Chapter 12
Privatization of Firms in Rwanda: The Role of Corporate Governance Practices

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Abstract This chapter assesses the applicability of corporate governance practices in Rwandan privatized firms. A case study was conducted with a single cement manufacturing firm, findings from which reveal gaps in company-level corporate governance practices in matters relating to minority shareholder controls, board composition, executive reviews, disclosures, and transparency. Some of the gaps identified are related to institutional and regulatory frameworks. The findings of the study have theoretical as well practical implications for all stakeholders of corporate governance in Rwanda, that is, policymakers, corporate governance agencies, and company directors. At the firm level, there is a dire need to address the identified gaps to strengthen corporate governance best practices with regard to existing standards, while at the government level, laws could be revised to strengthen enforcing mechanisms.

Keywords Privatization · Corporate governance · Developing countries

12.1 Introduction

12.1.1 Background

In the past two decades, privatization has been a key macroeconomic reform in both developed and developing countries. One of the major rationales for privatization of state-owned enterprises has been reducing the dominant role played by the government as a key player in the economy to facilitate the emergence of a vibrant and active private sector (Boubakri et al. 2008). Several studies document that privatization replaces political control with private control by outside investors and that

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the result of the switch to these relatively more efficient ownership structures is typically a significant improvement in the performance of privatized firms. Privatization programs bring more revenues for the state, economic efficiency improves, and it also leads to product market competition (Boubakri et al. 2005; Megginson and Netter 2001; Megginson et al. 1994; Nheri 2014).

Given the increasing scale of privatization activities in both developed and developing countries, a number of studies on both the macro- and firm levels (Dyck 2001; Ramamurti 2000) highlight the factors that drive a firm's performance after privatization. One of the key drivers of firm performance mentioned in the literature at country and firm levels refers to a country's level of corporate governance and institutional development. It has also been documented elsewhere that the ultimate success of privatization depends on the effectiveness of post-privatization corporate governance mechanisms (Boubakri et al. 2004). Research evidence, however, shows that in contrast to developed countries, privatized firms in developing countries have experienced neither improvements in profitability, capital investments, efficiency, and outputs, nor a significant increase in leverage. Johnson and Shleifer (2004) attribute mitigated privatization records in developing economies to weaknesses in corporate governance, in particular poor investor protection.

A study by Dyck (2001) emphasizes that unless developing countries embrace a corporate governance perspective, privatization is unlikely to provide the benefits of improved performance with accountability to the governments that instituted them. Many developing countries lack established institutional infrastructures for efficient corporate governance. Studies contend that a country's level of institutional development in this regard is a major determinant of the failure or success of privatization programs (Dyck 2001; Ramamurti 2000).

In this chapter, we provide an understanding of corporate governance structures prevailing in privatized firms in developing countries for two main reasons. First, particular attention is paid to econometric assessments (mostly based on panel data) of the impact of new forms of ownership on firm behavior and outcomes such as corporate performance (Megginson and Netter 2001; Shirley and Walsh 2001). Unfortunately, the results across real-world empirical tests on post-privatization performance changes are not yet conclusive (Wu 2007; Molz and Hafsi 1997). At the same time, much less attention has been paid to the variables that explain performance outcomes of privatized firms. Cuervo and Villalonga (2000) argue that organizational and contextual variables need to be considered and studied carefully in order to explain variances in the performance effects of privatization. We follow this argument by studying the corporate governance structures in a privatized firm.

Second, in addition to the inconclusive results on the outcome of privatization initiatives across the world, research on the subject is based on Western developed countries and to a lesser extent on developing economies. This study attempts to add to the body of the literature by examining whether privatized firms have established sound corporate governance structures in Rwanda, a developing country. Rwanda represents an example of a country whose privatization programs were influenced by the World Bank and the International Monetary Fund (IMF) in the 1990s as part of Structural Adjustment Programs (SAPs). However, little is

known about the adequacy of the accompanying institutional infrastructure, specifically corporate governance mechanisms within the privatized firms. This study therefore aims to fill this gap by assessing the soundness of corporate governance mechanisms in Rwandan privatized firms' context.

12.1.2 The Research Context: Privatization in Rwanda

Rwanda is a small, landlocked country in East Africa. It is bordered by the Democratic Republic of Congo (DRC) to the west, Tanzania to the east, Uganda to the north, and Burundi to the south. The 2012 Population and Housing Census put the population of Rwanda at 10.5 million residents, of which 52 % were women (The World Bank 2015). Rwanda is one of the fastest growing economies in central Africa. Although still poor and mostly agricultural (90 % of the population is engaged in subsistence agriculture), the nation has made significant progress in recent years. New industries such as tourism, cut flowers, and fish farming have been gaining importance. The major sources of foreign trade are coffee, tea, tin cassiterite, wolframite, and pyrethrum. However, to understand the current transformations and developments, we need to understand the historical context that has shaped the current political, social, and economic environment in Rwanda today.

