Do Foreign Directors affect Corporate Performance? Evidence from Tanzanian listed Firms

By: Bernard Mnzava (PhD) [1]

Abstract

This paper examines the relationship between foreign directors and corporate performance using a sample of 21 listed companies in Tanzania. The findings show that the existence of foreign director on the board is positively associated with firm performance. Specifically, the findings revealed that both the number of foreign directors and the percentage of foreign directors on the board improve corporate performance as measured by return on assets (ROA), return on sales (ROS) and earnings per share (EPS). Interestingly, this result remained consistently the same, despite alternating some important corporate governance variables in econometric models estimated. This finding is consistent with the resource dependency theory and informs that these foreign directors bring expertise, knowledge and new networks which are collectively beneficial to the firm. In addition, this paper documented some evidence that that female director's affects firm performance negatively.

Keywords: *corporate governance, resource dependency theory, upper echelon theory, foreign directors, firm performance*

1 Introduction

In every corporate governance system, the role of the board of directors is very important. Boards of directors have two major roles namely oversight and advisory (Adams, Hermalin and Weisbach, 2010). Firstly, the board of directors performs the oversight role by monitoring an organization activities and actions taken by its managers. The board creates an atmosphere to oversee firm's activities and they decide on various issues including recruitment, retrenchment and compensation of senior executives. Secondly, the board is responsible to perform an advisory role by ensuring strategic decisions are implemented in order to enhance corporate performance. The literature on agency theory put more emphasize on the existence of outside directors so as to enhance board monitoring role (Fama and Jensen 1983, Dewally and Peck 2010, Estélyi and Nisar 2016). This makes the composition

[1] Senior Lecturer, Department of Accounting and Finance, Institute of Finance Management (IFM), P.O Box 3918, 5 Shaaban Robert Street, 11101 Dar Es Salaam, Tanzania

Biographical Notes

Bernard is a Senior Lecturer in Finance and Head of Department (Admissions and Customer Care) at the Institute of Finance Management (IFM) in Tanzania. Bernard gained his PhD in Finance from University of Leeds (UK) in 2011. Bernard has published several academic peer-reviewed articles on corporate governance, business finance and sport finance. One of his publications titled "Do intangible investments matter? Evidence from soccer corporations" published in *Sport, Business and Management: An International Journal* was selected by the journal's Editorial Team as the Outstanding Paper of 2013. He has presented in many international conferences and seminars, including the UK, Italy, Turkey and India.

of outside directors including foreign directors on the board an important corporate governance mechanism.

The motivations for this paper are twofold. First, there are conflicting school of thoughts on the pros and cons of foreign directors on the board. One school of thought argues that board diversity brings a lot of expertise and opinions which assist to eliminate various organization's pitfalls rather than relying on a single or homogenous source of knowledge and expertise (Estélyi and Nisar 2016). The supporters of this group argue for greater diversity in the corporate boards so as to bring more knowledge and expertise to the firm. On the other hand, the second school of thought argues against drive for board diversity by emphasizing that it improves the transmission of ideas and opinions in the board but it bring a lot of challenges during their implementation. For example, international differences may lead to conflicts in the boardroom and therefore delaying or weakening of board decisions (e.g. Farrell and Hersch 2005, Anderson, Reeb, Upadhyay and Zhao 2011, Hilscher and Şişli-Ciamarra 2013). Considering these conflicting views, it is important to conduct further research to determine which school of thought is supporting the Tanzanian environment.

Secondly, the research which examines the impact of board diversity on firm performance is abundant (e.g. Sutrisno and Mohamad 2019, Endraswati, 2018, Abdullah, Ismail and Izah 2017, Appiah, Asamoah and Osei 2016, Vafaei, Ahmed and Mather 2015). However, there are very few studies that have specifically focused only on the effect of board foreign directors on firm performance (e.g. Oxelheim and Randøy 2003, Masulis, Wang and Xie, 2012, Estélyi and Nisar 2016). For this reason, it is worth to conduct new research that will merely focus on the impact of board foreign directors on firm performance. The empirical research on corporate governance in Tanzania is very scarce. For instance, the recent attempt by Assenga, Aly and Hussainey (2018) have examined the impact of several board characteristics on firm performance using a sample of listed firms but with old data ended in 2013. To the best of my knowledge, there is no specific study that has focused only on the impact of board foreign directors on corporate performance in the Tanzanian context.

CMSA's corporate governance guidelines for public listed companies in Tanzania do not inform about foreign directors requirements. The obvious reason for inclusion of foreign directors in the boards is the foreign ownership structure of some companies. It is the best practice that large shareholders in most cases foreign and institutional shareholders are represented by a member(s) in the board of directors depending on their ownership level. However, section 3.1.4 of the corporate governance guidelines informs about board of directors components that they should consists both executive and non-executive directors with diverse skills/expertise in order to enhance board decision making processes (CMSA, 2002). Based on this requirement, it is not easy for all listed companies to appoint board members that comprise assorted skills/expertise only from Tanzania. It is therefore critical to consider the existence of foreign directors in the boards as they will bring various skills and knowledge required for effective board operations.

This paper contributes to the corporate governance literature in two main ways. First, this paper provides evidence of the first attempt that address merely the impact of board foreign directors on firm performance using a sample of listed companies in Tanzania. The analysis of this recent data from developing country bring new contribution in the corporate governance research which to date have mostly focused on analyzing data from developed economies such as the UK and US. For this reason, the new analysis of Tanzanian data adds considerable knowledge in the present literature of corporate governance. Second, the findings of this paper provide new evidence that support the resource dependency theory. In fact, the main finding of this research shows that existence of foreign directors on the boards enhances corporate performance. The rationale behind this finding is that board foreign directors bring expertise, knowledge and new networks that are collectively beneficial to the company.

