THE ACCOUNTABILITY AND CORPORATE DISCLOSURE PRACTICES IN TANZANIA.

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TABLE OF CONTENTS:

ABSTRACT.

There is a general agreement that disclosure practices are not random. Yet, knowledge of the factors which they are associated with is far from perfect, particularly in the developing world where the literature in this area is sparse. Developing countries environments are significantly different from the market economies of the west. There is a general lack of effective enforcement system, active stock exchanges and appropriate accounting regulation and training schemes.

In order to study corporate disclosure practices and the factors with which they are associated in Tanzania, a random sample of 58 profit-motivated companies was selected and their CARs obtained. The study focused on the 1986 CARs, although, due to data availability problems, CARs for the years 1985-1987 were examined. The four measures of the quality of corporate disclosure were examined. These are the extent of mandatory disclosures, the extent of voluntary disclosures, the timeliness of these disclosures and type of audit opinions. Two indexes were constructed in order to capture the extent of corporate disclosures. One was based on disclosure requirements as stipulated by the National Board of Accountants and Auditors (NBAA) and the Companies Ordinance. The other evolved from a literature review and was refined through interviews conducted in Tanzania. It contains the items considered desirable given the environment but are not prescribed requirements. The timeliness of disclosure was captured by the period between the end of accounting period and the signing of audit report in months. The five possible types of audit opinion were ranked from one (negative opinion) to five (clean opinion).

It was observed that, in general, the quality of disclosure practices in Tanzania is unsatisfactory. On the average, the extent of mandatory disclosure is only 50.5%.

The average reporting time is 8.1 months, well beyond the legal requirement of six months. It was observed, however, that most CARs receive clean audit reports.

Using Spearman's rank order correlation test, Mann-Whitney test, Kruskal-Wallis test and $\chi 2$-test, it is revealed that:

- While the extent of mandatory information disclosure may be used as a proxy for the extent of voluntary information disclosure and vice versa, it is also necessary to examine the timeliness of disclosures and types of audit opinion if conclusions on quality of corporate disclosures are to be drawn.
- The four measure of quality of corporate information disclosures are associated with different corporate attributes. While types of audit opinion were found to be negatively associated to P/E ratio; timeliness of disclosures were associated jointly to P/T ratio and current ratio, and voluntary disclosures related to asset size and type of accounting firms providing audit services, it was not clear whether timeliness of disclosure is also related jointly to type of corporate governance or type of audit firms. It was also not clear whether the extent of mandatory disclosures is related jointly to type of corporate governance and type of audit firms or just to one of the two factors.

The overall explanation of the observed unsatisfactory disclosure practices resulting from the findings of this study is the failure to stimulate demand for accounting information. While disclosure regulatory approach appropriate only to market economies was adopted in Tanzania, the conditions which make it meaningful were not found in Tanzania. Thus, for example, effective financial press, stock exchange and financial analysts are all lacking. More significantly, It was observed that participants in corporate governance in Tanzania do not base the decisions on accounting information.

CHAPTER ONE.

INTRODUCTION - DISCLOSURE PRACTICES IN TANZANIA.

1.1) THE RESEARCH PROBLEM:

The need for adequate Corporate Annual Reports (CARs) is well recognised and documented in Tanzania (NBAA, 1979; 1983; Mengi, 1985; Msuya, 1985; TAC, 1987). Several attempts were made to improve financial reporting in the country. Significant moves to improve financial reporting in Tanzania began with the establishment of the Tanzania Audit Corporation (TAC) in 1968 and later the National Board of Accountants and Auditors (NBAA) in 1972 by an Act of Parliament. While TAC was established primarily to provide audit services to the state-owned companies (or parastatals as they are commonly referred to in Tanzania), NBAA's primary roles were envisaged to be the promotion of an accounting profession and regulation of accounting practice.

As early as 1976, TAC had reported inadequate reporting practices in the public sector in Tanzania. The major problems reported by TAC were that CARS are not presented on time, they often receive a qualified audit opinion and they lack essential details (see, for example, TAC, 1987).

These reports, according to Senkoro (1988), led to the establishment of a parliamentary standing Committee on Parastatal Organisations (POC) in 1978. The POC's main responsibility is to examine CARs of parastatals and report its findings to the parliament. The general impression POC is presenting is that of dissatisfaction with the corporate disclosure practices in the public sector. TAC's reports were also the basis of the ruling Party's directive on submission of timely CARs in 1978 (Sayore, 1980). The Party directed that all parastatal organisations with their accounts in arrears must update their accounts within a year. It did not define however, what it meant by up-to-date accounts or accounts in arrears.

In 1981, the parliament had to set a time frame within which CARs are to be prepared and submitted to various interested parties in the country because of persistent TAC reports that CARs are not prepared on time. This was done by amending the Companies Ordinance (CAP 212) through (Miscellaneous Amendments) Act No. 22 of 1981 (NBAA, 1989). Subsequent to this, the NBAA stipulated disclosure and other reporting requirements in 1983.

In order to take up the issues raised by TAC, the NBAA organised a conference for accountants and auditors with the objective of adopting an action programme for clearing the accounts in arrears and also to deliberate on possible factors which might have been responsible for the inadequacies of the reported disclosure practices. In the conference, no empirical research paper was presented to highlight the possible causes of the situation. However, Mengi (1985) and Msuya (1985) (both papers based on personal experiences) and the discussions which ensued revealed interesting issues about corporate disclosure practices in Tanzania. Among the factors raised as responsible for the unsatisfactory disclosure practices were:

" * Inadequate training and lack of relevant experience in respect of:

    Board of directors

    Accounting personnel.

* Lack of knowledge and commitment by:

    Board of directors

    General Management

    Accounting personnel.

* Inadequate supervision and control by:

    Parent ministries

Board of directors

financial executives.

* Insufficient supply of trained accounting personnel.
* Possibility that there could be a deliberate suppression of the accounting function to obscure the abuse of corporate powers.
* Weak administrative procedures to cope with:

Decentralised organisations

Accounting routines." (NBAA, 1985 p.3)

The conclusion reached by the conference was that the poor accounting performance reflects the equally poor general management performance of many institutions and corporations.

The deliberations of this conference had interesting implications as well. In particular, it is noteworthy that the regulatory agencies became concerned with the inadequacies of corporate disclosure practices not because of the users expressed concern with a lack of reliable information to facilitate their decisions but instead, because TAC's annual reports were reporting appalling disclosure practices in the parastatals. The seriousness of the inadequate financial reporting should have triggered a series of complaints by the users (banks, shareholders, Registrar of Companies, Price commissioner, Commissioner for Income Tax, etc) but this did not happen precisely because these institutions do not use accounting information in their decision making process. In fact, it was felt that this problem was essentially only a public sector problem because " the Registrar of Companies has not published annual reports, ... like the Tanzania Audit Corporation" (Mengi, 1985; p.3). It was felt that the private companies could not afford to keep their accounts in arrears. Private companies have to submit CARs to the Commissioner of Income Tax (CIT) and pay taxes due in order to obtain a tax clearance certificate. It was also felt that the subsidiaries of Multinational Corporations (MNCs) have to have up-to-date financial statements in order to meet the head office set deadlines.

Having speculated on the possible financial reporting situation in the private sector, the conference called for a study to describe the corporate disclosure practices in the country (including the private sector) in order to confirm whether the observed financial reporting weaknesses were a public sector problem only or a general problem facing all sectors of the economy. The conference also called for a study of factors associated with corporate disclosure practices in the country. This study is a response to that call.

In addition to this call, the picture presented by the international community appears to be totally different from the one presented locally. Thus, international reports by the World Bank, the International Labour Organisation and the United Nations Centre on Transnational Corporation indicate that Tanzania and Zimbabwe are the only independent African countries that keep their accounts books in order (NBAA, 1991 p.44). These views are reinforced by U. N. (1991) which states that Tanzania is among few African countries with advanced regulatory frameworks. In light of these conflicting reports, it may be necessary to undertake a detailed study to investigate the current state of disclosure practices in Tanzania.

In particular, this study investigates two main research questions:

- What are the current disclosure practices in Tanzania ?
- What are the factors associated with these disclosure practices.

1.2) RESEARCH SIGNIFICANCE.

The study intends to extend our knowledge of corporate disclosure practices in Africa. Tanzania may provide a unique environment to undertake such a study. This study is considered to be useful in two main respects. In the first place, Tanzania attempted to evolve its own unique approach to economic development as is discussed in chapter two. In the second place, Tanzania devoted significant efforts in order to develop a regulatory framework and accounting training appropriate to its own environment as discussed in chapter four. As is pointed out in the first section above, these efforts have already placed Tanzania ahead of many African countries in terms of the regulatory framework in place and also in terms of properly kept books of accounts. It may be interesting to find out whether these attempts have impacted on the corporate disclosure practices in the country. Also, comparison of disclosure practices and statutory requirements may reveal inconsistencies, gaps and non-disclosure of corporate information in Tanzania. This may not only reveal the effectiveness of the regulatory process but also provide an insight necessary to suggest improvements in the existing regulatory framework.

But of more significance, the study may extend our understanding of the factors associated with disclosure practices. Corporate attributes have been found elsewhere to be associated with disclosure practices as is discussed in chapter five. This knowledge is, however, far from perfect. Moreover, there is a sparse literature on corporate disclosure practices and the factors with which they are associated in the developing countries in general and Africa, in particular. Developing countries are significantly different from the developed economies of the west. Rampant corruption is reported in many countries, including Tanzania (Chow and Wong-Baren, 1987; Wallace, 1987 and Mwinyi, 1991). In addition, developing countries sometimes import accounting regulation and training without careful consideration of their appropriateness to the local conditions (Briston, 1978 and Briston and Wallace, 1990). Furthermore, Actively trading stock exchange, effective financial press, financial analysts and other such factors which act to induce improved disclosure practices in the western economies are not properly developed in the developing world or have not been instituted at all. In some developing countries, their natural evolution have been thwarted by deliberate government policies and regulations. Improvement in disclosure practices can only be brought about in the developing countries if the factors influencing disclosure practices are known. The knowledge gained may be crucial in further developing and testing theories of corporate information disclosure.

1.3) STRUCTURE OF PRESENTATION:

This study is divided into nine chapters. The next chapter adopts a historical perspective and looks at the development of the Tanzanian socio-economic system right from the pre-colonial period. The Arusha Declaration as a strategy for socio-economic development had an impact on both corporate governance and attitudes towards corporate information disclosures in Tanzania. Yet the strategy was a move to re-introduce the pre-colonial socio-economic system. The colonial period had a permanent legacy in Tanzania. The Companies Ordinance instituted by the colonial government in 1932 is still the major basis of corporate governance in Tanzania. The chapter concludes that the attempts to transform the Tanzanian socio-economic system were not successful. Attempts to introduce reforms in order to create a viable socio-economic system are also discussed in this chapter. Finally, the chapter examines some environmental aspects which may have had an impact on corporate information disclosure in Tanzania.

Chapter three looks at the corporate governance in Tanzania. It defines the concepts and conditions necessary for effective corporate governance in general terms. It is argued that corporate information disclosure is likely to be influenced by the corporate governance framework in general, and the allocation of resources and the compensation system in particular. These aspects are examined with reference to Tanzania and the weaknesses of the Tanzanian system emphasised.

Chapter four dwells on one specific aspect of corporate governance. It examines the regulation of financial reporting in Tanzania. Despite vigorous attempts to introduce disclosure regulation which is appropriate to the unique Tanzanian environment, it is argued that the regulatory approach itself is faulty. One cannot expect disclosure regulations to be appropriate to the intended socialist objectives. Disclosure requirements presuppose the existence of an active stock exchange and many public companies through which investment resources are mobilised. It is argued further that a knowledge of socialist accounting was necessary in order to introduce a regulatory approach which would have been relevant to the socialist objectives. Now that most accountants and regulators are more familiar with the capitalist accounting systems, the challenge facing them is to mobilise public opinion to accept a system they understand and believe in. This, however, is just as difficult as creating a relevant regulatory approach for the socialist objectives.

Chapter five addresses prior empirical research and corporate information disclosure theory. Following the findings reported with respect to other developing countries (Singhvi, 1967; 1968; Chow and Wong-Boren, 1987 and Wallace, 1987), the major hypothesis for this study is developed namely that corporate disclosure practices are associated with specific corporate attributes.

Chapter six and seven present the research activities and procedures undertaken in order to draw conclusions on corporate disclosure practices and factors with which they are associated. While chapter six defines research questions; sets-out the hypotheses to be tested; sample design and implementation, and defines explanatory variables, how they were captured, the nature of their distribution and the relationship among them, chapter seven focuses on the dependent variables and disclosure practices in Tanzania.

It is argued in chapter seven that conclusions on the quality of disclosure practices in a country cannot be based on the analysis of the extent of information disclosure alone. There is a need to examine also the timeliness of these disclosures and the professional audit opinion given on the disclosures. This argument is particularly valid for developing countries where little is known about disclosure practices and they are also known to have severely limited capacity to enforce regulatory requirements (Chow and Wong-Baren, 1987; Wallace, 1987). This chapter also defines and discusses how the four variables were measured and captured. The chapter finally examines disclosure practices in Tanzania and attempts to compare the findings of this study to results found in other developing countries.

Chapter eight presents the findings regarding the factors associated with corporate information disclosures in Tanzania. Chapter nine summarises the major findings of this study and draws conclusions regarding the implications of the findings. It is argued that the observed unsatisfactory disclosure practices have resulted from the failure to stimulate demand for accounting information.

CHAPTER TWO.

THE TANZANIAN SOCIO-ECONOMIC SYSTEM: A HISTORICAL PERSPECTIVE.

2.1) INTRODUCTION.

The objective of this chapter is to examine the socio-economic system of Tanzania. The chapter has taken a broad perspective in order to highlight the policies and institutional changes that have shaped the existing economic system and regulatory framework in Tanzania. This is necessary as no meaningful study can be undertaken on corporate accountability and information disclosure without relating it to the socio-economic system of a given society and its historical experiences (Wallace and Briston, 1991; Wallace, 1987; Lee, 1981; Choi and Muller, 1987.).

This chapter is divided into eight sections. The next section traces the transformations Tanzania underwent from the pre-colonial era to independence. This is followed by discussions on developments and factors leading to the adoption of The Arusha Declaration as a strategy for economic development in 1967. Section four examines the Arusha Declaration itself while section five questions the likelihood of this strategy being implemented. The actual implementation of this strategy is then examined in order to pave the way for a discussion of the existing socio-economic system on which this study is based.

2.2) HISTORICAL SETTING:

2.2.1) Pre-Colonial Period.

What today constitutes Tanzania was divided into chiefdoms and tribal groupings in the pre-colonial era. The dominant productive system was the village community - a pre-capitalist mode of production. The purpose of work was not accumulation of wealth. Rather people laboured to maintain themselves and their families as well as the communal body (village) as a whole. Production relations were intimate with participants sharing a multitude of social ties and relations. Work was part of social obligations to kin, friends and even rulers (Kimambo and Temu, 1970; Rweyemamu, 1973; Rodney, 1973).

The major features of this mode of production have been summarized by Rweyemamu (1973). First, the small peasant cultivators were not alienated from the land. Each worked on a piece of land which they owned communally. These traditional societies were not class-based. It is not surprising therefore that these peasants behaved not as workers but as owners.

Secondly, the acquisition of the bulk of the means of subsistence did not rely on market exchanges. The system was independent of market forces. Kinship, religion and political organisations are examples of social controls which determined production processes and relations. Social relationships and values were the most important determinants of work organisation. This is in sharp contrast to the capitalist mode of production which was later to be imposed during the colonial period.

Although the village community was the predominant mode of production in the pre-colonial Tanzania, other modes were also observed either in different parts of the country or over time. These included the Pastoral mode, Banana culture and Artisans and Traders (Nyerere, 1968; Kimambo and Temu, 1970; Gray and Birmingham, 1970; Rweyemamu, 1973; and Rodney, 1973)

The major drawback of these pre-colonial modes of production was that the material level of life was extremely low. This resulted from the social organisation which failed to inspire innovation and technical changes which could have raised the societies' production frontier. Small scale operations and the failure of the system to reward innovation were essential ingredients of the village economy which hampered the accumulation of wealth and growth.

However, despite these drawbacks, the pre-colonial economy was viable as a unit. It did not exhibit the tendencies of dependency relations currently prevalent all over Africa. The slave trade which was later to develop and the colonial system may help explain what is currently taking place in Africa.

Rodney (1973), for example, argues that the slave trade deprived the continent of the most active section of the population. Both the slave trade and the colonial system undermined the traditional economy and thereby thwarted its natural development and transformation. Their psychological effects deprived the Africans of their self-confidence and is responsible for the formation of attitudes and values which are not conducive to economic development. Moreover, the institutional framework resulting from the colonial system placed Tanzania in a disadvantageous position. These are discussed next.

2.2.2) Colonial Period:

The impact of the colonial period (German 1884-1918 and British 1919 -1961) on the independent Tanzania may be examined by a discussion of four main systems introduced during this period. These are the plantation system, class formation, financial and other infrastructures and the institutional framework.

2.2.2.1) Plantation system:

Germans introduced a number of tropical agricultural products to Tanzania including sisal, for which Tanzania became world famous. Rweyemamu (1973) argued that Tanzania was principally viewed as a source of strategic as opposed to cheap raw materials. It also provided a market and an opportunity for the export of capital and population migration.

The introduction of tropical crops was based on strategic considerations. The USA was, for example, a cheaper source of cotton. But a different source was considered necessary by the Germans as a way of reducing price fluctuations which accompanied the American imports of the time (Rweyemamu, 1973). Of more strategic importance, the Germans wanted to control the source of products which had some military significance. One therefore finds the Germans building up a high cost sisal industry in Tanzania in order to have cordage for the navy from an independent source they controlled. The British were later to encourage this industry when the source of manilla hemp fibre was blocked by the Japanese during the second world war.

The fact that the establishment of the plantation system was not based on comparative cost advantages had serious implications for the economic development of Tanzania. As the strategic importance of Tanzania as a source of these products diminished, the entire sisal industry, for example, started to collapse.

The labour policy adopted by the plantations system is the second aspect whose impact can be traced to the present day Tanzania. It has already been mentioned that labour was not for sale in the pre-colonial societies. Therefore, finding a labour force for the plantations was extremely difficult. Several methods were tried by the colonial government to get the indigenous citizens to sell their labour power. These varied from the use of brutal force to evicting the Africans from the land, barring them from producing certain cash crops, use of tax system (poll tax and hut tax) and attempts to create a market for labour.

All these attempts were not well received among the indigenous Africans. Even the creation of a mechanism whereby labourers were to be paid wages was resisted. Leubuscher (1940) argued that this resistance resulted from the fact that the Africans were unfamiliar with the tasks required of them and therefore unwilling to undertake them. This argument cannot be considered plausible. The resistance was political in nature. The indigenous people were resisting foreign domination. Moreover, the colonial government underestimated the level of wages that would attract the Africans to provide their labour power.

The consequences of the labour policies of the plantation system can be traced to the present day Tanzania and Rweyemamu (1973) has highlighted some of them. First, the failure to attract a labour force meant that capital intensive techniques were preferred. There is evidence to prove this. For example, while the estate coffee output increased by 200% between 1945 and 1960, the labour employed by these estates increased by only 33%. At independence wage rates increased. However, rather than this change leading to more employment as more people were now willing to work, it led to employers continuing to increase their capital intensity and so reduced employment opportunities even further. This led to further unemployment problems which forced the government to resort back to a low wage regime in 1966.

Secondly, the cheap labour policy pursued during this period led to the perpetuation of unskilled labour which is still evident today. It has also meant that the few skilled workers have not been effective as is discussed later in chapter four.

Lastly, capital, entrepreneurs and managers for the plantation system came from abroad. This is considered a positive aspect in the sense that the missing factors of production were imported. The problem with this approach is that all secondary effects are felt in the country where the missing factors are coming from. (cumulative additional income, employment, capital, technical knowledge, external economies of scale). Since the resource use is determined by the economic interest of the owners, perceptions of investment opportunities became biased in favour of the metropolitan economies. Inter-sectoral linkages have remained weak to date. The entrepreneurial and management capabilities of the country are limited to date. Much of the savings and investment potentials are depleted by outflows of factor payments such as interest payments to financiers and dividends to shareholders.

2.2.2.2) Class Formation:

The colonial system brought with it class differences among the population. There were separate residential areas for various racial communities, different schools, hospitals, social clubs, etc. As Nyerere (1971, p.3) put it "----the entire political, economic and social structure was based on race. African workers in both private and public sectors got less pay for doing the same job than an Asian worker, who himself got less than a European ".

The education system introduced also produced a salaried African class although most of them held inferior positions. The introduction of chiefs brought a group of individuals with higher official salaries and preferential treatment in all spheres of life. Finally, the system encouraged individualistic holdings, gradually eroding the fundamental features of communal land tenure and started to create the landless peasants.

If there is one thing the first leadership after independence was so concerned with, it was the class formation during the colonial period. It appears that 'Ujamaa'[1], which is the official policy of Tanzania, emerged as an attempt to eradicate the evils of the colonial system by returning to the old communal African societies.

2.2.2.3) Financial and other Infrastructures:

Banks and other financial intermediaries were set up to transfer resources from the periphery to the metropolis. During the British colonial period, for example, the East Africa Currency Board (EACB), with headquarters in London, acted as a central bank to the three East African countries. The East African shilling was freely convertible to the pound sterling. It was backed by 100% reserve in pound sterling. The reserves were financed by proceeds from these countries' exports. Moreover, commercial banks were required to invest at least two-thirds of their deposits in London. Insurance companies invested most of their insurance income abroad and carried an excessive reinsurance (with overseas companies) programme (Rweyemamu, 1973).

This arrangement has been criticised by Tanzanian politicians and academics alike: Nyerere (1971) and Nsekela (1978) argue that this arrangement transferred important decisions to foreigners. Governments in East Africa had no control whatsoever over their monetary policies. Rweyemamu (1973) pointed out that this arrangement had a high opportunity cost in terms of lost imports as a result of the requirement that amounts equivalent to shillings in circulation must be held in pound sterling reserves in London. Kahama et al. (1986) stated that the

[1] literally translated as familyhood.

arrangement subjected the expansion of the East African market to its ability to export and deprived these countries of the dearly needed funds for investment.

Much as these arguments are valid it is fair to say that the backing of the shilling by equivalent reserves in pound sterling instituted some discipline in the management of the Tanzanian economy. This arrangement ensured a self-policing system in managing the economy.

2.2.2.4) Institutional Framework:

The basic institutions of trade were established with the metropolis. A network of oligopolistic firms were established which were mainly branches or subsidiaries of multinational corporations (MNCs) with their headquarters in Nairobi[2] rather than Dar Es Salaam. Although companies ordinance (CAP 212) was introduced as early as 1932, no serious efforts were made to establish or incorporate domestic companies.

As pointed out by Rweyemamu (1973), the essence of the development of the underdevelopment instituted during this period was not the formal political link with the colonial powers. Its essence lies in the economic links. The attainment of political independence was therefore considered to be inadequate to alter the major aspects of this development. Colonization destroyed Tanzania's rural industry and crafts without substituting domestic capital goods for them. It created a dependency relationship between the colony and the mother country. It created dependency on foreign entrepreneurs, foreign markets, foreign capital and foreign technology. The Tanzanian leadership of the time argued that this relationship is self-reinforcing

[2]Kenya was a British Colony while Tanganyika was a U. N. trusteeship territory under the British supervision. Kenya was therefore considered to be more of a permanent home. By the time of independence, Kenya had a far better developed infrastructure, which acted to perpetuate the situation.

in the absence of deliberate efforts to change the entire system that produces it. It was this realization which led to the adoption of Arusha Declaration in 1967.

2.3) THE ROAD TO THE ARUSHA DECLARATION:

In the early years of independence, it was assumed that the major impetus to growth in the economy would come from the foreign sector. International trade was believed to provide easily collectable revenue to the government. International private capital was expected to easily flow in if the right conditions existed. Indeed, traces of attempts by the independent government to bring about economic development in the three year Development plan (1961-63) and the first five year Development plan (1964-69) revealed that the aims of the time were to transform traditional agricultural methods by introducing capital intensive modern farming to the peasant farms, transform the economic structure by introducing import substitution industries and to provide some socio-economic infrastructure. The bulk of funds required to finance these plans were expected to come from the foreign sector, in the form of private capital, foreign government loans and grants or by taxing foreign trade. This assumption ignored many dangers as the subsequent events were to show. In the first place, it ignored the possibility of antagonistic contradictions between Tanzania's national interests and those of international capital. Much as tax incentives, relatively cheap labour, legal assurance against nationalization of foreign investment and the like are factors which could attract investors, they probably remained sceptical of the political risks involved. The possible intentions of the nationalist leadership and their ambitions vis-a-vis the capacity of the economy to transform the socio-economic system and improve the standard of living of the masses could send a clear signal regarding the magnitude of the political risks involved.

Secondly, the existence of a developed and expanding industrial structure is one key factor in inviting international capital. The existence of a market and the inputs required for the various production processes are important considerations for investment decisions. A well developed and integrated transport system would add to smooth operations. In this regard, Tanzania was the least developed relative to her neighbours. Leaving industrial location to market forces saw very few plants being located in Tanzania.

In the third place, although the strategy assumed international capital would flow in, appropriate efforts were not made to mobilize it. We now know the importance of a stock exchange in mobilizing both domestic and international capital. Baumol (1965) pointed out specific features which make a stock exchange a suitable resource mobilizer:

a) it offers a simple mechanism for the transfer of funds which encourages investors to participate in the market. This simplicity enables individuals to finance long term investments even though most of them would like to commit their funds for only a short period of time.

b) it permits companies to have access to a large number of investors scattered over the world. When share prices are quoted publicly, the overseas investors can gauge the level of local and international confidence in a particular company and the economy as a whole.

c) it appraises financial condition and future prospects of the company in need of funds. The price of its securities and the magnitude of its price movements are clear indicators of the risk-return relationship involved.

d) it offers guidance to management through the cost of capital. This cost of capital determines the level of investment appropriate for a company.

Despite these propounded advantages, no attempts were made to establish a stock exchange. Instead, the National Development Corporation (NDC) was incorporated to encourage foreign investment through identifying feasible projects and inviting foreign investors to join in as partners in joint ventures. Even the importance of the Accountancy profession and information disclosure was not recognized. This is evidenced by the lack of significant efforts to promote this profession prior to the creation of NBAA in 1973 as is discussed in chapter five.

Fourthly, the leadership seemed to have ignored the fact that economics and politics are inseparable. The foreign policy adopted, for example, influences not only the amount of international private capital or government loans flowing in, but also the type of investments. Experience has shown that foreign policy must be in line with the overall strategy for economic development. The events which were to happen in 1964 and after, made this point very clear.

In 1964 and 1965 there were army mutiny in Tanzania (necessitating the use of the British troops); the union with Zanzibar (Tanganyika united with Zanzibar in 1964 to form the United Republic of Tanzania); substantial contacts with socialist countries and the allegation that the Central Intelligence Agency (CIA) was attempting to overthrow the government of Tanzania. In all these events the Tanzanian leadership of the time believed it acted in the best interests of the country. In the aftermath of these events, the events that were to follow clearly showed that the west felt otherwise:

-There was a capital flight of about Tshs 290 million in 1965. This was a significant amount given that the entire capital formation for the year 1964 was only Tshs 603 million (Rweyemamu, 1973).

-Sisal (the main cash crop of the time) was no longer of any strategic importance. Its price dropped from Tshs 2094 per ton in 1964 to Tshs

1507 per ton in 1965. This was happening when the country's import price index was rising (a rise of 14% between 1963 and 1965).

-When West Germany invoked the 'Hallstein Doctrine'[3] in 1964, Tanzania rejected all its economic assistance.

-The breaking of diplomatic relations with Britain over Rhodesia's unilateral declaration of independence also meant Tanzania lost some promised loans.

These events made it apparent that there was a contradiction between Tanzania's national interests and those of the West and therefore contradictions between national interests and those of international capital.

As international funds became increasingly insufficient to finance the First Five Year Development Plan (FFYDP) launched in July 1964, it became necessary to augment the available external funds with a larger proportion of domestic resources. Yet in an attempt to borrow domestically, the inadequacies of the inherited institutional framework for domestic borrowing became obvious (Binhammer, 1975). We then see the leadership's desire to control the economy being translated into its control of the important economic institutions of the country.

Much as these international factors prompted the Arusha Declaration, domestic events also contributed. It has already been pointed out that the early days of independence saw the laissez faire approach to economic development. During

[3] West Germany considered East Germany to be part of its territory. GDR had diplomatic relations with Zanzibar. Union with Zanzibar meant that Tanzania had to establish diplomatic relations with the GDR, thereby recognising it as an independent state. West Germany threatened to withdraw all its economic assistance to Tanzania if it established diplomatic relations with the GDR. The leadership reacted by telling the Germans to withdraw their assistance if it meant that by assisting Tanzania they also had a right to choose her friends.

this initial period, the leadership was mainly concerned with restoring the lost African dignity and consolidating political power without excessive intervention into economic processes. The approach taken to achieve these objectives included:

-the outlawing of all discriminatory laws and practices.

-the Africanisation programme.

-the elimination of the other centres of power through constitutional changes and bringing the trade unions under tight government control.

By 1965, Tanzania was a republic and a one party state. All trade union movements were outlawed and the National Union of Tanganyika workers (NUTA),whose Secretary-general is appointed by the President of the United Republic of Tanzania, was set-up.

By 1966, it was obvious that the economy was not developing as anticipated and therefore the strategy was not working. The planning adopted in Tanzania was an indicative sort of planning - like the French plans. Co-operation between the public and private sectors was anticipated to follow automatically. Unfortunately for Tanzania, the private sector was not co-operating.

In constant prices, the income per capita was expected to grow at 6.7% p.a. By 1966 it was discovered that it was growing at 4.8% p.a. It was also expected that 78% of the finances required to execute the FFYDP would come from international sources, 14% was expected from domestic borrowing and 8% from taxation. 1966 statistics revealed that only 20% came from the international sources. The bulk of the required finances were mobilized domestically. The statistics also showed that Tanzania was a net capital exporter (Nyerere, 1970 and ILO, 1978).

Secondly, it was apparent to the leadership that their aspiration for the return of the traditional communal values were not taking place. Sectoral differences began to emerge. Wage earners acquired the lion's share of the increase in real output.

Between 1961 and 1966 wage rates rose by 80% while prices went up by only 11%. The increase was not shared equally by the wage earners. Workers in the branches or subsidiaries of the MNC had a minimum wage of Tshs 330, while other employees had obtained only half that amount. The senior civil servants and managers had inherited "the European" salary structure which was incomparable to what the other workers were earning. Nyerere (1971) argued that these elites also had access to credit facilities and technical advice which enabled them to enter into property-earning activities such as building houses for renting and buying shares in private companies.

The climax of the emergence of the class society was reached when the university students refused to attend the compulsory national service training in 1966. The refusal was interpreted by the politicians as a signal of the elites' failure to identify themselves with the course of the masses of the peasants and workers and a further manifestation of the already existing income gap between the rural and the urban sectors and between different parts and sections of the Tanzanian society. It was time some action was taken to reverse the situation (Nyerere, 1971).

The fear was intensified by the events taking place elsewhere in Africa. 1966 was a particularly bad year for the continent. Many civilian governments (e.g. Ghana, Nigeria) witnessed a series of coups. It has been argued that this was due to the politicians failure to respond to popular demands (Mwansasu and Pratt, 1979 p.8). The Tanzanian leadership of the time had to find ways of drawing itself closer to the people.

These events made the politicians aware of the inadequacies of the political and economic development strategy adopted at independence. The strategy was unlikely to lead towards a self-sustaining and self-generating economy. It was leading to a class-based society with the majority being exploited for the benefits of the few. Most critical economic decisions were made outside the country. The government had no control over credit and monetary policies. It was necessary to reverse this situation. It is in these ways that one can explain the emergence of the Arusha Declaration.

2.4) THE ARUSHA DECLARATION:

The ruling party - Tanganyika African National Union (TANU) - met at Arusha to define the social, economic and political strategy to be adopted in the light of the inadequacies and weaknesses as observed above. On 5th February, 1967, the party resolved that:

> "A poor country cannot rely on financial resources as a major instrument for development. It is stupid to think that foreign assistance will rid ourselves of our poverty. These (sic) assistance are not available in any significant quantity. Even if the financial assistance were available, their use might jeopardise the country's political and economic independence.
>
> It is equally a mistake to think that development begins with industries. We do not have the necessary means to establish modern industries. We lack technical know-how and the required financial resources. Agriculture must be emphasized if any success in transforming our economy is to be achieved" (Nyerere, 1968 p. 157).

The party emphasized that the economic development of Tanzania must primarily rely on national efforts and must depend on the internal mobilization of resources. Two basic principles were declared: Socialism and self-reliance.

Socialism in the Tanzanian context meant that a classless society must be created. Exploitation of man by man was not to be allowed to continue. The major means of production were to be owned communally through the government. It also meant that the people of Tanzania must participate in all important decisions. The declaration therefore called for a genuine political and economic democracy.

Self-reliance meant that the economic development of the country must depend primarily on internal resources. The people of Tanzania must control the economy of the country. To be able to transform the economy, four crucial factors were emphasized: the people, the land, good policies and good leadership.

The question of good leadership was so central to the whole strategy adopted that a leadership code was laid down. This code defined who the leaders are and the conditions which they are expected to fulfil. The leaders were defined to include all members of TANU, ministers, members of parliament, senior officials of the organizations affiliated to TANU, senior officials of the parastatal organizations, all those elected or appointed under any clause of TANU constitution, councillors and civil servants in high and middle cadres. The members of their families were also considered to be leaders and were bound by conditions laid down in the leadership code.

Five conditions were specified by the leadership code. In the first place, leaders ought to be peasants or workers and should not be associated with any capitalist or feudalist practices. Secondly, leaders ought not to own shares in capitalist enterprises. Thirdly, leaders ought not to hold directorships in any privately owned enterprises. Fourthly, leaders ought not to receive two or more salaries. Lastly, leaders ought not to own houses which they rent to others or any other revenue earning property.

Following the inauguration of this declaration, the main eight milling firms, the eight major export-import trading firms and all insurance companies were nationalized. The government made a compulsory acquisition of a controlling interest in the seven main industrial firms and the sisal estates. These measures were, however, not accompanied by a qualitative change in the way these firms were run. The government entered into management agreements with the former owners to continue managing the nationalized companies.

In an endeavour to integrate the newly declared socio-economic transformation strategy, the leadership came up with three other policy initiatives between March 1967 and February 1971. The first policy was on the education system. It was intended to transform the education system to serve the needs of Tanzanian society and its socio-economic objectives. It directed that primary school education should be complete in itself (as opposed to being a preparatory stage for secondary school education). It also directed that the curriculum be changed to ensure that the skills and values developed would encourage the development of proud, independent and free citizens and would be appropriate for the necessary economic transformation.

The second policy initiative was concerned with rural transformation. It earmarked Ujamaa (familyhood) as a basic unit of production in the rural areas and favoured a co-operative production approach. It, however, adopted a voluntary approach and thus introduced discriminatory assistance to peasants opting out of the individualistic system in favour of the villagisation programme. The villagisation process was expected to facilitate the provision of educational and health services and other social services to the whole country. It was also expected that moving people together into these villages would enable the government to improve the organization of productive activities so that the individual villages were better placed to enjoy economies of scale, technological dissemination and more efficient use of inputs. By 1973, it was estimated that only two million, out of a population of about seventeen million people, had actually moved into the villages. The voluntary approach to villagisation was abandoned. It became compulsory, for everybody in the countryside to move into the villages.

The third initiative was the "Mwongozo" guide-lines of 1971. The guide-lines were intended to introduce socialist relations of production. It was intended to create new attitudes and practices more conducive to public participation in all decision making processes and workers participation in management. Unfortunately, like the Arusha Declaration itself, the guide-lines prescribed what ought not to be done and failed as a guide to managers as to what sort of behaviour was expected from them.

The major features of the Arusha Declaration can now be summarised. First, this Declaration emphasised the need to build a self-sustaining economy. It expected economic development to depend primarily on the mobilisation of domestic resources. Secondly, it emphasised the need to own the major means of production communally through the government. Contrast this with the pre-colonial period where they were owned communally through the village communities and the colonial system which emphasised private property. While in transit to 'Ujamaa', private property was to be tolerated and even encouraged. The government intended to invite in foreign capital and technology through private property and joint ventures. Lastly, the Arusha Declaration aimed at creating an environment which would be conducive to the development of socialist values. It called for the democratic participation of the public in all matters of national interest and a society of equals regardless of ones' race, beliefs or sex.

2.5) THE FEASIBILTY OF THE ARUSHA DECLARATION: SOME THEORETICAL CONSIDERATIONS.

By proclaiming ' Ujamaa', the leadership opted for the restitution of the egalitarian and humanistic principles of traditional African societies. It has been pointed out that the observed production relations in traditional African societies were necessary consequences of a specific mode of production (Rweyemamu 1973)[4]. When a closed society has a plentiful supply of resources and there is no production for exchange, there would be little pressure for social differentiation. Changing from subsistence production to commodity production inevitably leads to changes in production relations. Indeed, some social differentiation had began to emerge even before the coming of the colonial era (Rodney, 1973; Kimambo and Temu, 1970). The colonial division of labour, colonial political power and colonial capital not only frustrated and distorted the natural development of traditional African societies, but also introduced some basic elements of the capitalist mode of production. Opting for a socio-economic development strategy which aims at a return to the traditional African way of life is ignoring the history of Tanzanians as a people and is not likely to succeed. It is just like attempting to turn the clock back several decades.

The second important question is the likelihood that this strategy would be implemented. There are three basic issues which were likely to make its implementation almost impossible. The first is that the success of this strategy would not only directly affect the interest of the world powers, but would have set a precedent for others to follow. As the London Sunday Times remarked; "if

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[4]The conventional chronology accepted by most scholars is that societies undergo fundamental transition from peasant, feudal society to capitalist and finally communism. Even medieval Europe was a society rooted in the stable norms of kinship and the village community. This gave way to an impersonal, fragmented and changing world characterised by market, urbanisation and, eventually, industrialisation.

Tanzania gets away with this, there are going to be tremendous repercussions all over Africa" (quoted from Temu, 1967 p.41). The economic development of Tanzania, and indeed the third world in general, will automatically change the power structure of the world. It is unlikely that this can be allowed to happen.

The second issue which casts doubt on its viability is that its formulation was neither backed by research nor proceeded by intensive and extensive public debate on the strategy. It is ironical that the document that calls for democratic participation by the public on all issues of national interest was not itself adopted in the manner it calls for. Mwansasu (1979) argued that even the National Executive Committee (NEC) of the ruling Party did not have prior knowledge of the agenda to adopt the Arusha Declaration as a development strategy. Its acceptance as a development strategy depended so much on the convincing power of the leadership of the time. This is a relevant point given that it lacked any reference point in history. It rejected both tyrannical approaches of Marxian thinking and the market incentives of the west. The western corporate accountability system is based on the market system while the eastern system is based on the central plan (this is developed further in the next chapter). The Arusha Declaration rejected both without introducing a working substitute.

Lastly, the strategy cut deeply into the interests and privileges of the very people who were supposed to implement it. It is doubtful whether a significant proportion of the population was really committed to this strategy. As Nyerere (1977 p.22) himself was quick to point out: "...the Party leaders have been known to break the leadership code as soon as they cease to be leaders. This shows that they just wanted to hold office; they were not believers in 'Ujamaa' ". Clearly, if there is one major weakness of the Arusha Declaration as a strategy for economic development, it is its failure to realise that the two objectives- the need for economic development and the need for an egalitarian society- are in contradiction. It failed to realise the importance of rewarding hard work and initiative and penalising laziness. The appropriate socialist economic development ought to have recognised each individual's contribution in distributing the national cake. It has to adhere to a long standing socialist dictum, "from each according to his ability, and to each according to his contribution" (Seidman 1972)[5]. At this stage of economic development, equality should have been interpreted to mean that all citizens stand an equal chance of accessing the opportunities available. Beyond this, everybody's contribution has to be taken into account in distributing the cake.

2.6) IMPLEMENTATION OF THE ARUSHA DECLARATION: THE FINANCING SYSTEM.

The Arusha Declaration created an institutional framework through which financial resources could be mobilized and channelled to where they are needed. The nationalised financial institutions and the newly created organizations were expected to perform this function. The institutions in question are the Bank of Tanzania (BOT); the National Bank of Commerce (NBC); the Peoples Bank of Zanzibar (PBZ); the Development Finance Banks; Pension Funds; the National Insurance Corporation (NIC); Holding Corporations and even Subsidiary Companies.

The Bank of Tanzania is the central bank of Tanzania. Its central banking functions include issuance of currency, holding foreign exchange reserves, operating a foreign exchange control system, regulating the domestic monetary system and banker to the government and other banks. BOT also assists other financial institutions in financing specific sectors of the economy. It has established a Rural

[5]According to Marxian thinking, distribution according to ones' need is achieved at the highest stage of economic development-Communism.

Finance Fund from its profits with a view to financing long term loans to the rural areas. It also guarantees loans offered to the rural sector and purchases debentures, bonds and other negotiable instruments offered by firms involved in financing the rural sector. It also subscribes to shares of banks and other financial institutions.

BOT has several options it can use to regulate the monetary system in the country. It may impose reserves and liquidity requirements on commercial banks. It may also opt for open market operations, direct instruments and interest rate policies. However, for quite sometime, it was assumed that successful mobilization of funds depended primarily on the extension and improvement of commercial banking services since foreign exchange controls were in place. Interest rates were deliberately kept below economic rates (Kimei, 1987). By 1983, it was clear that this strategy was not working as people preferred keeping their money outside the banking system because of low interest rates.

For quite sometime, the NBC and the PBZ were the only two banks allowed to offer commercial banking services. They extend their services to both public and private sectors of the economy. They also invest directly in equity shares of companies in Tanzania although loan capital is the preferred form of financing in the country (Rweyemamu, 1973; Sanare, 1986).

In theory, at least, banks have complete discretion in making their banking decisions. They are only subjected to the constraints imposed by the central bank. The act incorporating the NBC, for example, requires the use of the best commercial practice in making credit decisions. This has been interpreted to mean that the bank must minimize risks for any given level of returns (Nsekela, 1986).

Kahama et al (1986), reported that the NBC would like to establish the level of risks involved before extending credit. They focus on the viability of the proposed projects and the efficiency with which the potential debtor firm is managed. Rwegasira (1978) conducted research in order to diagnose and appraise the precise way in which financial statements' information is put to use by the banker. He concluded that CARs played a significant role in banking decisions. For the private sector firms, credit applications must be supported with acceptable collateral. This is not a normal requirement for the public sector firms. For parastatals, the demand for collateral depends on the extent of private sector participation in the parastatal seeking financial accommodation. Where a parastatal has extensively borrowed from the private sector or there is significant private sector participation in its equity, demands similar to the ones required of the private sector firms are imposed on such a parastatal (Nsekela, 1978). The public sector therefore receives, at least in theory, some preferential treatment in the resource allocation process.

There are also specialised banks which mainly deal with channelling financial resources to their area of speciality. These are Tanzania Investment Bank (TIB), Co-operative and Rural Development Bank (CRDB), and Tanzania Housing Bank (THB). Specialization was considered necessary to enable these financial institutions to acquire specialized knowledge in their area of speciality. This may be valuable in evaluating, coordinating, and supervising the use of financial resources in their area of competence.

These are the main institutions envisaged by the Arusha Declaration as the main part of the financing system in Tanzania. Although private sector institutions were not promoted, they continued to play a significant role in the economic life of the country. For example, in 1986, the private sector contributed 80% of the GDP. Some private sector financial institutions have continued to play a significant part in the financing system of the country (Kimei, 1987). These are Tanganyika Development Finance Company Ltd. (TDFL), East Africa Development Bank

(EADB), Industrial Promotion Services (IPS) and Diamond Jubilee Investment Trust.

2.7). ECONOMIC REFORMS;

The Arusha Declaration formed the basis of the Tanzanian socio-economic system for sometime. To enforce the Declaration several agencies were formed to regulate the economic framework. These are discussed in chapter three and four. In this section, some achievements of the Declaration are highlighted and the reforms undertaken to make the Tanzanian economic system feasible are discussed.

In the early years of the Declaration, there were tremendous successes. The nationalisations enabled the government to retain the generated profits within the country. Most nationalised enterprises were very profitable given the cartel arrangements in place at the time. The government was able to pay the required compensation from the profits of the initial few years. It was surprising however, that the Declaration attracted more international capital instead of turning it away. Coulson (1982) has argued that this phenomenon was due to the Tanzanian leadership's bargaining ability and the country's ability to write-up what appeared to be feasible projects. A more plausible explanation, however, is the one given by Okoko (1987). He observed that the apparent inflow of foreign capital and assistance after the Declaration was intended to merge the Tanzanian economy further into the world economic system and thus pre-empt the creation of a socialist and self-reliant Tanzania.

However, the implementation of this strategy proved to be very difficult. The Declaration is well researched and it is generally believed that it has failed in its objective of transforming Tanzania into a socialist and self-reliant state. Several reasons for this failure have also been pointed out (Coulson, 1979 and 1982; Hyden, 1983; Chachage, 1986; Kahama,et al, 1986; Okoko, 1987 and Maliyamkono and Bagachwa, 1990).

By 1979[6], the distress in the Tanzania economy was clearly visible. The signs of this distress ranged from the absence of consumer goods in the shops, most companies operating at 10-20% of their operating capacity, to the many illegal activities taking place. Examples of the activities considered illegal were smuggling foreign currency out of the country, smuggling goods which could readily be sold abroad such as cattle, gold, ploughs, medicine, radio sets and batteries. There also arose a class of people which bought large quantities of whatever the shops could offer, stored them and therefore exacerbated the situation and later sold them at exorbitant prices. Government leaders and parastatal managers also participated in these activities (Maliyamkono and Bagachwa, 1990).

