International Journal of Academic Multidisciplinary Research (IJAMR)
ISSN: 2643-9670
Vol. 7 Issue 2, February - 2023, Pages: 156-162

Corporate Governance Practice and Agency Cost among Selected Firms Listed At Dar Es Salaam Stock Exchange In Tanzania

Bernard B. Mlilile[1], Twamzihirwa D. Sifuni[2], Abel F. Moshi[3]

[1]Postgraduate Student: College of Agricultural Sciences and Fisheries Technology, University of Dar es Salaam, Dar es Salaam, Tanzania: Corresponding Author: mlililebernard@gmail.com
Tel. +255 784 244 440

[2]Lecturer, Institute of Accountancy Arusha-Dar es Salaam Campus, Dar es Salaam, Tanzania:
Email: twamzihirwad@gmail.com
Tel. +255 688 078 728

[3]Lecturer: Institute of Rural Development Planning, Dodoma, Tanzania
Email: abefesto@gmail.com
Tel. +255 620 649 967

Abstract: *This study evaluated the effectiveness of the corporate governance practice in minimizing costs born from agency problem within firms listed in Dar Es Salaam Stock Exchange (DSE). The used panel data collected during a period of 2014 up to 2020 and analyzed using fixed effect model. The major finding shows that small size of Board, lower the ownership of Director and small Share of the stakeholders has lower impact on agency. The size of Board implies lowering the agency cost meanwhile when Director Ownership goes up the agency cost goes down. Moreover, when Equity/Share increases the agency cost decreases. However, the finding revealed that CEO Duality had no impact on agency cost and may not influence agency cost. Moreover, the result indicated that only ownership concentration had positive impact on agency cost which revealed that when ownership concentration increases, agency cost increases too. This signifies that ownership concentration play significant role in raising agency cost. The paper recommends that small size of the Board, ownership of Director and Share of the stakeholders may be promoted through increasing stakeholder's participation. Additionally, ownership concentration should be decreases on the firms listed at DSE in order to minimize agency cost.*

Keyword: *Agency Cost, Corporate Governance, Dar es Salaam Stock Exchange, Firm, Practice*

1.0 INTRODUCTION

The practice in which manager emphasis to achieve personal benefits than company is usually risen the cost of the company. Such cost is known as agency cost, under normal behaviour of manager, it is expected that the manager need to focus on achieving the goal of company to minimize cost and maximise the company profit. However, manager may behaviour contrary to interest of the company owned by shareholders. Despite this fact, Ghazali & Bilal (2017) explained that, company with huge opportunities that manager operate may be not observed by shareholders, the possibility of the occurrence of opportunistic behaviors are likely to prevail within the company. Thus downing the interest of the sharholders which is usually to expand the company by increasing the capital, investment and profit (Li et al., 2021). While operation of the company is managed and supervised by manager, shareholder has less influence on decision associated with operations of the company. Given such situation, the manager power to operates the company is based on the agreement with company and the power of shareholder remained on the vote of the shareholder meeting.

The global economic crises have been impacted the companies and failed to deliver the profit has also been associated with lack of good company governance practice. The power of the company and its effect on social and economic life depends on sound adoption of good company governance practice. Countries around the globe has been reforming the company governance practice to ensure the best practice. This result into an increase the interest researchers and acdemicians to push forward comprehensively the best practice of the company governance (Hong, 2019). This necessitates the discipline of maturity and clarity to attain the nature of company governance. Rashid Khan et al., (2020) argued that company that consider nature of company governance that minimizes agency cost and thus, perfoming out the operation of the company. It is necessary to take note that, company governance practice involves processes, customs, policies, laws and various institutions governing the company to pursue the vision and mission of the company. The practice focuses to realize the objective of the firms while promoting the closeness among stakeholders. It also encourages the accountability of the managers using control mechanism that minimizes the principal-agent problem in the company.

The company governance mechanisms focus on protecting the interest of the shareholders. Rashid Khan et al., (2020) argued that weak structure of company governance encourage problems of agency cost.