Rwanda experienced a civil war and genocide in 1994, in which more than a million people were killed while more than a million left the country. During the pre-war period (before 1994), the Rwandan formal economy was dominated by the public sector, that is, state-owned enterprises.

The war and genocide resulted in the destruction of infrastructure of numerous state-owned companies, but even more damaging was the loss of human capital through death, flight, or imprisonment of qualified employees and managers of these companies. Most of the public parastatals were severely damaged or completely abandoned, requiring major investments for rehabilitation that the government could not afford; many former employees did not return to their previous workplaces since many of them were either killed, fled the country, or preferred to look for other opportunities.

The enterprises that were more or less still active after the genocide lacked the financial support necessary at that stage. Many of them were heavily indebted and consequently close to bankruptcy (Rwanda Privatization Secretariat 2001). For instance, Ovibar, a state-owned banana processing enterprise, had cumulative losses of almost US$ 123,000 in 1997, despite the fact that it was totally exempt from paying taxes. The Kabuye Sugar Office (KSO), a sugar manufacturing plant, stopped paying its personnel and had cumulative salary arrears amounting to US$ 151,000. Petro Rwanda, a company involved in the storage and distribution of oil, had total liabilities of US$ 2.4 million.

The government recognized that for the country to survive, it had to revive private enterprises. As mentioned in the Privatization Secretariat report (2002: Section 1.0), the Rwandan Government of National Unity embarked on a program

of comprehensive economic and social reforms after the 1994 genocide. Recognizing the private sector as the principal driving force behind economic growth in Africa and elsewhere, the Rwandan government felt it should not be left behind and put in place an ambitious privatization program for its state-owned enterprises. This program was established by law (no. 2 dated 11/3/96) on privatization and public investment. A presidential decree (no. 08/14 dated 3/5/96) put in place the institutions to implement this program.

In October 1997, the Privatization Secretariat commenced its work (Republic of Rwanda Privatization Secretariat 2001). It was implemented through a comprehensive set of reforms and policies undertaken by the government under the guidance of the World Bank and IMF. The objectives of the government at the start of the privatization process were to relieve the financial and administrative burden of the government, improve efficiency and productivity of the companies, reduce the size and the presence of the public sector in the economy, and broaden the ownership base.

Rwanda had about 72 commercially oriented state enterprises in 1995. Most of these enterprises were either operating well below capacity or were dormant and bankrupt. Since 1996, 56 companies have been fully privatized, 20 are in the process of privatization, and seven have been liquidated. This has earned the government a reported US$ 100 million. Most enterprises were sold to domestic investors, although some larger ones, including a modern specialist hospital, a sugar factory and estate, and a petrol distribution company, were sold to foreign firms. To permit privatization, the National Assembly adopted a new legislation establishing regulatory frameworks for some sectors, including paving the way for private sector participation. The law also created a multi-sector agency to regulate the activities of firms in the power and telecommunication sectors (MINECOFIN 2003; UNDP 2005).

However, the privatization program faced several obstacles in the post-conflict environment, including lack of institutional capacity to manage the privatization process. While the process is believed to have been generally transparent, there were also a number of transactions undertaken through mutual agreements directly between the government (with the involvement of the Privatization Secretariat) and private investors. These included some difficult transactions where the process of public offerings failed (Bakazi 2005). However, even some of these transactions eventually unraveled. These problems lend support to the argument that privatization may have been premature in a volatile post-conflict environment. Arguably, the government could have waited until the economy had stabilized and fully recovered from the effects of the conflict before offering state-owned enterprises (SOEs), for sale (English et al. 2004; UNDP 2005; USAID 2004).

After privatization in early 2000, thanks to macroeconomic and political stability, new businesses emerged because of the stable security situation in the country. With weak systems of governance, malpractices began to surface in some sectors, mostly in the financial sector. Various regulatory mechanisms were put in place, among them the endorsement of the rules for enforcement of corporate

governance[1] in insurance companies (on separation of duties of CEOs and the chairman of the board), the Company Act[2] of 2009 (on general incorporation and governance of the company), and the private sector code of corporate governance, all of which were meant to strengthen the governance practices in not only privatized firms, but also other privately held firms such as family businesses and public firms including local and foreign companies. All companies incorporated under the Rwanda Company Act are required to comply with and practice the governance mechanisms defined in the aforementioned laws, by-laws, and acts.