This situation prompted the parliament to enact the Economic and Organised Crime Control Act (1983). This Act defined economic offences to include foreign exchange control offences; bribery and corruption; hoarding of commodities; hoarding of money; leading organised crime; fraudulent schemes; wild life poaching; theft of public property, etc.

Despite the adoption of this Act and subsequent trial of several suspected individuals, it was clear to the Tanzanian leadership that it was no longer able to control economic activities through bureaucratic procedures. These administrative controls were leading to the expansion of the second market (Maliyamkono and Bagachwa, 1990). This was the beginning of the many economic liberalisations and reforms which were to follow.

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[6] It should be remembered that Tanzania was at war with Uganda at this time.

The first reform was called the Structural Adjustment Programme (SAP). It was expected to last for three years from 1985. It aimed at restoring the national output to the pre-1978 level, improving the public sector finances, reducing inflation, improving the national balance of payments, restructuring the economic activities through a system of incentives and prices, improving capacity utilisation and labour productivity and institute effective budgeting and monitoring in the public sector.

These objectives were to be achieved through the removal of inter-regional trade barriers, abolishing price controls on all agricultural products, reducing the number of items whose prices are controlled and abolishing crop export taxes. The programme assumed that there would be foreign capital inflow which never materialised. This undermined the whole programme and led to the adoption of the second reform programme.

The second reform was named the Economic Recovery Programme (ERP). In addition to objectives set by SAP, ERP also aimed at producing more food and cash crops and improving the marketing structures. The additional measures the programme introduced included the devaluation of the Tanzanian shilling, further liberalisation of trade and the reduction of government budget deficits.

The over-valued shilling was leading to foreign currency being smuggled out of the country, depressed producer prices and pricing Tanzanian exports out of the foreign markets. The shilling was therefore devalued from 9.52 shs to a U. S. $ in 1982 to 16.50 in 1985; 40.43 in 1986 and 119 in 1988. The interest rates also rose from 7.5% in 1985 to 24% in 1987 and 29% in 1988[7]. Although it cannot be said that Tanzania has a well established and functioning financial markets, the enactment

[7]Inflation declined from 33.2% in 1985 to 30% in 1987 and 26% in 1988.

of the Investment Promotion Act (1990) provides a basis on which further improvements can be based.

Although Tanzania boasts of uninterrupted history of national unity and tranquillity, the economic performance and growth have not been commensurate with the available economic potential. It is argued that this is due, in part because of foreign exchange constraints and slow growth in the domestic and foreign investments (Planning Commission, 1990). The National Investment Promotion Act,1990 was therefore enacted in order to ensure:

"- Maximum utilization of the nation's natural and other resources;
- Maximize foreign resource inflows through export-oriented activities to complement domestic resources;
- Encourage non-debt-creating foreign investment;
- Achievement of identifiable and substantial foreign exchange savings through efficient import substitution activities;
- Increase in food production;
- Provision of services, or the production of goods, which improve linkages among the various economic sectors;
- Encouraging the transfer of appropriate technology and human resources development, including the enlargement and development of local scientific technological capacity;
- Promotion of balanced and equitable growth throughout the country;
- Enhancement of economic co-operation and development within Eastern and Southern African Sub-region." (Planning Commission, 1990 p. 2)

This Act provide certain incentives for investors in Tanzania, including:
- Tax holiday for the first five years of production.
- Reduced corporate tax rate of 45% instead of the usual 50% after the tax holiday.
- Reduced withholding tax rate of 10% on dividends instead of the usual 20%.

Accordingly, the Investment Promotion Centre (IPC) was established to oversee and ensure effective implementation of the policy. Specific roles for the IPC are specified by Planning Commission (1990, p. 15). These are:

"- The collection, compilation and dissemination of information on investment opportunities in Tanzania;

- Assist, where appropriate , in the identification of local partners for foreign investors;
- Identify and advise potential investors on possible areas of investment and provide them with available feasibility reports and market studies;
- Organise promotional activities such as seminars and exhibitions, both in Tanzania and abroad, in order to stimulate local and foreign investment;
- Liaise with Tanzania Missions abroad in order to publicise Tanzania's investment prospects overseas and to disseminate information on investment opportunities in Tanzania;
- Act as link between local inventors and possible investors or manufacturers;
- Liaise with the similar institution in Zanzibar."

On the basis of this Act, for instance, the Director-General of the Investment Centre can establish a stock exchange if he so wishes.

Trade liberalisation has been undertaken in several ways. The confinement policy whereby the marketing of all consumer items considered 'essential' were done through public sector companies was abolished, import substitution industries have been exposed to 'healthy' competition from imported goods[8], an export to import scheme was introduced and the subsidies reduced and in most cases, given only in exceptional circumstances.

Tanzania has been a high tax country and received massive foreign aid yet the government budgets have remained in perpetual deficits. Attempts to reduce the deficits have been done through increasing the government revenue and cutting down government expenses.

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[8]Most import controls have been removed and prohibitive import duties and sales tax drastically reduced. The maximum import duty and sales tax in 1982 was 500%. Compare that with the current maximum of 40%.

To increase government revenue, efficient tax collection procedures were to be introduced and the tax base was to be expanded because of the expected rise in the level of economic activities which would result from the reforms undertaken and also by taxing economic activities not previously taxed[9]. Expense-cuts are to be effected through the reduction of the over-manned public sector and cutting-down subsidies to the parastatals[10]. The district councils are required to meet some social costs in their areas. The poll tax previously thought to be a colonial tool of humiliation, forcing people to provide their labour power was re-introduced.

The actual implementation of these reforms and the achievements are matters which future research must establish. Maliyamkono and Bagachwa (1990) have highlighted some initial achievements. They have argued that GDP grew at 3.9% (in real terms)[11] in 1986/87; inflation has dropped from 33.3% in 1985 to 29.9% in 1987/88 and 19% in 1989/1990 and the second market, smuggling and widespread tax evasion have been significantly curtailed.

2.8). POSSIBLE ENVIRONMENTAL INFLUENCES ON CORPORATE INFORMATION DISCLOSURE:

The Arusha Declaration discussed above had a variety of influences on many aspects of economic life in Tanzania. It is argued that this declaration had an impact on corporate disclosure practices in Tanzania. This section discusses the likely impact of the environmental aspects on disclosure practices in general and the policy of socialism and self-reliance (the Arusha Declaration) in particular.

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[9]Presidential Commission on Taxation was established. It is possible that at the time of writing, it has already reported to the President. Its recommendations appear not to have been made public yet.

[10]The privatisation of the parastatals is currently a very sensitive political issue. Also,the required ground work which would facilitate privatisation has not been done. However, workers are allowed to buy shares in the parastatal organisations in which they work.

[11]It was negative in 1983.

Although the Tanzania of 1986 was clearly different from the Tanzania the Arusha Declaration intended to create, nevertheless, the political risks such as the possibility for nationalisation, foreign exchange controls, etc were still considerable and this was bound to mould corporate attitudes toward information disclosure, particularly in the private sector. For example, because of foreign currency controls, MNCs are likely to resort to practices such as transfer pricing that may enable them to transfer profits to countries where they have ready access to the generated profits. Under the circumstances, such companies are not likely to disclose any information items which might enable the government to see through such practices.

The emphasis that bank loans to the private sector be supported by legal securities, preferential treatment afforded to the public sector, the government guarantees on the parastatal loan capital (Nsekela, 1978) and the tendency towards subsidising some parastatals and offering easy assistance once the companies are facing financial and other problems could easily remove the pressure to prove ones' self and is bound to have some impact on corporate information disclosure. For example, since the the government guarantee loans, the banks do not face risk relating to credit decisions related to the guarantied loans. They, therefore, do not demand information which may enable them to establish the level of risk they might have faced if the government had not guaranteed the loans.

Most administrative controls were already removed or were in the process of being removed by 1986. The effectiveness of price as a resource allocator was appreciated in many circles. The over-valued shilling was already in the process of being devalued so that it reflects better its economic value. Interest rates were on the rise. Subsidies were being removed. Several pillars which previously prevented effective competition were being demolished[12]. However, there may be a time lag between change in policies and the effective implementation of those policies and the ensuing changes in attitude.

The other environmental aspects which are expected to have influenced corporate information disclosures are inflation, foreign exchange controls and the governments dividend policy. Inflation was relatively high. Foreign exchange controls were in place. Dividends declaration and distribution are subject to the approval of the Commissioner of Public Investment. Submission of dividends abroad is subject to the BOTs approval.

The extent of corporate information disclosure may also depend on the entire corporate accountability system, the regulation of financial reporting and the available media of corporate information disclosure. These are discussed in the next two chapters.

[12]A word of caution is appropriate at this juncture. The mere removal of administrative controls would not make the economy competitive. In fact, the removal of administrative controls without introducing competitive structures could lead to even worse situation. The leadership is well aware of this and there are current moves to introduce competitive structures. For example, private investors are now allowed to form private banking institutions.

CHAPTER THREE

CORPORATE GOVERNANCE IN TANZANIA.

3.1). INTRODUCTION:

The objective of this chapter is to describe corporate governance in Tanzania. In light of mechanisms introduced by the Arusha Declaration, it would be inappropriate to assume a competitive market economy like, for example, Singhvi (1967) assumed for India. The factors associated with disclosure practices can only be studied with reference to specific environmental factors. It is therefore necessary to describe the factors which make the system what it is.

The chapter is not designed to facilitate neat quantitative analysis but, rather, it provides some general descriptions and discussions of important issues and draws some salient conclusions. It is divided into seven sections. The next section describes, in general terms, the methods and procedures followed in gathering information about corporate governance in Tanzania. Section three looks at some theoretical concepts while section four investigates self-regulation and the basic framework designed to facilitate it in Tanzania. This is followed by an examination of market factors that are likely to have an impact on corporate governance. It is argued that these factors do not have the expected impact in the environment under study. The chapter then turns to the societal factors and institutions designed to make the system work. Finally, conclusions are drawn on the prominent factors which make the Tanzanian system of corporate governance unique and alternative arrangements are suggested.

3.2) INTERVIEW DESIGN:

This chapter and the next largely resulted from semi-structured interviews and questionnaires conducted and administered in Tanzania. All nine of the most important regulatory agencies in the country, an official in each of three different ministries responsible for monitoring corporate activities of companies responsible to these ministries and eight professional accountants (directors of finance, auditors and bankers) were interviewed.

The three ministries were selected on the basis of their importance in regulating corporate activities in Tanzania. The eight professionals were selected on the basis of their positions and organisations for which they work. The objective was to identify individuals whose experiences gave them a broad view of financial reporting in Tanzania. Thus they included prominent auditors from major accounting firms, bankers and directors of finance from the main holding corporations in the country.

The objectives of the interview were fivefold:

a). to establish their information needs. This was necessary in order to improve the voluntary disclosure index.

b). to establish how they make use of CARs. The attitude towards corporate information disclosure may depend on the penalties or incentives based on information contained in the CARs.

c). to get their opinion on factors influencing financial reporting in the country.

d). to obtain their opinion on the accounting regulatory framework in Tanzania.

e). to obtain information on alternative media of disclosures in Tanzania.

At the end of each interview, the interviewees were asked to fill in a questionnaire. This was designed to capture respondents opinion on factors influencing financial reporting in the country. The five-point scale Likert-type questions were used to obtain their opinion. The interview guides and the questionnaire are presented as appendices 3.1 and 4.1 respectively. The findings of the questionnaires are reported in chapter four.

To enhance the reliability of the interviews, several steps were taken. First, the confidentiality of some issues involved was seen to be a significant problem. Assurances were therefore given that the identity of individuals, corporations and regulatory agencies involved would not be disclosed. This is not expected to pose any significant obstacle to interpretation and evaluation of the issues involved. Second, attempts were made to focus discussions on recent and current experiences of the individuals involved. Deliberate attempts were made to prevent generalisations about any specific industry or the country as a whole. On average, each interview took 30 minutes. The questionnaires required an average of ten additional minutes to administer.

This chapter also benefitted from the corporate files maintained at the Registrar of Companies' Office, CARs, TACs' annual reports and the annual reports by the parliamentary committee on parastatal accounts. Published and unpublished literature on this area in Tanzania were also consulted (Thomas, 1969; Binhamer, 1975; Mapolu, 1976; Maseko, 1976; Nyerere, 1976; Mwapachu, 1977; Mramba, 1977; Makoye, 1977; Jackson, 1979; Sayore, 1980; Mwapachu, 1983; Katunzi, 1984; Mengi, 1985; Kahama and Maliyamkono, 1986; Mihyo, 1981; 1986; Mwinyi, 1986; 1990; Senkoro, 1988; Maliyamkono and Bagachwa, 1990). This study also had privileged access to eleven management audit reports and four board of directors files.

3.3) CORPRATE GOVERNANCE CONCEPTS:

Corporate governance is a process by which corporate entities are governed. Its main concern is to see to it that corporations are run properly. According to Tricker (1984), four distinctive functions are involved in this process. These are formulation of strategic direction for the company, performance of executive actions, supervision of corporate actions and response to legitimate accountability needs.

Formulation of strategic and long range direction involves the identification of corporate opportunities, threats, weaknesses and strengths. In this process, attempts are made to tame the environment so that corporate objectives are achieved. The resources are also allocated in such a way as to facilitate achievement of corporate objectives. The crucial aspect of this process is the ability to perceive as soon as possible the changes taking place in the environment so that the overall strategy is modified immediately to cater for the environmental changes (Bird,1973).

Executive action deals with crucial elements necessary to run the business. It deals with the short-term operational matters of finance, production and marketing. It involves keeping an eye on performance throughout the enterprise and taking decisions consistent with the corporate strategy.

The supervision of executive action is the third element in corporate governance. It involves monitoring and overseeing the management performance. This process is intended to ensure that the interests of the shareholders and other groups with legitimate interests in the corporation are guarded and achieved. It involves specifying corporate objectives and the expected performance level in order to facilitate subsequent performance evaluation.

Finally, accountability involves a requirement that corporations must give an account of actions taken and face the consequences of their actions. It has been argued that how accountability procedures are organised in any society sets the pace at which socio-economic development takes place. Without a proper framework within which decisions and actions could be questioned and appropriate corrective action taken, it is unlikely that a society would be able to achieve its development objectives. Accountability therefore involves more than just reporting what has been done (Bird, 1973; Chen, 1975; Tricker, 1982) It is a process through which the legitimacy of a corporation in a society is established and maintained. It represents a feedback mechanism by those held responsible for activities undertaken. It is not discretionary and therefore, must be based on a specific relationship between the accountor and the accountee. Its effectiveness depends squarely on whether the accountor receives timely and accurate information on corporate actions and results; whether he has powers to impose his will and whether he has incentives to use such powers.

Tricker (1984) has identified three sources of corporate powers. In a constitutional context, authority over corporations is specified by statute, charter or other constitutional means. In Tanzania, companies are incorporated on the basis of the Companies Ordinance (CAP 212); Public Corporations Act,1969; District Corporations Act,1973; Corporation Sole Act, !975 and several special Acts of Parliament. These statutes are expected to specify how corporate activities are to be regulated. They are discussed further in the following section.

Secondly, property rights accord corporate powers to the owners. Thomas (1969) argued that property rights are the basis of ownership control, authority and benefits received within the set regulatory framework in East Africa. Owners may delegate corporate powers to directors but retain authority to question corporate actions and take required corrective actions.

Lastly, Tricker (1984) argued that power over corporations may arise out of a situational context. Specific relationship between accountors and accountees may form the basis on which accountability is demanded. Examples of such specific relationship are those between creditors and debtors, employees and employers and suppliers and customers. The power to enforce their will may originate from contract law or the accountor's ability to impose some sanctions such as consumers boycotting company's products, creditors refusing to extend further credits or suppliers rejecting further orders from a company.

Several conditions have been identified as necessary if corporate accountability is to become effective. It is argued that precise and accepted corporate objectives are required to make accountability meaningful (Tricker, 1982; 1984; Mhagama, 1988). Opinion is, however, divided on what should be accepted as corporate objectives. On the one end of the continuum, one finds people like Friedman (1963) and Friedman and Friedman (1980) who argue that the business of corporations is to make profits:

> "There is one and only one social responsibility of business: to use its resources and energy in activities designed to increase its profits as long as it stays within the rules of the game..... engages in open and free competition, without deception and fraud ..... Few trends could so thoroughly undermine the very foundation of our free society as the acceptance by corporate officials of a social responsibility other than to make as much money for their stockholders as possible...."
> Friedman (1963 p.133).

In short, Friedman argues that corporations should produce goods and services efficiently and leave the solutions of social problems to government agencies and other concerned individuals.

While Friedman's views represent the extreme end of the continuum, these views may be justified, particularly in the third world countries:

- there is a lot of wastage and inefficiencies in third world countries. Existence of many corporate objectives tends to obscure accountability and reinforce inefficiencies. It becomes difficult to link performance to corporate objectives. Managers may easily justify their inefficiencies simply by pointing at non-commercial objectives.
- Many corporate objectives would destroy Fayol's unity of direction principle. Fayol argued that all operations of any organisation must have the same objective and be directed by one plan. Doing otherwise would make managers lose their direction and make it difficult to make corporate decisions (Stoner, 1982; Damachi, 1978). Making managers responsible to many agencies would also destroy the autonomy necessary to undertake entrepreneurial decisions.
- Unless corporations are able to raise revenue exceeding expenses, they are likely to bleed to death in the long run, unless there is a capital transfusion from somewhere else.

It is argued, notwithstanding, that corporations must bear a share of responsibility because problems of pollution, product safety, job security, etc, are very much a product of corporate practices. In addition, corporations and the government are the two most powerful institutions in any country. Their sheer size and dominance oblige them to attack problems of public concern. More importantly, corporations must be accepted by the society of which they are a part. Ignoring social problems might in the long-run be self-destructive. Nevertheless, the most effective arrangement is not likely to be subjecting corporations to a multitude of objectives, some of which are conflicting. The most effective way for third world countries is likely to be holding corporations responsible for wealth creation subject to some constraints imposed by the society. Some attempts to impose these constraints in Tanzania are discussed in section 3.5 of this chapter. The effectiveness of these attempts is discussed in the last section.

Opinion is also divided on what should be a suitable proxy for the wealth creation objective. While most financial economists (e.g. Friedman, 1980; Brealey and Myers, 1984) argue that maximization of wealth as reflected by NPVs should be the corporate objective, others like Coleman (1982) have argued that corporations should also be concerned with the distribution of the created wealth. He argued that concern over who gets what is likely to have motivational effects on workers.

Those who support the use of NPV (for example: Friedman, 1980; Brealey and Myers, 1984; Jassim, et al, 1988; Kim, 1981) as a proxy for wealth creation maintain that, in a well-functioning economic system, maximization of NPVs is consistent with maximisation of wealth of the community as whole. The distributive effects of such moves would be taken care of by the labour market. Any attempt to reduce the employees' compensation package would trigger a move by employees to shop around for corporations where they would earn the most. The market would finally settle at a point which is fair to all parties involved.

The ability of the market to resolve the capital/ labour conflict is indeed questionable. The argument ignores the question of labour mobility and other imperfections in the labour market. It is argued here that arrangements such as the two-tier board of directors observed in Germany, are likely to ensure that managers respond to workers interest without specifying them as corporate objectives. The German two-tier board is discussed in the following section.

The second necessary condition for effectiveness of corporate accountability procedures is that the accepted corporate objectives must be translated into performance indicators. Such indicators provide a focus to both corporate managers and interested parties. Managers get a clear message on what to maximise while maintaining their discretion to act. Interested parties are also in a better position to monitor the extent to which corporate objectives are being achieved. They are likely to coordinate activities performed by various parts of a corporation or different corporations within an economy.

Thirdly, if performance indicators are linked to the compensation system, it is likely that private economic interests of managers would be subordinated to corporate objectives and thereby enhance their chances of achievement. Effectiveness of corporate accountability would also be improved by the introduction of the self-policing system which the linking of performance and compensation system would provide. Chaubey and Kulkarni (1988) investigated whether there is a link between corporate performance and the executive compensation system. They observed that high performing corporations (in terms of risk adjusted return on investment) tended to reward executives on the basis of performance indicators linked to the net income improvements.

Fourthly, an effective accountability procedure would also require the timely gathering of information relevant to corporate performance and transmission of the same to the parties demanding corporate accountability. The late transmission of corporate information is likely to put the blame for one generation on the reputation of the next. This is likely to obscure corporate accountability.

There are several media through which corporate information could be transmitted to the interested parties. Through a formal meeting, the accountors and the accountees could formally exchange views. The Annual General Meeting (AGM) provides an opportunity for verbal communication between the parties involved. Published reports such as CARs or Annual Returns specified by CAP 212 provide another mode through which communication between corporate management and those demanding accountability from them could take place. The other possible media of disclosure are ad hoc reports, access to corporate files, independent studies by auditors, government inspectors, independent directors and other parties independent of corporate management. Corporate information disclosure is a significant component of a corporate accountability system. Attempts to regulate financial reporting in order to ensure timely and relevant corporate information are discussed in the next chapter. The superiority of CARs over other media of disclosure is discussed in chapter six.

Lastly, effective accountability would require those demanding accountability to reward or impose penalties on the basis of the reported information. Compensation schemes tied to performance are likely to improve corporate accountability procedures in the third world countries as discussed earlier in this section.

The corporate governance arrangements in socialist countries is different from the variations observed in market economies. The strategic direction and supervision are performed by the Party, Planning Commissions, government ministries and state-owned banks through the planning mechanisms and the Centralised Statistical Office. Corporate accountability outside these central authorities were not observed by Granick (1975). Corporate information disclosure is organised very differently. The whole economy is organised as if it is one huge corporation. Emphasis is placed on management controls rather than corporate accountability. The central statistical office is therefore organised to collect data required to monitor performance. Accountants are therefore not part of the enterprise management and report directly to the central authorities. Their task is to collect information and transmit the same to the central statistical office. The banks would only release payments after scrutinising the supporting documents and are satisfied that the transaction is properly authorised and in line with the central plan. The only component of corporate governance observed at the enterprise level is the executive role (Granick, 1975; Bailey, 1988; Wierzbicki, 1988;).

The various components of corporate governance discussed are presented in figure 3.1 below. The relationship between enterprise management and corporate governance is also depicted in the diagram. While enterprise management is involved in the daily running of corporations, corporate governance is concerned with seeing that the corporate business is run or done properly.

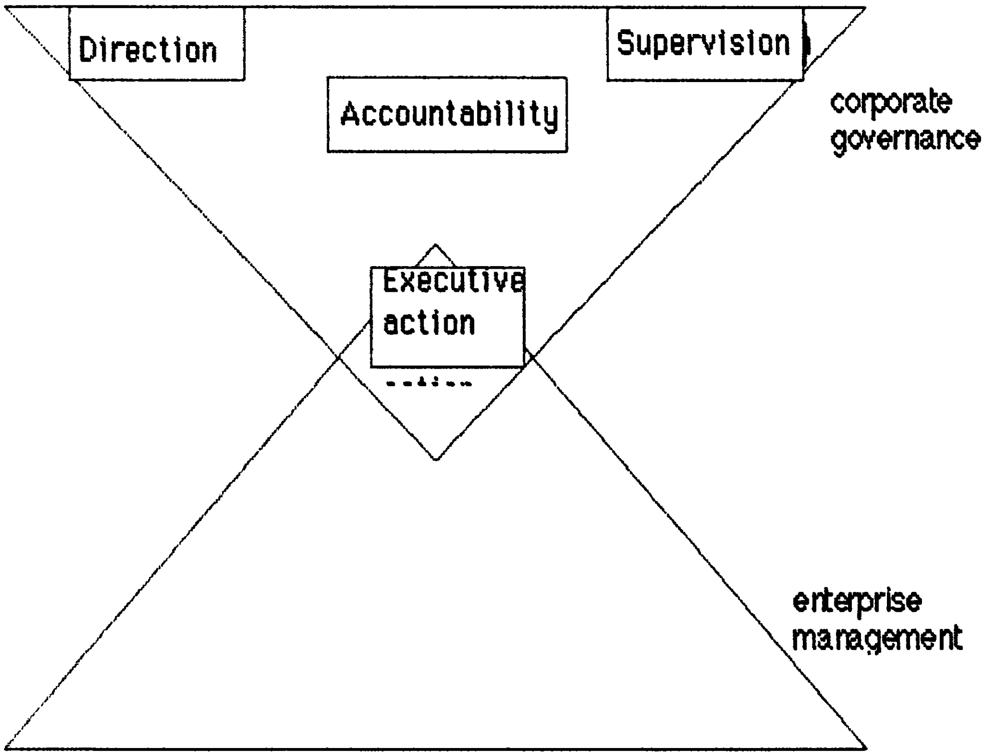

Figure3:1:Thegovernanceandmanagement of companies compared. Tricker (1984) p.237.

3.4) SELF-REGULATION IN TANZANIA.

The framework within which corporations regulate and run their affairs is laid down in the Companies Ordinance (CAP212); Public Corporations Act, 1969; District Corporation Act, 1973; Corporation Sole Act, 1975 and special Acts of Parliament, as mentioned earlier in this chapter (p.43)

Apart from CAP 212, the legal framework in Tanzania has been criticised on grounds that it is sketchy and skeletal. The Acts lack the required details which may offer some guidance to corporations such as disclosure requirements, who is responsible for what and penalties for failure to perform corporate responsibilities (TAC, 1977; Katunzi, 1984; Mengi, 1985; Mihyo, 1986). This observed deficiency has led some regulatory agencies in Tanzania to require corporations to comply with the provisions of CAP 212 (TAC, 1977-1984; POC, 1987), regardless of whether they were incorporated on the basis of this ordinance or not. Because of these observations, corporate governance in Tanzania is only examined with specific reference to CAP 212.

CAP 212 provides a framework within which self-regulation can be exercised. It recognises property rights as the basis of corporate powers. It also provides a structure within which shareholders can delegate corporate powers to boards of directors and expect them to act in their interest. The Registrar of Companies administers the provisions of this ordinance. All companies incorporated on the basis of this ordinance must be registered with the Registrar and subsequently file annual returns. The financial statements must be attached to these returns. At least two directors are required to certify the accuracy of financial statements through their signature on the financial statements.

The ordinance assumes that, in pursuing their own self-interest, shareholders would scrutinise corporate progress and call directors to account. Several mechanisms are devised to ensure that shareholders have a say in the running of the corporations:

- Through the AGM, shareholders elect the board of directors and can question the running of corporations. This electoral process gives them the power to impose their wishes on the Board of Directors. The potential to replace or fire directors ensures that they should act in their (shareholders') interest. The effectiveness of this arrangement is a matter for future empirical research. In the past, it has been called to question by Thomas (1969) and Sayore (1981).

With reference to East Africa, Thomas(1969) investigated the participation of shareholders in the AGM. He found that most of shareholders do not participate in the AGM because they are mostly scattered over a large area with serious transport and other communication problems.

Sayore (1980) observed that parastatals incorporated on the basis of this ordinance do not conduct an AGM as prescribed by the law even when they have some private interest. What they call an AGM is a special board of directors constituted to receive and scrutinise CARs. One wonders how the board of directors can effectively demand accountability from itself. Even in situations where the board of directors are clearly distinct from enterprise management, the effectiveness of this arrangement is doubtful. The power to appoint or fire corporate management lies within the ministries and with the President as is discussed later in this chapter.

Elsewhere (SEC, 1980; Tricker, 1984), it has been argued that shareholders are not ordinarily interested in corporate governance. It is held that shareholders are mainly concerned with the value of their holdings and the dividends they are able to attract. In connection with this, shareholders are more likely to 'vote with their feet' rather than attempt to get involved in corporate governance. Very few shareholders have the time and expertise required to hold corporate management accountable. Tricker (1984) has observed further that there is an exception to this general rule. Institutional investors would normally attempt to change matters within the corporations rather than sell their holdings. He argued , however, that often, they attempt to influence issues directly rather than wait for the AGMs.

- Secondly, the ordinance expects the board of directors to act in the best interest of the company and avoid any relationship which might lead to conflicting interests. It calls on directors to disclose all incomes they receive from the company as a compensation for their services as directors or other indirect income through other associations with the company. It prescribes that the directors report be presented to the AGM and Annual Return be filed with the Registrar of Companies. It also stipulates that the auditor, whose appointment and terms of service are ordinarily specified by the AGM, must express a 'true and correct view' on the directors' reports and other financial statements.

It was observed that this arrangement suffers from the following weaknesses:

- non-compliance with the CAP 212 stipulations were observed. From a random sample of 248 companies, 98 (40%) companies did not file their CARs with the Registrar of Companies; 29 (12%) companies did not file the annual return. Most of the filed CARs did not meet the stipulated requirements. Section 110 permits foreign prepared CARs to be filed with the Registrar of the Companies. It however specifies two conditions which must be fulfilled for foreign CARs to be acceptable:
  - i) they must be translated into English if they were not originally prepared in English.
  - ii) they must be adjusted to comply with local reporting requirements.

  It was observed that five companies filed foreign prepared CARs. None of them complied with the NBAA requirements. One (20%) of the

CARs was prepared in a foreign language other than English. It was also observed that some corporations do not hold an AGM at all.

- There is a mismatch between the legal boundaries defined by this ordinance and structures within which corporate governance is taking place. Consider the case of a MNC subsidiary or a parastatal with a MNC management contract. The strategic direction, supervision and accountability are done at the parent company's headquarters. It is there that most corporate decisions are taken. The parent company formulates the long-term strategic decisions, allocates resources within the group, makes investment plans and most corporate decisions are at their discretion. Yet, in the case of bankruptcy, the subsidiary company's creditors do not have access to resources beyond the direct possession of the subsidiary company. Further, the parastatals were created primarily to cater for national interests. It is unlikely that such arrangements would ensure national interests. In the past, these subsidiaries have been used as cash cows, milking them to finance developments elsewhere (Coulson,1978; Coulson, 1982; Barker, et al, 1986; TAC, 1988).

- Through memorandum and articles of association, shareholders are given a way of specifying rules and regulations which guide corporate actions and decisions. Memorandum of association govern the relationship between the company and the outside world. The articles of association set the rules for governing internal relationships.

It was observed however that these documents are generally written in such vague terms that they cannot be expected to put any effective constraints on corporate manoeuvres. For example, Tanzania Electric Supplies Company Ltd (TANESCO) was incorporated particularly to supply electric power in Tanzania. A look at the company's Memorandum of Association revealed that it permits the company to undertake the shipping business, insurance brokerage, general trading, etc. It is therefore unlikely that these documents would impose effective restrictions on companies to pursue unauthorised activities.

- The ordinance fails to make a distinction between executive and non-executive directors. It does not differentiate between functional directors and corporate directors. Furthermore, the ordinance provides for property rights as the only basis of power in the corporations. Employees, consumers, the local community, etc, have no say whatsoever in the corporate governance. Attempts to involve workers in corporate governance have been successfully tried in some countries. In Germany, the two-tier board was introduced. The executive board is responsible for long-range plans and executive decisions. The supervisory board concerns itself with supervision and corporate accountability functions. While the executive board is appointed by the supervisory board, the supervisory board is itself elected by the shareholders and workers in equal proportions (Millar, 1979; Macharzina, 1985). Similar variations were observed in France (Parker, 1985a) and the Netherlands (Parker, 1985b). Tanzania attempted to introduce workers participation outside the legal framework .

This approach separates the supervision and accountability functions of the board from the execution and direction functions. The upper board sets standards and monitors the achievement of the targets set. The presence of non-executive directors who are not directly involved in the daily running of the business implies that the board could be expected to perform its role more objectively and be critical in its outlook. This arrangement, however, does not solve two basic problems of corporate governance: the question of getting individual board members committed to shareholders interest and getting them to devote the time required to monitor executive actions.

3.5) MARKET FACTORS:

The second group of factors posing checks and balances on corporate behaviour are the market forces. The first post-independence Tanzanian leadership intended to mix market mechanisms with administrative controls. The current leadership is set up towards market forces. However, oligopolistic and monopolistic structures are still common. For example, there are three companies manufacturing cement in the country but they are all owned by Tanzania Saruji Corporation. As such their policies are coordinated and any serious competition among them cannot be expected. This example is not an isolated case. Similar trends are observable in most other industries in the country[1]. It is therefore not expected that competitors' action on prices or product quality would significantly influence corporate governance in Tanzania.

Furthermore, most decisions are made administratively[2]. The resulting decisions do not necessarily reflect relative scarcity of resources within the economy.

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[1]For example, there is only one company manufacturing tyres. NBC owns several other financial institutions either directly or indirectly.

[2]Foreign currency, raw materials and credit are administratively rationed for all companies. Prices were controlled. Wages are regulated. Most parastatal loans are guarantied by the government or the State Banks (Kimei, 1987; Osoro, 1987; Sanare, 1986; Chandresekhar and Bagachwa, 1984; Jackson, 1979).

Investment projects adopted do not necessarily reflect comparative advantages the country might have. The confinement policy gave individuals or corporations exclusive rights to perform some economic activities. A company with such a favour faces no competition at all. These policies pre-empted competitive pressure in both private and public sectors of the economy. The administrative control system encouraged corporations to seek additional import allocation, permission to charge higher prices or seek subsidies rather than find means and ways to control costs, search for new markets or new technologies. They also led to the development of what Maliyamkono and Bagachwa (1990) described as the second market.

The public sector has sometimes been given priority over the private sector. The parastatals are bailed-out when they face critical financial problems. For instance, the High-Level Manpower Allocation Committee[3] give priority to parastatals when allocating manpower. Deliberate efforts were not made to create a well-functioning labour market. The appropriate wage policy would have facilitated labour movements towards areas they are most needed or encourage acquisition of the most needed skills. Instead of using wage policy to institute a well functioning labour market, equity issues were given prominence over efficiency. This administrative allocation of resources also relieves corporate managers of the necessary competitive pressures.

It was observed that most of the mechanisms which were installed to replace the market forces were not enforced in practice. For example, the pricing function was transferred to the Price Commissioner. In order to approve price increases, the

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[3]This is a standing committee within the Ministry of Labour and Manpower which allocates higher level training opportunities to potential students. It also allocates jobs to all graduates. Those who are government sponsored are required to serve in the positions to which they have been allocated by this committee. Since last year, this committee has restricted its activities to what it considers to be rare skills.

commissioner required three consecutive CARs and the corporate plan. However, it appears that this office takes a very liberal view of this requirement. It considered its role to be that of facilitating corporate performance rather than the reverse. The question of financial statements being in arrears is considered to be a national problem resulting from a shortage of accountants. The attitude adopted by this office is that it would be inappropriate to penalise corporations for issues beyond their control. In light of findings discussed in chapter eight, it is possible that this liberal attitude helped to perpetuate financial reporting problems.

Capital markets did not instil the expected corporate discipline. A stock exchange and all the mechanisms that make it work such as stock brokers, jobbers, financial analysts, financial press , etc, were not instituted. From the interviews conducted, even the regulatory agencies which are supposed to monitor the dealings in corporate shares appeared to be unaware of the channels through which shares are issued, bought or sold. There is a need for future research which will clarify how shares are bought and sold in Tanzania. This research is particularly urgent now that the IPC has been established but the relationship between the office the Registrar' of companies and the IPC has not been clarified. CAP 212 expects the Registrar of Companies to protect the investors interests and thus promote investment in Tanzania. Before the establishment of IPC in 1990, the office of the Registrar also acted as a centre for investment information in Tanzania.

Legally, CAP 212 has specified two types of companies. There are private and public companies. Private companies may have a minimum of two and a maximum of fifty one shareholders. They are also not allowed to solicit funds through any public means. Public companies, on the other hand, are required to have a minimum of seven but have no maximum number of shareholders. They are allowed to solicit funds through the public means. Both types of companies are required to register any prospectus with the Registrar of Companies and, presumably, any potential investor can obtained information from there and decide where to invest.

The five public companies sometimes invite the public to invest in their shares through advertisements in the media, but this is a rare phenomenon. The lack of efficient mechanism through which shares can be bought and sold may partially explain why loan capital appears to perform a more important role than equity capital[4]. In the sample of 58 companies, 70% of their assets were financed by loan capital (on average)[5]. Banks have played a significant role in the financing system of the country, but not an equally significant role in corporate governance. In the market economy, banks charge the level of interest which reflect the perceived risks involved. The process has been used, quite successfully, to instil corporate discipline. A company is denied access to resources unless it has viable projects and efficient management.

In socialist countries, national priorities are determined and expressed in the form of economic plans (Granick, 1975; Nsekela, 1978). These plans are then used to

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[4]Parastatal shares are allocated to the other parastatals or to the Treasury by the CPI. Most of the companies are, however, financed through loan capital. Sanare (1986) has suggested several reasons for this tendency. First, the authorised share capital is small compared to the volume of transactions these companies are expected to handle. Second, in spite of smaller authorised shares, only small proportion of this is actually paid. This is because of the prospective shareholders inability to raise the required cash. They are themselves under-funded and face significant problems funding their own operations let alone subscribing in equity capital of other companies. Thirdly, some companies have their capital eaten away by the accumulated losses over long period of time.

While, perhaps, there is a need for future research to provide empirical evidence on possible reasons for preference of loan capital over equity, two additional conjectures may be provided. Interest rates for loan capital has been significantly low for sometimes in Tanzania. While the interest rates charged by banks in 1985 was only 7.5%, the inflation was 33.2% as was discussed in chapter two. The changes observed in chapter two are likely to change this tendency in the long run. It is also possible that the Dividend Limitation Act (1972), has played a role towards crating this tendency. This Act empowers the CPI to regulate dividend payment in the country as is discussed later in this chapter.

[5]The apparent preference for loan capital over equity capital is an intriguing research question, but one that is beyond the scope of this research.

allocate credit and other resources within the economy. Performance indicators are set to coordinate activities of various economic entities and ensure that the set targets are achieved. Unfortunately, the Tanzanian economic plans are vague and cannot be used to achieve such objectives (Nsekela, 1978; Loxley, 1978). The national priorities have not been organised in a manner that could guide resource allocation decisions.

Recently, for example, Tanzania Investment Bank has adopted a policy of financing projects which promise a return on investments of not less than 31.5% when they are locally financed or 14.5% when they are foreign financed. These measures were taken when the inflation rate was 33%. The approach suffers from a further problem. The risks varies from company to company and between industries. Interest rate charged must reflect this. The uniform treatment of companies would continue to prevent the market forces from instituting corporate discipline.

Given this environment, it is not expected that capital market theories would influence corporate disclosure practices in the way, for example, Singhvi (1968) observed in India.

3.6). SOCIETAL CONTROLS:

The Arusha declaration saw the governments direct participation in most economic activities in the country. Below is a summary of some attempts to impose some restrictions on corporate governance. It is argued that as efforts were being made to introduce more regulatory agencies, it reached a point where it was not clear who was responsible for what. Their ineffectiveness also resulted from the fact that their activities were not well synchronised. Each agency tried to impact corporate governance directly.

3.6.1). THE PARTY:

The Tanzanian constitution accords supremacy to the only political Party in the country. This means that it has a constitutional right to issue policies and guide-lines on matters of public interest and supervise their implementation. It established a framework within which it can perform this constitutional responsibility. There is a sub-committee of the Central Committee of the Party which is expected to supervise all economic activities in the country. Sayore (1980) argued that this is the highest organ to which economic entities were expected to report.

The Party established four ways through which it can participate in corporate governance:

a) It issues policies and programmes to be followed by all economic entities in the country. The Arusha Declaration and the Party Guide-lines of 1971 (Mwongozo) are two examples of such Party policies. These were discussed in chapter two. It also issues 5-year Party programmes. The programmes lay down the national economic strategy. Other individual corporate strategies are expected to be in line with the Party's blueprint.

b) It has commissars in all the major economic entities. The commissars are the link between workers, management and the Party. They attend the Board of directors' meetings. They can summon the Party branch meetings to discuss corporate objectives and problems encountered in their implementation. They report directly to the Party headquarters (Mwapachu, 1983).

c) The Party branches participate directly in corporate governance. The branch chairman is a member of the board of directors. He is also a member of Workers Committee (trade union at micro-level) and Workers Council. The branch's role is to convey and defend the Party's policies in their respective corporations. It is also expected to mobilise workers political consciousness in order to improve productivity (Sayore,1981; Mwapachu, 1983).

d) The Party has a grip over the trade union movement in the country. There is only one Trade Union and it has been affiliated to the Party. All its policies and rules must be approved by the Party. Its CEO is also appointed by the Party.

The direct participation by the Party in corporate governance has not been welcomed by all (Mihyo, 1983). There were calls for the Party to 'get out of the kitchen' in the 1970s. It was felt that the Party should only get involved with policy issues and leave the operational aspects to the managers. It is also argued that the Party's direct involvement in corporate governance is likely to interfere with Fayol's principle of unity of direction discussed earlier. But of more significant importance, the Party is likely to concentrate on political issues at the expense of efficiency. Thirdly, while the Party's capacity to participate directly in corporate governance effectively is a matter for empirical research, there are signs that its capacity is limited. It failed, for example, to define its corporate information needs as is discussed later in chapter four. Fourthly, its direct participation in corporate governance is likely to violate property rights acknowledged by section 24 of the constitution. One inevitable consequence of acceptance of property rights is that it becomes the basis of corporate powers.

3.6.2). THE GOVERNMENT:

The Government has participated in corporate governance directly through its high offices, departments and ministries and indirectly through various regulatory agencies.

- The President:

The President appoints CEOs and chairmen of the boards of the parastatals. He also appoints the ministers who in turn appoint the other directors. For parastatals, it may be argued that the role of shareholders in corporate governance has been taken-over by the President. In addition to the power to appoint key actors, other mechanisms were instituted to enable him to participate effectively in the corporate governance:

- The Presidential Standing Committee on Parastatal Organisation (SCOPO) was formed in order to coordinate the staffing and training of parastatal personnel, define their salary structure and other fringe benefits and approve organisation structures. This committee reports directly to the President.

- The Tanzania Audit Corporation (TAC) was incorporated to perform statutory and management audits of all parastatals. It reviews performance and discloses relevant issues relating to supervisory aspects and reports directly to the President. It was observed, however, that no action were taken on the basis of TAC disclosures. Two examples may be offered in support of this. First, TAC was reporting that some parastatals are reluctant to appoint them as auditors as early as the 1970s. Legally, TAC is expected to audit all parastatals. It is viewed as an important government aid in performing its supervisory role. Despite the importance attached to TAC's role in corporate governance, TAC still reported in 1989 that some parastatals were reluctant to be audited by TAC (TAC, 1989). No action appears to have been taken to rectify this anomaly by the concerned authorities. Secondly, it has been reporting two major reporting problems in parastatals: that the financial statements are not prepared on time and that some fail to attract clean audit reports. This led to the establishment of a parliamentary committee (POC)[6] to examine parastatal accounts in 1978. In addition, the Party issued a deadline for parastatals to update their accounts in the same year (Sayore, 1980). The deadline passed and no action was taken against those corporations

[6]This is discussed later.

which failed to comply with the Party's directive. In 1985, despite the existence of POC for seven years, a second deadline for clearance of accounts in arrears was set - this time by the President. The second deadline expired on 31-12-1989. The NBAA compiled a report on the extent of compliance with the presidential directive. It reported that only 60.4% (279) of the parastatals complied with the directive. Compare this to 70% (291) of parastatals whose accounts were up-to-date in 1984 (TAC, 1984), a year before the second deadline was issued. While perhaps more detailed analysis is necessary to draw more informed conclusions, it appears that the presidential voice had no impact on timeliness of corporate reporting.

- Parent Ministries:

It has already been mentioned that directors are appointed by the minister although the chairmen and the CEOs are appointed by the President. Each ministry also has a section responsible for monitoring corporate activities of all companies falling under its jurisdiction. All new projects must be approved by the ministry. Sectoral policies stipulated by the ministries must be complied with by all companies (including private companies) reporting to the ministry (Mwapachu, 1983). They may also provide subsidies when it is deemed necessary. For parastatals, the ministries have additional responsibilities. They approve corporate plans and budgets. They also receive and scrutinise CARs and management audit reports and are expected to evaluate corporate performance.

It was observed, however, that the ministries are not likely to effectively influence corporate governance. Although all three interviewees from Ministries had masters degrees in economics, all of them appeared to lack corporate experience, the authority and status necessary to perform the expected responsibilities. All of them expressed concern that they lacked authority to take corrective actions they considered necessary. They also expressed the view that most of their recommendations are not implemented or investigated further. The Principal

Secretary who would have taken up the issues raised appeared -in their opinion- to be preoccupied by issues considered to be of more national significance than, for example, taking appropriate steps to ensure adequate disclosure of corporate information. Compare this to corporate governance in Eastern Europe. Granick (1975) observed that most effective corporate governance processes were taking place within the government ministries. He observed that the success in corporate governance depended crucially on the relationship between the Party, Planning Commission and government ministries. All aspects of corporate supervision are performed within the government ministries.

In Tanzania, the ministries receive CARs and management audit reports. The supervisory unit calculates profitability, liquidity and solvency ratios. They then compare these ratios over time and report the findings to the Principal Secretary. Unfortunately, no action is taken on the basis of this exercise. It was also stated by the interviewees that no other performance standards are available. Budgets are sometimes prepared in support of requests for government grants and subsidies but were not subsequently used as a measure of performance. In addition, no attempts are made to adjust for changes in accounting policies in an attempt to analyse corporate performance over time. The most significant observation was that no "carrot or stick" is based on this exercise - no action was based on this undertaking.

- Commissioner for Public Investment (CPI):

This office is located within the ministry of finance. The Commissioner is expected to approve dividend policies and payments for all companies in the country. He is also expected to set financial targets, approve annual plans and take care of government interests in the parastatals. He negotiates compensation plans in case of any nationalisation and ratifies the contracts between parastatals and MNCs. Further, he monitors the implementation of these contracts.