The rest of this paper is organized as follows. Section 2 presents corporate governance system in Tanzania. This section reveals the background and developments of corporate governance practices in the country. Section 3 reviews the previous literature and develops the hypothesis of the study. Specifically, this section presents the theoretical framework and empirical literature on the relationship between foreign directors and firm performance. Section 4 presents the research methodology which describes data sources, measurement of variables and regression models used in the analysis. Section 5 presents the results and discussions and, finally, concluding remarks are presented in Section 6.

2   Corporate Governance System in Tanzania

The reforms of corporate governance practices have been different among countries worldwide. For this reason, it is crucial to understand a particular country corporate governance transformation. Many developed countries formed special committees to study their country's specific corporate governance requirements. For instance, during the 1990s, in the UK there were Committees established that published the Cadbury Report in 1992, Greenbury Report in 1995 and Hampel Report in 1998 whereas in South Africa there was a Committee established which published the Kings Report in 1994. Similar to many countries, Tanzania has been working hard towards development of corporate governance practices (Melyoki, 2005, Wimile, 2009). However, there is no specific committee that was formed with the intention of addressing the country's specific corporate governance issues (Wimile, 2009). In addition, unlike many developed countries worldwide, corporate governance system in Tanzania was not triggered by the collapse of major corporations in the country.

Basically, Tanzania adopted laws and systems that were developed in western countries without using a systematic approach that is unique for the country's situation and circumstances (Wimile, 2009). The country's Companies Act of 2002 which was also prepared consistent with developed countries provides the framework for corporate governance practices of companies operating in Tanzania. To the large extent, Tanzania has adopted many laws from European countries to govern operations of its companies. Despite

adoption of these laws, the implementation of corporate governance practices in Tanzania is relatively low. Specifically, a previous study by Melyoki (2005) found that there is a lack of effective corporate governance practices in Tanzania. Overall, most developing countries globally face the challenge of poor quality local corporate governance system (Bhasin, 2010). Tanzania is not an exception in this context as the subject of corporate governance has not received much attention in the country and has not been actively discussed.

In 2002, the Capital Markets and Securities Authority (CMSA) developed the first and only existing guidelines on corporate governance practices by public listed companies in Tanzania. This document was prepared as a response to the mounting importance of governance issues in developing countries and for promoting growth of the domestic and regional capital markets (CMSA, 2002). Despite the existence of these guidelines, due to poor corporate governance practices in country, some of listed companies at Dar es salaam Stock Exchange (DSE) do not disclose detailed corporate governance information in their annual reports. As a result, researching every aspect of corporate governance characteristics from these companies is not convenient.

3   Literature Review and Hypothesis Development

3.1   Theoretical framework

3.1.1   Resource dependency theory

Pfeffer and Salancik (1978) are the founders of the resource dependency theory which is more than forty years old. Since then the theory have been applied mostly across the research realm to explain how companies can benefit from interdependence and uncertainty (e.g. Hillman, Withers and Collins 2009). Ideally, firms are required to create relationships with external entities and acquire resources for their healthy survival (Joenoes and Rokhim, 2019). Thus, board members enrolled from foreign countries might bring unique talents, experience and knowledge to the board that can be used as a competitive advantage of the company (e.g. Dalton, Daily, Johnson and Ellstrand, 1999, King 2007). This implies that firms with diverse nationality among their board members can increase their company value. Resource dependence theory demonstrate that boards are main providers of resources to firm's executives in order to help them achieve their company objectives (Hillman, Cannella and Harris, 2002, Hillman and Dalziel 2003). The advocates of this theory argue that resources provided by foreign directors enhance operation of the board and ultimately firm performance (Johnson, Schnatterly and Hill, 2013).

3.1.2   Upper Echelon Theory

Hambrick and Mason (1984) are the pioneers of the upper echelon theory. In their paper, they explained that firms choose their corporate strategies and decision making which is affected by the top level management behaviour. This implies that the company's behaviour can be represented by the attributes of the top level management (Hambrick and Mason 1984). Many previous studies that examined the link between the characteristics of top level management and company's financial performance, work satisfaction, employee's commitment and work involvement used the upper echelon theory (e.g. Westphal and Milton 2000, Williams, Fadil and Armstrong 2005, Joenoes and Rokhim 2019). These previous studies show that the upper

echelon theory is very important in studying the effect of the characteristics of board members on company's performance.

3.2   Empirical Literature

3.2.1   Foreign directors and firm performance

One essential demographic attribute that is reported to affect board functioning is the nationality of board members. As indicated in the first school of thought above, the existing literature provides evidence that foreign directors bring to the board new expertise, broader networks and understanding of international markets (Ruigrok, Peck and Tacheva 2007, Ben- Amar, Francoeur, Hafsi and Labelle 2013, Bennouri, Chtioui, Nagati and Nekhili 2018). These benefits from foreign directors on the board account for the positive impact on corporate performance reported for Korean firms (Choi and Hasan, 2005, Choi, Park and Yoo 2007), for Portuguese firms (Gulamhussen and Guerreiro 2009), for Swedish and Norwegian firms (Oxelheim and Randøy 2003) and for U.K. firms (Estélyi and Nisar 2016).

On the contrary, as explained in the second school of thought above, the existence of foreign directors may slow down the functioning of the board. In fact, the presence of foreign directors reduces the quality of communication and delay decision making within the board (e.g. Anderson et al. 2011). The main arguments here is that foreign directors may have different culture and they are less familiar with local laws, governance standards, accounting rules and business practices (Masulis et al. 2012). Following these disadvantages, there is sufficient evidence that foreign directors negatively affect firm performance, see Frijns, Dodd and Cimerova (2016) for of UK, Masulis et al. (2012) for US firms and García-Meca, García-Sánchez and Martínez-Ferrero (2015) for nine international countries. There is also evidence that earnings management is negatively linked with the presence foreign directors on corporate boards (Du, Jian, & Lai, 2017).

3.2.2   Corporate governance attributes and firm performance

There are several corporate governance attributes that affect firm performance. This section describes key governance attributes that affect corporate performance, however, much attention is given to diversity attributes which relies in the central focus of this paper. Previous studies provide evidence that many diversity attributes are essential components of the board of directors. On one side, it is argued diversity attributes contributes to the effectiveness of the advisory role of the board (Johnson et al. 2013). On the other side, it is said that diversity attributes might delay the decision process of the board due to conflicting opinions and therefore damage the effectiveness of the board (Milliken and Martins 1996).

