directors (NED) and INEDs.

Table 5-3: Board Composition Statistics for Listed Companies (2004-2007)											
	Status of Board Chairperson % of listed companies			**Split between Chairperson and CEO % of listed companies**		**Independent Non-Executive (INED) % of listed companies**			**Executive Director (ED) % of listed companies**		
	INED	***NED***	NICB[4]	***SPLIT***	NOT SPLIT	INED= 0	INED= 1	***INED≥ 2***	ED= 0	ED =1	***ED≥ 2***
2004 n=40	***5***	***28***	-	***38***	62	58	10	***25***	2	33	***65***
2005 n=41	***15***	***66***	7	***85***	15	22	12	***63***	10	37	***46***
2006 n=43	***19***	***58***	9	***74***	19	26	7	***60***	19	23	***49***
2007 n=42	***19***	***55***	10	***69***	24	26	10	***57***	10	33	***48***

Table 5-3 above provides a summary of the board composition elements and the bold italic columns represent the specific requirements of the code e.g. the code requires that the chairperson and CEO positions be split (SPLIT: Section 2.5.4, 2004). In the case of the board chairperson, the code provides that either a NED or an INED should act as a chairperson but with the 'aspiration' that an INED should chair the board (Section 2.5.5, 2004). Regarding INEDs and NEDs, a board should have at least two members of each category (Sections 2.2.2 and 2.2.3, 2004). The percentage of companies complying with the relevant requirements is based on the number of listed companies in the relevant financial year. Not all listed companies have provided detailed information regarding board composition and as such the percentages in Table 5-3 will not necessarily add to 100%. Whilst this lack of information was rather acute in 2004 (13 companies), it gradually reduced to 3 in 2005 and then to only one company for 2006 and 2007. In 2004, 65% of the listed companies had two or more executive directors and this was as per the requirements of the code. In 2005, the percentage of boards with an appropriate executive representation was decreased to 46% and this has substantially remained at this level (2006 and 2007 with 49% and 48% respectively). In relation to INEDs, 25% of the listed companies have abided by this criterion in 2004 and this has first increased to 63% in 2005 before declining to 57% in 2007. In addition, the percentage of independent directors per company board varies greatly from 0% to 88%, with 26% of companies still without an INED on the board by 2007. There were also 3 companies in 2004, which did not disclose the number of independent directors they had on their board. To convey a more positive impression in the annual reports, some companies tend to only state that their boards consist of a majority of independent directors. In addition, 24% of companies have yet to split the CEO/Chairperson role in 2007 whilst a sizable majority of companies (65%) would prefer to have an NED as a board chairperson. If one considers collectively the corporate governance requirements

[4] Non Independent Chairperson of the Board (NICB). A category of directors which is not provided for in the code but which has been used explicitly by some companies.

relating to board composition, it appears there has been a welcome trend during the fours years as there are substantially more dual-leadership boards (69%) whilst the other indicators have been progressing in a rather subdued way. In particular, the proportion of INEDs on boards remains fairly average (57%) in 2007 considering the previous percentages in 2005 and 2006 (63% and 60% respectively).

The weighted mean scores relating to board composition from 2004 to 2007 are presented in Table 5- 4, together with the standard deviation and maximum/minimum scores.

Table 5-4: Mean Board Composition Scores of Listed Companies (2004-2007)								
N=39	**2004**	2004	**2005**	2005	**2006**	2006	**2007**	2007
(max score 20)	**score**	%	**score**	%	**Score**	%	**score**	%
Board Composition	**5.9**	29.5	**11.92**	59.6	**12.37**	61.85	**11.92**	59.6
Standard Deviation	6.45		6.32		6.04		5.6	
Minimum score	0		0		0		0	
Maximum score	20		20		20		20	

A trend similar to the overall implementation scores is apparent with a slight dip in the board composition percentage score in 2007 remaining just under 60%. The main reasons for this appear to be related to the (i) reliance on NEDs to chair boards, rather than INEDs, and (ii) an insufficient proportion of INEDs and EDs on the board of directors. As a result, the above results for listed companies appear at odds with the code's requirements that boards should have an appropriate balance of executive, non-executive and independent directors (Section 2.2.1, page 19, 2004). An un-balanced board may give rise to situations where for instance executives may control the decisions being made by the board and the board is thus unable to act as control mechanism on executive action - which merely rubber stamps decisions. In a similar vein, the predominance of non-executives may encourage a 'debating' and 'talking shop' behaviour by the board as experiences of current issues affecting the company are not fed back to the board and there is no sense of urgency or timeliness that underlies a competitive business environment. The absence of sufficient executives on the board is thus as concerning as the presence of too many of them. Finally, the reliance on too many non-executives (rather than INEDs) can lead to continuous debates for the board as many NEDs seek to represent interests of particular shareholders on the board.

Authors such as Laing and Weir (1999), Rhoades et al. (2001) and Elsayed (2007) have sought to identify (with various degrees of success) the contribution of dual leadership, INEDs and a balanced board on performance variables. Instead, we first rely on the experiences and perceptions of directors and other actors who have been mostly involved in the change process relating to board composition. For instance, many interviewees have diverging opinions on the role of independent directors as mentioned in the extracts below:

“Independent directors having the interest of the company at heart could a one in a million case….and it will not be in the advantage of the board to rely too much on independent directors. Definitely, independent directors have to bring something in the company, but what is it? The interest that INEDs are supposed to have towards the companies has not been defined”. (Interviewee D)

“The fact that there is no majority shareholder [in the company], it was not difficult for us to have independent directors. It is true that in some other companies, it is difficult to have such directors when the company is family owned….and the structure does not allow for instance to have an INED as chairman but rather a family member who occupies such position” (Interviewee C)

“….when the board composition is made up of the right balance of directors from different backgrounds (for instance from financial or business oriented ones), this can contribute a lot to the company. But the most important thing is that each board member should play their roles to the fullest .Finding the right INED was not difficult at all.” (Interviewee F)

“The presence of independent directors is viewed as an indicator of objective decision-making and integrity within the company, and the fact that the CEO must be also on the board ensures a balance, such that the management of the company becomes a concern for all and not only for a few [non-executive] directors on the board” (Interviewee Cc).

“I think it is important to have the code for companies which are not in that mindset to be transparent to force them to demonstrate some compliance. Those which do not have independent directors should be forced to have them on board” (Interviewee B)

Several noteworthy aspects emerge from the analysis of the scores and the interviews regarding board composition. Firstly, there is interestingly very little opposition to the notion of dual leadership in locally listed companies and this is sharp contrast with other studies of developing nations e.g. Krambia-Kapardis and Psaros (2006). The dominance of the board by a family member in a family-owned company has been highlighted, especially in various Asian contexts (e.g. Ho and Wong, 2001; Classens and Fan, 2002; Solomon et al., 2003) but this appears to be less of an issue in the recent context of implementing the code in Mauritius (as mentioned by the second interviewee above) - but only insofar as the board composition factor is concerned. Secondly, the main indicator of change amongst Mauritian boards relates to the number (and/or proportion) of INEDs and this prompted as shown above a diversity of views on what should one expect from the inclusion of INEDs on a board. One interviewee believes that greater transparency is closely linked to the appointment of INEDs. In other words, INEDs project an image of openness, debate and change for the company, as opposed to being viewed as an opaque organisation run only by ‘insiders’ and executives with the board merely rubber stamping executives’ decisions. Others however believe that the INEDs should bring the same type of contribution and benefits brought in by non-executives in general but this appears to be a fairly unrealistic expectation given the different range/types of skills and knowledge generally displayed by INEDs and NEDs. Laing and Weir (1999) however warn of the dangers involved in having too many ‘part-time’ independent directors who may slow the board’s decision-making process, particularly when they are confronted to complex or technical issues that can be more easily tackled by full-time knowledgeable executives. This is in part the argument put forward by Buchanan (2007) when he documents the practice of 'internalism' in Japanese companies - whereby non-executive directors are drawn from the companies' own ranks to ensure that the right competencies and knowledge can be used at board level.

Furthermore, many interviewees are sceptical of the extent to which an INED is 'truly' independent particularly in the Mauritian context and assume that directors are drawn from the same and relatively small pool of professionals or business people who are involved in diverse business ventures. As a result, there is a view that the intended benefits of having INEDs - and their actual motivations or interests - on the board appear limited or simply unclear to many directors. In fact, Monks (2001, p. 144) challenged more generally this notion of independence in that every independent director will feel personally beholden to those who have appointed him/her. He therefore (Monks 2001, p. 147) contended that the carefully crafted definitions of independence included in corporate governance codes merely create an appearance that is disconnected from reality. Two of the interviewed directors commented on the particular challenges and the resulting 'pragmatic' behaviour adopted by companies:

> *"I won't hide that every time it was a difficult task because in companies where there are independent directors such as banks and accountancy firms, their employers prevent them from sitting on other boards of directors. De facto, the amount of competent and qualified people to act as INEDs is reduced….The pool is therefore restricted to potential people, sometimes even from competitors. It is difficult to have people who are independent, not a competitor and well qualified to be on the boards"* (Interviewee O)
>
> *"…but we have to define independence. Evidently, the corporate world in Mauritius is small and everybody knows everybody as friends or relatives. Here at [the company], our independent directors are not shareholders, do not work here and do not have any common interest with the group. To have 100% independence, the company has to seek a foreign director and to look for 100% independent director in Mauritius that has nothing to do with the company is somehow difficult" (Interviewee E)*

In conclusion to this section, we argue that companies have implemented the board composition elements fairly satisfactorily but are now encountering both conceptual and practical problems, particularly in relation to INEDs. The conceptual issues essentially refer to the companies/directors' different opinions as too what an INED should be doing and in the absence of a clear message, the proportion of INEDs on boards (and the percentage of them chairing boards) remains static. The practical issues refer to the concern that the pool of qualified / competent independent directors is very limited (but is not accepted by all interviewees) and that independence may well become an unrealistic target. Although several interviewees referred to actions being taken by the Mauritius Institute of Directors (MIoD) to train and /or identify INEDs, it remains to date unclear as to how the MID seeks to effectively match directors to appropriate companies.

5.3.2 Audit Committee, Risk Management and Internal Audit

This section and the subsequent one focus on the main sub-committee structures and processes that were required by the code to enable the full board to focus on the 'bigger picture' whilst selected board members would consider important but generally more specialized aspects of the board's work. The audit committee's work and duties stems directly from the need to ensure the company is financially sound at all times and that management is making a proper use of the financial resources. Various instances of corporate collapse or failure (e.g. Rolls Royce, Polly Peck, Tyco, and Enron) were associated to the apparent lack of understanding and awareness of financial aspects by the board of directors (especially NEDs and INEDs) and the latter's inability to monitor management's activities more closely. In addition, statutory (external) and internal auditors would report directly to the audit committee, which would then be responsible for ensuring that the relevant recommendations and issues are given due recognition at the board level. Finally, with the enactment of international financial reporting standards on an almost worldwide basis, corporate financial reporting has become increasingly complex and considering that directors are explicitly responsible for the preparation of company annual reports, the audit committee is generally entrusted with ensuring that the annual report can be deemed to fairly represent the company's financial situation and performance. In light of the strong 'accounting-led' focus of the audit committee, there has been a higher extent of research on the efficacy of the audit committee structure in improving accountability, audit performance, transparency and financial reporting (e.g. Turley and Zaman, 2004).

Furthermore, the notions of risk management and internal audit have become more prominent as companies face a riskier business environment and more complex financial instruments with the potential for unlimited liabilities to the company. Recent local events involving the incurring of large hedging losses by one of the largest locally listed firms have driven home the point about the need for greater accountability, more transparency and increased involvement by risk managers and internal auditors[5]. Also, directors are now responsible for the internal control systems being set up to ensure the efficiency and effectiveness of corporate control systems and reduce the possibility of fraud, embezzlement and other illegal acts detrimental to the company's and shareholders' interests.

An initial assessment from the annual reports for the period 2004-2007 revealed an increasing proportion of companies having established an audit committee, starting from 50% in 2004, 90% in 2005 and 86% for both 2006 and 2007. This therefore indicates a strong awareness of the audit committee's importance prior to the formal publication of the code of corporate governance, as documented previously in the literature (e.g. Markarian et al., 2007; Ho and Wong, 2001). However, authors such as Krambia-Kapardis and Psaros (2006) argue that a greater scrutiny of the actual composition and activity of the audit committee must be made to ensure that it is not merely a

[5] It however needs to be acknowledged that the company in question did have appropriate risk structures and policies which were obviously not able to prevent or manage these hedging losses.

‘symbolic’ structure. We first present the weighted scores for the audit committee implementation in Table 5-5 below:

Table 5-5: Audit Committee Implementation Scores of Listed Companies (2004-2007)								
N=39	**2004**	2004	**2005**	2005	**2006**	2006	**2007**	2007
(max score 14)	**score**	%	**Score**	%	**Score**	%	**score**	%
Audit Committee (mean)	**5.89**	42.1	**9.71**	69.4	**10.94**	78.1	**10.97**	78.4
Standard Deviation	5.97		3.33		3.46		3.43	
Minimum score	0		0		0		0	
Maximum score	14		14		14		14	

The results above confirm that not only are audit committee structures being set up but there is also evidence of activity by these committees. As with overall implementation scores, mean and standard deviations have remained stable for 2006 and 2007 but at a higher level that the overall mean implementation scores. A detailed scrutiny of the scores indicate that it is the requirement that the committee be chaired by an INED which is impacting on the scores in 2006 and 2007, since it was noted in the previous section that INED appointments have yet to be fully implemented by all companies. Nonetheless, the following interview extracts are illustrative of the amount of engagement and seriousness attributed to the work within the audit committee:

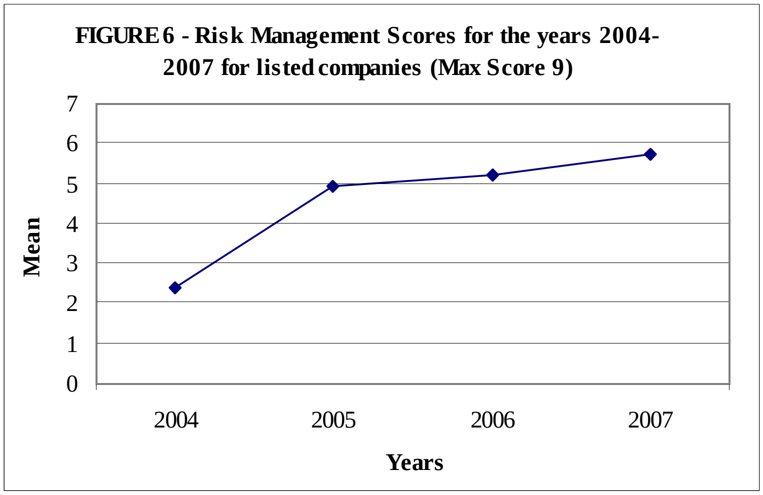
> *“The executive directors of a company know best the areas for improvement and in the presence of committees like the audit committee, the board can question the executive directors and there is a rich flow of information between them”* (Interviewee A)
>
> *“We have the audit committee which reviews the cost control of the company…”* (Interviewee E)
>
> *“The [audit] committee helps to attract the attention of the board on situations which could have deteriorated if not taken into consideration at the right moment. If this is left to management, the issue would have dragged on and after 6 months, the board will have to find a solution to a problem which might be irrelevant*” (Interviewee N).
>
> *“The audit committee is becoming more and more important. The board makes more delegation now. Things that were in the past treated at board level are now delegated and handled by the audit committee.”* (Interviewee F).

In view of the inherent ‘financial focus’ of the audit committee’s work, there appears to be a strong expectation and willingness for the audit committee to act as a ‘financial watchdog’ on behalf of the board to ensure that the accounting, audit and financial reporting aspects are not being neglected. Previous cases of corporate collapse and behavior had indeed highlighted an apparent disinterest by the board to get involved with the detailed analysis and specifics of financial reports, particularly when the board is consisting of members who are not trained or experienced in detailed accounting and audit practices. Furthermore, the audit committee provides an appropriate reporting line for internal and external auditors to ensure that accounting issues, internal control weaknesses and resulting recommendations are being communicated to, and acted upon by, selected directors who are perceived to be more attuned to the accounting/audit and financial aspects of the company. The audit committees thus appear to act as control sub-committees (rather than being primarily debating ones) which examine in detail the financial matters and management reports, and selectively reports to their boards where applicable. In a way, the relatively 'structured' nature of the accounting and audit processes within a company seems to have enabled the audit committee structure to perform and add significant value to the board process within a short span of time. We thus argue that it is this visible and prompt benefit to the company which explains its almost universal implementation in listed companies. For the minority of companies not having an audit committee structure, the main reason we can identify for this relates to relatively small size of the board and the fact that directors have decided to handle all matters at the board level.

We now consider the risk management and internal audit aspects. The code provides for the setting of a separate risk committee (Section 11.5) and the development of a risk management policy/system (p. 85, 2004) but in many cases the terms of reference relating to risk management are delegated to the audit committee. In the case of the internal audit, the code specifies in detail the board's responsibilities in respect of internal control (p. 87, 2004) and internal audit (p. 89, 2004) but it falls short of formally requiring that an internal audit function be set up in all circumstances (p. 89, par. 6, 2004). Nonetheless, the tone and wording of the relevant section (p. 89 to p. 91) is such that we have included the setting up of an internal audit (or at least evidence of it being considered) in the weighted scoring system. In sum, the implementation scores relating to risk management and internal audit are not solely about the existence of a defined structure (e.g. risk committee, internal audit function) but whether companies have at least incorporated and acknowledged the requirements of the code insofar as risk management and internal audit are concerned. Table 5-6 and Figure 5- 6 display the weighted scores for this aspect of corporate governance implementation:

Table 5-6: Risk Management and Internal Audit Implementation Scores of Listed Companies (2004-2007)

N=39	**2004**	2004	**2005**	2005	**2006**	2006	**2007**	2007
(max score 9)	**score**	%	**Score**	%	**Score**	%	**score**	%
Risk Management and Internal Audit (mean)	**2.39**	26.6	**4.92**	54.7	**5.19**	57.7	**5.73**	63.7
Standard Deviation	3.19		3.28		3.26		3.3	
Minimum score	0		0		0		0	
Maximum score	9		9		9		9	



The above figures demonstrate an increased awareness and implementation of the risk management and internal audit. Many of the listed companies have incorporated the risk management element as part of the audit committee's mandate but the scores also reflect a lack of detailed (and published) information regarding the risk management processes and policies adopted by the listed companies. On the other hand, the development of an internal audit function is becoming an increasingly accepted mechanism of corporate governance as mentioned by the following directors:

> *"I think after 2005, there has been an effort in trying to put things in practice. There has also been the setting of an internal audit function, which I think has increased the level of transparency and corporate governance within the organization."* (Interviewee E)
>
> *"In the past, management prepared the budget, presented it to the board and it is at the end of the financial year that we are going to have results. We have now introduced an internal audit unit, which is answerable to the audit committee. Therefore, we can review the company's results and performance on a three months' basis and take the necessary corrective measures. This allows us to achieve the target objectives set at the onset of the financial year" (Interviewee N)*

As in the case of the audit committee implementation, it appears that the clearly defined structure and mandate of the internal audit provides an impetus for companies to develop an internal audit function (whether in-house or outsourced) which could then report to, and support, the audit committee. However, we found less engagement with risk management because of its inherent unstructured, uncertain and wide-ranging implications for companies[6]. This is particularly an issue with companies that are not operating in the banking or financial services domain and are thus not necessarily considering risk on continuous entity-wide basis (e.g. such as banks) but rather on a transactional and periodic basis. Certainly, the recent hedging losses affecting a listed company

[6] To illustrate this point, the code expects companies to assess and consider risk in at least the following areas: physical; operational; human resources; technology; business continuity; financial; compliance; reputational (p. 84, 2004).

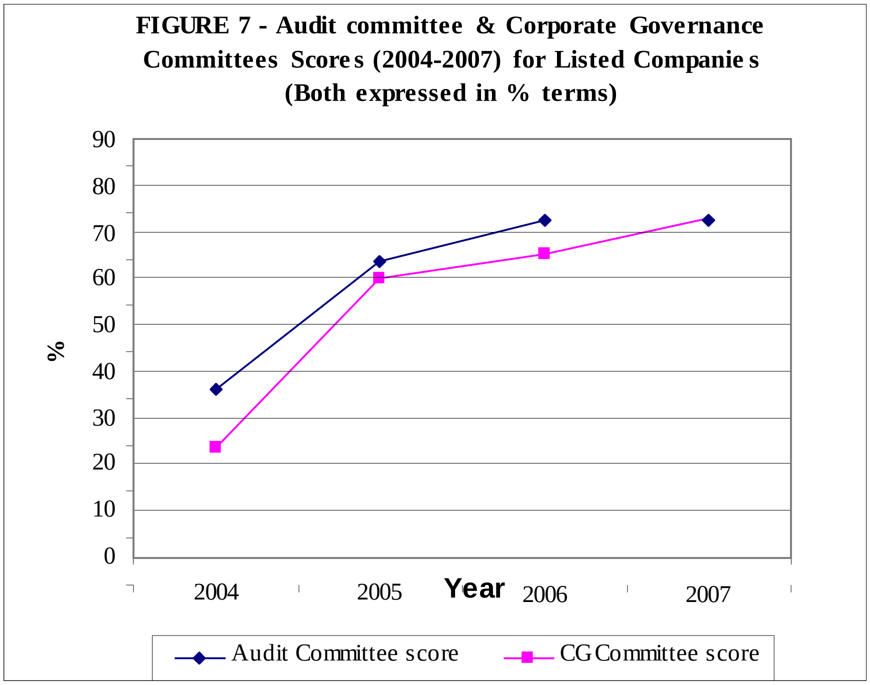
appear to originate from an awareness of risk but whether its mitigation and/or management were successful is obviously into question. In our opinion, this well publicized and ongoing event will certainly encourage all companies to engage more comprehensively with risk management rather than simply seeking to comply with the code's requirements in this regard.

5.3.3 Corporate Governance Committees

The second key structure to be established as a result of the corporate governance code is the corporate governance committee. Its remit is to monitor all aspects and developments relating to corporate governance implementation and disclosure in the company and where no separate relevant committee exists, it should also deal with decisions regarding remuneration and nomination of directors. An initial assessment shows that 38% of companies had a corporate governance committee in 2004, and the proportion eventually increased to 90% in 2005, 86% in 2006 and 88% in 2007. As in the case of the audit committee, our focus was on assessing the actual composition, operations, and remit of the committee based on the data provided in the annual reports. Many companies set up separate committees to deal specifically with remuneration and nomination but in some cases also for key areas such as investment, strategy, management steering etc. However, we limited the weighted scoring process to include only any explicit reference to corporate governance, remuneration and nomination committees, irrespective as to whether a separate committee was set up or not to deal with one of the latter remits. Table 5-7 provides the relevant scores which show a similar level of implementation compared to the audit committee implementation.

Table 5-7: Corporate Governance Committees (including remuneration and nomination committees) Implementation Scores of Listed Companies (2004-2007)

N=39 (max score 20)	**2004 score**	2004 %	**2005 Score**	2005 %	**2006 Score**	2006 %	**2007 Score**	2007 %
Risk Management and Internal Audit (mean)	**5.91**	29.6	**13.17**	65.9	**14.17**	70.9	**15.76**	78.8
Standard Deviation	7.48		4.97		5.09		4.6	
Minimum score	0		0		0		0	
Maximum score	20		20		20		20	



In addition, Figure 5.7 provides a comparison for the mean weighted scores between audit and corporate governance committees. Since the maximum attainable scores for both measures are different (i.e. 14 and 20 respectively), the graph shows the mean scores converted in percentages and these display a similar pattern of progress over time. Whilst there are obvious priorities associated to the accounting and financial aspects of the companies thereby explaining an early interest in the audit committee structure, the establishment of corporate governance committees is a *prima-facie* indicator that companies seek to engage more deeply with the corporate governance agenda since these committees focus on board composition and balance, and directors' remuneration, appointment, nomination and appraisal, and on overall implementation aspects. At the same time, the processes involved in these latter decisions impact on the way other business or management decisions are taken within the company. Some of the motivations for setting such committees are expressed by the directors:

> *"At the level of the company, the setting up of committees is very important. In the past, things were left to management but today, sub-committees create a link between management and the board where an efficient decision can be taken and where there will be no room for criticisms…The presence of sub-committees therefore helps to guide the board of directors to take appropriate actions. The code has brought this plus in the management of organizations in Mauritius" (*Interviewee N)

> *"I think the structure is excellent and forces companies not to act in an ad-hoc manner but rather with well defined and informed procedures, regular meetings and minutes of meetings, and with charters for the different board committees….I think that directors have to defend the interests of shareholders to whom the company belongs to. The directors have a role to play but should not be some 'yes man' and execute what the shareholders dictate".* (Interviewee C).

> *"A number of things were done in terms of structure, for instance, the different sub-committees of the board, the way they report to the board; no overlapping of task and duties, the roles of each director and chairman are well defined. I think such structures helped a lot in the good functioning of the company" (Intervieweet E)*

In considering these views and similar comments made by other interviewees, two key points can be inferred. Firstly, the setting up of a corporate governance committee is generally the starting point for a company intending to implement the corporate governance code. As such, it provides the initial structure and forum in which change is being considered, which will have a notable impact on board decision-making and board composition. As mentioned by the interviewees, it is this notion of *structure* and *order (or discipline)* which appears to be the attractive proposition for directors (and also for one interviewed institutional shareholder), which is then reflected in the way the board is managing itself and subsequently in the way the company will be managed. Secondly, there is a clear evidence of higher *board empowerment* as board members can now rely on the structures and procedures set out in the corporate governance code to respond to requests, and arguments made, by shareholders or management. This is also spurred on by the new legislation and regulations which re-asserted the collective responsibility and duties of the board of directors, irrespective as to whether they are following instructions from particular shareholders. In a similar vein, one INED stated:

> "*Responsibilities are bigger today for independent directors. In the past, the board used to rely more on senior management but now it's no longer the case. The board today has to be updated and has to be very much aware of what is going on around the company" (Interviewee K)*

> *"Today, the board participates fully in the management of the organization, which was not the case in the past. It is the board that determines the strategy….because the board no longer wishes to 'le dindon de la farce' and when something goes wrong, the responsibility falls on everybody and not only on the board" (Interviewee G).*

In our opinion, evidence of board empowerment - or at least the beginnings of it - is one substantive change to the broader organizational culture in corporate Mauritius and which seems to have been brought about by the developments in corporate governance. This is an encouraging finding to contrast to recent evidence from other African economies (e.g. Wanyama et al., 2009) where it was found that the implementation of a corporate governance code would not have any impact in such contexts due to the deeply rooted social, economical, cultural and economic factors. At the same time however, we do acknowledge that it would unrealistic to generalise this finding to all the listed companies.

5.3.4 Executive / Board Remuneration Policies

This section relates to the implementation of policies for the determination of executive remuneration and to a lesser extent to that of non-executive remuneration. As a consequence of the recent global banking and financial crisis, any mention of executive remuneration and associated benefits raises many controversies and questions as evidenced by the recent cases of American Insurance Group (AIG) and Royal Bank of Scotland (RBS). In particular, there is a widespread perception that remuneration at the top is determined in a rather lopsided way (or even arbitrarily), with little reliance on longer term performance measures or little consideration of lower company performance. As a result of being at the top, directors appear to set or determine their remuneration themselves and there is in practice little oversight or control of such behavior. This section considers only the existence of the policies rather than the disclosure of the amounts of remuneration and focused on aspects such as a statement of remuneration philosophy, remuneration and benefit policies, and the use of fixed term contracts. Although the focus of the scoring is on executive directors, we also included where applicable, any information relative to non-executive directors. Section 2.8.1. of the code required that companies disclose a statement of remuneration philosophy along with any other relevant information. Whilst the percentage of companies disclosing any information on remuneration philosophy/policy in 2004 was 13%, this proportion has increased significantly to 51% in 2005, 63% in 2006 and finally 67% in 2007. Table 5- 8 below, reports on the weighted scores.

Table 5-8: Executive / Board Remuneration Policies Implementation Scores (Listed Companies 2004-2007)

N=39	**2004**	2004	**2005**	2005	**2006**	2006	**2007**	2007
(max score 12)	**Score**	%	**Score**	%	**Score**	%	**Score**	%
Executive/Board Remuneration (mean)	**1.04**	8.7	**2.69**	22.3	**3.27**	27.3	**3.58**	29.8
Standard Deviation	2.34		3.1		2.53		2.38	
Minimum score	0		0		0		0	
Maximum score	9		9		9		9	

Compared to the previous sections, the weighted scores and relative percentages show a poor picture of implementation with a mean score of 3.58 (29.8%) in 2007. Whilst there has been a slight progress from 2004 to 2005, most listed companies appear not to have implemented a remuneration philosophy and other performance-related policies as a result of the requirements code of corporate governance. However, we believe the above implementation scores may be more related to a widespread reluctance to disclose anything that is remotely associated to board/executive remuneration. As expected, the issue of remuneration was an extensively commented one by our interviewees[7] but few discussed the specific issue of the policies in determining the remuneration. Interestingly, one institutional shareholder (Respondent Bb) commented that one of the key aspects he would be analyzing from the annual report is the decision making mechanisms related to the remuneration of directors rather than the value of the

[7] The issue will be considered in more detail in the section of remuneration disclosures.

remuneration itself. However, this section highlights a first contradiction in how listed companies have approached the implementation of the code. On one hand, the vast majority of companies and many directors appear to engage with the changes on the grounds of providing structure and coherence to the board's and company's operations. In turn, this conveys confidence to shareholders and other users that the company is being run efficiently and professionally. On the other hand however, the absence of evidence regarding the implementation of a remuneration philosophy and its related policies conveys a different perception in that the companies do not appear to have an appropriate framework to determine executive/board remuneration. What we observe therefore is the possibility of a 'knee-jerk' reaction by companies to the issue of remuneration disclosures, although the above would not involve any publication of remuneration figures. The published literature appears equally focused on the issue of remuneration numbers and studies on the issue of remuneration policies were not forthcoming.

5.3.5 Director Appraisal, Training, Conflicts of Interest and Board Ethics

This last section relating to corporate governance implementation in listed companies investigates a number of aspects focusing on improving the contribution of directors (appraisal and training) whilst avoiding the pitfalls of conflicts of interest and board ethics. We do acknowledge that many companies may already have in-house (formal / informal) policies and practices (e.g. from a human resource or a legal perspective) to address issues of training, appraisal, conflicts of interests and ethics. As in previous sections however, our focus was on investigating the contribution of the corporate governance code in enhancing or introducing these aspects in the company.

Table 5-9: Director Appraisal, Training and Ethics Implementation Scores of Listed Companies (2004-2007)

N=39	**2004**	2004	**2005**	2005	**2006**	2006	**2007**	2007
(max score 8)	**Score**	%	**Score**	%	**Score**	%	**Score**	%
Director Appraisal, Training, & Interests & Ethics (mean)	**0.372**	4.7	**1.12**	14	**1.68**	21	**1.8**	22.5
Standard Deviation	0.99		1.66		1.89		2.25	
Minimum score	0		0		0		0	
Maximum score	4		7		7		7	

As can be noted from Table 5-9, the weighted scores are relatively low, although a slight progress is noted from 2006 when a few listed companies provided more explicit information on policies for director appraisal and training. The latter aspect related in almost all cases to induction programmes organized by the company to assist newly appointed directors. During the interviews, there was either a general acceptance of the training / appraisal agenda or there was a general unease to discuss appraisal and training, essentially because it essentially referred to people situated at the apex of the organization. For instance:

"*At [company], directors were made to attend some training and awareness sessions on the code of corporate governance and the Financial Reporting Act which was well attended. …There is also an induction course for newly appointed directors. It is important to have this induction programme."* (Interviewee C)

"We have a well defined means to carry out this [appraisal] exercise with the new managing director at [company]. All directors have to be accountable and have objectives and be appraised. The KPIs [key performance indicators] is a means to evaluate the performance of the company, which in turn will be used to evaluate the performance of the board" (Interviewee C)

"An INED - particularly if acting as a board chairman - has to make sure he/she knows the company well. There are companies where the INED sat in some executive committees to learn from them because executive directors know better the day to day running of the business" (Interviewee A).

"Yes. We have a [board] assessment document that is communicated and summarized. This took place last year and this year" (Interviewee E).

"I believe that the word training is 'retrograde' when we are talking of directors. It is more about helping the newly recruited directors to become familiar with the business environment" (Interviewee D)

"It is uneasy and difficult to tell someone that you are not competent…. If some members of the board believe that a particular director is really bad and has to step down, we do it in a 'soft' manner and 'avec elegance'. The questionnaire administered in some companies for directors to fill in has remained blank because they are not interested to be assessed this way" (Interviewee E).

"But is it [director appraisal] feasible? The problem is that we have a lot to do to run the business itself and there is not enough time to assess the directors. No it's difficult. There are also some directors who do not even participate in discussions and are not even involved in matters of the business. They come and have a cup of tea, and then leave. What do you think of that?.... In an ideal word, this requirement of the code could fit but in reality it can't work." (Interviewee K)

"Yes, there is [an appraisal process] but not to the extent of knowing the contribution of each individual directors at board meetings. We do comment on whether the directors attend the board and committee meetings. I think their presence is the least that can be communicated to directors and we do evaluate them on that aspect" (Interviewee E)

Whilst we present both sets of views above, it is also apparent from the scores that there remains a significant level of resistance in some listed companies to the notions of director training and appraisal, or at least to publicly acknowledge that directors need to be trained and assessed like any other employee of the company. Some of the interviewed directors are unsure or unaware of the appraisal process, which is in fact explained quite clearly in the code (CCG p. 74-75, 2004) and which is led / initiated by the board chairperson. The typical appraisal mechanism being used appears to originate from an individual self-assessment questionnaire, which is then collated and analysed for action, if necessary. However, there is a distinct possibility that this exercise becomes a mere ritual with time and that the 'prestige' usually associated with a directorship would preclude the use of a more comprehensive and detailed appraisal.

Furthermore, there was very little indication by companies whether formal policies were put in place to deal with conflicts of interest and board ethics. Due to the small size of the business community in Mauritius, directors themselves acknowledge the high potential, and existence, of conflicts of interests but yet there appears to be little done by the companies (at least from the annual reports). The following interview extracts refer to the use of training to raise an awareness of some of these issues:

> *"We've got all directors and officers in training on not just corporate governance but on legal issues, insider trading, and Securities Act"* (Interviewee E).
>
> *"The goal [of training] is to help them in doing what is best for the company, for example not to buy shares when they are not allowed to….. Apart from a general briefing, issues pertaining to the education of the director on corporate governance and ethics are done separately."* (Interviewee C)

This section has highlighted some of the limitations of gathering evidence of implementation using annual reports as the aspects regarding director appraisal, training, code of ethics and conflicts of interests are clearly not the priority items (particularly the last two aspects) that companies would like to disclose in the annual reports. From the interviews, there is also indirect evidence to suggest that companies are taking a greater interest in ensuring directors act in a proper manner and in the best interests of the company, which is we believe is associated to new company legislation and to the input of company secretaries. However, there would be a scope for further investigation using other methods of research (e.g. questionnaire surveys) to assess companies and directors' understanding towards board ethics and conflicts of interests in Mauritius.

5.4 Detailed Disclosure and Transparency Scores

One of the cornerstones of corporate governance is disclosure and transparency. A company may implement various structures and policies that are compatible with the corporate governance code but unless it communicates this implementation to interested parties, then the benefits of such implementation may be significantly curtailed. Disclosure and transparency is not limited to information provided in annual reports and can include briefings, website information and other forms of report. However, the corporate governance code (CCG Section 8, 2004, p. 114-117) specifically requires that relevant information must be disclosed in a corporate governance report within the company annual report. The weighted scoring system was thus based on the requirements of Section 8 and the main sub-scores are now presented and analysed under three main headings (excluding CSR). We also rely on interview data from directors and outside stakeholders such as institutional shareholders, lenders and stockbrokers.

5.4.1 Corporate Governance Report and Compliance Statements

All companies must provide a corporate governance report and provide a formal statement of compliance (or explanation, if not complying) in the annual report. Table 5-10 provides an initial assessment of the percentage of companies having met these two requirements whilst Table 5-11 displays the mean scores achieved by listed companies.

Table 5-10: Disclosure of a Corporate Governance Report and Compliance Statements of Listed Companies (2004-2007)

	Corporate Governance report		Statements of Compliance (or explanation)	
	Yes %	No %	Yes %	No %
Yr 2004	53	47	55	45
Yr 2005	95	5	80	20
Yr 2006	88	12	77	23
Yr 2007	86	14	79	21

Table 5-11: Corporate Governance Report and Compliance Statement Disclosure Scores of Listed Companies (2004-2007)

N=39	**2004**	2004	**2005**	2005	**2006**	2006	**2007**	2007
(max score 8)	**Score**	%	**Score**	%	**Score**	%	**Score**	%
Separate Report and Compliance Statement (mean)	**3.49**	43.6	**5.85**	73.1	**5.78**	72.3	**6.06**	75.8
Standard Deviation	2.91		2.41		2.43		2.36	
Minimum score	0		0		0		0	
Maximum score	8		8		8		8	

Both Tables 5-10 and 5-11 display a fairly high level of compliance with the provision of the corporate governance report but there is a constant proportion of companies (about 20% or 8 companies) that have not included a statement of compliance. Also, when reviewing the statements of compliance, it appeared that some companies were making use of vague and ambiguous wording in the statements to create an appearance of compliance. Table 5-12 provides a few examples of such statements (from 2006) which are then compared to the actual performance of the company regarding some key requirements of the code. This is provided as an illustration of this corporate behavior, which we eventually discussed with some of our interviewees.

Table 5-12: Examples of Compliance Statements of Listed Companies	
Statements (Appearance)	**Selected examples of Non-Disclosures (Reality)**
1. "The board subscribes to and is fully committed to complying with the Code of Corporate Governance of Mauritius. The directors continuously consider the implications of best practice corporate governance and are of the opinion that the company complies with the requirements of the Code of Corporate Governance in all material respects"	No detailed remuneration disclosures; no information on who are the independent directors; no information on number of board and committee meetings; no information on directors' attendance at meetings/committees.
2. "Compliance Statement: The Board is of the opinion that the company now complies with the requirements of the Code of Corporate Governance in all material respects"	No statement of remuneration philosophy; no detailed remuneration disclosures; no information on number of board/committee meetings; no information on directors' attendance at board/committee meetings.
3. "The company is committed to the principles and practice of good Corporate Governance. Company's policies and practices will where necessary be modified to comply with the CG Code"	No statement of remuneration philosophy; no detailed remuneration disclosures; no information on who are the independent directors; no information on number of board/committee meetings; no information on directors' attendance at board/committee meetings.
4. "The Company is committed to the highest standard of business integrity, transparency, and professionalism in all activities to ensure that the activities within the company are managed ethically and responsibly to enhance business value for all stakeholders. As an essential part of this commitment, the board endeavours to comply with the Code of Corporate Governance for Mauritius."	No statement of remuneration philosophy; no detailed remuneration disclosures; no CG committee set up; No information on actual number of (Audit) sub-committee meetings; No specific director disclosures relating to related-party transactions.
5. "The Board of Directors has set up an Audit Committee and a Corporate Governance committee to implement the requirements of the Code gradually, bearing in mind that this should be a leverage to enable us to further enhance shareholder value, and that the key to good corporate governance is to seek an appropriate balance between performance and conformance."	No statement of remuneration philosophy; no detailed remuneration disclosures; no information on who are the independent directors; No information on actual number of sub-committee meetings.
6. The Board considers Corporate Governance as a matter of priority that requires more attention than merely establishing the steps to be taken to demonstrate compliance with legal, statutory, regulatory or listing requirements. It is fully aware of the contribution that good corporate governance provides to the company in terms of growth, financial stability and performance. Issues of governance will continue to receive the Board and its committees' consideration and attention during the years ahead"	No statement of remuneration philosophy; no detailed remuneration disclosures; no CG committee set up; no information on who are the independent directors;

Whilst the initial statements (1 to 4) are at the very least alluding to compliance but remain at odds with the actual implementation, the last two illustrative statements (5 and 6) could be partly construed as an explanation for non-compliance but the companies do not wish to publicly acknowledge that they are in contravention of the code. For instance, the following interviewees stated:

> *"In order not to lie, they [companies] simply stated that 'as far as possible' they have abided…. I think it is also a lack of knowledge that makes them stipulate such statements" (Interviewee O).*
>
> *"…you either comply or you explain the reasons for non-compliance. But when it comes to explaining the reasons for not complying, it is like giving the impression that there is a deficiency somewhere in the company with regards to other companies who have complied".* (Interviewee G)
>
> "*But I think many companies in Mauritius applied the code just because if they don't they will be embarrassed. Therefore, to safeguard their corporate image, they better comply with the code"* (Interviewee F).