Sources of corporate information for the CPI are the CARs, interim reports, management audit reports and corporate plans. The commissioner is represented on all parastatals' board of directors. Under special circumstances, a commission of inquiry may be set-up to investigate any allegations. This office, however, suffers from identical problems reported in the parent ministries. The office exerts little influence in terms of determining strategic direction of the corporations in Tanzania. It has little impact on supervisory aspects of corporate governance.

-Ministry of Labour:

This ministry monitors training programmes and allocates high level manpower in the country. It reviews labour productivity, sets production targets and manages the bonus system through the Permanent Labour Tribunal (PLT). The PLT also administers labour agreements and adjudicates labour disputes. Finally, it monitors workers rights (Jackson, 1979).

3.6.3) THE PARLIAMENT:

The parliament has legislative powers and a supervisory role. It supervises economic performance at the macro level but may question issues at micro levels as well. As mentioned earlier, it formed Parastatal Accounts Committee (POC) to scrutinise financial statements and recommend corrective actions. POC is composed of 12 Members of Parliament, TAC's Director General, Principal Secretaries (Ministry of finance, relevant parent ministries and Prime Ministers office), CPI, relevant CEO, relevant Director of Finance and relevant Chairman of the Board of Directors.

The committee adopted an approach whereby it examines the audit recommendations and take them up to ensure that they are implemented. It may recommend a penalty of up to 15% of the relevant managers salaries for failures to comply with audit recommendations or any other form of mismanagement.

In 1987, the committee discussed corporate information relating to 76 parastatals. The main issues raised in this sitting were:

- 67% (51) of the companies had long outstanding debtors. Some had no adequate supporting documents. Others did not reconcile with subsidiary records. Yet no efforts were made to recover these debts.
- 32% (24) of the companies had no title deeds to prove ownership of the fixed assets involved.
- 17% (13) of the companies had not done bank reconciliations.
- 11% or 8 companies were in arrears for many years in preparing financial statements.
- 8% or six companies reported misappropriation of corporate properties.
- 1.3% or one company did not hold a board of directors meeting throughout the year. Other issues raised were failure of some officials, such as principal secretaries and chairman of board of directors to attend the committee for no apparent reason; some debtors were written off without directors approval and some violated SCOPO directives.

Although it was stated that corrective action was taken on about 95% of the committee's recommendations, it appears that 15% of one months salary is not significant enough to put pressure on managers for adequate performance. Also, the system is likely to be more effective if it provided both positive and negative rewards for performance. In addition, despite some serious observations in this particular meeting, including failure to attend this meeting for no apparent reason, no disciplinary action was recommended. Moreover, it appears that the work load involved is very demanding and cannot be performed effectively by one committee.

3.6.4). WORKERS PARTICIPATION:

Workers Councils are intended to act in an advisory capacity to the board of directors in all matters of corporate governance. Members of the Council are the CEO, the Party's branch chairman, heads of departments, members of the workers committee[7], national trade union representatives and elected workers representatives. The effectiveness of Workers Councils in corporate governance issues were examined by Mapolu (1976) and Maseko (1976). They observed that its effectiveness was watered down by deliberate management attempts to pre-empt the powers of the Council. In the three case studies they conducted, the CEO was also the Party chairman in two of the cases. There were no effective interaction between members of the council and the ordinary workers they represent since all the proceedings of the workers council were kept confidential. Furthermore, workers representatives were not involved in the agenda formulation process. Perhaps the most serious observation is the fact that councils have no constitutional powers of any sort. They can only advise the board of directors.

3.7). SOME THEORETICAL REFLECTIONS:

Four distinctive processes in corporate governance have been identified. In an endeavour to institute effective control systems, the Tanzanian leadership has

[7]Workers Committee is a trade union organisation at a branch level.

evolved many regulatory agencies. They are now so many that it is not clear who is responsible for what. Take strategic direction for example. The Party, the Presidents Office, SCOPO, Board of Directors, Parent Ministries, Prime Ministers Office, CPI, etc, are all endowed with some legitimate authority to have a say on corporate governance. This had led to a position where it was not clear who was responsible for what. As the President once stated:

> "The entire nation is now complaining about inefficiency, indiscipline and poor supervision in the public sector. Board of directors, chairmen, General Managers, ... Ministers, Principal Secretaries and sometimes even the President complain that all is not well. But why is it that everybody is complaining? It is because we are avoiding responsibility" (Mwinyi, 1986).

Despite the existence of many regulatory agencies, their activities are not well coordinated and their effectiveness not visible. Each agency demands enterprise managers to account directly to it. No accountability is demanded from the regulatory agencies or the central authorities. For example, it was stated that the President gave a deadline for parastatals to clear the accounts which were in arrears. He therefore expected the corporations to be directly answerable to him. It appears that if this directive was directed to the NBAA, it would have been more useful in the sense that it would have stimulated the regulatory agencies to do their job.

It may also be added that the supervisory role lies with the central authorities, yet there is no mechanism through which they can be called to account. The Party is considered supreme. Yet there is no effective way through which it can be called to account. Even if there would have been a way out of this, it may be questioned on the basis that the Party members form a tiny proportion of the Tanzanian population.[8] How can they be relied on to cater for the public interest at large? In this regard, Parliamentary supremacy is suggested. Multi-Party politics would also enable the parliament to demand accountability from the government

It is argued here that having many supervisory agencies would not necessarily be effective. It is suggested that most of the regulatory agencies should be scrapped. A three-tier system should be established. At the enterprise level, there should be a two-tier board. The executive board should be responsible for strategic direction and executive decisions. The supervisory board should be responsible for supervisory aspects and respond to legitimate requests for corporate accountability. The supervisory board should elect the executive board. The supervisory board should itself be elected by workers and shareholders in equal proportions. In the case of parastatals, the shareholders proportion should be elected by the Planning Commission.

The Planning Commission's mission should be to transform the Tanzanian companies to world class corporations. The Commission should therefore be endowed with resources (including information) necessary for it to do the job. Conditions should be made conducive for it to attract the best brains in the land. Precisely how the Commission should be organised is a question for future research.

This encouragement from the Commission should be supplemented by a well functioning market. Corporations should have control over all variables affecting their performance. A stock exchange would be extremely useful. An efficient financial press would also aid this process.

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[8]Party members are less than ten percent of the population.

In the next chapter, one aspect of corporate accountability is examined. Information is so crucial in the corporate governance system that attempts to regulate financial reporting in Tanzania is discussed separately.

CHAPTER FOUR

THE REGULATION OF FINANCIAL REPORTING IN TANZANIA.

4.1) INTRODUCTION:

The objective of this chapter is to describe financial reporting regulation in Tanzania. It is argued that although attempts were made to make disclosure regulation appropriate for the Tanzanian information requirements, the lack of a stock exchange and a significant number of public companies meant that the disclosure regulatory approach was out of touch with objective realities of Tanzania.

The chapter is divided into six sections. Section two describes the financial reporting regulatory framework and significant regulatory activities performed so far. Section three is a continuation of the preceding section but focuses more on the due process in Tanzania. This is followed by a description of financial regulation in developing countries in general and Tanzania in particular. Finally, the challenges and problems facing financial reporting and regulation in Tanzania are highlighted in the last two sections.

4.2) FUNCTIONS OF THE NBAA:

The NBAA was created by an Act of Parliament in 1972 as was presented in chapter one. By virtue of section 39 of the NBAA Act, 1972, the NBAA has the authority to regulate accounting practice in Tanzania. In this respect NBAA resembles S. E. C. of the United States. This arrangement has several advantages: first, the right to place restrictions on the peoples behaviour cannot be questioned because the authority for doing so has been delegated by the body representing the entire Tanzanian society.

The second advantage is the police power conferred to the NBAA. The proceedings of the governing board of the NBAA constituted to look at any issue relating to accounting regulations is considered to be judicial by virtue of part (iv) of the Act. It may therefore fine or otherwise penalise any person or corporation for offences relating to accounting regulation. NBAA may cancel registration of an accountant for failing to comply with the stipulated requirements. This will automatically deny such a person the right to professional practice or employment as an accountant. Of more significance, the standards stipulated by the NBAA are considered to be bye-laws and are enforceable through the court of law (Ringo, 1987). According to Ringo (1987), such bye-laws would require publication in the Official Gazette for the courts in Tanzania to take judicial notice of their existence. In situations where the document is bulky like the case of TSSAPs, only ministerial approval is necessary for them to be enforceable in the court of law (Interpretation of Laws and General Clauses Act, 1972 as quoted in Ringo, 1987). TSSAPs were never published in the Official Gazette and there is nothing in the document to suggest that they were approved by the Minister for Finance. It is high time the NBAA looked into this issue to make these standards legally enforceable. This police power compares favourably with the self-regulation in the U. K.

The Act, however, has several shortcomings which deserve careful consideration. One problem created by this Act is that it exempted the TAC and the Controller and Auditor-General from the regulatory requirements stipulated by the NBAA. There is no apparent explanation for this unfortunate situation. The only possible conjecture is the general attitude of the Tanzanian bureaucracy to pre-empt any possible avenue where it could be held accountable as was observed by Mihyo (1986).

The second problem created by the NBAA (Registration) Act, 1972 is the fact that no synchronization was made between this Act on the one side and CAP 212 and other statutes on the basis of which companies are incorporated on the other. Thus one finds the Registrar of Companies acting without reference to NBAA activities and NBAA stipulating standards without reference to provisions of the ordinance. CAP 212, for example, has stipulated that the overriding requirement is that the financial statements present a 'true and correct' view while the overriding principle adopted by TSSAPs is 'true and fair' view. The ordinance portrays the financial reports as precise and accurate while TSSAP realises the limitations imposed by the nature of the accounting principles and procedures involved and therefore requires only an approximate financial position and results of operations.

A second example where the two legal documents are in conflict is emerging with the current changes NBAA is introducing in the name of accounting guide-lines. TSSAPs defined financial statements to include Directors' Reports[1]. However, the guide-lines have excluded directors reports from the definition of financial statements[2]. This falls short of requirements stipulated by the companies ordinance. Section 113 requires presentation of directors report to shareholders at the Annual General Meetings (AGM). It is therefore argued that it is high time this apparent contradiction is sorted out and these legal documents harmonised or the regulation of accounting practice be fully delegated to the NBAA.

The initial arrangements, at least, avoided most problems facing public sector regulation of accounting sighted by Bromwich (1985) and Taylor and Turley (1986). For example, as will be explained later in section 4.3, professional accountants were

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[1]See TSSAP2, section 1.2 and the extended disclosure required in section 9.
[2]See the Tanzania Statement of Accounting Guide-lines, section 2.2(i i) p.3

involved in the standard setting process such that it was the experts who handled the issues involved. The arrangement also allows swift and efficient introduction of the changes considered necessary as the NBAA has the complete authority to do so, thus avoiding the lengthy legislative procedures.

Having examined some confusions resulting from the two legal documents, let us consider now the specific functions delegated to the NBAA and what has been achieved so far. The NBAA regulates the following aspects of the financial reporting: First, it regulates who can prepare financial reports. The Act which created the NBAA -the Accountants and Auditors (Registration) Act, 1972 - empowered it to register all accountants in Tanzania. Nobody is allowed to practice or to be employed as an accountant unless he or she is registered with the NBAA. Employers are also forbidden to employ accountants who are not registered. Any enterprise with a turnover of 12 million shillings or asset size of 5 million shillings is required to employ at least one authorised accountant. Section 10 of the act specified the condition necessary for registration:

- pass the examinations set by the NBAA for this purpose or equivalent qualification.
- post-qualification experience of one year.
- acceptable professional and general conduct. NBAA requires three letters of reference before one is registered as an accountant.

To operationalise these legal stipulations, the NBAA introduced a three-tier professional scheme. Accounting personnel were categorised into three groups. The professional category includes holders of Certified Public Accountancy (CPA) qualification or its equivalent. Briston and Wallace (1990 p.287) portray the situation as if one has to become an authorised accountant before one can become an authorised auditor. This is a misleading impression. Those holding at least one year[3] post-qualification experience in auditing work are registered as authorised auditors while those with post-qualification experience in industry are registered as authorised accountants. In practice, there used to be no significant difference between the two groups. However, the recently mandated auditing standards reserve professional practice to those registered as authorised auditors.

The second category includes what the NBAA used to classify as semi-professionals[4]. These are registered as approved accountants. They are required to pass the National Accountancy Diploma (NAD) examination or its equivalent and have post-qualification experience of one year (now extended to three years). There are four domestic qualifications which are considered equivalent to this diploma. These are bachelors degree in Commerce and Management (accounting bias) from the University of Dar-Es-Salaam, advanced accountancy diplomas from Nyegezi, Mzumbe, and Institute of Finance Management.

The last category is classified as the technicians. These are holders of the National Bookkeeping Certificate (NABOCE) or its equivalent. Despite this third category, the NBAA maintains only two registers. By implication, the NBAA is not regulating this category of accounting personnel.

To cater for those who completed only primary school education and would like to follow career prospects in the profession, a fourth-tier was added in mid 1980s. The primary school-leavers are therefore required to start the profession at a much lower level by attempting the Basic Bookkeeping Certificate (BBC) examination.

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[3]This period has now been extended to three years by the NBAA, although the law has not been amended to reflect this change.

[4]Contrary to Briston and Wallace (1990) assertion, the four institutions (not two) offer qualifications considered equivalent to NAD. They are exempted from NAD examinations and can attempt the CPA exams directly. Also, the working experience is not a requirement for attempting any of the NBAA exams. They would normally require the candidates to prove that they have been preparing for the exams for at least nine months.

Those who qualify can be employed as accounts clerks and are eligible to sit for NABOCE exams.

This four-tier system[5] has been praised by Briston and Wallace (1990 p.286) and, quoting Tipgos (1987), they asserted six advantages of the system. However, this highly regarded four-tier system arrangement has been abolished. Beginning in May 1992, a new structure of accounting education became operational, making the transplanting of the U. K. system of professional training complete in the Tanzanian accounting education system. In the new structure, the two lower qualifications - BBC and NABOCE - were combined to form a technician level. The intermediate level qualification - NAD- was combined with the professional level to form a four level professional examination[6] as follows:

PROFESSIONAL LEVEL I:

- Financial Accounting 1; Economics; Business Mathematics and Statistics and Business Law.

PROFESSIONAL LEVEL II:

- Cost Accounting; Auditing 1; Data Processing and Management Information Systems and Taxation 1.

PROFESSIONAL LEVEL III:

- Financial Accounting 2; Quantitative Techniques; Taxation 2 and Business Administration and Management.

PROFESSIONAL LEVEL IV:

- Financial Accounting 3; Management Accounting; Auditing and Investigations and Financial Management.

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[5]Briston and Wallace (1990) discussed only the previous three-tier system.
[6]Transitional arrangements for introducing these changes were made. Two years were provided to enable the candidates of the old examination system to be phased out. Specific levels of entry into the new examination system were also established for the holders of the previous qualifications.

NBAA (1989) presents two reasons for the change in syllabus. It argued that the change was an attempt to ensure that the new syllabus produces accountants who can better serve the Tanzanian economy and also that the accounting curriculum in Tanzania is in line with international developments in the Accountancy Profession. The second reason is that the change would lead to abolition of the 'approved' accountants status. The NBAA argues that the existence of the 'approved' accountants has led to "a great public confusion about the role and status of the 'approved' accountants versus the 'authorised' accountants. The new scheme will eliminate the cause of this confusion" [NBAA (1989 p.i)]. Those who are already recognised as 'approved accountants' will continue to be recognised as such if they fail to acquire necessary qualification for authorised accountants.

A third reason was revealed by the interviews conducted by this study. It was felt that many approved accountants do not attempt CPA exams because they were recognised as accountants in the old structure. It was thought that the elimination of the approved accountants' category would force holders of NAD or equivalent qualifications to attempt CPA exams. The changes, however, allow them to continue providing services previously provided by the approved accountants. It remain to be seen whether the changes will increase the number of candidates attempting CPA exams as it is likely that many potential candidates do not attempt the exams because of insignificant difference in terms of remuneration packages between the approved and authorised accountants. The changes did not also address the question of high failure rates in the CPA exams which is another likely factor leading to fewer people attempting the exams.

Like the old system, the new syllabus continues to lay more emphasis on Financial Accounting in relation to Managerial and Public Sector Accounting. After comparing this new programme to the ACCA program, Parry and Mushi (1992) argued that the two programmes are more or less identical. It appears that these changes were made in anticipation of the changes currently taking place in Tanzania. While the new syllabus was not relevant to the Tanzanian environment of 1989, when the changes were introduced, they appear to be quite relevant and are likely to produce accountants who can serve better the Tanzanian economy of tomorrow. The government has taken considerable steps to transform the current Tanzanian economy into a market economy. There are plans to introduce a stock exchange and individuals are encouraged to participate in corporate ownership.

Section 11 also provided for temporary registration. This involved two categories of accountants;

- those who were practicing or employed as accountants before this act was introduced and did not meet the conditions specified for permanent registration. They were allowed to continue practicing or being employed as accountants on condition that they make every effort to acquire the necessary qualifications.
- expatriate accountants who are expected to work in the country for a short period of time.

In addition to regulating who can practice or be employed as an accountant, the NBAA monitors, coordinates and regulates accounting training in the country. Promotion of the accounting profession through training was one of the major reasons for the establishment of the NBAA:

- it conducts an examination scheme which, as discussed above, forms the basis of the registration process. It has established a syllabus for its own examinations and expects all accounting training institutions to cover at least this syllabus. It also insists that its standards be taught and examined by these institutions
- It has set the minimum qualification for accounting instructors.

Because industry appears to be more lucrative than teaching, there is a general tendency for instructors to move to industry. NBAA intends to set-up a fund which will be used to top-up the salary of the key accounting instructors in order to halt or even to reverse this situation.

-It participates directly in accounting training. It has established an accounting training institute at Arusha. It also conducts review classes for its examinations.

-It has the exemption power to enforce compliance. The NBAA might exempt graduates of any accounting training institution from doing any of its lower level examinations. This decision depends on whether the NBAA believe the graduates covered its syllabus adequately and whether they were taught by qualified instructors.

Third, it also issues mandatory standards to be followed in the country. So far, three standards, four guide-lines, three auditing standards and one recommended practice have been issued. The standards are called Tanzania Statements of Standard Accounting Practice (TSSAPs):

TSSAP1 set requirements on the preparation, maintenance and retention of accounting records. It has stipulated the bookkeeping methods, requires promptness of transactions recording and specified the expected books of accounts. Its specific stipulations include;

-transactions be recorded in a chronological and systematic manner. Each recorded transaction must have supporting documents which are easily traceable.

-accounting records be adequate to explain the nature of transactions involved, facilitate effective management and facilitate the preparation of financial statements.

- accrual accounting method is compulsory.

- emphasis on prompt recording of transactions. All cash transactions be recorded not later than the next working day. Other transactions must be recorded as soon as possible.
- ledger accounts be updated and balanced at least every three months.
- recorded transactions which are later found to be in error can only be corrected through correcting entries. The correcting entry must be self-explanatory and bear the authority for correction.
- TSSAP1 has defined financial statements to include income statement, balance sheet, statement of sources and application of funds, group financial statements and directors' reports.
- accounting records must be retained within the country for at least ten years.

The idea for this standard was borrowed from Sweden as is discussed later in the next section. This reflects the point highlighted by Briston (1978) that economic aid may lead to some influence on accounting regulation and practice of the recipient country.

TSSAP2 dwells on disclosure requirements. All legal entities are required to comply with them. Sole traders with a turnover exceeding 50m/= or asset size exceeding 30m/=[7] must also comply with them. It started by identifying the users of financial statements to include;

-present and potential shareholders
-present and potential creditors
-public agencies responsible for monitoring public interest
-the government
-employees

[7] by 1983 when these standards were adopted, £1 was equivalent to 20 Tanzanian shillings.

It recognised that their information requirements are neither homogeneous nor static. It argued therefore that specialised disclosures cannot be catered for by the CARs, as this is likely to "undermine clarity and aggravate clutter".

A summary of general purpose information required by TSSAP2 includes:

a) Profitability of the enterprise;

-scale of the enterprise/turnover

-amount of profit earned

-breakdown of non-operating income

-depreciation expense

-income tax paid

-items of abnormal size and incidence

-appropriation of profits

-factors affecting future performance

b) Solvency of the enterprise;

-capital structure

-breakdown of assets and liabilities

-factors affecting liquidity of the enterprise

c) Operational and administrative efficiency of the enterprise;

-physical units planned and attained

-administrative lapses

d) Contributions toward national benefits and goals by the enterprise;

-identify such benefits attained

-identify measures taken by the enterprise to secure the national benefits.

e) Fiduciary responsibility of management;

-emoluments paid to management, auditors and related parties. Related parties are defined to include relatives of the CEO and the members of board of directors. Any person who has power to determine the composition of the board of directors is included in the related party definition.

-identify related parties and disclose their stake in the company (e.g contracts with such parties, loans and imprests outstanding, etc)

f) Employees welfare;

-working conditions

-avenues through which communication between workers and management is taking place.

In addition to a long list of information items, TSSAP2 has also laid down some general guide-lines on disclosure of information:

a) Non-compliance with TSSAP2 requirements is permitted under three special cases;

-where disclosure may blur the true and fair view of the financial position or results of the operations. The true and fair view therefore overrides all stipulated requirements as it does in the U.K.

-where it is impractical to disclose.

-where such disclosure is considered inappropriate or harmful to to the company in question.

But TSSAP2 also requires that such non-compliance must be disclosed, justified and explained. Reasons for failing to comply and the financial implications involved must be quantified and disclosed (NBAA,1983 P.3). It therefore appears that these further requirements effectively mean that there are no circumstances where non-disclosure is allowed.

b) Consolidated financial statements are not required where the following conditions exists;

-the holding corporation is itself a subsidiary of another corporation incorporated in the country.

-where the businesses of the two corporations are so different that they cannot reasonably be treated as one entity.

-where it is considered impractical to prepare the group accounts or where they provide little or no additional useful information to users of the financial statement. For example, in situations where preparation may lead to delay in releasing the financial statements or where there is no significant relationship between the companies involved.

TSSAP3 has stipulated the fundamental accounting principles and their disclosure in CARS. It contains four basic assumptions, four working rules and three accounting bases.

The four assumptions which are expected to be observed in the process of preparing financial statements are;

-accounting entity to which accounting records are maintained are assumed to be separate and distinct not only from the owners but also from any other enterprise the same owners may have.

-financial statements are prepared on the assumption that the enterprise will continue operating for the foreseeable future.

-It is assumed that all transactions are measurable and quantifiable in money terms.

-It is assumed that the currency is stable over time. This is an unrealistic assumption given the current double digit inflation in Tanzania.

The four working rules are;

-the accrual concept, that is, income and expenses are recognized and accounted for as they are earned and incurred and not when cash is received or paid for.

-the matching concept. That is, an attempt must be made to match all benefits received to all efforts incurred when determining the results of operations of the period.

-Revenue realization concept. That is, income is recognized in the accounting records only when they are realised either in the form of cash or in any other form of asset whose ultimate realisation into cash is reasonably certain.

-valuation of balance sheet items;

-fixed assets be recorded at historical cost or valuation less the amount written off as depreciation.

-current assets be reported at the lower of market or cost.

-the liabilities be reported at the cash or cash equivalence necessary to discharge the obligation on the balance sheet date.

- accounting prudence

Accounting bases are defined to include alternative methods developed for applying fundamental accounting principles. TSSAP three has specified the following;

-consistency

- materiality

TSSAPs have some valuation standards visible in them. Alternative revenue realization methods are acceptable. Revaluation of fixed asset is permitted. Two restrictive conditions were, however, imposed. Revaluation of fixed assets can be done either on the basis of Revaluation coefficients provided by the government for such purpose or performed by professional valuers.

In the event that revaluation has taken place, TSSAPs have imposed the following disclosure standards;

- the fact that revaluation has taken place be disclosed.
- disclose date of revaluation
- disclose basis of revaluation
- if done through professional revaluation, disclose the identity of the valuer and the basis of revaluation.
- disclose the impact of revaluation on the results of operations.

From the interviews conducted, it was clear that the NBAA did not undertake the necessary preparations which would have made this requirement operational. The options of using the government provided revaluation coefficients was not available to preparers of financial statements as the government had not provided the revaluation coefficients since TSSAPs were adopted in June 1983. From a random sample of 58 companies, 24 or 41% of the sample revalued their fixed assets. All of them used the services of professional valuers.

The NBAA is silent on the format or the form through which corporate information should be disclosed. However, it has offered some guide-lines which are intended to aid comprehension. These include the use of captions, sub-totals, supplementary schedules, footnotes, parenthetical information, simple language, emphasis on important issues and classification to aid comprehension. Setting-off figures is also discouraged.

The NBAA has set a requirement on timely reporting. Draft accounts must be presented for auditing within three months of the accounting period. No interim reporting is prescribed by the NBAA. In the interim, companies are expected to record their cash transactions on a daily basis (at least not later than the next working day) and are also expected to balance their books once every three months.

It was stated above that despite the delegation of accounting regulation to the NBAA, the parliament still legislates on issues related to financial reporting. Companies ordinance (CAP 212) is widely noted in this regard. This ordinance was originally enacted in 1932 (during the colonial period) but has been subsequently amended to better reflect current developments. Several issues relating to financial reporting are specified in the ordinance:

a) ANNUAL RETURN:

Companies incorporated on the basis of this ordinance are required to submit the annual return to the registrar of companies. The annual return must be accompanied by audited financial statements. The ordinance defined financial statements to include the income statement (profit and loss account), balance sheet and directors' report. Contrast this to the TSSAPs which have defined financial statements to include statement of sources and application of funds and Consolidated financial statements in addition to the ones specified by the ordinance.

b) ACCOUNTS AND AUDIT;

The ordinance requires companies to maintain proper books of accounts and that financial statements be audited. The auditor must express a view on whether the statements are 'true and correct' and state whether he obtained all information he considered necessary for the formation of the opinion. It specified that the auditors must be appointed and have their remuneration fixed by the annual general meeting of the shareholders. It disqualified the following categories of people from undertaking the auditing tasks;

- director or officer of the company

- a partner or employee of the company
- a body corporate. It is worth noting that TAC is a body corporate.

c) DISCLOSURE REQUIREMENTS;

CAP 212 mandates minimum disclosure in the directors' report and the balance sheet. It requires the directors report to disclose;

-state of affairs of the company.

-recommended dividends.

-proposed reserve funds.

It requires the balance sheet to provide the following details;

- authorised share capital
- issued and paid share capital
- breakdown of assets and liabilities
- how fixed assets have been valued
- preliminary expenses
- any expense incurred in respect of shares or debentures issued
- intangible assets
- secured liabilities
- intra-group payables
- intra-group receivables
- details of investments in subsidiary companies
- auditor's reports which must state whether they obtained all information they considered necessary to form an opinion and whether the financial statements reflect a true and correct view.
- loans to directors or officers of the company
- directors remuneration (excluding the amount paid to the CEO and the executive directors).

4.3) DUE PROCESS:

First, due process was designed to facilitate the development of accounting standards which were relevant to the unique Tanzanian environment. This process begins with the identification of a problem by the NBAA secretariat. The secretariat then conducts research on the identified problem. For example the problems leading to the promulgation of TSSAPs 1-3 were identified in 1978. Research was conducted on the topics involved. This effort was spread over a period of 18 months. At the end of this period 27 people presented papers in a professional brain-storming seminar. The seminar took four days and the four themes which were discussed are:

a) Objectives and limitations of accounting disclosures

b) Disclosures under socialist environment of Tanzania

c) Disclosure requirements elsewhere. The focus were directed towards disclosure requirements in the U. K, Canada, Sweden, India and Sri-Lanka.

d) Disclosure requirements for special purposes.

Regulatory agencies were asked to present papers on their specific information requirements and to what extent the present CARs disclosed these information items. Regulatory agencies which presented papers were the Party (CCM), Commissioner of Income Tax (CIT), Commissioner of Public Investment (CPI), Presidential Standing Committee on Parastatal Organisations (SCOPO) and Tanzania Audit Corporation (TAC). Looking at the papers presented at this conference, it appears that most of them were not fully aware of their information needs. Take the paper presented by the Party, for example. It never addressed the Party's information needs and whether the present CARs satisfied their information requirements. CPI is the custodian of the government's interest in the Parastatal organisations. As such the Commission is expected to supervise, monitor performance and provide strategic direction for the parastatals. The paper presented by the Commission, however, concentrated on the administration of the

Dividend Limitation Act (1972) and did not touch at all the other areas of its interest. Only two papers -those presented by SCOPO and CIT showed some awareness of the corporate information needs and problems facing CARs as source of information.

The other problem was the choice of countries whose experience were considered relevant to the needs of Tanzania. The countries whose experiences were consulted were U. K., India, Canada, Sweden and Sri Lanka. India, Canada and Sri Lanka are all Commonwealth countries and it can therefore be stated that Sweden was the only country outside the British sphere of influence whose accounting experiences were consulted. It is surprising that no socialist accounting experiences were examined despite the socialist orientation of Tanzanian policies and despite warnings by Kilimba and Kitilya (1980) that the disclosure approach to accounting regulation may be inappropriate to the Tanzanian socio-economic system. The French accounting system was likely to yield a rich experience for Tanzania. Both France and Tanzania operate an indicative planning system in which both private sector and public sectors are expected to cooperate.

Lastly, all papers presented in this seminar were descriptive in nature. Only one paper provided some empirical evidence (Kilimba and Kitilya, 1980) but no attempt was made to establish possible factors explaining disclosure practice. None at all examined how the economy was working, the checks and balances on corporate behaviour, resource mobilisation and investment schemes or even the framework within which accounting information is used for decision making. When Kilimba and Kitilya (1980) suggested that the nature of the Tanzanian economic system and how it operates should first be studied before deciding on the regulatory approach, they were easily brushed aside merely by pin-pointing who the potential users of financial statements are (NBAA, 1983 p.8 section 1.4).

This professional seminar appointed a 12-member steering committee to recommend accounting standards for Tanzania. Five members of the committee were from professional practice, three were accountants employed in industry, one academic, the Attorney-General's office, one representative from the Dar Es Salaam Chamber of Commerce and one accounting expert from the NBAA, who also chaired the committee.

This committee recommended the three standards which ultimately led to the TSSAPs which were discussed earlier. It released its recommendations in the form of an Exposure Draft on 1st September 1981. Ten months were allowed for the public to respond to the Exposure Draft. Nine responses were received from individuals working for the Tanzania Legal Corporation, Board of Internal Trade, Coopers and Lybrand and Tanzania Audit Corporation. The TSSAPs were finally approved by the governing board of the NBAA in June 1983 and became effective on 1-1-1984.

Some commendable efforts worth praising were made in an endeavour to promulgate disclosure standards appropriate to the Tanzanian Socialist environment. The participants were conscious of the unique information requirements of this environment. There were genuine attempts to promulgate standards which reflected the critical issues of the time. Some examples are discussed to clarify this point.

First, at that time, Tanzania lacked qualified and experienced managers. Most of them could be appropriately classified as trainee managers. The Faculty of Commerce and Management of the University of Dar-Es Salaam was established only in 1979 with the first graduates coming out in 1981. There were many symptoms of administrative inefficiency resulting from this lack of experienced managers[8]. Thus TSSAPs focused on disclosure items which aimed at disclosing administrative efficiency of corporations in Tanzania.

Second, the shortage of qualified accountants also meant that a standard on preparation and maintenance of accounting records was necessary as a guide to the few and inexperienced accountants of the time. It is for this reason that TSSAP1 was adopted as a standard, making Tanzania the only country in the commonwealth with a standard on bookkeeping and accounting records.

Third, the Arusha Declaration was concerned with the equitable distribution of wealth and ownership of property in the country. It was also concerned with the country's path towards self-reliance. Thus one finds TSSAPs requiring disclosure of distribution of income within corporations, efforts made to acquire technology, the use of domestic resources, etc. The Arusha Declaration is well reflected in the disclosure requirements.

Fourth, at the time, the country was facing a critical foreign currency shortage. It is for this reason that TSSAPs require the disclosure of efforts made to earn and conserve foreign currency.

Fifth, as inflation continued to bite, salaries and other benefits paid to workers in general and managers in particular became insufficient to afford them a 'decent' life style. Some resorted to unofficial ways and methods of obtaining funds from their employers in order to get ends meet. It was because of this that 'related parties' was defined in the context of Tanzania to include executive managers,

[8]In 1986, TIB reported that the projects they financed faced two types of problems: operational and implementation problems..."operational problems related to weak management, low capacity utilisation, poor capital structure, and tight liquidity. Implementation problems were caused by organisational inefficiency or managerial inexperience and ineffectiveness in planning and starting up new projects" (TIB, 1986 p. 7).

members of board of directors and their relatives. It is for the same reason that some petty issues such as staff hotel accommodation expenses and breakdown of outstanding 'safari' imprest are to be disclosed and justified in CARs, etc.

Sixth, agriculture is the bulwark of the Tanzanian economy. It was therefore necessary to stipulate some standards which would facilitate accounting for crops.

These are few commendable examples which were made to identify relevant issues to be reported in CARs. However, a disclosure approach to accounting regulation was inappropriate to the Tanzanian environment of the time. As Briston (1978 and 1984) and Briston and Wallace (1990) have observed, disclosure requirements pre-suppose the existence of private investors and an efficiently operating stock exchange. In an environment where private investors are few and government involvement in economic activities is high, disclosure regulations are at best meaningless.

The adoption of a disclosure approach to accounting regulation has a lot to do with the factors observed by Briston (1978). These factors are discussed in general terms in the next section. Specifically, economic aid; International accounting firms; English as the business and academic language and the colonial system all shaped the approach to accounting regulation in Tanzania.

Tanzania has been a significant recipient of economic aid particularly after the adoption of Arusha Declaration (Okoko, 1987). The economic aid has been coming in the form of expatriate manpower, scholarship grants to Tanzanian students abroad, etc. The architect of the accounting regulation in Tanzania was a World Bank sponsored expatriate with the NBAA. TSSAP 1 borrowed extensively from the Swedish Accounting Act, 1976 (Briston and Wallace, 1990). The adoption of this standard was influenced by a paper presented by a Swedish expatriate in

Tanzania (Zetterstorm, 1980). Mr Zetterstorm was an expatriate auditor with Tanzania Audit Corporation (TAC). He was sponsored to TAC by the Swedish International Development Authority (SIDA).

Of the twenty seven people who contributed articles to this process, 17 were holders of commonwealth (other than Tanzania) professional qualifications. Some of them were working with the International Accounting Firms. English Language has also played a part in determining what books are read in the country and the adoption of the U.K professional training system.

The colonial system has had an impact on the accounting regulation in Tanzania, mainly through the colonial legal system. The companies ordinance was imposed by the colonial system. Although this ordinance has been amended several times, it has remained essentially British in its orientation. It is also worth mentioning that Tanzania had no single accountant at independence (Briston and Wallace, 1990). Therefore, well established professional accountants or a professional body with vested interest in the continuation of the colonial system of accounting regulation were not there. However, once Tanzania embarked on its training programme, Britain was the major training ground. Out of 123 registered authorised auditors in 1987, 73 or about 60% held British professional qualifications.

Apart from the adoption of the inappropriate disclosure approach to accounting regulation, NBAA has not instituted a system of monitoring compliance to-date. It expects the registered members to do whatever is possible to ensure that its standards are accepted and practiced. Accounting instructors are requested to teach and examine them. Auditors are expected to demand compliance or qualify their reports where these standards are not complied with. Although, as Taylor and Turley (1986) pointed out, the audit function is the traditional way through which compliance with the accounting standards is monitored, the effectiveness of this approach is dependent on the environment in question. Effectiveness of audit opinion requires a framework within which some action is taken on the basis of the auditors reports. Where the market is operating efficiently, audit qualifications are discounted by the market and this is likely to operate against the interest of the managers. In addition, there are listing requirements and investigation done by the Department of Trade and Industry in the case of U.K. Apart from the Parliamentary Committee on Parastatals and the bankers (for private sector firms), few appear to be interested in the audit opinion in Tanzania. It was observed, for example, that some annual reports which were prepared by an accounting firm for their clients had no independent audit opinion. All the accounting firm reported was the fact that they prepared the CAR. The Registrar of Companies appeared to regard this as sufficient for the purposes specified in companies ordinance (CAP 212). The ordinance requires an audited annual report to be attached to the annual return. There is a need therefore to have coordination of some sort between standard setters and those who enforce legal provisions in the corporations.

It is this lack of an effective system to monitor compliance with the legal provisions and other requirements that has led to the weaknesses TAC audit reports have been highlighting for quite sometime. TAC has been reporting in its annual reports that financial reporting in the public sector faces three main problems: they are not timely, they lack essential details and are of doubtful quality. Although these reports led to the formation of Parliamentary Committee on Parastatal Accounts (POC) in 1978, the Party's deadline for submission of up-to-date accounts in 1979 and the Presidential directive that all CARs must be up-to-date by the end of the 1987, TAC (1989) still reported the same old problems in their 1989 annual report.

Thirdly, TSSAPs are too flexible and permit a variety of alternative procedures. Their scope is also too broad in the sense that they apply to all types of entities regardless of size, ownership or industry. This is in sharp contrast to the U. K where they are applicable only to the limited companies (Gray, 1987) and U. S. A where they are restricted to the listed companies (Benston 1976).

4.4) FINANCIAL REPORTING REGULATION LITERATURE ON TANZANIA:

Briston and Wallace (1990) gave an extended description of accounting regulation in Tanzania. However, some of the description gives a misleading impression of what has happened there. Yet more of their descriptions are now history. This section will rectify these shortcomings and add the missing details.

Briston and Wallace (1990) have argued that there are three possible approaches to regulation of accounting education and practice open to third world countries. A country may develop its own procedures on the basis of its own socio-economic needs and environmental context without learning from others' experience; it may transplant them from developed countries to its own environment or it may learn from others experience while adapting these experiences to suit its own needs and environment.

Given the present day world system, it is unlikely that any country will develop its own system without recourse to others experience. Even without admitting it, developments elsewhere are likely to influence the thinking in the country in question. It may therefore be difficult to find any third world country which could be classified in this first category, although this is a matter for future research to establish.

The second approach acknowledges accounting as a business language and like other languages, it could be applied universally. Given this belief, some third world countries have transplanted accounting procedures regardless of whether they are relevant to their own environment or not. Briston (1978) argues that most third world countries are trapped in this situation and sights some examples to support his argument.

It is argued, however, that it is not a belief in the universality of accounting principles that is leading to this approach to accounting regulation. Briston (1978) has provided convincing arguments as to the factors leading to this approach to accounting regulation. He suggests six factors which may explain this tendency: First, using the British colonial system as an example, Briston argues that the colonial system had imposed the British Companies Acts with its disclosure and auditing requirements on the former colonies. The colonial system also meant that professional status could only be achieved through registration with the British professional bodies. Once the system was established it reinforced itself. Those who operate the system have a vested interest in its perpetuation because of its lucrative rewards and the fact that they are not likely to admit that what they studied and practiced is now irrelevant to the current socio-economic requirements.

Secondly, he maintains that most MNCs are based in the U. K or the U. S.A and have adopted the accounting systems of home country for their overseas subsidiaries and have trained local staff in those systems. It is therefore unlikely that a totally new approach will be adopted as the professional accountants are unaware of alternatives and are likely to stiffly resist any attempt to introduce a totally different approach. Suggestions by Kilimba and Kitilya (1980) is a case in point. It is also unlikely that alternative approaches will ever be conceived in the first place since research facilities are also lacking in these environments.

Thirdly, he also asserted that most International accounting firms are either British or American and have trained their local staff to service their clients according to the U. S. A. or U. K. systems.

His fourth argument is that the World Bank and other international financial institutions insists that the projects they finance be audited by the international accounting firms, thus perpetuating the superiority of the of the U. K./U. S. A. systems in the eyes of third world professional accountants.

His fifth point is that international aid has also contributed towards the perpetuation of the system. The aid is often provided in the form of staff exchange, provision of scholarships and grants of textbooks. These forms of aid can only increase the knowledge and acceptance of the donor countries' approaches as the Swedish case discussed above.

His final argument is that the use of English language in most of these countries and the dominance of the U. S/ U. K. textbooks in the accounting field has meant that education in these countries is based on the standard U. K./U. S. A education system.

To this list, Nobes (1988 p.41) adds the accidents of history and provides some examples as to what he means by this.

The third world countries may opt for a third approach. They may learn from others' experience and use this experience to develop systems and procedures which are appropriate to their needs and environment. Briston and Wallace have classified Tanzania as belonging to this group of countries. It must be pointed out that for a country to follow this approach to accounting regulation, two conditions must be fulfilled. The regulators must be aware of the information needs and also be well conversant with the environment. A deep knowledge of the environment would require not only knowledge of the domestic legal systems and requirements, but also a good knowledge of how the system is working and the formal and informal checks and balances on the corporate behaviour. Lack of research on how the third world economies are working has meant that most third world regulators are not aware of how the system works and therefore their information needs. The situation is aggravated by the use of accounting expatriates in the regulatory process who may not be well aware of the environment she or he is required to regulate. The lack of knowledge of the unique environmental aspects may mean that they are unaware of information needs of the users of accounting reports.

A casual look at the Tanzanian accounting regulatory process may lead to her classification into this third category. A more critical eye would reveal quite a different picture as the discussions in section three above clearly shows.

4.5) OPINIONS ON FACTORS CONTRIBUTING TOWARDS QUALITY OF CARS:

A questionnaire was designed to capture opinions and attitudes on factors which contribute towards the quality of financial reporting in Tanzania (see appendix 4.1). Complete results of this investigation are enclosed as appendix 4.2. In summary, the opinions gathered by a five-point Likert-type scales, eight out of twenty factors ranked high as negative contributors towards the quality of financial reporting in Tanzania. These are shortage of qualified accountants (4.45), inadequate remuneration for accountants(3.85), quality of accounting training (3.75), accounting manpower turnover (3.55), inadequate use of accounting reports (3.40), regulation of accounting practice by the NBAA (3.32), inadequate assiduity on part of accountants (3.30) and communication problems between the branches and corporate headquarters (3.16).

Other factors investigated ranked low as causes of inadequate corporate disclosure practices in Tanzania. These are deliberate suppression of accounting function (2.95), accountants are unaware of the regulatory requirements (2.95), inadequate data processing equipments (2.74), inadequate printing facilities (2.65), cost of publishing CARs (2.55), cost of data collection and processing (2.55), possibility of intervention by tax authorities (2.50) or other regulatory agencies (2.20), nature of the reported message (2.55), cost of auditing CARS (2.50), professional disputes between accountants and auditors (1.58) and the cost of competitive disadvantage (1.58). In the opinions of regulators, these factors did not contribute significantly towards negative corporate information disclosure.

These opinions may be compared with the reasons given for failure to comply with the 1985 Presidential directive on timeliness of CARs. As pointed out earlier, the President had issued a directive that all parastatals must submit up-to-date CARs by the end of the year 1987 onwards. This deadline was further extended by two years. The NBAA took-up the issue and prepared a report on the extent to which parastatals complied with this directive and the possible reasons for failure to comply.

Of the parastatals responding to the NBAA's questionnaires, 42 companies did not comply with the directive. 14 companies did not state the reasons for their failure to comply. Of the remaining twenty-eight companies:

-13 (46%) stated that they failed to comply because they lacked qualified accountants.

- 9 (32%) stated that they could not afford to pay the audit fees.

- 2 (7%) could not meet the deadline because of heavy backlog work to clear the accounts.

- 2 (7%) failed because of the poor communication between the branches and the head offices.
- 2 (7%) reported that poor compensation for the accountants was responsible for their failure to meet the deadline.

4.6) CHALLENGES FACING FINANCIAL REPORTING REGULATORS:

The Tanzanian approach to accounting regulation has been praised and lessons for other third world countries identified (Briston and Wallace, 1990 pp.296-298). The most striking lesson is that the regulators were able to identify national objectives and then structured the disclosure requirements to facilitate monitoring of the identified objectives.

It is argued, however, that although efforts were made to identify national objectives, no attempts were made to identify how the economy of Tanzania was functioning, the checks and balances on corporate behaviour and mechanisms available for attainment of the identified objectives. As a result of this, regulators adopted a regulatory approach which appears to be environmental specific at the outset. Deeper analysis would reveal that they transplanted the U.K / U.S approach. The following arguments are presented in support of this position:

First, the disclosure approach to accounting regulation was adopted despite the country's socialist orientation. The disclosure approach to financial reporting is intended to provide information to individual investors scattered around the world. The success of such an approach in stimulating economic development depends on the existence of mechanisms which would encourage managers to exert maximum efforts such as stock exchanges. A socialist economy essentially means that corporate control is exercised at the centre. Socialist accounting has to be designed to primarily provide control information to the centre. Such a system is much simpler in its outlook and can well be operated by bookkeepers rather than professional accountants[9] (Bailey, 1988). It tends to be uniform in its procedures and principles in order to facilitate performance evaluation of various enterprises in a socialist economy. No attempt has been made at all to introduce socialist accounting.

At the outset, it appears as if accounting education in Tanzania was designed to achieve its socialist objectives. This is suspect. The approach adopted emphasised professional training of accountants mainly found in capitalist countries (Wierzbicki, 1988). Deliberate attempts were made to make accounting education in Tanzania equivalent to the one provided by the U.K/ U.S system. A look into the accounting training programme would reveal only three subjects in the entire programme which emphasize issues unique to the Tanzanian environment and except for one subject, they are all optional. These are co-operative principles or government accounting offered at NABOCE level, Government accounting or Co-operative principles offered at NAD level and the political economy of Tanzania. There is no significant difference in terms of topics covered in professional training in Tanzania and U.K. There was a deliberate attempt to make professional qualifications in Tanzania equivalent to other professional qualifications in other commonwealth countries. Textbooks used in professional training are basically British.