Company governance practice is essentially important and it provide the rules, procedure and practice that direct control the company activities. The company governance practice may be defined as a broad term that has to do with the manner in which the rights and responsibilities in a given company are shared among owners, managers and shareholders (Moez, 2018). As such, the exact structure and institutional framework of the corporate governance is a determinant of rights, responsibilities, and privileges that are extended to each of the corporate participants, and the extent to which each participant may enjoy those rights (Alodat et al., 2021). It essentially involves balancing the interests of a firm's stakeholders such as shareholders, suppliers, customers, financiers, management, community and government. Good governance therefore entails an effective rule control and direction of entities to encourage effictive use of resources to improve management practice that eventually improving the livelihood of people.

In Tanzania, one of the major challenges facing companies listed at Dar es Salaam Sock Exchange (DSE) is inappropriate corporate or company governance practice which involves equity, financial liabilities and debt. However, The two main categories of liabilities are debt and equity, with debt holders and equity holders reflecting the two different sorts of investors in the organization.. Any decision taken on it may associate with benefits and risk. The company operated and registered in Tanzania like other developing countries, its corporate governance or company governance practices may likely to be quite different from developed countries. Such practice may have different consequence on the company and the way manager becomes opportunistic and increases the cost of the company. The situation is often more likely to observed developing countries than developed countries. Manager tends to increase expenditure that rise the cost of company and hence, decreases the profit and therefore affecting the share that goes to shareholders. The corporate governance practice have been conducted in developed countries but very limited in developing countries. This may be attributed by corporate governance practice is slowly growing and gaining momentum in developing countries like tanzania. This may be differ for developed countries where several studies have been conducted. Such as Schäuble (2019) studied the contribution of governance practice on agency cost in USA; Ayunitha et al., (2020) examined effect of governance practice on agency cost in Australia. Given the important of understanding the way of minimizing agency cost through best practice of corporate governance. It is clear that, the information related effectiveness of governance practice to minimize the agency cost is less known in Sub-sahara Africa. While knowledge associated with influence of governance practice on agency cost has increased dramatically in developed countries, howvere there is still much unknwon in Tanzania. The study was evaluated the effectiveness of the management governance practice in minimizing costs from agency problem in the firms listed DSE during a period of 2014 up to 2020. The study not only added knowledge to the literature but also it helped in extenuating the problem of agency cost.

2.0 LITERATURE REVIEW

2.1 Theretical framework

Agency theory is originally proposed by Stephen Ross and Barry Mitnick, early in 1959 (Eisenhardt, 1989). It was formed from economic theory and institutional theory. The theory tries to explain the relationship between principal (Owner) and agent (Manager) when conflict arise due to interest of the manager going away from the interest of the owner (Zogning, 2017). It further described that firm can not maximize profit if manage can not monitor properly the operation of the firm. This theory attempt to resolve the dispute arise between principal and agent, the owner rely on manager to achievethe goal of the firm (Fama, 2012).

While priorities of the firma and interest of the manager differ, then performance of the firm to maximize profit can not be attained and thus, conflict between manager and owners arised. The manager spend resources in the firm that born from owner. The owner provide resource to ensure operation of the firm goes smoothly but little has done to ensure firm maximize its profit (Ghasemi et al., 2015). The manager decide to spent resource to the firm while little risk incurred or no risk. This simply means any losses occurred, is the loss for owner or principal (Panda & Leepsa, 2017). The financial planner and manager are liable to ensure resource spent in which owner invested must be safeguarded and protected by them. Other managerial apect add the value to the practice of the governance to minimize agency cost. The compensation and incentive to manager can ensure and utilize managerial effort to maximize the output of the firm and achieving the intention of the firm.

2.2 Empirical Literature Leview

Many literatures related agency cost have been conducted in developed countries and less of them were conducted in Sub-Sahara Africa. The following literatures were conducted in developed countries includes; Management practice is one of the attribute of governance practice practice in the firm and it considered as an important aspect in controlling the expenditure which is direct related to agency cost. The study by Nguyen et al., (2020) examined the corporate goverance practice and agency cost in vietnum using panel data. The study shown that governance ownership was positively influence agency cost. It was also found that higher management increases the agency cost. Under unexpected situtiation, it was revealed thatwhen company becomes bigger agency cost delined considerably. This further suggest that increases the size of management and manager having owners to the company had resulted into increases agency cost.