In considering the above views, it has to be mentioned that many directors are still uncertain as to the legal consequences (if any) of not complying with the code, in spite of a clear legal backing provided to the code in the Financial Reporting Act and its active use by some regulators such as the Bank of Mauritius and the Financial Services Commission. In the light of such uncertainty and in an attempt to retain a good corporate image, a 'gaming' strategy appears to have developed - albeit primarily on a temporary basis - to convey an image of good compliance whilst a 'reasonable' level of actual implementation is being achieved in the meantime. Although such behaviour could probably be occurring in other countries, there was little opportunity to compare the above with other studies, except (to a small extent) to a study of UK non-compliers (McNeil and Li, 2006). They stated that UK non-compliers provide extremely brief and uninformative disclosures to explain the reasons for non-compliance (McNeil and Li, 2006, p. 489). The authors reported on a detailed example of a serial non-complier i.e. Wm Morrison Supermarkets, whose statements were viewed to be rather opaque and dismissive of the provisions of the code. They argue that such statements would preclude any serious and reasoned assessment of this non-compliance. In a similar vein, it is believed that the observed mismatches between compliance statements and actual compliance could have a negative influence on the users' perceptions and understanding i.e. there would be less confidence in the detailed information provided in the corporate governance if the compliance statement was itself at odds with the . Since this research focused principally on the existence of compliance statements (or not), there is again scope for further investigation in this peculiar corporate behaviour to track actual (all aspects of implementation and disclosure) vs. stated compliance over time to validate the possible interpretations formulated above.

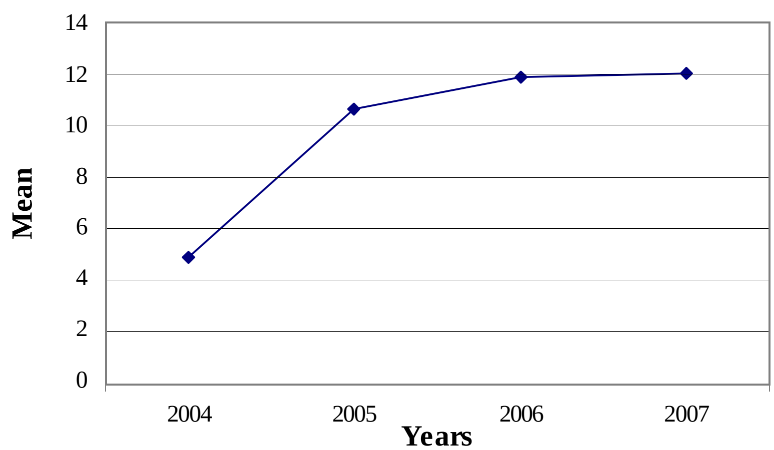
5.4.2 Board and Committee Composition and Related Disclosures

This section focuses on the disclosures relative to the profile of directors, the number of meetings carried out, the composition and number of committee meetings and the terms of reference of committees. The information provides an invaluable insight on the category of directors, the structures put in place and the actual level of activity in terms of committee/board meetings. As initially put forward in Krambia-Kapardis and Psaros (2006), Ow-Yong and Guan (2000) and Tsipouri and Xanthakis (2004), such detailed and fairly factual disclosures provide assurances that corporate governance implementation within the company is not a 'tokenistic' one that is decoupled from the real 'running' of the business. A priori, there is no controversial aspect which may influence the companies' disclosure behaviors but as noted previously in the case of compliance statements, there is a real pressure (at least amongst some companies) to ensure that a correct image is projected to the outside world. Table 5-13 shows the relevant mean scores achieved by the listed companies and Figure 5- 8 shows the progression of the mean scores from 2004 to 2007:

Table 5-13: Board / Committee Composition and Related Disclosures Scores of Listed Companies (2004-2007)

N=39	**2004**	2004	**2005**	2005	**2006**	2006	**2007**	2007
(max score 13)	**Score**	%	**Score**	%	**Score**	%	**Score**	%
Board / Committee Composition & related disclosures (mean)	**4.65**	35.8	**10.35**	79.6	**11.62**	89.4	**11.72**	90.2
Standard Deviation	5.05		3.64		3.01		2.95	
Minimum score	0		0		0		0	
Maximum score	13		13		13		13	

FIGURE 8 - Board / Committe e and related disclosures scores for listed companies 2004-2007 (Max score 13)



As expected, and in view of the nature of the information required, the mean scores (in percentage terms) are the highest of all mean scores from 2005 onwards and a peak of 90% in 2007. However, there is still a small minority of companies that provide no or little information on the basic piece of information. Whilst some companies could perceive the information of little value to outsiders, the following interviewee stated otherwise:

> *"Some of the disclosures that potential shareholders will wish to see in annual reports are the members forming part of the board of directors, profile and background of the*

directors to see who are managing the organization….Foreign investors are even more concerned about the corporate governance status of a local company before investing because it is the only main information they have access to…" (Interviewee Cc)

"There are many facets from which one can describe corporate governance. For me it is how the company is managed and it is transparent in is transactions…..the more transparent the company, the better is its corporate governance status…..[hence] we will look at the corporate governance report, the more disclosures will mean better corporate governance" (Interviewee Aa)

Overall, the evidence suggests that the disclosures on the board composition, committee structures and their levels of activity are being complied with on a widespread basis, thereby confirming our initial views that most listed companies appear to make a substantive, rather than symbolic, use of structures such as the audit and corporate governance committees.

5.4.3 Disclosures of Directors Remuneration and Interests

This last section relating to disclosures deals with the rather controversial aspect of directors' remuneration and other interests particularly when the information is being published on an individual and detailed basis. It needs to be acknowledged at the outset that this is not an issue which is specific to the Mauritian context or for that matter to the developing country context. For instance, Qu and Leung (2000) documents a widespread resistance to remuneration disclosures by Chinese companies whilst Chizema (2008) recently reports that about 25% of German listed companies do not report individual remuneration details. Table 5-14 provides a first glance at the extent of disclosure by companies in terms of whether the remuneration information is provided on an individual basis (as required by the code's section 2.8.2, 2004) or on a block basis (which is anyway required by company legislation).

Table 5-14 Remuneration disclosures (2004 – 2007)	**% of listed companies[8] disclosing on a**	
	Individual basis	Block basis
Yr 2004	0	95
Yr 2005	22	78
Yr 2006	30	63
Yr 2007	33	60

The above table already highlights the preferred option by companies to disclose on a block basis and the current percentage of companies disclosing on an individual basis is far lower than in Germany but nevertheless higher than the listed companies in China (although the study was carried out some time ago).

[8] Note: the total percentages do not necessarily add to 100% since a few companies did not disclose any remuneration data at all.

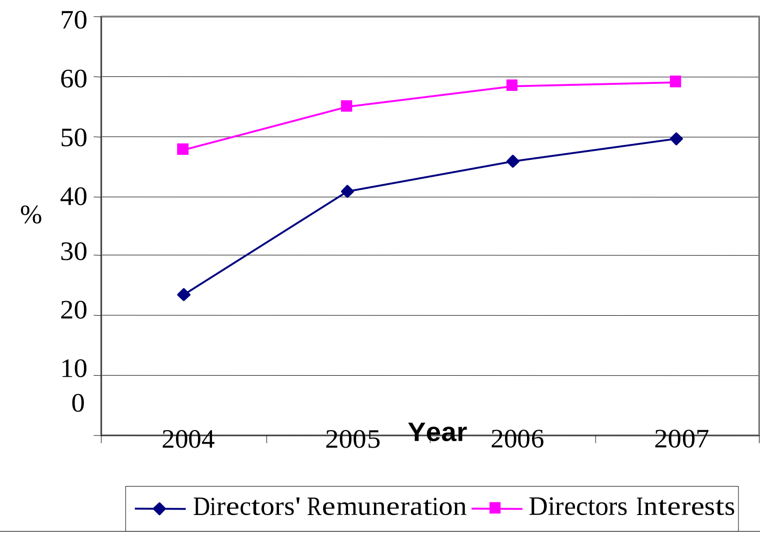
Table 5-15 and 5-16 respectively report on the weighted mean scores regarding the disclosure of directors' remuneration and of directors' interests. It needs to be emphasized that a higher score was assigned to companies disclosing remuneration (and other elements of directors' interests) on an individual basis.

Table 5-15: Directors' Remuneration Disclosure Scores of Listed Companies (2004-2007)								
N=39	**2004**	2004	**2005**	2005	**2006**	2006	**2007**	2007
(max score 14)	**score**	%	**Score**	%	**Score**	%	**score**	%
Directors' Remuneration (mean)	**3.27**	23.4	**5.71**	40.8	**6.410**	45.8	**6.94**	49.6
Standard Deviation	2.37		3.13		2.84		2.64	
Minimum score	0		0		2.5		2.5	
Maximum score	11.5		11		12.5		12.5	

Table 5-16: Directors' Interests Disclosure Scores (Listed Companies 2004-2007)								
N=39	**2004**	2004	**2005**	2005	**2006**	2006	**2007**	2007
(max score 7)	**score**	%	**Score**	%	**Score**	%	**score**	%
Directors' Interests (mean)	**3.33**	47.6	**3.85**	55	**4.09**	58.4	**4.12**	58.9
Standard Deviation	0.88		0.87		0.72		0.61	
Minimum score	1.5		1.5		2.5		2.5	
Maximum score	5.5		5.5		5.5		5.5	

Figure 5-9 provides a graphical illustration of the progression of the mean scores for both directors' remuneration and directors' interests - both expressed as a percentage to facilitate comparisons.

FIGURE 8 - Directors' Remuneration and Interests Disclosure Scores for listed companies (2004-2007) (Both scores expressed as a %)



From the above, one can observe a significantly higher mean scores for directors' interests primarily due to the fact that the relevant requirements regarding directors' interests (i.e. shareholding, related party transactions and directorships) are also spelt out in the relevant companies legislation and accounting standards. For instance, in the case of related party transactions, many corporate governance reports would refer the reader to the appropriate notes to the accounts in the company's financial statements. However, the information was generally much summarised, resulting in a lower score. Insofar as the directors' remunerations are concerned, the mean scores are just at 50% and have barely progressed since 2005. There is therefore a clear indication of a resistance by companies to engage more fully in the disclosure of directors' remuneration and this was expressed quite vigorously during several interviews:

> *"Is it important to provide for individual disclosure of remuneration? I think that creates an atmosphere of jealousy and frustration….It is of nobody's use to have disclosure of individual remuneration. Such disclosure has more of a negative impact than anything else and this can give trade unions an opportunity to curse their employers once more. For instance, ….one of the directors in the [name] group earned at least Rs. 10 million per year which, when disclosed, can create frustration among lower level employees who earned only Rs. 5,000 to Rs. 6,000 per month…..I think that we are evolving in the right direction. We should not see the overall compliance by looking at petty things like the individual remuneration of directors. This does not have a value added for the shareholders""* (Interviewee C)

> *"….the disclosure of directors' remuneration has for long been resisted, but today this is shown in the report. …However, companies have found a way to comply with the code but at the same time tailored it to their own needs. For instance, most remuneration figures are shown in a general format (executive and non-executive) and not individually as required in the code. There is a cultural aspect that motivates such behavior."(Interviewee A)*

"The only sensitive and confidential element in the business world is the directors' remuneration. Nobody would like the public to know how much they receive and if they are rich or not. But I think that as time goes by, it will be more accepted….the very first companies that did disclose remuneration individually made the newspaper headlines…and this has shocked people to know that some directors or CEOs received such salary levels….. So, to avoid it all this, many prefer to disclose as a block figure". (Interviewee O)

"..…I think that may be the general public is not prepared well enough to know that the CEO can earn between Rs. 5 to 10 Million per year which has always existed but the fact that you are communicating this; this can create uproar in the company. It is the reality, if you do not pay that much to these guys, they will not work for you. The disparity of packages between senior most and people at the lowest level is hard to digest. It is a culture shock for many to get such information from the annual reports." (Interviewee B)

The above comments point to a widespread perception that individual remuneration disclosures lead to more problems, which far outweigh the benefits of increased accountability for shareholders. The likely, and presumably more concrete, problems are seen to occur within the company as employees and other executives react negatively to the disclosure and seek some sort of 'redress'. The concern is also about reactions by external parties (including the media) and the potentially adverse publicity which seem to be particularly linked to the large wage disparities that exist in the country- especially if the director is a foreigner and thus earns an expatriate level of remuneration. However, one needs to question whether the companies' perceptions of the public's and media's reactions are not overblown. Interestingly as well, the fact that companies are weary to communicate directors' remuneration internally could be interpreted as an inability by the employer to justify the quantify level of remuneration it currently pays to its directors. To a certain extent, this is can linked to the low implementation scores achieved by listed companies for the board / executive remuneration policies.

Nonetheless, a minority of directors are less concerned about the perceived consequences of disclosing individual remuneration information. For instance:

"I don't have a problem with it. I am for complete transparency and whatever I receive as salary, I disclose it anyway. Today, there is a need for us to be transparent with our shareholders. We are directors of a company and we spend most of our time working for the profits and for the benefits of that company and we are remunerated by this company" (Interviewee J).

This sentiment is echoed by the various external stakeholders interviewed during our study and who directly represent or advise shareholders:

"Yes, there are the remuneration of directors and related party transactions, which are the main areas we look for..." (Interviewees Aa and Bb)

"…what do you understand by poor corporate governance? It can be annual reports with very little information. One good practice of corporate governance is that potential shareholders will want to know the salaries of top directors….it creates more confidence" (Interviewee D)

In conclusion, there is clear division of opinions on the ‘wisdom’ of disclosing individual remuneration and to a lesser extent on the disclosure of individual directors’ interests. A majority of directors and companies (as evidenced by weighted scores) believe that detailed disclosure is inappropriate for four main reasons, namely (a) it will create dissensions within the company and amongst the various executives and directors , (b) it will reflect poorly on the company’s image and attract negative publicity, particularly as a result of wage disparities that prevail in the country, (c) shareholders do not necessarily need such detailed information and (d) the remuneration information relates to the income of a private individual, which should be kept confidential. These findings are therefore consistent with Chizema’s (2008) study of resistance to individual remuneration disclosure in Germany, although the resistance in Mauritius is clearly more widespread. However, the directors and companies’ arguments are at odds with the external stakeholders’ opinions on the relevance of remuneration disclosure. In this respect, we argue that external stakeholders do not necessarily need this specific piece of information to make their decisions but would be responsive to the fact that the companies are transparent enough to disclose such information. In other words, individual remuneration disclosure by the company would be viewed as a strong symbol of transparency and accountability by the stakeholders, thereby enhancing the confidence of the latter in the actions of the board of directors. The same reasoning would apply internally as greater openness about remuneration would encourage the setting of remuneration using clearly defined and acceptable benchmarks for all executives. Finally, it is granted that initial reactions from society in general could be negative but again it would be in the best interests of the company if it was able to confidently explain and justify why certain executives need to be remunerated at a particular level. Interestingly, this return to the basic principles of determining a fair and appropriate remuneration based on real performance is at the centre of many initiatives being considered by governments and regulators in the developed economies following the recent financial and banking crisis.

5.5 Concluding reflections on the implementation and disclosure scores

Although it would impractical to directly compare the outcomes of our scoring procedures with other countries/studies, we believe our longitudinal analysis of the scores and annual reports counts are sufficiently robust to formulate some clear conclusions on the implementation of the corporate governance code over the period 2004 to 2007, insofar as the main non-CSR aspects are concerned. The interview data provided a wealth of insights, particularly in terms of the actual impact of corporate governance on the people and structures. However, and before the main findings can be summarised from this chapter, a brief statistical analysis is needed to identify any specific factors that might be influencing the extent of corporate governance implementation and disclosure. This can complement or even question the insights we have obtained from the interviews and annual reports.

Exploratory Analysis

From the literature review in Chapter 2, it was noted that many of the corporate governance studies relied on quantitative methods and analysis to examine the relevance of explanatory factors / variables. Broadly speaking, the research questions focus on (i) whether there was a statistical link between corporate governance structures and/or disclosures on an outcome variable such as profits, share prices etc and (ii) whether there are explanatory and contingency factors that would impact positively or negatively on the company's level of adoption of governance structure and disclosures. These firm level factors or variables have been previously identified in the literature such as size, profitability, staff costs, type of industry[9], board composition, gearing/leverage, directors' shareholdings, and remuneration data and argued for on the basis of various theoretical frameworks such as agency theory, stakeholder theory and institutional theory. However, as shown in the extant empirical literature, the findings from various contexts and time periods are not particularly consistent and their validity relies on large sample sizes. In addition, there are still arguments as to whether a clear causal relationship can be modelled between the firm-based factors (as independent variables) and the corporate governance implementation disclosure (as dependent variables) Nonetheless, and given that we believe we have devised a fairly reliable scoring system and that we have access to various firm-based variables, we have carried out an exploratory correlation analysis to flesh out any further evidence of an *association* (rather than causality) between 9 variables and corporate governance scores. However, given the rather small size of the population of listed companies (39) and the fact that many of the weighted scores display features compatible with that a non-normal distribution, we rely on non-parametric correlations (Spearman's rank correlation coefficients). The following correlation matrices (labelled Table 5-17 to 5-20) display the significant correlations (at 0.01 or 0.05 level) for each of the financial years from 2004 to 2007. Again, the correlations relevant to the associations between firm-based variables and the detailed CSR scores will be considered in Chapter 8.

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[9] As reported at the start of this chapter, the types of industry or economic activity did not appear to be a significant factor explaining differences in the implementation and disclosure aspects of the corporate governance code.

Table 5-17: Correlation Matrix (Listed Companies 2004)

Firm-based variables N=39	**Profit[10] ratio**	**Staff Ratio**	**Executive Rem Ratio**	**Non Executive Rem Ratio**	**% shares held directly by directors**	**% shares held indirectly by directors**	**Gearing ratio**	**% of INED on board**	**% of NED on board**
Significant Non-Parametric Correlations (0.01 or 0.05* level)**									
1. Board Composition Score			0.395**		-0.369*			0.676**	-0.677**
2. Audit Committee Score			0.481**		-0.334*			0.582**	-0.483**
3. Governance Committees Score		0.394*	0.374**		-0.495**			0.596**	-0.506**
4. Risk Management Score				-0.434**	-0.437**				
5. Board Remuneration Score					-0.328*	-0.360*			
6. Director Appraisal, Training and Ethics Score					-0.362**			0.406*	
7. Corporate Governance Implementation Score (1 + 2 + 3 + 4 + 5 + 6)			0.439**		-0.462**			0.704**	-0.634**
8. Disclosure: Compliance/CG Section			0.381*		-0.504**			0.584**	-0.559**
9. Disclosure: Composition and Committees Score		0.358*	0.502**		-0.443**			0.687**	-0.610**
10. Disclosure: Directors' Remuneration Score									
11. Disclosure: Directors' Interests Score		0.323*						0.534**	-0.450*
12. Corporate Governance Disclosure Score (8 + 9 + 10 + 11)		0.329*	0.410*		-0.483**			0.679**	-0.593**
13. Corporate Governance Implementation and Disclosure Score (7 + 12)			0.432*		-0.467**			0.438*	-0.501**
14. Corporate Responsibility Score					-0.372**			0.675**	-0.630**
15. Corporate Governance Score (7+12+14)			0.423*		-0.485**			0.678**	-0.625**

[10] Note: The profit, staff, and remuneration numbers have all been deflated by the turnover figure of the company. The gearing ratio is calculated by dividing the long term debt by the shareholders' equity of the company

The 2004 matrix (Table 5-17) displays a variety of significant relationships between corporate governance scores and the variables. Whilst some of these may be deemed spurious, there are notable and significant positive relationships between the proportion of executive remuneration (in terms of the company's revenue) and several implementation and disclosure scores. In other words, the higher the proportion of remuneration in the company's turnover, the more the company will engage in behaviour of implementation and disclosure (or vice versa). However, as mentioned earlier, it would difficult to ascertain the causal relationship as one could also conclude that as a result of the implementation and disclosure of the corporate governance code, there would an impetus to provide more remuneration information in the annual report. On the other hand, it appears that for companies where directors who have a high direct shareholding were less inclined to adopt the corporate governance code and provide disclosures, whether they CSR or non-CSR related. This is consistent with previous published literature in the Asian context (e.g. Classens and Fan, 2002) in that such directors are seen as insiders within the company and generally resist changes to the current structures. This also seems to be confirmed by the negative association between the percentage of NEDs on board and the various scores. In contrast, there is a positive link between the proportion of INEDs and corporate governance adoption. Such a link would be obviously expected given that INEDs are being introduced as part of the corporate governance code. However, it is the widespread level of correlations with virtually all the corporate governance scores (including CSR scores) which suggest that the influence of INEDs appears to have far reaching consequences.

In contrast, the 2005 matrix (Table 5-18) shows a marked absence of significant correlations except for some confirmatory evidence regarding the proportion of shares held directly by directors and the influence of INEDs. It is worthy to note that for both 2004 and 2005, there is no significant association between profit and the corporate governance scores which supports the recent arguments in the literature (and amongst many of the interviewees) that the empirical linkages between corporate governance and company performance are much more complex than initially thought (e.g. Heracleous, 2001). It is also interesting to note that the staff ratios for both 2004 and 2005 are marginally associated to the corporate governance scores but in different ways i.e. associated to disclosure scores in 2004 and then to implementation scores in 2005. This could however be explained by the element of size since staff ratios could be viewed as a proxy for company size (at least for companies whose operations are deemed to be labour-intensive). The fact that CSR disclosure scores are now only correlated to the staff ratio is again suggestive of a size effect, as frequently mentioned (but not always supported) in the CSR literature (e.g. Gray et al., 1995; Holder-Webb et al., 2009)

Table 5-18: Correlation Matrix (Listed Companies 2005)

Significant Non-Parametric Correlations (0.01** or 0.05* level)

Firm-based variables N=39	Profit ratio	Staff Ratio	Executive Rem Ratio	Non Executive Rem Ratio	% shares held directly by directors	% shares held indirectly by directors	Gearing ratio	% of INED on board	% of NED on board
1. Board Composition Score						0.318*		0.494**	-0.461**
2. Audit Committee Score		0.344*						0.358*	
3. Governance Committees Score		0.465*						0.403*	
4. Risk Management Score									
5. Board Remuneration Score					-0.339*				
6. Director Appraisal, Training and Ethics Score				-0.387*					
7. Corporate Governance Implementation Score (1 + 2 + 3 + 4 + 5 + 6)		0.368*						0.471*	
8. Disclosure: Compliance/CG Section								0.337**	
9. Disclosure: Composition and Committees Score									
10. Disclosure: Directors' Remuneration Score					-0.363*				
11. Disclosure: Directors' Interests Score									
12. Corporate Governance Disclosure Score (8 + 9 + 10 + 11)					-0.406*				
13. Corporate Governance Implementation and Disclosure Score (7 + 12)		0.314*						0.454**	
14. Corporate Responsibility Score		0.369*							
15. Corporate Governance Score (7+12+14)		0.378*						0.404**	

For 2006, the correlation matrix (Table 5-19) shows very little relationship between most of the variables and the corporate governance scores. There is a single positive correlation between profit and governance committee scores whilst the latter is negatively linked to gearing, but we note these are rather more spurious relationships. However, what remains quite notable and significant are the positive correlations for the % of INED on boards and a negative correlation for the % of NED on boards. The CSR score is now only negatively correlated to the proportion of NEDs on board and this is notable in terms that the presence of INEDs appears less relevant in terms of higher CSR disclosures.

Table 5-19: Correlation Matrix (Listed Companies 2006)									
Firm-based variables N=39	Profit ratio	Staff Ratio	Executive Rem Ratio	Non Executive Rem Ratio	% shares held directly by directors	% shares held indirectly by directors	Gearing ratio	% of INED on board	% of NED on board
Significant Non-Parametric Correlations (0.01 or 0.05 level)**									
1. Board Composition Score								0.582**	-0.697**
2. Audit Committee Score								0.431**	
3. Governance Committees Score	0.360*						-0.348*		-0.335**
4. Risk Management Score								0.427**	-0.550**
5. Board Remuneration Score								0.503**	-0.572**
6. Director Appraisal, Training and Ethics Score									-0.363*
7. Corporate Governance Implementation Score (1 + 2 + 3 + 4 + 5 + 6)								0.569**	-0.627**
8. Disclosure: Compliance/CG Section									
9. Disclosure: Composition and Committees Score								0.340*	
10. Disclosure: Directors' Remuneration Score								0.407*	-0.406*
11. Disclosure: Directors' Interests Score									
12. Corporate Governance Disclosure Score (8 + 9 + 10 + 11)								0.380*	-0.388*
13. Corporate Governance Implementation and Disclosure Score (7 + 12)								0.546**	-0.616**
14. Corporate Responsibility Score									-0.401*
15. Corporate Governance Score (7+12+14)								0.494**	-0.556**

From Table 5-20 below, the pattern of correlations highlighted in 2006 appears to repeat itself in 2007, with the constant positive influence of the % of INEDs on the corporate governance scores and the fading of the negative association between the proportion of NEDs on the board to most of the corporate governance scores. The overall CSR scores are not correlated to any firm-based variables. Notably as well, the correlation coefficients between the total corporate governance score and the INED and NED proportion are lower than the correlations coefficients for the implementation and disclosure scores (i.e. excluding CSR) and this indicates that the CSR score has a slight but negative influence on the associations between these variables and the main scores. This also suggests that the different elements of the corporate governance code are subject to different factors.

Table 5-20: Correlation Matrix (Listed Companies 2007)									
Firm-based variables N=39	Profit ratio	Staff Ratio	Executive Rem Ratio	Non Executive Rem Ratio	% shares held directly by directors	% shares held indirectly by directors	Gearing ratio	% of INED on board	% of NED on board
Significant Non-Parametric Correlations (0.01 or 0.05 level)**									
1. Board Composition Score								0.678**	-0.596**
2. Audit Committee Score		0.337*							
3. Governance Committees Score	0.319*						-0.383*		
4. Risk Management Score									
5. Board Remuneration Score								0.552**	-0.588**
6. Director Appraisal, Training and Ethics Score									
7. Corporate Governance Implementation Score (1 + 2 + 3 + 4 + 5 + 6)								0.571**	-0.526**
8. Disclosure: Compliance/CG Section					-0.425**				
9. Disclosure: Composition and Committees Score						0.382*		0.479**	
10. Disclosure: Directors' Remuneration Score								0.436**	
11. Disclosure: Directors' Interests Score									
12. Corporate Governance Disclosure Score (8 + 9 + 10 + 11)								0.470**	
13. Corporate Governance Implementation and Disclosure Score (7 + 12)								0.569**	-0.508**
14. Corporate Responsibility Score									
15. Corporate Governance Score (7+12+14)								0.483**	-0.453**

Our overall conclusion from this exploratory correlation analysis over the four years is as follows. At the early stages and technically prior to the date of compliance with the corporate governance code (i.e. 2005), the companies' decisions and behaviour towards the implementation of corporate governance structures, policies and disclosures appear to have been influenced (positively or negatively) by many factors. For instance, whilst larger companies (size proxied by the staff and remuneration ratios) appear to be associated with higher corporate governance scores, the directors' direct shareholding appeared to be negatively associated with the scores. In other words, the correlations reflect a message of debate and resistance in the early years of implementation but gradually, these negative associations are fading away leaving only one major factor of relevance in ensuring that the corporate governance code is implemented comprehensively i.e. the proportion of INEDs on boards. As discussed earlier, this is in itself a much expected outcome as the proponents of the code see the INED as an important actor in the adoption of the corporate governance principles. However, this aspiration by theorists and supporters of the code is convincingly backed by the empirical evidence and this can now help us to inform the current debate in Mauritius on the usefulness and wisdom of appointing INEDs on the board of directors - which has appeared to be one of the key issues highlighted from the interviews.

5.6 Concluding Analysis and Reflections

This chapter has presented a fairly exhaustive account of the implementation and impact of the corporate governance code amongst the listed companies over a period of 4 years. Based on the analysis of the detailed weighted scores of implementation and disclosure, the interview data and the correlations, the following key findings and analysis are re-iterated. Some of these will later form the basis for our recommendations in the report's final chapter:

Firstly, the level of implementation achieved by the listed companies by the end of 2007 is largely satisfactory (a 62% implementation and disclosure score in 2007) insofar as the main requirements of the code are concerned - whether these requirements related to the setting up of structures and new policies, and to the increased disclosure of information in the annual report. When the CSR score is included however, there is a slight drop in the overall corporate governance score (59% in 2007).

Secondly, the overall level of implementation appears to be beyond the mere symbolic or does not significantly reflect a tokenistic behaviour; an issue which had been documented in the literature particularly in developing countries. However, there is also clear evidence of companies seeking to give a better impression of implementation than is actually the case. These can be largely associated to early attempts at engaging with the surface, rather than considering the deep implications, of the code's requirements. We feel that a tiny minority of listed companies were still grappling with this distinction by 2007.

Thirdly, the evidence from listed companies supports our initial perspectives that corporate governance implementation can be viewed an organisational change process that challenges the board's perspective on how to take decisions and who to involve in such decisions. We note the directors' awareness and acceptance as to how the processes involved in the running of the audit and corporate governance committees have been (or can be) used to bring structure and order in the board's business and eventually in how things are being done in the company. At the same time, we also note a fairly low score regarding risk management and in the current context, wish to highlight that greater evidence of risk management implementation must be expected from all listed companies.

Fourthly, we also consider that the implementation of the code can only occur gradually over time (an evolving process) to ensure that the structures, policies and disclosures are actually ingrained within the organisation rather than being simply put on paper. This is of particular relevance to countries like Mauritius which has a particular set of social, political, economic, and cultural contexts and which may negatively impact on change processes. The implementation and disclosure scores do reflect this gradual and evolving process but there is a concern that this process has now slowed down. The correlation matrices highlight the varying nature of the factors that encourage, or prevent, the implementation of the corporate governance code. Therefore, this suggests that the influence and relevance of firm-based variables identified from the literature is not consistent over time.

Fifthly, we found that companies have stepped up significantly the disclosure process in order to communicate their actions and activities more transparently, and therefore assert that the corporate governance code has led to richer and more useful disclosures (i.e. a weighted mean score of 66.64% in percentage terms for 2007) for the benefit of shareholders and other wealth-maximising actors. However, as reported in (b) above, there remains a temptation to convey an impression of compliance in the annual reports as seen in the case where companies use vague, ambiguous and sometimes inconsistent compliance statements or where the disclosure appears to be have been made deliberately vague. Furthermore, CSR disclosures appear to considerably lag behind in relation to other disclosures (mean percentage of only 42% in 2007) and have in fact negatively impacted on the overall corporate governance score. Hence, the 'general and across-the board' improvement in disclosure and transparency behaviour one might expect from the corporate governance code does not (relative to other non CSR disclosure scores) apply to CSR and this is also apparent from the correlation matrices. This suggests that the dynamics for CSR commitment and CSR-related disclosure - even as part of the code's requirements - may be different and this requires deeper investigation of the CSR scores (which will be considered in Chapter 6).

Sixthly, we also conclude that the people-centred nature of corporate governance is indeed central to one's understanding of its implementation in companies, and this has led to several key findings. Firstly, the study has revealed in much detail the traditional rubber-stamping feature of the boards of directors in listed companies and the relative non-involvement of the so-called part-time (or non-executive) directors in the detailed affairs of the board. The corporate governance code appears to be a major factor in re-balancing the power from management to the board of directors as more non-executives become involved and empowered in a structured and appropriate way in the board's activities e.g. focusing on strategy, audit and control. However, the people-focused nature of corporate governance can also have negative consequences. The widespread resistance to the implementation of remuneration policies and to the disclosure of individual remuneration information remains primarily (and understandably in many ways) a human reaction and thus relies on subjective perceptions of the environment in which they are operating. A similar issue relates to the relatively low level of implementation for certain ‘human-related’ aspects, namely director appraisal, training, conflicts of interest, board ethics, and directors interests.

Finally, we argue that the role of the INED has been, and must be, seen to be a central one is bringing change in many of the listed companies. Although companies and their boards have a discretion in appointing an ‘independent’ director, the evidence has shown that INEDs play the role of the ‘change agent’ in the company, in bringing new ideas, new structures, new ideologies and perspectives. His/her appointment is principally the result of the code of corporate governance’s application and many of the implications and requirements of the code are related to the need for an appropriate representation of INEDs on the board. Some interviewees are yet adamant in that INEDs cannot contribute effectively to the company’s performance or that INEDs are simply too difficult to find or train. Equally however, the interview data and the correlation analysis suggest that the INED have already become a critical part of the corporate governance process in Mauritius.

Chapter 6: Findings and Analysis (Large Public / Private Companies)

6.1 Introduction

This chapter provides a detailed picture regarding the implementation and impact of the corporate governance code on companies defined in the code as large public or large private companies. Both are broadly considered to be "*individual companies or groups of companies with an annual turnover of Rs. 250 million or above"* (2004, p. 16). With regards to this criterion, the Top 100 listing appeared to be the ideal data source to identify the relevant companies but as discussed in Chapter 4, some availability issues, challenges and constraints become apparent and these were in contrast with those encountered with our study of companies listed on the Stock Exchange of Mauritius. As we present the findings and analysis in this chapter, these issues, and challenges and constraints will be assessed in more detail but suffice to say at this stage that this 'category' of large public/private (LPP) companies[11] is clearly not a homogeneous one. However, as in the previous chapter, the focus will be on the implementation and disclosure aspects of the corporate governance code, whilst the specific elements relating to CSR will be presented in a separate chapter. All the scores referred to in the findings are weighted scores, using the weightings and scoring procedures described in Chapter 4. Finally, where relevant, excerpts from interviews will be presented.

6.2 Overall Implementation Disclosure, CSR and Total Scores

As discussed in Chapter 4, the access to annual reports has been lower than the listed company category, despite the repeated efforts by the research team to chase companies directly and also to pursue other potential repositories of annual reports (e.g. Registrar of Companies). Having achieved an overall 'response' rate of 71% for Large Public Companies and 34% for Large Private Companies (refer to Chapter 4) for LPP companies, we are able to show the results of our investigation using weighted scoring procedures (in cases where all the four years' annual report data is available) and frequency counts where applicable. As we demonstrated in the previous chapter, our key interest lies in following the *progression* of implementation over time rather than simply report scores achieved in the one particular financial year.

In this context, 33 companies (18 public and 15 private companies) provided full annual reports from 2004-2007. Expressed in terms of the number of LPP companies we identified for this study (79 excluding listed 'public' companies), this nonetheless represents a satisfactory sample of 41.8%

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[11] Although many of the listed, and therefore deemed 'public', companies would also meet the turnover criterion, their primary 'affiliation' is to the Stock Exchange authorities and as result, results relating to these legally defined 'public' companies are not included in this chapter and have been dealt with comprehensively in Chapter 5. Hence, our focus in this chapter is essentially on all other 'non-listed' public and private companies that meet the turnover criterion.

(33/79). Table 6-1 presents the scores for the 33 companies, broken down in terms of implementation, disclosure, implementation and disclosure, CSR and total corporate governance scores. Table 6-2 displays the standard deviation and minimum/maximum scores for each of the mean scores presented in Table 6-1.

Table 6-1: Mean Weighted Scores for Implementation, Disclosure, CSR and Total Scores For LPP Companies (2004-2007)

Corporate Governance	**2004**	2004	**2005**	2005	**2006**	2006	**2007**	2007
N=33	**score**	%	**score**	%	**Score**	%	**score**	%
Implementation (max score 83)	**6.42**	7.74	**12.49**	15.05	**15.89**	19.15	**17.32**	20.87
Disclosure (max score 42)	**8.05**	19.17	**10.50**	25.0	**12.76**	30.38	**13.67**	32.55
Implementation and Disclosure (max score 125)	**14.47**	11.58	**22.99**	18.39	**28.65**	22.92	**30.99**	24.79
CSR overall score (max score 21)[12]	**2.26**	10.76	**3.0**	14.29	**3.99**	19.0	**4.11**	19.57
Total Corporate Governance score (max score 146)	**16.73**	11.46	**25.99**	17.80	**32.64**	22.36	**35.09**	24.03

Table 6-2: Standard Deviation (SD) and Minimum (Min) / Maximum (Max) for the Implementation Disclosure, CSR and Total Scores for LPP Companies (2004-2007)

Corporate Governance	2004	2004	2004	2005	2005	2005	2006	2006	2006	2007	2007	2007
N=33	SD	Min	Max	SD	Min	Max	SD	Min	Max	SD	Min	Max
Implementation (83)	11.46	0	45	16.22	0	48	19.72	0	66	20.66	0	67.5
Disclosure (42)	6.64	0	25.5	9.28	0	32	10.24	0	31.5	10.91	1.5	31.5
Implementation and Disclosure (125)	17.49	0	70.5	24.86	0	73	29.39	0	97.5	30.88	1.5	99
CSR overall score (21)	2.54	0	12	3.33	0	13	4.23	0	16	4.92	0	17
Corporate Governance score (146)	18.97	0	78.5	27.30	0	84	32.98	0	108.5	34.88	1.5	109

In addition, and purely as a way to provide a yardstick, the mean weighted scores for each of the above presented in Table 6-3, compared to the min/max scores for listed companies:

[12] Whilst we present the CSR scores on an overall basis for completeness purposes, the findings regarding the elements of CSR disclosure will be presented and discussed in more detail in Chapter 8.

Table 6-3: Comparison of Implementation, Disclosure Scores, CSR and Total Scores (Large Public/Private Companies vs. Listed Companies, 2004-2007)								
Corporate Governance	**2004 LPP**	2004 Listed	**2005 LPP**	2005 Listed	**2006 LPP**	2006 Listed	**2007 LPP**	2007 Listed
N=33 / N=39	**Mean**	Mean	**Mean**	Mean	**Mean**	Mean	**Mean**	Mean
Implementation (max score 83)	**6.42**	21.49	**12.49**	43.53	**15.89**	48.12	**17.32**	48.76
Disclosure (max score 42)	**8.05**	14.74	**10.50**	25.74	**12.76**	27.90	**13.67**	28.83
Implementation and Disclosure (max score 125)	**14.47**	36.23	**22.99**	69.27	**28.65**	76.01	**30.99**	77.59
CSR overall score (21)	**2.26**	4.77	**3.0**	7.53	**3.99**	7.19	**4.11**	8.91
Corporate Governance score (146)	**16.73**	41.0	**25.99**	76.8	**32.64**	83.21	**35.09**	86.5

The combination of the three tables points to four initial findings. Firstly, the scores in Table 6-1 indicate a rather low level of interest in the implementation of the code. For the period 2004 to 2007, the implementation scores start from a low mean score of 6.42 (out of 83), which then progresses slowly to a mean score of 17.32 in 2007. The latter only represents about 21% of the maximum score achievable. From Table 6-2, one can note an increasing level of the standard deviations over time (for implementation scores) which can be interpreted as a widening difference on the extent to which companies in this sample are implementing the code of corporate governance. A frequency analysis of the implementation scores reveals that the number of companies with a zero implementation score was 19 (out of 33) in 2004. This declined marginally to 16 in 2005 and 2006 and stood at 14 in 2007. Otherwise, the frequency analysis shows a set of scores skewed to the lower end of the scale for the remaining companies in the sample. For instance, only 1 company in 2004 obtained more than 50% of the implementation score and this increased to 2 in 2005 and 2006 and 4 in 2007. Finally, Table 6-3 shows that implementation scores of listed companies are approximately three times higher than those of LPP companies over the period 2004-2007. Therefore, there appears to be little evidence of a gradual and positive consideration for the more ‘concrete’ structures (e.g. board committees, INEDs etc) and other implementation requirements of the code by the vast majority of LPP companies.