Finally, the reporting principles involved in Tanzania are not significantly different from the ones observed in the U. K. For example, the overriding principle in financial reporting in the U.K. is the 'true and fair' rule. This is also the overriding principle stipulated by TSSAPs.

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[9]This would be an added advantage in less developed countries where accounting manpower is in short supply.

It can now be concluded that the single most important challenge facing financial reporting regulators in Tanzania is to develop an approach which is relevant to her economic development. This would require a deeper knowledge of how the economy is functioning. Since socialism essentially means central planning, which implies control of corporate activities from a central position, the importance of an accounting system in facilitating such control can not be over-emphasized. To develop a relevant accounting approach would require creation of an institutional arrangement which is consistent with the national policies. The accounting system would then be designed to serve such a system.

Tanzania has been busy preaching socialism while creating capitalist institutional arrangements and expecting not only to learn from capitalism how to build socialism, but also expecting capitalist countries to help her build socialism. It is wishful thinking to imagine that this could happen. Worst still, some capitalist institutions which would facilitate the rapid transformation of the economy such as a stock exchange were pre-empted because of the socialist policies. Since professional accountants in Tanzania are more conversant with the capitalist way of organising business enterprises, the alternative challenge facing them is to convince the leadership to adopt a system they understand and believe in.

The sooner the environment is restructured to be relevant to the regulatory approach or the regulatory approach restructured to be relevant to the environment the better. Otherwise the regulatory approach will continue to be alien to its environment for a long time to come. Fortunately, there are signs that the environment is undergoing serious transformations which are consistent with the current regulatory approach (Malima, 1992).

CHAPTER FIVE.

DISCLOSURE THEORY AND PRIOR EMPIRICAL RESEARCH.

5.1 INTRODUCTION:

The objective of this chapter is to discuss disclosure theory and prior empirical research in this area. There is general agreement that corporate information disclosure is not random. There are specific factors which influence corporate information disclosure practices. This chapter discusses these factors and also sets out the hypothesis for investigation.

The chapter is divided into ten sections. The next section examines general issues in corporate information disclosure. This is followed by a debate on free market, regulatory approaches to financial reporting, qualitative aspects of corporate disclosures and the dependent variables under investigation. Section seven discusses major factors affecting corporate information disclosure practices. Obstacles to corporate information disclosures are discussed in section eight. Section nine reviews prior empirical research in this area while the last section sets out the hypothesis for investigation.

5.2 DISCLOSURE THEORY.

Corporate information disclosure incorporates the entire system for providing corporate information to interested parties. Foster (1986) and NBAA (1983) have identified the following interested parties:

5.2.1). Shareholders and potential shareholders need corporate information for investment decisions and for monitoring the stewardship role of management. Investors require information which may enable them to identify mispriced securities. Firm-, industry- and economy-related information is likely to be useful in this regard. But shareholders are likely to examine information relating to trends in prices, trading volume and other such information. It has been argued, however, that the potential benefits of CARs for investment decisions is limited (Ball and Brown, 1968; Kaplan and Roll, 1972; Brealey and Myers, 1984). They argue that it is unlikely that investors would obtain superior insights about the future prospects of a firm relative to that already implicit in the current securities prices.

However, even those who believe in the market efficiency hypothesis also agree that in a well functioning market, the returns are consistent with the efforts made. Thus Hines (1982 p.306) argues that an investor with superior interpretive or predictive abilities would not be prohibited from using the annual reports (probably together with other information) to earn abnormal return simply because most of the information disclosed in annual reports have been conveyed to the market by interim reports. CARs could still provide useful information for predicting firm-specific variables such as risk and dividend yield and also confirm previously released interim information and thus help to keep the market efficient (Ball, et al., 1978).

Shareholders may also need information on management's stewardship role. Such information may enable them to monitor and influence managerial behaviour. Management has considerable discretion over the use and disposition of companies resources. It may divert resources from the existing shareholders if it so wishes. This discretion provides a need for:

- management contracts which can better align the interests of management and other stakeholders. There are two possible ways for doing this. These are stock options offers to management and tying executive compensation to performance. Stock options would ensure that managers would act to maximise the value of the firm while executive compensation tied to performance would induce managers to strive for the best performance.

- corporate information disclosure. Information on how management has used the companies resources may moderate their behaviour towards the use of corporate resources while information on management's track records may improve managerial attitude towards performance.

Investors may use corporate information directly or through the financial analysts and such other advisers. These advisers are likely to act as a pressure group for more information disclosure. However, there may be cases where, intuitively, they may pose obstacles to corporate information disclosure. Take a case of forecast information disclosure. Financial analysts are not likely to support such disclosures as this is likely to affect the demand for their services.

5.2.2). Managers may also use corporate information. In situations where management contract or compensation scheme is tied to financial statement's variables, managers themselves are likely to press for more timely information disclosure. They may also need corporate information to facilitate their own financing, investing and operating decisions. Decisions to seek long-term debt finance, for example, may depend on some financial statements' variables such as debt-equity and interest coverage ratios.

5.2.3). Employees are likely to require assurance on the continued ability of the employer to employ them. In this regard, they would like to have information relating to current and future profitability and solvency. They would also like information items which enable them to establish and monitor the viability of their pension plans. They may require corporate information for yet another reason. In situations where their compensation is tied to financial statement variables, they may require CARs to enable them to establish what is due to them.

5.2.4). Lenders and other suppliers of factor inputs may also need corporate information to enable them to decide whether to grant credit and the terms of such credit. Many bankers have standard evaluation procedures that require information relating to liquidity, leverage, profitability and the like (Rwegasira, 1978; Foster, 1986). Corporate information available may enable them to decide on the amount to loan, the level of interest to charge and the security to demand in support of a loan. Once the credit is extended, banks may need financial statements to monitor terms of the agreement.

5.2.5). Customers would wish to be assured of continued flow of supplies. They would therefore like to establish the financial viability of firms with which they have long-term relationship. They would also like to be assured that long term commitments by suppliers such as guarantees and warranties are likely to be honoured.

5.2.6). Governments and their regulatory agencies require corporate information for many reasons (Briston, 1984; Foster, 1986; Wallace, 1987):

- to determine whether corporations are paying the right amount of taxes.
- to monitor firms performing government contracts on a cost plus pricing basis in order to establish that companies engaged in government's business do not earn excessive profits.
- to facilitate regulation of the economy.
- Most third world countries lack the technological capacity to utilise resources they posses. The governments would therefore like to monitor the rate at which they acquire capacity to utilise their own domestic resources and also monitor the rate at which domestic corporations are penetrating international markets.
- to enable governments to decide whether or not to guarantee corporate loans and subsequently monitor whether debtor corporations conform to the terms of the agreement.
- For socialist policies, market failure arguments or lack of indigenous entrepreneurs to undertake required investments, governments may participate directly in the corporate equity investments as a shareholder.

Many parties are therefore interested in corporate information. Foster (1986) has pointed out three factors which make CARs a more preferred medium of corporate information disclosure;

- it discloses variables which are of direct interest to many parties;
- it is a more reliable source because of the audit function and the legal protection afforded by law in most countries;
- it is a cheaper source. The cost of preparing special reports to different users may exceed the anticipated benefits.

Foster (1986) argued that the ability of CARs to reduce uncertainty about future cash flows and the availability of alternative sources of corporate information are two factors which may influence users' demand for CARs. Compared with alternative sources[1], CARs appear to be the most important media of corporate information disclosure among investors and financial analysts. In the survey they conducted among individual and institutional investors and financial analysts in the UK, US and New Zealand, Chang, Most and Brain (1983) concluded that CARs were the most important medium. It was the source which ranked the highest. However, their findings should be interpreted with caution given the bias which may have resulted from the non response rate[2] and the hypothetical nature of the research setting - the incentive of individual respondents to misrepresent their preferences were not explicitly considered. Wallace (1987 p.28) also found CARs to rank the highest as a source of corporate information in Nigeria. The idea that CAR is the most important source of corporate information has been supported by academicians and practitioners alike, including Rwegasira, (1978) and Kilimba and Kitilya, (1980) in Tanzania; Firth, (1980) in U. K and U. S. A and Chang, et al. (1983) in New Zealand and U. K

The importance of financial reports has led to two opposing schools of thoughts. One school argues that CARs are so important that managers would disclose all significant information without coercion. Their importance ensures that there are adequate forces to ensure this. The other school argues that the only way to ensure the full benefits of adequate corporate information disclosure is to regulate financial reporting. The following section examines the arguments in favour of the free market approach to financial reporting.

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[1]Alternative sources of corporate information varies from tips and rumours, advice of friends and personal connections, direct communication with management, prospectuses, corporate press release, proxy statements, newspapers and magazines, advisory services, stockbroker's advice, to corporate interim reports.
[2]The response rate for this study varied from 21.3% for U.K. individual investors to 43.4% for New Zealand financial analysts.

5.3 THE FREE MARKET APPROACH TO FINANCIAL REPORTING:

Economists have long argued that market forces are capable of allocating resources efficiently and provide for the individual's freedom to choose. Individuals will express their preferences (cast their votes) through the market system without any coercion or violation of individual's freedom (Friedman and Friedman, 1980). The resulting price transmits information to all participants in the market. Organised markets of today have enormously facilitated this transmission of information. Anything preventing prices from expressing freely the conditions of demand or supply interferes with the transmission of accurate information.

It is argued further that efficient transmission of information alone is a waste of resources. Those receiving the transmitted information must have the incentive and ability to act on it. The beauty of the market system is that the price which brings the information also provides an incentive to act on it (Friedman and Friedman, 1980 p.37). It provides both information on demand and how to act efficiently to meet the demand. So long as the price offered is higher than the marginal cost, the producers will continue producing. Producers will maximize their benefits at a point where price or marginal revenue equals marginal cost.

To obtain the most out of the market system, it ought to be completely free. All actors should be free to enter or to exit the market. They should all be price takers. All should have a perfect knowledge of the market and transaction costs should not distort the efficient functioning of the market.

The argument for free markets is carried to the provision of accounting information. Accounting information is considered similar to any other economic good (Benston, 1976). Corporate management and financial analysts[3] are producers of this good. Consumers are those who are using accounting information in their decision making process.

Both consumers and suppliers of accounting information have incentives to trade in this product. Consumers need information for their decisions and are therefore prepared to pay for it. This derived demand creates a price for it. Benston (1976) maintains that, the market for accounting information will allocate it efficiently. It will ensure that optimum quality and quantity of information is available at a right price to all who need it.

The price offered for accounting information is not the only incentive inducing disclosure. Shareholders have incentives to ensure that all available information is released and impounded in the share prices. Since accounting information is used in trading decisions, disclosure of such information should enable them to realize gains on their holdings.

Suppliers of accounting information have other incentives too. They would like to attract economic resources to their corporations at a reasonable cost. Information they release may have beneficial effects on economic indicators such as share prices. This may afford them access to resources at a reasonable cost. Managers are likely to disclose information in order to pre-empt takeover bids. Finally, information disclosure may have positive effects on their human capital. Human capital changes with the perception of those using accounting information to establish corporate performance. Information disclosed may enable them to get higher bonuses and perhaps more easily obtain alternative employment. The problem is that managers may not be willing to supply enough information.

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[3]Financial analysts re-analyze the accounting information to provide better insights.

Supporters of the free market approach to financial reporting assert that this problem can easily be solved through the agency theory (Jensen and Meckling; 1976).

The agency theory as propounded by Jensen and Meckling (1976) and Fama (1980) assumes people act in self-interest to maximise their personal benefits. It also assumes that firms are nexus of contracts between various stakeholders. The principal uses the contract to create incentives for the agent to act in his interest or develops a costly monitoring device. While the monitoring costs are incurred by the principal, the bonding costs are met by the agent. The theory suggests that the agent will readily provide information required for monitoring purposes in order to minimise the bonding costs. The theory has, however, been criticised by Puxty, (1985); Tinker, (1985); Merino and Neimark (1985) and Tinker, et al. (1985) on the following grounds:

- the theory fails to explain market imperfections.
- it is an ideological statement rather than an objective statement about the nature of man.
- the competitive labour market assumed is, perhaps nonexistent in the real world.
- shareholders are known to be less effective in policing and monitoring their interest than the theory assumes.

If the market for accounting information is perfectly competitive and using Pareto optimality as the objective, there would be no case for regulation of financial reporting. However, although few deny the weaknesses of the free market approach to financial reporting, opinion is sharply divided on the need for accounting regulation. These arguments are presented in the next section.

5.4 THE NEED FOR REGULATION OF FINANCIAL REPORTING:

In the first place, the market for accounting information is not perfectly competitive and does not produce an efficient outcome. Regulation of financial reporting is considered necessary to make the outcome of the operations more efficient. Existence of externalities in the market is one possible cause for market failures. The public nature of accounting information means that supplying it to one participant will confer benefits to all participants simultaneously and indiscriminately. Gonedes and Dopuch (1974) point out that this positive externality (that is, third parties benefit without paying for it) would lead to less than socially desirable levels of accounting information.

In the second place, the Pareto optimality criterion may not be satisfactory on equity grounds. There may be a number of efficient outcomes which the operation of the market can produce. On grounds of equity, one of the outcomes may be prefered to the others. Regulation may be necessary to ensure that the most equitable outcome is obtained. Consider, for example, a situation where market forces lead to uneven possession of information among investors. Well informed investors may 'exploit' poorly informed ones. Hence they must be protected by regulating the market.

Assuming there are market failures and lack of equity, can regulation improve the situation? Those who argue against regulation question the ability of regulators to come up with better solutions. They raise two critical issues in this regard:

- Can the regulator determine the competitive or equitable solution?
- Assuming he can, is he motivated to take action which will approximate that solution? Intuitively, it is difficult to see why regulators would act in the public interest when all

operators in the market are assumed to act in their own self-interest (Jensen and Meckling, 1976)[4].

Benston (1976) has summarised the arguments used to support accounting regulation[5]. He pointed out that it is presumed that regulation of accounting information can lead to;

a). prevention of fraud, misappropriation and unfairness.

b). improved efficiency in the allocation of resources and the operation of the securities market.

c). improved government administration and availability of information for the general public and employees.

He concludes, however, that there was no evidence to support the idea that regulation of financial reporting leads to these presumed benefits. He argues that fraud existed before the introduction of regulation, it still exists today. Misleading financial statements are not a serious problem as the market cannot be fooled. While perhaps Benston's (1976) arguments may hold in that the market may see through "cosmetic" differences, it may be argued that it can be "fooled" by inadequate information.

The other arguments Benston used to support his position are also themselves questionable. Take his argument against regulation as a way of preventing fraud, misrepresentation and unfairness, for instance. He argues that auditors have a powerful incentive to report dishonest managers as auditors' integrity is the most valuable asset they have. Question the auditor's integrity and his livelihood is endangered. What Benston forgets is the fact that it is within the regulatory framework that the auditors' credibility may be called to question. Without the

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[4]Supporters of free market approach believe in the agency theory. They use this theory to support their position that all actors in this market have incentives to supply the required information.

[5]Benston does not believe in accounting regulation.

explicit legal provisions auditors may lack power or even the desire to report fully on the managers. Accounting regulation is necessary to establish the auditors' legal obligations and the framework within which his work can be supported and monitored.

Benston also doubts the utility of financial reports for investment decisions as the economic value of firms are based on the present value of cash flows or the current market value of assets and not the accounting figures. What he fails to consider is the relationship between those market values or estimates and the accounting reports. Accounting numbers provide useful data for estimating the cash flows and market values. Without credible accounting figures the forecasts and estimates are also likely to be misleading. Moreover, accounting reports confirm the information obtained through other less credible sources of corporate information and provide means of assessing expectations. The audit report confirms the credibility of management. All in all, the accounting report plays a significant role in generating the confidence necessary for share trading.

Phillips and Zecher (1980) also examined the beneficial effects of disclosure regulation. They argued that it would only be beneficial to investors if it can improve the pricing mechanism for securities. They, however, found no evidence to support the existence of such an effect.

Chow (1983), in his award winning paper, investigated how the accounting provisions of the 1933 and 1934 Securities Acts of the U. S. A. affected investor's wealth around the time of their enactment. He concluded that the Act reduced the shareholders wealth through inter-firm wealth transfers, out-of-pocket compliance costs and reduced opportunity sets. His methodology has, however, been criticised by Merino, et al. (1987). They argue that Chow's study lacked a control group, had an unsubstantiated test period and misclassified events during the test period.

From economics literature, regulation of accounting information may be justified on grounds of market failures or equity. Regulations may only be justified when the benefits of regulation exceeds the costs. As the benefits and costs of regulations are difficult to identify and quantify, a case in favour of regulation can never be proved to the satisfaction of all.

Moreover, efficiency is not the only criterion for making social decisions. The existence of an institutionalised legal system presupposes that the need for regulation in the society has been established. The purpose of law is to provide justice. Whenever there is dissatisfaction with the outcome of the market, the law is called into operation.

Public choice theory (Posner 1974) may also explain the existence of the regulation of financial reporting. It is argued that every regulation re-allocates resources and by so doing, makes some groups richer and others poorer. Individuals affected by regulation must organise themselves to bid for or against the regulation. Political process is an important means through which mankind can pursue its own self-interests. Watts and Zimmerman (1986) have argued that, in a regulated economy, political process is used to achieve wealth transfers. Accounting theory is then used or exists to provide rationale or excuses to support the courses of action desired by various groups in the economy.

Consider the accounting profession in the U. K., for instance. They set-up the ASC in 1969 in order to define accounting concepts, to narrow differences in financial reporting and to codify generally accepted accounting standards in the name of public interest. Gray (1987) observes that the ASC soon found itself caught in the web of controls and constraints of those it purported to regulate.

Public choice theory suggests that regulations tend to subsidise relatively small, well-organised groups that have a high per capita financial stake in the regulation. Economic regulation is thus a tax, justified as furthering the public interest, but ultimately having the effect of re-allocating resources within the community. It appears that those who enjoy increased demand for their services - financial accountants, auditors, tax consultants, etc, tend to benefit most from the regulation of financial reporting.

Despite the divided opinion, financial reporting regulation is likely to remain in place. Financial reporting regulation in Tanzania was discussed in chapter four. The rest of this chapter will define what is meant by quality of corporate information disclosure and how these qualitative aspects are measured and captured for purposes of this study. The chapter will then move on to examine factors which are likely to influence corporate disclosure practices and prior research on these factors.

5.5) QUALITATIVE ASPECTS OF CORPORATE DISCLOSURES.

Several studies have identified qualitative aspects of CARs (e.g. Peasnell, 1974; ASC, 1975; Stamp, 1980; Burton, 1976 and Gray, 1976). The most significant qualities of CARs identified are relevance, completeness, timeliness, reliability and comparability.

5.5.1) Relevance and completeness:

Users expect relevant corporate information which would improve their ability to predict and forecast the future. Relevant information is expected to influence users' decisions. It is important, therefore, for CARs to contain information relevant to users needs. They are also expected to be complete in the sense that they cover all important aspects of corporate activities. The completeness of CARs in terms of the extent of information disclosure could be captured by both the extent of mandatory disclosures and extent of voluntary disclosures. Most studies concentrate on the extent of voluntary disclosures (e.g. Cerf, 1961; Singhvi, 1967; 1968; Chow and Wong-Boren, 1987; Wallace, 1987). One reason for the interest in voluntary disclosure practices is the ability of this variable to capture factors which induce or deter corporations from disclosing information. The other reason is the assumption that mandatory disclosures would be disclosed, anyway. Some of these studies draw conclusions on the quality of corporate disclosures purely on the basis of the extent of voluntary information.

Yet the few studies which have examined the extent of mandatory disclosures have shown that such requirements are not necessarily complied with (Ernst and Whinney, 1979; Ingram and Copeland, 1980; Hiramatsu,1990 and Tai, et al., 1990). Ingram and Copeland, for instance, found that municipal authorities in the U.S.A disclose very little mandatory information. Tai et al. (1990) found major departures from statutory requirements by companies listed on the Hong Kong stock exchange. Hiramatsu (1990) observed a general non-compliance with the Japanese commercial code on disclosure requirements. In light of these observations it would be insufficient to draw conclusions on the quality of disclosure practices without observing the extent of compliance with mandatory disclosure requirements. This is likely to be especially so in developing countries such as Tanzania where the enforcement mechanisms are likely to be less effective than in many developed countries.

There is a third aspect of relevance of corporate information. This is the timeliness of corporate information disclosure. Information loses it capacity to influence decisions with time. Givoly and Palmon (1982) found the price reaction to the disclosure of early announcements to be significantly more pronounced than the reaction to late announcements suggesting a decrease in information content as the reporting lag increases. It is, therefore, important that CARs are released to the public soon after the end of accounting period. The longer it takes before accounting information is released to the users the less relevant it becomes for decision making. In order to draw any valid conclusion on quality of disclosure practices, one has, therefore, to observe the timeliness of financial reporting as well. Prior studies have investigated the quality of disclosure practices without reference to the timeliness of corporate disclosures.

5.5.2). Reliability and Comparability of Corporate Information:

The other qualitative aspects of corporate information disclosure are reliability and comparability. Corporate information has to be comparable over time and between similar companies. The users of CARs must be confident that the reports contain reliable and comparable information. Realising the importance of these aspects, the accounting profession introduced the auditing function to cater for this need.

Auditors examine financial records and evidence underlying the financial statements. They then issue audit reports to accompany CARs. Their main role is to assure the users of the quality of CARs. The audit report may carry one of the five possible professional opinions. Auditors may issue a clean opinion where all professional and statutory requirements are complied with and the resulting CARs present an accurate picture of the financial position and results of operations. They may issue 'subject to' opinions in situations where there is a significant uncertainty surrounding the reporting information. The auditors may, for example, fail to attend the annual physical stock-taking. In such a situation, they may not be certain about the validity of the reported stock figure. They may have to point this fact out in their audit reports.

The third type of audit opinion is given where there is significant disagreement over the treatment of certain reported information. The disagreement may be over professional or statutory requirements. The auditors may also believe that the treatment of a given information item is such that the reported information distorts the true and fair view of what actually transpired. In such case, the auditors are expected to issue an 'except for' opinion.

The last two possibilities are disclaimer of opinion and negative opinion. Auditors may disclaim their opinion in cases where there is a fundamental uncertainty surrounding the reported information. The uncertainty may arise out of contingencies or failure to perform the required audit procedure. The difference between disclaimer of opinion and 'subject to' described above lies in the level of uncertainty involved. In situations where the opinion is disclaimed, the level of uncertainty is so fundamental that if the unexpected happens, the actual picture will be totally different from the one presented in the CARs.

A negative audit opinion is issued where there is a fundamental disagreement between the auditors and the client. In this particular case, the auditor believes that the CAR presents a misleading picture of the financial position and the results of operations.

It may be concluded that the auditors' major role is to examine the various qualitative aspects of the CARs and assure the users of CARs of the reliability of the reported information. It would seem appropriate that any study of quality of corporate disclosures would consider the type of audit opinion expressed in the CARs. This is valid conclusion in light of findings that type of audit report is not random (Warren, 1975; 1980; Chow, 1983; DeAngelo, 1982). Warren (1975, 1980), for example, found type of audit opinion to be related to size (measured by turnover). Larger firms had lower proportions of audit qualifications than smaller firms. He conjectured that this was due to larger firms' ability to 'capture' auditors. He also found companies reporting losses to have slightly lower proportion of qualifications than those reporting profits. Chow (1983) found that a major determinant of the likelihood of receiving an audit qualification was the presence of unexpected changes in earnings. There has, however, been little empirical work relating to type of audit report on developing countries.

In drawing conclusions on the qualitative aspects of corporate disclosures, it appears from the preceding arguments that there is more to quality than the extent of voluntary information disclosure. Any study on the quality of corporate disclosure practices must investigate the reliability, the relevance, timeliness and completeness of corporate disclosures. It is argued that four variables are needed to capture the quality of corporate disclosure practices. These are the extent of voluntary disclosures, extent of mandatory disclosures, timeliness of disclosures and the type of audit opinion expressed on the CAR. Past studies have used voluntary disclosure practices as a proxy for quality of corporate information disclosure. It could be argued that any one of the four measures could only be used as a proxy after proving a statistical relationship between them. Unless this relationship is established, conclusions drawn regarding the quality of corporate information disclosures based only on one measure would appear to be grossly inadequate. The relationship between the four measures of quality of corporate information disclosure is tested in this study and the results are presented in chapter seven.

5.6). DEPENDENT VARIABLES UNDER INVESTIGATION:

As discussed in the preceding section, the four dependent variables of interest to this study are the extent of mandatory disclosures, the extent of voluntary disclosures, the type of audit opinion and the timeliness of corporate information disclosures.

To capture the extent of disclosure, two disclosure indexes are used. The first index consists of mandatory disclosure items. As pointed out above there is evidence to suggest that preparers of financial reports may not necessarily comply with mandatory disclosure requirements if such disclosures are not in their interest especially if the regulatory process is ineffective. They may also lack the ability to comply with certain requirements.

In Tanzania, the NBAA has the power to regulate the professional conduct and practice of its members, but has no powers over the board of directors. As stated earlier in chapter three, information disclosure is a corporate responsibility. Moreover, the Tanzania Audit Corporation is explicitly exempted from the NBAA regulations by section 39 of the Act which created the NBAA. Yet, so far it relies on auditors to demand compliance with its requirements but there are no regulatory decisions based on the auditor's reports as revealed in chapter four. NBAA has not instituted any framework within which disclosure practices could be monitored. In short, therefore, apart from the legal confusion, NBAA has not put the legal provisions into practice - at least as far as disclosure requirements are concerned as was discussed in chapter four.

Section 39 of the Auditors and Accountants (Registration) Act, 1972 empowers the NBAA to regulate the accounting profession and practice by issuing regulatory requirements. On the basis of this section, NBAA stipulated very extensive disclosure requirements. The aim of this research is to have an all inclusive list of these requirements. However, in order to be able to state exactly what proportion of requirements is disclosed without penalising some companies for non-disclosure of items which are irrelevant to their circumstances, some omissions were necessary:

a) where it was likely to be unclear from the CAR whether non-disclosure was an attempt by managers to avoid disclosing required item or the absence of such an item to disclose. For example, TSSAP 2 require that all material events subsequent to the balance sheet date be disclosed. Non-disclosure of these events may indicate that there were no such events rather than a deliberate attempt by management to avoid publicising such information. If it could not be confirmed from CARs which of the two possibilities apply, such an item was excluded from the index.

b) Items which were considered trivial or immaterial in the light of the NBAA's stipulated user needs were also excluded. As reported in chapter four, NBAA would like CARs to disclose information on profitability, solvency, operational efficiency, contribution of the company towards national goals and aspirations, management's fiduciary responsibility and accounting policies adopted. Any item which does not add much towards this end, such as specific individual items forming a breakdown of selling and distribution expenses, are considered immaterial. Inclusion of such immaterial items might portray a distorted picture of corporate disclosure practices in Tanzania.

The first index has 88 disclosure items. The full list is presented as appendix 5.1.

The second index (see appendix 5.2) comprises the voluntary items. These are items considered relevant and useful in the light of the NBAA's specified information needs (NBAA, 1983), yet, have not been prescribed. While the first disclosure index is likely to explain the ability to comply with or the acceptance of the requirements and effectiveness of the regulatory process, this index is more likely to uncover the factors which induce or deter voluntary corporate information disclosures.

Two approaches were used to evolve items included in the second index; The first approach was an attempt to identify the users needs in a normative manner. This would, ideally, involve observing decisions made by users and then identifying items which might be useful for the decisions actually made. This may be difficult to carry out in practice because, it is not easy to define the decision models of users and the type of decisions to which the items of information are to be applied. Identification of a theory which may link information items to the decision making process is equally difficult. There is literature on the relevance of some information items to various aspects for which financial statements are used in developing countries. Enthoven, (1978); NBAA, (1980); Briston (1984); and Wallace, (1987) are examples of such a literature. This literature was consulted in the process of constructing this second index. Secondly, attempts were also made to specify the users information needs through interviews in Tanzania as explained in chapter three. Performance variance analysis, corrective actions taken on the basis of variance analysis and Kiswahili translation of CARs are few examples of information items suggested by the interviewees.

The second index is composed of 44 items and is presented as appendix 5.2. The breakdown of the major categories of information items are presented in table 5.6(a) below:

Table 5.6(a): Main categories of voluntary information items.

a) AID TO UNDERSTANDING CARS:

1. Audit opinion on directors reports.
2. Anticipated economic environment.
3. Performance variance analysis.
4. Line of business segments.
5. Geographical segments.
6. Turnover of each segment.
7. Contributions of each segment to profits.
8. Number of employees in each segment.
9. Operating costs incurred in each segment.
10. Comparative balance sheet of subsidiary company for two years.
11. Comparative income statement for two years.
12. Comparative statement of sources and application of funds for two years (subsidiary companies).
13. Subsidiary company's directors reports.
14. Kiswahili version of annual reports.

b) Future Prospects:

1. Comparative value added statement for two years.
2. Amount spent on research and development (R&D).
3. R&D activities undertaken during the year.
4. Short term quantitative forecasts.
5. Long term quantitative forecasts.
6. Anticipated economic environment.
7. Corporate objectives.
8. Targets set.
9. Performance variances analysis.

10. Corrective action on performance variance analysis.
11. Amount spent on marketing activities.
12. Criteria for identifying and appraising projects.
13. Procedures for implementing and monitoring projects.
14. Terms of management contracts.
15. Qualification and experience of directors.

c) Administrative capabilities of management:

1. Audit opinion on timely recording of transactions.
2. R&D activities planned and undertaken during the year.
3. Short term quantitative forecasts.
4. Long term quantitative forecasts.
5. Corporate objectives.
6. Targets set.
7. Performance variance analysis.
8. Corrective action on performance variance analysis.
9. Criteria for identifying and appraising projects.
10. Procedures for implementing and monitoring projects.
11. Marketing activities undertaken during the year.
12. Qualification and experience of directors.
13. Qualification and experience of CEO.
14. Plans and actual transfer of technology.
15. Reasons for failure to comply with terms of management contract.

d) NATIONAL INTERESTS:

1. Comparative value added statement for two years.
2. Amount spent on R&D.
3. R&D activities planned and undertaken during the year.
4. Intra-group pricing policies.
5. Intra-group transfers.

6. Short term quantitative forecasts.
7. Long term quantitative forecasts.
8. Corporate objectives.
9. Targets set.
10. Performance variance analysis.
11. Criteria for identifying and appraising projects.
12. Terms of management contracts.
13. Efforts to protect the environment.
14. Directors' other directorships.
15. Number of employees in the company.
16. Emoluments paid to the highest paid worker.
17. Amounts paid to the average worker.
18. Amounts paid to the lowest paid employee.
19. Identity of shareholders.
20. Plans and actual transfer of technology.
21. A statement that management has complied with the terms of management contract.
22. Reasons for failure to comply with terms of management contracts.
23. Loans received in foreign currency.
24. Breakdown of the holding corporation's interest in subsidiary company.

To quantify the extent of disclosure, the items were equally weighted. Each item scores one if it is disclosed and zero if not disclosed. Other possibilities for assigning weights are:

a) subjective weights assigned by the researcher to different information items (Singhvi and Desai, 1971).

b) replication of weights in previous studies (Barret, 1977;

Marston, 1986).

c) preferences revealed by users' opinions (McNally, et al, 1977).

d) preferences revealed by preparers' opinion (Spero, 1979).

It is argued that different methods of assigning weights to individual information items lead to similar conclusions on the corporate attitude towards information disclosure (Spero, 1979). Different weighting schemes are probably not as important as the items selected because companies that view information disclosure positively will tend to disclose many items and thus attain high scores regardless of the specific weights attached.

However, given the nature of this research, some weighting schemes were seen to face obvious limitations. The use of preferences revealed by user's opinion would have extended the scope of this research, yet, the level of importance attached to each information item is likely to vary with the user, the industry, the environment and over time.

The use of preparer's opinion is somewhat tautological. It is the preparer's willingness to disclose information which is the focus of this research. Replication of weights in previous studies was not feasible as different items are included in this study. The more serious limitation of replication arises from the fact that the possible weights are environment specific. It was therefore decided to use equal weighting method in this study.

The other complication faced in the creation of the index resulted from the possibility that some items were not applicable to all companies. Consolidated income statement is a case in point. This item is only relevant to a group of companies. The assemblage of the disclosure indexes were, therefore, designed along the line suggested by Marston (1986), Wallace (1987) and Cooke (1989) as a way of getting around this problem. The index scores were calculated for each company and then converted to a percentage of the maximum possible score. By this transformation, it was possible to ensure that a company was not penalised for items which were not relevant to it. Specifically: a Maximum Disclosure Score (MD), Actual Disclosure Score (AD) and Disclosure Index (DI) were introduced for each company;

$$MD_m = \sum_{i_m=1}^{n_m} D_{im},$$

where MD_m = Maximum mandatory disclosure score.

n_m = number of information items in the mandatory index.

D_{im} = 0, when im is a non-disclosure item (irrelevant for the company).

D_{im} = 1, when im is a disclosure item.

$$MD_v = \sum_{i_v=1}^{n_v} D_{iv},$$

where MD_v = Maximum Voluntary Disclosure Score.

n_v = number of information items in the voluntary index.

D_{iv} = 0, when iv is a non-disclosure item.

D_{iv} = 1, when iv is a disclosure item.

$$AD_m = \sum_{i_m=1}^{n_m} D_{im},$$

Where AD_m = Actual mandatory disclosure score for each company.

D_{im} =1, when im is disclosed.

D_{im} = 0, when im is not disclosed.

$$AD_v = \sum_{iv=1}^{n_v} D_{iv},$$

Where AD_v = Actual voluntary disclosure for each company.

D_{iv} = 1, when iv is disclosed.

D_{iv} = 0, when iv is not disclosed.

$$DI_{n} = \frac{AD_{n}}{MD_{n}}(100\%)$$

$$DI_{v} = \frac{AD_{v}}{MD_{v}}(100\%)$$

The third dependent variable is the type of audit opinion. It is argued that the major role of auditing function is to fill the credibility gap (Mautz and Sharaf, 1961; Meigs et al, 1969; Arens and Loebbecke, 1980). Auditors are expected by both the profession and the public to indicate the quality of CAR by the various type of opinion they offer on the financial statements. The possible audit opinions were ranked in a five-point scale (5 high quality, 1 low quality) as follows;

clean opinion	5
'except for' opinion	4
'subject to' opinion	3
disclaimer of opinion	2
negative opinion	1

The fourth dependent variable investigated was timeliness of annual reports. To capture this, the period between the end of accounting period and the date the audit report was signed was determined (to the nearest month) for each company. It was assumed that there was no significant time lag between the date auditors expressed an opinion on financial statements and the actual publication of CARs. Although this is still a conservative measure, it was not expected to present a serious problem in drawing conclusions given that most corporations adopt a quicker process of publishing CARs. They normally present typed and duplicated version of the CARs. As is presented later in chapter seven, only 22% of the CARs studied were actually printed. Furthermore, even those companies which get their CARs printed would be expected to make the typed versions public once they are audited.

5.7). FACTORS AFFECTING THE QUALITY OF CORPORATE INFORMATION DISCLOSURE:

Foster (1986) has summarised the factors influencing information disclosure in the diagram reproduced below:

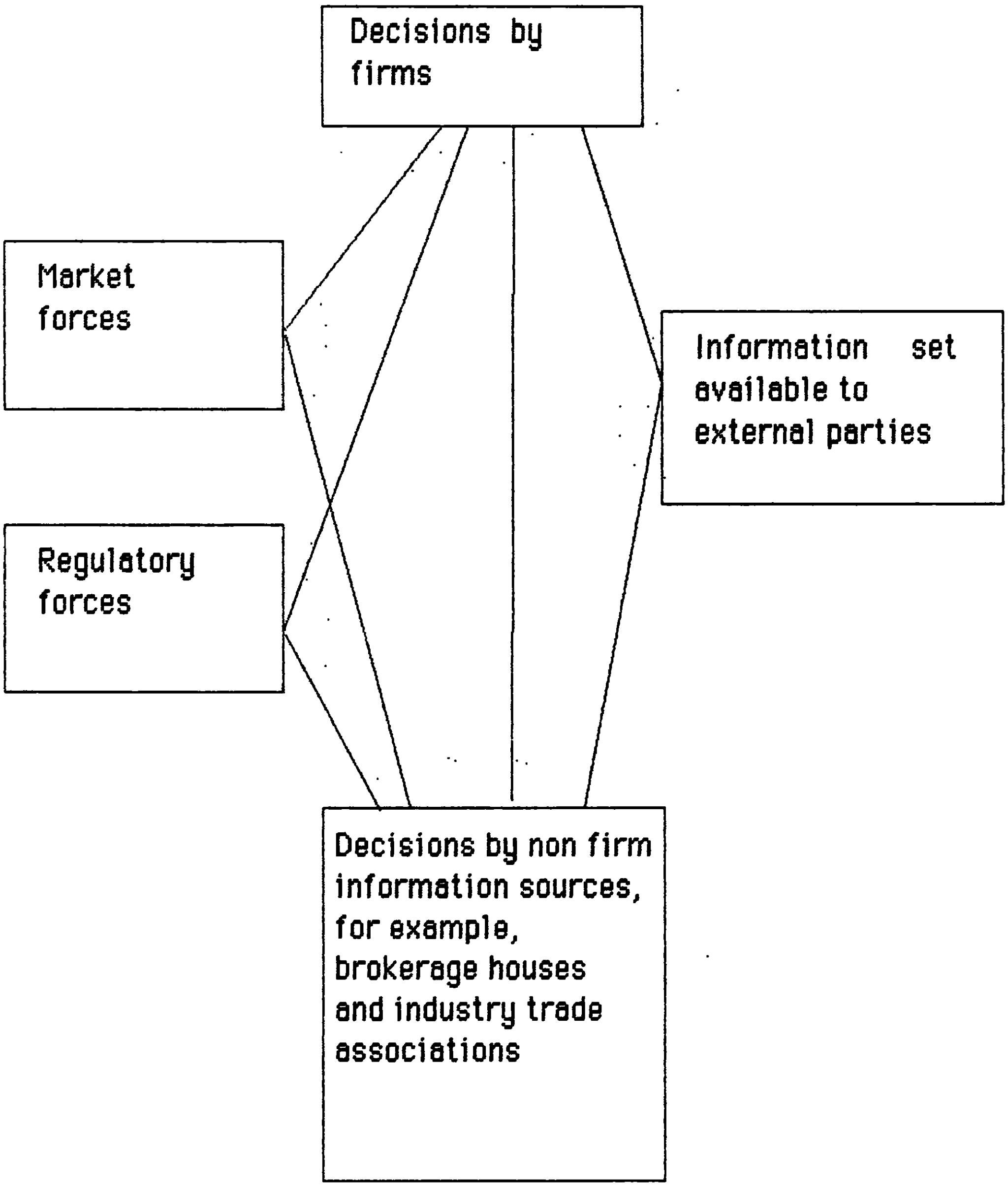

Fig. 5:1 Factors affecting information set available to external parties.
SOURCE: Forster (1986, p.24)

Based on this figure, Foster (1986) argues that the information set available to the external parties depends on the regulatory forces and the market forces. The influence of the regulatory forces was the subject of the last chapter.

Three types of market forces are thought to influence the extent of corporate information disclosure:

5.7.1) Capital Market Forces;

Companies compete with each other in the capital market for financial resources available. They offer instruments for raising equity funds, preferred shares, bank loans, etc. The marketability of these instruments and the terms offered for such securities may depend on the level of corporate information disclosed about the offering firm. This may exert pressure on firms intending to raise capital to provide information required to facilitate decisions relating to the offered instruments. Standard and Poor's Corporation (1980) conducted research on municipal accounting. Interviews were conducted among different categories of investors. It concluded that the capital market may be imposing penalties in the form of higher interest cost where accounting and financial statements are substandard (Foster, 1986 p.32).

Given the uncertainty about the quality of their instruments (debt or equity), firms have incentives to supply a set of information that they believe will enable them to raise the required capital on the best available terms (Choi, 1973). Cooke (1989) provided several explanations in support of the capital need hypothesis. First, he argued that additional disclosures may attract new shareholders and in this way help to maintain a healthy demand for shares and a price that reflects more accurately the intrinsic value of the shares. Inadequate disclosure is likely to lead to mispriced shares which is likely to attract potential predators. Second, increased information is likely to reduce the risks involved and thereby lower the cost of capital. A lower cost of capital should afford corporations additional marginal projects because they become profitable as the cost of capital is reduced. Third, companies seeking capital in foreign markets are likely to disclose more information as they adjust to foreign customs to meet requirements of banks and other suppliers of capital. Lastly, following Watts and Zimmerman (1979), Cooke argued that companies might increase their disclosures in order to demonstrate that they acted in a socially responsible manner. Companies may be able to raise capital in the market because they acted more responsibly (see, for example, U. N., 1991a).

However, this interest may also provide an incentive for misrepresentation. There are several mechanisms which are likely to reduce the likelihood of misrepresentation: First, firms issue several equity or debt offers over time. A short term gain due to financial misrepresentation could prove to be costly in the long run. Companies are more likely to be interested in maintaining credibility and reputation with the financial community so that the next time they visit the market they are not heavily penalised.

Secondly, managers are likely to be interested in maintaining their own credibility. Statements by managers whose credibility have been questioned are likely to be discounted heavily by the market. The labour market for managers is also likely to penalise individuals who are not perceived to be reliable in their dealings with the parties external to the firm. Agency theory (Jensen and Meckling, 1976; Fama, 1980) seems to suggest that managers are likely to benefit from accurate information disclosure.

Thirdly, the auditors' opinion is an assurance of the credibility of CARs.

Lastly, there is a constant threat of legal penalty for anyone who may attempt to defraud parties external to the firm. In Tanzania, for instance, CAP 212 [section 122 (3)] states that;

> "if any person being a director of a company fails to taken (Sic) all reasonable steps to secure compliance by the company with requirements of this section, or by his own wilful act been the cause of any default by company thereunder, he shall, in respect of each offence be liable on summary conviction to imprisonment for a term not exceeding six months or to a fine not exceeding four thousand shillings: .."

5.7.2) Labour Market forces:

Given discretion, management could make decisions that significantly reduce the value of the equity or debt components of the firm. They have incentives, however, to signal to the labour market that they will not take such actions (Jensen and Meckling, 1976; Fama 1980). Managers behaving contrary to market expectations may not be hired, or if hired, may be paid lower salaries. The marketability of the managerial talents and changes in the promotion prospects, salary and other perquisites may provide enough incentives to deter unexpected behaviour.

5.7.3) Corporate Control Market Forces:

Managers are likely to prefer maintaining their ability to control financing, investment and operating decisions. Any possible interference from outside, such as takeover battles, is likely to meet stiff resistance. Bradley (1980) examined the nature of inter-firm cash tender offers. His findings support the existence of a competitive market for corporate control in which the current target managers represent an important alternative to any takeover attempt. The price behaviour of the target shares revealed that the tender offer process generates a significant amount of new information concerning the value of the target resources. Management is therefore likely to disclose information that they perceive is likely to increase the likelihood of their retaining control.

5.8 BARRIERS TO CORPORATE INFORMATION DISCLOSURE:

Despite the above stated incentives for corporations to disclose adequate information, there are several factors which may hinder corporate information disclosure;

A) Corporate information needs to be accumulated and processed before it can be disclosed. This process is costly. The costs involved include the amount necessary to set-up an adequate accounting system, cost of personnel and equipment required, auditing costs and publication costs. For developing countries, this problem could be more complicated in the sense that the question ceases to be not only costs but also availability of the necessary resources. Modern data processing equipment and the personnel required to operate them may be lacking. Qualified and experienced accountants may not be available in any significant numbers. The NBAA (1989) conducted research to establish the state of accounts in the parastatal and government sectors. They reported that:

> "Many of the parastatals whose accounts are in arrears have pointed out that lack of qualified staff is one of the significant reasons which led to the bad situation. This problem has gone to the extent that some parastatals of medium to large size operate their accounting system without a single professional accountant on their staff" (P. 39).

The NBAA did not, however, relate the number of accountants employed to the quality of reporting practices. If it is true that shortage of qualified accountants is a significant reason for the observed "bad situation", and it is also true that these companies face different degrees of this problem, then it is logical to expect the companies facing more critical accounting manpower problem to have poorer reporting practices.

Parry and Groves (1990) examined this issue with specific reference to Bangladesh. They came up with very surprising findings. They did not find any evidence to support an association between the number of qualified accountants employed and the quality of disclosure practices. However, their research suffers from several methodological weaknesses (Abayo and Roberts,1991).

B) The threat of litigation may also operate to reduce information disclosure. Consider the disclosure of financial forecasts, for example.
In an ex-post basis, the forecast may turn out to be overly optimistic or pessimistic. Investors who might have relied on the financial forecast to make their investment decisions may use the incorrect forecast as a basis to sue management for whatever loss they might have incurred as a result of this decision.

C) Governments may expropriate wealth from corporate owners and redistribute the same to other parties in the society. CARs are one source of information governments may use to choose firms or industries which may be singled out for expropriation. Firms are likely, therefore, to choose accounting methods and disclosure practices which are likely to minimise their exposure to such political risks. They are more likely to disclose more information that provides evidence that the arguments used by those wishing to appropriate wealth from them are invalid. They may also aggregate information items such that their political risks are reduced.

D) Firms are not likely to disclose any information which may give their competitors any competitive edge (Firth,1980). For example, a firm seeking financial resources from the capital markets to finance its new research program is likely to be tempted to disclose such information in order to obtain the required funds at the right price (given the risks involved). Yet disclosure of such information in the CAR is likely to reduce the lead time within which competitors learn about the developments in the firm. Trade Unions and other suppliers of factor inputs are likely to use information disclosed in the CARs to improve their bargaining power.