There is adequate evidence that demographic attributes of female directors are significantly different from those of their male peers (Dang, Bender and Scotto 2014, Bennouri et al. 2018). For instance, the study by Nekhili, Chakroun and Chtioui (2018) revealed that female directors are more educated than men while the study by Nekhili and Gatfaoui (2013) found that women directors are more likely to have business degrees and the work by Singh, Terjesen and Vinnicombe (2008) found that female directors bring international diversity on the board. There is enough support that female board membership is positively linked with firm performance, see for example, the study by Campbell and Mínguez-Vera (2008) for Spanish firms, Adams and Ferreira (2009) for US firms, Julizaerma and Sori (2012) for

Malaysian firms and Sarkar and Selarka (2015) for India firms. On contrary, there are few studies that found the negative relationship between female board membership and firm performance (e.g. Ahern and Dittmar, 2012).

3.3   Hypothesis Development

To sum up, despite the extant literature on the impact of foreign directors on corporate performance, the findings so far have been mixed for studies from many different countries but there is no one from Tanzania. In fact, these results are diverse either due differences in the corporate governance frameworks or due to differences in the measurement of variables employed in the analysis. Therefore, based on the theories described and previous studies explained above, this paper proposes the following hypothesis.

The presence of foreign members on the board of directors positively influences firm performance.

4   Research Methodology

4.1   Sample selection and Data sources

Tanzania has only one stock exchange namely Dar es Salaam Stock Exchange (DSE) which was established in 1996 and started its formal operations in 1998. The aim of establishing the stock exchange was to heighten the country's economic growth. The data collected consists of companies that are listed on the DSE and they have disclosed their annual report for at least three consecutive years during the period of 1998 to 2019. A previous study by Fosu, Ntim, Coffie and Murinde (2017) argued that the minimum of three consecutive years of observations is recommended for reliable results. For this reason, the final sample contained 21 firms which were listed during the period of analysis and have at least three years consecutive annual reports with adequate information.

Table 1: Firms in the sample

S/N	Company Name	Trading Code	Date Listed	Date Delisted
1	Tanzania Breweries PLC	TBL	1998	N/A
2	TOL Gases Limited	TOL	1998	N/A
3	The Tanzania Cigarette Company	TCC	1999	N/A
4	TATEPA Limited	TTP	1999	N/A
5	Swissport Tanzania Plc	SWIS	2004	N/A
6	East African Breweries Limited	EABL	2005	N/A
7	Jubilee Holdings Limited,	JHL	2006	N/A
8	Kenya Airways Limited	KA	2006	N/A
9	Tanzania Portland Cement Company Ltd.	TPCC	2006	N/A
10	NMB Bank Plc	NMB	2008	N/A
11	CRDB BANK PLC	CRDB	2009	N/A
12	The Nation Media Group	NMG	2011	N/A
13	Precision Air Services Plc	PAL	2011	N/A
14	Uchumi Supermarkets Ltd	USL	2011	N/A
15	Maendeleo Bank Plc	MBP	2013	N/A
16	Swala Oil and Gas (Tanzania) plc	SWALA	2014	N/A

17	Mwalimu Commercial Bank PLC	MCB	2015	N/A
18	Mkombozi Commercial Bank Plc	MKCB	2015	N/A
19	The Dar es Salaam Stock Exchange	DSE	2016	N/A
20	MuCoBa	MUCOB	2016	N/A
21	Vodacom Tanzania Limited	VODA	2017	N/A

These annual reports were obtained primarily from the website of African Financials available at https://africanfinancials.com/. The stock exchanges in African countries upload their available annual reports in the website during every end of the financial year. The information collected is unbalanced panel data since firms were listed in different years. Table 1 below shows the date of listing at DSE for each firm in the sample. The years with missing data for some companies are excluded from the sample, which left 202 firm years' observations used in regression models estimated. Table 2 shows 7 sectors in the sample.

Table 2: Sector classification of the sample

S/N	Sectors	Number of firms	Firms years observation	Sample percentage (%)
1	Mining, Oil and Gas	2	14	6.57
2	Financial Institutions	8	54	25.35
3	Cement Manufacturing	1	13	6.10
4	Other Manufacturing	4	77	36.15
5	Services	2	21	9.86
6	Media and Telecommunications	2	11	5.16
7	Airlines Transportation	2	23	10.80
	Total	**21**	**213**	**100.00**

4.2 Measuring of Variables

4.2.1 Dependent variable

In this paper, there are three measures of performance employed namely return on assets (ROA), return on sales (ROS) and earnings per share (EPS). ROA is defined as ratio of earnings before tax and interest to total assets. This measure is commonly used in previous studies on board characteristics and firm performance (e.g. Erhardt, Werbel and Shrader, 2003; Masulis et al., 2012; Easterwood, İnce and Raheja, 2012). ROS is defined as net income divided by sales. The use of this variable is consistent with recent studies in corporate governance research which claimed that return on sales is more appropriate measure of corporate performance than return on equity and Tobin's q (Liu, Wei and Xie, 2014; Chen and Keefe, 2020). Earnings per share (EPS) are calculated as a company's net profit divided by the number of common shares outstanding. This measure of performance considers gaining of the shareholders by investing in the company. The variable has previous used by many studies to measure firm performance (e.g. Doucouliagos, Haman and Askary, 2007, Aslam, Haron and Tahir, 2019).

4.2.2   Independent variables

There are two key independent variables for this paper. FOREIGN DIRECTORS is defined as the number of foreign directors on the board. FOREIGN DIRECTORS (%) is defined as the percentage of foreign directors on the board. This technique of using alternate variables of measuring existence of foreign directors is consistent with previous studies such as Gulmhussen and Guerreiro (2009). Other common board composition variables that tend to influence corporate performance are included in the regression model. FEMALE DIRECTORS (%) is defined as the percentage of female directors on the board and BOARD SIZE is defined as the total number of directors in the board. The paper by Campbell and Mínguez-Vera (2008) used both variables with similar definitions in their regression models when investigating the relationship between gender diversity and firm performance.