Secondly, and although the disclosure scores start at a comparatively higher level in 2004 (8.05 out of 42), the improvements in disclosure are very marginal over the four years with a 2007 disclosure score of 13.67 (out of 42, about 32% of the maximum score achievable). A rise in standard deviations is noted as well for the disclosure scores, signalling a higher level of diversity in the disclosure behaviour of LPP companies. In light of the various items we included on our disclosure scores, there is, perhaps expectedly, a better disclosure performance amongst LPP companies compared to implementation scores from 2004-2007 (Table 6-1). However, the rate of progress remains equally slow throughout the period. The frequency distribution of disclosure scores marginally increased with 12 companies achieving at least 50% of the disclosure score (i.e. 21 out of 42) in 2007, up from 10 companies in 2006, 7 in 2005 and 3 in 2004. However, this may partly relate to additional disclosure requirements from international accounting standards which deal with similar corporate governance aspects such as related party interests, directors' shareholdings and remuneration disclosures. This possible explanation will be validated in the subsequent sections when we consider in detail the results from the larger sample of annual reports. However, this slight 'preference' for disclosure rather than implementation was also noted in the previous chapter and we argued that listed companies were keen to demonstrate an impression of compliance to the market whilst remaining more prudent with implementation. We do not yet believe such explanation would necessarily apply to LPP companies, partly in consideration of the fact that the disclosure scores of listed companies are approximately two times higher than those of LPP companies over the period 2004-2007 (Table 6-3).

Thirdly, and as a result of the above scores, the implementation and disclosure score only reaches about 25% of the maximum score achievable (30.99/125) in 2007, up from an initial score of 11.58 in 2004. Over the same period, the CSR disclosure scores have remained low (2.26/21 in 2004) and has progressed at approximately the same rate of other corporate governance disclosures to 4.11 (out of 21) in 2007 (Table 6-1). Again, the CSR scores for LPP companies represent about half of the CSR scores for listed companies (Table 6-3). Overall, the average total corporate governance score reflect a very low adherence to the code's requirements with a mean of 35.09 (out of 146) in 2007, up from 16.73 in 2004. In percentage terms, this represents for 2007 an average achievement of only 24.03% (compared to 59 .02% for listed companies). In comparing all of the above scores to the ones achieved by listed companies, it has to be acknowledged however that the comparison may be biased by the relatively higher scores obtained by listed companies in 2004 i.e. LPP companies in 2004 are clearly starting from a lower base than listed companies.

Fourthly, an examination of the individual scores indicates a wide range of variability over time and across the different companies. For instance, some companies have not progressed at all over time whilst others were at the same low level in 2004 but then gradually implemented the code, thereby achieving a respectable score in 2007. We thus identify in more detail the characteristics of these companies and the following may be noteworthy:

(a) Whilst 25 companies are enterprises wholly established by private interests, the remaining 8 have public-sector 'origins' and were once operated as government departments. They were later converted to a full corporate status and now operate in a 'technically independent' way from government direction - generating their own revenues and profits for the benefits of the shareholders (primarily government or another publicly owned institution). However, such entities are not wholly immune to political influence in periodic circumstances.

(b) The majority of the above-mentioned 25 private sector companies have a long tradition of family-led ownership and management, with varied levels of access to the board for family and non-family directors. The remaining companies are 'entrepreneur-oriented' in that they were established by one or two individuals and remain tightly controlled by these 'founding' shareholders/directors.

(c) The gearing levels for the LPP companies are significantly higher than those of the listed companies. The average gearing levels for the category of listed companies ranged from 27% and 39% (2004 to 2007) whilst the gearing levels for LPP companies over the same period ranged from 73% from 88%.

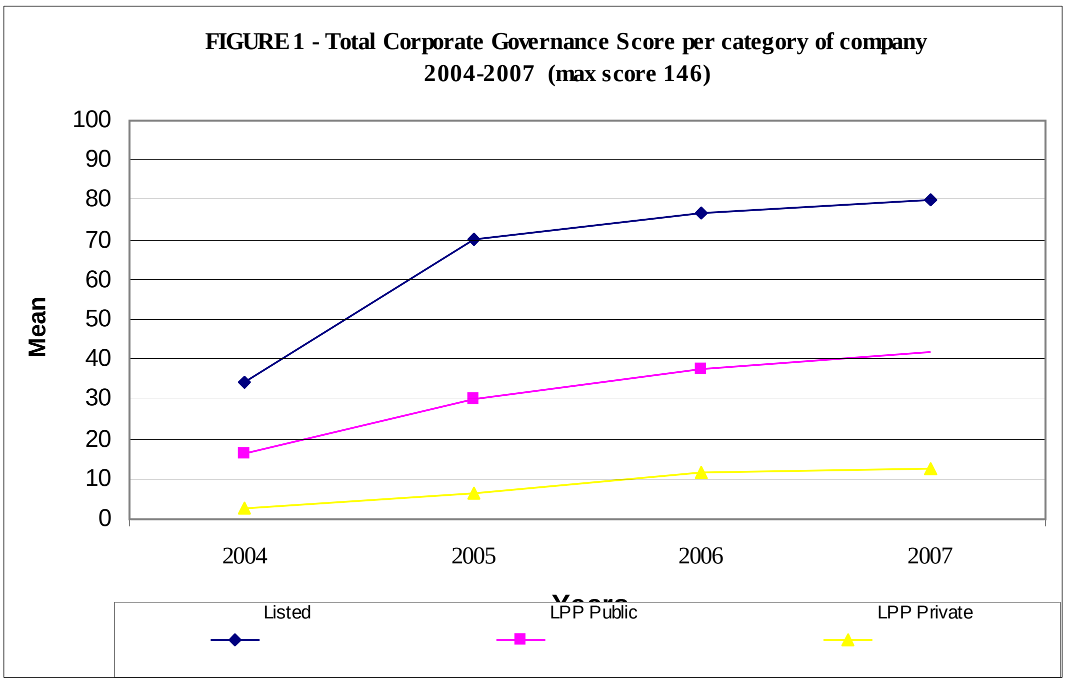
(d) Whilst there was only one listed company (out of 39) whose directors collectively owned more than 25% of the company's shares over the four year period, 7 out of the 33 companies had directors who collectively or individually owned more than 35% of the company's shares.

(e) Lastly, the legally-defined 'private' vs. 'public' status was also considered in that the sample contains a similar number of companies that are set up as public companies (18) as opposed to private companies (15) - the difference being that there are no shareholding restrictions for the former type of companies. Table 6-4 provides a break down of mean scores in terms of public and private companies in the LPP sample.

Table 6-4: Comparison of Implementation, Disclosure Scores, CSR and Total Scores (Legal status of 'Public' vs. 'Private' Companies in LPP category)

Corporate Governance	**2004 LPP 'Public'**	2004 LPP Private	**2005 LPP 'Public'**	2005 LPP Private	**2006 LPP 'Public'**	2006 LPP Private	**2007 LPP 'Public'**	2007 LPP Private
N=18 / N=15	**Mean**	Mean	**Mean**	Mean	**Mean**	Mean	**Mean**	Mean
Implementation (max score 83)	**9.58**	2.63	**18.69**	5.03	**22.50**	7.97	**24.17**	9.10
Disclosure (max score 42)	**10.58**	5.00	**14.11**	6.17	**16.42**	8.34	**18.17**	8.27
Implementation and Disclosure (max score 125)	**20.17**	7.63	**32.81**	11.2	**38.92**	16.33	**42.33**	17.37
CSR overall score (21)	**2.72**	1.70	**3.83**	2.00	**5.58**	2.07	**6.03**	1.80
Corporate Governance score (146)	**22.89**	9.33	**36.64**	13.20	**44.50**	18.40	**48.36**	19.17

It can be seen that public companies scored more than private companies in all respects and an independent samples t-test for all the mean scores in Table 6-4 was carried out. The shaded parts of Table 6-4 highlight the scores where there are significant differences (at 1% or 5% level) between private and public companies. Therefore, there appears to be a clear public vs. private spilt in terms of mean scores and this from the very beginning of the period of analysis from 2005 onwards. However, the progress of implementation over the four year period remains nevertheless problematic for both categories of LPP companies. Figure 6-1 provides a graphical illustration of the progress in the implementation of the corporate governance code for listed, large public and large private companies. Although large public companies appear to be performing better than large private ones, this achievement and the general level of progress appears to be lagging well behind that of listed companies.



Furthermore, there are also instances of private companies scoring highly. For instance, whilst four public companies scored than 50% on the overall corporate governance score, there were two private companies achieving the same range of scores. At the other end of the spectrum, 4 public companies scored less than 10 (out of 146) whilst this was the case for 8 private companies. Hence, as we mentioned at the start of the chapter, there is no clear-cut picture regarding corporate governance implementation amongst LPP companies. Obviously, the private/public legal 'labels' merely reflect different dynamics within the respective firms (e.g. ownership, shareholder structure, board composition, directors' shareholdings etc) and we intend to explore this subsequently as part of the exploratory correlation analysis.

A final point relates to the potential influence of economic sectors in explaining the extent of implementation. In the case of listed companies, we found very little evidence of this having an effect in the more recent years of implementation. We however repeat the process and use the same categorisation of economic sectors for LPP companies i.e. Transport, leisure and commerce (10), industry and sugar companies (18), and banks, insurance and investment companies (5). Figures 6-2 – 6- 6 present the trend in the various mean scores by economic sector.

FIGURE 2 - Corporate Governance Implementation scores per sector and all companies (2004-2007) for LPP companies (max score 83)

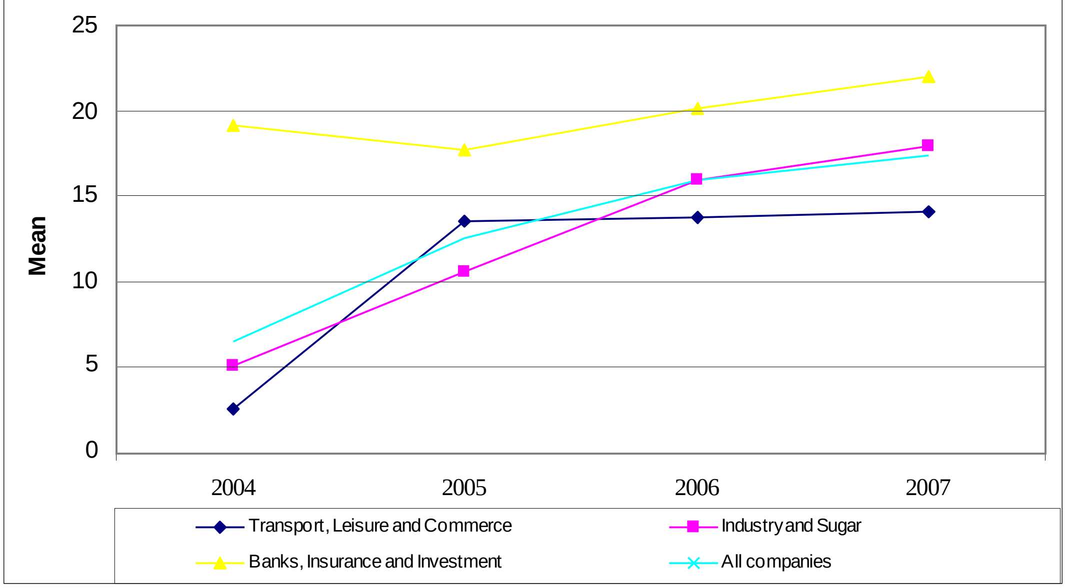


FIGURE 3 - Corporate Governance Disclosure Scores per sector and all companies (2004-2007) for LPP companies (max score 42)

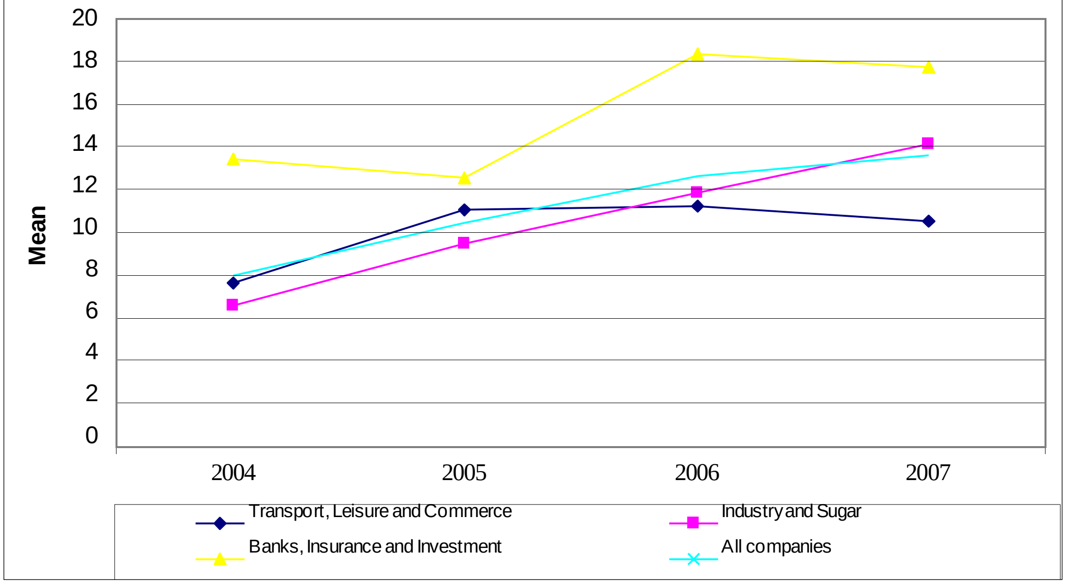
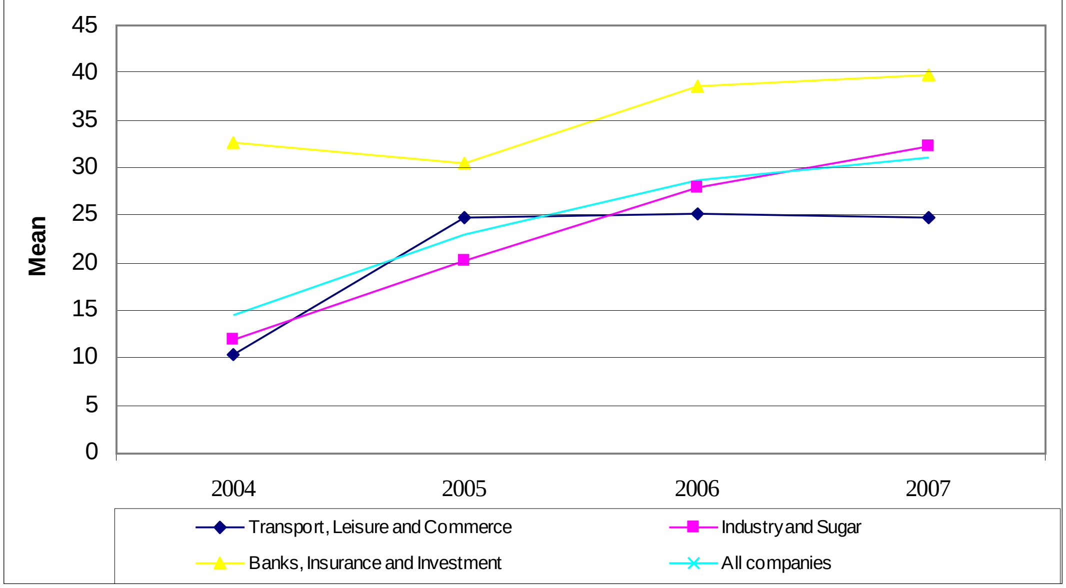
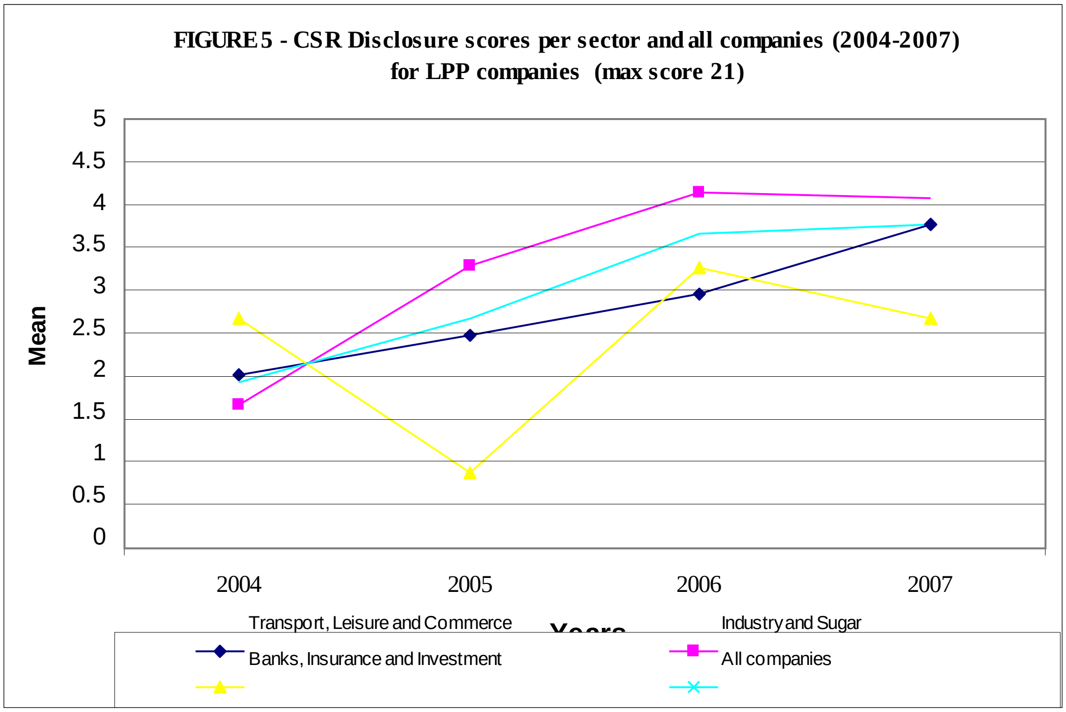
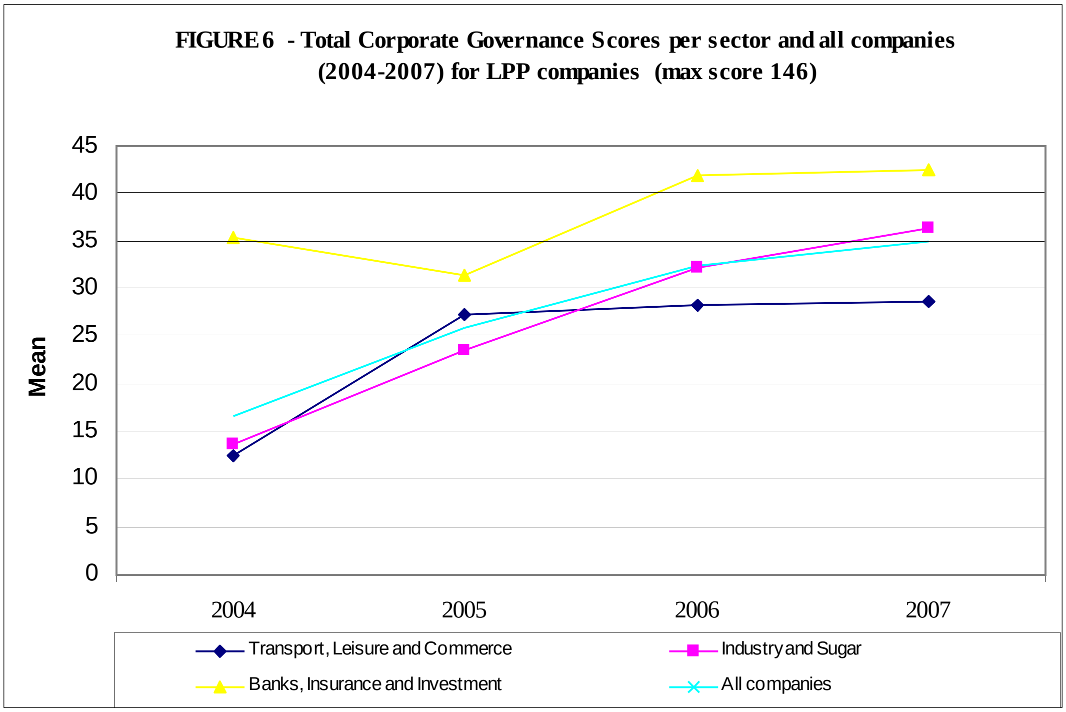


FIGURE 4 - Corporate Governance Implementation and Disclosure scores per sector and all companies (2004-2007) for LPP companies (max score 125)





It could be argued that wide fluctuations seen for the banks, insurance and investment category can be attributed to a very small number of companies assigned to this category and can thus be sensitive to changes of implementation in particular companies. The mean scores for this sector (except for CSR) appear higher than all other sectors and this could be attributed to the higher level of regulation imposed on such companies from the Bank of Mauritius and/or the Financial Services Commission (despite the slight dip in mean scores in 2005 from Figures 6- 2, 6- 3 and 6- 4). However, a one-way ANOVA procedure reveals only significant differences across economic sectors for 2004 only but this test could be influenced by the small sample size for the banks, insurance and investment sector (5 companies). A continuous and upward trend in the industry and sugar sector is noticeable compared to the transport, leisure and commerce sector where the mean scores appear to remain stable since 2005. Figure 6.6 below outlines the evolution of the total corporate governance scores and these slightly different trends across sectors are reflected quite clearly (although the differences are statistically not significant).



In sum, the above indicates that the LPP companies' behaviour with regards to corporate governance implementation may be more strongly influenced by one or a combination of factors - in contrast to the case of listed companies. An important and general point needs to be made at this stage. Many of the listed companies also have family 'affiliations', in terms of either a significant family-based shareholding, 'quasi' family-based representations on the board of directors or at top management level but this degree of influence of such affiliation is viewed as being lower compared to LPP companies. In a similar vein, there are also listed companies which have 'public-sector' affiliations and whose shares are owned in majority by the government or other public sector institutions. Again, however, we would argue that the degree of influence could be higher for LPP companies. Due to their non-listed nature, they are less 'visible' and do not necessarily bow to the 'market-led' expectations such as listed companies.

In carrying out interviews with directors of LPP companies, we were obviously mindful of the fact that the implementation and disclosure levels were much lower than those of the listed companies. Accordingly, we not only sought to understand their views on this perceived lack of implementation in their own company but also on the broader motivations, attitudes and issues regarding the application of corporate governance in Mauritius, particularly in the category of LPP companies. The following are key extracts of these interviews which reveal some of the attitudes towards corporate governance. For instance, there is a perception that a private company should not be concerned about the code or about transparency of its activities, irrespective of the turnover threshold specified in the code:

> *"This [annual report] is personal. This is a private limited company not a public company, and that's why you cannot have our annual reports. The [information] is private, that's why we don't give. But you can have it at the Registrar of Companies."* (Interviewee M)

Another private company director was genuinely puzzled by the whole process and stated that he was only made vaguely aware of the corporate governance code via the media. He comments:

> *"But if the code is voluntary….I don't think it will be a problem for those not complying. Actually, I felt there was little or no awareness about the code of corporate governance… and I don't know if we will be ready to comply in the near future"* (Interviewee L).

In contrast to the above examples, other directors were keener on identifying the constraints in which they operate but at the same time reported that some consideration of the corporate governance code's requirements has been taking place:

> *"The code takes into account the Mauritian context, the small business environment but disregards certain Mauritian specificities such as the difficulty to have independent directors, the difficulty to find appropriate directors to sit on board, and the reality of the business context which is family-owned. But the code is making its way little by little".* (Interviewee O)

> *"In Mauritius, there are various types of organisations (public, private, family-owned etc), hence you cannot impose the code. I'm the owner of a business…..and I want to manage my business the way I want and I am simply answerable to my shareholders nobody else. [However] I have reached the conclusion that even in family businesses there is a need to be transparent and a need to have an introduction of good governance policies…"* (Interviewee N)

Finally, we also met a few directors from LPP companies who displayed more optimism in responding and adapting to the new corporate governance code - albeit with the same type of concerns regarding cost implications and other practical difficulties as expressed by many directors of listed companies in Chapter 5:

> *"I think that every company is playing the game. This can be reflected by the quality of the annual reports produced by companies today and [there is] consistency between what we do and what we actually say in the annual reports ….. I think it's good to have a code of corporate governance…. "* (Interviewee I)

> *"We are very much for this code…..and many companies have agreed [to get involved] but there still many gaps in terms of disclosure. You know people are so immerged in their day to day habits and routines of doing business that it becomes really difficult to change their mentality. I am from the 'old school' and it took me time to adapt. Fortunately, nowadays more boards are being rejuvenated. For instance, in the [company name] board, we've got a number of family members of mixed ages. Even in larger companies, there is new blood being brought to the boards. These young people are more pragmatic and active in implementing the code" (Interviewee J)*

As noted in Chapter 2, the majority of corporate governance research has traditionally focused on listed companies worldwide to study corporate governance implementation and its impact, with an inherent belief that such companies meet key 'Western-led' characteristics such as a clear manager-owner split, diverse and dispersed shareholding structure (including institutional shareholders) and similar legal structures to protect shareholders and lenders. However, as Bhasa (2004, p. 13-14) suggests, the 'standard' corporate governance code is being required to operate in the so-called Type IV 'emerging economies' model where there is a mix of companies and ownership structures - from widely-dispersed ones to family-oriented ones and where there are less incentives for companies to apply for listing - which is certainly the case in Mauritius[13]. The overall implementation and disclosure scores for LPP companies indeed reflect this diversity and the interview data confirms in many ways that the specific context and circumstances of the company still significantly dominate a rather 'individualistic' behaviour and attitudes towards corporate governance.

From the above, we can therefore summarise the key findings from the weighted scores and relevant interviews in that the overall implementation and disclosures from 2004 to 2007 are low and do point to very modest progressions over the period of time for a minority of companies - principally amongst public companies. At this stage, this 'individualistic' behaviour towards corporate governance can thus be translated / summarised in the following three alternative ways:

(a) There is no obligation to implement the code and in any case, this principally refers to additional disclosures which are not the concern of anyone except for the (few) shareholders of the company, who are also most of the time company directors. Even minor structural changes are seen as inappropriate. The size criterion used in the code is viewed as irrelevant since business matters remain 'private' whatever the turnover level is.

(b) There is an awareness of the code and the fact that some of its requirements may be useful but the contextual factors (i.e. family or government affiliations) remain a key concern and override any attempt at implementation and disclosure.

(c) There is an acceptance of the corporate governance code and that changes must be made both structurally and in terms of transparency with an aspiration to be 'like' a listed company. In a few cases, the regulator(s) may be imposing that the company applies some aspects of the code. In other cases however, practical issues such as cost implications remain a major concern.

We now investigate some of the more detailed elements of implementation and disclosure. Insofar as the data from the annual reports and interviews allow it. The relative diversity of the companies

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[13] For instance, it may be relevant to note that the government offered in the early 1990s a relatively generous tax break to companies that became part of the Official List of the Stock Exchange of Mauritius. This tax break has recently and effectively been eliminated.

may preclude an over-reliance on mean weighted scores. However, major instances of skewness in the scores will be reported where relevant by relying on frequency counts.

6.3 Detailed Implementation

6.3.1 Board composition

We examine the evidence regarding the progress and extent of changes to the board composition, namely the separation of the chief executive and chairperson roles, the nomination of independent non-executive directors (INEDs), and the existence of an appropriate balance of executive directors (ED), non-executive directors (NED) and INEDs. Table 6-5 present the weighted mean scores for the board composition sub-heading of corporate governance implementation.

Table 6-5: Mean Board Composition Scores of LPP Companies (2004-2007)								
N=39	**2004**	2004	**2005**	2005	**2006**	2006	**2007**	2007
(max score 20)	**Score**	%	**score**	%	**Score**	%	**score**	%
Board Composition	**1.82**	9.1	**2.88**	14.4	**4.17**	20.9	**4.47**	22.4
Standard Deviation	3.87		5.27		6.24		6.34	
Minimum score	0		0		0		0	
Maximum score	17.5		20		20		20	

The mean scores in Table 6-5 indicate a minor progression from 2004 to 2007 with the percentage score in 2007 (22.4%) being marginally above the overall implementation percentage score (20.87%) mentioned in Table 6-1. However, the increasing standard deviations reflect a more negative reaction to the code's requirement regarding changes to the composition of the board. In considering the weighted scores for the 33 companies for 2007, we report that 15 of the companies had a zero score insofar as the board composition aspects (maximum weighted score is 20) were concerned i.e. there was no CEO/Chairperson split, no board balance, and not enough executive / INED presence. A further 12 companies had a score below 8 and the remaining 6 companies' scores hovered between 10 and 20, with only two companies achieving the maximum score of 20 by 2007 (one public and one private company). The independent samples t-test did not find any significant differences in the board composition scores of public and private companies.

Table 6-6 reports the presence of executive and independent non-executive directors on the board. It is important to note the information was sourced from the annual reports. Where the annual reports did not explicitly provide evidence on the presence of a particular category of director, the company was not included in this table. The first column specifies the year and the number of annual reports that were scrutinised for the relevant information. The generally poor level of transparency in the annual reports in the earlier periods was very noticeable with companies merely reporting on the names of directors with not much information on their status. However, the recognition of the INED status becomes slightly more significant in 2006 and 2007 with 18% of

Table 6-6: Frequency Counts of Independent Non Executive Directors and Executive Directors in Large Public/Private Companies (2004-2007)[14]

	INED=0		INED=1		INED≥2		ED=0		ED=1		ED≥2	
	Freq.	%	Freq.	%	Freq.	%	Freq.	%	Freq.	%	Freq.	%
Yr 2004 (N=35)	**1**	3	**-**	-	**2**	6	**-**	-	**6**	17	**1**	3
Yr 2005 (N=36)	**3**	6	**1**	3	**3**	8	**1**	3	**3**	8	**2**	6
Yr 2006 (N=37)	**5**	81	**-**	-	**7**	19	**1**	3	**6**	16	**6**	16
Yr 2007 (N=38)	**7**	18	**1**	3	**7**	18	**3**	8	**8**	21	**6**	16

companies having appointed at least 2 INEDs. Furthermore, executive presence on the board has increased steadily with a total of 37% of companies having at least one ED on the board in 2007. Table 6.7 below indicates a growing acceptance of the dual leadership principle in LPP companies from an initial (disclosed) 14% in 2004 to 42% in 2007. Although this is still far lower than in the category of listed companies, this represents one of the rare developments in the board composition aspect as LPP companies may be taking the first steps towards ensuring that executives will be held more to account. Recently, Elsayed (2007) commented on the apparent absence of a relationship between dual leadership and board performance. However, he suggested that there may be contingent factors such as low financial performance and industry/sector. In this case, we would suggest that it is the inclusion of more NEDs (or NICB) on the board which may be allowing for the appointment of a separate chairperson. Furthermore the puzzling practice of having nominated a non-independent chairperson of the board (NICB) - as was noted in the case of 4 listed companies - has also been adopted by 2 LPP companies.

Table 6-7: Frequency Distributions of Separation between CEO/Chairperson and Status of Chairperson in Large Public/Private Companies (2004-2007)[15]

	SPLIT		NO SPLIT		ED		INED		NED		NICB	
	Freq.	**%**	**Freq.**	**%**	**Freq.**	%	**Freq.**	%	**Freq.**	%	**Freq.**	%
Yr 2004 (N=35)	**5**	14	**1**	3	**2**	6	**1**	3	**3**	9	**-**	-
Yr 2005 (N=36)	**11**	31	**2**	6	**1**	3	**2**	6	**6**	17	**1**	3
Yr 2006 (N=37)	**12**	32	**2**	5	**2**	6	**3**	8	**7**	19	**1**	3
Yr 2007 (N=38)	**16**	42	**1**	3	**1**	3	**3**	8	**11**	29	**2**	5

[14] As a result of the absence of information in the annual reports, the companies that did not report on the status of their directors were not classified in this table.
[15] In this case again, instances of companies not reporting on dual leadership aspects are not reported.

From Table 6.6, it is also noteworthy that the introduction of INED representation (at least one) increased slightly from 2 companies in 2004 to 8 companies in 2007 but the % representation on their respective board by these 8 companies itself varied considerably in 2007 from 7.69% to 57.14%. This again demonstrates the diverse nature of the companies involved in this category and the reactions to the requirements regarding board structure and composition, in contrast to a more consistent behaviour amongst listed companies. During the interviews, the issue of board composition and the benefits of a wider representation were diversely interpreted. For instance, one director stated:

> *"For [name of group], there has been a lot of change. The structure of the board was itself was changed. Today, each company has its board, then there is a main board where issues such as board committees and corporate governance are discussed…..decisions are disseminated to all the other companies within the group. Our chairman was involved in corporate governance developments here and I can say he really supported me in putting in place systems to support corporate governance"* (Interviewee G).

However, the same director outlined the issues in the implementation of board composition in with regards to the appointment of independent directors (adopted) and dual leadership (not adopted):

> *"The section for the need of independent directors was quite difficult. I don't think there are independent directors in Mauritius…..[and] to strictly abide by the code in terms of independent directors is difficult….We also had to give training to those independent directors since they don't know the company. The idea is to appoint such directors is simply to add value to the board and not because the code asked for it".* (Interviewee G).

> *"It [dual leadership] has not been a difficult part of the implementation process but rather a debated one. There were many schools of thoughts. As you have seen in the public sector, there is the chairman and the managing director but there is constant conflict between both. Hence the split is not working. ….why change if the company is functioning well?"* (Interviewee G).

The last comment is certainly a common observation in Mauritius and it was interesting to note how arguments relating to a totally different context (i.e. statutory bodies and other public sector organisations) were used to motivate the status-quo of combining the CEO/chairman in a private company. However, the fact that this case related to a family-owned and -led company is more reflective of the fact that the current chairman may want to retain control and his motivations may have more to do with family issues rather than business / governance ones. In addition, the opinion that independent directors must bring value has been also highlighted in our previous interviews involving listed companies. For instance, even one director whose (family-led) company had not implemented the code did see some merit in considering the appointment of an independent company:

> *"It's up to the board to decide if outside people have to be taken on board. But if these independent directors can bring new ideas to the board, it will be good for the company. Yes, it can happen."* (Interviewee L)

In sharp contrast to the above, another family owned company was adamant that all directors must be family related. One of its directors stated:

> *"What would an independent director do? He/she doesn't even belong to the business. We know the business and we know how to deal with suppliers and clients….Someone who owns the business will fight for it…In family businesses, there are also many conflicts and disagreements which can result in losing the business for good. But we are able to manage and the youth of the family brings new ideas to the company, which helps a lot"* (Interviewee M)

Still in case of INEDs, we found that companies may have interpreted the code's requirements quite liberally. One director argued that NEDs could in fact be considered as INEDs and that in any case, independence was merely a 'transitory' state:

> *"For us, independent directors are those who do not directly influence the decisions of management and the company. Our non-executives are in fact independent directors both physically and mentally. The chairman himself is independent…..I believe you can get someone independent and intelligent…[but] even if we find this person, how long will he remain independent? …[Also] I believe in results. Only then can you assess whether the independent directors added value or not". (Interviewee I)*

In the above case, it was telling that our analysis of this company's annual reports clearly showed that the chairman was in fact a non-executive director but the interviewee thought that an independent director is one who does not have 'direct influence' in the decisions of management. This again shows how certain companies/directors re-interpret and re-develop their own notions of corporate governance and this does perhaps question the extent to which INEDs could operate in such contexts. The previously quoted example regarding the lack of dual leadership is another case in point of this re-interpretation.

Nonetheless, some of the LPP companies were more attuned to the role of independent directors. When prompted on the rather negative comments expressed by other interviewees on the subject of INEDs, the following directors stated:

> *"No, I don't think so. I think it's really important to have independent directors and they are also paid for their work. In the past, they used to come to board meetings just to have a cup of tea and they were not paid as such or were given a lunch at the end of the year….. Now, that they are paid, it makes them more conscious and more responsible as to their contribution to the board. Normally, independent directors should be in a position to complement to knowledge and skills of existing directors. What we seek is to have a complete span of competences around the table, for instance people with a background of law, expert accountants, and doctors to help us in health and safety issues….Sometimes people are selected because they have shares in the company and not because they are competent"* (Interviewee O).

> *"I believe the independent directors do their homework. They take the time that they have to. They are sent their board papers and it can be seen that they are doing their homework....Independent directors are very cautious and attentive to situations and cases put in front of them. They will sometimes use their past experience to solve a particular case…and inform that for instance such things will have to be done*

> *again….but this should not stop management in its initiative. I think this is the contribution of independent directors."* (Interviewee H)
>
> *"…..We should not believe that wisdom and knowledge reside only in some places. If companies really wish to have independent directors, they can have them. For me, there is no shortage of independent directors. It's also true that board members wish to have independent directors with whom they are 'compatible' with but compatibility does not mean that this person should have the same opinions as me."* (Interviewee J).

The arguments put forward by the above-quoted directors centre on the role of the INED as an 'outsider' casting a pair of fresh eyes on the company's management and business activities - very much akin to the role of a management consultant in analysing a business or company or a professional providing specific expert advice on a key aspect of the business (e.g. accounting, finance, law, technical/operational etc). These arguments in effect also challenge the arguments that a board needs to be entirely made up of (i) directors who have clear financial and/or personal (e.g. family) interests in ensuring the company succeeds and/or (ii) directors who are fully immersed and knowledge of the companies' activities. However, it is precisely this 'outsider' status which appears to be resisted by many of the interviewees representing the private companies, and whether the explicit reasons relate to family affiliations, definitional issues, recruitment problems and debates on their exact mandate within the board. Interestingly as well, the central feature of the INED's role in some of the LPP companies appears quite different from the role they appear to have been assigned in the case of listed companies. Indeed, we reported that the INED is seen as part of a 'control' mechanism within the boards of listed companies. On the other hand, it is the 'advisory' feature of the INED's role that seems to be a predominant one amongst the LPP directors - at least for those who were most sympathetic to the notion of an INED representation on the board. The above issues, relating to the inclusion of an INED on the board then impacts on the remaining board composition issues. Overall therefore, we find much resistance and in some limited cases, a cautious welcome, to board composition changes to accommodate INEDs and a dual leadership structure.

6.3.2 Committee Structures, Risk Management and Internal Audit

This section focuses on other major structural changes expected of companies implementing the code i.e. the setting up and establishment of the sub-committee structures and the risk management mechanisms. In Chapter 5, we have already highlighted the intended benefits of the audit sub-committee in bringing together a more focused and more technical approach in monitoring the financial matters of the company. This would allow the board to concentrate more on strategic matters and improve in general the decision making processes in the company. Similarly, corporate governance committees address the governance issues for the company including remuneration and nomination. Finally, risk management was singled out in light of the emphasis given to this issue in the code and also as a result of recent concerns regarding risk management in Mauritius. Table 6-8 provides the descriptive statistics for the audit committee score, corporate governance score and the risk management score. Figure 6.8 displays graphically the progression of the scores for the period 2004-2007.