E) Corporate information disclosure may constrain managerial behaviour. Disclosure of corporate objectives, for instance, may put pressure on management to reject short-term projects with positive NPVs simply because their adoption is inconsistent with the publicly stated corporate objectives.

5.9 PRIOR EMPIRICAL RESEARCH:

Three prior research papers on the extent of corporate disclosures in Tanzania have been consulted (Kilimba and Kitilya, 1980; Sayore, 1980; and Mihyo 1986). All these papers focused on the parastatals. This is the first study to examine corporate disclosure practices in the private sector. Moreover, none of them looked at the factors which could possibly be associated with the extent of disclosure, although Mihyo (1986) conducted an interview on the possible factors explaining the timeliness of disclosure.

Kilimba and Kitilya (1980) intended to offer some guidance to the NBAA on disclosure regulation. They dealt with three themes, i.e., methods which could be used to facilitate adequate disclosures through the CARs; the possible techniques preparers of CARs could use to misrepresent information disclosure and the extent of corporate information disclosure in Tanzania between 1975 and 1977.

On the extent of disclosure, Kilimba and Kitilya (1980) used the extent of information disclosed by the National Development Corporation (NDC) group of companies as a case study. They constructed an index of disclosure comprising 38 items. They found the extent of information disclosure to be only 18%. The items most readily disclosed were accounting policy on depreciation (80%); auditors' report (78%) and accounting policy on stock valuation (72%). The major limitation of this research is that facing any case study, in the sense that the external validity of the findings are severely limited.

The second study was that reported by Sayore (1980). He analysed disclosure practices of two parastatal organisations and concluded that corporate disclosure practices in the parastatal sector were inadequate. Below are the issues which led him to that conclusion;

- CARs were produced in insufficient numbers and distributed to the institutions and persons with whom they had business relations rather than the public libraries where they can be accessed by all. The remaining few were being sold at prices beyond a common man's reach.
- He also argued that the majority of potential users failed to access them because there were no Kiswahili translation. Since most people do not understand English, then it is most likely that they would not be able to understand the contents of the CARs.

It could be argued that the problem here is not whether there is Kiswahili translation or whether the CARs are accessed by the public or not. There are two basicproblems with this argument;

- almost all the constituents Sayore is saying do not understand

English are probably not sophisticated enough to understand the contents of the CARs even if the Kiswahili versions are produced.

- there is lack of a mechanism or framework within which the public as such could participate in holding parastatal managers accountable. In the western economic system, where the press in general and the financial press in particular plays a key role in the accountability system, the investors have both the incentive and ability to act on such information. They may decide to sell, hold or purchase additional shares. Managers realising the danger that they may be starved of the required financial and other resources, are forced to behave accordingly.

- He found that parastatals disclosed inadequate information. He provided some examples of information items he expected to find that were not disclosed. These were group accounts, summary of the nature of operational problems faced during the period and steps taken to rectify them, plans and objectives set and the extent to which they have been achieved, ministerial directives received and the extent of their implementation and the planned programmes for the coming years. He found that most companies prefered disclosing only 'good news' and taking a congratulatory tone even when it was clear that the company was in serious financial difficulty.

The major limitation of Sayore's work is the lack of an adequate framework within which to draw conclusions. Ever since Cerf (1961) introduced the idea of a disclosure index into the accounting research, it has facilitated research on corporate information disclosure. It highlights the items disclosed and those not disclosed. The external validity of his findings was also limited by the case study approach the study adopted.

Although Mihyo (1986) examined the period up-to 1985, he appeared to have been ignorant of the functions of the NBAA and completely unaware of the existence of TSSAPs. Thus one finds Mihyo advancing seriously false allegations;

- "There is absence of legal provisions compelling enterprises to disclose information about their operations." (p.255).
- "Nowhere in the law is any regulatory agency empowered to pass regulations governing the manner in which public enterprises' accounts should be compiled or the standards that should be used in the presentation of these accounts" (p.260).
- "Very few guidelines (sic) exists as regards how these accounts should be compiled and their formats" (p.259).

Perhaps, the most serious limitation of Mihyo's work is the lack of explicitly stated research methodology. Thus one finds Mihyo coming-up with very bold and controversial statements but one fails to see how such conclusions are arrived at. The implicit methods found in his research report appear suspect. For example, in an effort to establish possible causes for the public enterprises' failure to submit the CARs to the parliament[6], he interviewed twenty managers and reported that;

- 42% of the interviewees reported that this problem results from the the lack of guide-lines on the format and contents of CARs.
- 87% of the interviewees reported that the shortage of accountants was the major problem.
- 28% of the interviewees believe the failure to submit CARs to the parliament results from the delays in approving their annual budgets and development projects by the ministers.
- 4% of the interviewees reported that ministers have inside information and therefore CARs would not serve any useful purpose.

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[6]He found an average of only 19 companies submitting their CARs to the parliament between 1970 and 1980.

While these are perhaps the reasons for untimely preparation of CARs by the public enterprises, the statistics presented appear suspect. Thus one finds 42% of 20 managers to be 8.4 managers; 87% of 20 managers is 17.4 managers, etc!

Several other studies have examined the question of corporate disclosure of information and the possible factors to which they can be associated, both in the developed world and the developing countries. Cerf (1961) was the first to apply a scientific method to study corporate information disclosure. He constructed an index of disclosure which enabled him to quantify the extent of information disclosure. Using class means, Cerf established the fact that corporate information disclosure is not a random variable. He attempted to study the relationship between disclosure scores on the one hand and asset size, profitability, number of shareholders, earnings and dividend growth stability , product of the firm, degree of competition, industry, stage of development, auditors and characteristics of management on the other. He, however succeeded in quantifying and observing only the first four explanatory variables, i.e., asset size, profitability, number of shareholders and earnings and dividend growth stability. He found positive association between the disclosure scores and asset size, number of shareholders and profitability.

Singhvi (1967) identified the major limitation of Cerf's study to be his inability to perform statistical tests on the data. He therefore designed his research methodology to cater for this weakness. He also extended the list of explanatory variables and observed these factors in operation in a less developed country environment- India. The independent variables included in his study were size, profitability, frequency of external financing, industry, audit firms, management characteristics, and listing status. He observed a positive association between disclosure scores and asset size, foreign management, and profitability. He did not, however, establish any association between type of auditors and quality of disclosures. He argued that this was because auditors were primarily concerned with statutory requirements only.

Singhvi's study may be criticized on three grounds. First, the information items included in the disclosure index were selected on the basis of their usefulness to investors. In the view of the general purpose nature of the CARs and the conflicting nature of information needs of the various users of CARs, it is perhaps not proper to draw conclusions on the quality of corporate disclosure practices on the basis of information items thus derived. Secondly, conclusions on the quality of corporate information disclosures were based merely on the extent of disclosures. Certainly, there is more to quality than the extent of information disclosure alone. More significantly, Singhvi (1967) performed statistical tests using t-tests and z-tests. These tests assign value to different figures while the nature of the disclosure scores constructed for this study were inherently ranks. One is therefore only in a position to say that disclosure scores of one company is better than the other without being able to say by how much more or less.

Since these two leading studies were carried out, a lot more studies have been conducted (e.g. Buzby, 1972; Stanga, 1976; Barret, 1977; Belkaoui and Kahl, 1978; Firth, 1979; 1980; and Cooke 1989) although only few studies have been conducted in less developed countries (Singhvi, 1968; Chow and Wong-Boren, 1987; and Wallace, 1987). Several factors have been found to be associated with extent of corporate information disclosure:

a) Company Size:

Company size was found to be associated with the extent of information disclosure by Cerf (1961); Singhvi (1967, 1968); Singhvi and Desai (1971); Buzby (1972); Belkaoui and Kahl (1978); Chow and Wong-Boren (1987) and Cooke (1989).

To investigate the association between quality of disclosures and size, Singhvi (1967) captured the company size by the use of asset size (book value) and number of shareholders. He established a positive association between disclosure scores and asset size in India and U. S. A. Several reasons were given for this observation.

First, he argued that larger companies tend to accumulate and use similar information items for internal decisions while smaller firms are likely to collect and accumulate such information primarily for the annual reports. This makes disclosure costs a more severe constraint on smaller companies than the larger ones.

Secondly, larger firms are likely to benefit more from information disclosure than the smaller ones. Larger firms are more likely to raise financial resources from the capital market than their smaller counterparts. They would therefore disclose more information as a way of promoting the marketability of their securities and raise the required financial resources at the appropriate cost. He also confirmed that there is a greater dispersion in the security prices of the firms which disclose less information. He therefore concluded that adequate information disclosure minimizes ignorance in the market and causes the market to more accurately reflect the true value of shares and hence the observed narrower price dispersion of securities of the corporations disclosing more information.

Thirdly, smaller firms are likely to be more sensitive to competitive threat than their larger counterparts. This is because it is relatively easier to squeeze the marginal firms out of the market.

Lastly, Larger firms are likely to have more shareholders than smaller ones. This is likely to place the organisation in more public eyes. Financial analysts are likely to exert more pressure for corporate information disclosure. The company itself is likely to pre-empt excessive pressure from regulatory agencies by disclosing more information.

Chow and Wong-Boren (1987) also observed a positive association between corporate information disclosure and company size (measured by market value of equity plus book value of debt) in Mexico. They based their explanation for the observation in the agency theory framework. Following Jensen and Meckling (1976), they argued that the agency costs increases with the amount of outside capital. Since Leftwich, Watts and Zimmerman (1981) showed that the proportion of outside capital tends to be higher for larger firms, the potential benefits of the shareholder-debtholders-manager contracting , including the extent of information disclosure, would tend to increase with size.

Cooke (1989) investigated the extent of voluntary disclosure and the relationship between this extent and a number of firm-specific characteristics[7] in corporate annual reports of unlisted and listed Swedish companies. He established a positive association between the extent of disclosure and size. He, however, observed further that asset size and number of shareholders were more likely to explain the variability in disclosure than was annual sales.

Wallace (1987) argued that company size may influence the extent of information disclosure but the direction of association can not be specified. He argued that all previous studies which specified direction were spurious. He offered two explanations for the negative association between corporate information disclosure and the company size. His first explanation is based in the Jensen and Meckling (1976) agency theory. It is surprising that agency theory could be used to explain non-disclosure of information because the basic message of the theory is

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[7]He investigated multiple quotation, size, parent company relationship and industry.

that the other parties would use their own means to obtain the same information managers are not disclosing. As managers have a comparative advantage in producing this information, they are likely to disclose information on their own in order to reduce the monitoring costs.

The second explanation Wallace offered is that larger firms are more likely to face more political risks than their smaller counterparts. He argued that larger firms are more likely to be subjected to social responsibility requirements, price regulations, higher corporate tax and even nationalisation. Their impact in the economy is more likely to increase the government and regulatory agencies' interest in their activities than their smaller counterparts. In the context of Nigeria, he argued that the indigenization programme is based on size. He concluded that larger firms are therefore more likely to employ a variety of techniques, including disclosing less information (contrary to the agency theory and and the normal political cost argument, see for example, Watts and Zimmerman, 1986) to blur their political visibility.

In the context of Tanzania, the normal political cost argument (Watts and Zimmerman, 1986) is more likely to be applicable. It may, therefore, be hypothesized that corporate information disclosure is likely to be positively associated with company size. The company size in this case is captured by both the book asset value and turnover. The Arusha Declaration meant that Tanzanian companies are particularly vulnerable to political risks. Through the Declaration, the government adopted a policy of owning the 'commanding heights' of the economy (Nyerere, 1971; 1977). This suggests that they were more concerned with the larger firms than the smaller ones. In response to this threat, larger firms have tended to adopt techniques which may help reduce this threat - including disclosing more information which would make the government believe that it is in its own interest not to expropriate them. They may also attempt to improve the quality of corporate disclosures in order to pre-empt the need for special reports by the regulatory agencies as these are likely to be more expensive to prepare.

The number of people requiring corporate information about a company may have an impact on the extent of corporate information disclosure. In the Tanzanian context, instead of using the number of shareholders as a proxy for number of people demanding information, it may be more meaningful to test for the number of loan sources as loan capital plays a more significant role in the financing system of the country as was discussed earlier in chapter three. The more the number of sources of loan capital, the more the number of people demanding corporate information on the company in question, and therefore the more likely it is that different information items would be demanded and the more likely it is that the regulatory agencies would press for more disclosures. It is expected therefore that corporate information disclosure is positively associated with the number of sources of loan capital.

b) Type of Corporate Governance:

Singhvi (1967) and Wallace (1987) found corporate information disclosure to be positively associated with foreign management. While Singhvi explained his findings in terms of the superiority of foreign management, Wallace argued that the observed association was due to the external influence. Singhvi argued that the observed difference was due to the fact that most foreign managers were professionals who were aware of the benefits of information disclosures, while Indian managers tended to lack management training as the employment criterion is based on the caste system and religious considerations rather than management training and experience. This inadequacy meant that the indigenous managers were not aware of the benefits to be derived from better disclosures. Wallace argued that the foreign elements meant that these companies were subjected to the requirements of different countries.

In the Tanzanian case, foreign managers are expected to be associated with better disclosure practices. Several reasons may be specified for this expectation. These may better be discussed from the perspective of the type of governance. Senkoro (1985) speaking in the context of disclosure regulation in Tanzania, argued that TSSAPs placed emphasis on items which would make management's ability to maintain efficient operations transparent because most Tanzanian managers could be classified as manager trainees. This may be confirmed by the fact that the Faculty of Commerce and Management (University of Dar-Es-Salaam) was only established in 1979. The observation Singhvi found in India may be equally applicable for Tanzania. Secondly, most companies managed by foreign directors are subsidiaries of multinational corporations. These companies, therefore, indirectly seek their financial resources through the international capital markets. They are more likely to benefit from better information disclosures. Professional training and the wider experience of their managers is more likely to make them aware of the possible benefits of disclosures. But more significantly, it may be possible that their foreign connections may subject them to more extended information requirements and make them more politically sensitive as Wallace observed in Nigeria.

Most foreign directors are full-time executive directors who are appointed on the basis of their professional training and experience while their domestic counterparts are mostly part-time non-executive directors who are mostly civil servants and are appointed more for their political allegiance than their professional qualifications and experience. Mengi (1985), writing on the role of directors in the public sector, argued that some parastatal directors were themselves ignorant of corporate information. This view is supported by Kaijage

(1985) who, quoting the case of GAPEX, voiced concern that parastatal directors may also be learning what is happening in their organisations through the press like outsiders. This may mean that these directors are less effective in supervising and directing corporate activities.

Parastatal directors remuneration are not tied to corporate performance. The meagre sitting allowance is unlikely to get them committed to corporate affairs. Directors' fees are paid directly to the employer, often a government department or another parastatal. It is possible to observe poor disclosure practices associated with parastatal corporate governance as part of general mismanagement in the public sector.

c) Financial Soundness of the Company

Fama and Miller (1972), Jensen and Meckling (1976) and Smith and Warner (1979) all argued that agency costs tend to be higher for firms with a higher proportion of debt in their capital structures. This suggests a positive relationship between the extent of corporate information disclosure and financial leverage. Chow and Wong-Baren (1987)[8] investigated this relationship for the Mexican companies and no relationship was established. Belkaoui and Kahl (1974) and Wallace (1987) argued that financially stronger companies are more likely to be associated with better information disclosures.

In the context of Tanzania, a positive association between financial soundness and corporate information disclosure may be expected. Profitability may be used as measures for financial soundness. A positive association may be expected for several reasons. Profitability as measured by net profit before taxes to sales may be

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[8]Financial leverage was measured by book value of debt divided by size. Size is measured by book value of total assets.

used as a proxy for financial soundness in the sense that it measures the company's ability to absorb rising costs. It may be positively associated with corporate information disclosures for two reasons. First, ability to absorb rising costs implies also that the company is in a better position to cope with price competition. It is, therefore, unlikely that such companies will be sensitive to competitive threat. Fear of giving the company's competitors a competitive edge is less likely to hinder corporate information disclosure. Second, ability to absorb rising costs also implies ability to incur additional costs required to meet operational expenses, including costs necessary to accumulate, process and disclose corporate information.

d) Liquidity:

Corporate information disclosure may be associated with liquidity problems. While Belkaoui and Kahl (1974) proved this relationship for the Canadian companies, Wallace (1987) argued that Nigerian companies cannot be discriminated on the basis of their liquidity ratios and, therefore, did not test this relationship.

Companies with higher current ratio are likely to be associated with better corporate disclosure practices. Current ratio measures the companies' ability to meet maturing obligations as they fall due. Companies facing liquidity problems are less likely, for example, to afford the costs necessary to audit and prepare CARs as soon as the year ends. This is likely to delay the publication of CARs. Companies in better liquidity are likely to disclose more information as a signal for the good news.

e). Auditing firms:

Singhvi (1967) expected disclosure practices to vary with auditing firms. He argued that companies audited by larger audit firms are more likely to disclose more information because larger audit firms are more likely to demand more corporate information. He was surprised to discover that auditing firm size was not related to the corporate information disclosure. He explained his findings by concluding that auditors were mainly concerned with statutory requirements.

In the Tanzanian context, auditors' views on the disclosures in general may be important. Auditors must express an opinion as to whether the CARs show a true and fair view or true and correct view of the company's operations and financial position and whether they comply with the companies ordinance and the TSSAPs. Auditors may advise or influence companies in their decisions on disclosure policies beyond the required minimum.

There is evidence to suggest that while TSSAPs' disclosure requirements have been accepted by the international audit firms, they have not been accepted by the domestic auditors. For example, some international accounting firms issued comprehensive guide-lines on corporate disclosures immediately the TSSAPs were adopted in Tanzania. Contrast this to the fact that no similar general guidance has been issued by state-owned auditors, for example. In addition, the interview conducted with sources within the Tanzania Audit Corporation (TAC), revealed that the TSSAPs in general and the disclosures required in the directors report in particular, were not well received. They argued that the directors report was not approved by the governing board of the NBAA.

Moreover, section 39 of the Accountants and Auditors (Registration) Act, 1972, empowers the NBAA to set the standards and regulation required to regulate accounting practice in the country but has exempted state-owned audit firms from these regulations. By virtue of this exemption, the NBAA cannot impose its will over the TAC or the Exchequer and Auditor-General.

In light of the above observations, companies audited by International Audit firms are expected to be associated with better corporate information disclosures.

f). Industry:

Wallace (1987) expected uniform disclosure practices among companies in the same industry. He argued that dominant firms tend to set standards other companies within the same industry may want to comply with. He, however, expected disclosure practices to vary between industries because information needs are industry specific. Manufacturing firms, for instance, tend to communicate more environmental issues than, say, financial institutions. Since information disclosure depends on the demand for corporate information, variation among different industries was anticipated. However, data from a sample of Nigerian companies did not prove the existence of such a relationship. In Tanzania, it is expected that disclosure practices would be associated with the industry type because of differences in political costs and monitoring agencies. For example, financial institutions are considered to be of more strategic importance than, say, textiles manufacturing industry.

g) Good management:

Singhvi and Desai (1971) argued that net profit to net worth may be used as a measure of good management and may be associated with the quality of corporate information disclosure. When this ratio is high management may disclose more detailed information to support the continuance of its position and compensation or to attract a better compensation scheme. When this ratio is low, management is likely to disclose less information in order to cover up the reasons for the losses or the declining profits. Management may, for example, be reluctant to disclose segmental information when one or more of the divisions are making losses, preferring to disclose an aggregate profit figure only.

5.10 CONCLUSIONS:

In light of prior empirical research in other parts of the world in general and developing countries in particular, the hypothesis may be set with specific reference to Tanzania. The general null hypothesis adopted is that there are no associations between the quality of corporate disclosure practices and specific corporate characteristics. The alternative hypothesis is that there are associations between corporate attributes and the quality of corporate disclosure practices. More specific hypotheses are set in the following chapter.

CHAPTER SIX.

RESEARCH METHODOLOGY.

6.1). INTRODUCTION:

The objective of this chapter is to discuss the procedures and activities undertaken in order to describe and identify the factors associated with disclosure practices in Tanzania. The chapter is divided into seven sections. The next section presents the research hypotheses under investigation. This is followed by a discussion of the sample design, problems faced at the implementation stage and solutions adopted in the actual sample selection.

Section four defines the nine explanatory variables and states how they were captured and measured. This section also selects the appropriate statistical tests for each hypothesis. Section five examines the relationship between the nine different variables in order to control for those which are closely correlated at the data analysis stage. This is followed by a discussion of the software package used. Finally, the main observations presented in this chapter are summarised in the last section.

6.2) RESEARCH QUESTIONS AND HYPOTHESES:

The main research questions were discussed in chapter one. The study investigated two main issues: the disclosure practices and factors to which they are associated in Tanzania. Research findings in India, Mexico and Nigeria (Singhvi, 1967, 1968; Chow and Wong-Boren, 1987; Wallace, 1987), have revealed that disclosure practices are associated with specific corporate attributes. As discussed in chapter five specific hypotheses were, therefore, set in order to investigate these factors with specific reference to Tanzania. The hypotheses are:

6.2.1. Ho: The level of profits earned by corporations in Tanzania is associated with disclosure practices.

6.2.2. Ho: The type of accounting firm auditing CARs is associated with disclosure practices in the country.

6.2.3. Ho: The type of corporate governance is associated with corporate disclosure practices.

6.2.4. Ho: Company size is associated with corporate disclosure practices.

6.2.5. Ho: The number of qualified accountants employed is associated with corporate disclosure practices.

6.2.6. Ho: Industry type is related to the corporate disclosure practices.

6.2.7. Ho: The liquidity position of a company is associated with corporate disclosure practices.

6.2.8. Ho: The number of sources of loan capital is associated with corporate disclosure practices.

6.2.9. Ho: The proportion of liquid assets in place is associated with corporate disclosure practices.

How these corporate variables were defined and captured are discussed in section 6.4.

6.3) SAMPLE DESIGN:

To investigate disclosure practices in Tanzania, one possible approach is to investigate all possible media of disclosure by all economic entities in the country - a very expensive, time consuming and unnecessary effort. A sample of economic entities may be sufficient to facilitate conclusions. If a sample is chosen with adequate care, a clear picture of disclosure practices may be seen and relevant factors to which they are associated identified.

This research focuses on the Corporate Annual Reports (CARs) prepared by the sampled economic entities. No attempt was made to study the alternative modes of disclosure discussed in the last chapter. There are several reasons for this choice;

a) CARs are the most significant source of corporate information in Tanzania. They are accessible to all and contain a whole variety of information not generally disclosed in any other report. Apart from management audit reports (for parastatal organisations), there is no specialised report filed regularly with any regulatory agency in the country. The annual report filed with the Registrar of Companies or Commissioner of Income Tax rely on CARs in so far as corporate information is concerned.

b) CARs are the most credible source of information. They are prepared on the basis of professional principles developed over a long period of time. The double entry system provides a strong check on accuracy. Above all, auditors attest to their credibility.

The intention of this research was to draw a random sample from economic entities in Tanzania. A random sample was necessary in order to ensure the external validity of the findings and also to facilitate the planned data analysis. Economic entities were defined for the purposes of this research to include all entities whose major objective is to create wealth. As was discussed in chapter three, there is a general agreement that profit generation is equivalent to wealth creation. Therefore, economic entities as opposed to social institutions such as universities and hospitals were of interest to this study.

There was a second reason for the interest in profit orientated companies. This study intended to test the capital market theory of corporate information disclosure. Tanzania provides a unique opportunity to test the capital market theory. Unlike most environments where resources are allocated on the basis of anticipated profits, resources are allocated administratively in Tanzania and are not necessarily directed where they can earn the most in terms of profits (price). Often there is a sympathy by politicians to subsidise loss making enterprises in the name of 'national interests' and other justifications not directly related to performance in terms of wealth creation (Ndulu, 1984; Sanare, 1986; Msambichaka and Bagachwa, 1983)

Economic entities in Tanzania are organised as sole proprietors, partnerships, subsidiaries of multinational corporations (MNCs), domestic private sector companies and state-owned corporations (parastatals). Sole traders and partnerships are not legal entities and are not required to file annual reports by any agency in the country. As such, data availability and collection are likely to be more problematic and expensive. It is also possible that most of them do not even prepare annual reports. Sole traders and partnerships were, therefore, eliminated from the sampling frames.

The Registrar of Companies' register and the SCOPO's parastatal organisations directory were the two sampling frames used for selecting corporations whose annual reports were used in this investigation. However, the two sampling frames were of limited use because of lack of details on the companies involved. They are mainly lists of names and addresses. Details of company size and industry type were also required to allow for stratified sample selection. Size was an important factor because the NBAA regulatory requirements are based on size[1]. Industry was important because it was thought that disclosure practices would vary from one industry to another as was discussed in chapter five. This meant that initial larger simple random samples were drawn to facilitate subsequent stratification and further drawing of stratified samples.

Each sampling frame on its own was inadequate for the purposes of drawing a random sample of profit orientated companies in Tanzania. The Registrar's list included only the companies incorporated under the companies ordinance (CAP 212). Some parastatals are established through special Acts of Parliament and the Public Corporations Act, 1969 and are, therefore, not required to file their annual reports with the Registrar of Companies. SCOPO's directory contains the parastatals alone. Domestic private companies and the multinationals are not subsumed in this directory. This missing element problem in any one of the two sampling frames was solved by the use of both sampling frames.

Two hundred and forty-eight companies were initially selected from the Registrar of Companies filing system and seventy-three parastatals selected from the SCOPO directory. The selection process intended to achieve a simple random sample of profit-orientated companies in Tanzania. Thus, every ninetieth file was selected from the Registrar's filing system, the contents of the file carefully studied and a photocopy of the CAR taken where available. This procedure revealed other problems in the sample selection:

a) Some companies were included in the Registrar's register despite

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[1]Section 39 of the Accountants and Auditors (Registration) Act, 1972 empowers the NBAA to regulate accounting practice and the conduct of accountants in the country. However, part VI of the Act has specified that only entities with asset value exceeding 10M/= or turnover exceeding 5M/= are required to employ at least one authorised accountant or auditor. Since the NBAA was mainly meant to regulate professional conduct and practice, it follows that any entity with less than these requirements can escape the regulatory powers of the NBAA.

the fact that they had been liquidated. Out of the 248 companies in the initial simple random sample, four companies were found to have been liquidated. Nine companies were registered but were yet to start operating; two companies were found to be non-profit organisations and five companies filed foreign prepared CARs. The existence of these phenomena meant that the two sampling frames contained elements which were not of interest. Twenty companies were therefore dropped from the sample. This reduced this initial simple random sample from 248 to 228 companies. Of these remaining companies, a total of 98 companies[2] did not file their CARs with the Registrar of Companies as is required by law. This further reduced this simple random sample to 130 companies.

b) The use of two sampling frames implied that some parastatals could be drawn twice. Because of this anticipated problem, all parastatals incorporated under the companies ordinance (CAP 212) were eliminated from the second sampling frame. Parastatals incorporated under CAP 212 were easily identified by the fact that they carry the words "Company Ltd" as the last two words in their names. This reduced the second sampling frame from 406 parastatals to 112. Some enterprises in this sampling frame could not be classified as profit seeking. Thirty nine parastatals were classified as non-profit seeking organisations. These were also eliminated. This reduced the population size to 73 companies. It was

[2]Of these companies which did not file their CARs with the Registrar, 15 were parastatals (25% of all parastatals randomly selected from the Registrar's files), 32 were MNCs (44% of all MNCs selected) and 50 were domestic private sector companies (45% of all domestic private sector companies selected). While the rate of non-filing is more or less similar between MNCs and domestic private companies, a higher proportion of parastatals filed their CARs.

decided to seek CARs from these parastatals.

c) Both sampling frames had insufficient information. It was, therefore, necessary to get some further information before selecting the final sample. CARs were obtained from the Registrar's files as discussed above or directly from parastatal offices and details of size and industry obtained before selecting the final sample. This process produced 149 CARs (64 parastatals, 54 domestic private sector companies, 26 MNCs and 5 joint-ventures). 37 companies were later considered to be too small. They had an asset size and turnover of less than the amounts which would make the NBAA's regulatory requirements binding as was discussed above. It was also found that one parastatal became operational in 1986. It was considered a special case and therefore removed from the sample. These further two adjustments left 210 companies in the sample (118 parastatals, 54 domestic companies, 33 MNCs and 5 joint-ventures); as shown in table 6.3(a).

Table 6.3(a): Summary of the sample selection process.

	par	dspc	mnc	m+p	total
Initial sample:					
From Registrar's files	60	110	73	5	248
From SCOPO's directory	73				73
Total	**133**	**110**	**73**	**5**	**321**
deduct:					
Non-filing companies	(15)	(50)	(33)	-	(98)
Companies not in operations	-	(4)	(5)	-	(9)
Liquidated companies	-	(2)	(2)	-	(4)
CARs obtained	**118**	**54**	**33**	**5**	**210**
deduct:					
Non-profit companies	-	-	(2)	-	(2)
Filed foreign-prepared CARs	-	-	(5)	-	(5)
Considered too small	-	(37)	-	-	(37)
Became operational in 1986	(1)	-	-	-	(1)
Companies in 9 omitted industries	(95)	(3)	(9)	-	(107)
The sample	**22**	**14**	**17**	**5**	**58**

KEY: Par = parastatals;

dspc = domestic private sector companies;

mnc = multinational corporations;

m+p = joint ventures between MNC and parastatals.

Having obtained these 210 CARs, information was now available to stratify the sample into industries on the basis of International Industrial Classification. This process resulted in 14 industries identified below:

a) Distributions, Hotels, Catering and Repairs Service Industry;

b) Chemical manufacturing Industry;

c) Agriculture, Forestry and Fishing Industry;

d) Transport and Communications Industry;

e) Banking, Finance, Insurance and Business services;

f) Textiles manufacturing Industry;

g) Construction and Building Industry;

h) Metal goods, Engineering and Vehicle Industries;

i) Non-Metallic mineral products;

j) Energy and Water Supplies industries;

k) Food, Drinks and Tobacco Manufacturing industries.

l) Manufacture of Paper and Paper Products.

m) Manufacture of leather and leather goods.

n) Timber and Wooden furniture Industries.

A simple random sample of 5 industries was drawn from these fourteen[3]. The lottery system was used to select the five industries. These are: Distribution, Hotels, Catering and Repairs; Chemical manufacturing industry; Banking, finance, Insurance and business services; Textiles manufacturing industry and Metal goods, Engineering and Vehicle Industries. This procedure resulted in 58 companies which formed the sample under investigation. The described sample selection process is summarised in table 6.3(a) above.

This study intended to study CARS for the year ending 1986. The two years gap was thought to be necessary to enable companies to get familiar with the disclosure requirements introduced in June 1983. However, some selected companies (files) had no CAR for the year ending 1986. 8 companies had their CARs for the year ending 1985 but they were all audited in 1986 or later. 18 CARs were for the year

[3]This was necessary to reduce the sample size to a manageable proportion. The number five was determined arbitrarily.

ending 1987. The rest (32) had their accounting period ending in 1986. The study, therefore, covered the period extending from 1985 to 1987.

6.4). EXPLANATORY VARIABLES AND STATISTICAL TESTS:

According to Ryan, et al. (1985), Daniel and Terrel (1986) and Siegel and Castellan (1988), the selection of appropriate statistical tests is based on the level of measurement or scaling employed in the operational definition of the variables involved, the particular hypotheses to be tested, the manner in which the sample scores or data was drawn and the nature of the population from which the sample was drawn.

On the level of measurement achieved, Siegel and Castellan (1988) identified four levels of measurements. In a nominal scale, the numbers or other symbols are employed simply to tell the difference or to group similar elements together. At the ordinal scale, the objects in one category are not only differentiated from the other categories, but the observers are able to see some kind of relationship. They are able, for example , to tell which category is better than the other. The ordinal scale is said to be unique up-to monotonic transformations. Monotonic transformation is one which preserves the ordering of objects. Any transformation which does not change the ordering of the classes seems appropriate because it does not involve loss of any information. Thus Siegel and Castellan (1988) recommends the use of nonparametic or ranking statistics whenever the highest level of measurement achieved is ordinal.

The third level of measurement discused is the interval scale. At this level of measurement, the observer is not only in position to identify equivalent objects and specify which ones are greater or smaller but is also able to establish the ratio between any two intervals. That is, once the interval level of measurement is achieved, the numbers between any two numbers on the scale are meaningful.

The last level of measurements discussed is the ratio scale. At this level of measurement, in addition to fulfilling all the conditions for the interval level, the researcher could establish the ratio between any two scale values.

In order to use parametric statistics, Siegel and Castellan (1988) have emphasised the need for the variables to have achieved at least an interval scale so that the researcher is able to meaningfully interpret the results obtained. They argue that in order to perform certain operations on numbers that have been assigned to observations, the structure of the method of assigning scores to the observations must be isomorphic to the numerical structure which includes these operations. The two systems are considered isomorphic if their structures are the same in the relations and operations they allow. To put this in the words of Siegel and Castellan (1988 p.33):

> "the properties of an ordinal scale are not isomorphic to the numerical system known as arithmetic. When only the rank order of scores is known, means and standard deviation found on the scores themselves are *in error* or *misleading* to the extent that the successive intervals (distances between classes) on the scale are not equal and *dot not have substantive meaning*. When parametric statistical inferences are used with such data, any decisions about hypothesis are problematic. Probability statements derived from the applications of parametric statistical tests to ordinal data may be in error when the variables do not satisfy the parametric assumptions. In as much as most measurements made by behavioural scientists culminate in nominal or ordinal scales, this point deserves strong emphasis."

The position propounded by Siegel and Castellan (1988) is not universally accepted. Thus one finds, for example, Cooke (1989) using multi-regression analysis on data which was basically ranks. Marston and Shrives (1991) conducted a review of literature on the appropriateness of the use of parametric statistics on disclosure indexes. They quote three studies which support their position that the use of parametric statistics on ordinal data is permissible. The first study they consulted was the one by Gaito (1980). Gaito considered the ideas expressed by Siegel and Castellan as discussed above to be misconceptions. "Statistical procedures do not require specific scale properties. Numbers do not know where they came from." While it is true that one can use any figure in a statistical test and obtain results, the interpretation of such results without reference to where the figures came from is likely to lead to erroneous conclusions.

More plausible quotations are perhaps the ones from Gregoire and Drivers (1987) and Davison and Sharma (1988). While the former provided empirical evidence showing that parametric test on ordinal data do not lead to great problems, the latter provided theoretical proof that there is no need for measurements to be on an interval scale if the assumptions of parametric tests are met.

On the basis of this evidence, the use of parametric statistics on ordinal data is perhaps acceptable. Since the objective of this research is to establish the strength of relationship between disclosure practices and the various explanatory variables, correlation analysis was considered a more appropriate procedure. Correlation analysis is a very powerful statistical test since it examines all information provided by all individual elements in the sample. Most other statistical tests concentrate on the few parameters. ANOVA, for example, examines only the variances and compares the mean of the sub-samples (Daniel and Terrel, 1986). Correlation analysis has, however, more restrictive conditions. The proper use of

Pearson correlation coeffients' test would require that the distribution be free of outliers and that all variables (investigated and explanatory) used in the analysis be normally distributed.

These assumptions are tested for the explanatory variables in the following section. Where the assumptions are not met, Spearman's rank order correlation coefficient's are used. The level of significance are tested using the formula:

$$Z = r\sqrt{n-1}$$

where r = Spearman's rank order coefficient.

n = the sample size.

Z = normal probability value

In situations where the explanatory variable is categorical as is the case of type of corporate governance, for example, Kruskal-Wallis one way analysis of variance by ranks is used. The distribution and nature of all explanatory variables are now examined in order to select appropriate statistical test for each hypothesis.

6.4.1). HYPOTHESIS 6.2.1: The Level Profits Earned by Corporations in Tanzania is Associated with Corporate Disclosure Practices.

In this hypothesis, the level of profits earned was measured and captured by two financial statements ratios: the net profit before tax but after interest to turnover (P/T) and net profit after tax to owners equity -including preference shares - (P/E) ratios. Owners equity was defined as total assets owned by a company less total liabilities owed as reported in the financial statements. Only one adjustment was made to these figures. Since extraordinary items were not expected to have a long term impact on management attitude towards information disclosure, they were all eliminated from the reported profits.

The net profit before tax to turnover ratio ranged from a minimum of -6.02 to a maximum of 0.92, with a mean of -0.117 and median of 0.06. A boxplot[4] in exhibit 6.4.1(a) below revealed the existence of outliers in the distribution of P/T ratio. These outliers were re-checked to ensure that they were not due to data processing errors.

Exhibit 6.4.1(a): Boxplot showing nature of distribution of profit before tax to turnover ratio.

```
                              --
   0 0                    0 **-+I-* *0
                              --
------+---------+---------+---------+---------+---------+P/TURN
  -6.0     -4.5     -3.0     -1.5     0.0     1.5
```

It was also decided to check whether the P/T ratio is normally distributed. Normal probability plots were used for this purpose. If a variable is normally distributed, the normal distribution plots will exhibit a straight line, otherwise a curvature will be visible. As can be seen from exhibit 6.4.1(b) below, this ratio is not normally distributed as revealed by the lack of a straight line.

---

[4]Boxplots display the main features of a batch of data. The middle half of each batch is represented by a box and the median is marked with a "+". The extent of the data and the location of possibly extraordinary values are indicated on either side of the box with special symbols.

In a boxplot, dashed "whiskers" run from the hinges to the adjacent values on each side. Values between the inner and outer fences are possible outliers, and are plotted with a "*". Values beyond the outer fences are probable outliers, and are plotted with a "0".

Exhibit 6.4.1(b): Normal probability plots for the P/T ratio.

```
P/T  -
     -                         *  *
     -                    ****** *
 0.0+          ***2 3 43 4*23*22222*2
     -       ***
     -      *
     -
     -
-2.5+
     -
     -
     -
     -
-5.0+
     -     *
     -   *
     -
      --------+---------+---------+---------+---------+--------Expected normal
          -2.0    -1.0     0.0     1.0     2.0                   distr. values
```

Since the distribution of P/T contained outliers and was not normally distributed, it was decided to use Spearman's rank order correlation coefficient's test rather than Pearson correlation coefficient's to test the association between the extent of mandatory disclosure; extent of voluntary disclosure and timeliness of disclosure on the one hand; and P/T ratio on the other. Correlation analysis was considered to be inappropriate for testing the relationship between P/T ratio and type of audit opinion. This is because of the nature of the distribution of the type of audit opinion discussed in the next chapter. As most companies received a clean audit opinion, there were too few non-ties in this variable. It was, therefore, decided to test the relationship between P/T ratio and type of audit opinion using Kruskal-Wallis test. The sample was divided into quartiles on the basis of P/T ratio. The Kruskal-Wallis test was used to test if the resulting four independent sub-samples were from similar populations. The results are presented in chapter eight.

Net profit after tax to owner's equity was another measure used to capture the level of profitability. Distribution of this ratio ranged from a lower of -1.32 to a maximum of 1.65 with a mean of 0.2106 and median of 0.115. The use of boxplots presented as exhibit 6.4.1(c) revealed the existence of outliers. These were double-checked to ensure there were not due to data processing errors. Normal probability plots presented as exhibit 6.4.1(d) revealed that P/E ratio is not normally distributed since the plots are not on a straight line.

Exhibit 6.4.1(c): Boxplot showing the nature distribution of profit after tax to owners equity ratio.

```
                   -----
      0    0    ------I + I------*     000  0 0
                   -----
------+---------+---------+---------+---------+---------+P/EQUITY
  -1.20   -0.60    0.00     0.60     1.20     1.80
```

Exhibit 6.4.1(d): Normal probability plots for the P/E ratio.

```
         -
P/E      -                         *  *
         -
         -                      *** *
      1.0+
         -
         -                     **
         -                     *
         -               23*3*3*22*2
      0.0+          ****22 4222
         -        ***
         -        *
         -
         -       *
     -1.0+
         -
         -    *
          --------+---------+---------+---------+---------+--------Expected normal distr.
             -2.0     -1.0      0.0       1.0       2.0             values
```

Given the existence of outliers and a non-normal distribution, it was decided to use Spearman's rank correlation test to examine the relationship between the extent of mandatory disclosure, extent of voluntary disclosure and timeliness of disclosure on the one hand; and P/E ratio on the other.

Given the nature of distribution of type of audit opinion mentioned above, it was decided to use Kruskal-Wallis test to study the relationship between P/E ratio and the type of audit opinion. The sample was divided into quartiles on the basis of P/E ratio. Type of audit opinion of the resulting four independent sub-samples were tested if they all came from similar populations. The results are presented in Chapter eight.

6.4.2). HYPOTHESIS 6.2.2: The Type of Accounting Firms Auditing CARs is Associated With Disclosure Practices in the Country:

Accounting firms are classified into international firms; private domestic firms and state-owned firms. By 1986, there were a total of 110 accounting firms in the country, out of which one was a government department, two were parastatals, five were international firms and 103 were domestic private sector firms. In the sample under investigation, one company is audited by a government department, 26 by a parastatal, 17 by international audit firms and 14 by private sector domestic firms. For the purposes of this research, the office of Auditor General (a government department) was grouped as a parastatal. It was assumed that there is no substantial difference between TAC (a parastatal) and this office (a government department). It has always been a government policy that positions in the parastatals and civil service are interchangeable. SCOPO was essentially created to ensure that the remuneration package in the parastatals are not significantly different from the ones offered to civil servants. Furthermore, this government department audited only one company in the sample - TAC. This classification is not expected to have any significant impact on the outcome of this research.

Since all the investigated variables were measured at the ordinal level it was decided to use Kruskal-Wallis test to study the relationship between the extent of mandatory disclosure, extent of voluntary disclosure, timeliness of disclosure and type of audit opinion on the one hand and type of accounting firm on the other. Choice of this test was also motivated by the fact that the explanatory variable was categorical in nature. The sample was, therefore, categorised into three groups on the basis of type of accounting firm providing audit services. Disclosure practices of the three independent sub-samples in terms of the the four measures of quality of disclosure practices were compared using Kruskal-Wallis test if they all came from similar parent populations. The results are presented in chapter eight.

6.4.3). HYPOTHESIS 6.2.3: Type of Corporate Governance Is Associated With Corporate Disclosure Practices in Tanzania:

Four types of corporate governance were identified, namely;

- parastatal corporate governance,
- international corporate governance,
- joint ventures and,
- domestic private sector corporate governance.

Parastatal corporate governance includes parastatals whose boards of directors are appointed and held accountable to the government of Tanzania. Joint ventures were parastatal organisations with international representation in their board of directors. The international representation in the board may have come about because of international participation in its equity or because of a management contract. International corporate governance includes those companies whose boards of directors are appointed and accountable to bodies outside the country. Domestic private sector corporate management is appointed and held accountable to the local private investors.

To scrutinise this hypothesis, the Kruskal-Wallis test was considered appropriate. The decision was based on the fact that this variable -type of corporate governance was categorical in nature while all the dependent variables were measured at ordinal level.

The sample was divided into five groups according to the five identified types of corporate governance. Disclosure practices (type of audit opinion, timeliness of disclosures, extent of voluntary disclosure and extent of mandatory disclosure) of the resulting five independent groups were tested to determine if they all came from similar parent populations. Results are presented in chapter eight.

6.4.4). HYPOTHESIS 6.2.4: Company Size is Associated With Corporate Disclosure Practice:

Two measures of company size were used. These are the turnover and the value of total assets (fixed assets plus current assets, including intangible assets) as reported in the income statement and balance sheet respectively. No adjustments were made to the financial statement figures. Adjusting for revaluation of fixed assets was attempted. This, however, was not feasible as only 30 companies disclosed the necessary information for adjustment purposes.

The distribution of the total assets value was observed first. They ranged from a minimum of three million Tanzanian shillings (T/=) to a maximum of 60,474 million/=. The distribution was also observed using boxplots and normal probability plots. These are presented as exhibits 6.4.4(a) and 6.4.4(b) below:

Exhibit 6.4.4(a): Boxplots showing the nature of distribution of total asset value.

```
-
+*000                    0
-
+---------+---------+---------+---------+---------+------ASESIZE
0    12000    24000    36000    48000    60000
```

Exhibit 6.4.4(b): Normal probability plots for total assets value.

```
ASSET SIZE

     -

 60000+                         *

     -

     -

     -

     -

 40000+

     -

     -

     -

     -

 20000+

     -

     -

     -

     -                     *** * *

    0+   *  * * *****2*2222223222322222*2**

      --------+---------+---------+---------+---------+-------Expected normal distr.

        -2.0    -1.0     0.0      1.0      2.0                    values.
```

From the boxplots presented in exhibit 6.4.4(a) above, it can be seen that the distribution is skewed to the right and that the sample contained outliers as far as total asset values are concerned. The normal probability plots presented in exhibit 6.4.4(b) confirmed that this distribution is not normally distributed.

Since the total assets value is a continuous variable, Spearman's rank correlation coefficient's test was performed to establish its association with extent of mandatory disclosures, extent of voluntary disclosures and timeliness of disclosure. Given the nature of distribution of type of audit opinion, it was considered inappropriate to study its associations through correlation analysis. Kruskal-Wallis test was considered a better test. The sample was divided into quartiles on the basis of the total asset value. Kruskal-Wallis test was then used to establish whether type of audit opinion of the four resulting independent groups were from the same population.

Turnover was also used as a measure of company size as was stated earlier. The turnover ranged from a minimum of 1 million/= to a maximum of 6,720 million/= with mean of 542 million/= and median of 87 million/=. The boxplots presented as exhibits 6.4.4(c) below showed that some corporations were significantly different from the rest of the sample (outliers) in terms of turnover size. This motivated the re-checking of all figures to ensure that the presented figure were accurate.

The sample was then tested to find out whether it is normally distributed by the use of normal distribution plots. The results are presented as exhibit 6.4.4(d). Since the plots did not result in a straight line as can be seen in the exhibit below, it is concluded that the distribution is not normal.