4.2.3   Control variables

When estimating regression models, this paper employed three commonly used control variables on board diversity studies namely; leverage, firm size and firm age. LEVERAGE is defined as the ratio of total debt divided by equity. Firm size is defined in two ways. FIRM SIZE (1) is the natural logarithm of total assets and FIRM SIZE (2) is the natural logarithm of total revenues. In the corporate governance literature, it is believed that agency costs are more significant in larger firms than in small firms due to free rider problem (e.g. Lückerath-Rovers, 2013). As a result, it is rarely to estimate a regression model which examines the determinants of firm performance without considering firm size. Both leverage and firm size have been used extensively in previous studies e.g. (Campbell and Mínguez-Vera, 2008; Assenga et al., 2018; Joenoes and Rokhim, 2019). FIRM AGE is measured by natural logarithm of years since establishment of the firm. The use of firm age is consistent with recent studies (e.g. Coad, Holm, Krafft and Quatraro, 2018; Assenga et al., 2018).

4.3   Regression Specification

This paper employed unbalanced data panel and estimated fixed effect regressions after conducting the Hausman specification test. The test showed significant result with p-value of 0.0045 and Chi-Sq. Statistic of 18.82 which confirm that fixed effect regression model is better than random effect regression model for the analysis of this dataset. The Variance Inflation Factor (VIF) was conducted to check for multicollinearity between the independent variables. The average VIF is 1.32 and the largest VIF is 1.73 which is on board size. Overall, the largest VIF is relatively far below the cutoff point of 10. In addition, during regression estimations, panel corrected standard errors was employed to control for both autocorrelation and heterogeneity problems. The following regression models were used throughout the analysis of the data.

Firm Performance = β0+ β1(ForeignDirectors)i,t + β2(FemaleDirectors)i,t + β3(BoardSize)i,t + β4(FirmLeverage)i,t + β5(FirmAge)i,t + β6(FirmSize)i,t + εi,t...................................... (1)

Firm Performance = β0+ β1(ForeignDirectors)i,t + β2(FemaleDirectors)i,t + β3(FirmLeverage)i,t + β4(FirmAge)i,t + β5(FirmSize)i,t + εi,t.. (2)

5   Results and Discussions

5.1   Nationality of Foreign directors

Table 3 presents nationalities of foreign directors available in sample. There are a total of 688 foreign directors from 25 countries in the sample examined. The biggest number of foreign directors is 214 from the UK and the minimum number is 1 from Mauritius. In terms of continents, these foreign directors are coming from Europe (15 countries), Africa (5 countries), North America (2 countries), South America (1 country), Asia (1 country) and Turkey which is a transcontinental country.

Table 3: Nationality of foreign directors in the sample

S/N	Country	Number of foreign directors (Firm years)
1.	Kenya	157
2.	Uganda	37
3.	Austria	4
4.	South Africa	30
5.	Ireland	8
6.	Hungary	20
7.	Germany	3
8.	Denmark	11
9.	Cameroon	13
10.	UK	214
11.	United States	6
12.	Canada	22
13.	Mauritius	1
14.	Netherlands	60
15.	Poland	2
16.	Switzerland	16
17.	Spain	28
18.	Ecuador	5
19.	India	10
20.	Sweden	8
21.	France	10
22.	Turkey	3
23.	Belgium	11
24.	Norway	6
25.	Italy	3
	Total	**688**

5.2   Descriptive and Correlation matrix

Table 4 below presents summary statistics of financial, governance and firm-specific variables of the sample. The mean ROA and ROS are 8.1 and 12.6 respectively. The minimum and maximum EPS is -13.8 and 1.9 respectively. On average, there are 4 foreign directors in each board. The data shows that the minimum number of foreign directors is 0 while the maximum is 16. In terms of percentage, the mean foreign director is 43.4% of the

board members. The data revealed that some boards have no foreign directors (0%) and other boards are full of foreign directors (100%). On average, only 14.36% of all directors on the boards were female. The findings show that the minimum percentage of female directors is 0% and the maximum is 57.14%.

The mean board size is 9 directors. The minimum board size is 5 directors while the maximum board size is 17 directors. The mean firm leverage is 3.5, where the minimum leverage is 0.01 and the maximum is 119. The mean firm size as measured by natural logarithm of total assets is 12.02, where the minimum and maximum are 6.46 and 15.71 respectively. The mean firm size as measured by natural logarithm of total revenues is 12.04, where the minimum and maximum are 6.25 and 25.78 respectively. The mean natural logarithm of firm age is 3.16. The minimum and maximum natural logarithms of firm age are 0 and 4.58 respectively.

Table 4: Descriptive Statistics
This table present descriptive statistics of the variables employed in regression estimations. The definitions of the variables are as follows. ROA is defined as ratio of earnings before tax and interest to total assets. ROS is defined as net income divided by sales. EPS is a standardized variable which is calculated as a company's net profit divided by the number of common shares outstanding. FOREIGN DIRECTORS is defined as the number of foreign directors on the board. FOREIGN DIRECTORS (%) is defined as the percentage of foreign directors on the board. FEMALE DIRECTORS (%) is defined as the percentage of female directors on the board. BOARD SIZE is defined as the total number of directors in the board. FIRM AGE is measured by natural logarithm of years since establishment of the firm. LEVERAGE is defined as the ratio of total debt divided by equity. Firm size is defined in two ways. FIRM SIZE (1) is the natural logarithm of total assets and FIRM SIZE (2) is the natural logarithm of total revenues.