Table 6-8: Audit Committee, Corporate Governance Committee and Risk Management Scores of LPP Companies (2004-2007)

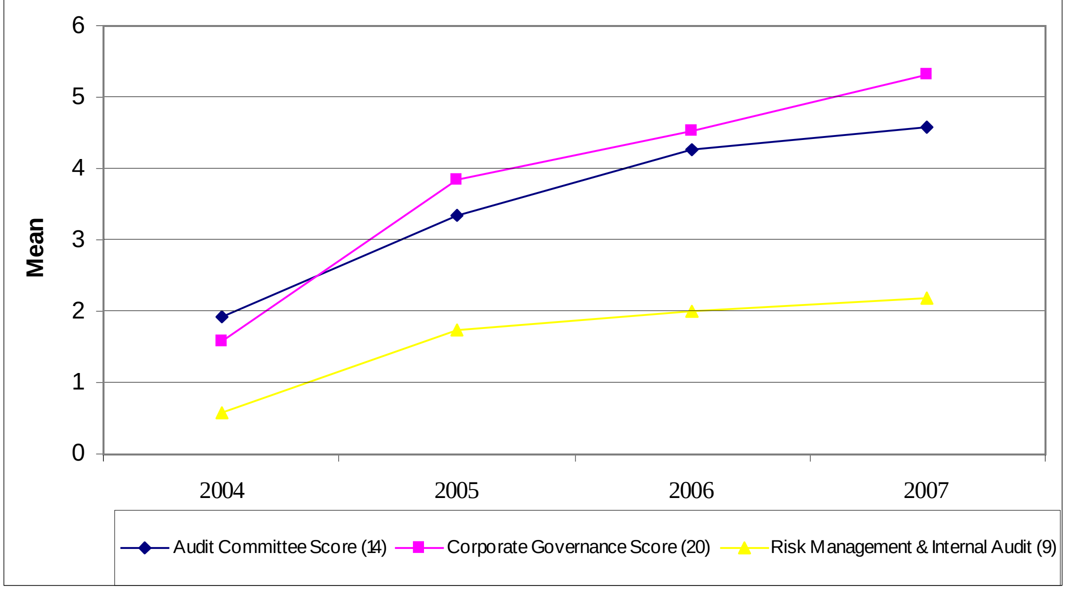
N=33	**2004**	2004	**2005**	2005	**2006**	2006	**2007**	2007
	Score	%	**Score**	%	**Score**	%	**Score**	%
Audit committee mean *(max score 14)*	**1.92**	13.7	**3.35**	23.9	**4.27**	30.5	**4.59**	32.8
Standard deviation	3.85		4.31		5.05		5.46	
Minimum score	0		0		0		0	
Maximum score	11		11		14		14	
	Score	%	**Score**	%	**Score**	%	**Score**	%
Corporate governance committee mean *(max score 20)*	**1.59**	8.0	**3.85**	19.3	**4.53**	22.7	**5.32**	26.6
Standard deviation	4.47		5.93		6.63		7.21	
Minimum score	0		0		0		0	
Maximum score	18.5		17		18.5		18.5	
	Score	%	**Score**	%	**Score**	%	**Score**	%
Risk management & internal audit mean *(max score 9)*	**0.59**	6.6	**1.73**	19.2	**2.0**	22.2	**2.18**	24.2
Standard deviation	1.40		3.07		3.15		3.21	
Minimum score	0		0		0		0	
Maximum score	9		9		9		9	

Insofar as the weighted scores from the 33 companies are concerned, the audit committee 'mean scores' (max score is 14) show a small improvement as from 2005. However, 18 companies still have a nil audit committee score in 2007 and this lacuna both affects public and private companies. In addition, the highest scoring companies were noticeably the larger ones (in terms of turnover) of the sample and in almost all cases, they were known to have a more dispersed ownership structure and/or to have looser affiliations with personal (i.e. family or government) interests. The scores for the corporate governance sub-committees (max score 20) did not fare any better. In 2007, 19 companies did not implement the setting up of the committees and scored zero. A further three scored less than 8 out of 20 whilst the remaining six were rated as having achieved between 11 and

20 in 2007. Finally, the risk management and internal audit scores (max score 9) in 2007 were satisfactorily (scored from 6 to 9) achieved by only seven companies (three companies having public sector affiliations and four private companies) with six other companies disclosing some initial implementation (scores of 3 out of 9) and the remaining twenty companies having not provided any evidence of risk management and/or internal audit practices. In considering the progress of the

mean scores (as illustrated in Figure 6.7), one could be inclined to see some improvement in the audit and corporate governance committee implementation. However, the frequency counts mentioned above brings this view to a more realistic one and suggests therefore that the mean scores may be influenced by both high and low performers. The risk management and internal audit scores also points to the lack of (i) an adequate (at least published) appreciation of risk management and (ii) support system (i.e. internal audit) to assist the audit committee in carrying out its tasks.

FIGURE 7 - Audit Committee Score, Corporate Governance Committee Score, and Risk Management & Internal Audit Score (LPP Companies, 2004-2007)



An assessment from the annual reports for the period 2004-2007 (Table 6-9) revealed an increasing proportion of companies having established an audit committee, starting from 23% in 2004, 42% in 2005, 46% in 2006 and 47% in 2007. This seems to indicate an awareness of the audit committee's relevance perhaps due to the technical (accounting and finance) nature of the committee's mandate. In contrast, the percentage of companies having set up corporate governance committees was slightly lower. The difference between the results in Table 6-9 and the reported mean scores (Table 6-8) relate to the actual operation and composition of the committees i.e. a committee may be set up but there has not been many meetings or the composition is not necessarily conducive to its adequate operation.

Table 6-9: Frequency Counts of Companies with Audit and Corporate Governance Committees in Large Public/Private Companies (2004-2007)				
	Audit		**Corporate Governance**	
	Freq.	**%**	**Freq.**	**%**
Yr 2004 (N=35)	**8**	23	**6**	17
Yr 2005 (N=36)	**15**	42	**12**	33
Yr 2006 (N=37)	**17**	46	**15**	41
Yr 2007 (N=38)	**18**	47	**14**	38

Overall, the above results seemed to indicate a high variability in the implementation of committees and related structures across companies and over the four year period of analysis. The weighted scores for audit and corporate governance committees are well below the average level (i.e. 50%) but there is growing number of companies setting up committees. As a result, there is room in arguing that such committees are tokenistic ones (see for example, Krambia-Kapardis and Psaros, 2006). In addition, the evidence in relation to the existence of remuneration and nomination committees remains scant and is essentially un-reported in the annual reports.

We now consider the interview data in relation to the above. One director who chairs an audit committee comments on the relevant actions of the committee and its links to the internal audit function:

> *"We have the audit committee and the internal auditors. The audit committee was not set up to carry out routine checks but the internal auditors will do the analysis work on a quarterly basis and when this information reaches the audit committee, we do a deeper analysis….The audit committee, the risk committee and so on gives a more serious dimension to the organization….Issues like reviewing the structure of the company and ways for the company to become more efficient are catered by the audit committee, which will be then taken up by the board of directors for decisions" (Interviewee N)*

Another director contrasts the level of activity for the two main sub-committees:

> *"The audit committee meets four times a year and when deemed fit while the corporate governance committee meets only twice yearly. We can see results though these committees" (Interviewee G)*

In addition, two interviewees bring an interesting insight on how risk is being implemented or managed in a non-banking/finance context:

> *"Committees like risk management are also very important. For instance, goods that come from cargo vessels and that are delayed have to be followed up by specific committee. On paper, the planning might look ok but the reality of business (delays, defective products, or products get perished on ships) can cause drastic changes to the planning process. At each level in the organization, there is a sense of responsibility where the idea is to make sure that you know what you are doing because if something goes wrong, you don't come and tell it [only] at the end of the year". (Interviewee N).*
>
> *"…We set up a risk management system only because our clients asked for it and*

> *not because of the code. They wanted to be more secure when doing transactions with us"* (Interviewee **I**)

In considering the interview data, we find a consensus on the usefulness of committees in ensuring a more focus and concerted approach to board activities. In this respect, this tallies with our analysis in Chapter 5 where we conceptualised committee structures as a structural improvement for better decision making and control at the board level. In addition, the comments by two interviewees that a risk management structure would be needed anyway for business reasons nonetheless positively impacts on the overall understanding and implementation of corporate governance since this will be seen as confirmatory evidence that the requirements of the corporate governance code are not purely bureaucratic processes. Furthermore, there was little evidence of committee activity and some interviewed directors did in fact find the relevant disclosure requirement to be a waste of time.

More to the point, we also argued that the committee structures in listed companies provided a sense of empowerment to board members in their dealings with management. However the extent to which this is actually happening in the various LPP companies is not considered to be as widespread. For instance, some interviewees asserted that most of the work was still being done at management level rather board level:

> *"…It's the management that carries out the whole work and then the board approves. They gives us the work in all its details and then we, at board level, we take a decision. We ask opinions of everyone and if agreeable, we then approve. What I can say is up to now everything went on smoothly" (Interviewee M)*

> *"At the company, it is more the management rather than the board [who is doing the work]"* (Interviewee L).

As a result, there is limited confidence in the evidence that LPP companies are engaging constructively in the use of committee structures on the grounds that management appears to be in control in some companies, with the board being still view as a rubber-stamping structure.

6.3.3 Remuneration and Other Director-related Policies

This section relates to the implementation of policies for the determination of director's remunerations and to a lesser extent to the associated issues of director appraisal, training, ethics and conflicts of interests. Table 6-10 provide the descriptive statistics for these two implementation scores. Whilst evidence in relation to actual remuneration disclosures will be considered in a later section, the scrutiny of annual reports has shown virtually no detailed implementation of requirements relating to remuneration policies.

Table 6-10: Board / Executive Remuneration and Director Appraisal, Training and Ethics Score of LPP Companies (2004-2007)								
N=33	**2004**	2004	**2005**	2005	**2006**	2006	**2007**	2007
	Score	%	**Score**	%	**Score**	%	**Score**	%
Board/Executive remuneration mean (*max score 12)*	**0.5**	4.2	**0.68**	5.7	**0.91**	7.6	**0.73**	6.1
Standard deviation	1.23		1.72		1.87		1.64	
Minimum score	0		0		0		0	
Maximum score	4.5		6		6		6	
	Score	%	**Score**	%	**Score**	%	**Score**	%
Director appraisal, training and ethics mean *(max score 8)*	**0**	0	**0**	0	**0.02**	0.3	**0.05**	0.6
Standard deviation	0		0		0.09		0.19	
Minimum score	0		0		0		0	
Maximum score	0		0		0.5		1	

This is also reflected in the analysis of weighted scores for the 33 LPP companies in 2007 with very poor scores for the sub-heading of 'director appraisal, training and ethics'. 27 did not supply any information on the remuneration policies and only one company provided some information on director appraisal and the code of ethics. Only 6 companies (two of them being affiliated to the public sector) achieved weighted scores ranging from 3 to 6 (max score 12). Perhaps in a more visible and unambiguous fashion (in relation to the case of listed companies), the implementation aspects in relation to remuneration policies are being systematically avoided although there is agreement that the basis of remuneration should be structured. For instance:

> *"I think it's great to have forums and committees like the remuneration committee which existed before the code but these were not structured. I think people should be remunerated as per their competences and quality"* (Interviewee H)
>
> *"…We even gave the opportunity to groups of people to review their salary and benchmarked it. I think that today we've arrived at a point where salaries across the spectrum have been reviewed and now follow the international trend."* (Interviewee O)

Another director referred to the issue and acknowledged that the concerns about remuneration disclosures may be related to the public's perception of the significant gap in salaries for expatriates as opposed to local executives. He states:

> *"At the end of the day, it is preferable and profitable for the company to have a Mauritian CEO rather than a foreigner CEO. But of course, he needs to perform well and meet the objectives of the company. However, employees need to understand that there will be a disparity in the package of salary and make the necessary effort to move up."* (Interviewee J).

Hence, there appears to be a general 'censure' of any information connected to remuneration although one would expect that a company that has a clear and transparent remuneration policy (rather than simply reporting remuneration numbers) could be seen to convey an image of professionalism and seriousness, and this without affecting the personal circumstances of its executives. In a similar vein, the need to carry out director appraisals and training is generally seen as a difficult aspect to implement for the majority of interviewees.

> *"We did not find the right formula. At the company, everybody does their work as they should. At the board level, directors ask questions and problems are sorted out"* (Interviewee I).

> *"This has not been introduced as such in Mauritius. In fact, I think that in the code, there is the need to have an assessment of directors but in Mauritius it's not easy. You are going to assess directors who are themselves promoters or managing their own organisations. Now you can wish to assess independent directors. What has been their input and was it worthwhile?"* (Interviewee N).

> *"At our place we don't have it. It's the corporate governance committee that takes care of this requirement of the code. We don't have any system put in place for this systematic evaluation. It's also a sensitive issue. It's not yet in the culture".* (Interviewee O)

> *"As far as the assessment of directors is concerned, no companies have been in a position to do it because it is embarrassing and difficult, It will not be possible for instance to delegate the corporate governance committee to quantify effective communication by counting the number of questions asked by a given director in a board meeting"* (Interviewee A).

> *"The assessment is basically done in an informal way. For the formal way, there needs to be some sort of agreement amongst all directors which we have not reached yet, like what is the end result of that? I think there is a cultural problem, like to assess elder people who are on the board. I don't think it is an exercise that will benefit the company just by ticking boxes." (Interviewee H)*

> *"Now if we talk specifically on training, with the constant evolution of things in the financial sector like balance sheets and all, I think there is no director today who will be able to be conversant with IFRS - which gets updated every year – without training. They need training to be able to understand notes of financial statements and be able to say that the company was IFRS compliant or not….there is no training provided and we have to look forward about how such training should be devised"(Interviewee H)*

Whilst there is a general consensus as to the notion of an *ad hoc* training regime for directors, we find from the above a genuine difficulty in deciding whether, and how, fellow directors should be assessed. Many of the same interviewees were happy to agree that such a professional assessment is needed for company executives and staff but somehow this would be not necessary for board members. The comment that only INEDs should be subject to an assessment (and not NEDs) indicate a perspective that only outsiders ought to be 'proving' themselves and which potential INEDs may find difficult to agree with. However, it does raise the question as to what exactly is one seeking to achieve by starting a formal appraisal process within a board. Interestingly as well, references are made to the corporate governance committee as the appropriate mechanism but this is not explicitly provided for in the code. For instance, interviews from some listed companies have provided evidence of assessment practices led by the board chairperson with the use of self-assessment questionnaires, but we argued that such a process may end up becoming a ritualistic one, after some years. Finally, the comments about the difficulties in assessing elder members of the board highlights cultural (particularly family-related) issues that may still be dominating the running of the company's board. In conclusion, and to the best of our knowledge, evidence on the remuneration-related policies and assessment / training requirements of the code have been barely considered in the literature and extant research has mostly focused on the issues associated to remuneration numbers and their disclosure (e.g. Chizema, 2008). However, what we observe is a general attempt by LPP companies and directors to avoid altogether the extent of 'exposure' and 'personalisation' of their names, which they perceive to be gradually lifting or increasing as a result of the contemporary pressures to publish more director-related data. It is also clear that these issues are not viewed as the priority ones particularly in a context (i.e. LPP companies) where a satisfactory level of compliance to the code's main requirements remains to be achieved.

6.4 Detailed Disclosure and Transparency

Disclosure and transparency is a critical signal in a company's bid to implement the corporate governance code more comprehensively. The corporate governance code (Section 8, 2004, p. 114-117) specifically requires that relevant information must be disclosed in a corporate governance report within the company annual report. However, we have already highlighted the fact (from Chapter 2) that many LPP companies only provided us access to the minimum information i.e. audited financial statements and the information filed at the Registrar of Companies was also limited to the filing of statutory accounts - even if a more detailed annual report (including financial statements) might have been produced internally and possible circulated only to shareholders. We therefore rely on the fairly limited amount of information provided and the weighted score used for the 33 companies. We also rely on interview data from directors and where relevant from outside stakeholders such as institutional shareholders, lenders and stockbrokers.

6.4.1 Corporate Governance Reports and Compliance Statements

All companies must provide a corporate governance report and provide a formal statement of compliance (or explanation, if not complying) in the annual report. Table 6-11 provides an assessment of the percentage of companies having met these two requirements. Although there has been steady increase in the number of companies meeting one or both of these requirements, about half of the LPP companies have not provided a compliance statement or disclosed a corporate governance report. This can be contrasted to the case of listed companies where almost 80% of such companies have provided this minimum communication. Table 6-12 provides the relevant statistics for the weighted scores.

Table 6-11: Frequency Counts for the Disclosures of a Corporate Governance Report and a Compliance Statement by LPP Companies (2004-2007)

	Corporate Governance Report		**Compliance Statements (or explanations)**	
	Freq.	**%**	**Freq.**	**%**
Yr 2004 (N=35)	**7**	20	**10**	29
Yr 2005 (N=36)	**11**	31	**13**	36
Yr 2006 (N=37)	**16**	43	**16**	43
Yr 2007 (N=38)	**18**	47	**16**	42

Table 6-12: Corporate Governance Report and Compliance Statement Disclosure Scores of LPP Companies (2004-2007)

N=33	**2004**	2004	**2005**	2005	**2006**	2006	**2007**	2007
	Score	%	**Score**	%	**Score**	%	**Score**	%
Separate report and compliance statement mean *(max score 8)*	**1.39**	17.4	**2.41**	30.1	**3.14**	39.3	**3.36**	42.0
Standard deviation	2.43		3.27		3.48		3.67	
Minimum score	0		0		0		0	
Maximum score	8		8		8		8	

In the case of the weighted scores (max score 8), we note from Table 6-12 that the increasing number of companies disclosing the required information has had a positive impact on the scores. However, sixteen companies in 2007 rated a zero score for not providing a corporate governance report or statement of compliance whilst 11 other companies achieved the maximum score. The remaining 6 companies typically provided a statement of explanation, achieving a 3 or 5 score. Interestingly, the scoring done in respect of 2004 already indicated that the seven out of the top rated companies (in 2007) already implemented part of the disclosure, typically by again providing a statement in relation to corporate governance. The scores thus appear to show an early acknowledgement and awareness of the code of corporate governance, which was not however reflected in the implementation scores at that particular point in time. Typically, companies also provide statements of 'intent' whereby they will comply in the subsequent financial years (although it does not always happen) and these statements can be viewed as an explanatory statement prior to future implementation. We provide some typical examples of the corporate governance statements and the 'changes' (if any) in the compliance discourses used by the same company in 2004 vs. 2007 in Table 6.13 below, and this is presented relative to the actually achieved implementation and disclosure (weighted scores) rated for 2004 vs. 2007.

Table 6-13: Examples of Compliance Statements of LPP Companies		
Statements	**Implementation and Disclosure Weighted Scores (**2004 **vs. 2007)**	
	Implementation	**Disclosure**
Example 1 (Public company having a public-sector affiliations) *"The company believes that in today's business world, good corporate governance and effective compliance practice have become key success factors for a business enterprise. The company is fully committed to promoting a compliance culture in the organisation (2004).* *"The company ensure compliance with relevant laws and regulations and is committed to good governance and effective practices (2007)"*	17/83 (20.5%) **35.5/83 (42.8%)**	19/42 (45.2%) **22/42 (52.4%)**
Example 2 (Public company) *"The principles of good governance which have always prevailed in the company have been further formally structured in the course of the year" (2004)* *No statement in 2007*	20/83 (24.1%) **46.5/83 (56%)**	21.5/42 (51.2%) **29.5/42 (70.2%)**
Example 3 (Public company) *"Implementation of Good Corporate Governance principles within the company was accepted by the board of directors even before the creation of the 'code' published recently" (2004)* *"The board directors has the overall responsibility for ensuring that the company complies with the standards of good corporate governance" (2007)*	2.5/83 (3%) **37.5/83 (45.2%)**	8.5/42 (20.2%) **24.5/42 (58.3%)**
Example 4 (Public company with family affiliations) *No statement in 2004* *"The company recognizes that corporate governance practices based on transparency and accountability would reinforce the confidence of its shareholders, partners and other stakeholders. Hence, the company commits itself to correctly apply the rules of corporate governance in terms of transparency, quality of information, and board balance whilst taking into account its family-based shareholdings"* (2007)	0/83 (0%) **5.5/83 (6.6%)**	0/42 (0%) **15.5/42 (37%)**
Example 5 (Entrepreneur oriented private company) No statement in 2004 *"The company adheres to and ensures that the highest standard of principles of good governance are followed and applied throughout the company" (2007)*	0/83 (0%) **36.5/83 (44%)**	4/42 (9.5%) **30/42 (71.4%)**
Example 6 (Family-led private company) *"The board of directors is following the guidelines of good governance promoted by the "Code of Corporate governance for Mauritius." In this context, the board of directors is proposing to appoint an independent non executive director on the board of the company. The company is in the process of appointing additional independent directors" (2004)* *"The board is fully committed to attaining and maintaining the highest standards of corporate governance" (2007)*	0/83 (0%) **27.5/83 (33.1%)**	12/42 (28.6%) **14.5/42 (34.5%)**
Example 7 (Private company) *"Further to the implementation of the code of corporate governance, the board of directors now consists of 8 members" (2004)* *No Statement in 2007*	32/83 (38.6%) **51/83 (61.5%)**	12/42 (28.6%) **28.5/42 (67.9%)**

As in the case of listed companies in Chapter 5, we observe many instances of a paradox between the statements (when these are actually provided in the annual reports) and the scores. As we noted in Table 6.11, the number of compliance statements has doubled from 2004 to 2007 but

Table 6-13 gives a fairly representative indication of the quality of such statements and one can reasonably question how useful some of these statements would be from the point of an annual report reader. From our analysis of the various compliance statements (of all available annual report statements for LPP companies), we found that the majority of these read more like statements of intent (or agreement) with little practical information on when, what and how will the company actually implement more comprehensively the code of corporate governance. From Table 6-13, we can also argue that the qualitative statements give little indication of the extent of implementation achieved by the relevant company. For instance, company (Example 6) mentions that it "fully commits" but its implementation and disclosure scores in 2007 are actually lower than those of another company (Example 2) and which did not even provide a statement. In addition, a private company (Example 7) has achieved the highest implementation score but still did not provide a compliance statement.

It may be important to acknowledge that due to the 'comply or explain' policy, companies are not expected to state full compliance only when the scores reach 100%. However, there is the requirement that companies explain the reasons for non-compliance and this has been seen to be still minimal for the surveyed LPP companies. Interviews with some of the LPP directors yielded similar comments as reported in Chapter 5 i.e. namely that companies provide 'boiler-plate' statements and sought to minimize the fact that compliance has not been comprehensively achieved. Whilst our overall conclusions in this regard in the case of listed companies was that this was the result of a temporary strategy as companies adapted to the new regime, the evidence of low implementation (by 2007) in the majority of LPP companies suggests otherwise and this brings further corroboration that the specific factors of each company impinges significantly on the implementation and disclosure aspects of the code.

6.4.2 Board and Committee Composition and Related Disclosures

Tables 6-6 and 6-7 already (but indirectly) provided an assessment of the actual disclosure levels for board, committee and related disclosures. Also, whilst no LPP company provided actual board attendance details in 2004, the proportion of companies doing so rose thereafter to 22% in 2005, 27% in 2006 and finally 37% in 2007. This can be contrasted to the observation that 88% of listed companies disclose board attendance details in the latter year. Table 6-14 provides the mean scores for the board and committee disclosures:

Table 6-14: Board / Committee Composition and Related Disclosures Scores of Listed Companies (2004-2007)								
N=33	**2004**	2004	**2005**	2005	**2006**	2006	**2007**	2007
	Score	%	**Score**	%	**Score**	%	**Score**	%
Board / Committee Composition mean *(max score 13)*	**1.71**	13.2	**2.88**	22.2	**4.02**	30.9	**4.85**	37.3
Standard Deviation	3.38		4.15		5.04		5.44	
Minimum score	0		0		0		0	
Maximum score	10		13		13		13	

Table 6-14 highlights an increase in the mean scores over the period but these scores remain relatively low and this is associated to the absence of detailed information on the profile and status of directors, the details of the operations (e.g. attendance of directors, number of meetings) of board committees and to the terms of reference of committees. In addition, in relation to the same weighted scores (max score 13) for LPP companies, seven companies in 2007 achieved the maximum score for the board / committee composition and related disclosure scores whilst a further 2 companies scored 10. A further 14 companies did not obtain rate any score whilst another 6 companies scored very low scores (1.5 to 3.5). Although some changes in the disclosure scores amongst these 33 companies were apparent from 2005 onwards, the overall picture is that a fairly uncontroversial and administrative element of corporate governance disclosure remains largely un-addressed in this category of companies. Two directors summarise what they perceive are key benefits of such disclosures:

> *"Yes it [attendance disclosure) is important. In this way, we can see the contribution of each and every director on the board. There may be a number of reasons to explain absences like business trips, meetings etc. But if you have a director that does not participate at all, then it's better to find someone else."* (Interviewee J).

> *"As far as attendance reports are concerned, I believe this puts pressure on the directors to attend their board and committee meetings." (Interviewee A)*

However, another director was rather more dismissive of the requirement:

> *"I believe it is important but yes we have disclosed this information on a general [i.e. combined] basis. …Basically, all the directors were present on the different board meetings. Maybe in the near future, we will have to consider this individual disclosure of attendance. But frankly speaking, I do not see the relevance of it. I think there are too many pages in the annual report…it's too complicated to read and understand"* (Interviewee J).

As mentioned in the literature, the absence of detailed attendance information can be seen as evidence of committees and boards not meeting or operating regularly but being established for ritualistic reasons (Ow-Yong and Guan, 2000). The first two interviews clearly relate to situations where 'outsider' directors have been appointed and as a result, attendance statistics are a measure of their accountability to the board and to the company. However, we are already aware that the use of INEDs and outsider directors is not particularly widespread in all the LPP companies. Furthermore, the last quotation seems to infer that attendance disclosures are not particularly relevant if all the directors are insiders and/or part of the same family or affiliation. For some of these boards, the 'formal' publication of attendance statistics does not have the same functional use as would be the case in a company where INEDs and sub-committee structures would have been put in place. In a situation where greater work and commitment are imposed on the directors (e.g. in audit committees), the use of attendance disclosures indeed acts as an accountability mechanism for the board and shareholders to asses the director's input. However in an alternative context where typically management retains control and responsibility for all the work and for instance, where the chairman is also the CEO, then the expectations for the board's contribution appear to be minimal and less involved than in the case of a company that has implemented a board re-structuring following the corporate governance code's implementation.

6.4.3 Disclosures of Directors Remuneration and Interests

This final disclosure section reports on the highly debated issue of publishing the directors' remuneration and other interests. It needs to be acknowledged at the outset that these results may be influenced by the previously established requirements (in accounting conventions and in company legislation) that remuneration numbers (normally in total) must be disclosed for executive and non-executive directors (traditionally referred to as full time and part time directors respectively). Table 6-15 provides a picture of the extent of disclosure by companies in terms of whether the remuneration information is provided on an individual basis (as required by the code's section 2.8.2, 2004) or on a block basis (which is anyway required by company legislation).

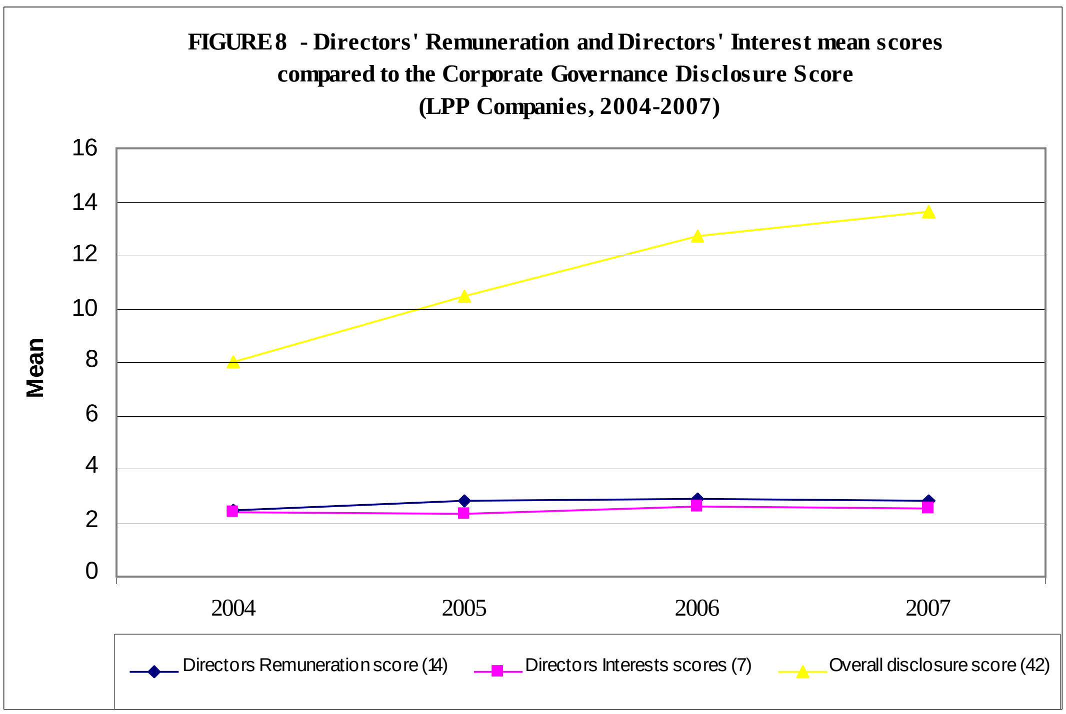
Table 6-15 Remuneration disclosures (2004 – 2007)	**% of LPP companies[16] disclosing on a**			
	Individual basis Freq.	%	**Block basis Freq.**	%
Yr 2004 (N=35)	**0**	-	**28**	80
Yr 2005 (N=36)	**1**	3	**31**	86
Yr 2006 (N=37)	**4**	11	**26**	70
Yr 2007 (N=38)	**8**	21	**18**	55

The above table highlights the preferred option by companies to disclose remuneration information on a block basis although a greater number of companies have started to reveal individual remuneration information in 2007. In terms of the weighted scores applied for the 33 LPP companies, Table 6-16 below provides the descriptive statistics for the two disclosure scores relating to directors' remuneration and interests.

[16] Note: the total percentages do not necessarily add to 100% since a few companies did not provide any remuneration data at all or stated that there was no remuneration paid during the year.

Table 6-16: Directors' Remuneration Disclosure and Directors' Interests Scores of LPP Companies (2004-2007)								
N=33	**2004**	2004	**2005**	2005	**2006**	2006	**2007**	2007
	Score	%	**Score**	%	**Score**	%	**score**	%
Directors' remuneration mean *(max score 14)*	**2.5**	17.9	**2.85**	20.4	**2.97**	21.2	**2.85**	20.4
Standard deviation	1.56		1.99		2.35		2.41	
Minimum score	0		0		0		0	
Maximum score	7		8.5		8.5		9.5	
N=33	**2004**	2004	**2005**	2005	**2006**	2006	**2007**	2007
	Score	%	**Score**	%	**Score**	%	**score**	%
Directors' Interests mean *(max score 7)*	**2.44**	34.9	**2.36**	33.7	**2.64**	37.7	**2.61**	37.3
Standard Deviation	1.40		1.4		1.25		1.27	
Minimum score	0		0		0		0	
Maximum score	4.5		5.0		5.0		5	

From Table 6-16, it is apparent that the mean scores for the directors' remuneration and interests have remained fairly stable. Figure 6- 8 reflects this lack of progress in the disclosures in relation to the overall disclosure scores.



The scores reflect the combination of disclosure items relating to directors dealings with the company or materially relating to matters that might reflect the company's business. Hence, whilst there might some slight progress regarding the specific issue of remuneration (i.e. Table 6.15), other relevant items are not being disclosed. In addition, given the critical nature of such disclosures, we carried out an independent samples t-test to highlight any disclosure differences between public and private companies. At a 1% or 5% significance level, public companies were disclosing more remuneration information than private companies from 2004 to 2006. However, the differences were no more significant in 2007 and no difference in disclosure was noted for the directors' interests.

It is observed that most of the remuneration scores achieved are at the lower end of the spectrum with the majority of companies achieving scores from zero to 3.5, although a slight improvement is noted in 2007. The scores for directors' interests are noticeably higher (in percentage terms) but this is because the elements being surveyed and required by the code (directors' shareholding, other directorships and related party transactions) are normally disclosed in the annual reports anyway. In other words, the majority of LPP companies are not responding to the code's specific requirements which require a higher level of disclosures. The block remuneration data is notoriously limited in its usefulness for users of accounts and it has traditionally been difficult to develop an understanding of the linkages between remuneration and performance due to the aggregated nature of the disclosures. Similarly to the case of listed companies, the resistance to remuneration disclosures is very apparent from the interviews, except for the last quoted director:

> *"At the company, there were two schools of thoughts, those that were for the idea of individual remuneration and those against. Then it was finally concluded to do in block figures, otherwise, it would have been an exercise of 'voyeurism'. In Mauritius, such individual disclosure is difficult and sensitive. Everybody knows everybody. I think the culture itself in Mauritius is different and such disclosure is not supported by this Mauritian specificity. Doing so will mean unveiling the private lives of people. In other countries like the United States, this form of disclosure is more applicable."* (Interviewee I)

> *"Personally, we thought that in a small economy like Mauritius such disclosure was not a positive contribution. For transparency, we do not have any problem as we've disclosed a number of things….I don't think that this individual remuneration will bring good corporate governance in the country. For instance, if one finds out that CEO X gets Rs. 8 million a year as salary, this will make the headlines and give a bad perception of this specific company. ….It's not put into context and not supported by explanations. I am not here to say that the CEO should have more or less salary. But….such disclosure of remuneration figures bring about undesirable things that we do not want to come across….But in other countries there are hundreds of companies and it is more anonymous". (Interviewee H)*

> *"For executive directors, we have decided to provide block figures because we did not want to show to others how much their colleagues are getting as salary compared to other directors. For non-executives, that's peanuts and can be shown on an individual basis"* (Interviewee G)

> *"There is nothing wrong in disclosing all the remuneration…..At [company name], they have disclosed it individually in 2008. This is the trend actually. There is nothing to hide because the shareholders should know" (Interviewee N)*

In conclusion, there is a clearly set opinion amongst LPP companies (bar one exception) on the fact that the disclosure of directors' remuneration and interests in sufficient detail is inappropriate and unnecessary. As in the case of listed companies, there are strong concerns as to the potential societal reactions to large salary packages. Many LPP directors were aware of the past decisions by some listed companies to disclose the remuneration information and the apparent backlash that ensued in the media. It is also noted that the LPP companies' attitudes to disclosures are clearly more negative than listed companies and the issue of remuneration disclosures is a sensitive one except for a minority of companies. In any case, most of the LPP companies have shown a significant reluctance in disclosing information as also evidenced by the fact that many LPP companies were reluctant to provide access to their financial statements in the first place.

6.4.4 Exploratory Correlation Analysis

From the literature review in Chapter 2 and the findings for listed companies in Chapter 5, we identified various firm-based variables that appeared to be influencing the level of corporate governance adoption by the companies, such as size, profitability, staff costs[17], industry/sector[18], board composition, gearing/leverage, directors' shareholdings, INED/NED percentage on the board, and remuneration data. However, as shown in the case of listed companies, the findings showed how these influences are not particularly stable over time but nevertheless identified a pattern of corporate 'behaviour' over the period 2004-2007. Again therefore, we carried out an exploratory correlation analysis to flesh out any further evidence of an *association* (rather than causality) between nine such variables and corporate governance scores. Using non-parametric correlations (Spearman's rank correlation coefficients), the following correlation matrices (labelled Tables 6-17 to 6-20) display the significant correlations (at 0.01 or 0.05 level) for each of the financial years from 2004 to 2007. The correlations relevant to the associations between firm-based variables and the detailed CSR scores will be considered in Chapter 8.

The 2004 matrix (Table 6-17) displays a limited number of significant relationships between corporate governance scores and the variables. There are notable and significant positive relationships between the proportion of INEDs and several implementation (board composition, audit committee and corporate governance committee) scores and disclosure (compliance/report and composition/committees), which should be expected in terms of the influence of INEDs on the main structures and disclosures required by the code. In addition, the staff costs ratio is positively associated with the board composition score and a number of disclosure scores. In other words, the higher the proportion of staff costs remuneration in the company's turnover, the more the company

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[17] Note: The profit, staff and remuneration numbers have all been deflated by the turnover figure of company.
[18] As reported at the start of this chapter, the types of industry or economic activity did not appear the to be a significant factor explaining differences in the implementation and disclosure aspects of the corporate governance code.

will engage in a behaviour of ensuring a more balanced board and of disclosing corporate governance information (or vice versa) - suggestive of a size effect. Interestingly, there is also a positive link between risk management and the % of NEDs on board. However, one could argue that risk management is an important practice, irrespective of a company's engaging with the code and could thus perhaps reflect a spurious relationship. In comparison to the 2004 matrix for listed companies (Table 5.17), the differences are very telling in terms of the absence of relationships to

Table 6-17: Correlation Matrix of LPP Companies (2004)									
Firm-based variables N=33	**Profit[19] ratio**	**Staff Ratio**	**Executive Rem Ratio**	**Non Executive Rem Ratio**	**% shares held directly by directors**	**% shares held indirectly by directors**	**Gearing ratio**	**% of INED on board**	**% of NED on board**
Significant Non-Parametric Correlations (0.01 or 0.05* level)**									
1. Board Composition Score		0.361*						0.664**	
2. Audit Committee Score								0.621*	
3. Governance Committees Score								0.846**	
4. Risk Management Score									0.705*
5. Board Remuneration Score									
6. Director Appraisal, Training and Ethics Score									
7. Corporate Governance Implementation Score (1 + 2 + 3 + 4 + 5 + 6)		0.401*						0.642**	
8. Disclosure: Compliance/CG Section								0.643**	
9. Disclosure: Composition and Committees Score								0.589*	
10. Disclosure: Directors' Remuneration Score		0.457**	0.420*						
11. Disclosure: Directors' Interests Score		0.427*							
12. Corporate Governance Disclosure Score (8 + 9 + 10 + 11)		0.483**							
13. Corporate Governance Implementation and Disclosure Score (7 + 12)		0.502**						0.594*	
14. Corporate Responsibility Score									
15. Corporate Governance Score (7+12+14)		0.502**						0.550*	

[19] Note: The profit, staff, and remuneration numbers have all been deflated by the turnover figure of the company. The gearing ratio is calculated by dividing the long term debt by the shareholders' equity of the company

other variables, particularly executive remuneration, the % shares held by directors and the proportion of NEDs on board.

The 2005 matrix (Table 6-18) shows a similar set of significant correlations compared to 2004. Except for the risk management score, it is again worthy to note that there is no significant association between profit and the corporate governance scores for both 2004 and 2005. Hence, the argument of a more complex link between corporate governance and company performance appears to apply as well for LPP companies. The correlations for the staff ratio have now firmed up quite significantly for a number of detailed and overall scores (both implementation, disclosure and CSR) and a size effect can thus be seen as an important factor of interest for LPP companies. The CSR result is significant in that it brings additional evidence for non-listed companies to the CSR literature (e.g. Gray et al., 1995; Holder-Webb et al., 2009). Furthermore, the positive links between the proportion of INEDs and corporate governance adoption have become stronger. Again, the increased level of correlations with the major corporate governance scores (including CSR scores) suggests that the influence of INEDs appears to have positive consequences in LPP companies as well.