Exhibit 6.4.4(c): Boxplots showing the nature distribution of the turnover.

```
---
|+|-- *   00     0 0    0              0   0
---
+---------+---------+---------+---------+---------+------TURNOVER
0      1200     2400     3600     4800     6000
```

Exhibit 6.4.4(d): Normal plots showing the nature of distribution of the turnover.

```
TURNOVER
    -
 7500+
    -
    -                            *
    -                          *
    -
 5000+
    -
    -
    -                         *
    -                        *
 2500+                        *
    -
    -                      **
    -
    -                    22*2*
   0+   *  * * *****2*222222223222222
      --------+---------+---------+---------+---------+------Expected normal distr. values.
            -2.0      -1.0      0.0       1.0       2.0
```

Since the distribution was found not to be normally distributed and the fact that it contained the outliers led to the adoption of Spearman's rank correlation test as a tool for studying the relationship between turnover on the one hand and extent of voluntary disclosure, extent of mandatory disclosure and timeliness of disclosure. Kruskal-Wallis test was considered a better test for examining the relationship between type of audit opinion and the turnover. The sample was divided into quartiles on the basis of turnover. Kruskal-Wallis and $\chi 2$-tests were used to see if the type of audit opinion of the resulting four independent groups came from similar populations.

6.4.5; HYPOTHESIS 6.2.5: Qualified Accountants Employed is Associated With Disclosure Practices:

Hypothesis 6.2.5 examines the relationship between qualified accountants employed and corporate information disclosure. As discussed in chapter 4, accounting personnel are categorized into lower-technicians, technicians, semi-professionals and professional accountants. The evidence reported by the NBAA (1989) shows that only the last two categories are in critical short supply. This study, therefore, concentrates on semi-professional and professional accountants who are registered by the NBAA. To ascertain the number of qualified accountants employed by each company in the sample, the NBAA registers of approved and authorised accountants were consulted. These registers provide the names and work addresses of all registered accountants in Tanzania.

It was decided to investigate the relationship between the employment of qualified accountant and disclosure practices (as captured by the extent of mandatory disclosures, the extent of voluntary disclosure, timeliness of disclosure and type of audit opinion) in two stages.

In the first stage, the sample was divided into two groups. The first group had no accountants at all. The second group employed at least one accountant. The difference in corporate disclosure practices between the two groups was examined using Mann-Whitney test at 5% level of significance.

In the second stage, it was decided to study the association between the four measures of corporate disclosure practices and qualified accountants after adjusting for size. It was decided that the size of a company might have an effect on the volume of work accountants have to cope with. To cater for this, the size effect was eliminated through the use of number of accountants per unit of turnover (number of accountants employed by a company to turnover ratio)[5]. The resulting ratio, number of accountants/turnover, is a continuous variable. Its distribution ranged from a lower of 0 to a maximum of 0.3541 with mean of 0.027 and a median of 0.0097.

Boxplots presented as exhibit 6.4.5(a) and normal probability plots presented as exhibit 6.4.5(b) were used to test the existence of outliers and whether the distribution is normal. As can be seen from these exhibits below, outliers were observed. The distribution was also not found to be normally distributed. It is skewed to the right.

Exhibits 6.4.5(a): Boxplots showing the nature of distribution of the number of qualified accountants to turnover ratio.

```
     -----
    |+ |-----*        0    0          0
     -----
    +---------+---------+---------+---------+---------+------C568
  0.000     0.070     0.140     0.210     0.280     0.350
```

[5]Number of accountants/turnover was used because it is the impact of the number of accountants that is being investigated. The use of Turnover/accountants could have worked as well provided one is careful in interpreting the results. However, it faces one serious limitation under the circumstances. There are corporations which have no qualified accountants. If the second approach is adopted, in some situations, turnover would be divided by zero. Any number divided by zero is infinite. This would prevent the calculation of association between this ration and corporate disclosure practices through Spearman's rank-order correlation coefficient.

Exhibit 6.4.5(b): Normal Probability Plots for Number of Accountants to Turnover Ratio.

```
A/C per turnover

    -
  0.36+                          *
    -
    -
    -
    -
  0.24+
    -                         *
    -
    -                        *
    -
  0.12+
    -
    -                      * *
    -                    ****
    -                22*2**2*****
  0.00+   +     **2*22*2*2*
      +---------+---------+---------+---------+---------+----Expected normal distr. values.
   -1.40   -0.70    0.00    0.70    1.40    2.10
```

It was, therefore, decided to examine the association between qualified accountants employed on the one hand and the extent of mandatory disclosures, extent of voluntary disclosure and timeliness of disclosure on the other by the use of Spearman's rank order correlation coefficient's test.

The association between the number of qualified accountants employed to turnover ratio and type of audit opinion was investigated using Kruskal-Wallis test. This decision was based on the distribution of type of audit opinion as discussed earlier.The sample was segregated into quartiles on the basis of number of qualified accountants to turnover ratio. The type of audit opinion of the resulting four independent groups were examined to see if they come from a similar parent population. The results are presented in chapter eight.

6.4.6). HYPOTHESIS 6.2.6: Industry Type is Related to Corporate Information Disclosure Practices.

As discussed in section 6.3, five industries are represented in the sample. These are Distribution, Hotels, Catering and Repairs; Chemical manufacturing industry; Banking, Finance, Insurance, and Business services; Textiles manufacturing industry and Metal goods, Engineering and Vehicles Industry.

Since type of industry is a categorical variable, Kruskal-Wallis test on disclosure practices of the companies categorised on the basis of type of industry was considered to be the appropriate test. The results are presented in chapter eight.

6.4.7). HYPOTHESIS 6.4.7: Liquidity Position of a Company is Associated With Disclosure Practices.

Liquidity position of a company was measured by the current ratio. Current ratio was defined as total current assets to total current liabilities. No adjustment was made to the financial statement figures in calculating this ratio. The ratio ranged from a minimum of 0.09 to a maximum of 15.11, with the mean of 1.63 and median of 1.14.

Boxplots and Normal probability plots were used to establish whether the distribution of current ratio had outliers and it was normal or not. The results of these two procedures are presented as exhibits 6.4.7(a) and 6.4.7(b), respectively. The two exhibits reveal the existence of outliers and the current ration is not normally distributed. It is skewed to the right.

Exhibit 6.4.7(a): Boxplots showing the nature of distribution of the current ratio.

```
   ---
 * -|+|-****                    0       0
   ---
 +---------+---------+---------+---------+---------+------CURATIO
0.0      3.0      6.0      9.0      12.0      15.0
```

Exhibit 6.4.7(b): Normal probability plots for the current ratio.

```
CURATIO

    -
   15.0+                           *
    -
    -
    -                           *
    -
   10.0+
    -
    -
    -
    -
    5.0+
    -
    -                         * *
    -                      2*2****
    -           *****2*2222*242223223*2
    0.0+     *  * *
     --------+---------+---------+---------+---------+--------Expected normal distr.
         -2.0      -1.0      0.0       1.0       2.0                values.
```

6.4.8). HYPOTHESIS 6.2.8: Number of Sources of Loan Capital is Associated With Disclosure Practices.

The number of sources of loan capital was defined as number of sources of all current and long term liabilities as disclosed in the CARs. Breakdown of current and long term liabilities is a required information disclosure item. This breakdown was reconciled with some other related disclosure items in the CAR. The related disclosure items examined were the comparative statement of sources and application of funds for two years; long term loans payable in foreign currency and breakdown of long term liabilities. From discussions presented in chapter seven, the information items used to track down the sources of loan are among the most popular disclosure items[6]. Trade creditors were considered to form only one source of loan capital. Trade creditors are expected to be interested in similar information items. As such, disclosure practices are not expected to vary with the number of individual trade creditors. Moreover, trade credit is not a significant source of funds in Tanzania. This treatment is, therefore, not expected to bias the reported results.

Related party interest in loan capital was not counted as sources of funds. This was due to two reasons. First, most related party transactions are hardly disclosed in the Tanzania CARs. For example, it can be seen from appendix 7.1 that no company in the sample disclosed management interest in the liabilities. But more significantly, the related parties have access to inside information. They cannot therefore be expected to press for more extensive corporate disclosure in the CARs. This omission is also not expected to have any significant impact on the reported results.

The data gathered showed the number of sources of loan capital ranged from a minimum of 2 to a maximum of 12 sources, with mean of 4.879 and median of 4.5. Since the number of loan capital sources is a discrete variable, it was decided to use Kruskal-Wallis test to study the four measures of corporate disclosure practices. The sample was segregated into quartiles on the basis of number of

---

[6]see appendix 7.3.

sources of loan capital. The extent of mandatory disclosure, the extent of voluntary disclosure, the timeliness of disclosure and type of the audit opinion of the resulting four independent categories of companies in terms of number of sources of loan were compared to see if they were from similar populations. Results are presented in chapter eight.

6.4.9). HYPOTHESIS 6.29: The Proportion of Liquid Assets in Place are Associated with Corporate Disclosure Practices:

The proportion of liquid assets in place was defined as fixed asset to total assets ratio. This ratio was calculated on the basis of balance sheet figures. No adjustment was made to the reported figures.

The distribution of the ratio varied from a minimum of 0.0046 to a maximum of 0.9268, with mean of 0.3695 and median of 0.2754. Normal probability plots and boxplots were used to test if this ratio is normally distributed and to test for the existence of outliers. The boxplots and the normal probability plots are presented as exhibits 6.4.9(a) and 6.4.9(b) respectively. As can be seen in these two exhibits below, no outliers were observed in the distribution of this ratio. However, the distribution was not normally distributed.

Exhibit 6.4.9(a): Boxplot showing the nature of the distribution of the proportion of liquid assets in place.

```
        --------------------
    -------|   +       |------------------
        --------------------
    +---------+---------+---------+---------+---------+------FA/asset
  0.00      0.20      0.40      0.60      0.80      1.00
```

Exhibit 6.4.9(b): Normal probability plots showing the nature of distribution of FA/TA ratio.

```
FA/asset

    -
0.90+                         *** * *  *
    -                        *
    -                        *
    -                      *2
    -                       2
0.60+                      *
    -                    22*
    -                   *2
    -                   *
    -                 23
0.30+                 2
    -               *32
    -              22*
    -            *22
    -         ****2**
0.00+    *  * * *
      --------+---------+---------+---------+---------+-------expected normal distr.
         -2.0   -1.0     0.0     1.0     2.0                       values.
```

Since the distribution was not found to be normally distributed, Spearman's rank correlation coefficient's test was used to establish association between fixed assets to total ratio on the one hand, and the extent of mandatory disclosure, extent of voluntary disclosure and timeliness of disclosures. Given the nature of distribution of type of audit opinion described earlier, Kruskal-Wallis test was used to test the relationship between type of audit opinion and the proportion of liquid asset in place. The sample was divided into quartiles on the basis of fixed assets to total assets ratio. The type of audit opinion of the four resulting independent groups were compared using Kruskal-Wallis and $\chi2$ tests to see if they came from similar parent populations.

6.5). RELATIONSHIP BETWEEN EXPLANATORY VARIABLES:

Several explanatory variables are used in this study. It is possible that some of the variables are highly correlated. In such a case it would be difficult to conclude which of the two highly correlated factors is responsible for the reported results. It was, therefore, considered necessary to examine the relationship between the various explanatory variables in order to control for them in the analysis. This was done in three stages. First, the relationship between the continuous variables was tested using Spearman's rank order correlation coefficient's test. Then, the relationship between the continuous variables and the qualitative ones was examined using Kruskal-Wallis test. Finally, the relationship between all qualitative variables was investigated using $\chi2$-test. The findings are presented in the next three subsections.

6.5.1). All Continuous Explanatory Variables: Correlation Analysis.

The results of Spearman's rank order correlation coefficient's test on the relationship between the various continuous variables are presented in table 6.5.1 below:

Table 6.5.1: Relationship between the various explanatory variables as revealed by Spearman's Rank Order Correlation coefficients' test.

first variable	second variable	r_s	z	sig. at%
P/T	P/E	0.35	2.548	1%
P/T	Turnover	-0.124	-0.903	18%
P/T	Asset Size	-0.133	-0.968	17%
P/T	accountant/turnover	0.046	0.335	37%
P/T	current ratio	0.414	3.014	0%
P/T	FA/TA	-0.308	-2.242	1%
P/E	turnover	0.015	0.109	46%
P/E	asset size	-0.243	-1.769	4%
P/E	accountant/turnover	-0.181	-1.318	10%
P/E	current ratio	0.115	0.837	20%
P/E	FA/TA	-0.449	-3.269	0%
asset size	accountant/turnover	0.053	0.397	35%
asset size	current ratio	-0.014	-0.105	46%
asset size	FA/TA	0.197	1.487	7%
turnover	asset size	0.594	4.445	0%
turnover	accountant/turnover	-0.244	-1.826	3%
turnover	current ratio	0.020	0.1497	44%
turnover	FA/TA	-0.175	-1.310	10%
current ratio	accountant/turnover	0.216	1.616	5%
FA/TA	accountant/turnover	0.331	2.477	1%
FA/TA	current ratio	-0.065	-0.491	31%

From table 6.5.1 above, it can be seen that a combination of nine explanatory variables were significantly correlated at 5% or greater confidence level. These combinations are: P/T and P/E ratios; P/T and current ratios; P/E ratio and asset size; Turnover and number of accountants employed per turnover; P/T and fixed assets to total assets ratios (FA/TA); P/E and FA/TA ratios; FA/TA and accountants to turnover ratios; current ratio and accountants/turnover ratio and turnover and asset size. Where any of these combinations are found to be related to any of the four measures of corporate disclosure practices, it is necessary to observe such association when the other factor is controlled for. Otherwise, it may not be feasible to drawn conclusion on the exact factors associated with disclosure practices. The cases where the several correlated explanatory variables are related to any of the four measure of corporate disclosures are presented in section 8.11 of chapter eight.

6.5.2). Categorical Variables vs Continuous Variables: Kruskal-Wallis test:

The results of the study of the relationship between various categorical and continuous explanatory variables as revealed by Kruskal-Wallis test are presented in tables 6.5.2(a), 6.5.2(b) and 6.5.2(c) below:

Table 6.5.2: The association between the type of accounting firm and the various explanatory variables as revealed by Kruskal-Wallis test.

	International firms	Parastatals firms	domestic firms	Results
No of Coys	17	26	15	
P/T	0.09	0.015	0.1	Ho=2.721 X_5=5.99
P/E	0.23	0.08	0.095	Ho=2.03 X_5=5.99
Asset size	128.88	387	46.17	Ho=16.18 X_5=5.99
Turnover	74.52	222.42	51.5	Ho=12.49 X_5=5.99
Accountants/turn over	0.0036	0.0097	0.0119	Ho=0.7427 X_5=5.99
Current ratio	1.33	1.145	1.11	Ho=2.312 X_5=5.99
FA/TA	0.1738	0.4154	0.3888	Ho=4.449

Table 6.5.2(b): The association between the type of corporate governance and the various corporate attributes as shown by Kruskal-Wallis test.

	MNC	parastatals	domestic	J-V	Results
No. of coys	17	22	14	5	
P/T	0.09	0.01	0.1	0.03	Ho=2.456 X_5=7.82
P/E	0.19	0.08	0.08	0.17	Ho=1.476 X_5=7.82
Asset size	107.94	280.71	51.63	529.72	Ho=18.66 X_5=7.82
Turnover	51.41	190.98	51.6	529.72	Ho=16.39 X_5=7.82
accountant/ turnover	0.013	0.011	0.008	0.003	Ho=3.496 X_5=7.82
current ratio	1.33	1.16	1.10	1.14	Ho=3.496 X_5=7.82
FA/TA	0.174	0.488	0.377	0.223	Ho=5.514 X_5=7.82

Table 5.5.2(c): The association between the industry type and various corporate attributes as revealed by Kruskal-Wallis test.

	1	2	3	4	5	Results
No of coys	20	11	15	6	6	
P/E	0.19	0.18	0.11	0.02	0.015	Ho=3.77 X_5=9.49
P/T	0.02	0.22	0.07	0.03	-2.77	Ho=12.13 X_5=9.49
Turnover	229.72	38.69	102.9	206.05	63.71	Ho=12.09 X_5=9.49
Asset size	142.3	57.09	170.33	1770.34	1211.45	Ho=12.29 X_5=9.49
current ratio	1.12	1.37	1.13	1.86	0.99	Ho=11.94 X_5=9.49
accountant/ turnover	0.006	0.023	0.003	0.013	0.023	Ho=6.188 X_5=9.49
FA/TA	0.16	0.39	0.215	0.538	0.864	Ho=15.87 X_5=9.49

Key: Type of industries:

1= Distribution, hotels, catering and repair industry.

2= Chemical manufacturing industry.

3= Banking, finance, insurance and business services.

4= Textiles manufacturing industry.

5= Metal goods, Engineering and vehicle industries.

It can be seen that only size (as measured by both turnover and asset size) showed a significant association with the type of accounting firm offering auditing services at the 5% confidence level. It can also be seen from table 6.5.2(b) that size is associated with type of corporate governance. Table 6.5.2(c) shows that size, P/T ratio, current ratio and fixed assets to total assets ratio is associated with industry type. These established relationships are taken into account in analysing the factors associated with disclosure practices and the results are presented in section 8.11 of chapter eight.

6.5.3). All Categorical or Discrete Variables: $\chi2$-Test.

The associations between the all categorical variables as revealed by $\chi2$- test are presented in table 6.5.3 below:

Table 6.5.3: The association between the various categorical corporate variables as revealed by the $\chi 2$-test.

first variable	second variable	associated (yes/no)	Chi-Square & d.f.
Type of accounting firm	type of corporate governance	yes	$\chi 2$=104.636 d.f.=6 $\chi 2_5$=12.59
type of accounting firm	qualified accountants (none vs at least one)	yes	$\chi 2$=6.081 d.f.= 2 $\chi 2_5$=5.99
type of accounting firm	industry type	no	$\chi 2$=9.987 d.f.=8 $\chi 2_5$=15.51
accounting firm type	number of loan sources	no	$\chi 2$=4.358 d.f.=6 $\chi 2_5$=12.59
corporate governance type	qualified accountants (none vs at least one)	no	$\chi 2$=7.117 d.f.=3 $\chi 2_5$=7.82
corporate governance type	industry type	no	$\chi 2$=15.899 d.f.=12 $\chi 2_5$=21.03
corporate governance	number of loan sources	no	$\chi 2$=9.524 d.f.=9 $\chi 2_5$=16.92
industry type	number of loan sources	no	$\chi 2$=17.406 d.f.=12 $\chi 2_5$=21.03
qualified accountants (none vs at least one)	number of loan sources	no	$\chi 2$=0.666 d.f.=3 $\chi 2_5$=7.82

Table 6.5.3 above shows that there is association between type of accounting firms providing auditing services and type of corporate governance and between type of accounting firms performing the audit function and number of qualified accountants employed.These findings are taken into account in drawing conclusions about factors associated with disclosure practices (see chapter eight, section 8.11).

6.5.4) General Comments on the Above Observations:

General comments relating to observations presented in tables 6.5.1, 6.5.2(a), 6.5.2(b), 6.5.2(c) and 6.5.3 are summarised below:

- As revealed in table 6.5.1, it is not surprising that P/T and P/E ratios were found to be significantly correlated at the 1% confidence level, as both are measures of profitability. It is equally not surprising that turnover and asset size are significantly related at the 0% confidence level as they are both measures of size.

It can also be seen from table 6.5.1 that, while the number of accountants employed per turnover ratio is negatively related to turnover at the 3% significant level, it is not equally significantly related to the asset size at the 5% confidence level. Given the nature of shortage of accountants facing corporations in Tanzania, it is possible to observe the association between number of accountants employed per turnover and turnover. 16 companies for example were found to have no qualified accountants at all. Having used the turnover in the denominator, it is therefore possible to observe the relationship between this variable and the resulting ratio. However, having adjusted for size, no association was observed between asset size and number of accountant employed per turnover, thus confirming the appropriateness of the method used for adjusting for size.

Positive association between P/T ratio and current ratio reveals the nature of liquidity problems facing Tanzanian corporations as discussed in chapter three. Since most companies are expected to generate most of their funds from operations, those companies charging higher profit margins tend to have less liquidity problems. The significant association between the current ratio and the number of accountants employed per turnover seems to suggest that companies with lower current ratio have more severe shortage of accountants. Those companies may be facing difficulties in recruiting qualified accountants or retaining them or both.

Note also that no significant relationship between the current ratio, on the one hand, and P/E ratio, turnover and asset size was established at the 5% confidence level. This tends to confirm the above conjecture that liquidity problem is related to the pricing policy adopted by a company. Companies adopting lower profit margins tend to face more liquidity problems. Since it was revealed by the interviews reported in chapter four that competitive threat is not a significant factor influencing corporate decisions, it is likely that the lower margins are imposed by the government policies.

It was also observed that companies with higher proportion of fixed assets (FA/TA ratio) tends to have lower P/T and P/E ratios. These observations tend to suggest that companies with higher proportions of fixed assets seems to be more sensitive to political risks.

-Table 6.5.2 reveals that the asset size and the turnover are the only variables significantly related to the type of audit firm providing audit services. As can also be seen in table 6.5.3, type of accounting firm providing accounting services is significantly related to the type of corporate governance. It is therefore observed that while state-owned audit firms tend to audit larger corporations, they also tend to audit state-owned companies. It is, therefore, difficult to conclude whether size is related to type of audit firm or type of corporate governance governance. The qualitative nature of these variables and the fact that they are not normally distributed do not permit further analysis and therefore a future research is recommended to establish the nature of these relationships. It may be argued, however, that this observation tend to confirm the earlier conjecture that size is the appropriate proxy for political risks. The government seems to be more concerned with the larger firms than the smaller ones. This is confirmed by the observation presented in table 6.5.2(b) that size is significantly related to the type of corporate governance at the 5% confidence level or higher.

6.6). THE SOFTWARE PACKAGE USED:

MINITAB statistical package was used in the above analyses. The choice of this package was based on the approach recommended by Currall (1991)[7]. He poses seven questions which offered guidance in selecting a statistical software:

"- What class of analysis techniques do you require?

- Are your data predominantly continuous or categorical?
- Are your response variables measurements, counts or proportions?
- Are your data from experiments or surveys?
- Do you want to explore your data one step at a time or process it all at a once?
- Are there repeated measures or multiple responses?
- Is prediction or description your ultimate goal?"

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[7]Currall (1991) has identified several approaches to selection of a statistical analysis package. These are the classical approach, the common approach, the reasonable approach and the recommended approach. In the classical approach, one decides what analysis one requires and then scans a list of all analyses available in each package to find a match. This approach, however suffers from several problems:

- not all packages refer to the same techniques by the same name.
- a single name may imply different things to different packages or a greater or lesser degree of breadth from one package to another.
- how do you choose if several packages have the techniques you require?

The second approach he identified appears to be the most commonly used. In this approach, one simply selects the package and then design the analysis to fit the statistical selection on offer.This approach is likely to end up in one using inappropriate tools in ones analysis.

The third approach is what he calls the reasonable approach. In this approach, one finds what ones colleagues are using and then opts for the same package. The advantage of this approach is that one is likely to get help with getting started and with on going problems. However, if your colleague did not make the right choice initially, you might end up using inappropriate package.

He however, recommends an approach which considers the philosophical view of ones requirements. The philosophical base of requirements must match the philosophy of a statistical package (Currall, 1991 p.3).

MINITAB was seen to be an appropriate choice in light of the intended objectives, the nature of data used and subsequent use. MINITAB is easy to use, interactive and quite appropriate for medium sized data sets. It has excellent facilities for exploring data and testing simple hypotheses of both parametric and non-parametric varieties. It also presents results in an easily understood fashion.

6.7). CONCLUSION.

The objective of this chapter was to describe and select research procedures considered appropriate in order to investigate disclosure practices in Tanzania. A random sample of 58 profit orientated companies was selected. The relationship between the nine explanatory variables are examined using Spearman's rank order correlation coefficients' test, Kruskal-Wallis test and Chi-Square test. Spearman's rank correlation analysis was used where all the variables examined are considered continuous; Kruskal-Wallis test was used when one of the two variables was continuous while the other was discrete and Chi-square test was used where both variables are discrete or categorical.

It was observed that type of accounting firm auditing CARs is related to type of corporate governance, qualified accountants employed and company size (measured by both turnover and asset size). Industry type is associated to P/T ratio, company size, current ratio and FA/TA ratio. Type of corporate governance was also found to be related to company size. It was further observed that P/T is correlated to P/E ratio, current ratio and FA/TA ratio. P/E ratio was also found to be correlated to FA/TA ratio while FA/TA is related to current ratio.

CHAPTER SEVEN.

THE CORPORATE DISCLOSURE PRACTICES IN TANZANIA.

7.1) INTRODUCTION.

The main objective of this chapter is to discuss corporate disclosure practices in Tanzania. The chapter also investigates the relationship across the four measures of quality of corporate disclosures and concludes that there is more to quality than the extent of voluntary disclosures. While the tests show that the extent of voluntary disclosures may be used as proxy for the extent of mandatory disclosures and vice versa, the results also show that any study investigating the quality of corporate disclosures must observe the type of audit opinion and the timeliness of corporate disclosures if genuine conclusions are to be drawn on the quality of corporate disclosure practices.

The chapter is divided into eight sections. The next section gives a general view of corporate disclosure practices in Tanzania. Section three discusses the extent of mandatory disclosure practices while section four presents the extent of voluntary disclosures. This is followed by discussions on the extent of combined corporate information disclosure, type of audit opinion and timeliness of disclosures. The final section investigates the relationship across the four measures of quality of corporate disclosure.

7.2). CORPORATE INFORMATION DISCLOSURES IN TANZANIA: A GENERAL VIEW:

The four variables used to capture the quality of corporate disclosures were defined in chapter five. These are the extent of mandatory disclosure, the extent of voluntary disclosure, the timeliness of disclosures and the type of audit opinion. These variables will be used to describe disclosure practices in Tanzania.

It is a usual practice for corporations to report their results of operations and the financial position at least once every year. This is necessary to establish whether the entity is viable or not. It is also necessary as a part of corporate accountability mechanism as was discussed in chapter three. Precisely when an entity should publish its CAR is a corporate decision. Most business firms adopt an accounting period that ends when operations are at low ebb. This may simplify the year-end cut-off procedures and thus simplify the process of measuring income and financial position. It tends to give the best possible figures for stock and cash.

Apart from the natural business year, other factors may influence the choice of accounting year end. Some companies have their year end dictated by the parent corporation. Some are likely to follow the calendar year. Yet others are likely to prefer the year-end which is consistent with the government's fiscal year. Courtis (1976) studied the question of diversity of balance sheet dates in New Zealand. He argued that high diversity of corporate balance sheet dates could affect inter-company comparability and thus distort the investor resource allocation process[1]. He observed that subsidiary companies tended to keep in line with their parent company's balance sheet dates.

For Tanzania, it appears that most corporations follow the calendar year. From the observed sample of 58 companies, 40 or 69% of the sample had their accounting period ending 31st December; 12 or 21% had their accounting year ending 30th June; two (3%) companies had year ending 30th September and the rest had their accounting period ending 31st October; 30th November; 31st January and 31st

[1]To what extent diversity of balance sheet dates distort corporate governance in general and resource allocation in particular is a matter for future research.

March. Seven different balance sheet dates were therefore observed in Tanzania. The distribution of these balance sheet dates among different industries represented in the sample is presented in table 7.4(a) below. It was observed that companies prefer reporting their CARs on 31st December. A notable exception are the companies in distribution, hotels, catering and repair service industry. Eight companies in this industry (40%) reported on 30th June, presumably to comply with the government financial year.

Table 7.2(a): Diversity of balance sheet dates in Tanzania.

Accounting year end	1	2	3	4	5	Total
31st Dec	8	10	3	5	14	40
30th June	8	1	3	-	-	12
30th Sept	1	-	-	-	1	2
31st Oct	1	-	-	-	-	1
30th Nov	1	-	-	-	-	1
31st Jan	1	-	-	-	-	1
31st Mar	-	-	-	1	-	1
Total	20	11	6	6	15	58

KEY: Industry group as explained in chapter six.

1= Distribution, hotels, catering and repair service industry.

2= Chemical manufacturing industry.

3= Banking, Finance, Insurance and Business services industry.

4= Textile manufacturing industry.

5= Metal goods, engineering and vehicle industries.

Compare this to eighteen different balance sheet dates observed in New Zealand (Courtis, 1976) and nine dates observed in Nigeria (Wallace, 1987). All Tanzanian and Nigerian balance sheet dates were observed to end-up by the end of the month. For New Zealand, two companies had their accounting year ending at the beginning of the month and four of the corporations had their year ending on nineteenth of January, June, July and October.

It was also observed that, while there are minor variations, the CARs comprise a directors' report[2]; profit and loss account; profit and loss appropriation account; balance sheet; statement of sources and application of funds and notes to the financial statements.

Although both the Companies Ordinance and TSSAPs require corporations to prepare the directors' report, it was found that only 37 companies or 64% of the sample prepared the report. Of the companies preparing this report, only 54% (20 companies) complied with the TSSAP requirements.It was interesting to note also that only one auditor (Tellis & Company - a domestic private auditing firm) expressed an opinion on the directors' report of the Highland Soap and Allied Products Company Ltd. The companies ordinance requires the auditor to express an opinion on the directors' report while the recently introduced Auditing Guidelines only require the auditor to express an opinion when the report is not consistent with the other financial statements.

Both TSSAPs and the Companies Ordinance require at least two directors to sign CARs as a way of assuming responsibility for their accuracy. For the sample under observation, 41 companies or 71% complied with this requirement.

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[2]Some companies have the Chairman's Statement in addition to the directors reports.

As pointed out in chapter four, the companies ordinance requires the auditor to express a "true and correct view" while TSSAPs require the expression of "true and fair view". It was noted that only one CAR contained "true and correct view" opinion[3]. The rest were expressed as "true and fair view" or "present fairly..." Typical audit reports prepared by the three different categories of auditors are presented as appendix 7.3.

It was observed that three of the CARs were actually prepared and audited by the same firm. Discussions with the auditors in Tanzania revealed that in situations where they both prepare and audit a client's Financial Statements, they send two different teams of accountants. The first team would prepare the statements while the second one performs the audit function. In addition, this fact is disclosed in the Financial Statements. However, performance of both functions by one accounting firm is likely to jeopardise the credibility of CARs themselves. The major function of audit opinion is to make people believe the contents of the CARs. It is, therefore, necessary for the Auditors to be independent of the client and they must also be seen as such.

It was further observed that CARs vary greatly in size. In terms of the number of pages, the size of CARs in the sample varied from a minimum of eight to a maximum of 172 pages with a mean of 25 and a median of 15 pages. In terms of appearance, their quality also varied. Some were printed and represented a well prepared document for public relations purposes. Others, however, were type-written and then manually reproduced through duplication machines. From the observed sample of 58 companies, only 14 or 24% of the CARS were printed[4].

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[3]Only S.A. Jaffer & Company - a domestic private sector accounting firm - expressed a "true and correct view on Quality Garage (1975) Company Ltd financial statements".

[4]Out of the 14 printed CARs, 9 were parastatals (41% of parastatals), 2 joint venture (40% of joint ventures), 1 domestic private company (7% of domestic Private companies) and 2 MNCs (12% of MNCs). In terms of industries, 5 were financial

In general, the disclosure practices in Tanzania are not good. On the average, only 50.5% (median) of the mandatory disclosure requirements and 16.5% of voluntary items are disclosed. It takes an average of 7 months for the CAR to be released to the public. The quality of these disclosures as revealed by audit opinions is encouraging. These details are presented in table 7.2(b) below:

TABLE 7.2(b):

Summary of disclosure practices in Tanzania.

	Mandatory Disclosures	Voluntary Disclosures	Quality of Disclosures	Timeliness of Disclosures
Mean	52.93	16.79	4.7759	8.115
Median	50.50	16.50	5.0000	7.000
Mode	71.00	3.00	5.0000	9.000
Maximum	72.00	41.00	5.0000	23.000
Minimum	30.00	0.00	2.0000	2.000
Upper Quartile	64.50	22.50	5.0000	9.000
Lower Quartile	44.00	8.75	5.0000	5.000
Std Deviation	11.84	10.16	0.5936	4.639

7.3). THE EXTENT OF MANDATORY INFORMATION DISLOSURES:

Disclosure of mandatory items in less developed countries cannot be taken for granted as it is taken in some developed countries[5].

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institutions (83%of companies in the industry), 5 distribution industry (25%), 1 textiles (17%), 1 chemical (10%) and 1 metal and engineering industry (7%).

[5]Japan appears to be one of the few exceptions. Hiramatsu (1990) and his elaborations in a seminar presentation at the Centre for International Accounting and Finance University of Glasgow observed how mandatory requirements are not complied with in Japan.

For Tanzania, it was observed that only five items (about 6%) were disclosed by all companies. These were comparative balance sheet for two years, comparative income statement for two years, auditors' reports, breakdown of intangible assets and breakdown of current assets.

It is surprising that breakdown of intangible assets[6] is among items disclosed by all companies in the sample. This is difficult to explain. It may only be speculated that it is due to the potential risk of nationalisation and subsequent negotiations for compensation[7]. For state-owned corporations or joint ventures between the state and MNCs, rewards to intangible assets such as fees for technical assistance and licence fees constitutes significant payments to owners of the intangible assets.

Another striking observation is that less than 29% of the sample disclosed consolidated financial statements. TSSAPs (NBAA, 1983; p.20) allow non-disclosure of consolidated statements under the following circumstances[8]:

- Where the holding corporation is itself a wholly owned subsidiary of another parent corporation incorporated in Tanzania.
- Where consolidated accounts would not add any significant information to users of financial statements.
- Where the preparation of consolidated financial statements would lead to delays in publishing the CAR.
- Where the preparation of consolidated accounts might lead to harmful effects to the corporation or mislead users of

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[6]Examples of intangible assets disclosed are Goodwill, Patents, Trade Marks and Licences.

[7]Absence of stock exchange means that in case of nationalisation, the government engages in negotiations with the former owners as to what would be the value of nationalised assets.

[8]It is argued that the provisions of this sections are so vague as to present a formidable problem for the necessary enforcement of compliance. The way they are put, they can be used to justify almost anything.

financial statements.

- Where the business of subsidiary company and holding corporation are so different that the two cannot reasonably be treated as one entity.

It was observed that only two companies disclosed some justification for non-disclosure of consolidated financial statements. One company[9] stated that its business was so different from that of the subsidiaries that they cannot reasonably be construed to be one entity. The other company[10] argued that the subsidiary companies were yet to start operations.

It was also interesting to note that only 62% of the companies disclosed the directors' reports. This is consistent with the opinion gathered during the interviews that the disclosure of directors' reports is not accepted by some professional accountants. It was further observed that only 28 items or about 32% of the mandatory items were disclosed by at least 80% of the corporations. These items are shown in table 7.3(a) below:

Table: 7.3(a)

THE MOST POPULAR ITEMS OF MANDATORY DISCLOSURE:

1. Auditors' report 100%
2. Breakdown of current assets 100%
3. Breakdown of intangible assets 100%
4. Comparative balance sheet for two years 100%
5. Comparative income statement for two years 100%
6. Basis of recognizing revenues 98%
7. Breakdown of retained earnings and reserves 98%
8. Estimated corporate tax 98%

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[9]National Development Corporation (NDC).
[10]LONRHO Tanzania Ltd.

9. Turnover 97%

10. Audit fees and expenses 96%

11. Basis of inventory valuation 96%

12. Accounting policy on depreciation 95%

13. Breakdown of fixed assets 95%

14. Cost of goods sold 95%

15. Breakdown of cost of production 94%

16. Government grants and subsidies 94%

17. Appropriation of profits 93%

18. Breakdown of depreciation expenses 93%

19. Breakdown of investments 93%

20. Issued and paid-up share capital 93%

21. Authorised share capital 91%

22. Actual corporate tax paid 90%

23. Interest expense 90%

24. Long term loans payable in foreign currency 88%

25. Breakdown of long term liabilities 86%

26. Dividends remitted abroad 86%

27. Comparative statement of sources and application of funds for two years 84%

28. Emoluments paid to directors 83%

Several items were not disclosed at all. Some items were disclosed by very few companies. For example, breakdown of management interests in the receivables or payables was not disclosed at all despite the TSSAP stipulations. The other items which are not generally disclosed are shown in table 7.3(b) below:

Table 7.3(b):

THE LEAST POPULAR ITEMS OF MANDATORY DISCLOSURES.

1. Comparative consolidated balance sheet for two years 29%
2. Justification for deviations from fundamental accounting principles 29%
3. Nationality of the CEO 29%
4. Changes in accounting policies 28%
5. Justification for the observed variance 27%
6. Breakdown of payments in foreign currency -management and other professional fees 26%
7. Distribution of income within the company 25%
8. Taxes paid abroad 25%
9. Comparative consolidated income statement for two years 23%
10. Staff turnover 23%
11. Deviations from fundamental accounting principles 22%
12. Impact of changes in accounting policies 22%
13. Raw materials used in production (in units) 22%
14. Breakdown of payments in foreign currency -equipments 21%
15. Emoluments paid to the CEO 21%
16. Breakdown of payments in foreign currency -licence, trade marks, etc 18%
17. Manpower requirements 16%
18. Efforts to increase local content of production 14%
19. Terms of short term credit facilities offered 14%
20. Terms of short term credit facilities received 14%
21. Company policies on disabled 13%
22. Installed production capacity in units 13%

23. Expatriates paid in foreign currency 12%

24. Related party's interest in the company (shares, contracts, etc) 12%

25. Accounting policy on warranties and guarantees 10%

26. Breakdown of advances to staff 7%

27. Accounting policy on maintenance and repair expenses 5%

28. Breakdown of directors interest in receivables 5%

29. Breakdown of trade debtors 5%

30. Breakdown of directors' interest in payables 4%

31. Breakdown of bad debts written off 3%

32. Efforts made to recover bad debts before being written off 3%

33. Breakdown of other staffs' interest in payables 2%

34. Breakdown of management's interest in payables 0%

35. Breakdown of management's interest in receivables 0%

Further details of the extent of mandatory disclosure are provided in appendix 7.1.

It must be pointed out that auditors have failed to ensure that the prescribed requirements are complied with. This is reflected by the fact that most CARs receive clean audit reports despite the low level of compliance with TSSAP requirements. Precisely why this is happening is open to speculation. Some hints were provided by the interviewees.

First, it was pointed out that the governing board of the NBAA did not approve the inclusion of the directors report as part of mandatory disclosure requirements. However, when the document was finally published, this requirement was not deleted. This account is supported by subsequent events. When the accounting guide-lines were later introduced, the Director's Report was not defined as one of the essential components of the CARs. One wonders, therefore, whether this was simply an oversight or a case where the accounting experts (within the NBAA secretariat) felt that the board was not capable of making a right decision on the issue. If the latter is the case, then one wonders about the validity of such a move. One also wonders why such a move was not simply overruled by the governing board and why it should move indirectly to scrap it through accounting guide-lines. These are issues to be clarified by future research.

The interviewees argued that the directors' reports were not acceptable to the governing board because some of the requirements such as future forecasts are not easily verifiable. Some items can be verified but only at a considerable cost. Factors leading to failure to achieve the planned targets is a case in point.

Whether the Directors' Report is required by NBAA or not, it remains a mandatory requirement in Tanzania. Section 113 of the Companies Ordinance requires the directors report to be presented to the AGM. It is true that the requirements of these two documents are not identical. Nonetheless, the two positions and requirements will have to be harmonised somehow.

Secondly, the lack of auditing standards at the time also meant that auditors had no professional guide-lines to guide them in performing the audit function. The auditing standards were introduced in February, 1989.

Thirdly, interviewees argued that auditors do not insist on disclosure of some items on the basis of the accounting concept of materiality. It is argued here, however, that any item prescribed by law is primae facie significant, otherwise there would be no point in prescribing it. If it is accepted that some items are immaterial and, therefore, not capable of influencing users decisions, it would be more logical to recommend their disclosure rather than require their disclosure. Disclosure requirements should be reserved for items which must be disclosed.

Specific details may not matter in this case. The important point is that an opinion of dissatisfaction with the present disclosure requirements was expressed by the interviewees. Most dissatisfaction was expressed on items required to be disclosed in the directors' report. This may partially explain the observed non-compliance with the requirements. The other problems facing regulation of accounting in Tanzania were discussed in chapter four.

Below is a summary of the mandatory disclosure practices by type of corporate ownership.

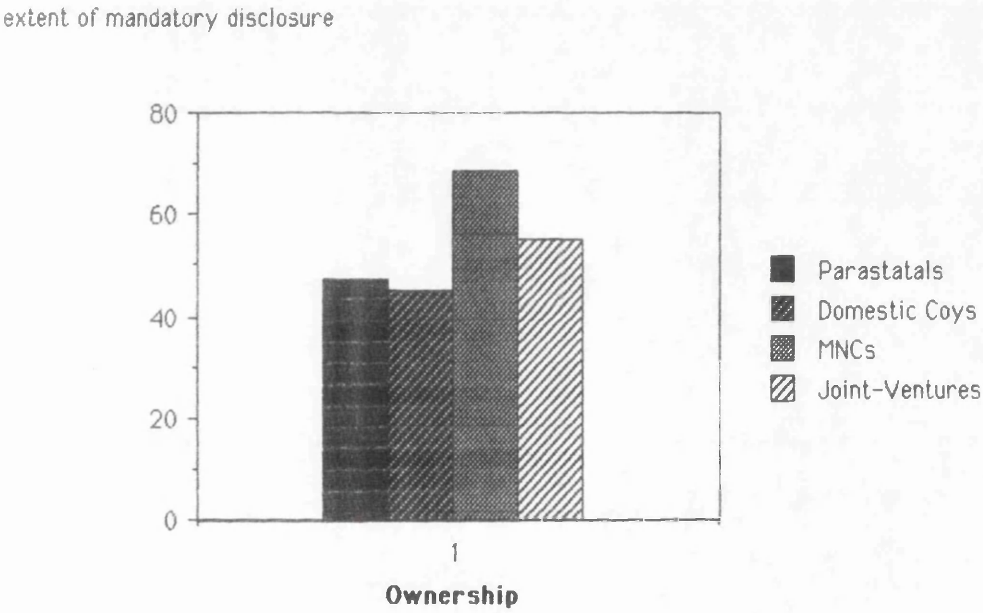

Exhibit 7.3: EXTENT OF MANDATORY DISCLOSURES EXPRESSED IN %.

From exhibit 7.3 above, it is clear that MNCs comply better with disclosure requirements than the other categories of companies. They are followed by Joint Ventures, parastatals and domestic private companies - in that sequence. This is consistent with observations in Nigeria (Wallace, 1987) and India (Singhvi, 1968). This issue is discussed further in chapter nine.

7.4) THE EXTENT OF VOLUNTARY INFORMATION DISCLOSURE:

Corporations in Tanzania appear generally not to volunteer information. Of the forty four items included in the index, the following items were not disclosedat all;

- value added statement,
- total emoluments paid to lowest paid worker, (only 3.4% of the companies studied disclosed total emoluments to the average and the highest paid workers),
- audit opinion on the directors' report,
- audit opinion on timely recording of transactions,
- intra-group pricing policies,
- long-term forecasts,
- variance analysis,
- procedures for monitoring projects under implementation,
- qualification and experience of directors and,
- directors other directorships.

Although no item is voluntarily disclosed by all corporations, there are a few items which are generally disclosed. These are:

- amount spent on marketing activities(81%),
- line of business segments (72%),
- loans received in foreign currency (80%) and,
- holding corporations interest in the subsidiary companies.

Further details are provided in appendix 7.5.

The low level of voluntary disclosures reflects the lack of effective framework within which accounting information is used in corporate decisions. It was argued in chapter three that the allocation of financial resources do not reflect the risk-return relationship.

7.5). THE EXTENT OF COMBINED CORPORATE INFORMATION DISCLOSURE:

A combination of mandatory and voluntary disclosures in Tanzania can be compared with disclosure practices in other developing countries, namely: India (Marston, 1986), Nigeria (Wallace, 1987), and Mexico (Chow and Wong-Baren, 1987). However, there are several limitations in making this comparison. The Importance of individual information items tends to vary from one place to another. Moreover, these are four different studies and their methodologies are not identical and all of them have different information items. The closest to this study is Wallace (1987) with many similarities including, for example, the fact that both studies have about 67% mandatory items and 33% voluntary items. To the extent that these studies provide some indication of disclosure practices in these countries, they can be compared. Table 7.5 below summarises disclosure practices in these four countries:

Table 7.5: Disclosure practices in four developing countries compared.

	India	Mexico	Nigeria	Tanzania
Extent of disclosure	62%	40%	54%	41%
Number of companies	30	52	47	58

7.6). THE TYPE OF AUDIT OPINIONS ON CARs:

This research has established that most profit oriented companies in Tanzania receive clean audit reports. Specifically, 84.5% received clean reports, 10.3% received 'except for opinion', 3.4% received 'subject opinion' and 1.7% got a disclaimer of opinion. From a random sample of 58 companies, none received a negative report. Looking at the four established types of ownership, it appears that all MNCs and Joint-Ventures received clean audit reports. 79% of the domestic private sector corporate reports received clean audit opinions, 14% received 'except for' opinion while 7% received 'subject to' opinion. 73% of parastatals received clean audit reports, 18% received 'except for' opinion, 4.5% got 'subject to' opinion while 4.5% received disclaimer of opinion (See exhibit 7.6(c) below). It is clear from exhibits 7.6(a) and 7.6(b) below that there is no significant difference in terms of types of audit opinions between the established categories of ownership:

Type of audit opinions.