Corporate governance practice simply entails the rule that organization adopt to manage and control the operation of the organizat with the focus to achieve the organizational goal. An effective corporate governance practice may yield to minimizing the agency cost while ineffective corporate governance is likely. Management play crusal role to oversee daily operation of the firms and inefficient management increases cost of operation of the firms. Moez, (2018) evaluated the effect of governance practice on agency cost for listed firms in France. The major finding suggest that managerial aspect is an effective way of controlling the firm expenditure. The study further noted that dividend policy could be strong startegy to manage agency conflicts while cash is retained on hand..

It is difficult to separate the interest of the managers and agency sost if manager is one the owners of the firm by share. According to Ayunitha et al., (2020) who investigated the factors affecting Agency Cost in Indonesia stock exchange using secondary data from 2015 to 2019. He found that board of commissioners had positive influence on agency costs. The study further suggest that indicate that managerial ownership was significance and positive associated with agency costs. This may be explained as corporate governance that focused on equiping board of commissioners and ownership could however lead to increasing the agency cost to the firms. Thus, excluding the managers in ownership of the firm or from taking share of the firm could manage agency cost.

Ownership holdings and managerial practice are closely connected and it is advised to rule that create environment to separate the interest of manager and ownership of the share in the firm. Vijayakumaran (2019) investigated the effect of governance mechanisms on agency cost for firms listed chinese using large panel data. The study found that corporate governance practice vary considerably between the states and largely shown that reform taken into managerial ownership and institutional holding has appeared to promote the governance practice that decrease agency costs. This was noted to private firms in the reform age unlike the private owned firms which were no evidence at all.

Kim et al., (2021) examined whether corporate governance structure influences the agency costs on the Hong Kong Stock Exchange between Chinese companies cross-listed. The finding suggested that large size of board as well as institutional ownership were significance and reduced the agency costs. The finding further confirmed that foreign firms achieved best practice in decreasing agency costs than domestic firms. Under such result, it recommended that local firms or domestic firms must adopt governance practice from foreign firms, and board size must have few members so as to control expendture or cost of holding the members in the meeting.

The CEO duality is a condition where the manager of the firm is also become the chairman of the board to that firm. This practice has advantage and disadvantage to the interest of the shareholders. The manager can perform management practice effectively if the manager has interest to it. Katti & Raithatha, (2018) confirmed that CEO dualty has significance and decreases the agency cost in the firms, the empirical evidence from India. Similarly the study Khan et al., (2020) reported the negative relationship between performance of the firm and CEO duality.

2.3 Conceptual Framework

It is a structure that indicates relationship between independent variable and dependent variable, in which independent variable influence dependent. The board size, ownership concentration, director ownership, CEO duality and equity/share were treated as independent variable while agency cost was treated as explanatory variable. Each variable can influence agency cost in positive or negative depending the nature of relationship exist between them.

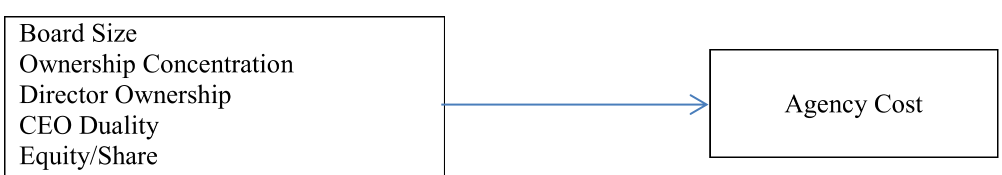

Figure 1: **Conceptual Framework adopted by Sajid** (Sajid et al., 2012)

3.0 MATERIAL AND METHOD

The study used secondary data which collected in yearly basis from Tanzania. The time series data ranged from 2014-2020 and da collected from 18 firms listed at DSE. In order to make the data meaningful, source of data were further inspected for validity and reliability. Also, companies with missing financial information or data and outliers were excluded in the data.