Table 6-18: Correlation Matrix of LPP Companies (2005)

Firm-based variables N=33	Profit ratio	Staff Ratio	Executive Rem Ratio	Non Executive Rem Ratio	% shares held directly by directors	% shares held indirectly by directors	Gearing ratio	% of INED on board	% of NED on board
Significant Non-Parametric Correlations (0.01** or 0.05* level)									
1. Board Composition Score		0.455*						0.773**	
2. Audit Committee Score									0.637*
3. Governance Committees Score		0.465**						0.614**	
4. Risk Management Score	0.411*								
5. Board Remuneration Score									
6. Director Appraisal, Training and Ethics Score									
7. Corporate Governance Implementation Score (1 + 2 + 3 + 4 + 5 + 6)		0.421*						0.761**	
8. Disclosure: Compliance/CG Section		0.413*						0.524*	
9. Disclosure: Composition and Committees Score		0.407*						0.637**	
10. Disclosure: Directors' Remuneration Score		0.486**		0.404*					
11. Disclosure: Directors' Interests Score		0.482**							
12. Corporate Governance Disclosure Score (8 + 9 + 10 + 11)		0.587**						0.585*	
13. Corporate Governance Implementation and Disclosure Score (7 + 12)		0.546**						0.721**	
14. Corporate Responsibility Score		0.532**				0.656**		0.689**	
15. Corporate Governance Score (7+12+14)		0.536**						0.715**	

Table 6-19: Correlation Matrix of LPP Companies (2006)

Firm-based variables N=33	Profit ratio	Staff Ratio	Executive Rem Ratio	Non Executive Rem Ratio	% shares held directly by directors	% shares held indirectly by directors	Gearing ratio	% of INED on board	% of NED on board
Significant Non-Parametric Correlations (0.01 or 0.05 level)**									
1. Board Composition Score				0.556**				0.823**	
2. Audit Committee Score		0.446*		0.474*				0.756**	
3. Governance Committees Score	0.403*	0.389*		0.550**				0.497**	
4. Risk Management Score	0.355*	0.469**							0.598*
5. Board Remuneration Score								0.465*	
6. Director Appraisal, Training and Ethics Score									
7. Corporate Governance Implementation Score (1 + 2 + 3 + 4 + 5 + 6)		0.423*		0.525**				0.762**	
8. Disclosure: Compliance/CG Section				0.428*				0.497*	
9. Disclosure: Composition and Committees Score		0.384*		0.529**				0.712**	
10. Disclosure: Directors' Remuneration Score		0.464**	0.442*	0.607**				0.572*	
11. Disclosure: Directors' Interests Score				0.403*					
12. Corporate Governance Disclosure Score (8 + 9 + 10 + 11)		0.370*		0.602**				0.648**	
13. Corporate Governance Implementation and Disclosure Score (7 + 12)		0.411*		0.606**				0.724**	
14. Corporate Responsibility Score								0.544*	
15. Corporate Governance Score (7+12+14)		0.395*		0.559**				0.704**	

For 2006, the correlation matrix (Table 6-19) shows an increase in the number of significant relationships between the previously mentioned variables and the corporate governance scores as well as the new influence of the non-executive remuneration ratio. The non-executive remuneration correlation may proxy two particular aspects which may be of relevance to the increased implementation of corporate governance, namely that a higher proportion of INEDs and NEDs are now active on the board and/or that a higher level of remuneration is being paid to these non- executives. As a result, their higher level of involvement (and relevance) is translated in the positive correlations with the scores. At the same time however, an alternative explanation is that the increased adoption of the code has resulted into a higher proportion of NEDs/INEDs on the board and increased remuneration disclosure, thereby 'revealing' the positive correlations. However, what remains notable and significant is the consistent influence between staff ratios, the % of INED on boards and the various implementation and disclosure scores (but not CSR). The profit ratio is also correlated to the risk management and corporate governance committee scores.

From Table 6-20 below, the pattern of correlations in 2007 shows the constant and positive influence of the % of INEDs on the corporate governance scores and the fading of the positive association between staff ratios and the corporate governance disclosure scores. The overall CSR scores are also not correlated to any firm-based variables, except for the non-executive remuneration ratio. Notably as well, the correlation coefficients between the INED proportion and the corporate governance scores are more widespread, except for CSR. A major finding in this year is however the increased relationship between profitability and the corporate governance scores (except for CSR). Whilst this was not forthcoming in the case of listed companies, the coefficients in Table 6-20 raise the possibility that either (i) more profitable companies have implemented the score or (ii) that corporate governance implementation/disclosure (partly) leads to a higher profitability. In light of the nature and profile of the LPP companies, the first explanation is more probable[20].

[20] Whilst acknowledging the pitfalls of small sample size and the non-normal distribution of the variables involved, a regression analysis was attempted to address this question. Indeed, the modelling of corporate governance scores (as dependent variables) revealed more convincing results than the modelling of profit as a dependent variable. However, the significance levels of the modelled independent variables (notably profitability) and the explanatory power of the multiple regressions remain low.

Table 6-20: Correlation Matrix of LPP Companies (2007)

Firm-based variables N=33	Profit ratio	Staff Ratio	Executive Rem Ratio	Non Executive Rem Ratio	% shares held directly by directors	% shares held indirectly by directors	Gearing ratio	% of INED on board	% of NED on board
Significant Non-Parametric Correlations (0.01 or 0.05 level)**									
1. Board Composition Score	0.351*			0.507**				0.814**	
2. Audit Committee Score	0.358*	0.401*		0.603**				0.723**	
3. Governance Committees Score	0.496**	0.375*		0.528**				0.482*	
4. Risk Management Score	0.455**	0.444*							
5. Board Remuneration Score		0.551**		0.418*				0.464*	
6. Director Appraisal, Training and Ethics Score									
7. Corporate Governance Implementation Score (1 + 2 + 3 + 4 + 5 + 6)	0.432*			0.539**				0.732**	
8. Disclosure: Compliance/CG Section	0.447*			0.493**					0.491*
9. Disclosure: Composition and Committees Score	0.502**			0.583**				0.635**	
10. Disclosure: Directors' Remuneration Score		0.527**		0.651**		0.457*		0.542*	
11. Disclosure: Directors' Interests Score									
12. Corporate Governance Disclosure Score (8 + 9 + 10 + 11)	0.383*			0.659**				0.702**	
13. Corporate Governance Implementation and Disclosure Score (7 + 12)	0.395*	0.376*		0.622**				0.737**	
14. Corporate Responsibility Score				0.479*					
15. Corporate Governance Score (7+12+14)	0.393*			0.603**				0.704**	

Our overall conclusion from this exploratory correlation analysis over the four years reveals similar as well as different dynamics compared to the case of listed companies. In the early stages and technically prior to the date of compliance with the corporate governance code (i.e. 2005), the companies' decisions and behaviour towards the implementation of corporate governance structures, policies and disclosures appear to have been solely positively influenced by size (staff ratios) and the proportion of INEDs. Whilst the size effect appears to be slightly fading in 2007 (for disclosure-related scores), the proportion of INEDs is a strong increased implementation to the code. More recently, the influence of the non-executive remuneration ratios can be seen as an indicator of an increased contribution of non-executives in general to the board process. This also brings us to note that there is no significant negative correlation from 2004 to 2007. In other words, there is no evidence of strong 'negative influences' to corporate governance implementation and of the competing pressures we identified in the case of listed companies, such as the proportion of NEDs on board and directors' shareholdings. This does contradict in some way the gist of the interview data where we found many instances of resistance and the correlations also to some extent puts into question the traditional arguments in the literature on the influence of insiders (e.g. Classens and Fan, 2002). Finally, the 2007 correlations for the profit ratios also bring an interesting dimension to the case of LPP companies compared to listed companies.

6.5 Concluding Analysis and Reflections

Although there were data availability issues which precluded access to a more comprehensive number of LPP companies, we were able to chart an overall picture of the implementation of the corporate governance code in this less visible category of companies. Indeed, most of the published corporate governance studies solely report on listed companies and as a result may be presenting a biased picture of corporate governance adoption, particularly if other (non-listed) companies are expected to implement the same code of corporate governance in the same country/context. Listed companies, by their very nature, are the most visible (and sometimes largest) organisations in a country and their behaviour thus reflect (directly and indirectly) on one's perceptions of transparency and accountability of the broader context in which they operate. However, considering that listed companies tend to be always a minority of companies operating in an economy, there is thus the potential bias of relying solely on findings from listed companies. We therefore see the findings in this chapter as providing a useful and complementary balance to the findings of listed companies in Chapter 5. Based on the analysis of the annual report data, the weighted scores of implementation and disclosure, the interview data, the following key findings and analysis are highlighted. Some of these may assist us in formulating recommendations in the report's final chapter:

Firstly, the overall level of implementation achieved by the LPP companies four years after the code was published (2007) remains low, as measured by the average implementation and disclosure score of 24.79% (30.99/125). As in the case of listed companies, the mean disclosure score is higher than the implementation score and the CSR disclosure score marginally impacts on the overall corporate governance score (24.03% in 2007). However, these averages scores largely reflect very different attitudes. For instance, the legally defined label of 'private' or 'public' status appears relevant, at least within the sample of 33 companies whose annual reports we were able to analyse in greater detail, in that public companies were more forthcoming that private ones but this difference in compliance behaviour was not confirmed by the correlation analysis i.e. in terms of significant correlations for directors' shareholdings for instance. Also, at one end of the spectrum, some companies believe the corporate governance is simply not suited to their circumstances. To a second group of companies, there is a view that some requirements of the code could be beneficial but a comprehensive implementation would be difficult and radical changes to the current structures would be counter-productive, particularly if it is simply to meet the code's requirements. Family-related constraints are of topical relevance. Finally, at the other end of the extreme, are companies which have demonstrated a more positive approach to the code with the weighted scores progressing in a pattern similar to listed companies. We previously used the term 'individualistic' behaviour to describe the fact that LPP companies do not seem to be operating in a 'herd-like' behaviour since they are not subject to common regulations such as those from listing rules. However, two general conclusions we could draw at this stage are that (i) the criterion of size (as measured by staff ratios) on which the applicability of the code was initially set to LPP companies appeared to be a strong explanatory factor at the start - although indications of it being less relevant in 2007, and (ii) more profitable LPP companies in 2007 have recently been at the forefront of corporate governance implementation and disclosure.

Secondly, the resistance to the code is strongly embodied in the view that the board remains a private 'space' where insiders run the business behind closed doors. The code sets the conditions for an opening up of the board and of its decision-making processes with a view to unlock potential benefits arising from say constructive debates, a strong executive oversight and control, strategy development to outsider perspectives. However, board membership and chairmanship remains a position of power and status which cannot be merely reviewed due to the traditional role of the board in such companies. Other constraints (family issues, control agreements between major shareholders, and nomination conventions - in the case of companies with government affiliations) are more important. INEDs (at least as defined in the code) are therefore not yet particularly welcome and their role of change agents that was seen as predominant in the case of listed companies is more limited in the case of LPP companies. The correlations do however indicate their primacy in cases where companies have indeed appointed INEDs and there is also little evidence of resistance by NEDs (i.e. no negative correlations) as in the case of listed companies. However, even in LPP companies that have appointed INEDs, the interview evidence suggests that their role is still perceived as being more of an advisory nature.

Thirdly, and as a result of the above, the organisational change process which is implicit within the corporate governance code is not yet extensively occurring amongst LPP companies. In a few cases indeed, directors appear to be using the new audit and corporate governance committees to bring structure to the decision making process but this still seems to be the exception rather than the rule in LPP companies. Board empowerment hence appears unchanged as executive management (CEO or combined CEO/Chairperson position) remains in charge, thereby controlling the board agenda and seeking confirmatory decisions from the board. This is particularly predominant amongst private companies.

Fourthly, we found that most companies have retained a minimum disclosure policy and that transparency remains a key problem, particularly amongst private companies. The evidence is already visible from the number of LPP companies who refused (or found convenient reasons) to supply copies of their annual reports. Although it was clear that the same annual report could be accessed from the Registrar of Companies (and in effect is a publicly available document), many companies nonetheless did not feel able to provide the reports to us directly, thereby making the data collection process unnecessarily complicated. For some LPP companies (especially public ones) however, disclosure was a key aspect of corporate governance implementation and this is reflected in some of the disclosure scores. However, as reported in the case of listed companies, instances have been found where an impression of compliance in the annual reports was conveyed in terms of the using vague, ambiguous and sometimes inconsistent compliance statements.

Fifthly, and as in the case of listed companies, remuneration disclosures are considered inappropriate and this in turns impact on other related disclosures (i.e. such a remuneration policies) by both public and private. The reasons put forward are similar to those expressed by the directors of listed companies and the more 'private' nature of the LPP companies further restricts the flow of information being made available publicly.

Finally, the above findings raise the questions as to whether it had been wise to extend the code's requirements to LPP companies, whether public companies only should be have been first targeted and whether additional support should be have provided to LPP companies to ensure implementation. We highlight the significantly lower base from which LPP companies started in 2004 namely an overall mean corporate governance score of 16.73/146 (11.5%) for LPP companies - split between 22.89/146 (15.7%) and 9.33 (6.4%) for public and private companies respectively. Compared to a mean score of 41/146 (28.1%) for listed companies in 2004, it is difficult to expect that a blanket approach to corporate governance implementation would have led to reasonable levels of implementation for all companies identified in the code within the same time period. Certainly, a few of LPP appear to have implemented the code more comprehensively but the majority of companies appear unconvinced (and weary) of the benefits of the code and have thus retained their traditional approach to board decision-making processes. Furthermore, one is entitled to ask whether more fundamental assumptions (such as the public availability of annual reports) need to be tackled first before considering the solutions for implementing the code in LPP companies (private and/or public) - in view of the critical importance of corporate governance disclosures.

Chapter 7: Findings and Analysis (Statutory Bodies)

7.1Introduction

This chapter provides the findings regarding the implementation and impact of the corporate governance code in organisations described as "*state-owned entities, including statutory corporations and parastatal bodies*" (CCG 2004, p. 17). As in many African developing economies (see for instance Tsamenyi et al., 2007), the relevance of state ownership and control in Mauritius is quite significant since governments perceive that many economic- and social-oriented sector activities are not best (or appropriately) handled by private profit-making companies or non-for-profit (charitable) organisations. At the same time however, and in the interest of promoting administrative accountability and efficiencies through decentralisation, governments establish separate institutions which have clear mandates and responsibilities typically defined by the enabling legislation(s), and which are usually accountable to a specific government department (e.g. a 'parent' Ministry) and eventually to the body of elected representatives which approved the legislation in the first place (i.e. the National Assembly). However, state ownership and control is not purely exercised via these so-called 'statutory bodies' (i.e. created by statute) but can be also carried out using commercially-led legal structures i.e. companies registered under the Companies Act and whose sole (or majority / significant) shareholder would be the either the government or the shares could be held by one or more of the government's statutory bodies. Similarly, different legal structures (e.g. trusts, associations) can also be used by governments to create entities that are mandated to carry out a specific activity on behalf of the state, and whose legal requirements may be entirely different (e.g. governed by the Registrar of Associations Act).

The above therefore paints a rather complex background to the requirement that the corporate governance code be implemented within the so-called 'state-owned enterprises' (SOEs) since state ownership is structured in a variety of ways. According to Cowan (2004), commercial/private organisations have a compelling reason to introduce corporate governance in their business and management practices in that it will generate tangible benefits ranging from happy customers to satisfied shareholders, which consequently will respectively increase profit margins and return on equity. But motivations would have to be quite different when it comes to organisations engaged in central or local government activities and where good governance principles should also apply. Furthermore, structures and decision-making processes can be specific to each organization, particularly if these are set in stone in the relevant legislation or instructed by the parent Ministry. As a result, our findings are in many ways expected to be in sharp contrast with the practices and findings detailed in the previous chapters. Before these are presented, we now clarify the definitional issues that have plagued our initial conceptualisations and understandings of state-owned enterprises (SOEs) in Mauritius. In addition, we emphasise on the rather poor availability of annual reports from such organisations.

7.2 Definitional Issues and Poor Access to Annual Reports

Although the Code required that state owned enterprises (including statutory corporations and 'parastatal' bodies) abide by its requirements, Section 1.10 (2004, p. 18) asserted that the exact list of applicable entities would be determined at a later stage. By the start of the research project, there was in fact no proper definition of an SOE and no clear line (if any existed) of demarcation established between SOE, a statutory body or a 'parastatal' body. As a result of interviews with senior government officers of monitoring institutions (Management Audit Bureau and the Director of Audit Bureau), it became clear that there was no definition of an SOE in the local context and that the word 'parastatal' (i.e. a quasi state organisation) is only a generic one used in local parlance - but with no particular meaning in law. As a result of further enquiries, an initial list of 41 institutions was identified from the Financial Reporting Act (2004) deemed large enough to comply with international financial reporting standards (IFRS) and thus reasonably expected to have considered implementing the corporate governance code. This was then compared to the Director of Audit Report (2007) which considered in greater detail the validity of the code for statutory bodies. This resulted in a final list of 33 organisations[21] which were contacted for access to their annual reports.

However, it became increasingly clear that the availability of annual reports would pose a major challenge to this study. Whilst companies are required to file their accounts within a specific period after the financial year end, the Report of the Director of Audit (2007) stated that the Statutory Bodies (Accounts and Audit) Act does not make provision either for a specific date by which the annual report should be submitted to the parent Ministry, or a specific date by which the respective Minister should lay the annual report to the National Assembly. As such, there is effectively no sanction for non-compliance, and thus boards of statutory bodies are free to decide when they can submit their reports to the Ministry and the Ministry also does not have any deadline as to when it should lay the report before the National Assembly. In this context therefore, annual reports from statutory bodies take a long time to be made public or are simply not prepared at all. In fact, the Director of Audit (2007) actually recommended an amendment to the Statutory Bodies (Accounts and Audit) Act 1972 to include specific deadlines for the submission of annual reports or financial statements by both the organisation and the Ministry.

In Chapter 2, we outlined the detailed response rates and at this stage, we merely re-iterate that a response rate of 48% (16 companies out of 33 responded) was achieved, which translated in the access to 36 annual reports for the period 2004-2007 (27% of total annual reports expected) with only 5 annual reports available for 2007. More surprisingly, only 16 of the 36 annual reports were actually officially tabled at the National Assembly which, on a symbolic basis, speaks volume on the poor level of transparency and accountability of statutory bodies. .

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[21] The list provided in the Financial Reporting Act has been very recently reduced to 15 organisations

While reviewing the annual reports, it also became evident that the weighted scoring system would be inappropriate and as a result, we rely on frequency analysis of the relevant corporate governance aspects that were disclosed by the organisations and also in light of the above investigation. We also report the attitudes and perceptions of the interviewees regarding the relevance, and application, of the corporate governance code

7.3 Implementation

7.3.1 Board composition

It is observed that the board composition of statutory bodies consisted of a mixture of representatives from different government departments/other institutions and nominated members (including chairpersons) by the parent Ministry. In some cases, nominated members originate from beyond the public sector as a result of a legal requirement (i.e. a representative from customers or from the private sector) but they technically remain a nominated person by the relevant Ministry. Table 7.1 displays the combined number of direct representatives (e.g. civil servants) from Ministries involved on statutory boards during the four years and board size statistics:

Table 7-1: Ministerial Representatives and Composition on Boards of Statutory Bodies (2004-2007)

Year	**Total Board composition**		**Number of representatives from Ministries**	**(%)**	**Min board size**	**Max Board size**
	Total	Average				
2004 N=10	111	11.1	35	31.5	7	17
2005 N=13	70	5.4	25	35.7	7	19
2006 N=8	70	8.8	21	30	9	19
2007 N=5	51	10.2	18	35.3	9	20

From the above, we note a fairly constant proportion of ministerial representatives on the boards over the period 2004-2007 and an average board size of 10.2 in 2007. Whilst the average board is similar to what would be seen in private companies, the maximum board size is significantly above those in the private companies and this indicates that some of the surveyed boards may be too large to enable constructive debate and discussions. However, one may argue that the boards on statutory bodies play an altogether different role than the one envisaged by the code of corporate governance. For instance, a senior government official stated:

> *"The law says that there needs to be a representative on the board of statutory bodies but we are not told about the status of the representative and its roles are not clear either….. We have to strike a balance [on the board] whether the person is independent or a representative. Representatives are there to make the liaison*

between the statutory body and the parent ministry…[because] the statutory bodies are here to help the government in providing facilities to the community and the citizens. However, this way of functioning does, to some extent, impact on decision making processes because every new initiative has to be referred to the ministry or the permanent secretary for approval…. The same activities done by the statutory body could have been done by the respective ministry itself. In other words, a statutory body is an extension of the Ministry" (Interviewee Q)

The above comments reveal an important point on the historical context surrounding the creation of statutory bodies and the role of ministerial representatives. Traditionally operating as a department of a government ministry, the activities - now subsumed within a statutory body - were essentially managed and coordinated on an operational basis by a committee structure run by civil servants from different departments (where applicable), and supervised by government executives (e.g. permanent secretary or relevant minister). When the activities were eventually 'outsourced' to a separate legally established body, the same committee structures, decision-making ethos and culture were transposed to this new organisation. Although a broader representation may have been encouraged as part of the establishment of the relevant legislation, the implications for the boards of statutory bodies appear to have remained the same as it was before i.e. to act as a coordinating mechanism which relays instructions from the ministry and which ensures the relevant departments or institutions are kept informed via the appointed representatives[22]. This prevalent organization culture is not therefore conducive to the development of an 'active' board, which would partly consist of independent members. Although the above-mentioned interviewee was also of the opinion that independent directors ought to be part of a statutory body, questions would again arise as to what would be the mandate of this director and taking into account that most other board members would have at heart interests in relation to their own affiliations or organisations.

Furthermore, the Director of Audit's Report (2006) stated that there was a conflicting situation between chairpersons and CEOs on the boards of statutory bodies which most of the time resulted in poor performance of these organisations. Studies carried out on state-owned enterprises in Mauritius during the financial year 2005-2006 by the Director of Audit have revealed that this conflicting relationship arises as a result of the chairpersons' ignorance or disregard of their roles and functions in as much as their appointment letters do not define their roles, functions, accountability and limits. As a result, they have a tendency to behave as 'executive chairpersons' vested with all the powers and authorities that such post entails. Inevitably, they overstep their mandate and become involved in the daily operations and management of the enterprise. In a previously quoted interview of a private sector company (Chapter 5), the absence of a dual leadership structure in the company was raised and the director retorted that the CEO/chairperson conflicts observed in various statutory bodies weighted heavily on the company's decision not to

[22] This is akin to a parent company to subsidiary company relationship where the subsidiary is wholly owned. The code does expect that parent companies should ensure that corporate governance principles are applied throughout the 'group' but in the case of government to statutory body relationship, this may still provide to be a challenge.

change the current practice of merging the two roles. Furthermore, the political nature of the chairperson's appointment to the statutory body's board is viewed as a significant impediment to corporate governance, as evidenced by the comment of a private sector director:

> *"I was an independent director on a 'parastatal' body [but] I left the company. Actually there was a change in government and we were imposed a new chairman. At the time, the company was in a difficult situation but the new chairman wanted a monthly salary of Rs. 25,000 (previously Rs 3,000) and an office will all amenities. As an independent director, I said this was not possible given the difficult situation of the company. The chairman was politically nominated with no experience at all. I believed this was a waste of money and resources"* (Interviewee J)

Other interviewed directors confirmed this general observation that appointments are made on bases other than those relating to competence and expertise:

> *"To be frank, I can tell you that there are many conflicts within state owned companies. They are battling so much to solve internal problems that they don't have time for anything else. People on boards are elected by political parties and this may represent an external source of conflict.* (Interviewee G)

Therefore, in respect of the dual leadership requirement, it is paradoxical to note that statutory bodies had adopted the separation between CEO and Chairperson but there are concerns that the intended benefits of such separation may be not materialising due to the issues mentioned above. In conclusion, we already note that whilst statutory bodies may on the surface have much in common with other companies that have been required to comply with the corporate governance code, the reality is that the actual composition of the boards and workings of such organisations appear to have more in common with government departments and are thus strongly subject to political and other social influences. In addition, we find evidence of only one of the surveyed bodies having organised training on corporate governance implementation for its management/board members. Nonetheless, we examine further evidence of the existence of other corporate governance-related requirements in the statutory bodies.

7.3.2 Committee Structures

Table 7-2 displays the extent to which board sub-committees are being implemented in statutory bodies. In contrast to the code's requirements, Table 7-2 shows that the audit committee and the corporate governance committees have been barely considered by the statutory bodies. On the other hand, the organisations' bodies have a number of other committees such as Planning and Finance, Procurement, Staff, Advisory, Investment, Remuneration, Health and Safety and Human Resource committees among others. In our view, these are essentially traditional structures that are government-inspired structures to deal with specific tasks and activities. Considering that many of the organisations have not actually been seeking to comply with the corporate governance code, there is little surprise to the fact that only one statutory body established a corporate governance committee (2007).

Table 7-2: Number and Type of Sub-Committees in Statutory Bodies (2004-2007)												
	Audit Committee				**Corporate Governance Committee (%)**				**Others (%)**			
	Yes		**No**		**Yes**		**No**		**Yes**		**No**	
	Freq	**%**	**Freq**	**%**	**Freq**	**%**	**Freq**	**%**	**Freq**	**%**	**Freq**	**%**
2004 N=10	1	10	9	90	0	0	10	100	5	50	5	50
2005 N=13	2	15	11	85	0	0	13	100	7	54	6	46
2006 N=8	3	38	5	62	0	0	8	100	4	50	4	50
2007 N=5	1	20	4	80	1	20	4	80	4	80	1	20

From the 2005 annual reports, it was also noted that only 5 organisations had an internal audit function which handles the internal control systems and helps in risk management, whilst none of the surveyed organisations in 2004 had such a department. Only two organisations surveyed in 2006 and 2007 had an internal audit function, which does not indicate a positive trend in the developments of proper control systems in statutory bodies. In addition, the non-adoption of the audit (and risk) committee is of a concern since one would have expected a higher level of scrutiny of financial matters. In Chapter 5, we found many positive comments on the synergy between the internal audit and the audit committee in ensuring a proper control and review of management's activities, and an increasing trend in the number of listed companies having set up an internal audit unit that would directly report to the board's audit committee. However, this does not seem to be the case in statutory bodies. The fact that the board may be directly involved in detailed operational matters (e.g. such as finance, procurement etc) may preclude its ability to 'stand back' from such matters and adopt an 'audit' perspective on the activities of the statutory body. As a result, it may be difficult for the board as a whole to bring management to account.

In conclusion, the composition and perceived role of the boards in statutory bodies - as discussed in the previous section - are translated into a virtual absence of corporate governance-related structures in these organisations.

7.4 Disclosure

7.4.1 Corporate Governance Report and Compliance Statement

Table 7-3 below, reports on the disclosure aspects relating to the publication of a corporate governance report and a compliance statement. Although we would have already expected a low level of disclosures, our interest lies in whether the statutory bodies would acknowledge the applicability of the code even if they did not implement it i.e. the ‘comply or explain’ approach. Table 7-3 details the results from the analysis of the annual reports.

Table 7-3: Corporate Governance Report and Compliance Statements by Statutory Bodies (2004-2007)

	Corporate Governance Report				**Compliance Statements**			
	Yes		**No**		**Yes**		**No**	
	Freq	**%**	**Freq**	**%**	**Freq**	**%**	**Freq**	**%**
2004 N=10	0	0	10	100	1	10	9	90
2005 N=13	2	15	11	85	2	15	11	85
2006 N=8	2	25	6	75	2	25	6	75
2007 N=5	2	40	3	60	2	40	3	60

A minority of statutory bodies thus provided some evidence that the corporate governance code’s implementation had at least been considered. As documented in the previous chapters, a few of the statutory bodies provided statements of intent in relation to the code rather than explain in detail the extent of such. For instance, the following examples have been reported

> “*In line with the corporate governance principles, a series of principles is being adopted to ensure transparency and accountability in all decision-making processes” (2004)*
> *“Some mechanisms have been put in place to ensure good governance within the institution in order to be accountable to the stakeholders for the effective use of the public funds from which the company is benefiting” (2005)*
> *“The company subscribes to the practice of quality corporate governance to ensure that its activities are managed ethically and responsibly in regard to all its stakeholders. Compliance, not only with the letter but also with the spirit of relevant governance codes, remains a priority for the organisation and it is firmly believed that good corporate governance is an essential part of outstanding performance” (2006)*
>
> *“…is committed to comply with the Code of Corporate Governance for Mauritius, issued by the National Committee on Corporate Governance, as applicable to state owned enterprises. Actions are being taken to ensure gradual compliance with the code.” (2007)*

Hence, for a minority of statutory bodies, it appeared important for them to communicate an impression of compliance even though there extent of implementation was relatively low or non-existent. The behaviour of one organisation was highlighted by one of our interviewees who stated:

> *"….There is more emphasis on presentation which consumes time and money…. [name of statutory body] is an obvious case of [window dressing]….. It's true that its financial statements and the presentation of the report are very good but the real essence of good governance is not present at [name of statutory body]. Corporate governance existed only on the statements…..There is no verification exercise taking place to prove the disclosures".* (Interviewee Q)

However the above example appeared to be more of an exception as most statutory bodies did not seem to be even compelled to provide an image of compliance, in comparison to this more widespread practice amongst listed and large public/private companies.

7.4.2 Board-related and Remuneration disclosures

Table 7-4 reports on attendance statistics for committee / board meetings and terms of reference. There is a slightly higher count of organisations reporting attendance statistics and terms of reference compared to other disclosures. This may reflect a bureaucratic culture by the organisation in keeping track of its meetings and in ensuring proper terms of reference in the light of the numerous committees and decisions to be coordinated within the statutory body. In addition, as will be described below, board members are usually remunerated on an attendance basis and some statutory bodies may seek to convey some confirmatory information on the attendance fees being paid.

Table 7-4: Board-related Disclosures by Statutory Bodies (2004-2007)

	No. of sub committee meetings				**No. of board meetings**				**Terms of reference**			
	Yes		**No**		**Yes**		**No**		**Yes**		**No**	
	Freq	**%**	**Freq**	**%**	**Freq**	**%**	**Freq**	**%**	**Freq**	**%**	**Freq**	**%**
2004 N=10	3	30	7	70	5	50	5	50	3	30	7	70
2005 N=13	5	38	8	62	6	46	7	54	4	31	9	69
2006 N=8	2	25	6	75	2	25	6	75	2	25	6	75
2007 N=5	2	40	3	60	4	80	1	20	3	60	2	40

Table 7-5 below presents the remuneration details for the board members. In line with many company disclosures, statutory bodies have disclosed the information on an individual or block basis.

Table 7-5: Board Remuneration Disclosures by Statutory Bodies (2004-2007)						
	Individual		**Block**		**Not disclosed**	
	Freq	**%**	**Freq**	**%**	**Freq**	**%**
2004 N=10	0	0	4	40	6	60
2005 N=13	0	0	4	31	9	69
2006 N=8	0	0	3	37	5	63
2007 N=5	2	40	2	40	1	20

During the four years, statutory bodies did not demonstrate an interest in providing details of the remuneration on a per board member basis. Considering that most members would be only earning attendance fees for board/committee meetings, it remains that most statutory bodies have preferred to either provide a block figure or not provide the information at all.

Finally, as per the guidance notes for Statutory Bodies issued by the National Committee on Corporate Governance (2006), statutory bodies are expected to disclose a 'Register of Interest' in their annual reports. It is important to note that the chairman of any given board needs to have a register of interest to be in a position to discern any conflict of interests among board members and the impact of such conflict on any board decision. Although it has to be noted that such instances may occur less frequently in the case of statutory bodies (compared to situations in the private sector), it was interesting to note that none of the statutory bodies disclosed a register of interest during the four year period. This therefore suggests that no board member had any reason to withdraw from a decision that may involve say for example employee recruitment and promotion, or a contract to a private sector company.

Overall, it has been mentioned previously by several interviewees that transparency and disclosure are in itself important indicators that at least some corporate governance principles are adhered to. However, such levels of disclosure do not appear to currently exist in the surveyed statutory bodies.

7.5 Concluding analysis and reflections

The OECD guidelines principles on corporate governance for 'state owned enterprises' (2005) states that corporate governance of state-owned enterprises is a major challenge in many economies. But, until now, there has not been any international benchmark to help governments assess and improve the way they exercise control and ownership of these enterprises. Also, the OECD guidelines (2005) revealed that in a number of OECD countries, state-owned Enterprises (SOE) represent a substantial part of GDP, employment and market capitalisation prevalent in sectors like utilities and infrastructure industries, such as energy, transport and telecommunication, whose activities is of great importance to the citizens of a given country and to businesses in that country. Consequently, the state of corporate governance of any given SOE will be critical in ensuring its contribution to a country's overall economic efficiency and competitiveness.

However, the evidence from the local statutory bodies for 2004-2007 is not very than flattering both in terms of implementation and disclosure, and also in terms of basic requirements of the code. This is negatively perceived by many interviewed directors from the private sector who feel that the government, which had imposed the corporate governance code on their companies, is not ensuring that the code is being implemented in its own backyard and is thus not providing a good example. For instance:

> *"The politicians like to lecture to private companies and they don't do what they are supposed to do" (Interviewee H).*
>
> *"Till date, the SOEs have not done much concerning compliance to the code. But I think if the parent ministry gives direction for compliance to the code, then they will." (Interviewee A)*

It is clear however that the historical nature, structure and culture of the statutory bodies and their close relationships (of subservience) to government departments were at the outset major barriers to the implementation of a code of corporate governance. We are drawn to Wanyama et al's (2009) recent research on corporate governance perceptions in an African developing economy context (Uganda). The authors describe how structures are put in place but are not enforced by the relevant agencies. In addition, the paper refers to the fact that political interference is very much ingrained in the society and it appears that it would be difficult to challenge the status-quo. In such a context, they argue that the publication of a corporate governance code would not have any impact at all since the basic assumptions of transparency, accountability, responsibility, and legal enforcement were not yet applicable in the country. We believe that similar issues currently exist in the case of statutory bodies in Mauritius. For instance, the absence of a clear requirement for the timely submission of annual reports can only be seen as a major shortcoming in ensuring transparency and accountability is delivered. Also, the boards of statutory bodies appear to consist mainly of political nominees - whose focus is on demonstrating loyalty and patronage to the relevant political party - and of government representatives and civil servants whose room to debate and challenge current practices is severely limited by political agendas and expediency. As a result, professional responsibility and legal enforcement become less of a priority in the running of statutory bodies.

Hence, Wanyama et al. (2009) and the above findings compel us to conclude that corporate governance implementation - in its present form and shape, and arguably even in the version recently published by the National Audit Office - would not be successful unless a root and branch review is made of the reporting and governance of statutory bodies and the duties and responsibilities of board members. As a starting point, we are drawn to comments made by two interviewees:

> *"Money in these 'parastatal' bodies is public money, it is taxpayer's money and I think there is a need for demanding more in terms of corporate governance from them. The SOEs actually should be the ones setting the right example…"* (Interviewee J).

> *"Most important of all is that SOEs belongs to every citizen and we are all stakeholders in it and I think we have the right to know what is going on there and what they are doing with our money"* (Interviewee O)

The main observation we identify from these statements is the fact that all statutory bodies are essentially funded by the taxpayer but interestingly however, the overwhelming majority of interviewees (including the senior government audit official) are comfortable with the idea that these institutions are seen as 'state'-funded, 'state'-owned or as 'government' institutions. Hence, government is perceived as the ultimate shareholder of these institutions and as a result politicians of the day see no problem in exercising significant control and power over such institutions. This degree of power and control is such that the government ministry effectively 'dispenses' (or at least does not forcefully require) the statutory body from preparing timely annual reports. This is akin to the case of a family-led board being dismissive of the notion of preparing detailed annual reports for a private company because it sees this process as being largely irrelevant to its needs. However, in the case of the statutory body, we argue that the ultimate shareholder is the taxpayer (and its elected representatives) and that state-owned enterprises are in fact *taxpayer-owned* enterprises which need to be accountable to the taxpayer rather than the government department. From this perspective, we will therefore develop relevant recommendations to address the current lacunas insofar as the corporate governance aspects in statutory bodies are concerned.

Chapter 8: Findings and Analysis (Integrated Sustainability Reporting)

8.1 Introduction

This chapter focuses on the broader social implications of corporate governance following the implementation of the code in 2004. We seek to understand these implications by relying on corporate social responsibility (CSR) disclosures in company annual reports and the views of both 'insider' and 'outsider' stakeholders on the perceived links between corporate governance and CSR. As we mentioned in the literature review, the study of CSR (and the relevant disclosures) is not in itself a new research topic or new phenomenon and as such, is subject to numerous different conceptualisations and categorisations. For instance, Carroll (1979; 1991) referred to four types of CSR (economic, legal, ethical and discretionary) whilst Gray et al. (1995) reviewed a number of CSR disclosure studies based many categorisations such as health and safety, environment, community, social, ethical, customer and employees. However, it is rather the inter-linkages between CSR and corporate governance that are being recently examined more closely (e.g. refer to Jamali et al., 2008) and there are three main reasons that suggest these inter-relationships may be of relevance and interest to the surveyed companies in Mauritius.

Firstly, the mainstream worldwide corporate governance model has now resolutely shifted from a purely shareholder approach to that of a stakeholder approach, thereby recognising the need to address and balance the interests of all corporate stakeholders. However, researchers still debate on whether corporations adopt this approach purely for rational efficiency purposes (instrumental stakeholder theory or are more attuned to their social roles within society (normative stakeholder theory). The corporate governance code in Mauritius has adopted the stakeholder approach under the label of integrated sustainability reporting (ISR, Section 7, 2004) and this provides us with an opportunity to assess the impact of the corporate governance code in this regard and in terms of the predominant theoretical strand that would characterise current CSR activity in Mauritius. Secondly, and irrespective of the specific CSR requirements included in the local code, the published literature (e.g. Rossouw, 2005; Vaughn and Ryan, 2006) has traditionally expected that corporate governance developments will assist towards greater societal change in developing nations, particularly in improving accountability and ethical behaviours e.g. in transposing corporate governance principles and practices in other organisations. Finally, the local code of corporate governance has, uncharacteristically and in many repeated instances, shown a willingness to acknowledge the specific societal issues affecting Mauritius. The following are extracts from the report and code:

> *"Smallness: Mauritius' smallness brings with it a fragile ecosystem. This means that corporations need to pay special attention to the environmental aspects of corporate governance"* (2004, p. 7).

> *"Diversity: Mauritius is very diverse in terms of ethnic groups, religions and culture. As a result of this diversity a number of prejudicial behaviour patterns have evolved in corporate Mauritius, the most important one being a lack of fair employment practices in many sectors of the economy. For corporate Mauritius to play its full part in the economic and social development of Mauritius, employment practices need to be made fair to all. This needs to be addressed by corporations in a Code of Ethics, which forms an essential part of good governance" (2004, p. 8).*

> *"While the people of Mauritius are of diverse ethnic origins and religions, they are unanimous in wishing to create and sustain a unified nation which also respects the specificities of different groups. Companies play an important role in sustaining social harmony, especially through their employment policies and their ownership structure. (2004, p. 113)*

> *"A common public perception is that employment and promotion within the private and public sectors are linked to the "community" of the employee and that of the company's shareholders. This perception could be redressed by the application of a code of ethics in the Code of Corporate Governance, which commits the company to merit in recruitment and promotion" (2004, p. 113).*

> *"The shareholding of the corporate sector in Mauritius is concentrated in a small percentage of the population. Such concentration exists in many other economies and may not be negative for economic growth, but a wider ownership is desirable in Mauritius. Such a change would provide the corporate sector with greater support from the Mauritian society as a whole, and allow more people from all communities to be shareholders in the economy. Pension funds should be encouraged to invest in the stock market as this is one of the ways to obtain wider ownership" (2004, p. 113)*

Whilst the first three statements were included in the preface to the code, the last three statements were in fact part of the code under the heading of 'integrated sustainability reporting'. The latter statements appear to demonstrate a statement of intent by the code's drafters in ensuring that companies would be made aware of the need for them to grapple the so-called difficult 'social issues' of the country. In many respects, these statements are thus reflective of an appeal to companies implementing the code to develop their CSR more in line with a normative stakeholder mindset rather a purely instrumental stakeholder perspective. We are therefore keen to examine whether the evidence from our data supports the proposition that companies have indeed taken heed of this need to address the 'social issues' germane to the Mauritian context.