Variables	Observations	Mean	Standard Deviation.	Minimum	Maximum
ROA	208	8.114	78.207	-719.2	766.7
ROS	207	12.6	41.802	-168.903	176.098
EPS	211	0	1	-13.806	1.936
FOREIGN DIRECTORS	209	3.919	3.319	0	16
FOREIGN DIRECTORS (%)	205	43.414	29.677	0	100
FEMALE DIRECTORS (%)	206	14.361	12.456	0	57.143
BOARDSIZE	206	8.951	2.739	5	17
FIRM AGE	213	3.16	1.248	0	4.575
LEVERAGE	209	3.499	8.923	.01	119
FIRM SIZE (1)	209	12.021	2.216	6.455	15.711
FIRM SIZE (2)	208	12.044	3.309	6.254	25.78

Table 5 presents pairwise correlations matrix of dependent and independent variables. In many independent variables, the correlations are very low despite some of them showing statistical significant relationships. One notable exception is the correlation between number of foreign directors and percentage of foreign directors which is very high (0.876) and statistically significant at 1% level. As a consequence, these two variables are not included together in single regression model during estimations. Since number of foreign directors and board size are moderately correlated (0.466) and statistically significant at 1% level,

regressions in robustness checks are estimated without the board size variable. The aim is to confirm the original results while excluding one of the fairly correlated independent variable.

Table 5: Pairwise correlations matrix

This table present pairwise correlation matrix of the variables employed in regression estimations. The definitions of the variables are as follows. ROA is defined as ratio of earnings before tax and interest to total assets. ROS is defined as net income divided by sales. EPS is a standardized variable which is calculated as a company's net profit divided by the number of common shares outstanding. FOREIGN DIRECTORS is defined as the number of foreign directors on the board. FOREIGN DIRECTORS (%) is defined as the percentage of foreign directors on the board. FEMALE DIRECTORS (%) is defined as the percentage of female directors on the board. BOARD SIZE is defined as the total number of directors in the board. FIRM AGE is measured by natural logarithm of years since establishment of the firm. LEVERAGE is defined as the ratio of total debt divided by equity. Firm size is defined in two ways. FIRM SIZE (1) is the natural logarithm of total assets and FIRM SIZE (2) is the natural logarithm of total revenues.

Variables	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)
ROA (1)	-										
ROS (2)	0.097	-									
EPS (3)	0.045	0.025	-								
FOREIGN DIRECTORS (4)	0.023	0.013	-0.053	-							
FOREIGN DIRECTORS (%)(5)	0.040	-0.039	-0.102	0.876***	-						
FEMALE DIRECTORS (%)(6)	-0.074	0.091	0.005	0.014	-0.093	-					
BOARDSIZE (7)	-0.044	0.191***	0.041	0.466***	0.059	0.152**	-				
FIRM AGE (8)	-0.019	-0.002	0.078	0.227***	0.043	-0.044	0.418***	-			
LEVERAGE (9)	-0.052	0.001	0.024	-0.092	-0.119*	0.146**	0.159**	0.060	-		
FIRM SIZE (1)(10)	-0.070	0.326***	-0.103	0.338***	0.223***	0.253***	0.381***	0.250***	0.031	-	
FIRM SIZE (2)(11)	0.051	0.019	-0.207***	0.368***	0.370***	-0.055	0.082	-0.055	-0.097	0.497***	-

*** $p<0.01$, ** $p<0.05$, * $p<0.1$

5.3   Empirical Results

Table 6, 7 and 8 below presents main results of this paper. In all regression models estimated in Table 6 and 7, the results shows that existence of foreign directors as measured by both number of foreign directors (FOREIGN DIRECTORS) and percentage of foreign directors (FOREIGN DIRECTORS (%)) is positively and statistically significant related to firm performance as measured by return on assets (ROA) and return on sales (ROS). Table 6 shows that measures of foreign directors are statistically significant linked to firm performance at 1% level in model 1 and 3 and at 5% level in model 2 and 4. In the same way, Table 7 reveals that both measures of foreign directors are statistically significant associated to firm performance at 5% level in model 1 and 2 and at 10% level in model 3 and 4. Similarly, Table 8 shows that number of foreign directors is positively related to firm performance as measured by earnings per share (EPS). The relationship is statistically significant at 10% level in model 1 and at 5% level in model 2.

Collectively, these findings provide evidence that boards with foreign directors enhance firm performance. The rationale behind this finding is that foreign directors bring new expertise, networks and also understand international markets which collectively are beneficial to the firm. Based on this result, it is believed that foreign directors provide independent monitoring to management which enhances corporate performance. This finding is consistent with the hypothesis developed and resource dependency theory as indicated in many previous studies (e.g. Choi, Sul and Min, 2012; Ben- Amar et al., 2013; Bennouri et al., 2018).

Furthermore, the results show some evidence that the percentage of female directors on the board (FEMALE DIRECTORS (%)) is negatively linked to corporate performance. Table 6 shows that the relationship between female directors and firm performance is negative and statistically significant at 10% level in all models estimated. The negative link between female directors and firm performance is similar with the finding by Ahern and Dittmar (2012). One possible reason for the negative relation is the appointment of incompetent female directors in those firms dominated by friends and strong family ties. The implication of this negative impact is that women who are appointed into the boards of Tanzanian companies are not satisfactorily competent but they are selected due to their friendships and family relationships. However, this finding is contrary to many previous studies which provided evidence of positive relationship between these variables (e.g. Lückerath-Rovers, 2013; Liu, Wei and Xie, 2014; Post and Byron, 2015; Low, Roberts and Whiting, 2015).

Table 7 reveals that BOARD SIZE and firm performance are negatively correlated at 10% statistical significance level in model 1, 2 and 3. This finding implies that the larger the board size, the poorer the firm performance and is also consistent with many previous studies (e.g. Eisenberg, Sundgren and Wells, 1998; Mak and Kusnadi, 2005; Nguyen, Rahman, Tong and Zhao, 2016). On contrary, Table 8 shows that board size is positively related to corporate performance in model 3 and 4. The results are statistically significant at 10% and 5% level respectively.