3.1 Model Specification

The estimation technique for panel data where it take consideration of control variable, exclusion of irrelevant variable and inclusion of relevant variable in the model to avoid biasness. Fixed effect and random effect model is considered as most effective model in analysing panel data (Merhbene, 2021). The hasuman test is normally used to compare estimates so as to determine which is appropriate model for analysing panel data. The selection of fixed effect model was favoured by hausman test which indicated random effect model was less appropriate than fixed effect model. The technique used to estimate the influence of corporate governance practice on agency cost for given panel data. The regression analysis was done to estimate the effect of corporate governance on agency Cost. The econometric model addresses how independent variables influence dependent variables was used. Base on theoretical and empirical studies the econometric model estimated is;

$$Y_t = \beta_0 + \beta_1 X_{t1} + \beta_2 X_{t2} + \beta_3 X_{t3} + \beta_4 X_{t4} + \beta_4 X_{t5} + \mu_t$$

Where; Y_t = Agency Cost (AC), X_{t1} = Board size (BS), X_{t2}= Ownership Concentration (OC), X_{t3} =Director Ownership (DO), X_{t4} = CEO Duality (CD), X_{t5} = Share/equity (SE)

To avoid spurious regression which entails misleading result, the specific econometrics model was transformed using logarism to avoid the problem of heteroscedasticity in time series data(Gujarati, 2004). The data was first corded in excel involving years from 2014-2020. Then, data was exported to Stata for analysis purpose. Since the time series data suffer the problem of serial correlation, variables were translated into the natural legalism

Table 1: Measurement of Variable

	Variable	Definition and measurement	Unit	Sign
	Dependent variable			
Y	Agency cost	Quantified into TZS	Tshs	
	Independent variables			
X_1	Board Size	Taking number of Members	Number	+/-
X_2	Ownership Concentration	Total stocks held by majority	Tshs	+/-
X_3	Director Ownership	% of total equity capital held by Directors	%	+/-
X_4	CEO Duality	1 if CEO is chairman of the Board, 0 otherwise	Dummy	+/-
X_5	Equity/Share	Number of Share	Number	+/-

3.2 Data analysis

The data was analyzed using Stata version 13 where Mean, Standard Deviation was used for descriptive analysis. The fixed or random effect model may be used. However the hausman test suggest that fixed effect model was appropriate model to use for analysing the effect of corporate governance practice on agency cost in Tanzania.

4.0 RESULTS AND DISCUSSION

4.1 Descriptive Statistics

This part presents a descriptive analysis of the data set. The study used individual level data from DSE. The financial reports from firms listed at DSE was a source of Data. The year 2014 up to year 2020 was chosen to extract data for analysis. all firms registered within that period were taken into consideration. The outliers were excluded to avoid biasness and firms that were registered in either less than in the year or for few years within specified period were aslso excluded. The major reason for choosing this survey data was the ability of the data set to answer the main objectives of the study. To make analysis meaningful, mean, standard deviation, minimu and maximum were taken into analysis and presented in the table 2.

Table 2: Descriptive Statistics of the variable used in the Model

Variable	Obs	Mean	Std. Dev.	Min	Max

AC	126	5.4557	0.2815	5.0000	5.8300
BS	126	7.0000	1.6100	5.0000	9.0000
OC	126	4.8443	0.7520	3.7600	5.9900
DO	126	2.4214	0.2223	2.0700	2.7700
CD	126	11.0000	2.4000	8.0000	15.0000
ES	126	4.2814	0.3625	3.6100	4.8000

Table 2 shows that, on average agency cost (AC) was 5.4557 while its standard deviation was 0.2815. On average the board size (BS) was 7 members while its its standard deviation was 1.6100. As longer as Ownership Concentration (OC) is important to the firm, the average of OC was 4.8443 while its standard deviation was 0.7520. The average percentage of director ownership was 2.4214 while its standard deviation was 0.2223. On average, CEO duality (CD) was 11.0000 while its standard deviation was 2.4000. Similarly, the average equity/share was 4.2814 while its standard deviation was 0.3625.

4.2 Regression Result for Estimating the agency cost

The result estimates the corporate governance practice on agency cost illustrated in table 3. Where F (5,103) = 691.38 with p value (0.000). This signifies that corporate governance practice has relationship with agency cost. The model was statistically significant with P-value less than 1% level of significance. Since P – value (0.000) was less than P – value (0.05). This evaluates the influence of corporate governance practice on agency cost. The dependent variable is an agency cost and independent variables were Board Size, Ownership Concentration, Director Ownership, CEO Duality and Equity/Share. However, all variable were significantly influencing agency cost either negatively or positively accept CEO duality variable which were insignificantly influencing agency cost.