The remainder of this chapter is split into two parts to address the different categories of companies being surveyed i.e. (a) listed companies (b) large public/private companies (LPP) and statutory bodies. As already highlighted in the two previous chapters, data availability issues have limited the scope for statistical analysis for the last two categories of companies. Where applicable, the CSR disclosures have been analysed in terms of frequencies (occurrences), volumetric word count (an established practice in CSR disclosure studies) and/or the use of weighted scores. We also present the views and perceptions of interviews on the subject of CSR in a bid to inform the findings from annual report disclosures.

8.2 Listed Companies

8.2.1 Extent of CSR Disclosures 2004-2007

Table 8-1 provides an initial glance at the extent of CSR disclosures by listed companies and the changes thereof during period under review in four particular themes. The categorisations were based on the code's own disclosure requirements (2004, p. 116). Whilst three of the themes are fairly self-explanatory, the 'social' category covers a wider set of community support initiatives and projects. However, this can range from information relating to a one-off charitable donation to a situation where the company has a structured CSR fund to help the community.

Table 8-1: Listed Companies reporting on each CSR category (2004-2007)

	2004 N=40		**2005 N=41**		**2006 N=42**		**2007 n=42**	
	Freq.	%	Freq.	%	Freq.	%	Freq.	%
Ethics	12	30	18	44	19	45	21	50
Social	38	95	40	98	39	93	40	95
Environment	3	8	11	27	14	33	14	33
Health and Safety	6	15	16	39	17	40	19	45

In addition, the general and specific progressions of CSR implementation and disclosure can be seen from the CSR weighted scores (max score 21) over the four year period for 39 listed companies, starting from an average score of 4.77 in 2004 to 8.91 in 2007. In Chapter 5, we already highlighted the rather uncharacteristic progression of CSR disclosures relative to other implementation and disclosure requirements of the code. Table 8.2 provides as well the weighted mean scores for each of the sub-headings included in the CSR overall score. The mean scores are also expressed in percentage terms to enable a comparison across the different types of CSR headings (due to the different maximum scores applicable to each sub-heading).

Table 8-2: Weighted Mean scores for CSR items of Listed Companies (2004-2007)

CSR	**2004**	2004	**2005**	2005	**2006**	2006	**2007**	2007
N=39	**score**	%	**Score**	%	**Score**	%	**score**	%
CSR overall score (max score 21)	**4.77**	22.7	**7.53**	35.9	**7.19**	34.2	**8.91**	42.4
<u>Made up as follows:</u> Donation disclosure (max score 2)	**1.10**	55	**1.58**	79	**1.51**	75.5	**1.59**	79.5
Integrated sustainability reporting (ISR) (max score 3)	**0.54**	18	**0.85**	28.3	**0.81**	27	**1.04**	34.7
Ethics (max score 4)	**0.82**	20.5	**1.49**	37.3	**1.33**	33.3	**1.59**	39.8
Social (max score 4)	**1.72**	43	**1.77**	44.3	**1.91**	47.8	**2.81**	70.3
Environment (max score 4)	**0.21**	5.3	**0.69**	17.3	**0.62**	15.5	**0.73**	18.3
Health and safety (max score 4)	**0.41**	10.3	**1.10**	27.5	**1.06**	26.5	**1.18**	29.5

Table 8-3 also provides the minimum, maximum and standard deviations for the weighted scores provided above.

Table 8-3: Standard Deviation (SD) and Minimum (Min) / Maximum (Max) for CSR Weighted Scores (Listed Companies 2004-2007)

CSR (max score)	2004	2004	2004	2005	2005	2005	2006	2006	2006	2007	2007	2007
N=39	SD	Min	Max	SD	Min	Max	SD	Min	Max	SD	Min	Max
Overall CSR score (21)	4.68	0	19	5.66	0	21	5.77	0	18.5	5.90	0	21
Donation (2)	0.53	0	2	0.57	0	2	0.63	0	2	0.56	0	2
ISR (3)	1.17	0	3	1.37	0	3	1.33	0	3	1.38	0	3
Ethics (4)	1.54	0	4	1.83	0	4	1.74	0	4	1.86	0	4
Social (4)	1.59	0	4	1.51	0	4	1.61	0	4	1.67	0	4
Environment(4)	0.80	0	4	1.40	0	4	1.35	0	4	1.33	0	4
H. &Safety (4)	1.09	0	4	1.51	0	4	1.61	0	4	1.67	0	4

From an analysis and comparison of Tables 8-1 to 8-3, several findings are worth noting. Firstly, donation disclosures (political and charitable in nature) are technically mandatory disclosures that were required by company legislation well before the publication of the code and are usually included in the directors' report. As a result, the relatively high mean scores (Table 8-2) are therefore not surprising and the research team sees this more 'standard' requirement as a benchmark for comparison to other CSR requirements that have been first introduced in the corporate governance code[23]. However, the scoring process still reveals some reluctance by companies to report clearly on whether donations were made and whether these were of a charitable or political nature. Secondly, and apart from the donation sub-heading, the social disclosure score far outweighs any other CSR sub-heading score particularly in 2007. However, the contrast between the frequency counts in Table 8-1 and the weighted scores in Table 8-2 highlights an interesting aspect. Although nearly all companies disclose social information (e.g. 95% - 98% over the four years), the extent and 'quality' of the information was quite variable as reflected by the relatively low mean scores in earlier years, which in percentage terms have increased from 43% to 70% from 2004 to 2007 (Table 8-2). This can be compared to the ethical disclosures, for instance, where about 50% of companies disclose such information in 2007 but the level of disclosure only accounts for an average weighted score of 1.59 (i.e. 39.8%). Thirdly, we sought to 'isolate' any integrated sustainability reporting (ISR) statement which would indicate a more direct relationship between the CSR principles set out in the corporate governance code and the resulting activities of the companies. Although it has been a to challenge to identify and appropriately score an ISR statement (weighted score is zero, 1.5 or 3), we found that only 12 companies out of 39 disclosed clear ISR statement in 2007 and a further 3 provided a disclosure akin to such a statement. This is

[23] Although the requirement to disclose charitable and political donations is also explicitly provided in the corporate governance code (Sections 7.18 and 7.19, p. 116, 2004).

up from 7 companies in 2004 and the weighted scores in Table 8-2 reflect this trend. Hence, we argue that there is quite long way to go for the majority to companies to operationalise and articulate the concept of ISR.

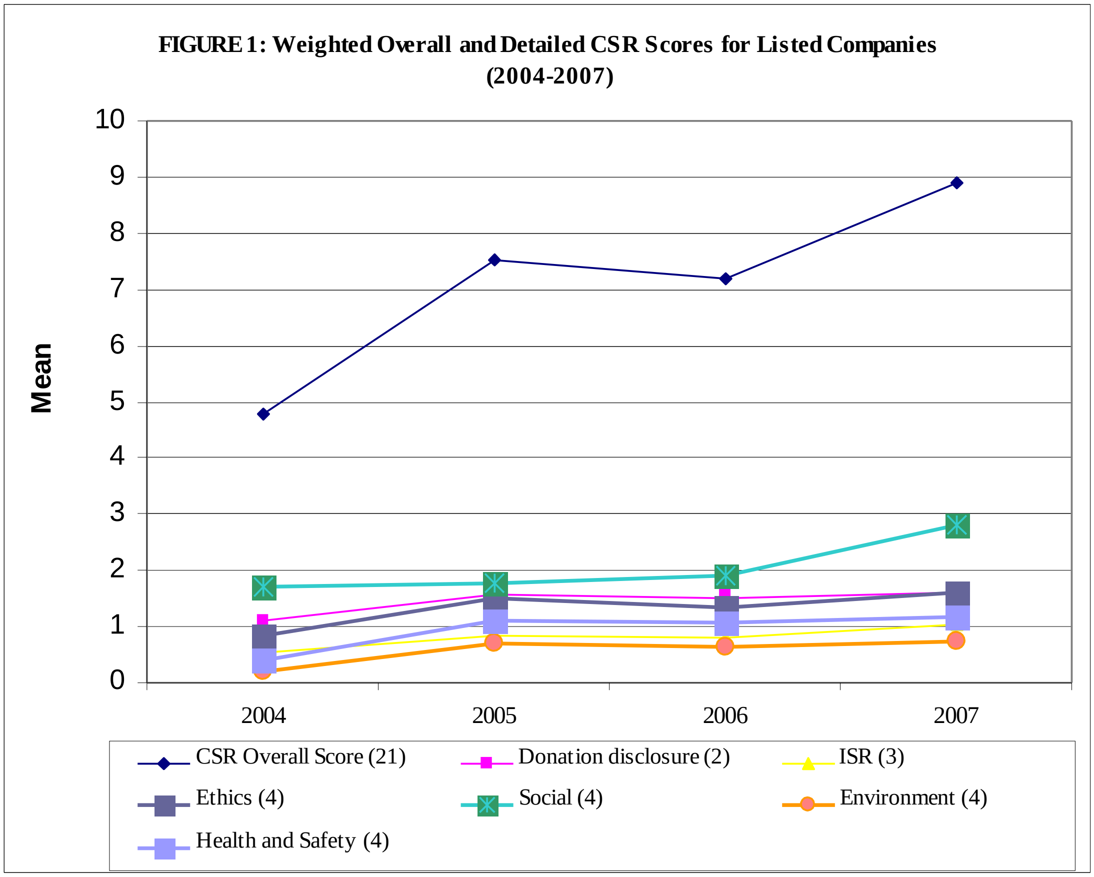


Figure 8.1 provides a graphical representation of the weighted mean scores and the respective maximum scores for each sub-heading is provided in the legend (in parentheses). Overall, the mean weighted CSR score in 2007 remains well below 50% of the maximum score achievable (8.91/21).

Hence, from Table 8-1 to Table 8-3, almost all companies disclose information on their ‘social-led’ activities and the proportion of companies in this grouping has not changed drastically, even prior to the enactment of the code. However, social-led disclosures have become more elaborate by focusing not only on the disclosure of social activities (what we see as ‘action’ or ‘practice’ in our scoring system) but also on general statements/policies suggestive of a stronger commitment to the relevant CSR theme (what we termed as ‘policy’ in the scoring system). The weighted scores do reflect this trend and the sharp increase from 2006 to 2007 (see Figure 8.1 also) is a notable one. Also, we do note an increasing proportion of companies reporting on ethics, environment and on health and safety. The least progress has been on the environmental disclosures. In view of the rather un-structured nature of CSR disclosures, a word count was carried out for each category of statements since words lend themselves to a more exclusive analysis (Gray et al, 1995). This technique was supported by Campbell et al., (2006), Wilmshurst and Frost (2000) and by Deegan and Gordon (1996). The latter argued that *"….by counting words, which are the smallest possible units of analysis, maximum robustness to error in calculating quantity is achieved"* (1996, p. 189). .

Table 8-4: Word Count of CSR Disclosures by Listed Companies (2004-2007)					
	Ethics	**Social**	**Environment**	**Health & Safety**	**Total**
2004 (N=40)	339	1663	79	200	2281
2005 (N=41)	621	1638	376	824	3459
2006 (N=42)	507	1588	471	749	3315
2007 (N=42)	855	2845	478	994	5172
Total	**2322**	**7734**	**1404**	**2767**	**14227**
% of each theme over combined four years	16%	54%	10%	20%	100%

The fact that many listed companies have opted to provide social disclosures confirms the importance of such disclosures and the word counts detailed in Table 8-4 provides confirmatory evidence of the progression of CSR disclosures over the last period. Again, social disclosures form the major part of the CSR disclosures over the last four years.

Table 8-5 now reflects the average word count for every CSR theme over the last four years. This average was based on the actual number of companies who had disclosed information on a particular theme. A slightly different picture emerges in that an improvement in CSR disclosure for every theme is apparent when one compares the 2007 figures relative to 2004 - although social disclosures are still the most extensive disclosure. However, it is acknowledged that 34 to 71 words on average per company per theme typically remains a fairly tiny proportion of an annual report's content and compared to the amount of words disclosed by companies in developed economies (e.g. 270 to 300 words per company per theme as reported in Hackston and Milne, 1996).

Table 8-5: Average Word Count of CSR Disclosures by Listed Companies (2004-2007)				
	2004	**2005**	**2006**	**2007**
Ethics	28.3	34.5	26.7	40.7
Social	43.8	40.9	40.7	71.1
Environment	26.3	34.2	33.6	34.1
Health & Safety	33.3	51.5	44.1	52.3

This leads us to consider in more detail the typical contents and format of CSR disclosures, which appear to have nevertheless increased across companies in 2007. Whilst analysing the disclosures, it appeared that companies would broadly have two categories of disclosures for any particular theme, namely in terms of (i) a general statement on the company's policy and commitment to a CSR aspect, which would be akin to a mission statement or statement of values and (ii) a more detailed statement detailing the actions, activities and very often, the sums of money allocated or spent, on particular projects or areas of intervention. Whilst the former would only signal a policy and attachment to a particular social issue, the latter would provide examples or details of the company actually performance. As mentioned earlier, this informed our scoring procedure. For instance, Table 8-6 below outlines the various CSR disclosures provided in annual reports in 2007.

Table 8-6: Examples of CSR Disclosures (Listed Companies) in 2007[24]	
General statement / policy	Resulting 'action' or 'outcome'
1. (Social) *"The company recognises the social responsibility it has for those institutions and people in need"*	*"The company donated and sponsored Rs. […] to various charitable institutions, political organizations, sports clubs and religious bodies. The project supported and sponsored include […] sports team, [….] Government School under the ZEP programme, [sports organizations], [environmental organization] and [children organization]"*
2. (Social) *"The company is committed to the betterment of communities where its employees work. Its community programmes support human services and civic initiatives by helping build strong, healthy communities to further enrich the lives of citizens"*	*"…help in the fight against Chikungunya by creating awareness of the disease and educate children specifically in prevention measures. Educate children and the population at large in road safety measures. Support NGOs and charitable organizations which cater for the needs of children and economically disadvantaged families. The company organized a Christmas party for […] children at [hospital]. The company made a donation of Rs. [….] to […] recipients.*
3. (Social) *"For decades the company recognized the need to be socially involved and supportive of the wider community's needs and is well known for its active support of worthy causes through multiple activities"*	*The company has adopted the policy of allocating x% of the previous year pre-taxed profits to the company's Corporate Social responsibility projects. An amount of Rs […] million was spent in Education, Poverty alleviation and Art and Culture and National Heritage. No political donation was made during the year*
4. (Environmental) *"The strict adherence to environmental norms and the adoption of processes, which are compliant with the local environment regulations are essential for future growth"*	*"All effluents from subsidiary companies are disposed of in an ecological manner. Gaseous emissions are limited by the use of low sulphur coal, while bagasse, which is a renewable and green source of energy, is sulphur free"*
5. (Environmental *"The company complies with all local environment laws"*	*"The company recycles significant part of its waste paper to generate energy. The remaining waste paper is collected by a local company for recycling purposes"*
6. (***Ethics)*** *"The Company has adopted a code of ethics in order to: Define accepted/acceptable behaviors, Promote high standards of practice, Provide a benchmark for staff members to use for self evaluation, Establish a framework for professional behavior and responsibilities"*	*"All employees have taken cognizance of the Code and individually pledged to abide by its contents"*

[24] The financial numbers and other distinctive information in the statements have been removed to preserve the anonymity of the company.

7. (Ethics) *"The company is committed to ethical practices in the conduct of its business"*	*"The company's Code of Ethics sets out standards of business behavior for all its directors and team-members"*
8. (Health and Safety) *"The company firmly believes that the security and health of its employees is a sine qua none obligation"*	*"A Safety and Health Policy is presently being implemented and aims at expressly covering the responsibilities of the company and its employees. Also a number of training initiatives have been carried out for employees and other persons"*
9. (Health and Safety) ***"****Health & Safety policies adopted have ensured satisfactory compliance with the appropriate legislation and ruling standards"*	*"No injuries at work were recorded"*

From the disclosure behaviours, we note that: (i) Social disclosures (both in terms of statements and action) were very detailed than other disclosures and hence this explains the higher word count noted previously, with companies often specifying the financial implications of these social initiatives. An few of the listed companies have also communicated (see example no. 3 in Table 8-6) a formal policy in terms of committing a defined % of revenue or profits to relation to CSR activities, which is then spent by the company directly or transferred to a foundation/trust having a mandate to allocate the funds to specific community or environmental projects. However, there are also companies which did not provide any information regarding such policy statements and merely report that a donation has been made. This is related to the legal requirement that annual report must state (traditionally in the directors' report) the amount of charitable and political donations made during the year. If this is not the case, then companies should explicitly state that no charitable or political donation has been made. Incidentally, only 3 companies in 2007 disclosed having made political donations but this needs to be contrasted to the fact that 19 listed companies made significant political donations in 2005 (an election year).

In 2007, we could identify 9 out of 39 listed companies who still only provide the minimum information on donations, with no further details on statements and actions underlying those donations. As a result, we would argue that about 25% of listed companies do not appear to have implemented the CSR aspirations and requirements provided in the corporate governance code. As a comparison, this proportion of companies was at 50% in 2004. These results can be contrasted to an MEF (2007) study which found that 75% of the surveyed businesses did not have a defined CSR policy although nearly 70% of them donated or sponsored charitable activities. In other words, the listed companies' category appears to be more involved in structured CSR activity than the other companies highlighted in the MEF report.

(ii) The level of detail regarding two other aspects of CSR (health and safety and environmental) remains fairly general and in our view, this is first explained by a certain amount of awkwardness as to what to exactly disclose. However, from Tables 8-2, 8-4 and 8-5, we note an increase in weighted scores and in the average word count for health and safety over the period 2004-2007. A possible reason for the heightened prominence of this theme may be linked to the new legislation on employment relations and employment rights which ensured that companies provide a healthier and safer working place for their employees and as a result, this may have led to higher levels of disclosure. Whilst companies are bound by a raft of health and safety regulations and legislation and as a result, are monitored technically on their performance in health and safety, they did not provide a single quantitative measure to enable readers to appreciate how far they are meeting health and safety or environmental standards. Only two companies in 2007 reported that no work injuries were recorded in the year under review (see example no. 9 in Table 8-6), but this begs the question whether such disclosure would have occurred if any work injury had indeed happened. In addition, the environment is seen as an essential resource due to the smallness of the country and a critical one for certain sectors of the economy (e.g. tourism) and this is explicitly highlighted in the code. However, whilst there are regular mention of the companies' actions in funding/supporting 'external' environmental protection initiatives (e.g. wildlife conservation, street/beach cleaning campaigns, sponsoring environmental campaigns), there is less evidence that listed companies have given much thought to the environment within their own internal practices/processes save for general statements/actions referred to in Table 8-6 (examples No. 4 and 5). Furthermore, and although the uncertainties regarding climate change have been resolved about two years ago, only one company throughout the whole sample has actually made reference to the issue. This apparent disregard of environmental disclosures is at odds with the international evidence as companies have (for over two decades) years reacted significantly to the environmental lobby and public concerns by making their processes more environmentally friendly and by providing more detailed disclosures to that effect (e.g. refer to Gray et al., 1995; Deegan and Rankin, 1996; Deegan, 2002; Hasseldine et al., 2005). With regards to the recent sustainability agenda set out by government - known as *'Maurice Ile Durable'* (MID) - this absence of transparency as to the commitment of companies to the environmental and climate change priorities can be viewed as one of concern. Finally, the absence of structure in both environmental and health and safety CSR disclosures can be linked to an MEF report's (2007) finding that 98% of surveyed companies would welcome guidance and help in becoming 'involved' in CSR activities in a more strategic way.

(iii) With regards to the ethics requirement, many companies have formulated statements on the need for directors and employees to behave ethically, responsibly and with the highest integrity. However, the key indicator that companies should adopt a code of ethics (page 110-111, 2004) has not improved significantly, at least insofar as the annual report disclosures are concerned. Indeed, whilst there were 11 listed companies which having disclosed having a code of ethics in 2004, this number rose to only 14 in 2007. This only represents about one third of the companies having adopted a code of ethics 4 years after it has been required by the corporate governance code. However, when considering the weighted scores in Table 8-2, one can observe an increase in the mean scores from 2004 to 2007 (i.e. from 0.82 to 1.59 out of a maximum score of 4) but we believe this merely reflects a higher quality of ‘policy’ disclosures by particular companies, rather than evidence of a more widespread disclosure by companies.

(iv)In spite of the express mentioning in the code of social issues regarding diversity, recruitment and human resource practices and ownership structure, there is virtually no evidence of companies having decided to address the issues and having disclosed information in this regard. For instance, only one listed company commented that *“the working environment is free form discrimination and meritocracy prevails at all time*” and another one mentioned that its principles involved*”… respecting and supporting the communities and cultures within which it operates”*. This is in sharp contrast with evidence from other countries (e.g. United Kingdom, South Africa and United States) where traditionally the main CSR disclosures were principally about employee relations and/or human resources (e.g. Gray et al., 1995; Holder-Webb et al., 2009). As part of the social-led disclosures, we did find a few instances of companies disclosing some of the social support they specifically provide to employees (and their families) but in our opinion, these still fell short of the code’s principles regarding the human resource aspect.

At this stage therefore, we do find an overall increased level of CSR disclosure post 2004 but not necessarily in a concerted and general way, and which could be (at least partly) attributed to the corporate governance code. We now consider the potential explanatory factors commonly identified in the literature.

8.2.2 CSR Disclosure ‘Behaviour’ by listed companies: Explanatory Factors

One of the main reasons in the literature explaining the extent of CSR disclosures relates to the type of industry/activity. The research team thus sought to understand CSR disclosure behaviour on a sector wise basis. We first identified six very specific sectors namely, Banks, Insurance and Finance, Commerce, Industry and Transport, Investment, Leisure and Hotels and sugar as shown below:

Table 8-7: Classification of listed companies by sector.

No.	**Sectors**	**Number of Companies and annual reports**			
		2004	**2005**	**2006**	**2007**
1	Banks, Insurance, Finance	6	6	6	6
2	Commerce	7	7	6	6
3	Industry & Transport	8	8	8	8
4	Investments	10	11	13	13
5	Leisure and Hotels	4	4	4	4
6	Sugar	5	5	5	5
	Total	**40**	**41**	**42**	**42**

On the basis of this classification, the first notable findings were that banks, insurance and finance companies all reported disclosures in relation to ethics in 2006 and 2007 whilst the proportion of companies from other sectors acknowledging ethical matters remained between 23 and 63% in 2007. Particularly the fact that only 23% of investment companies had made such disclosures in 2007 (up from respectively 18% and 15% in 2005 and 2006) denotes a divide between the activity (investment) and ethical considerations i.e. investment companies can obviously be acting ethically in their day to day activities but they do not believe that ethical disclosures in annual reports are relate to their core business. Secondly, social disclosures and aspects issues were predominant in all sectors and remained fairly high on the companies' agenda from 2004 to 2007. However, as we have seen already, the nature and type of 'social' disclosure has evolved over time but this is not picked by this simplistic quantitative assessment.

Insofar as environmental disclosures are concerned, wide variations across sectors and over time were noted and are reported in Table 8-8 below. For instance, in 2007 and 2006, there were more companies in the banking, insurance and finance that have disclosed environment matters compared to other sectors which traditionally would have a more direct impact on the environment (e.g. industry and transport, and sugar). On the other hand, the leisure and hotels sector remains expectedly the sector that is most attuned to the disclosure of environmental-related information in 2007.

Table 8-8: Frequency of Environmental Disclosures by Sector (Listed Companies)

	2004		2005		2006		2007	
	Freq.	**%**	**Freq.**	**%**	**Freq.**	**%**	**Freq.**	**%**
Banks, Insurance, Finance	1	17	2	33	5	83	4	67
Commerce	0	0	2	29	3	50	1	17
Industry & Transport	1	13	3	38	2	25	2	25
Investments	0	0	1	9	1	8	2	15
Leisure and Hotels	1	25	3	75	2	50	3	75
Sugar	0	0	0	0	1	20	2	40

Finally, the evidence regarding health and safety disclosures reveals that banks, insurance, and finance companies have generally been giving more prominence to such disclosures since 2005 although the same proportion of commerce companies (67%) provided the disclosures in 2007. Paradoxically, sectors which may be more prone to health and safety issues (industry, transport, sugar) due to the nature of the activities report on a lower proportion of companies disclosing health and safety matters (i.e. 40 to 50% in 2007). When the same analysis was repeated on a word count basis, the CSR word count for each individual sector of listed Companies (Table 8-9) showed a particular interest by banks, insurance, commerce , industry and transport and leisure hotels compared to investments and sugar companies, each accounting for about 20% of the total word count.

Table 8-9: CSR Disclosure Word Count by Sector of Listed Companies (2004-2007)							
	Banks, Insurance, Finance	**Commerce**	**Industry & Transport**	**Investments**	**Leisure & Hotels**	**Sugar**	**Total**
2004	362	773	371	93	375	307	**2281**
2005	771	486	744	352	690	416	**3459**
2006	784	496	706	341	560	428	**3315**
2007	928	948	1128	713	795	660	**5172**
Total	**2845**	**2703**	**2949**	**1499**	**2420**	**1811**	**14227**

We also used the weighted scoring system to corroborate the above results by carrying out a ANOVA test to compare the mean scores across three (more restricted sectors) of the economy namely (i) transport, leisure and commerce, (ii) banks, insurance and investment, and (iii) industry and sugar companies. The ANOVA results showed significant differences (at 5% level) in 2004 with the transport, leisure and commerce companies achieving a higher average CSR score than other sectors but these differences evened out in later years with no significant differences in CSR across sectors. In conclusion, whilst there are some notable differences in the CSR word counts, these seem to focus on a higher level of CSR 'commitment' by banks and insurance companies in all themes. On the other hand, companies in other sectors paradoxically do not demonstrate the same level of disclosure in areas such as environment and health and safety whilst they would be expected to do so. In other words, a sector or activity does not appear to be a strong predictor of CSR input and disclosure and this is partly consistent with claims in the MEF's report (2007) that companies' approaches to CSR is unrelated to their business operations and strategy. Using the same exploratory correlation analysis technique used in Chapters 5 and 6, we also examine the relationships between all CSR weighted scores and (i) the various firm-based variables, and (ii) selected corporate governance scores. Table 8-10 to 8-11 displays the significant correlations (2004 and 2005).

Table 8-10: CSR Correlation Matrix (Listed Companies 2004): Firm-based variables and corporate governance scores

Firm based variables	*Profit ratio*	*Staff Ratio*	*Executive Rem Ratio*	*Non Executive Rem Ratio*	*% shares held directly by directors*	*% shares held indirectly by directors*	*Gearing ratio*	*% of INED on board*	*% of NED on board*
Significant Non-Parametric Correlations (0.01 or 0.05* level)**									
1. Donation score		-0.355*							
2.Integrated sustainability reporting				-0.395*					
3.Ethics score								0.655**	-0.522**
4. Social score		0.324*		-0.430**					-0.480**
5. Environment score									
6. Health and safety Score									
7. CSR Disclosure score (1+2+3+4+5+6)			0.380*					0.508**	-0.556**

Other corporate governance scores	*Board Composition score*	*Audit Committee score*	*Governance committee scores*	*Total Implementation Score*	*Total disclosure score (exc. CSR)*
Significant Non-Parametric Correlations (0.01 or 0.05* level)**					
1. Donation score					
2.Integrated sustainability reporting	0.354*		0.390*	0.460**	0.430**
3.Ethics score	0.624**	0.410**	0.603**	0.668**	0.632**
4. Social score	0.427**	0.390*	0.444**	0.494**	0.631**
5. Environment score					
6. Health and safety Score	0.493**		0.473**	0.485**	0.526**
7. CSR Disclosure score (1+2+3+4+5+6)	0.656**	0.516**	0.574**	0.684**	0.686**

Table 8-11: CSR Correlation Matrix (Listed Companies 2005): Firm-based variables and corporate governance scores

Firm based variables	*Profit ratio*	*Staff Ratio*	*Executive Rem Ratio*	*Non Executive Rem Ratio*	*% shares held directly by directors*	*% shares held indirectly by directors*	*Gearing ratio*	*% of INED on board*	*% of NED on board*
Significant Non-Parametric Correlations (0.01 or 0.05* level)**									
1. Donation score		0.451**			0.330*				
2.Integrated sustainability reporting									
3.Ethics score									
4. Social score				-0.486**			0.397*		
5. Environment score									
6. Health and safety Score							0.470**		
7. CSR Disclosure score (1+2+3+4+5+6)		0.325*					0.343*		
Other corporate governance scores	*Board Composition score*	*Audit Committee score*	*Governance committee scores*	*Total Implementation Score*	*Total disclosure score (exc. CSR)*				
Significant Non-Parametric Correlations (0.01 or 0.05* level)**									
1. Donation score	0.337*		0.467**	0.418**	0.398**				
2.Integrated sustainability reporting		0.425**	0.442**	0.461**	0.455**				
3.Ethics score				0.411**	0.448**				
4. Social score				0.599**	0.400*				
5. Environment score									
6. Health and safety Score				0.352*					
7. CSR Disclosure score (1+2+3+4+5+6)		0.348*	0.397*	0.670**	0.626**				

An analysis of Tables 8-10 and 8-11 reveals the changing (and sometimes fairly inconsistent) influences and associations between the various firm-based variables and the different CSR scores[25]. Firstly, one can note that the ISR and environment scores do not appear to have significant correlations with any of the firm-based variables and corporate governance scores. In other words, one could argue that there does not seem to be any particular early influence of the corporate governance code on the companies' behaviour regarding environmental disclosures. Secondly, whilst the donations scores were inversely associated to staff ratios in 2004, this became a positive one in 2005. Thirdly, a higher proportion of non-executive remuneration (expressed as a ratio of turnover) led to a lower extent of CSR disclosures whilst a strong correlation could be seen in 2004 between the INED proportion and the ethics and total CSR scores. One could thus argue that the earlier influence of INEDs on boards - regarding CSR disclosures - a selective one and not towards encouraging a wholesale increase in CSR disclosure. Fourthly, one can however observe a high level of correlations between the corporate governance structures and disclosures (non CSR ones) and the various CSR themes, except for the environmental scores. However these associations appear to fluctuate in later years.

Insofar as 2006 (Table 8-11 above) and 2007 (Table 8-12 below) correlations are concerned, a different picture emerges compared to the earlier years of implementation. Indeed, whilst there were some initial (negative and positive) associations between directors shareholding and the proportion of INEDs and NEDs on board, the level of associations essentially faded with no significant correlations for 2007, even in relation to size and profit. The only systematic and non-spurious correlations pertained to the associations between corporate governance scores and CSR scores. In particular, the board composition scores retain a strong association with ISR, ethics, social and environmental (but not health and safety), although the relevant coefficients have decreased from 2006 to 2007.

[25] Scores for 2004 (and other years) were correlated only to other scores for 2004 (and corresponding years). Lagged correlations do reveal similar relationships between corporate governance scores, CSR scores and firm-based variables.

Table 8-12: CSR Correlation Matrix (Listed Companies 2006): Firm-based variables and corporate governance scores

Firm based variables	*Profit ratio*	*Staff Ratio*	*Executive Rem Ratio*	*Non Executive Rem Ratio*	*% shares held directly by directors*	*% shares held indirectly by directors*	*Gearing ratio*	*% of INED on board*	*% of NED on board*
Significant Non-Parametric Correlations (0.01 or 0.05* level)**									
1. Donation score									
2.Integrated sustainability reporting									
3.Ethics score									
4. Social score									-0.465**
5. Environment score									
6. Health and safety Score					-0.535**				
7. CSR Disclosure score (1+2+3+4+5+6)									-0.420**

Other corporate governance scores	*Board Composition score*	*Audit Committee score*	*Governance committee scores*	*Total Implementation Score*	*Total disclosure score (exc. CSR)*
Significant Non-Parametric Correlations (0.01 or 0.05* level)**					
1. Donation score					
2.Integrated sustainability reporting			0.448**	0.439**	0.419**
3.Ethics score	0.377*		0.368*	0.530**	0.558**
4. Social score	0.555**	0.348*		0.634**	0.626**
5. Environment score	0.354*			0.378*	0.450**
6. Health and safety Score					
7. CSR Disclosure score (1+2+3+4+5+6)	0.489**		0.353*	0.643**	0.662**

Table 8-13: CSR Correlation Matrix (Listed Companies 2007): Firm-based variables and corporate governance scores

Firm based variables	*Profit ratio*	*Staff Ratio*	*Executive Rem Ratio*	*Non Executive Rem Ratio*	*% shares held directly by directors*	*% shares held indirectly by directors*	*Gearing ratio*	*% of INED on board*	*% of NED on board*
Significant Non-Parametric Correlations (0.01 or 0.05* level)**									
1. Donation score			-0.385*						
2.Integrated sustainability reporting									
3.Ethics score								0.376*	-0.332*
4. Social score									
5. Environment score									-0.343*
6. Health and safety Score							0.341*		
7. CSR Disclosure score (1+2+3+4+5+6)									
Other corporate governance scores	*Board Composition score*	*Audit Committee score*	*Governance committee scores*	*Total Implementation Score*	*Total disclosure score (exc. CSR)*				
Significant Non-Parametric Correlations (0.01 or 0.05* level)**									
1. Donation score									
2.Integrated sustainability reporting	0.338*			0.326*	0.439*				
3.Ethics score	0.608**		0.387*	0.665**	0.722**				
4. Social score	0.422**			0.441**	0.427**				
5. Environment score	0.320*			0.343*	0.426**				
6. Health and safety Score					0.404*				
7. CSR Disclosure score (1+2+3+4+5+6)	0.475**			0.539***	0.668**				

In line of the recent claims of a conceptual link between corporate governance developments and CSR (e.g. Jamali et al., 2008; Lim et al., 2008), we thus explored the possibility of an association between the corporate governance implementation and disclosure scores (e.g. board composition, corporate governance committee, audit committee, total weighted scores for implementation and disclosure) and the CSR scores. From Tables 8-10 to 8-13, we find a number of strong positive correlations between the implementation of corporate governance structures and disclosures (aimed primarily at wealth maximising users such as shareholders, lenders etc) and the CSR score. It is noted that the correlation coefficients are all positive but appear to decline over time. This therefore indicates that companies that have been implementing the main structures and disclosures of the code have also been "following through" with relevant CSR implementation and scores but to a lesser extent over the years. Interestingly as well, we could not find a strong relationship between the presence of INED on boards and CSR disclosures, as suggested by many authors in the context of general financial disclosure (e.g. Xiao et al., 2004; Chau and Gray, 2002; Chen and Jaggi, 2000) but rather it is the relation between a balanced board, an active audit committee and a general implementation of the corporate governance code and CSR that has become quite apparent. This may suggest that better CSR disclosures will not simply and directly arise from appointing more INEDs on the board (although this may be the case at an early implementation stage) but over time, the proportion of INEDs on the board merely becomes an indirect factor which feeds into better corporate governance structures (e.g. board balance in terms of composition, audit committee and governance committees), and this in turn leads to a review of CSR behaviour and disclosures. However, the extent of quality of the disclosures remains in question (as seen in the previous sections) since the weighted scoring system did not capture the qualitative and informative aspect of CSR disclosures. Furthermore, the validity of the above conclusions cannot extend to all types of CSR disclosures as one can note from Table 8-13 for instance that significant associations could not been found for certain CSR themes (health and safety). Furthermore, the correlations for ISR scores remain relatively low or insignificant and this suggests the absence of a conclusive link between the implementation of the code and a consistent and strong link to the key and over-arching concept of sustainability. Nevertheless, the above are significant empirical results which contribute to the arguments and case evidence put forward by Jamali et al. (2008) whilst challenging the traditional interpretations from the literature on the relevance of factors such as size and industry. From the above therefore, we have ascertained some additional quantitative insights on the validity or not of some explanatory variables associated to CSR behaviour by listed companies. However, we believe that the interview data would now be of assistance in assessing the relevance of other explanatory factors, particularly those that may be difficult to quantify and in light of the theoretical arguments and conceptualizations of CSR.

8.2.3 Interview Data and Analysis

As mentioned earlier, we rely on interview data from both directors and stakeholders. For instance, the following are the reactions to our questions regarding the need to engage in, and disclose the different aspects of, corporate social responsibility (CSR):

> *"We do a lot for our employees, for instance, a medical check up of all employees…I think there is a necessity for all employees to benefit from such a privilege. We also fulfil our role as corporate citizen. It's the company which subscribes the full pension of the employee….This strategy helps to motivate and boosts the commitment of employees to the company". (Interviewee C)*

> *"To disclose CSR initiatives requires a lot of effort from the companies in order to make it visible to the public and shareholders the amount of work done in the area. Concerning the environment issues, policies are not well defined in the annual reports of listed companies and if defined, it is not reported. Disclosure on charitable and political donations is also done but is considered to be a sensitive issue. Sometimes, if companies do not want to disclose donation to political parties they amend the way of reporting it." (Interviewee A)*

> *"In terms of CSR, it's very worthwhile to communicate just to say what you are doing. Because at the end of the day, you are giving shareholders what they await [i.e. information]." (Interviewee E).*

> *"Yes, I believe in CSR and social accounting. I believe such items have to be disclosed. I believe it's a good thing that the company has a social element in its activities. To start with its own employees. We are not here just to make profits. We are evolving in an environment which we have to respect…I believe that all companies must have a budget for CSR activities and make respective disclosure in annual reports."(Interviewee F)*

> *"…The work is to create a real CSR strategy and policy for the [name] group. It will be at the operational level and the [newly created] CSR committee will gather employees from different sectors. There will be two actions [internally through employees]….and at national level. Up to now, CSR was done more in a haphazard way, as from [year], it will be more structured…we used to have too many themes, for instance drug addicts, women, AIDS etc we want to focus things …the focus will be on national priorities….[we are] rather making an investment [corporate social investment] for long term benefits of the company and the country as a whole. In our case, it is beneficial too but we cannot measure the extent of the its benefits" (Interviewee K)*

From the above, we can see an illustration of how listed companies have understood and approached CSR in different ways and the many facets they seek to touch upon. For instance, three company directors assign a greater importance to helping or involving employees since they appear to link CSR firstly with their staff. However, only one of the companies' annual reports in 2007 did provide a specific disclosure regarding employee/ human resources whilst another one explicitly saw the employee initiatives as a means to motivate and commit staff i.e. for improving business outcomes. Secondly, the repeated mention of reporting to shareholders in some of the interviews suggests that the key reason for disclosures is primarily to shareholders i.e. in communicating how is the company utilising resources in the CSR domain, whether this relates to social initiatives, political donations or environmental projects. Hence, this is still reflective of a traditional stewardship perspective / shareholder approach to the use of disclosures or at the most an indication of a strong affiliation to the instrumental stakeholder theory, whereby social actions are being done and stakeholders acknowledged but with the ultimate aim of improving shareholder wealth.