Table 6: Fixed effects regressions using return on asset (ROA) as the independent variable

This table presents the results of the regression which shows the impact of foreign directors on firm performance. The dependant variable, return on sales (ROA) is defined as ratio of earnings before tax and interest to total assets. The key independent variables are defined as follows. FOREIGN DIRECTORS is defined as the number of foreign directors on the board. FOREIGN DIRECTORS (%) is defined as the percentage of foreign directors on the board. Other corporate governance and firm specific variables are defined as follows. FEMALE DIRECTORS (%) is defined as the percentage of female directors on the board. BOARD SIZE is defined as the total number of directors in the board. LEVERAGE is defined as the ratio of total debt divided by equity. FIRM AGE is measured by natural logarithm of years since establishment of the firm. FIRM SIZE is the natural logarithm of total revenues. . Sector and year dummies are included in the models estimated. A Hausman specification test is able to reject random effects models. Wald is a test of goodness-of-fit, asymptotically distributed as $\chi2$ under the null of no joint significance of the coefficients, ρ-value in parentheses.

VARIABLES	(1) Model	(2) Model	(3) Model	(4) Model
FOREIGN DIRECTORS	18.947***	14.411**	-	-
	(2.979)	(2.405)		
FOREIGN DIRECTORS (%)	-	-	1.818***	1.379**
			(2.913)	(2.461)
FEMALE DIRECTORS (%)	-1.568*	-1.517*	-1.643*	-1.586*
	(-1.828)	(-1.754)	(-1.909)	(-1.831)
BOARD SIZE	-3.753	-4.630	2.095	0.344
	(-0.641)	(-0.791)	(0.378)	(0.063)
LEVERAGE	0.105	0.272	-0.100	0.081
	(0.134)	(0.345)	(-0.127)	(0.103)
FIRM AGE	71.658*	-	47.151	-
	(1.942)		(1.310)	
FIRM SIZE	77.637***	75.189***	78.716***	75.479***
	(5.822)	(5.637)	(5.841)	(5.658)
CONSTANT	-1,235.374***	-934.345***	-1,218.058***	-982.529***
	(-5.441)	(-5.296)	(-5.394)	(-5.393)
SECTOR DUMMIES	Yes	Yes	Yes	Yes
YEAR DUMMIES	Yes	Yes	Yes	Yes
OBSERVATIONS	201	202	201	202
R-SQUARED	0.247	0.224	0.245	0.225
NUMBER OF FIRMS	21	21	21	21
ADJ. R-SQUARED	0.016	-0.006	0.014	-0.005

White heteroscedasticity-consistent standard errors are in parentheses

*** $p<0.01$, ** $p<0.05$, * $p<0.10$

The results on control variables revealed that the size of the firm (FIRM SIZE) positively impacts firm performance. Table 6 and 7 shows that the relationship is consistently statistically significant at 5% level and above across all regression models estimated. This finding suggests that larger firms perform better than smaller firms. This result is in line with other previous studies (e.g. Van der Walt, Ingley, Shergill and Townsend, 2006; Julizaerma and Sori, 2012; Joenoes and Rokhim, 2019). The results on FIRM AGE are mixed where Table 6 documented positive impact while Table 7 and 8 revealed negative effect. However,

the negative impact is more pronounced in many models estimated than the positive impact. Consistent with Van der Walt et al. (2006), the negative relationship may suggest that younger firms are performing better than older firms throughout the sample analysed. The result on LEVERAGE is not significant consistently in all regression models estimated. This confirmed that leverage has nothing to do with the firm performance.

Table 7: Fixed effects regressions using return on sales (ROS) as the independent variable
This table presents the results of the regression which shows the impact of foreign directors on firm performance. The dependant variable, return on sales (ROS) is defined as net income divided by sales. The key independent variables are defined as follows. FOREIGN DIRECTORS is defined as the number of foreign directors on the board. FOREIGN DIRECTORS (%) is defined as the percentage of foreign directors on the board. Other corporate governance and firm specific variables are defined as follows. FEMALE DIRECTORS (%) is defined as the percentage of female directors on the board. BOARD SIZE is defined as the total number of directors in the board. LEVERAGE is defined as the ratio of total debt divided by equity. FIRM AGE is measured by natural logarithm of years since establishment of the firm. FIRM SIZE is the natural logarithm of total assets. . Sector and year dummies are included in the models estimated. A Hausman specification test is able to reject random effects models. Wald is a test of goodness-of-fit, asymptotically distributed as $\chi 2$ under the null of no joint significance of the coefficients, ρ-value in parentheses.

VARIABLES	(1) Model	(2) Model	(3) Model	(4) Model
FOREIGN DIRECTORS	3.627**	4.031**	-	-
	(2.169)	(2.565)		
FOREIGN DIRECTORS (%)	-	-	0.310*	0.250*
			(1.906)	(1.695)
FEMALE DIRECTORS (%)	-0.110	-0.122	-0.118	-0.119
	(-0.492)	(-0.540)	(-0.522)	(-0.520)
BOARD SIZE	-3.910**	-3.451**	-2.786*	-2.013
	(-2.529)	(-2.238)	(-1.920)	(-1.397)
LEVERAGE	-0.091	-0.131	-0.126	-0.168
	(-0.444)	(-0.637)	(-0.609)	(-0.807)
FIRM AGE	-19.420**	-	-24.089**	-
	(-2.016)		(-2.557)	
FIRM SIZE	8.557***	8.375***	8.341***	7.559**
	(2.923)	(2.871)	(2.839)	(2.582)
CONSTANT	-16.935	-86.491**	-6.752	-82.886**
	(-0.316)	(-2.236)	(-0.128)	(-2.057)
SECTOR DUMMIES	Yes	Yes	Yes	Yes
YEAR DUMMIES	Yes	Yes	Yes	Yes
OBSERVATIONS	201	202	201	202
R-SQUARED	0.219	0.196	0.214	0.177
NUMBER OF FIRMS	21	21	21	21
ADJ. R-SQUARED	-0.021	-0.043	-0.028	-0.068

White heteroscedasticity-consistent standard errors are in parentheses
*** p<0.01, ** p<0.05, * p<0.10