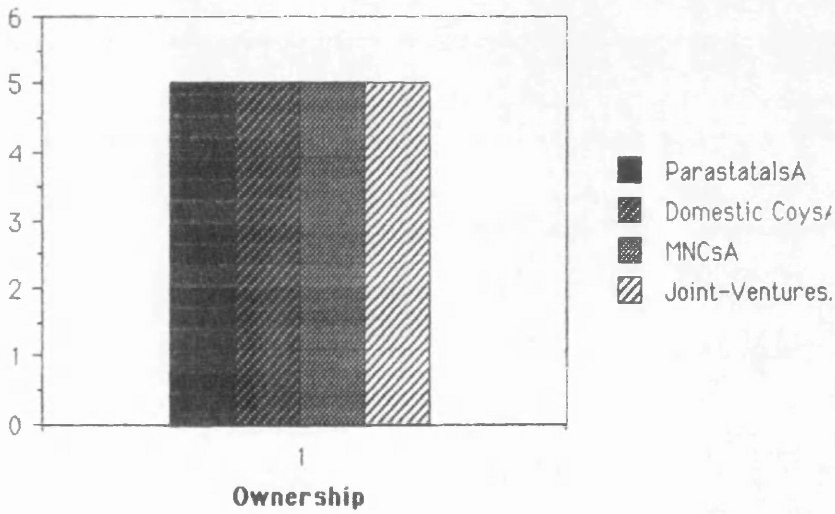

Exhibit 7.6(a) Medians: Quality of Disclosures as captured by audit opinions.

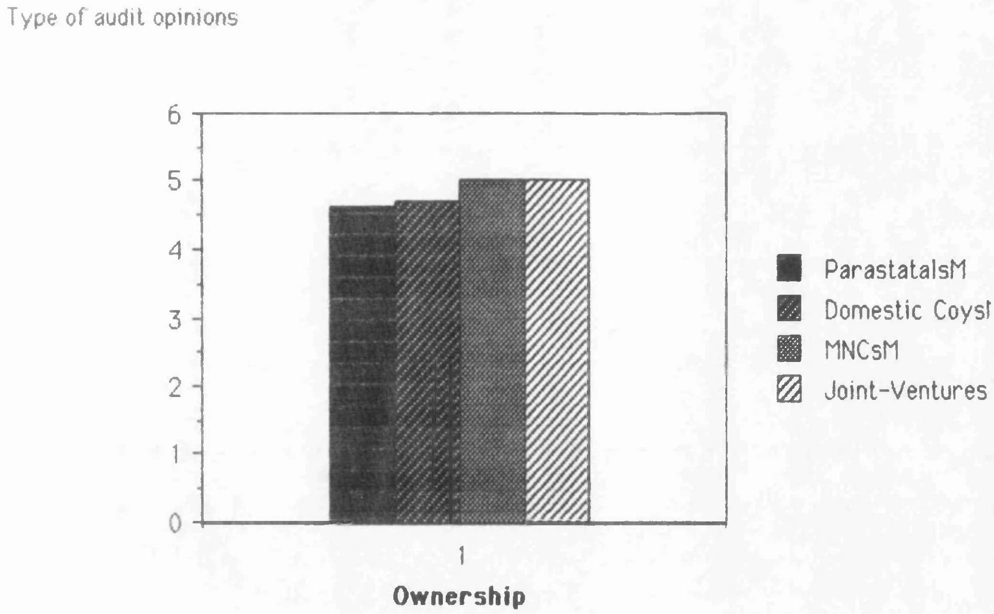

Exhibit 7.6(b) Means: type of audit opinions.

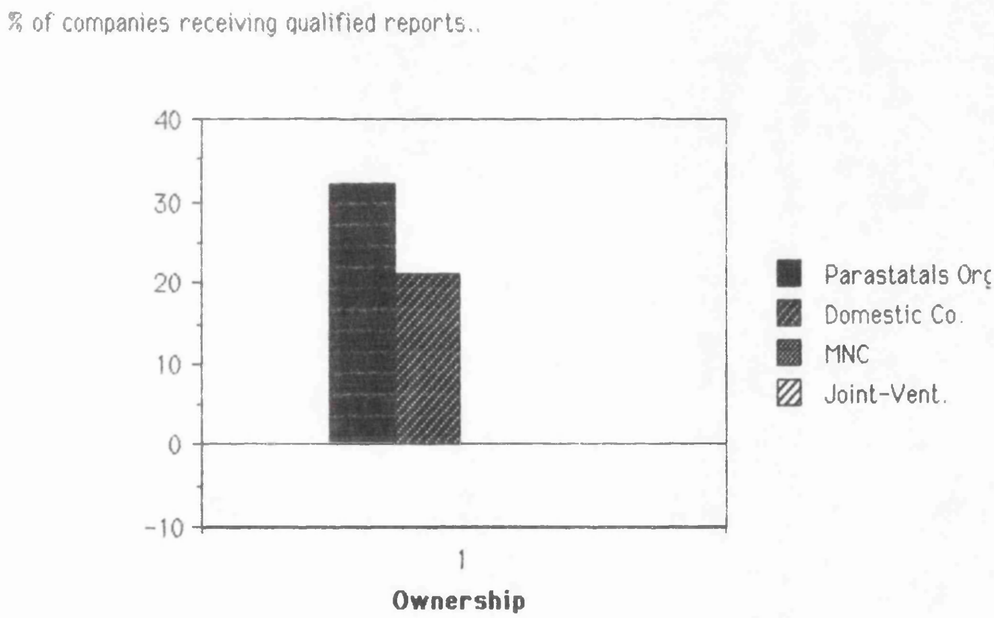

Exhibit 7.6(c): % of companies receiving qualified audit report as categorised by type of ownership.

Although the quality of CARs for profit oriented companies in Tanzania looked good, 15.5% (9 companies) of these corporations received qualified reports. One company received a disclaimer of opinion; two companies received 'subject to' opinion and six companies received 'except for' opinion. The following reasons were sighted for the audit qualifications;

-22% of the non-clean reports (2 CARs) were qualified because of significant discrepancy between physical assets and company records;

-22% (two companies) had no title deeds for some fixed assets. It was therefore difficult to establish the ownership of the assets in question;

-33% (3 companies) failed to reconcile their records with the bankers records. One of the companies attempted to conceal the difference by writing off the unreconciled amount as bad debts.

-22% (2 companies) failed to reconcile subsidiary records and the control accounts.

-22% (2 companies) failed to confirm or reconcile their records with those of the third parties. Debtors or creditors disputed the amounts circularised to them as due from or owing to them. The documents to support the initial transactions were missing.

-11% (1 company) had a questionable "going concern" status. It was making losses, yet its assets were less than its liabilities.

-22% (2 companies) had weak internal controls. Since auditors rely on internal controls to form an opinion, they could not express it without stating the reservations on this.

-11% (one company) failed to supply information auditors considered necessary for the opinion.

From the evidence available, it appears that the failure to reconcile the banking transactions is the most common reason for qualifying audit reports.

7.7). THE TIMELINESS OF CORPORATE INFORMATION DISCLOSURE:

On timeliness of CARs, companies are required to have draft financial statements ready for audit within three months of the accounting year end. Audit work must be completed within the next three months. It, therefore, follows that the CARs should be released to the public within six months of the end of accounting period. On the average this legal requirement is not met. The average reporting period is 8.115 (median=7) months[11]. Some companies release their CARs as early as two months after the end of the accounting period, while others take up-to 23 months to get their CARs ready for publication. Only 35% of the corporations met the legally set time limit for the publication of corporate reports.

Number of companies.

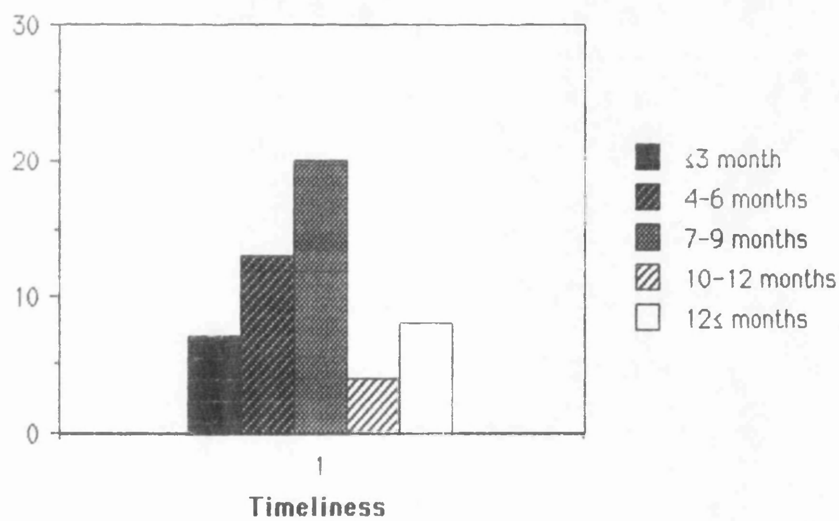

Exhibit 7.7: Timeliness of Disclosures.

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[11] Measured by the time period between the end of accounting period and the signing of audit report.

On the average, MNCs take 5.4 months (median=5) to publish their CARs. Joint Ventures take 5.25 months (median=5); parastatals take 9.57 months (median=8) while the domestic private companies take 11.12 months (median=9) to publish the CAR. The MNCs and Joint Ventures met the legally set deadline on the average. Parastatals and Domestic private sector companies failed to meet the deadline. The relationship between the four categories of companies in terms of timeliness of disclosures is depicted in exhibit 7.7 above. Factors associated with timeliness of disclosures are discussed in the next chapter.

7.8). THE RELATIONSHIP ACROSS THE FOUR MEASURES OF QUALITY OF CORPORATE DISCLOSURE PRACTICES.

In order to study the relationship between the four measures of corporate information disclosure, it is important to examine the nature of distribution of these variables. The nature of distribution may determine which statistical test is appropriate. It was decided to test whether these variables are normally distributed and the existence of outliers in the data. Minitab has two graphical techniques for testing the normality assumption.

a) If a sample is taken from a normal population, the sample histogram should have approximately the normal curve.

b) Another plot, called a normal probability plot, is a useful check for nonnormality. It plots the sample values versus the values we would expect, on the average, if the sample came from a normal population. This plot is approximately a straight line if the sample is from a normal population, but exhibits curvature if the population is not normal. The normal probability plot was used in this research to check for normality assumptions. The results of this effort are presented as appendix 7.4.

As can be seen from appendix 7.4 only the extent of voluntary disclosure was found to be normally distributed. Extent of mandatory disclosures, timeliness of disclosures and type of audit opinion were found to be skewed.

Boxplots were used to establish the existence of outliers. The boxplots are presented in exhibit 7.8(a) below:

Exhibit 7.8(a) : Boxplots for the four measures of corporate information disclosures.

```
                    -------------------------
          ----------------|    +          |----------
                    -------------------------
  ------+---------+---------+---------+---------+---------+MANDISC
     32.0      40.0      48.0      56.0      64.0      72.0
```

Boxplots for mandatory disclosures. No outliers were observed.

```
          -----------------
  -----------|      +    |----------------------
          -----------------
  +---------+---------+---------+---------+---------+------VOLDISC
  0.0      8.0     16.0     24.0     32.0     40.0
```

Boxplots for voluntary disclosures. No outliers were observed.

```
                                                -
     0          0          0         +
                                                -
  +---------+---------+---------+---------+---------+------AUDOPIN
  1.80     2.40     3.00     3.60     4.20     4.80
```

Boxplots for type of opinion. Outliers were observed.

```
         -----------
     --------|  +  |--------------- *  *   *      0
         -----------
   --------+---------+---------+---------+---------+--------TIMELI
       4.0      8.0      12.0     16.0     20.0
```

Boxplots for Timeliness of disclosures. Outliers were again observed.

Exhibit 7.8 above revealed that timeliness of disclosures and type of audit opinion were found to contain outliers.The data were double checked to ensure that the outliers do not represent data coding errors. On the basis of appendix 7.4 and exhibit 7.8, the statistical tests were selected. It was decided that:

- The association between extent of mandatory disclosure and extent of voluntary disclosures would be tested using correlation coefficients test. Although both variables were considered continuous, only voluntary disclosures were found to be normally distributed. The extent of mandatory disclosures was not normally distributed. Spearman's rank order correlation coefficient rather than Pearson correlation coefficients were used. Pearson correlation coefficient test requires both variables to be normally distributed.
- The association between mandatory disclosures and extent of voluntary disclosure on the one hand and timeliness and type of audit opinion on the other were tested using Kruskal-Wallis test. $\chi 2$ was used to test the relationship between timeliness of disclosures and type of audit opinion.The sample was divided into four cells presented in table 7.8(a) below:

Table 7.8(a): Association between timeliness of reports and type of audit.

	timely CARs	Late CARs	Total
Clean audit report	19	24	43
Qualified audit report.	1	8	9
Total	20	32	52

Description of disclosure practices in Tanzania in sections 7.2 through to section 7.7 above seems to suggest that the four measures of quality of corporate disclosures would lead to different conclusions if each measure on its own is used as a proxy for quality of corporate disclosure practices. It has been established that most mandatory requirements are not observed in Tanzania. An average corporation discloses only 50.5% of the mandatory requirements and 16.5% of voluntary information items. Average timeliness of reporting is 8.1 months, well beyond legal requirement of six months. It was, however, observed that most corporations receive clean audit reports. It may, therefore be prudent to test statistically if a relationship exists between the four variables used above. Are the companies disclosing more extensive mandatory items also disclosing more extensive voluntary information items or producing more timely CARs or receiving higher quality audit reports? Four statistical techniques are used to test the existence of this relationship. The results of these tests and the tests performed are presented in table 7.8 (b) below:

Table 7.8(b): The relationship across the four measures of corporate disclosure practices.

	tests performed	statistics	significant at %
Mandatory vs voluntary disclosure	Spearman's rank coefficients test	r_s=0.513 Z=3.87	0%
mandatory vs timeliness	Kruskal-Wallis	H_0=1.727 X_5=5.99	10%
Voluntary vs timeliness	Kruskal-Wallis	H_0=1.172 X_5=5.99	15%
Mandatory vs audit opinion	Kruskal-Wallis	H_0=0.7026 X_5=3.84	20%
voluntary vs audit opinion	Kruskal-Wallis	H_0=0.0166 X_5=3.84	45%
Timeliness vs audit opinion	$\chi 2$-test	$\chi 2$=3.44 $\chi 2$ at 5% =3.84	

Key: Ho = Kruskal-Wallis Statistic.

X_5 = Estimated critical value at 5%.

The relationship between mandatory disclosures and voluntary disclosures was tested using Spearman's rank order correlation coefficients. Correlation test was chosen because both variables were found to have continuous distribution. The two distributions were tested using normal probability plots. While voluntary disclosures were found to be normally distributed, mandatory disclosures were not normally distributed. Spearman's rank order correlation was used instead of Pearson's correlation coefficients. Positive association between mandatory disclosures and voluntary disclosures was proven at 0% confidence limits (r_s=0.513; z=3.87).

The association between the extent of information disclosure (both voluntary and mandatory disclosures) and type of audit was tested using Kruskal-Wallis test. This method was adopted because of the outliers shown in the distribution of type of audit opinion as presented above. The relationship between timeliness and type of audit opinion was tested using chi-square. No association was established between mandatory disclosures and type of audit opinion or between voluntary disclosures and type of audit opinion at 5%. The two associations were established at 20% and 45% confidence level, respectively. The type of audit opinion was not found to be associated with timeliness of CARs at 5% ($\chi 2=3.44$ while $\chi 2=3.84$ at 5%).

The association between extent of voluntary and mandatory disclosures on the one hand and timeliness of disclosures on the other was tested using Kruskal-Wallis statistical test. No association was established at 5% confidence level ($H_0=1.173$ for mandatory vs timeliness and $H_0=1.727$[12] for voluntary vs timeliness while the critical value at 5% was 5.99 in both cases).

Of the six relationships tested, only one showed a significant association at 5% confidence level. This was the association between mandatory disclosures and voluntary disclosures. This relationship has a significant implication for future research. It implies that any one of the two may be used in a study investigating the extent to which corporate information is disclosed. However, the failure to prove a significant association between the extent of information disclosure and the other qualitative aspects of CARs -type of audit report and timeliness of CARs- throws a considerable doubt on other studies which used only one measure of corporate disclosure practices. It is necessary to observe at least three measures of corporate disclosure practice in order to draw conclusions on the quality of reporting. One has to observe the timeliness of disclosures, the type of audit opinion and the extent of voluntary disclosures or extent of mandatory disclosures.

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[12]H_0 = Kruskal-Wallis distribution statistic.

CHAPTER EIGHT.

FINDINGS: FACTORS ASSOCIATED WITH DISCLOSURE PRACTICES.

8.1). INTRODUCTION.

The objective of this chapter is to present the results of all the statistical tests and other procedures performed in order to identify the factors associated with disclosure practices in Tanzania.

The chapter is divided into eleven sections. The next section presents results relating to the association between the four variables used to capture corporate disclosure practices and profitability. This is followed by findings relating to type of accounting firms, type of corporate governance in place, company size, number of qualified accountants employed, industry type, liquidity, number of sources of loan capital and proportion of liquid assets in place. Finally, the factors found to be associated with disclosure practices are summarised and the relationship across these factors examined in section eleven.

8.2.) PROFITABILITY.

Hypothesis 6.2.1 states that disclosure practices are associated with the level of profits earned by corporations in Tanzania. Two aspects of profitability were scrutinised in order to test this hypothesis. The two aspects were captured by the profit before tax to turnover ratio (P/T) and the profit after tax to owners' equity (P/E). The findings are presented below:

8.2.1). Profit before tax to turnover ratio:

This ratio may be used as a measure of the company's ability to absorb rising costs. The higher the ratio, the stronger is the company in terms of ability to withstand price competition. A company with a higher profit before tax to turnover ratio is in a better position to incur the rising cost of corporate information disclosure. It is also less likely to be afraid of price competition. It is expected, therefore, that companies whose profit/turnover ratio is higher will have more timely CARs, comply more fully with statutory requirements, receive more favourable audit reports and have more extensive voluntary disclosures.

This hypothesis was investigated in several stages. First, the relationships between the extent of mandatory disclosure, the extent of voluntary disclosure and timeliness of disclosure, on the one hand, and P/T ratio, on the other, were tested using Spearman's rank order correlation coefficient's test as was discussed in chapter six. Results are presented in table 8.2.1(a) below:

Table 8.2.1: The association between the three measures of quality of corporate disclosure practices and P/T ratio as revealed by the Spearman's rank order correlation test.

Disclosure practices	profit/turnover (coefficients)	z	sig. at
Mandatory disclosures	-0.12	-0.906	17%
Voluntary disclosures	-0.03	-0.218	39%
Timeliness of CARs	-0.27	-1.93	3%

As can be observed from table 8.2.1(a), the correlation coefficients test revealed that the timeliness of disclosure is associated with the profit to turnover ratio at the 3%

confidence level. It is observed that less profitable firms take longer time to disclose corporate information than their more profitable counterparts. The results also show that the extent of mandatory and voluntary disclosure are not related to P/T ratio.

Hypothesis 6.2.1 is therefore confirmed for the timeliness of disclosures. More profitable companies could probably afford to absorb rising costs including perhaps hiring accounting firms to help them clear their accounts once they are in arrears.

In the second stage, the relationship between the type of audit opinion and P/T was tested using Kruskal-Wallis. The sample was segregated into quartiles on the basis of P/T ratio. Type of audit opinion of the resulting four independent groups were compared using Kruskal-Wallis test. The result reveals that type of audit opinion is not related to P/T ratio. The observed Kruskal-Wallis statistic is 1.656 while the critical value at the 5% confidence level is 7.82%.

8.2.2). Net profit to equity ratio.

The second aspect of profitability was captured by the use of net profit to equity (P/E) ratio. This ratio may be used as a measure of good management (Singhvi, 1967; 1968). A company whose P/E ratio is high is more likely to impress owners and thus attract more resources. Managers of such companies are likely to disclose more information in order to justify their position, compensation and possibly improve their human capital.

Again the association between P/E ratio and disclosure practices was investigated in two stages as discussed in chapter six. First, Spearman's rank order correlation test was performed on the relationship between P/E ratio, on the one hand and the extent of mandatory disclosure , extent of voluntary disclosure and timeliness of disclosure, on the other. Results are presented in table 8.2.2. below:

Table 8.2.2: The association between the three measures of quality of corporate disclosures and P/E ratio as revealed by Spearman's rank order correlation coefficients test.

Disclosure practices	P/E corr coefficients	z	sig at %
Mandatory disclosures	0.068	0.495	31%
Voluntary disclosures	-0.24	-1.747	4%
Timeliness of disclosures	0.123	0.878	19%

From table 8.2.2 it can be seen that while the extent of mandatory disclosure and timeliness of CARs are not associated with P/E ratio at the 5% confidence level, the extent of voluntary disclosure was found to be associated with this ratio at the 4% confidence limits. The companies with lower P/E ratio tend to disclose more voluntary information items.

This finding is consistent with the hypothesis that companies would disclose more information if that will enable them to access the required resources. This reflects the general management practice observed in chapter three. Managerial compensation or resource allocation is not based on performance in Tanzania. Loss making companies were receiving direct state subsidies or preferential treatment where politicians believe it is in the national interest to do so. Managers in turn were motivated to disclose more voluntary information in order to give the impression that they are not in serious trouble despite their loss making status.

In the second stage, the relationship between P/E and type of audit opinion was tested using both Kruskal-Wallis test and $\chi 2$-test. Both tests revealed that there is a relationship between the type of audit opinion and P/E ratio. Companies with higher P/E tends to receive qualified audit reports. This finding reinforces the observation presented above regarding the extent of voluntary disclosures. Firms with lower P/E ratio tend to receive clean audit reports and also tend disclose more voluntary information items. These findings are consistent with those of Warren (1975). He argued that the his observation was likely to result from the attempts by less profitable firms to 'capture' their auditors in order to signal 'good news'. The observed Kruskal-Wallis statistic was 10.49 while the expected Kruskal-Wallis statistic at the 5% confidence level is 7.82. The observed $\chi 2$-statistic was 9.947 while the expected $\chi 2$-statistic at the 5% confidence limit with 3 degrees of freedom is 7.82.

8.3). THE TYPE OF ACCOUNTING FIRM PROVIDING AUDIT SERVICES:

Hypothesis 6.2.2 states that type of accounting firm auditing CARs is associated with disclosure practices in the country. The major role of auditors is to instil the public confidence in CARs. They examine financial records and report whether the financial statements present fairly the financial position and results of operations. They also give assurance that all relevant information has been disclosed. It is, therefore, the auditors' duty to demand that all significant information items be disclosed.

In order to investigate hypothesis 6.2.2, the sample was divided into three groups on the basis of the type of accounting firm auditing the companies. As pointed out in chapter six, three types of auditors are international accounting firms, state-owned firms and domestic private firms.

The disclosure practices of the three groups are presented in Table 8.3(a). Results of Kruskal-Wallis test are presented in table 8.3(b). It is revealed that disclosure practices are associated with the type of accounting firm providing audit services. While companies audited by international accounting firms complied more fully with statutory requirements and had more timely CARs, the companies audited by parastatal accounting firms had more voluntary information items. These facts were established at the 5% confidence level. These observations are likely to be due to discriminatory regulatory power accorded to the NBAA as was discussed in chapter four.

Table 8.3(a): Summary of disclosure practices of companies segregated on the basis of the type of accounting firm.

	International firms	State-owned firms	Domestic private firms
Number of companies	17	26	15
Mandatory disclosures	69	48	44
Voluntary disclosures	17	18.5	10
Type of audit opinion	5	5	5
Timeliness of disclosures	5	7.5	9

Table 8.3(b): The association between disclosure practices and the type of accounting firms as revealed by Kruskal-Wallis test.

Disclosure Practices	Ho	X5	X10
Mandatory disclosures	22.55	5.99	4.60
Voluntary disclosures	6.95	5.99	4.60
Type of audit opinion	4.39	5.99	4.60
Timeliness of CARs	11.61	5.99	4.60

Key: Ho = Calculated Kruskal-Wallis parameter.

X5 = critical value for accepting null hypothesis at the 5% confidence level.

X10 = critical value for accepting null hypothesis at the 10% confidence level.

As can be seen from table 8.3(b), type of audit opinion was found not to be associated with the type of accounting firm offering auditing services at the 5% confidence level. $\chi 2$-test also confirmed that the type of audit opinion is not related to the type of accounting firm providing auditing services. The observed $\chi 2$-statistic was 5.502 while the expected $\chi 2$-statistic at the 5% confidence limits with 6 degrees of freedom is 12.59.

8.4) TYPE OF CORPORATE GOVERNANCE.

Hypothesis 6.2.3 was designed to test the relationship between corporate information disclosure practices and type of corporate governance. As discussed in chapter six, four types of corporate governance were identified in Tanzania. The sample was then segregated into four groups according to the type of corporate governance in place. Disclosure practices of these four independent groups are presented in table 8.4(a).

Table 8.4(a): Disclosure Practices of companies categorised by the type of corporate governance.

	MNCs	Parastatals	Domestic private	Joint-Ventures
Number of companies	17	22	14	5
Mandatory Disclosures	68%	47%	45%	54%
Voluntary disclosures	17%	19%	11%	19%
Type of audit opinion	5%	5%	5%	5%
Timeliness of disclosures	5%	7.5%	9%	6%

Kruskal-Wallis test results of the relationship between type of corporate governance in place and corporate disclosure practices are presented in table 8.4(b) below:

Table 8.4(b): The association between the type of corporate governance and disclosure practices as revealed by the Kruskal-Wallis test.

Disclosure Practices	Ho	X5	X10
Mandatory disclosures	17.56	7.82	6.25
Voluntary disclosures	6.69	7.82	6.25
Type of audit opinion	6.59	7.82	6.25
Timeliness of CARs	14.72	7.82	6.25

The results of Kruskal-Wallis test reveals that the extent of mandatory disclosure and the timeliness of CARs are associated with the type of corporate governance in place. MNCs and JV complied more fully with mandatory disclosure requirements. They also had more timely reports than their purely domestic counterparts. These results were confirmed at the 5% confidence limits. This observation reflects the superiority of foreign types of corporate governance over the domestic types as was argued in chapter five. This finding is consistent with what Singhvi (1967; 1968) observed in India. The extent of voluntary disclosure is not associated with the type of corporate governance. This is contrary to Wallace (1987) hypothesis that foreign management would be expected to be associated with corporate disclosure practices because of the increased contacts. If subjecting corporations to international requirements induces more extensive disclosure, it would be in terms of voluntary items rather than domestic mandatory requirements.

The Kruskal-Wallis test indicates that type of audit opinion is not related to the type of corporate governance as is presented in table 8.4(b) above. This observation was confirmed by the $\chi 2$-test. The observed $\chi 2$-statistic was found to be 7.863 while the expected $\chi 2$-statistic at the 5% confidence limits with 9 degrees of freedom is 16.92.

8.5). SIZE.

Hypothesis 6.2.4 states that company size is associated with corporate information disclosure practices. It is expected that larger firms are associated with better disclosure practices. This is because larger firms are likely to accumulate similar information items for internal decision while the smaller ones are likely to gather such items primarily for public reporting. Moreover, larger firms are more likely to face higher political costs than smaller ones. This hypothesis was investigated using two measures of corporate size as was discussed in chapter six. These are asset size as measured by total asset value and turnover.

8.5.1) Turnover:

To analyse the relationship between the turnover and disclosure practices, Spearman's rank order correlation coefficient's test was performed between the extent of voluntary disclosure, the extent of mandatory disclosure and timeliness of disclosure, on the one hand, and turnover, on the other. The association between the type of audit opinion and turnover was investigated by dividing the sample into four quartiles according to the size of each company as measured by the turnover. The type of audit opinion of the resulting four independent groups was compared using Kruskal-Wallis and $\chi 2$ tests.

Table 8.5.1 below presents the results of the correlation coefficient's test. Association between the extent of voluntary disclosure and turnover was proven by Spearman's rank order correlation test at 3% confidence level. This finding confirms the political cost hypothesis that large firms would strive to disclose more information in order to minimise their political risks' exposure.

Table 8.5.1(d): The association of the three measures of corporate disclosure practices and turnover as revealed by Spearman's rank order correlation coefficient's test.

Disclosure Practices	turnover (corr.)	z	sig. at%
Mandatory disclosures	0.09	0.67	25%
Voluntary disclosures	0.26	1.86	3%
Timeliness of CARs	0.06	0.45	33%

With regard to the association between the type of audit opinion and turnover, both the Kruskal-Wallis and $\chi 2$-tests revealed that the two variables are not associated at the 5% confidence level. The Kruskal-Wallis statistic (Ho) was 7.282. At the 5% or greater confidence limits, this statistic is expected to be at least 7.82. The revealed $\chi 2$–statistic was 8.968 while the critical value at the 5% confidence level with 9 degrees of freedom is 16.92. The type of audit opinion is, therefore, not related to the turnover.

8.5.2). Asset Size:

To find out whether asset size is associated with disclosure practices, similar procedures performed to prove association between corporate disclosure practices and turnover were repeated. The association between the extent of mandatory disclosure practices, the extent of voluntary disclosure practices and timeliness of disclosures, on the one hand, and the size as measured by the total value of assets, on the other, was investigated using Spearman's rank order correlation test. The relationship between type of audit opinion and the asset size was tested using both Kruskal-Wallis and $\chi 2$-tests. The results of Spearman's correlation tests are presented in table 8.5.2 below:

Table 8.5.2: The association between the three measures of corporate disclosure practices and the asset size as revealed by the Spearman's rank order correlation coefficient's test.

Disclosure Practices	asset size (corr)	z	sig. at%
Mandatory disclosures	0.15	1.13	13%
Voluntary disclosures	0.44	3.32	0%
Timeliness of CARs	-0.07	0.50	31%

The table above indicates that size, as measured by total asset value, is associated with the extent of voluntary information disclosure. The extent of mandatory disclosure practice and timeliness of disclosure were found not to be associated with asset size at the 5% confidence level. These results suggests that it does not matter whether size is measured by turnover or asset size. Cooke (1989) reached similar conclusion for research conducted in Sweden.

As stated above, the association between asset size and type of audit opinion was tested using both Kruskal-Wallis and $\chi 2$-tests. Both test revealed consistent results. Type of audit opinion is not associated with asset size at the 5% confidence level. The Kruskal-Wallis Statistic was 1.705 while the critical value at the 5% confidence level is 7.82. The observed $\chi 2$-statistic was 12.456 while the critical value for the 5% confidence level with 9 degrees of freedom is 16.92.

8.6) NUMBER OF QUALIFIED ACCOUNTANTS EMPLOYED.

Hypothesis 6.2.5 was designed to test the relationship between the employment of qualified accountants and corporate disclosure practices. It has been argued that the observed poor disclosure practices in the public sector in Tanzania are due to lack of qualified accountants (TAC, 1988; NBAA, 1985; 1989; Mengi, 1985). If this argument is true, then one would expect the companies which employ more qualified accountants to have better disclosure practices than companies which employ less or no accountants at all. Parry and Grooves(1990) tested this hypothesis with evidence from Bangladesh. They could not confirm this hypothesis as was discussed in chapter five.

In order to test the relationship between corporate disclosure practices and the number of qualified accountants employed by companies operating in Tanzania, the sample was initially divided into two groups. One group employed no qualified accountants. The other group employed at least one qualified accountant. The association between employment of accountants, on the one hand, and the extent of mandatory disclosure, the extent of voluntary disclosure, the timeliness of disclosure and the type of audit opinion, on the other, were tested using Mann-Whitney test as presented in chapter six. The relationship between the type of audit opinion and the employment of accountants was further tested using $\chi 2$-test. Disclosure practices of these two groups are presented in table 8.6(a) while table 8.6(b) presents the results of Mann-Whitney test.

Table 8.6(a): Disclosure practices of companies categorised according to whether they employed at least one accountant or no accountant at all.

	No accountant	At least one accountant
Number of companies	16	42
Mandatory disclosures	52.5	49.5
Voluntary disclosures	11.5	17.5
Type of audit opinion	5.0	5.0
Timeliness of disclosures	8.0	7.0

Table 8.6(b): The association between the four measures of corporate disclosure practices and the employment of qualified accountants as revealed by Mann-Whitney test.

	sig. at%
Mandatory disclosures	95
Voluntary disclosures	7
Type of audit opinion	77
Timeliness of disclosures	47

Table 8.6(b) reveals that the four measures of corporate disclosure practices are not associated with the employment of qualified accountants at the 5% confidence level. The extent of voluntary disclosure was , however, found to be significantly related to the employment of qualified accountants at the 7% confidence level. Companies which employ more qualified accountants tend to disclose more voluntary items. Since the relationship was only significant at the 7%, it is likely that the relationship is a weak one. The other other variables, that is, the extent of mandatory disclosure, the type of audit reports and the timeliness, from the results presented in table 8.6(b), are not likely to be related to the employment of qualified accountants.

The result of $\chi2$-tests confirm the results presented in table 8.6(b) in that it reveals that type of audit opinion is not related to the employment of qualified accountant. The observed $\chi2$-statistic is 1.266 while the critical value at the 5% confidence limits with 3 degrees of freedom is 7.82. Contrary to the widely held view that lack of adequate number of qualified accountants is responsible for the observed weak disclosure practices, these results show that there is no relationship between the employment of qualified accountants and the quality of corporate disclosure practices.

A second approach was adopted in order to confirm the results presented above. The relationship between the number of accountants employed and the four measures of quality of disclosure practices were examined after adjusting for company size as was presented in chapter six. Spearman's correlation coefficients test was applied to establish the association between the number of qualified accountants employed per turnover, on the one hand, and the extent of mandatory disclosure, the extent of voluntary disclosure and the timeliness of disclosure, on the other. The relationship between the number of qualified accountants employed per turnover and the type of audit opinion was tested by both Kruskal-Wallis and $\chi 2$-tests. The results of correlation coefficients test are presented in table 8.6(c) below:

Table 8.6(c): The association between the number of accountants employed per turnover and disclosure practices as revealed by Spearman's correlation test.

Disclosure Practices	accountants/ turnover (corr.)	z	sig. at %
Mandatory disclosures	0.13	0.95	17%
Voluntary disclosures	0.19	1.38	8%
Timeliness of CARs	-0.18	1.29	10%

Table 8.6(c) confirms the findings presented in table 8.6(b) that the employment of qualified accountants is not related to the quality of corporate disclosure practices as measured by the extent of mandatory disclosure, the extent of voluntary disclosure and the timeliness of disclosures at the 5% confidence limits. Again, Spearman's correlation test revealed a significant association between the extent of voluntary disclosures and the employment of qualified accountants at the 8% confidence level. It appears that there is a weak relationship between the extent of voluntary disclosures and the employment of qualified accountants.

The results of Kruskal-Wallis and $\chi 2$-tests also confirmed the findings reported above that type of audit opinion is not related to the employment of qualified accountants. Kruskal-Wallis statistic observed was 4.77 while the critical value at the 5% confidence limits is 7.82. The observed $\chi 2$ statistic was 5.093 while the critical value at the 5% confidence limits with 9 degrees of freedom is 16.92.

8.7). INDUSTRY TYPE.

Hypothesis 6.2.6 was designed to investigate the relationship between industry type and disclosure practices. Disclosure practices were expected to vary with industry because information are industry specific. Again, regulatory agencies vary with industry type. Yet, there are industry leaders and followers. The leaders set the standards to be followed by other companies in the industry.

Although the methods adopted by this study controlled for the differences in information needs, the disclosure practices were expected to vary with the type of industry. First, two of the four measures of corporate disclosure practices were not controlled for. These are type of audit opinion and timeliness of disclosures. The second point is more significant. The different industries are monitored by different regulatory agencies. For example, the different industries are regulated by different ministries. If the different ministries differ in their effective use of CARs and in monitoring corporate activities, then corporate disclosure practices should vary from one industry to another. Thirdly, the difference was also expected because of different priorities accorded to different industries by the politicians. Some industries are considered to be of more strategic importance than others.

To test hypothesis 6.2.6, the sample was divided into five industries represented in the study. Quality of disclosure practices of the companies represented in the five industries under investigation are presented in table 8.7(a) below:

Table 8.7(a): Quality of disclosure practices of companies categorised by industry.

Disclosure Practices	Type of Industry				
	distribution etc	chemical	metal etc	financial institutions	textiles
No. of coys	20	11	15	6	6
Mandatory disclosures	50.5	49	53	62.5	45
Voluntary disclosures	15	15	17	29	16
Type of audit opinion	5	5	5	5	5
Timeliness of disclosures	8.5	6.5	7	6.5	6

The relationship between the extent of mandatory disclosure, the extent of voluntary disclosure, the type of audit opinion and the timeliness of disclosures, on the one hand, and the type of industry, on the other, was tested using Kruskal-Wallis test. The relationship between the type of audit opinion and type of industry was further tested using $\chi 2$–test. The results of Kruskal-Wallis test are presented in table 8.7(b) below:

Table 8.7(b): The association between the various measures of quality of corporate disclosure practices and the industry-type as revealed by Kruskal-Wallis test.

	Ho	X5	X10
Mandatory disclosures	4.50	9.49	7.78
Voluntary disclosures	6.35	9.49	7.78
Type of audit opinion	2.25	9.49	7.78
Timeliness of CARs	2.94	9.49	7.78

Key: Ho = Calculated Kruskal-Wallis parameter.

X5 = critical value for accepting null hypothesis at the 5% confidence level.

X10 = critical value for accepting null hypothesis at the 10% confidence level.

It can be seen from table 8.7(b) above that no association between the four measures of quality of corporate disclosure practices and industry type was proven by the Kruskal-Wallis test at the 5% confidence limits. The relationship between type of audit opinion and the type of industry was once more tested using $\chi 2$. The result confirms the findings reported above that the type of industry is not related to type of audit opinion. The calculated $\chi 2$-statistic is 15.454 while the critical value at the 5% confidence limits with 12 degrees of freedom is 21.03.

8.8). LIQUIDITY.

Hypothesis 6.2.7 states that liquidity position of a company is associated with corporate disclosure practices. Companies facing liquidity problems are expected to disclose more information and prepare more timely reports. They are expected to use CARs to negotiate for financial resources. They, therefore, disclose more extensive information in order to present the picture that the observed liquidity problems do not present a serious problem.

The relationship between the extent of voluntary disclosure, the extent of mandatory disclosure and timeliness of disclosure, on the one hand, and the current ratio, on the other, was tested using Spearman's rank order correlation coefficient's test. The association between the type of audit opinion and liquidity was tested by both Kruskal-Wallis and $\chi 2$-tests. The results of correlation coefficient's test are presented in table 8.8 below:

Table 8.8(d): The relationship between the three measures of quality of corporate disclosure practices and the current ratio as revealed by Spearman's correlation test.

Disclosure Practices	current ratio (corr.)	z	sig. at %
Mandatory disclosures	0.15	1.132	13%
Voluntary disclosures	0.16	1.210	11%
Timeliness of CARs	-0.26	-1.963	3%

As presented in table 8.8 above, correlation coefficients' test shows no association between current ratio, on the one hand, and the extent of mandatory disclosures and the extent of voluntary disclosures, on the other. However, table 8.8 also shows that timeliness of disclosure is related to current ratio at the 3% confidence limits. Companies with higher current ratio tends to have more timely CARs. The current ratio reflects not only the ability to meet the maturing obligations, but also the ability to incur additional costs including cost of disclosing corporate information.

Both Kruskal-Wallis test and $\chi 2$-test showed that the type of audit opinion is not related to the current ratio. The observed Kruskal-Wallis statistic is 5.022 while the critical value at the 5% confidence limit is 7.82. The observed $\chi 2$-statistic is 10.314 while the critical value at the 5% confidence level with 9 degrees of freedom is 16.92.

The failure to establish association between current ratio and extent of voluntary disclosures, extent of mandatory disclosures and the type of audit opinion would seem to suggest that although banks would insist that CARs be provided before they can offer credit facilities, they do not use the information contents in the decision making process. They, for example, would accept CAR regardless of the audit report attached. This finding is also consistent with the hypothesis that banks would not use CARs to establish the extent of risk they face before making credit decisions. It is also consistent with statements by Nsekela[1] (1978) that banks would primarily consider the government guarantee on the loans and priorities in allocating credit facilities to the public sector. In the private sector, Nsekela argued that the quality of security offered is given prime consideration in the process of credit allocation.

8.9). NUMBER OF SOURCES OF LOAN.

Hypothesis 6.2.8 states that the number of sources of loan is associated with corporate information disclosure practices. In order to test this hypothesis, the sample was stratified into quartiles on the basis of number of sources of loan. The resulting four groups had the quality of disclosures presented in table 8.9(a) below:

Table 8.9(a): Disclosure practices of companies stratified by number of sources of loans.

	Loan Sources			
Disclosure Practices	3 or less	4	5	6 or more
No of coys	12	17	15	14
Mandatory disclosures	47	47	60	51.5
Voluntary disclosures	18	12	19	18
Type of opinion	5	5	5	5
Timeliness of disclosures	8	7	7	6.5

Kruskal-Wallis test was used to examine the relationship between the extent of voluntary disclosure, the extent of mandatory disclosure, timeliness of disclosures and type of audit opinion, on the one hand, and the number of sources of loan capital, on the other. Results are presented in table 8.9(b) below:

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[1]Nsekela is the chairman and managing director of the National Bank of Commerce (NBC). NBC is the largest commercial bank in Tanzania.

Table 8.9(b): The association between the four measures of quality of corporate disclosure and number of sources of loan as revealed by Kruskal-Wallis test.

Disclosure Practices	Ho	X5	X10
Mandatory disclosures	2.24	7.82	6.25
Voluntary disclosures	4.69	7.82	6.25
Type of audit opinion	2. 16	7.82	6.25
Timeliness of CARs	0.97	7.82	6.25

In addition, $\chi 2$-test was used to test the relationship between the type of audit opinion and the number of sources of loan. The test confirmed the results presented above. No association between these two variables was established. The observed $\chi 2$-statistic was 12.204 while the critical value at the 5% confidence level with 9 degrees of freedom is 16.92.

8.10). LIQUID ASSETS IN PLACE:

Hypothesis 6.2.9 examines the relationship between corporate disclosure practices and the proportion of liquid assets in place. It was anticipated that since current assets are easily movable than fixed assets, companies with more liquid assets would institute better internal control systems than companies with less. Better internal controls are expected to lead to better disclosure practices.

This hypothesis was investigated using Spearman's correlation coefficient and $\chi 2$–tests. The results of Spearman's correlation coefficients' test are presented in table 8.10 below:

Table 8.10: The association between the three measures of quality of corporate disclosure practices and the proportion of liquid assets in place.

	FA/Asset size (corr.).	z	sig. at %
Mandatory disclosures	-0.03	-0.226	41%
Voluntary disclosures	0.18	1.359	9%
Timeliness of CARs	0.12	0.857	20%

The $\chi 2$-test was used to examine the relationship between the type of opinion and the proportion of liquid assets in place. The results show that there is no association between the proportion of the liquid asset and the type of audit opinion. The probed $\chi 2$-statistic was 13.794 while the critical value at the 5% confidence limits with 9 degrees of freedom is 16.92.

8.11) FINDINGS ACROSS VARIABLES.

Table 8.11 below summarises the results of the investigation of factors associated with disclosure practices in Tanzania.

Table 8.11: Summary of Findings on Factors Associated with Disclosure Practices in Tanzania.

	mandatory	voluntary	timeliness	type of audit
P/T	not associated	not associated	negatively associated	not associated
P/E	not associated	negatively associated	not associated	negatively associated
Type of audit firm	associated	associated	associated	not associated
Type of corporate governance	associated	not associated	associated	not associated
Turnover	not associated	positively associated	not associated	not associated
Asset size	not associated	positively associated	not associated	not associated
qualified accountants	not associated	not associated	not associated	not associated
Industry	not associated	not associated	not associated	not associated
liquidity	not associated	not associated	negatively associated	not associated
Number of loan sources	not associated	not associated	not associated	not associated
Proportion of liquid assets in place	not associated	not associated	not associated	not associated

8.11.1) Type of Audit of Opinion:

P/E was found to be associated with the type of audit opinion accorded to CARs. Companies with lower P/E tends to receive more clean audit reports. Since no other factor was found to be related to type of audit opinion, a conclusion is drawn that P/E is the only factor associated with the type of audit report.

8.11.2) Extent of Mandatory Disclosure:

It was observed that the extent of mandatory disclosure is related to type of accounting firm providing audit services and the type of corporate governance. These two factors to which the extent of mandatory disclosure is associated were themselves related. The companies audited by the international accounting firms are mostly MNCs. It cannot be concluded therefore that type of corporate governance and type of audit firm are jointly responsible for this observation or that only one of the two factors is responsible for the established relationship without controlling for at least one of the factors while observing the other. Since both of these factors are qualitative in nature and the extent of mandatory disclosure was found not to be normally distributed, it is left for future research to clarify the established relationship. This could be carefully considered at the sample design stage.

8.11.3) The Extent of Voluntary Disclosure:

The extent of voluntary disclosure were found to be associated with P/E ratio, turnover, asset size and type of accounting firm providing audit services. It was reported in chapter six (section 6.5) that P/E ratio and Asset size are related at the 4% confidence level. It was also observed that turnover and asset size are related at the 0% confidence limits. In light of these observations, it is difficulty to conclude whether P/E ratio and asset size are both related to the extent of voluntary disclosure practices or just one of them is, without observing the relationship when one of the variables is controlled for.

The asset size was first controlled for[2] in order to observe the relationship between P/E and the extent of voluntary disclosure. It was found that P/E is not significantly related to the extent of voluntary information disclosure when the asset size is controlled for at the 5% confidence limits. The association could only be established at the 13% confidence level (r_s= -0.152; z = -1.107).