However there are also other competing conceptualisations being expressed by some of the interviewees. For instance, the one before last interviewee emphasises that corporations exist not only to make profits and this is more in line with the normative stakeholder theory (Letza et al., 2004) and the notion of 'altruistic CSR' (Lantos, 2001) whereby corporations see themselves as a social entity as well and are involved in CSR not to necessarily reap tangible benefits for their shareholders. Finally, the last interview typifies the most contemporary approach to CSR (known as strategic CSR) and where the company strives to identify activities and deeds that are believed to be good for business as well as for society (Jamali et al., 2008, p. 446). Indeed, the director's decision to structure CSR more formally within his company and to find a focus to the CSR activities is an example of how organisations may start to consider multiple bottom lines (Elkington, 2006). From our analysis of the social disclosures, we do not believe this case of strategic CSR is an isolated one. Indeed, we identify 9 companies in 2007 who have disclosed details involving (i) a firm commitment to contribute x % of their profits or turnover to CSR activities, and (ii) the use of a formal structure (trust, foundation etc) to invest these funds in societal projects, based on pre-determined areas of priority. In our reading of the literature, we argue that these are indications of this strategic approach to CSR. According to Marsiglia and Falautano (2005), such initiatives - along with corporate governance implementation - represent a shift from a philanthropic variant of corporate capitalism to the use of authentic strategies intended to regain the trust of clients and society at large. But whilst we can relate these different conceptualisations to the companies' perceptions of CSR and its disclosures, the question remains as to how this is perceived by people outside the company. We therefore present some of the relevant extracts of our interviews with the so-called non-wealth maximising stakeholders on their notion of CSR and corporate governance:

> *"…In Mauritius, we need CSR activities that will really develop the community and change things around for the better living of all citizens". I think there is no coordination in the practice of CSR activities at companies' level. They should establish a set of objectives and seek help of specific NGOs, for example, to combat poverty. Companies get involved in social activities more for their image and public relations".* (Interviewee Y)

> *"For me, corporate governance is very broad…there also needs to be a balance in decision-making processes and no discrimination on the basis of sex, religion and community,…no corruption and no bribery….Directors have to explain the meaning of the code of corporate governance to their employees. Only then will this create a sense of belonging to the company…….[but] I think the code is sometimes used to pander to the public. For instance, in CSR activities where companies are more interested to get involved in activities that will draw the attention of the media, public,*

and ministers. In general, I can say that it [CSR] is not genuinely carried out…". (Interviewee Z)

"I don't think there is a hidden agenda behind such [CSR] activities. I strongly believe that their humanity sentiments motivate them to get involved in activities that will positively affect the people's living conditions." (Interviewee X)

From the above interviews, two key points can be made in relation to the notion on CSR and corporate governance. Firstly, as we have noted from the annual report disclosures, the extent of information relating to employee welfare and the involvement of staff in the corporate governance process appears minimal and does not seem to go beyond health and safety and codes of ethics disclosures. Secondly, there remains a perception - although not entirely shared by all interviewees - that CSR activities (and corporate governance to some extent) are being primarily done on a symbolic basis and as a way to maintain a good image vis-à-vis society. The fact that current CSR initiatives appear to be done on an *ad hoc* basis and without coordination reinforces this perception. This is essentially the premise of legitimacy theory, whereby companies engage in activities not for efficiency-led reasons (such as more sales from a sponsorship marketing activity) but merely to ensure that the company's existence and activities remain accepted and legitimised by society. As such, this perspective would be in contradiction with the instrumental stakeholder theory and strategic CSR conceptualisation. The code itself had recognized that such perceptions run deep in Mauritian society and as such, one likely approach remains a more widespread use of detailed and transparent disclosures to communicate CSR activities combined with a more structured approach to CSR.

Overall, we have documented extensively the progress and state of CSR themes and disclosures adopted by listed companies. Perhaps as a result of listed companies' inherent visibility in society and the economy, we have found an increasing (but selective) use of CSR disclosures which reflected the different theoretical perspectives provided in the literature. In addition, we find some conclusive evidence of a link between the corporate governance and CSR. However, before reaching a final conclusion on the latter proposition, we consider the extent of CSR in the other two categories of organizations.

8.3 Large Public / Private (LPP) Companies

8.3.1 Extent of CSR Disclosures 2004-2007

Insofar as LPP companies are concerned, Table 8-14 provides a frequency count of the number of companies that have disclosed CSR information on the different themes being surveyed. Other than for social-related disclosure (which does include information on charitable donations), we only find a sporadic attempt by LPP companies to address the ethics, environmental and health and safety aspects over the period 2004-2007.

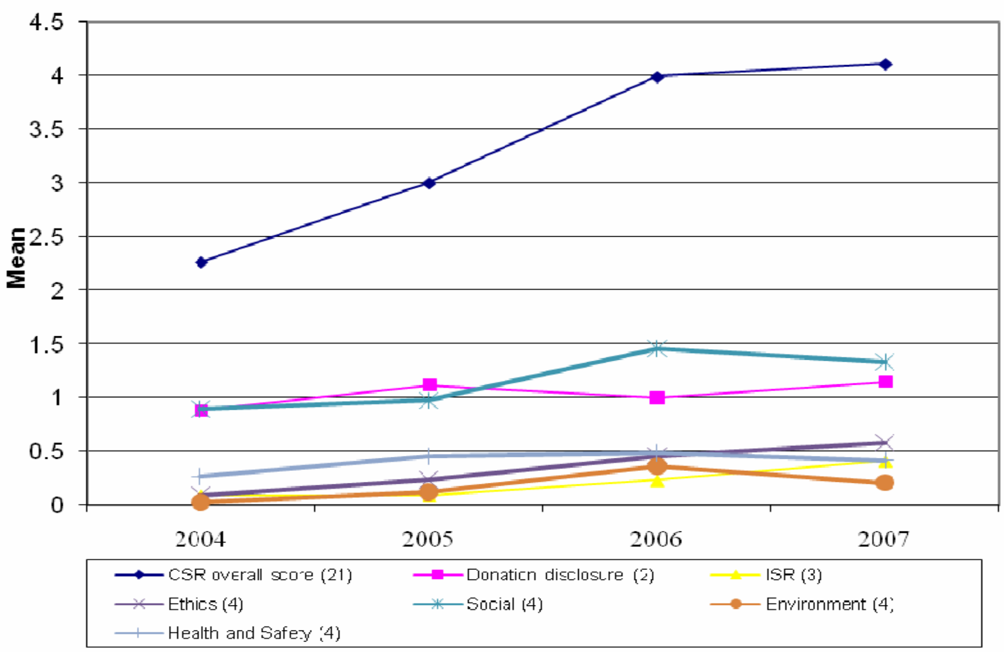
Table 8-14: LPP reporting on each CSR category (2004-2007)								
	2004 N=35		**2005 N=36**		**2006 N=37**		**2007 N=38**	
	Freq.	%	Freq.	%	Freq.	%	Freq.	%
Ethics	1	3	3	8	5	14	6	16
Social	30	86	32	89	32	86	30	79
Environment	0	0	2	6	7	19	5	13
Health and Safety	4	11	7	19	7	19	7	18

As in the case of listed companies, there is an interest amongst LPP companies in disclosing their support to social projects although this frequency count does not discriminate between the minimal statutory required information (on political/charitable donations) and the more extensive disclosures. A more accurate (and quantitative) picture of the extent of CSR in LPP companies can be observed from the weighted scoring system which had been done for the 33 LPP companies with a view to track their CSR scores over the four year period. In particular, the scoring system identified instances where companies disclosed a general statement/policy of intent on each surveyed CSR theme and also where companies disclosed their 'actions' in relation to each theme. Table 8-15 provides the mean scores for the overall and detailed CSR items whilst Table 8-16 displays the minimum, maximum and standard deviations for the weighted scores. Figure 8- 2 provides a graphical representation of the various CSR scores over time.

Table 8-15: Weighted Mean scores for CSR items (LPP Companies 2004-2007)								
CSR	**2004**	2004	**2005**	2005	**2006**	2006	**2007**	2007
N=33	**score**	%	**Score**	%	**Score**	%	**score**	%
CSR overall score (max score 21)	**2.26**	10.76	**3.0**	14.29	**3.99**	19.0	**4.11**	19.57
<u>Made up as follows:</u> Donation disclosure (max score 2)	**0.88**	44.0	**1.12**	56.0	**1.0**	50.0	**1.15**	57.5
Integrated sustainability reporting (ISR) (max score 3)	**0.09**	3.0	**0.09**	3.0	**0.23**	7.7	**0.41**	13.7
Ethics (max score 4)	**0.09**	2.3	**0.24**	6.0	**0.46**	11.5	**0.58**	14.5
Social (max score 4)	**0.89**	22.9	**0.97**	24.3	**1.46**	36.5	**1.33**	33.3
Environment (max score 4)	**0.03**	0.75	**0.12**	3.0	**0.36**	9.0	**0.21**	5.3
Health and safety (max score 4)	**0.27**	6.8	**0.46**	11.5	**0.49**	12.3	**0.42**	10.5

Table 8-16: Standard Deviation (SD) and Minimum (Min) / Maximum (Max) for CSR Weighted Scores (LPP Companies 2004-2007)												
CSR (max score)	2004	2004	2004	2005	2005	2005	2006	2006	2006	2007	2007	2007
N=33	SD	Min	Max	SD	Min	Max	SD	Min	Max	SD	Min	Max
Overall CSR score (21)	2.54	0	12	3.33	0	13	4.23	0	16	4.92	0	17
Donation (2)	0.49	0	2	0.60	0	2	0.61	0	2	0.71	0	2
ISR (3)	0.52	0	3	0.52	0	3	0.76	0	3	1.01	0	3
Ethics (4)	0.52	0	3	0.87	0	4	1.25	0	4	1.32	0	4
Social (4)	1.24	0	4	1.38	0	4	1.75	0	4	1.71	0	4
Environment(4)	0.17	0	1	0.55	0	3	0.99	0	3	0.74	0	4
H. &Safety (4)	0.98	0	4	1.18	0	4	1.25	0	4	1.17	0	4

FIGURE 2 - Weighted Overall and Detailed CSR Scores for LPP Companies (2004-2007)



The fact that many companies focus on only one or two CSR themes and/or provide limited information is reflected in the very low mean scores reported in Table 8-15 for all items, except for a higher extent of donation disclosures and social-led ones. In fact, considering the almost mandatory nature of donations disclosures, the mean score for LPP companies (1.15/2) is quite low. Both Tables 8-15 and 8-16 suggest a very slow progression in the scores from 2006 but this can be seen as an exception to the observation that the code does not appear to have led to more CSR 'awareness' and 'disclosure' amongst this category of companies, let alone for disclosures relating to integrated sustainability reporting. Mindful of the fact that a public vs. private dichotomy was clearly apparent from the analysis of corporate governance scores in Chapter 6 (including the CSR overall scores from 2005 to 2007), an independent samples t-test was done for all CSR items. Significant differences (at 5% level) were found for donations, ISR and ethical scores for 2007 only. The mean scores were again higher for public companies. A more significant difference (at 1% level) was only found for social disclosures over the period 2005 to 2007 and this alone appeared to cause the differences in the overall CSR scores between public and private companies. However, to put things into perspective, the mean score (in percentage terms) for the social disclosures in 2007 was 33.3%, compared to a percentage score of 70% for listed companies (Table 8-2).

The next step was to consider the word count of the CSR disclosures by the LPP companies over the period surveyed and by considering the relative importance assigned to CSR theme. From Table 8-17 below, we can first note a significant rise in word count from 2006 and the overwhelming focus on social-led actions and disclosures, accounting for about 65% of all CSR disclosures (compared to 54% for listed companies).

Table 8-17: Word Count of CSR Disclosures by LPP Companies (2004-2007)

	Ethics	**Social**	**Environment**	**Health & Safety**	**Total**
2004 (N=35)	17	723	0	223	963
2005 (N=36)	87	651	29	235	1002
2006 (N=37)	170	945	191	270	1576
2007 (N=38)	207	950	161	195	1513
Total	**481**	**3269**	**381**	**923**	**5054**
% of each theme over combined four years	**10%**	**65%**	**7%**	**18%**	**100%**
% for Listed companies	16%	54%	10%	20%	100%

In addition, Table 8-18 reports on the average word counts per disclosing company compared to the case of listed companies. However, the comparison is influenced by the relatively low number of disclosing companies for the ethics, social, and environmental themes. The social-led themes however indicate that LPP companies' word count fall well short of the disclosures by listed companies.

Table 8-18: Average Word Count of CSR Disclosures by LPP Companies (2004-2007)				
	2004	**2005**	**2006**	**2007**
Ethics[b]	**17** *(28.3)*[a]	**29** *(34.5)*	**34** *(26.7)*	**34.5** *(40.7)*
Social	**24.1** *(43.8)*	**20.3** *(40.9)*	**29.5** *(40.7)*	**31.7** *(71.1)*
Environment[b]	**0** *(26.3)*	**14.5** *(34.2)*	**27.3** *(33.6)*	**32.2** *(34.1)*
Health & Safety[b]	**55.8** *(33.3)*	**33.6** *(51.5)*	**38.6** *(44.1)*	**27.9** *(52.3)*

[a] *average word count by listed companies (from Table 8.5)*
[b] *average influenced by a very low of LPP companies disclosing this item*

We examine in more detail the nature of some typical CSR disclosures by some of the companies in 2007. In respect of the diversity of the LPP companies (highlighted in Chapter 6) of LPP, we specify the nature and affiliation of the company. The following are the major observations in relation to the disclosures that are detailed in Table 8-19:

(i) Compared to listed companies, there were in fact few LPP companies which provided disclosures in terms of both including a general CSR statement/policy and detailed evidence/information on actual CSR actions. From the few ones who did so, we identify something akin to an 'expectations gap' between the broader statements of intent and the actual actions disclosed by the company. For instance, one company (example No. 4 in Table 8-19) committed to review its environmental impact but the relevant disclosed actions (though commendable) appear to very much at the periphery of the range of possible corporate environmental actions. There also the three examples of social disclosure policies (examples no. 1, 2 and 3) which can be interpreted as primarily philanthropic activities consistent with Lantos' (2001) concept of altruistic CSR. (iii) However, there are also two companies (see example no. 4) which demonstrated some evidence of progressing from this altruistic CSR through the use of structured processes (Trusts, Foundations etc) to support community social/projects.

(ii) Only one company stated it made a political donation in 2007 or at least there was no explicit mention of it since a few companies did not specify the nature of donations. One company even used the perplexing term of a 'non-charitable' donation - which could arguably be construed as being a political one. In contrast to 2007, 5 companies disclosed the payment of political donations in 2005 but there was also a larger number of other companies which merely referred to the fact that a donation had been made.

Table 8-19: Examples of CSR Disclosures (LPP Companies) in 2007[26]	
General statement	Resulting 'action' or 'outcome'
1. ***(Social)*** *"The company assumes its social responsibility by making donations to socio-cultural organizations, local communities, wildlife organizations and vulnerable groups, which will promote social and cultural development in the vicinity of its operating areas"*	*"The company made a donation of Rs. […] during the year. The company is engaged in cleaning activities after cyclonic events"* (Public company, involved in sugar-related activities with family affiliations)
2. (Social) *"The company has a well established policy to support the community in the region where it operates and is committed to play an active role in developing community-based projects"*	*"….Sponsorship of religious feasts and national day celebrations and a contribution to the Group's [name] Fund. A donation of Rs. […] was made during the year."* (Private entrepreneur-oriented company)
3. (Social) *"The company is fully conscious of its role as a social partner in the community"*	*"During the year under review, the Company has actively participated in various activities and has sponsored several events. It has donated an amount of Rs. [..]"* (Public company with government affiliations)
4. (Social) *No clear statement could be identified*	*"The company made charitable donations amounting to Rs. […] of which Rs. [….] were donated to a [Foundation], which has the objective to promote education, training, health or human dignity. No political donation was made during the year. The company has also sponsored social, sports and educational activities ….and help in anti-chikungunya campaign"* (Public company in the sugar-related activities with family affiliations).
5. (Environmental) *"The company is taking all possible actions to mitigate the impact of its operations on the environment"*	*" [name] participated in environmental projects and the distribution of green potted plants to promote nature awareness"* (Private entrepreneur-oriented company)
6. (*Ethics*) *"The Company is committed to ethical practices in the conduct of its business"*	*"[name] has a code of conduct"* (Public company with government affiliations)
7. *(Ethics)* *"The company is committed to the highest standards of integrity and ethical conduct in dealing with all its stakeholders"*	*"The company has published a Code of conduct based on the JEC model which emphasises standards that have been part of the company's daily, unwritten code of behaviour which goes beyond the requirements of law" (Public company in sugar-related activities and diverse ownership)*
8. (Health and Safety) *"The company has fully subscribed to all initiatives in making safety its top priority and to become the safest company of its sector and encourage safe behaviour"*	*"The company has been certified compliant to its Occupational Health and Safety Series Assessment (OHSAS) 18001 certification for Health and Safety. Emphasis is also laid on by management among employees on health awareness and the benefit of preventing measures on productivity"* (Public company, recently set up locally by a foreign company)
9. (Health and Safety) *"The company will continue to strive towards zero occurrence of accidents"*	*"There was a x% reduction in work related accidents which was down to [..] minor accidents"* (Public company involved in sugar-related activities with family affiliations).

[26] The financial numbers and other distinctive information in the statements have been removed to preserve the anonymity of the company.

(iii) Finally, we observe very limited information by LPP companies regarding aspects such as health and safety and ethics. Although there was an expectation that companies which are more affiliated to government would disclose more employee- and ethics- related matters (including health and safety), this was clearly not the case and there was no evidence of an evolution in this respect. In fact the single most focused example of a health and safety disclosure was from a public company (example no. 9, Table 8-19) which disclosed a target (and current quantitative measure of performance) dealing with work-related accidents, whilst another company provided the clearest information on its stand on ethical aspects (example no. 7, Table 8-19) . Considering that the relevant legislation does require all employers to monitor such statistics and report these to the relevant government agency, it would therefore be expected that more companies could have followed this particular practice.

Overall, we find so far a picture regarding CSR disclosure in LPP companies which appears to be quite at an infancy stage, even in comparison to the relatively low scores observed in the case of listed companies. We now briefly consider the effect of explanatory factors such as the economic sector/activity.

8.3.2 CSR Disclosures by LPP companies: Explanatory Factors

We first rely on the same industry classification used in Chapter 6 for LPP companies i.e. Transport, leisure & commerce (10), industry and sugar companies (18), and banks, insurance and investment companies (5). Firstly, a one-way ANOVA test was carried out for all CSR items and only one significant difference (at 5%) was noted for the donation scores in 2004 (Transport, leisure and commerce scoring higher than other sectors). This suggests that industry differences do not influence CSR disclosure and activities but this statistical procedure could be influenced by low sub-sample size.

Table 8-20: CSR Disclosure Word Count by Sector for LPP companies (2004-2007)

	Ethics	**Social**	**Environment**	**Health & Safety**
Transport. Leisure and Commerce (10+1)	141	830	48	221
Industry and Sugar (18+6)	271	2043	333	656
Banks, Insurance and Investment companies (5)	69	396	0	46
Total	**481**	**3269**	**381**	**923**

As a result, we explored the CSR themes by economic sector/activity from 2004 to 2007 in terms of word count[27]. For instance, Table 8-20 reports on the overall word counts per sector and unsurprisingly, the sector on industry and sugar discloses the highest given its largest number of companies in this sector. However, on a per company basis, social disclosures by the transport, leisure and commerce sector companies have a similar word count.

Table 8-21 summarises the word counts per sector and per industry. It is noted that there is no clear indication of progress across sectors or across themes. In fact, one can observe that the social disclosure word counts for the banks, insurance & investment is actually declining over time and this trend can be seen as well for the health and safety theme in the same sector. Also, whilst an increase in word was apparent from 2005 to 2006 across CSR themes, there appears to be a tapering of the disclosures in 2007.

Table 8-21: CSR Disclosure Word Count by Sector by CSR theme of LPP companies (2004-2007)				
Ethics Disclosure Word Count by Sector	**2004**	**2005**	**2006**	**2007**
Transport. Leisure and Commerce	0	0	53	88
Industry and Sugar	0	87	91	93
Banks, Insurance and Investment companies	17	0	26	26
Total	*17*	*87*	*170*	*207*
Social Disclosure Word Count by Sector	**2004**	**2005**	**2006**	**2007**
Transport. Leisure and Commerce	144	198	222	266
Industry and Sugar	442	387	616	598
Banks, Insurance and Investment companies	137	66	107	86
Total	*723*	*651*	*945*	*950*
Environment Disclosure Word Count by Sector	**2004**	**2005**	**2006**	**2007**
Transport. Leisure and Commerce	0	13	10	25
Industry and Sugar	0	16	181	136
Banks, Insurance and Investment companies	0	0	0	0
Total	*0*	*29*	*191*	*161*
Health & Safety Disclosure Word Count by Sector	**2004**	**2005**	**2006**	**2007**
Transport. Leisure and Commerce	82	47	59	33
Industry and Sugar	95	188	211	162
Banks, Insurance and Investment companies	46	0	0	0
Total	*223*	*235*	*270*	*195*

In addition, ethics disclosures are the lowest for banking, insurance and investment sector and no discernable trend could be found for environmental disclosures. Finally, as expected, social disclosures are present in most companies irrespective of the economic sector/activity. In

[27] Due to issues with the availability of annual reports for other LPP companies, there are some changes to the number of companies in each category in the different years. Hence, a further batch of 7 companies (6 'industry & sugar' and 1 'commerce') was considered when estimating industry/sector word counts.

conclusion, we argue that industry differences are not particularly a good and consistent explanation for CSR disclosure behaviour, irrespective of the fact that some economic sectors appear to be (periodically) outperforming others.

Secondly, we use the weighted scores and the exploratory correlation analysis to examine the influence of other variables, namely (i) firm-based variables and (ii) corporate governance scores. However, the initial evidence from the correlation analysis of the overall CSR scores (Tables 6-18 to 6-21, in Chapter 6) was not encouraging in terms of the influence of firm-based variables. On the other hand, the influence of corporate governance scores is of particular interest in view of the recent arguments and evidence on the CSR-corporate governance links in the literature (e.g. Jamali et al., 2008). The following Tables 8-22 to 8-25 display the significant correlations (at 1% or 5% significance level) for the periods 2004 to 2007.

Table 8-22: CSR Correlation Matrix (LPP Companies 2004): Firm-based variables and corporate governance scores

Firm based variables	*Profit ratio*	*Staff Ratio*	*Executive Rem Ratio*	*Non Executive Rem Ratio*	*% shares held directly by directors*	*% shares held indirectly by directors*	*Gearing ratio*	*% of INED on board*	*% of NED on board*
Significant Non-Parametric Correlations (0.01 or 0.05* level)**									
1. Donation score					0.550*				
2.Integrated sustainability reporting									
3.Ethics score								0.732**	
4. Social score									
5. Environment score									
6. Health and safety Score									
7. CSR Disclosure score (1+2+3+4+5+6)									

Other corporate governance scores	*Board Composition score*	*Audit Committee score*	*Governance committee score*	*Total Implementation Score*	*Total disclosure score (exc. CSR)*
Significant Non-Parametric Correlations (0.01 or 0.05* level)**					
1. Donation score					0.460**
2.Integrated sustainability reporting					
3.Ethics score		0.390*	0.442*		
4. Social score	0.465**			0.525**	0.455**
5. Environment score					
6. Health and safety Score		0.354*		0.391*	
7. CSR Disclosure score (1+2+3+4+5+6)	0.385*	0.405*	0.376*	0.521**	0.603**

An analysis of Tables 8-22 and 8-23 shows the relatively low influence of firm-based variables on extent of CSR disclosures except for a significant correlation with directors' shareholdings (donation score) and the proportion of INEDs (ethics score) in 2004. The strong correlation between the INED representation and ethical disclosures (2004) is of particular interest since it highlights an important contribution of the 'outsider' perspective in raising issues that LPP companies may have traditionally believed to be un-necessary. In terms of the various corporate governance causes, we note a fair number of significant correlations as some companies are starting to implement the code more broadly. This becomes more apparent in 2005 (Table 8-23) with significant correlations for board composition, audit committee and corporate governance committee activity influencing some CSR scores (donations, environment and health and safety, and to a lesser extent social scores) except for ISR scores. The size effect (approximated by staff ratios) we identified in Chapter 6 in relation to the implementation of the code amongst LPP companies can be also seen to have some influence in the case of donation and health and safety scores. Furthermore, the involvement of the director/shareholder becomes prominent in 2005 in terms of higher disclosures regarding CSR, ethics and health and safety. However, as in the case of the other corporate governance scores (Chapter 6, Table 6-19), we see the enhanced role of the INED in engaging with the CSR agenda, namely in relation to donations, ethics, environment, health and safety.

This direct association between several CSR items and the % of INED on board is significant in the sense that this was not observed to be as widespread in the case of listed companies. This therefore suggests that in cases where LPP companies have appointed INEDs, the latter's involvement in corporate governance implementation tends to be broader than one would have expected. Finally, the general implementation and disclosure scores were sporadically correlated to the CSR scores in 2004 but the correlations become more consistent and stronger in 2005, indicating a more comprehensive link between the 'core' requirements of the code and the CSR themes.

Table 8-23: CSR Correlation Matrix (LPP Companies 2005): Firm-based variables and corporate governance scores

Firm based variables	*Profit ratio*	*Staff Ratio*	*Executive Rem Ratio*	*Non Executive Rem Ratio*	*% shares held directly by directors*	*% shares held indirectly by directors*	*Gearing ratio*	*% of INED on board*	*% of NED on board*
Significant Non-Parametric Correlations (0.01 or 0.05* level)**									
1. Donation score		0.475**			0.629**	0.657**		0.800**	
2.Integrated sustainability reporting									
3.Ethics score						0.548*		0.659**	
4. Social score									
5. Environment score								0.653**	
6. Health and safety Score		0.461**				0.514*		0.658**	
7. CSR Disclosure score (1+2+3+4+5+6)		0.532**				0.656**		0.689**	
Other corporate governance scores	*Board Composition score*	*Audit Committee score*	*Governance committee score*	*Total Implementation Score*	*Total disclosure score (exc. CSR)*				
Significant Non-Parametric Correlations (0.01 or 0.05* level)**									
1. Donation score	0.499**	0.350*	0.440*	0.500**	0.664**				
2.Integrated sustainability reporting									
3.Ethics score				0.367*					
4. Social score	0.400*			0.391*	0.405*				
5. Environment score	0.434*		0.406*	0.424*	0.356*				
6. Health and safety Score	0.584**	0.548**	0.535**	0.522**	0.497**				
7. CSR Disclosure score (1+2+3+4+5+6)	0.649**	0.517**	0.502**	0.627**	0.670**				

Table 8-24: CSR Correlation Matrix (LPP Companies 2006): Firm-based variables and corporate governance scores

Firm based variables	*Profit ratio*	*Staff Ratio*	*Executive Rem Ratio*	*Non Executive Rem Ratio*	*% shares held directly by directors*	*% shares held indirectly by directors*	*Gearing ratio*	*% of INED on board*	*% of NED on board*
Significant Non-Parametric Correlations (0.01 or 0.05* level)**									
1. Donation score									
2.Integrated sustainability reporting	0.360*								
3.Ethics score								0.564*	
4. Social score	0.379*						-0.372*		
5. Environment score				0.462*	0.504*			0.858**	
6. Health and safety Score									
7. CSR Disclosure score (1+2+3+4+5+6)								0.544*	
Other corporate governance scores	*Board Composition score*	*Audit Committee score*	*Governance committee score*	*Total Implementation Score*	*Total disclosure score (exc. CSR)*				
Significant Non-Parametric Correlations (0.01 or 0.05* level)**									
1. Donation score	0.359*			0.370*	0.479**				
2.Integrated sustainability reporting									
3.Ethics score	0.540**	0.466**	0.533**	0.537**	0.494**				
4. Social score	0.568**	0.483**	0.646**	0.599**	0.532**				
5. Environment score	0.595**	0.571**	0.531**	0.580**	0.533**				
6. Health and safety Score	0.471**	0.528**	0.393**	0.519**	0.473**				
7. CSR Disclosure score (1+2+3+4+5+6)	0.748**	0.689**	0.737**	0.776**	0.756**				

Insofar as 2006 (Table 8-24 above) and 2007 (Table 8-25 below), there is a shift in the correlations between the CSR scores and firm-based variables. The profitability effect (again highlighted in Chapter 6) comes marginally to the fore in terms of its influence on ISR and the social theme. Over the same period, the direct relevance of INEDs seems to come to an end as the number of significant correlations is reduced, leaving only a significant association with the ethics score in 2007. The negative association between gearing and social scores in 2006 is puzzling given that positive correlations were noticed in the case of listed companies but this could be seen as a spurious correlation. In contrast to the declining effect of INEDs, the influence of non-executives on CSR scores is more generally observed in 2007 with a higher level of correlations between non-executive remuneration ratios and social, environmental and overall CSR scores. Finally, the main message from these last two correlation matrices is the confirmation of the direct links between traditional corporate governance structures and CSR activity/disclosure, as demonstrated by the increasing number of significant correlations between board composition, audit committee, corporate governance, implementation and disclosure scores with all CSR themes (including ISR in 2007). The extent of the relationships appears to be higher than observed in the case of listed companies.

Table 8-25: CSR Correlation Matrix (LPP Companies 2007): Firm-based variables and corporate governance scores

Firm based variables	*Profit ratio*	*Staff Ratio*	*Executive Rem Ratio*	*Non Executive Rem Ratio*	*% shares held directly by directors*	*% shares held indirectly by directors*	*Gearing ratio*	*% of INED on board*	*% of NED on board*
Significant Non-Parametric Correlations (0.01 or 0.05* level)**									
1. Donation score									
2.Integrated sustainability reporting	0.425*								
3.Ethics score								0.565**	
4. Social score				0.403*					
5. Environment score				0.414*					
6. Health and safety Score									
7. CSR Disclosure score (1+2+3+4+5+6)				0.381*					
Other corporate governance scores	*Board Composition score*	*Audit Committee score*	*Governance committee score*	*Total Implementation Score*	*Total disclosure score (exc. CSR)*				
Significant Non-Parametric Correlations (0.01 or 0.05* level)**									
1. Donation score	0.670**	0.641**	0.433*	0.664**	0.691**				
2.Integrated sustainability reporting	0.420*	0.507**	0.474**	0.526**	0.506**				
3.Ethics score	0.621**	0.628**	0.628**	0.645**	0.598**				
4. Social score	0.563**	0.595**	0.717**	0.675**	0.565**				
5. Environment score	0.428*	0.443**	0.505**	0.484**	0.462**				
6. Health and safety Score	0.449**	0.538**		0.492**	0.488**				
7. CSR Disclosure score (1+2+3+4+5+6)	0.750**	0.768**	0.701**	0.824**	0.760**				

In conclusion to this section, we first considered the influence of industry/sector and found little evidence of its relevance to the extent of CSR activity. In our view, the word count tables highlight some temporary differences but more importantly, they re-emphasise the relative lack of depth and detail in CSR disclosures. When we analyzed CSR using essentially the same data (via the weighted scoring system), we however find some notable associations between other firm-based variables and CSR scores. As in the case of listed companies, the degree of influence of specific variables fades over time and as result, we argue that current CSR activity is less associated with the traditional variables identified in the literature. On the other hand, the 'beneficial' impact of the corporate governance code becomes gradually apparent and stronger over the four year period. Although corporate governance implementation and an overall approach to CSR is not considered to be very widespread in LPP companies, the correlations strongly suggest that companies that do implement the key corporate structures and disclosure requirements have also given serious consideration to some of the CSR themes and societal implications. We now address the interview data to further assess the applicability of the CSR agenda in LPP companies.

8.3.3 Interview Data and Analysis

The following interview extracts from directors of LPP companies sheds some light on the perceptions and motivations regarding CSR and its disclosure:

> *"…CSR is a new concept. [It] is related to the status of a company. For instance, [name of listed company] has contributed about Rs. 2 million but for them it is not a big deal. The same thing is not applicable to my organization because we have other priorities to settle….In Mauritius, you expect a return or something that helps you get more and at the same time, you'll continue supporting. But if you do not get this recognition, then you will not do this [CSR]. CSR is also corporate social investment. If I am investing some money in this way, then I want to bring a change in environment, a change in the society where we evolve. If there is no change, then it becomes difficult…"* (Interviewee N).

> *"We have always been involved in CSR activities without really making it known. Here again, it is matter of culture, [which] can be stated like this 'do good things and be generous but it is not important to let others know about it'. Now, the code has asked us to disclose and we have also started to structure things to better communicate the information, [and] we have also recruited a CSR manager for the group".* (Interviewee c)

> *"…The shareholders need to know that while doing profits, the company also contributes in the social life of the country….The public might not be aware of that because in newspapers, for instance, this information is not available. There is no need to make a big publicity about it. I think that companies have only to play their roles as good corporate citizens"* (Interviewee J)

> *"We have set up a CSR programme that will take prominence in 2008. We have people who are responsible for these activities and have a fund dedicated to this item only. We*

> *don't want to make the same mistake as others who take CSR to be [about] social donations only. I believe it means much more than this. So as from next year, we will disclose and we'll have a full report on CSR activities because there is much to do…"* (Interviewee H)

In analysing these comments and the CSR disclosures, these to our mind reflect the beginning of a change - though affecting only a minority of companies - in attitudes towards CSR activity (and disclosure) in this category of companies, particularly amongst public companies. However, the lack of progress in disclosures, the results from the MEF survey (2007) on the nature of external CSR activities (75% of companies engage in 'donations'), and the gist of the interviews above reflect a resolutely philanthropic nature to CSR which according to Lantos (2001), involves *"…genuine optional caring, irrespective of whether the firm will reap financial benefits or not"* (cited from Jamali et al., 2008, p. 445). This has two implications in relation to the extent of CSR activity and disclosure by LPP companies. Firstly, there is an 'optional' part to this process, particularly when companies do not feel able to support social projects. Secondly, disclosure becomes irrelevant if one is primarily involved in CSR without any expectations for benefits or otherwise. Indeed, two interviews mentioned that there should be not be any 'publicity' done for supporting the community and we believe this derives from a quasi-religious and traditional motivation in doing 'good' in an informal way. Furthermore, despite evidence to the fact that companies do engage in internal CSR activities as well (e.g. MEF report, 2007 and interviews), there is little interest amongst LPP companies to report on employee-related disclosures (including health and safety), presumably due to the 'internal' - and therefore private - nature of the support to staff (e.g. medical insurance, childcare, pensions etc). Finally, environmental- and ethics-related disclosures remain at an infancy stage. Hence, the results seem to indicate that the volume of CSR disclosure in LPP remains dominated by *ad hoc 'donation-only'* disclosures.

8.4 Statutory Bodies

Before we can conclude on an overall analysis of CSR, we complete our findings section by briefly considering the state of CSR disclosure in statutory bodies, using the very limited available evidence. Table 8-26 provides a frequency count of statutory bodies having reported the various CSR themes from 2004 to 2007.

Table 8-26: Frequency of CSR Disclosures by Statutory Bodies								
	Ethics		**Social**		**Environment**		**Health and Safety**	
	Freq	**%**	**Freq**	**%**	**Freq**	**%**	**Freq**	**%**
2004 N=10	1	10	5	50	1	10	1	10
2005 N=13	1	8	9	69	1	8	3	23
2006 N=8	1	12	5	63	1	12	2	25
2007 N=5	2	40	3	60	0	0	1	20

As can be noted, a small minority of institutions disclose CSR activity in their annual reports, with the highest number focusing on social disclosures compared to ethics, environment and health and safety. In view of the fact that statutory bodies are taxpayer funded institutions, one would have expected a higher level of disclosure relating to ethics and only one body in 2007 acknowledged that there was a code of conduct. As regards to the social dimension of statutory bodies, it appears that the statutory bodies' social activities are closely related to its own sector of activity. In particular, the 'public service' nature of statutory body's activity is emphasised with the overall aim of improving the quality of life and this is done by focusing on the stakeholders it primarily services. For instance, an IT oriented statutory body will focus on promoting an ICT culture in Mauritius by organising seminars, conferences and job fairs. Another one whose main role involves the sugar sector will refer to the assisting of small planters in producing sugar for national consumption. A third one - involved in the educational sector - sees its CSR role as one that participate significantly in the development of education in Mauritius and hence developing human resource capital at its optimal level for the economic progress of the country and improved welfare of inhabitants. However, a common feature was that they all provided sponsorships as well. It therefore appears that statutory bodies interpret their social responsibility to be primarily about getting involved in activities that are related to their primary mandate rather than being concerned with broader social issues and challenges.

With reference to the environment, there was again very little engagement with this theme by statutory bodies with only one organization reporting that an environmental management system was introduced and that sustainable resources were used in the production of electricity. Finally, again only one organization demonstrated a willingness to disclosure its activities in relation to health and safety by referring to the development "…*of an effective safety culture within the organisation, and ensuring compliance with legal and internal regulation policy requirements remained high on the agenda*. Mentions were also made of regular inspections and safety audits, training sessions, appointment of health and safety officers, and the setting up of health and safety committees. In conclusion, the state of CSR activity and disclosure in statutory bodies remains very minimal and in line with a sizeable majority the LPP companies (overwhelmingly private companies). Thus, it does not appear that the statutory bodies' close affiliation to the public sector leads to a higher level, and disclosure, of social responsibility.

8.5 Concluding Analysis and Reflections

The key research question we sought to focus on throughout this chapter was on the influence corporate governance would have on corporate social behaviour, specifically in relation to CSR themes, activity and disclosure. From one perspective, the local code's section on corporate social responsibility (entitled integrated sustainability reporting) provided a quite comprehensive policy to, and a very inspirational take on, the multiple facets of CSR action - whilst taking into account the 'specificities' of the Mauritius context. However, it remained short on detail as to how exactly a company should adopt and implement these principles and multiple perspectives. As a result we believe, most companies' actions - and resulting disclosures - remained initially focused on what they have been used to do for many decades i.e. *ad hoc* financial and/or in-kind donations to causes, organisations, audiences and any other third party whom companies felt most ethically (i.e. being moral, doing what is just, right and fair) duty bound or altruistically (subjective human caring) bound to help. This, in our opinion, explains an across the board (listed, large public/private and statutory) preference for such types of support as evidenced by the prominence of social disclosures. However, in view of the same ethical or altruistic motives, and a traditional culture of not publicising charitable acts[28], the extent and quality of these disclosures in the annual reports have initially remained minimal for the majority of companies surveyed in this study.

However, notable CSR developments have become apparent and these could be significantly associated to the publication of the code. Firstly, and particularly amongst many of the listed companies, the quality (and quantity) of social disclosure has gradually improved in terms of the inclusion of general statements of intent/policy re-iterating the commitment of the company to corporate citizenship, social responsibility and social welfare. Indeed, one interviewee acknowledges that the code has challenged this corporate behaviour, thus creating awareness amongst companies to become

[28] The exception to this was (and still is) the common practice of sponsorship 'marketing' where organizations, people and activities were being 'sponsored' and in return, the company's name and contribution would be acknowledged, principally in the media. However, this remained primarily a public relation (PR) / marketing exercise rather than a CSR one.

more ‘calculative’ - but also to become more socially accountable - in their CSR decisions and disclosures. In other words, companies ‘adopted’ the modern ‘language’ of CSR made explicit in the code[29] - made also available in other CSR documents (i.e. social reports, Global Reporting Initiative) - whilst re-interpreting and re-presenting the same *ad hoc* donation practices as ‘CSR’ activities. In other words, the main motivation for donations remained ethical-or altruistic-led whilst there was increasing sophistication of disclosures to either meet perceived shareholder or stakeholder expectations. These could thus be seen from either an instrumental stakeholder or from a legitimacy theory perspective but in either case, this brought us to one conclusion namely that CSR disclosures are gradually been seen as a worthwhile practice on its own. Indeed, this was confirmed by some interviewees who perceived that CSR was un-coordinated and was merely an ‘impression management’ exercise.