Table 8: Fixed effects regressions using Earnings per share (EPS) as the independent variable

This table presents the results of the regression which shows the impact of foreign directors on firm performance. The dependant variable, earnings per share (EPS) is a standardized variable which is calculated as a company's net profit divided by the number of common shares outstanding. The key independent variables are defined as follows. FOREIGN DIRECTORS is defined as the number of foreign directors on the board. FOREIGN DIRECTORS (%) is defined as the percentage of foreign directors on the board. Other corporate governance and firm specific variables are defined as follows. FEMALE DIRECTORS (%) is defined as the percentage of female directors on the board. BOARD SIZE is defined as the total number of directors in the board. LEVERAGE is defined as the ratio of total debt divided by equity. FIRM AGE is measured by natural logarithm of years since establishment of the firm. FIRM SIZE is the natural logarithm of total revenues. . Sector and year dummies are included in the models estimated. A Hausman specification test is able to reject random effects models. Wald is a test of goodness-of-fit, asymptotically distributed as $\chi 2$ under the null of no joint significance of the coefficients, ρ-value in parentheses.

VARIABLES	(1) Model	(2) Model	(3) Model	(4) Model
FOREIGN DIRECTORS	0.214*	0.265**	-	-
	(1.826)	(2.268)		
FOREIGN DIRECTORS (%)	-	-	0.013	0.009
			(1.144)	(0.808)
FEMALE DIRECTORS (%)	-0.015	-0.014	-0.016	-0.016
	(-1.351)	(-1.307)	(-1.463)	(-1.405)
BOARD SIZE	0.075	0.104	0.129*	0.171**
	(0.996)	(1.380)	(1.739)	(2.299)
LEVERAGE	0.001	-0.001	-0.001	-0.004
	(0.131)	(-0.098)	(-0.080)	(-0.352)
FIRM AGE	-1.150**		-1.355***	
	(-2.495)		(-2.949)	
FIRM SIZE	0.154	0.132	0.142	0.096
	(1.206)	(1.025)	(1.099)	(0.736)
CONSTANT	0.682	-3.421*	1.403	-2.835
	(0.279)	(-1.883)	(0.581)	(-1.435)
SECTOR DUMMIES	Yes	Yes	Yes	Yes
YEAR DUMMIES	Yes	Yes	Yes	Yes
OBSERVATIONS	202	203	202	203
R-SQUARED	0.150	0.115	0.139	0.090
NUMBER OF CODE	21	21	21	21
ADJ. R-SQUARED	-0.103	-0.138	-0.117	-0.170

White heteroscedasticity-consistent standard errors are in parentheses

*** $p<0.01$, ** $p<0.05$, * $p<0.10$

5.4   Robustness checks

In order to confirm the original findings of this paper, the same set of regression models was re-estimated while excluding the board size variable. There are two reasons, for this sensitivity tests. First, as reported in the correlations matrix, the board size seems to correlate with other independent variables, and therefore worth repeating regressions without it to see

if there is any major change of the original results. Second, the preceding literature have documented substantial impact of board size in corporate governance research (e.g. Guest, 2009; Nguyen et al., 2016). Ideally, the impact of foreign directors on corporate performance can be prejudiced by the inclusion of board size in the regression models estimated. For this reason, a robustness check of the main findings which exclude the board size variable is vital. Table 9, 10 and 11 below presents robustness checks results. Based on re-estimated regressions, the main findings largely remained the same. To the large extent, Table 9 and 11 present similar results with main results presented in Table 6 and 8 respectively. The only slight change is on Table 10 where foreign directors and firm performance are positively linked and statistically significant at 10% level only in model 2 and 3. Overall, these findings confirm main results presented in Table 6, 7 and 8 above.

Table 9:   Fixed effects regressions using return on asset (ROA) as the independent variable while excluding board size in the independent variables

This table presents the results of the regression which shows the impact of foreign directors on firm performance. The dependant variable, return on sales (ROA) is defined as ratio of earnings before tax and interest to total assets. The key independent variables are defined as follows. FOREIGN DIRECTORS is defined as the number of foreign directors on the board. FOREIGN DIRECTORS (%) is defined as the percentage of foreign directors on the board. Other corporate governance and firm specific variables are defined as follows. FEMALE DIRECTORS (%) is defined as the percentage of female directors on the board. LEVERAGE is defined as the ratio of total debt divided by equity. FIRM AGE is measured by natural logarithm of years since establishment of the firm. FIRM SIZE is the natural logarithm of total revenues. . Sector and year dummies are included in the models estimated. A Hausman specification test is able to reject random effects models. Wald is a test of goodness-of-fit, asymptotically distributed as $\chi2$ under the null of no joint significance of the coefficients, ρ-value in parentheses.

VARIABLES	(1) Model	(2) Model	(3) Model	(4) Model
FOREIGN DIRECTORS	17.609***	12.702**	-	-
	(2.936)	(2.275)		
FOREIGN DIRECTORS (%)	-	-	1.816***	1.379**
			(2.918)	(2.469)
FEMALE DIRECTORS (%)	-1.722**	-1.708**	-1.539*	-1.568*
	(-2.095)	(-2.060)	(-1.892)	(-1.920)
LEVERAGE	0.051	0.210	-0.064	0.086
	(0.065)	(0.268)	(-0.082)	(0.110)
FIRM AGE	74.414**	-	44.328	-
	(2.034)		(1.263)	
FIRM SIZE	77.246***	74.763***	78.478***	75.437***
	(5.810)	(5.616)	(5.846)	(5.680)
CONSTANT	-1,264.493***	-959.043***	-1,188.640***	-979.285***
	(-5.696)	(-5.530)	(-5.623)	(-5.622)
SECTOR DUMMIES	Yes	Yes	Yes	Yes
YEAR DUMMIES	Yes	Yes	Yes	Yes
OBSERVATIONS	201	202	201	202
R-SQUARED	0.245	0.221	0.245	0.225
NUMBER OF FIRMS	21	21	21	21