In the second stage, P/E was controlled while observing the relationship between the extent of voluntary disclosure and the asset size. It was discovered that the extent of voluntary information disclosure is related to the asset size at the 0% confidence level when P/E ratio is controlled for (r_s = 0.374; z = 2.824). It is

[2]This was controlled for through partial correlations.

therefore concluded that it is the asset size which is responsible for the observed association.

It was observed, however, that turnover and asset size are related at the 0% confidence limits. Yet, the extent of voluntary disclosure was found to be related to both of these measures of size. In order to find out which measure of size best explains the extent of voluntary disclosure, it was decided to first, examine the relationship between turnover and the extent of voluntary disclosure when asset size is controlled through partial correlations. It was found that association between turnover and the extent of voluntary disclosure could be established only at the 47% confidence level (r_s = -0.01; z = -0.07).

In the second place, the association between the asset size and the extent of voluntary information disclosure was observed when turnover was controlled for through partial correlations. It was found that the asset size and the extent of voluntary information disclosure are related at the 0% confidence level when the turnover is controlled for (r_s = 0.374; z = 2.824). Size, as measured by asset size appears to explain better the extent of voluntary information disclosure than size measured by turnover. One explanation of this is likely to be that the political costs are more related to the asset size than to turnover since politicians appear to be more concerned with the property ownership as was discussed in chapter.

In conclusion, the extent of voluntary disclosure is related to the asset size and the type of accounting firm providing audit services. It was observed that large firms in terms of asset size appear to be disclosing more voluntary information. It was also observed that companies audited by state-owned audit firms tends to volunteer more information.

8.11.4) The Timeliness of Disclosure:

It was observed that timeliness of disclosure is related to P/T ratio, type of accounting firm providing audit services, type of corporate governance and the current ratio. It was also reported that P/T and current ratio are related at the 0% confidence level and that the type of corporate governance and type of accounting firms are related.

The Current ratio was controlled for in order to observe the relationship between P/T and the timeliness of disclosure. P/T ratio was controlled for next, while observing the relationship between the timeliness of disclosure and the current ratio. It was found that both the current ratio and the P/T ratio are jointly responsible for the observed timeliness of disclosure.

When the current ratio was controlled for, the association between P/T and the timeliness of disclosure was only proven at the 10% confidence level (r_s = -0.1812; z= -1.294). The association between the current ratio and the timeliness of disclosure could only be established at the 10% confidence level when P/T is controlled for (r_s = -0.1734; z = -1.26).

Since P/T ratio was considered to be a measure of the ability to absorb the rising costs while the current ratio measures the ability to meet the maturing obligations, it is surprising to discover that both these factors are responsible for the observed timeliness of disclosure. It therefore implies that the profitable companies must have sound liquidity position in order to have timely financial reports.

The other two factors associated with timeliness of disclosures are type of accounting firm and type of corporate governance. It was observed that companies audited by international accounting firms have more timely reports than those audited by the domestic accounting firms. It was further observed that MNCs have more timely CARs than their domestic counterparts. Since the association between the type of corporate governance and the type of accounting firms was also established, it is not known for certain whether the association which has been established is related to the type of corporate governance or type of accounting firm or both. Since both of these factors are qualitative in nature, it is left for future research to clarify these relationships.

In conclusion, it has been established that the timeliness of disclosure is associated jointly with P/T and current ratio ratio. Type of corporate governance and type of audit firm where also found to be related to timeliness of disclosure. But there is a need for future research to clarify whether type of corporate governance and type of audit firm are jointly responsible for the observed timeliness of disclosure or only one of the two factors is.

CHAPTER NINE.

SUMMARY AND CONCLUSIONS.

9.1) INTRODUCTION.

The objective of this study was to extend our knowledge of the factors associated with disclosure practices in a developing country - Tanzania. Knowledge of the factors related to corporate disclosure practices in the developing world is far from perfect. Since the environments of the developing world are significantly different from those of the western economies, as discussed in chapter one, it was considered useful to investigate relevant factors in these environments. Knowledge of these factors is likely to lead to improved disclosure practices in the developing countries.

Tanzania is of particular interest for several reasons. First, it is among very few countries which attempted to evolve its own approach to economic development. This was the subject of chapter two. It is of interest to confirm the applicability of existing theories of disclosure in this unique environment. Secondly, little is known about disclosure practices in developing countries in general, and Africa in particular. Tanzania is reported to be among the few African countries with advanced regulatory framework (U. N, 1991a). Tanzania and Zimbabwe are reported by the World Bank, the United Nations Centre on Transnational Corporations and the International Labour Organisation to have the best accounts in Africa (NBAA, 1991 p.44). In light of these observations, it was considered of interest to investigate factors related to corporate disclosure practices in Tanzania.

There was a secondary objective for undertaking this study. No detailed research on corporate disclosure practices has ever been based on Tanzania. This study, therefore, aimed at filling this gap.

Most studies on corporate disclosure practices in developing countries have focused narrowly on the quantity of information disclosed. As presented in chapters three and four, the other qualitative aspects of information cannot be taken for granted. The regulatory framework and enforcement mechanisms were observed to be inadequate in Tanzania. Furthermore, there is widespread shortage of qualified accountants and there is no stock exchange to exert pressure for improved financial reporting. It was decided, therefore, to use all encompassing measures of quality of corporate disclosures and also investigate whether one measure could be used as a proxy for quality of financial reports. Thus, four measures were used to capture the quality of corporate disclosure practices. These are the extent of mandatory and voluntary disclosures, timeliness of disclosure and type of audit opinion. The extent of voluntary and mandatory disclosure were captured by the use of two indices of disclosure as presented in chapter seven. Most studies reported in chapter five focused only on one of the four variables. The relationships between these four measures of quality of corporate information disclosure were investigated using Spearman's rank order correlation coefficient's test. As pointed out above, this was necessary in order to establish whether the four measures of quality of disclosures were required to study disclosure practices or just one of them could be used as a proxy to disclosure quality.

As a result of literature reviewed (see chapter five), eleven explanatory variables were examined. These are P/T ratio, P/E ratio, current ratio, proportion of liquid assets in place, employment of qualified accountants, type of accounting firm providing audit services, type of corporate governance in place, asset size, turnover, number of sources of loan capital and type of industry. After examining the nature of data and their distribution in chapter six and seven, Spearman's rank order correlation coefficients', Kruskal-Wallis, Mann-Whitney and $\chi2$-tests were used to examine the relationship between the measures of quality of corporate disclosure practices and the explanatory variables.

The objective of this chapter is to draw conclusions and provide a summary of the major findings of this study. It is divided into four sections. The next section summarises the findings of this study and possible explanations for the findings. This is followed by a discussion of the limitations of this research. Finally, various potential future studies are recommended.

9.2). SUMMARY OF FINDINGS AND THE LIKELY EXPLANATIONS OF THE EMPIRICAL RESULTS.

Chapter three discussed the corporate governance in Tanzania. Its main objective was to investigate the framework within which the accounting information is diffused and used in the decision making process. It was found that this framework is ill-developed. Most decisions are made without reference to accounting information. As presented in chapter four, there is a general consensus that lack of qualified accountants explains the unsatisfactory disclosure practices in the country. There is also a general consensus that this is a "national" problem and that, therefore, there is no point of penalising corporations for issues beyond their control. Improved disclosure practices are expected to result from the increase in the number of qualified accountants.

It was further observed in chapter four that although significant efforts were made in order to regulate financial reporting in Tanzania, no attention was devoted to building a framework within which accounting information could be used. No attempt was made to develop a framework within which usefulness of promulgated accounting standards could be evaluated. No attempt was made, for example, to develop a conceptual framework of accounting. This has resulted in a disclosure regulatory approach being adopted in Tanzania. In light of the environment discussed in chapter two and three, it is argued that this was not the right approach to accounting regulation in Tanzania. A stock exchange, financial analysts, stock brokers and all the intermediaries which make corporate information disclosure through CARs meaningful, are all lacking. By June 1990, out of more than twenty thousand companies, only five were public companies. The situation was probably worse when disclosure approach to accounting regulation was adopted in June 1983. It is probable that more emphasis on National Accounting, Public Sector Accounting and Managerial Accounting would have been more appropriate at the time.

Chapter seven examined the quality of corporate disclosure practices and what variables could be used to measure such quality. Four measures of quality of disclosures were considered. These are the extent of mandatory disclosures, the extent of voluntary disclosures, timeliness of disclosures and type of audit opinion received by these disclosures. As presented in table 7.8(b), correlation coefficients' test revealed a significant relationship between the extent of mandatory disclosure and the extent of voluntary disclosures. The other measures of quality of corporate disclosures did not show a significant relationship at the five percent confidence level, as a look at table 7.8(b) would reveal. Based on this evidence, the conclusion is drawn that it will be necessary for future research on quality of corporate disclosure practices to examine at least three measures of quality. The extent of voluntary or mandatory disclosure could be used to capture the extent to which corporate information is disclosed through the CARs. But if conclusions are to be drawn on the quality of corporate disclosure practices, it is considered essential that timeliness of CARs and type of audit opinions are also examined.

Chapter seven also discussed corporate disclosure practices in Tanzania and attempted to compare these results to findings reported elsewhere, namely: Nigeria, India and Mexico. This comparison is summarised in table 7.5. Due to differences in research methodology and the environments, it may not be revealing to compare disclosure practices of corporations located in different countries. However, to the extent that each of these studies attempted to describe disclosure practices in these countries, they can be compared. It appears that disclosure practices in developing countries are not satisfactory. It was observed, for example, that only 50.5% of mandatory disclosure items are disclosed in Tanzania. This low level of compliance with mandatory requirements is, perhaps, due to ineffective enforcement mechanisms as reported in chapter four. Currently, the NBAA relies on the auditors to demand compliance with its regulatory requirements. It could, perhaps be more effective, in light of the observations of this study, for the NBAA to start monitoring the extent of compliance with its disclosure requirements itself. The NBAA could perform this by requiring all companies to file annual reports with the NBAA. The filed CARs could then form a basis for preparing disclosure scores for each corporation and appropriate regulatory action taken for companies which fail to comply with regulatory requirements. Precisely how this could be organised for effective results is a matter for future research.

Chapter eight presents the main findings of this research. Eleven corporate attributes were investigated in order to find factors associated with corporate disclosure practices. The selection of these attributes were based on the literature review presented in chapter five. These are P/T ratio, P/E ratio, type of accounting firms providing audit service, type of corporate governance, turnover, asset size, employment of qualified accountants, type of industry, current ratio, number of sources of loan capital and proportion of liquid assets in place.The results of the findings are summarised in table 8.11.

The extent of mandatory information disclosure was found to be related to type of accounting firm and type of corporate governance in place. However, it could not be established whether these two factors were jointly responsible for the observed disclosure practices or just one of them is responsible for the observations. MNCs and companies audited by international accounting firms were found to comply more fully with the mandatory disclosure requirements. Yet, it was also observed that International Accounting firms tend to audit MNCs. In order to find out which of the two factors is specifically responsible for what has been observed, it is necessary to control for one of the factors while observing the other. This can be done at the data analysis stage or at the sample design stage. As both factors are qualitative in nature and the extent of mandatory disclosure was not found to be normally distributed, it is left for future research to clarify these relationships.

Theoretically, both factors may be associated with the extent of mandatory information disclosure. Although auditors are expected to demand compliance with statutory requirements, there are two main reasons which may lead to this observation:

- Section 39 of the Accountants and Auditors (Registration) Act (1972) exempts state-owned audit firms from regulatory powers of NBAA. State-owned firms are, therefore, not legally obliged to demand compliance with regulations stipulated with the NBAA.
- International accounting firms may be associated with better mandatory disclosure practices because of their long experience and experience gained from different countries. It appears that International Accounting firms are in a better position to demand compliance and also guide their clients on mandatory requirements. As reported in chapter four, Coopers and Lybrand, for example, prepared a comprehensive disclosure check-list immediately disclosure requirements were approved by the governing board of the NBAA. No domestic

accounting firm has prepared such general guide-lines for its clients.

Type of corporate governance may also be related to the extent of mandatory information disclosure. Most MNCs have executive directors who are mainly professional managers while most domestic companies do not have qualified professional managers as their directors. Moreover, parastatal directors are non-executive. They are mainly civil servants who are likely to lack professional experience and training needed to effectively monitor corporate activities. Also, the fact that they are non-executive and, therefore, part-time may imply that they consider their responsibility as directors to be secondary and may, therefore, not devote the necessary time for effective direction of companies. A two-tier board was recommended in chapter three. There is, however, an urgent need for research which may lead to ways and means of making the boards more effective organs of corporate governance.

MNCs also tend to pay higher salaries (Chandrasekhar and Bagachwa, 1984b). Employees of the MNCs receive adequate remuneration to afford them a decent lifestyle without resorting to the second market described by Maliyamkono and Bagachwa, (1990). Contrast this to parastatal employees who are encouraged by the government to participate in the second market.

The extent of voluntary disclosure was initially found to be related to P/E ratio, type of accounting firm providing audit services, turnover and asset size. After controlling for the related variables through partial correlations, the extent of voluntary disclosure was observed to be associated with type of accounting firm providing audit services and the asset size. Positive association between asset size and extent of voluntary disclosures was proven. Companies audited by state-owned audit firms were found to volunteer more corporate information. This was significant at the 5% confidence limits.

This finding reflects the observation reported in chapter four that interviewees within the state-owned audit firms aired dissatisfaction with the current disclosure requirements as specified by the TSSAPs. They argued, that significant disclosure items such as Kiswahili translation of CARs were not prescribed by the NBAA. It appears that the state-owned audit firms use the overriding principle of "true and fair view" to demand disclosure of items other than the ones specified by TSSAPs. It is necessary for regulatory authorities to take steps which would make the stipulated standards acceptable to most professionals. One such step appears to be the need to receive responses from the widest possible audience. It may be necessary to send exposure drafts to individual professionals and other interested parties in addition to the current practice of sending them to the institutions. Only nine responses were received for the exposure drafts which led to the promulgation of TSSAPs.

The positive association between the extent of voluntary disclosure and asset size may be explained by different factors. More people tend to be interested in activities of larger firms than smaller ones. Larger firms would, therefore, attempt to volunteer more information in order to pre-empt the requirement by the interested parties for special reports. Moreover, the environment discussed in chapters two and three indicates that political costs are relatively high in Tanzania. Larger firms tends to face more political costs as they tend to be regarded as the "Commanding Heights" of the economy. This revelation also confirms the fact that political risks tend to be related to asset size rather than turnover (Cooke, 1989).

The positive association between the extent of voluntary disclosures and asset size was, perhaps, observed in Tanzania for yet another reason. It is possible that larger firms tend to accumulate disclosure items for their internal decisions, whereas, their smaller counterparts accumulate the same information items primarily for external financial reporting purposes. This makes, as pointed out in chapter five, disclosure costs a more severe constraint on smaller companies than the larger ones.

Timeliness of CARs was found to be related to P/T ratio, current ratio, type of audit firm providing audit services and type of corporate governance. MNCs and companies audited by International Accounting firms were found to have more timely CARs than their domestic counterparts, yet it was also observed that most MNCs are also audited by International Accounting firms as previously stated. It was therefore necessary to control for one of the two factors in order to establish a relationship between the non-controlled variable and timeliness of disclosure. Again, it was not feasible to control for either of the two factors. This was because both factors were qualitative in nature and timeliness of disclosure was not normally distributed as was discussed in chapter seven. It is therefore left for future research to clarify these relationships, perhaps through matching at the sample design stage.

P/T ratio and current ratio were jointly found to be responsible for timeliness of disclosure. Corporations with higher P/T ratio and higher current ratio tend to have more timely reports. While P/T ratio measures the ability to absorb rising costs, current ratio measures the ability to meet the maturing obligations. This study has revealed that the most significant factors explaining the timeliness of disclosure in Tanzania are the ability to incur additional cost of corporate information disclosure and the ability to actually pay such additional costs as they fall due.

Type of audit opinion was found to be related to P/E ratio. Companies with higher P/E ratio tend to receive more qualified audit reports. As was presented in chapter seven, most audit qualifications were related to cash transactions. 33% of audit qualifications were due to failure to reconcile bank records and the company's bank records. Cases were observed where deliberate attempts were made to conceal such discrepancies through dubious methods such as writing them off as uncollectible debts. It may be argued that the observed association between the type of audit reports and P/E reflects the good managers' desire to have a performance linked remuneration system. Since wages and salaries are set at levels below the minimum amount necessary to sustain workers and managers for the whole month, the best performing managers in terms of P/E ratio would attempt to obtain funds from the company through unofficial means and also attempt to conceal this fact as it is against the stipulated regulations. These results suggest that the temptation to obtain funds from the companies unofficially tends to increase with P/E ratio. Singhvi and Desai (1971) observed that when P/E ratio is high, managers would indulge themselves with practices which would attract a better compensation package for themselves. Since the compensation scheme is not linked to performance in Tanzania, managers of good performing companies may tend to resort to unofficial means and ways to circumvent the stipulated regulations. Since auditors role is to ensure that CARs present "true and fair" view, they attempt to disclose such instances.

It can now be summarised that the extent of mandatory disclosures may be associated with the type of corporate governance or type of accounting firm providing accounting services or both. There is need for research to confirm this. It has been established that the extent of voluntary disclosure is related to the asset size and type of accounting firms providing audit services. It was found that the timeliness of CARs is associated jointly with the current ratio and P/T ratio. In addition, timeliness of disclosures may also be associated with the type of corporate governance, type of audit firm or both.

Given the nature of these findings, the likely explanation of the observed unsatisfactory disclosure practices observed in Tanzania are summarised below:

- The possibility that corporations may be lacking the capacity to absorb the necessary costs of disclosure. Some corporations can afford to absorb rising costs in the sense that although their profit margin may be high enough they cannot afford to pay the costs of disclosure because of liquidity problems. Examples of such costs are audit fees, resources needed to engage consulting firms to help in writing-up books and cost of instituting appropriate accounting systems.
- The political costs and potential for interference appears to be high. The threat of government intervention and the possibility that the interested parties may require special reports appears to be equally high. Larger firms tend to pre-empt these threats by volunteering information on their own.
- The non-acceptance of regulatory requirements coupled with discriminatory regulatory powers of the NBAA appears to contribute towards the observed disclosure practices. It may therefore be necessary for regulatory authorities to reconsider the need to exempt the TAC and the Controller and Auditor-General from the regulatory powers of the NBAA as is stipulated by section 39 of the Act.
- The results also reveal that differences in compensation packages, professional experience and training and executive directors as opposed to non-executive directors are likely to be responsible for the observed disclosure practices. These factors are discussed in detail in chapter three.

Future research is recommended to confirm these hypotheses. Such a study should be designed to investigate the causes of the observed unsatisfactory disclosure practices.

But most of all, the lack of a well thought-out framework within which accounting information could be used is responsible for the unsatisfactory state of accounts. As is discussed in chapter five, Foster(1986) argued that the information set available to external parties in corporations is dependent on market forces, regulatory forces and decisions based on accounting information. This view was reinforced by Wallace and Briston (1991) in the context of developing countries. They argued that accounting infrastructure in developing countries comprises three main factors. These are the framework within which accounting information is diffused and put into use, facilities of information production and quality control systems.

Wallace and Briston (1991) argued that facilities of information production or supply function include facilities in place for training and educating professional accountants, and equipment and institutions available to aid preparers in the CARs preparation stages. They hold that the framework for corporate information diffusion or demand function includes the framework in place through which corporate information is put into the decision making process. In situations where there is a proper framework to use accounting information such as the existence of an active stock exchange, a critical and effective financial press and other intermediaries, there are automatic incentives for corporations to improve disclosure practices. Corporations are likely to improve their disclosure practices in order to access financial resources at reasonable costs.

They also maintained that quality control systems include laws and regulations that govern the production, transmission and usage of accounting information. Legal entities and personnel who are involved in the process of implementing the laws and regulations relating to financial reporting are all included in this category.

It is argued that any strategy aimed at improving disclosure practices in developing countries must aim at improving all three aspects of the accounting infrastructure. Attempts to concentrate only on one or two of these three factors is not likely to succeed. Thus attempts to improve disclosure practices through increasing the number of qualified accountants have not been successful. While, perhaps, the increased number of qualified professional accountants has a potential for improved disclosure practices, in itself, the increase in the number of qualified accountants in a country is not likely to create a demand for accounting information and, therefore, is unlikely to improve the current unsatisfactory state of affairs. Tanzania is highly regarded as having taken appropriate steps towards accounting regulation and training. Yet, these steps are not reflected in the disclosure practices. There is a need to focus now on the framework within which the accounting information could be used.

9.3) LIMITATIONS.

This research focused on CARs. There are, however, several avenues through corporate information could be disclosed. For example, management audit reports are a fairly public document for the public sector companies. It is therefore recommended that future research on disclosure practices should also examine management audit reports and other media of disclosure. Such research is likely to give a fuller picture of corporate information available to the public.

The impact of the number of qualified accountants employed was examined without specific reference to the accountants' responsibility in the organisation. While the NBAA register for Authorised Accountants and Auditors provides the accountants' specific responsibility in the organisation, the second register - the approved accountant's register -provides no such detail. Professional accountants may serve as CEOs, directors of finance, management accountants, internal auditors, etc. While the existence of a qualified accountant in a corporation is likely to have an influence on financial reporting even when the accountant is not directly involved with financial reporting, it is recommended that future research examine the impact of employment of qualified accountants after controlling for the exact role performed by the accountants in question.

Difficulties faced in the data collection stage, as presented in chapter six, means that the observed practices are biased and presents the best picture of disclosure practices in the country. 98 companies or 40% of the initial simple random sample did not file the annual reports. The two sampling frames used contained companies which were not operational. The problems faced are discussed in chapter six. In light of these problems, it is possible that the sample under study is biased towards companies with the best disclosure practices. Interpretation of the findings must take this observation into account.

Limitations in research funds and other resources coupled with difficulties faced in the data collection stage meant that a rather small sample was used in this study. The smallness of the sample size meant that some issues were not adequately clarified. It was not possible, for example, to establish whether the extent of compliance with mandatory disclosure requirements and timeliness of disclosure are related to either type of corporate governance or type of audit firms providing audit services or both.

Finally, the study was intended to focus on the year 1986. However, due to non-availability of data, it was extended to 1987. The time gap of two year may mean that the different CARs used in this study are not comparable simply because of time factor. This limitation should be considered when interpreting the results of this study.

9.4) FUTURE RESEARCH RECOMMENDATIONS:

Attempts were made to suggest future research studies at an appropriate point throughout the study. These recommendations are now summarised in order to give an overview picture of pending issues:

- Unsatisfactory disclosure practices have been observed in Tanzania. Research is recommended to establish the causes of the observed state of affairs. Factors associated with disclosure practices revealed by this study are likely to be useful inputs in designing such study.
- It was apparent that many companies do not file the annual returns with the Registrar of Companies as required by law. The evidence is presented in both chapter three and six of this study. It is time a study is undertaken to investigate why this is so. The knowledge of the factors leading to the observed situation is likely to lead to improved regulatory framework in Tanzania.
- This study established that the extent of compliance with disclosure requirements and the timeliness of disclosure are both related to corporate governance and type of audit firm. Since it was observed that most parastatals are audited by state-audit firms while most of MNCs are audited by international accounting firms, it was not clear whether both factors are related to the investigated variables or just one of them is. Differently designed research could throw light on this.
- It was also observed, as presented in table 7.8(b), that the extent of compliance with mandatory requirements and the extent of voluntary information disclosure are significantly related. Yet, these two investigated variables are associated with different factors. While it is not clear whether the extent of compliance with mandatory requirements is related to the type of corporate governance or type of auditing firm or both, the extent of voluntary information disclosure is related to the type of auditing firm as well as the asset size. Due to the small sample size, this issue could not be pursued further. A study is recommended to clarify this issue.
- This study revealed serious non-compliance with mandatory requirements. This clearly indicates ineffective enforcement mechanisms. It is recommended that, instead of relying on auditors to demand compliance as discussed in chapter four, the NBAA should get itself involved in the enforcement system. Precisely

how this should be organised is a matter for future research.

- Ineffective corporate governance was observed in chapter three. Various attempts to improve this process were also noted in the same chapter. Research is needed to investigate factors leading to this state of affairs and also find out ways and means of making board of directors more effective organs of corporate governance.
- Recently the government of Tanzania has seen the need to establish a stock exchange in the country (Malima, 1992). Financial resources could then be mobilised through this mechanism. The creation of a stock exchange and individuals direct participation in the economic processes is likely to stimulate demand for accounting information. The current inclination towards the price system creates an urgent need for research which will establish the investors information needs in Tanzania. The findings of such research is likely to contribute significant inputs into the disclosure regulation in Tanzania.

Appendix 3.1

INTERVIEW GUIDE:

A) NBAA:

1). What is the regulatory framework for financial reporting in Tanzania?

- Regulatory agencies.
- Coordination between these agencies.
- Regulatory requirements stipulated by these agencies.
- Sources of compliance information.
- Options available for corrective actions.

2). With specific reference to the NBAA, what aspects of financial reporting do you regulate?

- what are your sources of compliance information on these aspects. (professional ethics, TSSAPs, employed accountants, practicing accountants, certification of annual tax returns, etc).

3). Do companies whose financial reporting you are regulating file their corporate annual reports (CARs) with you?

- Do you make use of the audit report in the regulatory process?

4). What sort of actions (penalties, incentives) do you take for compliance or non-compliance with the stipulated regulations?

5). What are the arbitrate mechanisms in cases of professional disputes between auditors and accountants or between auditors and clients or dissatisfied users of CARs.

6). What improvements on the regulatory framework do you anticipate in the near future?

- what are inadequacies or short-comings in the current regulatory framework?
- what are the problems you face in the regulatory process?

B). PROFESSIONAL ACCOUNTANTS:

1). What is the regulatory framework for financial reporting in Tanzania?

- Regulatory agencies.
- Coordination between these agencies.
- Regulatory requirements stipulated by these agencies.
- Sources of compliance information.
- Options available for corrective actions.

2). In your opinion, is this regulatory framework beneficial?

- What improvements would you suggest for improving the current regulatory framework.

3). In performing your current responsibilities, you probably need CARs to enable you to make certain decisions.

- for what specific decisions do you need CARs?
- what specific information items do you need?
- what are the alternative sources of information?

C): REGULATORY AGENCIES:

- Price Commissioner
- Registrar of Companies.
- Commissioner for Public Investment (CPI).
- Presidential Standing Committee on Parastatal Organisations (SCOPO).
- Planning Commission.
- Parliamentary Parastatal Accounts Committee (POC).
- Commissioner for income tax (CIT).
- Tanzania Audit Corporation (TAC).
- Bank of Tanzania (BOT).
- Officials in the ministries of Agriculture, Finance and Trade and Industries.

1). In performing your current responsibilities, you probably need CARs to enable you to make certain decisions.

- for what specific decisions do you need CARs?
- Do you require corporations to file CARs with you?
- what specific information items do you need?
- what are the alternative sources of information?
- How do you compare these alternative sources of information to CARs?

2) What corrective actions do you take for failure to provide CARs on time or to encourage early submission of accounts?

3). How do you establish whether the filed CAR is reliable or not?

4). What actions do you take in situations where CARs carry qualified audit reports.

5). What is the regulatory framework for financial reporting in Tanzania?

- Regulatory agencies.
- Coordination between these agencies.
- Regulatory requirements stipulated by these agencies.
- Sources of compliance information.
- Options available for corrective actions.

6) What improvements would you recommend in the current financial reporting regulatory framework in Tanzania.

APPENDIX 4.1.

QUESTIONNAIRE ON FACTORS RESPONSIBLE FOR QUALITY OF FINANCIAL REPORTING IN TANZANIA.

In your opinion, to what extent does each of the following factors contribute negatively towards the quality of financial reporting in Tanzania?

1	2	3	4	5
not at all		moderate extent		to a large extent

1. Shortage of qualified accountants [ ]
2. Inadequate office machines [ ]
3. Inadequate communication system between head office and branches of companies in Tanzania [ ]
4. Cost of data collection and processing [ ]
5. Cost of competitive disadvantage [ ]
6. Cost of publishing CARs [ ]
7. Professional disputes between accountants and auditors [ ]
8. Possibility of intervention by government agencies [ ]
9. possibility of intervention by tax authorities [ ]
10. Regulation of accounting practice by NBAA [ ]
11. Accounting manpower turnover [ ]
12. Accountants are not aware of the regulatory requirements [ ]
13. Quality of accounting training [ ]
14. Inadequate printing facilities [ ]
15. Nature of reported message [ ]
16. Deliberate efforts to suppress accounting function [ ]

17. Inadequate remuneration package for accountants [ ]

18. Inadequate use of CARs [ ]

19. Cost of auditing CARs [ ]

20. Inadequate assiduity on part of accountants [ ]

21. What could be leading to inadequate assiduity on part of accountants?

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Appendix 4.2.

FACTORS CONSTRAINING INFORMATION DISCLOSURE IN TANZANIA.

Rank		mean	std dev
1	shortage of accountants	4.450	0.826
2	inadequate remuneration for accountants	3.850	1.348
3	quality of accounting training	3.750	1.164
4	accounting manpower turnover	3.550	0.999
5	inadequate use of annual reports	3.400	1.429
6	regulation of accounting practice by the NBAA	3.316	1.455
7	inadequate assiduity on part of accountants	3.300	1.218
8	communication problems between branches and H/O	3.158	1.259
9	deliberate efforts to suppress accounting function	2.950	1.099
10	inadequate awareness of regulatory requirements by accountants.	2.950	1.432
11	inadequate office machines	2.737	0.872
12	inadequate printing facilities	2.650	1.089
13	cost of publishing CARs	2.550	1.146
14	cost of data collection and processing	2.550	1.234
15	possibility of intervention by tax authorities	2.500	1.100
16	nature of reported message	2.500	1.318
17	cost of auditing CARS	2.368	1.065
18	possibility of intervention by government agencies	2.200	1.056
19	professional disputes between accountant and auditors	1.579	0.692
20	cost of competitive disadvantage	1.579	0.769

APPENDIX 5.1

MANDATORY DISCLOSURE INDEX:

1. Country of incorporation.
2. Comparative balance sheet for two years.
3. Comparative income statement for two years.
4. Comparative statement of sources and application of funds for two years.
5. Comparative consolidated balance sheet for two years.
6. Comparative consolidated income statement for two years.
7. Directors' report.
8. Auditors' report.
9. Nationality of directors.
10. Nationality of the CEO.
11. Principal activities of the company.
12. Installed production capacity in units.
13. Planned production / planned capacity utilization in units.
14. Actual production in units.
15. Justification for the observed variance.
16. Raw materials used in production (in units).
17. Justification for the overtime payments.
18. Breakdown of bad debts written off.
19. Efforts made to recover bad debts before being written off.
20. Staff turnover.
21. Reasons for staff turnover.
22. Related party's interest in the company (shares , contracts,etc).
23. Industrial relationship in the company.
24. Distribution of income within the company.
25. Breakdown of earnings in foreign currency.
26. Breakdown of payments in foreign currency -raw materials.

27. Breakdown of payments in foreign currency -equipments.
28. Breakdown of payments in foreign currency -management and other professional fees.
29. Breakdown of payments in foreign currency -licence, trade marks,etc.
30. Dividends remitted abroad.
31. Expatriates paid in foreign currency.
32. Efforts to increase local contents of production.
33. Company policies on disables.
34. Manpower requirements.
35. Terms of short term credit facilities offered.
36. Terms of short term credit facilities received.
37. Turnover.
38. Basis of recognizing revenues.
39. cost of goods sold.
40. Breakdown of cost of production.
41. Breakdown of operating expenses.
42. Audit fees and expenses.
43. Interest expense.
44. Breakdown of depreciation expenses.
45. Emoluments paid to the CEO.
46. Emoluments paid to directors.
47. Breakdown of non-operating income.
48. Estimated corporate tax.
49. Breakdown of the difference between actual corporate tax and the estimate.
50. Taxes paid abroad.
51. Appropriation of profits.
52. Breakdown of intangible assets.
53. Breakdown of shareholders in the company (treasury, domestic,

overseas, operating parastatals, investing parastatals.)

54. Authorised share capital.
55. Issued and paid-up share capital.
56. Government grants and subsidies.
57. Breakdown of retained earnings and reserves.
58. Breakdown of long term liabilities.
59. Interest rates on long term loans.
60. Repayment schedule of long term loans.
61. Long term loans payable in foreign currency.
62. Restrictions on distribution of reserves and profits.
63. Current value of fixed assets (realisable value or replacement value or inflationary adjusted value).
64. Basis of revaluation of fixed assets.
65. Impact of revaluation on profits.
66. Breakdown of fixed assets.
67. Breakdown of investments.
68. Breakdown of current assets.
69. Basis of inventory valuation.
70. Breakdown of intra-group receivables.
71. Breakdown of directors interest in receivables.
72. Breakdown of management's interest in receivables.
73. Breakdown of advances to staff.
74. Breakdown of trade debtors.
75. Breakdown of intra-group payables.
76. Breakdown of directors' interest in payables.
77. Breakdown of management's interest in payables.
78. Breakdown of other staffs' interest in payables.
79. Accounting policy on translation of foreign currency.
80. Accounting policy on bad debts.

81. Accounting policy on depreciation.

82. Accounting policy on warranties and guarantee.

83. Accounting policy on maintenance and repair expenses.

84. Changes in accounting policies.

85. Impact of changes in accounting policies.

86. Deviations from fundamental accounting principles.

87. Justification for deviations from fundamental accounting principles.

88. Actual corporate tax paid.

APPENDIX 5.2

VOLUNTARY DISCLOSURE INDEX

1. Comparative value added statement for two years.
2. Audit opinion on directors reports.
3. Audit opinion on timely recording of transactions.
4. Amount spent on R&D.
5. R&D activities planned and undertaken during the year.
6. Intra-group pricing policies.
7. Intra-group transfers.
8. Short term quantitative forecasts.
9. Long term quantitative forecasts.
10. Anticipated economic environment.
11. Corporate objectives.
12. Targets set.
13. Variance analysis.
14. Corrective action on variance analysis.
15. Amounts spent on marketing activities.
16. Criteria for identifying and appraising projects.
17. Procedures for implementing and monitoring projects.
18. Terms of management contracts.
19. Efforts made to protect the environment.
20. Qualification and experience of the directors.
21. Directors' other directorships.
22. Qualification and experience of the CEO.
23. Line of business segments.
24. Geographical segments.
25. Turnover of each segments.
26. Contribution of each segment to profits.

27. Number of employees in each segment.

28 Operating costs incurred in each segment.

29. Number of employees in the company.

30. Amount of total emoluments paid to the highest paid employee.

31. Amount of total emoluments paid to the average employee.

32. Amount of total emoluments paid to the lowest paid employee.

33. Identity of shareholders.

34. Plans and actual transfer of technology.

35. A statement that managers have complied with and implemented the terms of management contract.

36. Reasons for failure to implement or comply with the management terms of contract.

37. Loans received in foreign currency.

38. Comparative balance sheet for subsidiary companies for two years.

39. Comparative income statement for subsidiary companies for two years.

40. Comparative statement of sources and application of funds for two years (subsidiary companies).

41. Subsidiary companies' directors' reports.

42. Kiswahili version of annual reports.

43. Breakdown of the holding corporation's interest in subsidiary companies.

44. Marketing activities undertaken during the year.

APPENDIX 7.1

EXTENT OF MANDATORY DISCLOSURES;

1. Auditors' report 100%
2. Breakdown of current assets 100%
3. Breakdown of intangible assets 100%
4. Comparative balance sheet for two years 100%
5. Comparative income statement for two years 100%
6. Basis of recognizing revenues 98%
7. Breakdown of retained earnings and reserves 98%
8. Estimated corporate tax 98%
9. Turnover 97%
10. Audit fees and expenses 96%
11. Basis of inventory valuation 96%
12. Accounting policy on depreciation 95%
13. Breakdown of fixed assets 95%
14. cost of goods sold 95%
15. Breakdown of cost of production 94%
16. Government grants and subsidies 94%
17. Appropriation of profits 93%
18. Breakdown of depreciation expenses 93%
19. Breakdown of investments 93%
20. Issued and paid-up share capital 93%
21. Authorised share capital 91%
22. Actual corporate tax paid 90%
23. Interest expense 90%
24. Long term loans payable in foreign currency 88%
25. Breakdown of long term liabilities 86%
26. Dividends remitted abroad 86%
27. Comparative statement of sources and application of funds for two

years 84%

28. Emoluments paid to directors 83%

29. Breakdown of non-operating income 78%

30. Interest rates on long term loans 76%

31. Basis of revaluation of fixed assets 75%

32. Country of incorporation 74%

33. Breakdown of operating expenses 72%

34. Breakdown of shareholders in the company (treasury, domestic, overseas, operating parastatals, investing parastatals.) 70%

35. Breakdown of the difference between actual corporate tax and the estimate 70%

36. Accounting policy on translation of foreign currency 67%

37. Principal activities of the company 66%

38. Accounting policy on bad debts 63%

39. Directors' report 62%

40. Impact of revaluation on profits 62%

41. Repayment schedule of long term loans 57%

42. Current value of fixed assets (realisable value or replacement value or inflationary adjusted value) 52%

43. Breakdown of intra-group payables 48%

44. Reasons for staff turnover 47%

45. Restrictions on distribution of reserves and profits 45%

46. Breakdown of payments in foreign currency -raw materials 43%

47. Actual production in units 39%

48. Industrial relationship in the company 39%

49. Breakdown of intra-group receivables 38%

50. Breakdown of earnings in foreign currency 36%

51. Nationality of directors 33%

52. Planned production / planned capacity utilization in units 32%

53. Justification for the overtime payments 30%

54. Comparative consolidated balance sheet for two year 29%

55. Justification for deviations from fundamental accounting
principles 29%

56. Nationality of the CEO 29%

57. Changes in accounting policies 28%

58. Justification for the observed variance 27%

59. Breakdown of payments in foreign currency -management and other
professional fees 26%

60. Distribution of income within the company 25%

61. Taxes paid abroad 25%

62. Comparative consolidated income statement for two years 23%

63. Staff turnover 23%

64. Deviations from fundamental accounting principles 22%

65. Impact of changes in accounting policies 22%

66. Raw materials used in production (in units) 22%

67. Breakdown of payments in foreign currency -equipments 21%

68. Emoluments paid to the CEO 21%

69. Breakdown of payments in foreign currency -licence, trade
marks,etc 18%

70. Manpower requirements 16%

71. Efforts to increase local contents of production 14%

72. Terms of short term credit facilities offered 14%

73. Terms of short term credit facilities received 14%

74. Company policies on disables 13%

75. Installed production capacity in units 13%

76. Expatriates paid in foreign currency 12%

77. Related party's interest in the company (shares, contracts,etc) 12%

78. Accounting policy on warranties and guarantee 10%

79. Breakdown of advances to staff 7%

80. Accounting policy on maintenance and repair expenses 5%

81. Breakdown of directors interest in receivables 5%

82. Breakdown of trade debtors 5%

83. Breakdown of directors' interest in payables 4%

84. Breakdown of bad debts written off 3%

85. Efforts made to recover bad debts before being written off 3%

86. Breakdown of other staffs' interest in payables 2%

87. Breakdown of management's interest in payables 0%

88. Breakdown of management's interest in receivables 0%

APPENDIX 7.2

EXTENT OF VOLUNTARY DISCLOSURES.

1. Amounts spent on marketing activities 81%
2. Loans received in foreign currency 80%
3. Breakdown of the holding corporation's interest in subsidiary companies 75%
4. Line of business segments 72%
5. Identity of shareholders 64%
6. Turnover of each segments 64%
7. Plans and actual transfer of technology 51%
8. Geographical segments 45%
9. Comparative balance sheet for subsidiary companies for two years 44%
10. Comparative income statement for subsidiary companies for two years 44%
11. Contribution of each segment to profits 44%
12. Marketing activities undertaken during the year 42%
13. Number of employees in the company 34%
14. Comparative statement of sources and application of funds for two years (subsidiary companies) 30%
15. Targets set 24%
16. Anticipated economic environment 21%
17. Corporate objectives 14%
18. R&D activities planned and undertaken during the year 14%
19. Reasons for failure to implement or comply with the management terms of contract 11%
20. Corrective action on variance analysis 10%
21. Subsidiary companies' directors' reports 10%
22. Short term quantitative forecasts 9%

23. Operating costs incurred in each segment 8%

24. Amount spent on R&D 7%

25. A statement that managers have complied with and implemented the terms of management contract 7%

26. Criteria for identifying and appraising projects 7%

27. Kiswahili version of annual reports 7%

28. Amount of total emoluments paid to the average employee 3%

29. Amount of total emoluments paid to the highest paid employee 3%

30. Audit opinion on directors reports 2%

31. Efforts made to protect the environment 2%

32. Number of employees in each segment 2%

33. Intra-group transfers 2%

34. Qualification and experience of the CEO 2%

35. Terms of management contracts 2%

36. Amount of total emoluments paid to the lowest paid employee 0%

37. Audit opinion on timely recording of transactions 0%

38. Comparative value added statement for two years 0%

39. Directors' other directorships 0%

40. Long term quantitative forecasts 0%

41. Intra-group pricing policies 0%

42. Procedures for implementing and monitoring projects 0%

43. Qualification and experience of the directors 0%

44. Variance analysis 0%

APPENDIX 7.3:

TYPICAL AUDIT REPORTS.

A) Prepared by domestic private accounting firm:

REPORT OF THE AUDITORS TO THE MEMBERS

We have audited the Financial Statements on pages 3 to 11 in accordance with the generally approved audit standards.

In our opinion, the financial statements which have been prepared under historical cost convention as modified by valuation of tangible assets, gives a true and fair view of the state of the Company's affairs at 31st December 1986 and of the profit and source and application of funds for the year then ended.

signed

DAR-ES-SALAAM	CERTIFIED ACCOUNTANTS
30TH SEPTEMBER 1987	AUTHORISED AUDITORS

B) PREPARED BY PARASTATAL ACCOUNTING FIRMS:

REPORTS OF THE AUDITORS

We have examined the attached Balance Sheet of National Chemical Industries as at 31st December, 1986, the related Profit and Loss Account and the Statement of Sources and Application of Funds for the year ended on that date. Our examination was made in accordance with generally accepted auditing standards and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary.

In our opinion, the accompanying Balance Sheet, the Profit and Loss Account and the Statement of Sources and Application of Funds present fairly the financial position of National Chemical Industries as at 31st December, 1986, its profits and sources and application of funds for the year ended on that date.

TANZANIA AUDIT CORPORATION

H.K. SENKORO - C.A.
DIRECTOR GENERAL

DAR ES SALAAM
APRIL, 1987.

C). INTERNATIONAL ACCOUNTING FIRMS:

AUDITORS' REPORTS TO THE MEMBERS
OF TANGANYIKA DEVELOPMENT FINANCE
COMPANY LIMITED.

1. We have audited the financial statements on pages 18-31. These financial statements are in agreement with the accounting records and we obtained the information and explanation we required.

2. In our opinion, the financial statements give a true and fair view of the state of affairs of the company as at 31st December 1986 and of its results and source and and application of funds for the year then ended.

DAR ES SALAAM, **COOPERS & LYBRAND**
28th May, 1987.

APPENDIX 7.4: NORMAL PROBABILITY PLOTS.

extent of mandatory disclosure.

```
    75+
      -                             5    2
MAN   -                         ** 2
      -                       *2
      -                       2
    60+                       3*
      -                     *
      -                   *2*
      -                  *22
      -                3 22
    45+               3 3 3
      -           2 2
      -         2 **
      -       * *
      -
    30+  *  *
      -
       +---------+---------+---------+---------+---------+------expected values if the
    -2.40   -1.60   -0.80    0.00    0.80    1.60               sample came from a normal
                                                                 population.
```

The observed curvature indicates that the extent of mandatory disclosure are not normally distributed. The expected values if the sample came from normal distribution shows that the extent of mandatory disclosure distribution is skewed to the left.

Extent of voluntary disclosure.

```
      -
    45+
      -                                *
VOLD  -                              2
      -                            *
      -
    30+                           4 **
      -                        **
      -                        2
      -                      3**
      -                    34 3
    15+                    33*
      -                 22*
      -               3 3
      -              3
      -           5 2
     0+    *
       --------+---------+---------+---------+---------+-------Expected values if
          -2.0     -1.0     0.0     1.0      2.0                the sample came
                                                                 from a normally
                                                                distributed
                                                                 population.
```

This normal plot exhibits nearly a straight line indicating that the distribution of the extent of voluntary disclosure is normally distributed. The expected normal distribution values also ranged from -2 to 2. thus confirming the symmetrical nature of the distribution.

Audit opinion.

```
     5.0+                                     +
        -
  AUDO -
        -
        -
     4.0+               6
        -
        -
        -
        -
     3.0+          2
        -
        -
        -
        -
     2.0+    *
        -
        +---------+---------+---------+---------+---------+-----Expected values if
   -2.50   -2.00   -1.50   -1.00   -0.50   0.00             the sample came
                                                            from a normally
                                                            distributed
                                                             population.
```

This exhibit indicates that the type of audit opinions are not normally distributed. The curvature shown by these plots coupled by the fact that the expected normally distribution values ranged from -2.5 to 0 is a clear indication that this variable is not normally distributed.

Timeliness of disclosure

```
        -
        -                                  *
    21.0+
        -                               2
  TIMEL-
        -                              *
        -                            **
    14.0+                              2
        -                           *
        -
        -                          3
        -                      4  7
     7.0+                     9
        -                5  5
        -              3
        -           4
        -   3
   ------+---------+---------+---------+---------+---------+Expected value if
    -1.60   -0.80    0.00     0.80     1.60     2.40       the sample came
                                                           from a normally
                                                           distributed
                                                            population.
```

This normal probability plot indicates that timeliness of disclosures is skewed to the right (it ranges from -1.6 to 2.4). The curvature exhibited is another proof of a non-normal distribution.

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