We argue in this chapter that as much as privatization overcomes agency problems in government-owned enterprises, it is not an end in itself, but can rather be a source of future problems. Agency problems are inherent in privatized firms. It is within this context that we use a case approach to obtain in-depth insights into how institutional practices such as corporate governance shape the management and control of privatized firms.

12.1.3 Privatization in Developing Countries: The Need for Corporate Governance

Since the 1980s, governments across the world have increasingly chosen to relinquish control over public enterprises. Some of the major reasons for selling state-owned enterprises to private owners include promoting economic efficiency, reducing government inefficiency in the economy, promoting a wider share of ownership, stimulating product market competition, and subjecting state-owned firms to capital market discipline (Megginson and Netter 2001; Nheri 2014). After its debut in the UK in the early 1980s, the sale of state-owned firms (privatization) spread to France, Italy, Spain, and other market economies. Many empirical studies (see Megginson and Netter 2001, for a review) show that privatization is indeed highly successful in delivering performance and efficiency improvements.

Many developing countries, such as Rwanda, have since the 1990s implemented privatization programs with the intention of replicating their success in developed economies (Dharwadkar et al. 2000; Megginson et al. 1994).

However, research results reveal mixed evidence with regard to privatization success efforts in developing countries (Frydman et al. 1997; McDonald 1993; Park 1997; Wright et al. 1998). The key argument put forward is that due to weak governance systems in developing countries, when the initial excitement with the transfer of ownership to the private sector is over, how to govern the privatized

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[1]Article 20 of the Regulation (no. 07/2009 of 29/07/2009) on corporate governance requirements for insurance business, published in the *Official Gazette* no.*35 Of 30/08/2010,* available at: http://www.bnr.rw/docs/publicnotices/Insurance%20regulation%20n07%20copportate%20governance.pdf. Accessed on December 19, 2011.

[2]Company Act (no. 07/2009), available at: www.gov.rw.

corporation is a major concern in those countries (Aggarwal et al. 2011; Wright et al. 1998; Young et al. 2002). According to Boubakri and Cosset (1998) and Boubakri et al. (2005), performance because of privatization is impacted by a country's business culture reflected in corporate governance and institutional development. La Porta et al. (1997, 1998, and 2000) have shown that these considerations constitute a major difference between developed and developing countries, since governance mechanisms are relatively weaker in the latter. In general, research has characterized the degree of corporate governance in developing countries as weak and variable (Bekaert and Harvey 2003; Denis and McConnell 2003; Klapper and Love 2004). Other studies contend that a country's level of institutional development is a major determinant of the failure or success of privatization programs (Dyck 2001; Ramamurti 2000). For example, Johnson and Shleifer (2004) attribute the mitigated privatization record in developing economies to weaknesses in corporate governance, in particular poor investor protection. This study builds on this scholarly argument to assess corporate governance structures of privatized firms in developing countries characterized by weak institutions.

12.2 Corporate Governance Structures in Privatized Firms

The dominant theory explaining corporate governance in privatized firms has been the agency theory (Eisenhardt 1989; Fama 1980; Jensen and Meckling 1976). Agency theorists argue that new ownership results in agency problems (e.g., Eisenhardt 1989) such as managerial perquisite consumption (Gedajlovic and Shapiro 1998) and entrenchment problems (Dharwadkar et al. 2000; Walsh and Seward 1990).

Researchers suggest that agency problems can be resolved through increasing incentive alignments between principals and agents and effective principal monitoring of agents (Eisenhardt 1989; Zahra 1996; Zajac and Westphal 1994). Eisenhardt (1989) specifically highlights that effective governance mechanisms such as ownership structures, boards of directors, executive compensation, and external mechanisms, such as takeover threats, can resolve many agency problems and this may consequently affect the performance of privatized companies due to improved monitoring and/or less agency conflict (Che Haat et al. 2008; Gul et al. 2010).

However, research evidence shows that such agency solutions rely on an efficient governance context prevalent in most developed economies (Holl and Kyriazis 1997; Kochhar 1996) and may not be appropriate and effective in weak governance contexts of developing economies. Governance mechanisms in developing countries are generally weak, and the risk of expropriation of shareholders by managers or by block holders (majority shareholders) is considerably higher. Dharwadkar et al. (2000) also note that in the case of developing countries, traditional agency theory alone cannot fully explain properly the relationship between privatization and performance. Following North (1990), the authors argue that

contextual factors such as the development of market institutions, industry structures, ownership patterns, and enforcement of laws should be considered in guiding the transfer of property and regulating corporate control in the newly privatized companies. It is through acknowledging the weaknesses of agency theory that scholars propose an institutional perspective for studying corporate governance in privatized firms.