ADJ. R-SQUARED	0.020	-0.004	0.019	0.002

White heteroscedasticity-consistent standard errors are in parentheses
*** p<0.01, ** p<0.05, * p<0.10

Table 10: Fixed effects regressions using return on sales (ROS) as the independent variable while excluding board size in the independent variables

This table presents the results of the regression which shows the impact of foreign directors on firm performance. The dependant variable, return on sales (ROS) is defined as net income divided by sales. The key independent variables are defined as follows. FOREIGN DIRECTORS is defined as the number of foreign directors on the board. FOREIGN DIRECTORS (%) is defined as the percentage of foreign directors on the board. Other corporate governance and firm specific variables are defined as follows. FEMALE DIRECTORS (%) is defined as the percentage of female directors on the board. LEVERAGE is defined as the ratio of total debt divided by equity. FIRM AGE is measured by natural logarithm of years since establishment of the firm. FIRM SIZE is the natural logarithm of total assets. . Sector and year dummies are included in the models estimated. A Hausman specification test is able to reject random effects models. Wald is a test of goodness-of-fit, asymptotically distributed as χ^2 under the null of no joint significance of the coefficients, ρ-value in parentheses.

VARIABLES	(1) Model	(2) Model	(3) Model	(4) Model
FOREIGN DIRECTORS	2.124	2.681*	-	-
	(1.336)	(1.824)		
FOREIGN DIRECTORS (%)	-	-	0.303*	0.243
			(1.843)	(1.645)
FEMALE DIRECTORS (%)	-0.259	-0.255	-0.249	-0.218
	(-1.176)	(-1.154)	(-1.152)	(-0.997)
LEVERAGE	-0.148	-0.177	-0.173	-0.198
	(-0.715)	(-0.858)	(-0.840)	(-0.951)
FIRM AGE	-16.667*		-20.270**	
	(-1.712)		(-2.182)	
FIRM SIZE	7.419**	7.426**	7.999***	7.331**
	(2.521)	(2.541)	(2.704)	(2.501)
CONSTANT	-37.223	-96.637**	-37.426	-95.759**
	(-0.691)	(-2.484)	(-0.738)	(-2.433)
SECTOR DUMMIES	Yes	Yes	Yes	Yes
YEAR DUMMIES	Yes	Yes	Yes	Yes
OBSERVATIONS	201	202	201	202
R-SQUARED	0.186	0.170	0.195	0.166
NUMBER OF FIRMS	21	21	21	21
ADJ. R-SQUARED	-0.057	-0.070	-0.046	-0.074

White heteroscedasticity-consistent standard errors are in parentheses
*** p<0.01, ** p<0.05, * p<0.10

Table 11: Fixed effects regressions using earnings per share (EPS) as the independent variable while excluding board size in the independent variables

This table presents the results of the regression which shows the impact of foreign directors on firm performance. The dependant variable, earnings per share (EPS) is a standardized variable which is calculated as a company's net profit divided by the number of common shares outstanding. The key independent variables are defined as follows. FOREIGN DIRECTORS is defined as the number of foreign directors on the board. FOREIGN DIRECTORS (%) is defined as the percentage of foreign directors on the board. Other corporate governance and firm specific variables are defined as follows. FEMALE DIRECTORS (%) is defined as the percentage of female directors on the board. LEVERAGE is defined as the ratio of total debt divided by equity. FIRM AGE is measured by natural logarithm of years since establishment of the firm. FIRM SIZE is the natural logarithm of total revenues. Sector and year dummies are included in the models estimated. A Hausman specification test is able to reject random effects models. Wald is a test of goodness-of-fit, asymptotically distributed as $\chi 2$ under the null of no joint significance of the coefficients, ρ-value in parentheses.

VARIABLES	(1) Model	(2) Model	(3) Model	(4) Model
FOREIGN DIRECTORS	0.247**	0.316***	-	-
	(2.193)	(2.843)		
FOREIGN DIRECTORS (%)	-	-	0.009	0.004
			(0.843)	(0.343)
FEMALE DIRECTORS (%)	-0.011	-0.010	-0.010	-0.008
	(-1.101)	(-0.924)	(-0.968)	(-0.705)
LEVERAGE	0.003	0.001	0.002	-0.000
	(0.285)	(0.094)	(0.186)	(-0.037)
FIRM AGE	-1.221***		-1.509***	
	(-2.682)		(-3.323)	
FIRM SIZE	0.167	0.148	0.146	0.095
	(1.310)	(1.150)	(1.121)	(0.716)
CONSTANT	1.241	-2.993*	3.074	-1.207
	(0.523)	(-1.667)	(1.378)	(-0.646)
SECTOR DUMMIES	Yes	Yes	Yes	Yes
YEAR DUMMIES	Yes	Yes	Yes	Yes
OBSERVATIONS	202	203	202	203
R-SQUARED	0.144	0.105	0.122	0.060
NUMBER OF CODE	21	21	21	21
ADJ. R-SQUARED	-0.103	-0.145	-0.131	-0.202

White heteroscedasticity-consistent standard errors are in parentheses

*** p<0.01, ** p<0.05, * p<0.10

6   Conclusions

This paper investigates the relationship between foreign directors and firm performance using a sample of 21 listed companies in Tanzania. Empirical results estimated consistently indicate

that firm- boards largely occupied by foreign directors have a significant and positive effect on firm performance. This finding is robust despite the technique of conducting various sensitivity tests. The essence of this finding is that it conforms to resource dependency theory suggesting that foreign directors bring unique talents, experience and knowledge which are mutually beneficial to the firm. Ideally, the appointment of foreign directors is required to consider their special skills such as communication, decision making, influence, self-presentation, strategic thinking, experience and effective management. The paper also finds some evidence that female directors and board size lessen firm performance considerably. Of equal interest, the finding on female directors is contrary to many earlier studies while the finding on board size is similar to several prior studies. Future research could investigate separately the extent of other board characteristic variables such as frequency of board meetings and existence of female directors and their overall impact on corporate performance.

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