Table 3: Effect of Corporate Governance on Agency Cost for Firms Listed at DSE

Variable	Coefficient	Standard Error	P- Value
Log Board Size	-0.3081	0.0168	0.000
Log Ownership Concentration	0.9257	0.0464	0.000
Log Director Ownership	-3.7584	0.1841	0.000
Log CEO Duality	-0.0087	0.0075	0.247
Log Equity/Share	-0.9057	0.0217	0.000
Constant	16.2025	0.4784	0.000
Sigma_u	0		
Sigma_e	0.0527		
rho	0		

With regard to table 3; Size of the board can have significant role on agency cost. Increasing the size of the board can increases the cost of serving that board which mean high expenditure on it. The size of Board had negative relationship with agency cost signifying that 1% increase in Bard size lead to decline of agency cost by 0.2931%. This postulates that small size of Board would lower agency cost compared to large Board size. The finding is inconsistence with Ayunitha et al., (2020) who found that increased number of members in the board has a negative influence on agency cost or t increases the agency cost.

The ownership concentration had positive relationship with agency cost signifying that, 1% increase in ownership concentration lead to an increase of agency cost by 0.8666%. This may be explained that ownership concentration of the stakeholders raises the agency cost. This result is contrarily to Kim et al., (2021) who reported that, it has indirect or negative relationship between external ownership and agency cost. Moreover, it was explained that agency cost did not completely capture the value outside block holders during evaluating performance of the firms.

The Director Ownership had negative relationship with agency cost signifying that when the share of stocks owned by directors increased by 1%, agency cost increases by 3.5775%. The finding is inconsistency with Vijayakumaran (2019) who revealed that ownership does not significantly influence on agency cost. This simply implies that when direct own share to the firm, manager can perform better to ensure firm achieve its goal including maiximizing its output and profit as well.

Chief Executive Officer (CEO) or manager can have significant effect on performance of the firm and agency cost as well. When CEO is also a charman of the board it means, the control become decreasingly in the operation. Due to no enforcement on management of the firm and only the person is also concerned. The CEO Duality had negative but does not have relationship with agency cost, it signifies that a CEO Duality do not lead to an increase of agency cost. This may be explained that CEO Duality is not important on the agency cost. The finding is inconsistency with Kilincarslan, (2021) who found that duality play the major role to reduce the agency cost.

Share is the value of ownership that stakeholder or shaer owns through purchasing share of the firm. It is a source of capital to expand or strengthen firm operation as well as investment. An increase or decreases of share to the compan can affect the agency cost. The share was significance and it had negative relationship with agency cost signifies that 1% increase in share lead to decrease agency cost by 0.8829%. This postulate that small share of stakeholders would have lower agency cost. This refers to when share to the firm increases, agency cost tend to decline gradually. The decline of the agency cost is considered the firm have enough capital to excute firm operation smoothly and at effectiveness. The same result was supported by Moez, (2018). Under such sitution share could emerge as startegies to reduce the agency cost.

5.0 CONCLUSION AND RECOMMENDATION

5.1 Conclusion

The study examined the effectiveness of the corporate governance practice in reducing agency cost in the firms listed at DSE during a period of 2014 up to 2020. In accordance with results, regression model was statistically significance. The included explanatory variables are jointly explaining the agency cost. It shows that small size of Board, lower the ownership of Director and small Share of the stakeholders has lower impact on agency. The finding further suggests that when Board Size, Director Ownership and Equity/Share increase the agency cost tends to decrease sharply. On the other hand, CEO Duality had no impact on agency cost and may not influence agency cost. Lastly, result confirmed that only ownership concentration had positive impact on agency cost and ownership concentration increases, agency cost increases too. This signifies that concentration of ownership play significant role in raising agency cost.

5.2 Recommendation

The study recommended that small size of the Board, ownership of Director and Share of the stakeholders may be enhance through increasing stakeholders participation. Additionally, ownership concentration should be decreases on the firms listed at DSE in order to minimize agency cost.