North (1990) had previously argued that institutions[3] affect economic performance and that there are implications for how a firm's behavior is influenced by the environment in which it operates. Davis (2005) has argued that the most relevant and promising corporate governance research seeks to understand the institutional context in which it occurs, as governance systems are embedded in the national institutional environment (Aoki 2001; D'Souza et al. 2005; North 1990; Whitley 1999). The World Bank (1995) is of the opinion that a country's institutional environment exerts a major influence on post-privatization performance. These studies note that privatization is interrelated to institutional factors such as legal infrastructure. Literature on corporate governance has provided a context for how different national institutions, particularly legal systems, influence corporate governance (e.g., Gospel and Pendleton 2003; Mayer and Whittington 2003) at the firm level.

We argue that an institutional perspective provides a balanced theoretical framework for studying privatization. It posits that over time, structures and activities develop which provide meaning and stability to social behavior. In the case of privatization, institutional factors set the process in motion and influence its development. Once begun, however, the process occurs within an organization and is therefore enacted by employees.

Ultimately, new activities and meanings which suit the newly changed ownership and governance arrangements of an enterprise are adopted, developed, and institutionalized by organizational members (Erakovic and Wilson 2005; Greenwood and Hinings 1993; Scott 1995; Springdal and Mador 2004). It is only then that an organization can be said to have fully adopted a privatized, entrepreneurial stance.

12.3 Method

12.3.1 Research Design

Our work adopts a qualitative approach based on a single case study. The basis for the case study approach was the intention to create an in-depth understanding and to explain corporate governance in a privatized firm, and this endeavor could be realized well with a case study approach. According to Yin (1994), a case study can

[3]Institutions are broadly defined as the rules of the game that structure incentives in human exchange in a society (North 1990).

be understood as an empirical inquiry that investigates a contemporary phenomenon within its real-life context, especially when the boundaries between the phenomenon and the context are not clearly evident.

We used different research methods for data collection and analysis. Primary collection instruments included interviews. Our research also relied on secondary data from annual reports, other company documents, laws, and regulations.

12.3.2 Interviews

We conducted semi-structured interviews which allowed interviewees the freedom to express their views on their own terms, an approach that was relevant to the fundamental objective of this study. The semi-structured interview allows a more complete understanding of an interviewee's opinions and the reasons behind them, an advantage that is not gained using a questionnaire (Borg and Gall 1983).

We conducted interviews with three senior officials of the company CIMERWA, which was the focus of this study and which follows privatization and the restructuration process closely. First, the Chief Operations Manager holds a degree in material science and engineering with a major in cement technology. He joined CIMERWA in 1989 and worked at different positions before being appointed as its Chief Operations Manager in 2007; this is a position that he holds till today (as of December 2015). His experience in the company helped get us access to good quality information. Second, the legal advisor holds a bachelor's degree in law. He joined the company in 2008, a year after privatization and restructuring of the shareholding process. His position as a legal advisor on legal matters during the restructuring of the company made him a key resource for our study. Before joining CIMERWA Ltd., he worked as legal advisor in a labor union. Third, the chief accountant joined the company in 2011 from the Office of the Auditor General of Government Finances. He holds a bachelor's degree in accounting science as well as in chartered professional accounting (CPA).

We conducted telephonic interviews of 30 min each over 3 days in consideration of their busy workload. This was followed by a transcription of the interviews. Interviews were connected to the following themes: ownership structure and shareholding, board of directors' practices, management and executive compensations, disclosures and transparency mechanisms, and knowledge on institutional frameworks such as the Company Act, and the Private Sector Federation's recommendations of corporate governance best practices.

12.3.3 Content Analysis

We did a qualitative content analysis. As defined by Moretti et al. (2011), the method consists of a subjective interpretation of the content of text data through a

systematic classification process of coding and identifying themes or patterns. We analyzed various documents that served as inputs for an understanding of corporate governance at both the firm and national levels. Specifically, we analyzed the Company Act of the Republic of Rwanda (governing the companies' code of conduct); the International Financial Reporting Standards (IFRS) handbook to study the type and number of disclosures in corporate financial reporting; the annual reports of the parent company in South Africa and those of CIMERWA Ltd., the subsidiary; shareholders agreements; and finally, the code of conduct of the Private Sector Federation, an umbrella organization for private companies.