Secondly however, in the more recent periods (i.e. 2006 and 2007), an increasing proportion of companies (mostly listed but also a few LPP companies) appear to have progressed from the above ethical/altruistic standpoints to a more strategic CSR as they seek to structure their efforts beyond the mere donating of money/resources, and aim at promoting societal welfare from a much wider angle. This is evidenced by the used of separate trusts/foundations, the commitment of a defined % of profit/turnover, the recruitment of CSR staff and mobilizing of CSR resources at group level, and a greater but pro-active involvement of stakeholders including employees in targeting social issues. We would thus argue that the above is evidence of the start of an evolutionary process for corporate social action which can be - at least partly - to the code of corporate of corporate governance. We indeed do not claim that the corporate governance code somehow ‘caused’ companies to take more societal actions but rather that it provided an impetus for many companies to reflect on the ‘theoretical’ nature of CSR and to compare it to their ‘own’ perception of CSR /social actions. A final point relates to the case of statutory bodies which appeared to have adopted a ‘constrained’ view perception of social action i.e. mainly related to their field of activity and/or to their main stakeholders. Whether this relates to their legal mandate and the grounds on which funding is made available to them remains to be ascertained.

On a more negative note however, the ‘historical’ prominence of *ad hoc* donation in corporate social action and its influence in the social disclosure process (as described above) has had, we argue, profound negative consequences for other types of CSR disclosures. As mentioned earlier, the absence of sufficient guidance regarding ethics, environmental and health and safety disclosures in the

[29] However, we need to acknowledge that the mainstream acceptance of CSR may be also due to the increasingly popularity of concepts such a sustainability, social reporting and the Global Reporting Initiative (GRI). Local regulatory factors are also of relevance e.g. companies seeking government permission for major industrial/business developments must incorporate a ‘social’ budget and impact in their bids.

corporate governance code has led to - relative to the extent and quality of social disclosures - very minimal, uninformative and downright insufficient levels of disclosures for these equally important themes. Paradoxically, the interview data and other published evidence (notably the MEF report, 2007) do highlight for example the extensive contribution of companies to internal CSR initiatives (including health and safety), geared principally at employees and their immediate relatives. However, this is not communicated in sufficient depth and detail within the annual report by all companies. Furthermore, the 'safety' aspect is more broadly interpreted to include issues such as customer and product safety but this has not been considered by any of the surveyed companies. Hence, we argue that all companies must assign a serious consideration to the adopting of a broader remit of health and safety disclosure and to the use of more a structured approach to the disclosure of employee related matters.

Similarly, many of the companies' activities inherently and significantly impact on the environment and as such are subject to many environmental laws, regulations and monitoring regimes. However, the extent to which companies are meeting environmental targets and standards remains a widely un-disclosed aspect of CSR. In some cases, it appeared in fact that the environmental aspect of CSR has been interpreted quite in a different way, in that companies would disclose their donations or activities towards improving the natural or physical environment - rather than focus on the impact of their business /operational activities on the environment and how they are mitigating / eliminating such impact e.g. contributing to the clean up of beaches or assisting government in eliminating a mosquito-borne disease. In addition, the impact of the corporate governance code on ethics-related disclosures has been equally minimal with companies at the most reporting on the adoption of a code of ethics for its staff. The corporate governance code is founded on the notions of transparency, honesty and integrity but yet information as to how ethics is implemented and cascaded within the company remains sketchy. It was also expected that the promotion of ethics within the company would have a positive impact on societal behaviour but again evidence of this remains to be seen from both the companies' and stakeholders perspective.

Furthermore, it is noted that the many specific issues and challenges affecting Mauritian society (social harmony, non-discriminatory recruitment practices, etc) highlighted by the code are in almost all cases not made reference to in the CSR reports. We believe these represent challenging aspects for companies and that there are genuine difficulties in communicating relevant information in this respect, without actually causing concern or upset. This rather 'implicit' acknowledgement of the social tensions caused by ethnic/religious differences and wealth gaps is in fact the norm in Mauritian society and one certainly could appreciate why profit-making companies would not be at the forefront of disclosing information in this respect. However, statutory bodies are equally silent in the communication of how they deal with diversity, recruitment and assist in encouraging social harmony. In turn, the opacity of information fuels negative perceptions on the behaviour of employers in Mauritius and strengthens a societal perception that an absence of transparency on such issues reflects poor internal practices.

In conclusion to the above-mentioned ‘shortage’ of disclosures (except for social disclosures) and in spite of the commendable improvements noted in the social disclosure, we do point out the broader argument that the companies’ (listed, LPP and statutory bodies) formal level of social accountability remains quite low. In our opinion, the significant correlations between CSR and corporate governance scores are encouraging but not conclusive enough to be reflected in terms of a broader societal impact. Hence, the code has not yet been able to influence the creation of a strong organic link between the social and business interests. Drawing from Jamali et al’s (2008) conceptualisations and case findings, we would therefore argue that CSR in Mauritius has undoubtedly become an attribute of corporate governance (model 2), and that there is a evidence of a limited move from philanthropic to strategic CSR. However, it equally remains that substantial elements of CSR have yet to emerge from the developments in corporate governance and that doubts exist as to whether the application of corporate governance principles would be sufficient in leading to a more complete and comprehensive conceptualisation of CSR by the surveyed companies.

Chapter 9: Key Findings, Recommendations and Conclusion

9.1 Introduction

This chapter presents an overall picture of the findings and analysis thereof of the implementation and impact of corporate governance in Mauritius, following the publication of the code in 2004 and its enactment in 2005. Relevant policy recommendations and points for consideration are subsequently formulated. However, an initial section will first re-iterate the research constraints faced by the team and the relevant perspective that informs our overall findings and recommendations.

9.2 Research constraints

The two research constraints we have faced during the project have been (i) the lack of access to, or at the very least the difficulties in accessing the full set of annual reports amongst large private companies and statutory bodies. Historical annual reports were deemed *'private', 'internal', and 'confidential'* or simply not yet approved or prepared. Yet paradoxically, we were requested in some cases to contact the Registrar of Companies to access the annual reports, which eventually were statutory versions with minimal information. However, the most concerning issue was the case of statutory bodies which did not appear to prepare, file and submit accounts within a reasonable time period - despite continued criticisms from the National Audit Office (NAO). The fact that accounts were first to be submitted to the parent ministry appeared to delay matters further. Finally, the availability of sufficient annual reports (i.e. from 2004 to 2007) hampered some of the intended statistical analysis and it took more time to complete the content analysis and coding, and (ii) the reluctance by targeted parties to participate in interviews due to either time restrictions or a lack of interest in the research topic. The research team targeted a series of 30 interviewees from different internal and external stakeholder groups and managed to perform the 30 interviews over a period of seven months. We believe that the interviews represented a respectable cross-section of parties involved (or at least expected to be involved) in corporate governance developments. Clearly, more time devoted to both data collection stages would have perhaps yielded more reports and interviews but the opportunity cost would have been lesser time devoted to other critical parts of the research project's activities.

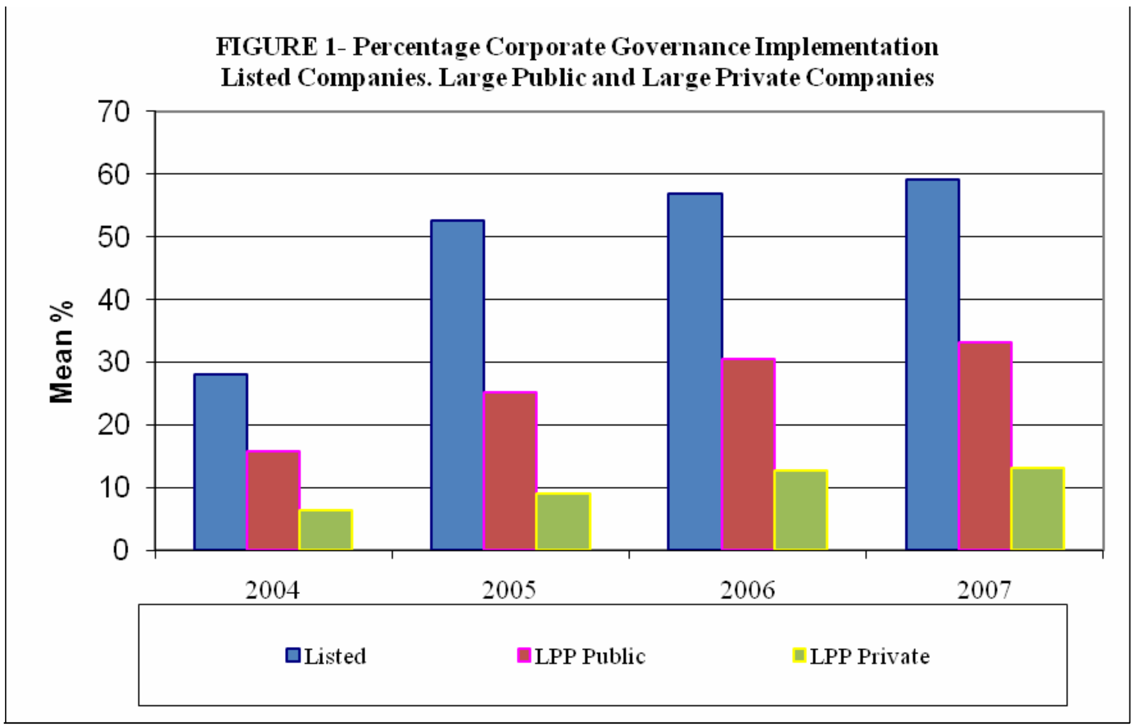
To a certain extent however, the above constraints were foreseen due to our previous experiences with research involving similar data sources in Mauritius. The mixed method approach of relying on secondary quantitative-led data and on primary qualitative-led data has nonetheless provided us with a rich dataset of sufficient depth and breadth to assess the implementation and impact of corporate governance in Mauritius. This enabled us to develop a form of analysis and reflection which led us more to an 'analytic generalisation' perspective - as advocated by Yin (1994) - rather than merely aim for 'statistical' generalisations. The latter will indeed continue to remain a challenge for social science researchers seeking to understand corporate behaviour in relation to corporate governance - particularly in contexts such as Mauritius that are not blessed with large scale secondary data sets and easily accessible information databases. As a result of the above, we are therefore confident that the constraints mentioned above have not materially affected the substance of the research's key results, findings and analysis. In addition, the recommendations and points for consideration must be seen in the same light.

9.3 Key research findings and overall analysis

Whilst the report's structure on findings and analysis was initially divided in four chapters to enable a more focused approach to each category of companies and to consider separately the emerging aspect of CSR, we now present a combined and summarised picture of the implementation and impact of the corporate governance code in Mauritius. As perhaps expected by many readers, this picture is not entirely one made of black or white but rather made of different shades of grey:

(1) The level of implementation of the code amongst listed companies has shown a marked improvement as evidenced by the average weighted mean score (over 146, for implementation, disclosure and CSR) of 41.2 in 2004, 77.1 in 2005, 83.5 in 2006 and 86.8 in 2007. In percentage terms, this translates from an achievement (over 146) of 28.2% in 2004 to 59.5% in 2007. Essentially, the average implementation score has doubled during this four year period. To further confirm that these results are not merely influenced by a few 'high achievers', the percentage of the 39 companies which scored 73 or more (out of 146 i.e. 50%) rose from 23% in 2004 to 79% in 2007 i.e. a more than threefold increase. In view of the fact that the code was technically enforceable from 2005, this does not perhaps look as satisfactory but needs to be seen in the context of the flexibility inherent in the 'the comply or explain' requirement and the ambiguities surrounding the voluntary vs. legal nature of the code in Mauritius. In addition, once one acknowledges that corporate governance is primarily an organisational change process, then one can reasonably expect a longer evolving implementation process rather than an abrupt radical change at one point in time. A notable statistical result remains the strong and consistent association between the various corporate governance scores and INED representation amongst listed companies, signalling the critical role of the INED as the 'change agent' once the company has made the decision to implement the corporate governance code.

However, the above needs to be contrasted to a picture of low implementation in LPP companies and a poor adoption level in statutory bodies. For the sample of 33 LPP companies we were able to survey over the four year period, only 5 companies (three public and two private company status) achieved a corporate governance score equivalent to 50% or above of the total score (i.e. more than 73 out of 146). A further 19 companies' scores were in the lower quartile (i.e. below 36.5/146). However, significant differences were noted within the LPP category in terms of public status companies outperforming private status companies with the former achieving a mean corporate governance score of 33.1% (48.36/146) in 2007. This is compared to the public companies' mean score of 15.7% (22.89/146) in 2004 and the current (2007) mean scores for private companies of 13.1% (19.17/146). Figure 9-1 below summarises the corporate governance implementation amongst listed, large public companies and large private companies.



It is acknowledged that a similar scoring procedure was not performed for statutory bodies due to the very limited access to many annual reports and the obvious mismatches between most of the code's specific requirements to the particular context of statutory bodies. However, the analysis of a few and more relevant corporate governance requirements practices revealed a near absence of implementation amongst the majority of statutory bodies.

(2) The reliance on annual report disclosures for the scoring procedure leaves open the (valid) criticism that companies may be tempted to 'fudge' the published information to convey an impression of implementation (and of compliance) whilst not really engaging or implementing change within the organisation. The use of a formal external audit mechanism to assess the 'reality' of implementation has been mentioned by some of the interviewees (and suggested in the code) but the companies surveyed are not seen to be practising this at all. Our initial findings on the use of vague or inconsistent compliance statements did also raise the possibility that companies were engaged in 'impression management' strategies in the initial years post- 2004. Thus, short of researchers directly surveying or observing corporate governance in action in all the companies, this criticism may well remain a valid one. However, in this study, we addressed this issue by examining corroborative information from the annual reports as suggested in previous studies to detect evidence of a tokenistic or symbolic implementation (e.g. detailed disclosures of attendance statistics by board members). In addition, our interview questions and interviewing strategies specifically addressed this issue by asking for practical examples and elaboration on corporate governance 'in action' in the target companies. Whilst evidence of impression management still exists in both listed and LPP companies, we also found an increasing majority of cases (within listed and LPP companies) where corporate governance structures were actually been used and where indeed, organisational change was being implemented, in terms of bringing structure and discipline in decision-making processes, greater involvement of INEDs, control mechanisms (e.g. audit committee), higher accountability to shareholders and stakeholders, and higher board participation and empowerment.

(3) The last point in the previous paragraph brings us to the notion of 'impact' of corporate governance. As seen in the literature, the mainstream research approach has been towards modelling a direct causality between corporate governance requirements and financial-led measures of performance (e.g. profitability). However, the inconsistent results from previous empirical studies have created much doubt on the validity of this model and more recently, authors are at least intuitively agreeing with the fact that such modelling vastly oversimplifies the complex relationships that exist between corporate governance and performance. In the case of listed companies, we certainly found very little evidence of a systematic association between profitability (and other financial measures) and the various corporate governance scores. Some significant correlations between profit ratios and the scores reflecting certain corporate governance structures (i.e. board composition, audit committee, corporate governance committee, and risk management) were only found amongst LPP companies in 2006 and 2007. However, we are doubtful on the claim that profitability is the outcome of the corporate governance scores and argue that a potential causality might exist in the reverse direction i.e. higher profitability

encourages corporate governance adoption. Many interviewees also acknowledged that they did not expect (or predict) direct financial benefits that could be reliably attributed to the implementation of the corporate governance code. However, the focus of their directors' experiences regarding the 'impact' of the code was on the changing processes and attitudes (at varying rates, we point out) within the different organisations. The extent to which such views extended to all LPP companies and statutory bodies was however limited.

(4) Irrespective of the above, resistance to a more comprehensive implementation of the code remains significant and has taken different forms (and justifications). Firstly, the weighted scores for listed companies indicate a tapering of the implementation by 2007, with companies having complied with many of the key requirements. Some implementation and disclosure requirements have been deemed peripheral (e.g. director training and appraisal) whilst other omissions (risk management and internal audit) should have been given more priority. The cumulative burden of compliance over several years may also have taken its toll as companies and directors experience the additional costs, time and effort needed. In other words, corporate governance 'fatigue' sets in and in an environment characterised by the absence of enforcement and monitoring, there is a possibility that further developments for a more comprehensive implementation of the code will simply stall. Secondly, LPP companies - particularly family-owned ones with strong family representation on boards - see little relevance and use of the code and are thus not prepared to implement a code which challenges existing arrangements at board level, unless clear tangible benefits or incentives can be put forward to convince them to act otherwise. Minor progress is apparent from Figure 9.1 but remains associated to a minority of LPP companies. Thirdly, statutory bodies - many of them being essentially emanations of past public sector activities - see even less affiliation with the code and would not be ready to implement the code unless legal constraints are removed and the relevant parent ministry explicitly approves such changes. In this regard, one may argue whether a parent ministry would wholeheartedly allow that the statutory body's board should operate more independently. However, it remains that the level of accountability and disclosure by statutory bodies is in many ways far lower than that of the government departments who supervise their activities, due to their direct links to parliamentary oversight. Finally, there is an almost unanimous resistance (across the three categories of organisations) to a particular requirement or disclosure because of the (perceived) concerns with wider societal reactions and implications. In this case, this mainly refers to the determination of remuneration policies and the disclosure of individual remuneration. However, this lack of widespread transparency in this very particular case can be in itself self-serving and circular in nature i.e. in not disclosing the relevant information, societal reactions -

assuming these are real and potent - will remain negative and critical due to the motives one may attribute to this lack of disclosure.

(5) Finally, we noted from Chapter 8 the corporate behaviour towards the CSR agenda, both in terms of activities and disclosure. CSR is no doubt an accepted concept within all the surveyed companies and the corporate governance implementation plays a role in making this concept a more widespread and accepted one. However, CSR has primarily remained associated with *ad hoc* charitable (and political, where applicable) donations. In a sense, this reflects the traditional demands of Mauritian society in that companies are regularly requested to provide financial/logistic support by individuals, non-governmental organisations, religious bodies, schools, hospitals and even government departments for a number of un-connected reasons[30]. Some donations are undoubtedly seen as a form of sponsorship marketing but the main corporate motivations for social donations are, and have remained, for ethical or altruistic reasons, akin to the well known French expression of *'Charité Chretienne'*. Whilst an increasing number of listed (and few LPP) companies have reviewed this *ad hoc behaviour* with the aim to develop a structured approach to CSR (generally known as strategic CSR), directors' perceptions of these developments remain focused on the social- or community led-donations - albeit in a better thought out way. However, major elements of what the literature traditionally encompasses as CSR remain unaccounted for and therefore it remains unclear as to how far companies are really involved in these areas, such as environment, health and safety, the promotion of ethics[31], employee-related aspects (e.g. recruitment practices) and social aspects regarding diversity and social harmony. The absence of a local social accountability framework may partly explain this lacuna although many social accountability and reporting models exist internationally. The few examples of such disclosures in current annual reports remain vague and merely reflect statements of intent, whilst one would have expected information on the extent to which companies mitigate their impact on the environment or performance measures such as the number of continuous professional development activities for staff. In our mind, this lack of a comprehensive approach to CSR and social accountability from some of the major employers or economic actors (whether private, public or statutory) is central to the issues faced in Mauritius, in terms of building a sustainable and mature relationship between the corporate and the social. In addition, the government, as reflected by its management of statutory bodies, is not entirely immune from the same lack of social accountability.

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30 It has to be noted that the tax-exempt status of charitable donations was recently abolished and as result, companies are unable to claim tax relief for charitable donations.

31 Following a recent debate on the issue of tax evasion/avoidance by large UK-based corporations, commentators have raised the point that the actual payment of a fair amount of corporation tax in the jurisdiction could indeed be construed as being an important of the company's CSR agenda.

In conclusion to this section, we present a summary diagram (Table 9-1 below) to situate the themes we believe have been impacted by the implementation of the code of the corporate governance code, and which was elaborated in this section. Consistent with grounded theory procedures (Strauss and Corbin, 1990), we develop the themes from a combined analysis of the field data, namely from annual reports and the interviews. As in many similar studies, we present the themes as a continuum bound by two extreme 'behaviours' or observations. We then 'qualitatively' situate the position of the different categories of organisations as they stand in relation to each other and to each theme. In doing this, we seek to convey a 'snapshot' picture of our study's findings and resulting analysis whilst acknowledging that such a picture should not be interpreted on a strict mathematical scale.

Table 9-1: A Summary of the Impact of Corporate Governance in Mauritius

<-----initially (2004 and before)		But now more towards (2007 and beyond)---->
Themes		**Themes**
Board as rubber stamp of management decisions		actively engaging with major strategic decisions
Board wholly made up of career businessmen (or civil servants)		has an appropriate mix of training, expertise and expertise
Directors unfamiliar with details (or unwilling to involve) with technical details (e.g. accounting, risk)		more familiar and questioning the specifics, where relevant
Director representing oneself or major shareholder or third party interests		'holistic' representation of shareholders and company
Board family-led / managed traditionally		Professional-led (non family led)
Board of directors as insiders ('members only')		Board access to INEDs (outsiders)
Board membership seen as status and prestige symbol		Board seen as a job many duties/responsibilities.
Board members trusting of management (informality)		Board members want 'proper' accountability from management
Board generally deferring to senior management		Board asserting a more supervisory status
Disclosure/ transparency shy		Full transparency and disclosure, whilst remaining mindful of the context
Company practises ethical or altruistic CSR on an ad hoc basis		Practises Strategic CSR but focused on social donations
Little social accountability other than social donations		Holistic social accountability

Key:

Listed Companies LPP Companies Statutory Bodies

9.4 Recommendations

On the basis of our findings and analysis, we now formulate recommendations supported by further points for consideration i.e. detailed aspects pertaining to the recommendations. These can be of relevance to all categories of companies and may be of concern to regulators, companies, and professional associations. In our view, the appropriate lead/coordination agency is the Financial Reporting Council (FRC) in conjunction with the legally backed National Committee on Corporate Governance (NCCG). In addition, to the recommendations regarding statutory bodies (Recommendations 5 and 6) and one proposed amendment to the Companies Act (Recommendation 9), we do not believe that additional enabling legislation is required.

Recommendation 1: The code of corporate governance needs to be reviewed to incorporate a clearer and focused set of requirements.

The code's initial version was written with a view to introduce corporate governance to companies in Mauritius. Some its requirements were labelled as 'aspirations' to provide some flexibility and compromise in its application and were also based on codes issued in other countries. However, more than 5 years after its publication, it would be timely to take stock of what has been implemented and what has not been considered, thereby assessing the applicability of some of its requirements to the Mauritius context and the implications for compliance costs. For instance, the issue of remuneration- related disclosures would be one of the issues worthy of an objective re-consideration[32]. Furthermore, the recent worldwide and local events have demonstrated the increased volatility and uncertainty in business, which can be mitigated by structured risk management and internal audit functions. The NCCG and the FRC will thus need to review these and other requirements vis-à-vis the different types of companies in Mauritius. In carrying out this review, the NCCG and FRC should consider in more detail the implications for non-listed companies (public and private ones) and prioritise the requirements that would be more applicable to such companies.

Recommendation 2: The ambiguity on the legality and enforceability of the code needs to be clarified.

The interviews and annual reports have shown the consequences arising from the confusion and ambiguity as to whether the code is legally required or not. For instance, Section 1.1. of the code states

[32] On balance however, the argument that one cannot publish individual directors' remuneration data merely on the grounds that it might upset societal actors is in our opinion an indefensible viewpoint in an era of increased accountability, transparency and disclosure. This should equally apply to private- and public-owned institutions.

"All such companies shall comply…." for organisation identified in (a) and (b) but not for the other types of organisation, leaving an implicit escape clause for these organisations. Then, Part. 1.10 (p. 18, 2004) states compliance with the code is a requirement without any qualifying statement. The question here is not whether the code should be made legal or not but rather that a decision be made and clearly communicated. Although there are understandable circumstances in the existence of a higher level of regulation/enforcement in one economic sector (i.e. banking) as opposed to another category (listed companies), the different levels of regulation/enforcement (or lack thereof in some sectors) merely reinforce the view amongst many companies that the code is *"not for them".* Should legal enforceability be adopted, then the Financial Reporting Council (FRC) would be the ideally placed body to verify compliance on a periodic basis. Additional requirements can then set out by other regulatory agencies (e.g. Bank of Mauritius) for particular companies under their respective jurisdictions.

Recommendation 3: The 'comply or explain' requirement needs to be clarified, in relation to the wording of the compliance statement and explanations thereof for non-compliance.

The evidence has shown that companies do engage in 'impression management' to convey an image of compliance, using vague statements or statements that are inconsistent with the actual level of implementation. As in the case of audit reports for instance, the wording of the compliance statement ought to be standardised to prevent a form of words which is suggestive, but not conclusive, of compliance. The FRC and NCCG could thus pre-determine the possible wording(s) of the compliance statements and require that companies use one of such statements where applicable.

In addition, reasonably detailed explanations for non-compliance must be provided to inform the reader on the requirements the company is actually not implementing (or seeks to implement in the future). We do acknowledge the cost implications if a corporate governance report has to be externally audited and it does remain debatable whether auditors would agree to bear the responsibility (and liability) for certifying corporate governance requirements. However, should the code be streamlined with clearer requirements and its legality clarified, then auditors and companies have a greater chance of resolving their respective professional and cost implications, thereby paving the way for a possible third party certification of corporate governance implementation.

Recommendation 4: The current criteria for large public and private companies must be reviewed.

Our evidence shows that turnover size may have been a convenient, but however too simplistic, criterion for deciding whether a company should adopt the corporate governance code. Other criteria such as shareholding profile, the percentage of shareholders on the board and in management, the gearing (debt) level, and the degree of family ownership/leadership may be more relevant. At the moment, a public company having a fairly diverse shareholding structure can decide not to apply the code as long as its turnover is under Rs. 250 Million. On the other hand, a private company wholly owned and managed by a family needs to apply all the requirements of the code if the turnover achieved is above Rs. 250 Million. Given the relatively limited number of companies operating in Mauritius, we believe the FRC and NCCG could alternatively consider an active selection process i.e. by identifying the companies that need to comply with the code and notifying the companies accordingly. This selection could be based on the combination of the criteria mentioned above.

Recommendation 5: Annual reports of statutory bodies must be made available.

The rather poor level of accountability by statutory bodies as evidenced by the significant delays in producing and submitting accounts needs to be improved as a matter of urgency. In the current period of economic uncertainty and one which must be characterised by fiscal responsibility, statutory bodies should be required to enhance their level of accountability and disclosure in the use of public funds. For instance, an 'accountability levy' could be implemented whereby say 5% of their operating budget will not be disbursed until the statutory body's previous annual reports and accounts have been audited, approved and submitted to the National Assembly. The research team finds this important enough to recommend a revision of the Statutory Bodies (Accounts and Audit) Act 1972 in order to include specific dates of submission of annual reports to the parent Ministry and to the National Assembly.

Recommendation 6: A separate code of corporate governance and relevant enabling legislation must be established for statutory bodies and all other non-departmental (i.e. except ministries) taxpayer funded bodies, which are not already subject to the code of corporate governance as a result of their existing legal or regulated status (i.e. public companies, banks, listed companies etc). Exceptions will only apply to small state-owned institutions with a defined threshold based on annual budgetary allocations.

Notwithstanding Recommendation 5, it is also clear that a political decision must be made on the nature of the relationships between parent Ministries and statutory bodies. In spite of the guidance issued in 2006, there remains a significant applicability issue for the category of institutions referred to as state-owned enterprises. The definitional issues in the code have been discussed already but the issue appears more fundamental for a category of statutory bodies that are under the direct control of parent ministries and whose board composition is specified by the legislation and in most cases decided by the relevant Minister. For instance therefore, the very notion of an INED (as defined in the code) appears to be an antithesis to a board of a statutory body.

However, at the same time, statutory bodies already have a clear mandate set out in the law and as a result, such institutions could operate independently in pursuance of their mandate and of the overall targets/objectives set out by the parent Ministry. In other words, we would recommend a distancing of the relationship between government and statutory bodies whilst keeping in place the relevant accountability system to safeguard taxpayer funds. This could take the form of greater board empowerment rather than 'ministerial' empowerment, in terms of the following:

(a) Ministers would only appoint a defined number of civil servants as directors/board members.
(b) The board chairperson would be a de-facto non-executive board member, whose selection and appointment would be made independently and following an open candidature. The chairperson's terms of reference and contract will specifically address the parameters in which he/she is to operate, particularly in not being allowed to involve himself/ herself in operational matters.
(c) A defined number of INEDs be included on all boards of statutory bodies, whose appointments would be made independently and following an open candidature. These INEDs would be expected to chair the audit, corporate governance and remuneration committees.
(d) The board should also include a defined number of executive directors.

In our opinion, the above would greatly assist in ensuring greater independence and governance of the statutory body, at an "arm's length" of the government, whilst it is still being accountable to the policies, strategies and targets set out by the elected members of government. In our mind, increased independence/governance and higher accountability for statutory bodies are not opposing concepts.

Recommendation 7: A register of persons able and willing to act as Independent Non-Executive Directors (INED) must be established, under the auspices of the Mauritius Institute of Directors (MIoD).

The register would specify the directors' existing related party interests and appointments and his/her current areas of expertise, thereby providing companies with a database of competences and persons who could be then short-listed for selection and appointment. The MIoD could also ensure that a proper continuous professional development (CPD) programmes be implemented for all registered and practicing INEDs and other directors. In our view, this will ensure a structured approach to the access to, and availability of, INEDs and also reinforce the status of INEDs as the main change agent within company boards.

In particular, we argue that many private family-oriented companies may benefit from the input of an 'outsider's' perspective on the business and therefore there could be an incentive for private companies to consider the appointment of the INED if the INED would bring a competence that was not previously available to the board e.g. in legal, financial or technical matters.

Recommendation 8: A forum of best corporate governance practice be set up, again under the auspices of the Mauritius Institute of Directors (MIoD).

Our research has revealed a number of 'best practice' cases relating to board decision-making processes, board committee mandate, the role of INEDs and annual report disclosures. Such knowledge and experiences could be shared - whilst keeping sensitive information confidential - amongst a greater number of companies and directors (particularly with those of large private companies). Our study reveals a significant level of scepticism or indifference amongst directors of companies that have not adopted the code but when prompted, many directors would be willing to consider implementation if tangible benefits could be seen and justified. In many ways, interested parties such as the MIoD must go beyond the abstract and sometimes sterile nature of training seminars and other courses. Experience has shown that these might only emphasise the 'box-ticking' nature of corporate governance implementation without giving enough attention to the deeper organisational change and board empowerment processes. Furthermore, the MIoD could instigate annual corporate governance awards similar to the ones done by PricewaterhouseCoopers for annual reports to further highlight examples of best practice. In addition, the issue of gender representation on company boards could be considered by the MIoD in terms of investigating in more detail the reasons for such poor levels of female representation on boards and in issuing guidance towards encouraging gender balance.

Recommendation 9: Greater access to annual reports

Currently, companies' accounts are by law available at the Registrar but this should not necessarily imply that this is the only route by which an interested party should be able to access the latter. Even for MRC-funded research purposes, we encountered much resistance by some companies to provide annual reports on the grounds that they are 'private' or simply by making it difficult for people to access the information. Hence, we would recommend greater access to annual reports, particularly in providing downloadable versions on company websites. The cost implications would be minimal compared to the printing of hard copy annual reports and in addition, the users' understanding of annual reports could be improved by the use of online glossaries and guidance information on company websites.

In relation to the access and preparation of annual reports, the research team would also recommend for a review of Section 218 (2) of the Companies Act because it seems to encourage both small and large private companies not to produce annual reports if the shareholders unanimously resolve to do so. This section of the Act might be understandably applicable to small private companies but for large private companies, there may be an incentive to use this legal provision to avoid preparing annual reports. Furthermore, the specific case of subsidiaries of multi-national companies may need to be reviewed. The literature usually predicts and finds evidence that multi-national companies have an impact on the disclosure and transparency in developing countries via the practices they 'export' to their subsidiaries. However, in the few cases we have encountered, annual reports of subsidiaries are not prepared in spite of their turnover levels and significant influence in specific economic sectors in Mauritius and this thus reflects negatively in terms of local accountability, disclosure and transparency.

Recommendation 10: CSR practices and accountability must go beyond *ad hoc* (or structured) charitable donations.

There is no doubt that there is a heightened awareness to CSR in corporate Mauritius and the explicit inclusion of CSR in the corporate governance code has certainly contributed to such awareness. Although the emerging strategic CSR process in several public, private and listed companies is more than commendable, it appears to be prominently focused on the financial or logistical support to be provided by the company/group towards projects and activities. The other elements of the company's social responsibility (e.g. environment, health and safety, ethics, employee-related aspects such as fair recruitment practices, and social aspects regarding the promotion of diversity and social harmony) must therefore be developed, adopted where applicable, and disclosed accordingly. Hence, the disclosure of a formal 'social report' would highlight not only statements of intents or aspirations but also targets and achievements made during the year in the various CSR areas. In the absence of this broader and formal social accountability mechanism, it should not come as a surprise to see strong and unchecked feelings of injustice, unfairness, and wealth inequality being stoked across ethnic/religious lines and aimed at private businesses, with interested parties taking advantage of this lack of information and submitting instead their own interpretations of corporate behaviours to support their private agenda.

We therefore recommend that companies (a) consider the development of a more comprehensive CSR strategy that is more aligned to the company's own operations and activities (environmental impact, employee welfare, health and safety, human resources etc), (b) develop a CSR function with a defined policy, budget and integrated with the management structure of the company, (c) formally divorce CSR and public relations (or marketing where applicable) within the company structure to ensure the primacy of purpose for CSR activities and thus dispelling the general notion that CSR is primarily about impression management and not only about *ad hoc* donations, and (d) report these CSR activities in more detail, using for instance the guidance framework published by the Global Reporting Initiative (GRI). In particular, the focus of the CSR disclosures must be on providing the targets set by the company and achievements at the end of each year in the various areas of intervention. In seeking to achieve a better social accountability, we do not necessarily suggest that CSR should be merely reported in the annual reports. Other mechanisms of CSR accountability and performance (apart from websites or other written documents) include the direct communication to, and involvements of, community actors and partners to ensure that all stakeholders can understand, and have feedback on, the CSR activities undertaken by the company

From a broader perspective, we view the essence of these recommendations as a step beyond the initial conceptualisations and current state of corporate governance practices in Mauritius, and which is in fact the current situation in many other developed and developing countries. We view these initial conceptualisations and practices as Corporate Governance 1.0. i.e. in the same way the term has been used to describe developments on the World Wide Web. Hence, we frame our recommendations in the terms of six key features for a developmental and change process towards Corporate Governance 2.0. In our opinion, Corporate Governance 2.0 must reflect clearer definitions and rules within a code, greater acceptance of outsiders' involvement on the board (particularly in non-listed companies) and increased professionalisation of directors (particularly INEDs), clearer disclosures to evidence implementation (or not) of the code, greater (and urgent) accountability and reporting for taxpayer- funded institutions, easy and unfettered access to company annual reports, and finally a structured, coherent and credible engagement with the CSR agenda. Figure 9-2 provides a diagrammatic representation of the six key features of Corporate Governance 2.0 for Mauritius:

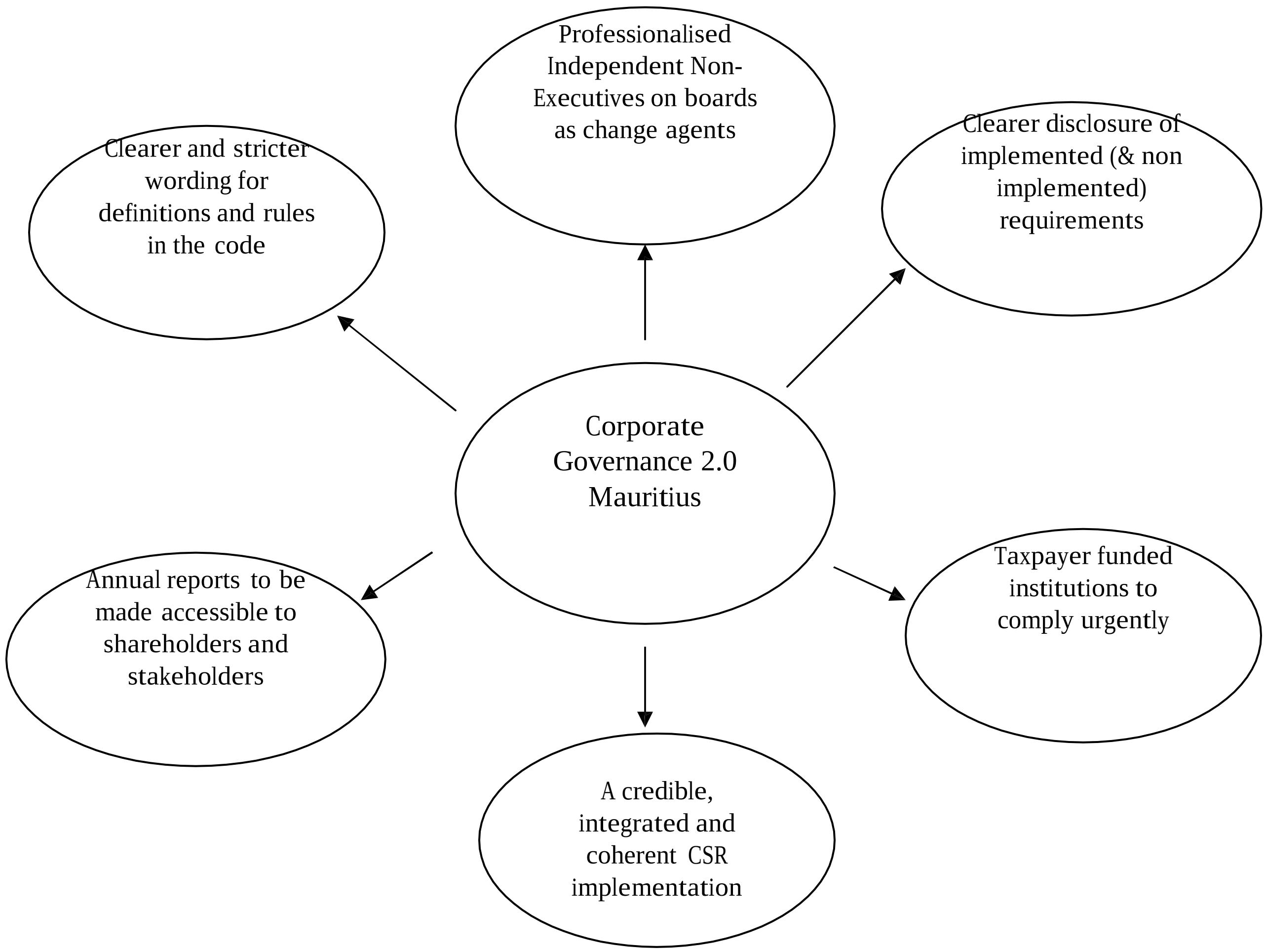

Figure 9.2: The Corporate Governance 2.0 Agenda for Mauritius

As a result of this research and findings thereof, we would be the first to acknowledge that these recommendations and the resulting agenda do represent a tall order for any company, statutory body or government agency (where applicable) to consider. We are however encouraged by the existence of at least some ‘pockets’ of positive findings on the code’s implementation and impact. For instance, there is local expertise and experience amongst existing directors which could be used to further corporate governance developments locally and in our opinion, a ‘critical mass’ of implementation has been achieved insofar as the main requirements of the code are concerned. In a similar vein, some features of ‘strategic’ CSR are already in operation in Mauritius. What we therefore suggest is to build on existing strengths and achievements, to streamline the current barriers to further implementation in order to ensure a more systematic and extensive application of corporate governance principles - thereby ensuring that its positive impact can be transmitted at board, company and societal level.

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Appendix