REFERENCE

Alodat, A. Y., Salleh, Z., Hashim, H. A., & Sulong, F. (2021). Corporate governance and firm performance: empirical evidence from Jordan. *Journal of Financial Reporting and Accounting*. https://doi.org/10.1108/JFRA-12-2020-0361

Ayunitha, A., Sulastri, H. W., Fauzi, M. I., Prabowo, M. A. S., & Nugraha, N. M. (2020). Does the Good Corporate Governance Approach Affect Agency Cost? *Solid State Technology*, *63*(4), 3760–3770. www.solidstatetechnology.us

Eisenhardt, K. M. (1989). Agency Theory: An Assessment and Review. *The Academy of Management Review*, *14*(1). https://doi.org/10.2307/258191

Fama, E. (2012). Agency problems and the theory of the firm. In *The Economic Nature of the Firm: A Reader, Third Edition*. https://doi.org/10.1017/CBO9780511817410.022

Ghasemi, M., Razak, N. H. A., & Hassan, T. (2015). Agency problem, managerial incentive and financial controlling instrument: A brief review for agenda study in Malaysia. *Pertanika Journal of Social Sciences and Humanities*, *23*(September).

Ghazali, A., & Bilal, A. R. (2017). Analyzing the Link Between Agency Problems, Governance and Control Attributes for Pakistan. *E-Finanse*, *13*(3). https://doi.org/10.1515/fiqf-2016-0029

Gujarati, D. N. (2004). Basic Econometric, Fourth Edition. In *New York*. https://doi.org/10.1126/science.1186874

Hong, S. (2019). Corporate governance and agency problems. *International Journal of Economics and Business Research*, *17*(1). https://doi.org/10.1504/IJEBR.2019.096586

Katti, S., & Raithatha, M. (2018). Governance practices and agency cost in emerging market: Evidence from India. *Managerial and Decision Economics, 39*(6). https://doi.org/10.1002/mde.2940

Kilincarslan, E. (2021). The influence of board independence on dividend policy in controlling agency problems in family firms. *International Journal of Accounting and Information Management*, *29*(4). https://doi.org/10.1108/IJAIM-03-2021-0056

Kim, D. S., Yeo, E., & Zhang, L. (2021). Do cross-listed firms have a better governance structure and lower agency costs? Evidence from Chinese firms. *Sustainability (Switzerland)*, *13*(4). https://doi.org/10.3390/su13041734

Li, S., Gao, D., & Hui, X. (2021). Corporate Governance, Agency Costs, and Corporate Sustainable Development: A Mediating Effect Analysis. *Discrete Dynamics in Nature and Society*, *2021*. https://doi.org/10.1155/2021/5558175

Merhbene, D. E. (2021). *The relationship between non-performing loans , banking system stability and economic activity : The case of Tunisia The relationship between non-performing loans , banking system stability and economic activity : The case of Tunisia*.

Moez, D. (2018). *Agency Costs , Corporate Governance and the Nature of Controlling Shareholders : Evidence From French Listed Firms*. *8*(3), 256–277. https://doi.org/10.5296/ijafr.v8i3.13621

Nguyen, A. H., Vu, T. M. T., & Doan, Q. T. T. (2020). Corporate governance and stock price synchronicity: Empirical evidence from vietnam. *International Journal of Financial Studies*, *8*(2), 1–13. https://doi.org/10.3390/ijfs8020022

Panda, B., & Leepsa, N. M. (2017). Agency theory: Review of theory and evidence on problems and perspectives. *Indian Journal of Corporate Governance*, *10*(1). https://doi.org/10.1177/0974686217701467

Rashid Khan, H. ur, Khidmat, W. Bin, Hares, O. Al, Muhammad, N., & Saleem, K. (2020). Corporate Governance Quality, Ownership Structure, Agency Costs and Firm Performance. Evidence from an Emerging Economy. *Journal of Risk and Financial Management*, *13*(7). https://doi.org/10.3390/jrfm13070154

Sajid, G., Muhammad, S., Nasir, R., & Farman, A. (2012). Agency cost, corporate governance and ownership structure: the case of Pakistan. *International Journal of Business and Social Sciences*, *3*(9), 268–277. http://mpra.ub.uni-muenchen.de/42418/

Schäuble, J. (2019). The impact of external and internal corporate governance mechanisms on agency costs. *Corporate Governance (Bingley)*, *19*(1). https://doi.org/10.1108/CG-02-2018-0053

Vijayakumaran, R. (2019). Agency costs, ownership, and internal governance mechanisms: Evidence from Chinese listed companies. In *International Journal of English Language and Literature Studies* (Vol. 9, Issue 1). https://doi.org/10.18488/journal.aefr.2019.91.133.154

Zogning, F. (2017). Agency Theory : A Critical Review. *European Journal of Business and Management*, *9*(2).