12.4 Presentation of Case Study: CIMERWA Ltd.

12.4.1 Activities and Performance

CIMERWA is a manufacturing company producing cement sold in Rwanda and exported to other countries in the Great Lakes region. With the privatization of the company, the contract specifically includes a provision to build or extend a new plant in order to respond to the increasing demand for cement (CIMERWA 2013). The company was established in July 1975 in Muganza, Western Province, Rwanda, through an agreement between the Government of Rwanda and the Government of the People's Republic of China. The company commenced operations in July 1984 with a production capacity of 50,000 metric tons. This capacity was doubled to 100,000 in 2001. Despite a substantial increase in local and regional demand, there has not been any investment in additional capacity. CIMERWA was fully owned by the Government of Rwanda until its privatization in 2006. During a nationwide privatization process, CIMERWA Ltd. was one of the 56 companies privatized as of 2006. The company was sold to the Rwanda Investment Group (RIG) for about 90 % (450,000 shares of the total 500,000) of its ownership and the government retained only 10 % control.

In December 2011, restructuring was done for which new institutional shareholders came in. With this restructuring, its authorized share capital rose from US$ 6.6 million to US$ 28.2 million divided into 21,200,000 shares of US$1.33 each (from the original 500,000 shares).

12.4.2 CIMERWA Ltd.'s Performance

The company's performance evolved positively soon after being privatized and slowed with the construction of the new plant (Fig. 12.1).

As we can see in Fig. 12.1, the turnover increased from US$ 12,515 to reach a peak of US$ 17,457 just at the end of the second year of privatization (an increase of 39.5 % which can be considered a good performance). The net income also went

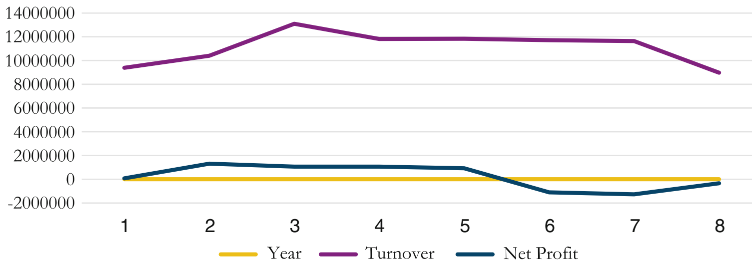

Fig. 12.1 Turnover and net income from 2006–2013

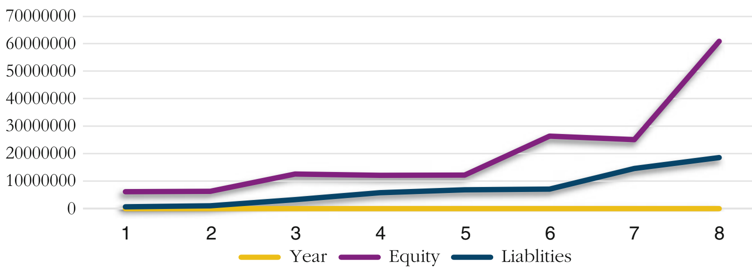

Fig. 12.2 Evolution of equity and liabilities

from US$ 98 to US$ 1,753 in just the second year. Net profit declined in the following years as a result of activities at the new plant. Activities increased as experts were recruited (salaries and other emoluments) and also because of an increase in financial costs. The decrease in profits in subsequent periods after privatization is also attributed (according to our interview partners) to the breakdown of machinery due to age and the difficulty in getting spare parts due to the nature of the plant.[4] A major restructuring was undertaken, and redundant staff were laid off. Almost 50 % of the total staff were legally laid off, and the firm continued its operations as usual. This reduced operating expenses and thus increased net income.

12.4.3 CIMERWA Ltd.'s Financial Position

As shown in Fig. 12.2, with the new shareholding, the equity of the company improved compared to its liabilities.

[4]The cement plant is very old and has a production capacity of 100,000 tons per year, whereas modern cement plants have annual production capacities of 600,000 tons. Because of this, spare parts also cannot be easily found in the market (interview results).

Interviews with the management revealed that the board of directors was cautious regarding the use of debt and an increase in financial costs as a result of the debt, and thus, they resorted to issuing more equity.

12.5 Presentation and Discussion of Findings

This section presents results from a content analysis and interviews held with the senior management of the case study. We present our results through subthemes of corporate governance. The subthemes include ownership structures and shareholding, board of directors' practices, management and executive compensations, disclosures, and transparency mechanisms.

12.5.1 Subtheme 1: Ownership and Shareholding Structures

This subtheme addresses ownership structures as a corporate governance mechanism. This mechanism looks at the nature of ownership (e.g., family, institutional, and local/foreign), shareholder rights and obligations, minority interest protection, and annual general meeting practices.

Reviews from annual reports and other company documents revealed that the company is owned by institutional investors. As one can observe in Tables 12.1 and 12.2, after privatization, new institutional investors took over the ownership of the company. The first and second restructuring saw new institutional investors acquiring stakes in the company.

From Table 12.1, one can observe that new shareholders joined pushing the original investor (Rwanda Investment Group) to less than half of its original shareholding.

Another ownership restructuring was done in December 2013 with a new major shareholder whose capital injection pushed the authorized share capital from US$ 282 million to US$ 468 million divided into 35,160,976 shares of US$ 1.33 each. This shareholding was distributed as indicated in Table 12.2.

Table 12.1 Shareholding after privatization

Shareholder	Number of shares	%
Rwanda Social Security Board	8,755,325	41.30
Government of Rwanda	7,158,441	33.77
Rwanda Investment Group	4,955,844	23.37
SONARWA Limited	330, 390	1.56
Total	21,200,000	100

Table 12.2 Shareholding after restructuring

Shareholder	Shares	%
PPC International Holdings Proprietary	17,932,098	51
Rwanda Social Security Board	7,115,303	20.24
Government of Rwanda	5,817,543	16.55
Rwanda Investment Group	4,027,530	11.45
Sonarwa Limited	268,502	0.76
Total	35,160,976	100

When it comes to shareholding practices, we assessed composition, control, and minority interests. From the annual reports available, we found that the company is owned by institutional shareholders with a majority being foreign ownership. We also found that the government retained a minority stake in the company. Through interviews, we also found that control is exercised by majority shareholders and that the chairperson of the board of directors comes from the second majority shareholder.

With reference to the shareholders' agreement, the highest organ of CIMERWA Ltd. is the general meeting of shareholders (AGM) which convenes during March following the year of business, which ends on 31 December. The shareholders' agreement, among other things, stipulates what will guide the discussions and deliberations of the AGM including proceedings of the shareholders' meeting. Matters requiring approval, dividend policy, additional finances, guarantees, transfers of shares, undertakings regarding the operations of the company, termination on breach, confidentiality, mutual cooperation, proxies, no partnership, conflict with articles of associations, and other important matters are specifically defined in it (CIMERWA 2013).

In addition to the internal rules of the company, one of the interviewee explained: 'We also refer to the Company Act on provisions relating to the composition and functioning of the AGM. Minutes, agenda, and reports are sent to the shareholders 7 days before the AGM.'

Ownership of the company is somewhat dispersed with institutional investors as majority shareholders and the government having a small stake. The majority shareholder is a foreign investor with 51 % of the shares, while the remaining stakes are shared by other local institutional shareholders. In line with the previous research, we find that this can be a proper governance mechanism, especially after privatization. Gillan et al. (2003) consider the role of institutional investors in corporate governance and show that institutional investors, often foreign institutional investors, play a central role in promoting change in corporate governance systems. They also show that foreign investments play an important role in the corporate governance of a firm, as the firms are motivated to implement home-country corporate governance best practices.

But on the other hand, institutional investors can pose a corporate governance problem if they are not backed by efficient laws and regulations concerning the

rights of shareholders. Issues of abuse of minority shareholding take precedence in this case. Two categories of minority shareholders exist in this company: those who hold sufficient shares to entitle them to appoint a director and those whose ownership is not sufficient for this. Minority shareholders who do not qualify to appoint directors have no access to key decision-making rights. The influence of this group on decision making is low. This group of minority shareholders only relies on the annual general meeting to air their views and attempt to exert influence on the decision-making processes, and this may lead to abuse of their rights by institutional shareholders.

This situation in the company tends to contradict what literature recommends on the control of companies by minority shareholders. For instance, a strand of literature on ownership and control (Kirkbride et al. 2009; La Porta et al. 1999) suggests that the inclusion of minority shareholders in decision making as will be provided within the legal and corporate governance framework of any country will add to investor confidence and encourage, or is even a prerequisite for, an environment of dispersed ownership.

12.5.2 Subtheme 2: Board of Directors' Composition and Quality

Under this subtheme, we present the findings from a content analysis and interviews dealing with the composition, independence, quality, and diversity of the board of directors.

With reference to the shareholders' agreement, the board of directors is mandated to follow the regular management of CIMERWA Ltd. The board of directors is composed of seven directors, two of whom have to be independent directors. The latter should be chosen given their broad range of skills, particularly in the realm of finance and management. The board of directors meets four times per year in ordinary meetings.

According to the same shareholders' agreement, the board has three subcommittees—the Audit and Governance Committee, Human Resources and Remunerations Committee, and the Production Committee. Their duties are detailed in the board of directors' charter (prescribed by the shareholders' agreement). We also found (from both written records and interviews) that the company does not have any nomination committee of the board to appoint independent and executive board members.

Results from our interviews also concur with what is stipulated in the shareholders' agreement about the composition of the board. Seven of the eight members are executive members, and meetings are held on a quarterly basis (according to the annual reports). The subcommittees of the board are convened once every month whose inputs are taken to the board of directors' meetings. Our interviews also suggest that there are no independent committee meetings since there is only one

independent director. All board meetings are held together. The company also provides training to board members in matters related to policy and operations (according to one interview).

In terms of the board's diversity, one woman sits on the board and she is the current CEO. The shareholders appoint members of the board of directors. Eight members constitute the board, with no independent directors. The CEO is appointed by the majority shareholder. Top leadership positions in the company, that is, the board's chairman and the CEO, have been separated. The CEO reports to the board of directors and is usually appointed for a 2-year term which is renewable. It was also found that the company does not have a company secretary.

Our study found that the company does not have any nomination committee responsible for board appointments and making recommendations about director selection to the board. However, contrary to this situation in the company, a number of studies recommend the existence of such a committee to improve the quality of director appointments through director selection of the board (Eminet and Guedri 2010; Kaczmarek et al. 2012; Ruigrok et al. 2006). Board monitoring fulfills a pivotal role in the board's composition and succession planning and in ensuring that the board will be appropriately composed to perform its statutory tasks and functions (Vafaes 1999).

Despite the importance of the nomination committee as described in the literature, we find that the majority shareholder, who is a foreign investor (PPC International Holdings Proprietary), has a nomination committee at its headquarters in South Africa. We found that both the Private Sector Federation code and the company do not provide for such a committee. We also found the non-adoption by the subsidiary to be related to the institutional frameworks existing in the host country (Rwanda), and thus, this gap to be related to the institutional setup.

Our findings contradict previous research in terms of advantages related to the board of directors' diversity, for instance, the presence of outside directors and their roles in corporate monitoring (Weisbach 1988; Winter 1977), avoidance of managerial collusion (Fama 1980), and performance (Bhagat and Black 2002; Hermalin and Weisbach 1991).

The lack of independent directors does not live up to the recommendation by the Rwandan Private Sector Federation (2009, p. 7) that 'The board shall include a balance of executive and non-executive directors (including independent non-executive directors) such that no individual or group of individuals or interests can dominate its decision making.' This situation underlines the need for strengthening the existing regulations and improving the Company Act, if the institutional infrastructure promotes corporate governance best practices.

We also find compelling evidence from a number of studies that women are particularly valued as board members for their ability to provide strategic inputs and in generating a more productive discourse (Bilimoria 2000, p. 27). The unique role of women on boards is often reflected in their participative management style (Pearce and Zahra 1991) and in higher sensitivity compared to their male colleagues (Bradshaw and Wicks 2000). This ability, combined with their attention to and consideration of the needs of others, may lead to women's active involvement in

issues of strategic nature that concern the firm and its stakeholders. However, we find from the case study that the company has only one woman on board who at the same time is the CEO, a reflection that there is lack of board diversity in the company which is a corporate governance concern. Based on the national gender policy, we argue that the regulatory frameworks regulating private companies as well as company-level practices should consider gender equality in board composition.

12.5.3 Subtheme 3: Executive Management and Internal Controls

The daily management of CIMERWA Ltd. is assumed by the CEO under the supervision of the board of directors. Interviews revealed that there has been an improvement in the management after the privatization, and one interviewee said: 'Prior management of the company has been confined to the Chinese managers who did not assure proper management as compared to the period after privatization.'

Documentary reviews show that the CEO is evaluated by the board on an annual basis, and the board has the responsibility to hire and fire the CEO. Interviews showed that the CEO comes from the majority shareholder. The board determines and decides the compensation package of the executives, but what is not mentioned is the issue of how the CEO's compensation is reviewed (i.e., when the review takes place and who does it).

To support the CEO in carrying out the daily functioning of the company, internal control systems such as policies, procedures, and regulations as prescribed by the board of directors have been institutionalized.

According to one interview with the management, 'To ensure internal controls, procedures and manuals have been designed and are under implementation such as the Human Resources Procedures Manual, Financial Procedures Manual, Safety and Security Procedures and the Board of Directors' resolutions are also referred to in ensuring proper controls, etc.'

12.5.4 Subtheme 4: Disclosures and Transparency

The final part of governance that we assessed was the issue of disclosures and transparency. We based our analysis on company documents such as annual reports and complemented this with interviews.

It was noticed that the company prepares annual reports following International Financial Reporting Standards (IFRS) with a focus on the disclosure of important items such as related party transactions, nature of shareholding, and the background of directors which is a necessary but not sufficient indicator of the company's

adherence to corporate governance (related to disclosures and transparency). Communication of the company's performance over different periods is also important for disclosure. We notice that the company's disclosure practices are minimal when compared to IFRS, a set of accounting standards adopted by companies as stipulated in the Company Law No.7/2009 of 2009. Important information is not put on the company Web site, and it is not even published for public use. The only avenue for communication is through the company's annual general meeting.

The Rwandan Company Act and the company's articles of association (in accordance with International Financial Reporting Standards) recommend that companies disclose material information such as, but not limited to, related party transactions, background of directors, individual remuneration of directors, policies on risk management, corporate governance report, members of board subcommittees, nomination committee report, and social and environmental reporting, as well as how, where, and when the reports are made available to stakeholders in their annual reports.

Our findings reveal that most of the annual reports are prepared and only given to shareholders, but they are not published. The findings also reveal that dissemination is still a problem. We found that very few items related to corporate governance including the composition of the board were published on the company's Web site. Major corporate governance disclosures, such as annual reports, are not published on the company's Web site as required by the Rwandan Company Act (2009). This is also in contrast to disclosure practices of institutional investors owning the company. Prior research relates failure of disclosure to the effectiveness of the board. Research has demonstrated that the managements in corporations with more efficient boards (Karamanou and Vafeas 2005) and more independent boards (Ajinkya et al. 2005) issue more frequent and accurate information. Prior research also shows that firms with strong corporate governance disclose more information (Kent and Stewart 2008) and more accurate information (Goodwin et al. 2009) during the initial adoption of IFRS. Finally, studies using international data find that the extent and quality of social and environmental disclosures are associated with the strength of corporate governance mechanisms (Mallin et al. 2013; Prado-Lorenzo and Garcia 2010).

12.6 Conclusion

The overall purpose of this study was to assess the governance structures of a firm that has undergone privatization. An institutional perspective explained how laws, codes, and company-level practices shape the governance structures of the company and how these could help to overcome agency problems and contribute to performance. Our case provided some insights that a contextual understanding of corporate governance is necessary. We found some practices that are mostly contradictory to existing literature on corporate governance of privatized firms.

Whereas governments tend to overcome corporate governance deficiencies in firms through the enactment and enforcement of laws and codes of best practices, we find that in the specific context of Rwanda, there are regulatory gaps that might in one way or the other explain the low levels of application of corporate governance, in the case company discussed in this chapter specifically and also in the general corporate sector. As a consequence, there is a potential risk that agency problems may resurface within the entity.

12.7 Contributions, Limitations, and Future Research

This chapter aimed to contribute to management literature on privatization through a contextual examination of corporate governance practices in the less developed country of Rwanda, particularly based on a company that is not listed on the stock exchange. Thereby, we answered the call of the previous research for a contextual understanding of the phenomenon under study. Our main contribution is a detailed explanation of the inadequacy of corporate governance practices in a privatized company, previously neglected in the literature. In contrast to performance-based studies prevalent in the literature on privatization, we focused on antecedents to privatization outcomes in a developing country context.

In addition, while the corporate governance debate has mostly focused on listed companies in countries with developed capital markets and companies with dispersed shareholdings, the challenges of corporate governance in non-listed companies deserve special attention, especially in countries where equity markets are less developed and a majority of the companies are small- and medium-sized enterprises (SMEs). This study provides some insights into corporate governance practices in such firms in a developing country.

Our study has practical implications for policymakers, corporate governance agencies, and company directors, who are ultimately responsible for implementing good practices in their companies. Our study provides the understanding that both regulatory and company-level practices are necessary for overcoming agency problems prevalent in privatized firms. Policy implications include the necessity to strengthen corporate governance practices such as the revision of the Company Act in order to improve issues that are not clearly developed and that may lead to opportunistic behavior by a firm. A privatization process should impel the new acquirer to follow corporate governance good practices as a condition for privatization.

Our findings face some limitations. Whereas a case study approach was desirable for this particular study, it limits the statistical generalizability of our findings. We therefore recommend future researchers to validate our findings based on a larger number of companies, as well as different types of companies, considering, for example, the size and the industry.

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