UNIVERSITY OF CAPE COAST

CORPORATE GOVERNANCE AND FIRM PERFORMANCE OF LISTED FINANCIAL INSTITUTIONS ON THE GHANA STOCK EXCHANGE

CUDJOE AKLAMA-BLYNKS GOKAH

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BY

CUDJOE AKLAMA-BLYNKS GOKAH

Dissertation submitted to the Department of Business Studies of the College of Distance Education, University of Cape Coast, in partial fulfilment of the requirements for the award of Master of Business Administration degree in Accounting

SEPTEMBER 2016

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DECLARATION

Candidate's Declaration

I hereby declare that this dissertation is the result of my own original research and that no part of it has been presented for another degree in this university or elsewhere.

Candidate's Signature ……………………………..Date ……………………..

Name………………………………………………………………………..

Supervisor's Declaration

I hereby declare that the preparation and presentation of this dissertation was supervised in accordance with the guidelines on supervision of dissertation laid down by the University of Cape Coast.

Supervisor's Signature……………………………..Date………………………

Name…………………………………………………………………………

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ABSTRACT

The study investigated the influence of corporate governance on firm performance using listed financial institutions on the Ghana Stock Exchange. The study also investigated the influence of board composition on firm performance. Ex-post factor research design was adopted for the study and purposive sampling was used in selecting sample for the study which comprises all financial institutions listed on Ghana Stock Exchange. The study revealed that there is a positive and significant relationship between managerial/insider ownership and firm performance. It was also discovered that there is statistically significant positive relationship between board size and firm performance. In relation to board composition (independence) and firm performance, the result was not statistically significant and negative. Finally, it was discovered that audit committee both in size and independence are important ingredient to fostering accountability and transparency which are the lubricants and catalyzing agents for firm's performance. It was recommended that listed corporations should diversify shareholding as a way of attracting diverse skills and competencies among shareholders and more importantly, entrenchment and incentive of managers should be balanced so as not to allow them pursue self-interest to the detriment of the corporation.

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KEY WORDS

Corporate

Financial

Firm

Governance

Listed entities

Performance

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DEDICATION

To my siblings, Yaw and Shika

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CHAPTER ONE

INTRODUCTION

Background to the Study

In recent times, corporate governance has gained global significance. According to Ibrahim, Rehman and Raoof (2010), literature reveals that improvement in corporate governance practices is an important ingredient in enhancing long-term economic performance of corporations. Organization for Economic Cooperation and Development [OECD] (2009) defines corporate governance as the set of processes, customers, policies, laws and institutions affecting the way a company is directed, administered or controlled.

Fortunato (2007) on the other hand, sees corporate governance as an economic, organizational and legal series of issues related to systems, principles, mechanisms or institutions through which firms are owned, managed and financed. In their study, Vives (2000) described corporate governance as the rules and incentives through which the management of a firm is directed and controlled with the sole aim of maximizing profitability and long-term value of the firm to the shareholders and at the same time giving due cognition to the interests of other shareholders.

Moore (2012) posits that optimum financial performance of any corporation is linked to corporate governance because it helps shareholders decipher how to assure themselves of getting a return on their investment. Helps shareholders get managers to return some of the profits to them and scrutinize the activities of managers so that they do not steal the capital provided them by shareholders or invest in bad projects. More importantly, corporate governance facilitate the ability of the shareholders to adequately monitor and control

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managers. Essentially, companies or corporations with corporate governance is managed and controlled in accordance with the principles of responsibility and transparency.

However, Jensen and Meckling (1976) and Myer and Majluf (1984) contended that the separation of ownership and control creates a conflict of interests between shareholders (owners) and managers as obtainable in the agency theory with negative impact on firm's performance. Identifying contributive factors to conflicts, Khatab, Masood, Zaman, Saleem and Saeed (2011) stated that manager's superior access to insider information and the relatively powerless position of the several and dispersed shareholders are contributive to the managers having upper hand in firms' control.

Marashdeh (2014) also indicated that in the event of asymmetric information problems and imperfect contractual relations between managers and shareholders, managers have incentives to pursue their own objectives at the expense of shareholders. For instance, instead of increasing the value of the company, managers might implement financial and investment strategies or could spend more on luxury projects for their own interest. Marashdeh posits that conflict of interest may be as a result of transfer pricing, wherein assets of the company that could have been managed by managers are sold to another company that they own below the market value. This situation lowers firm's performance.

However, Jensen and Meckling (1976) and Yeboah-Duah (1993) and Moore (2012) contended that situations wherein managers hold a proportion of shares in the firm (managerial ownership), the interests of shareholders and managers are tallied or aligned resulting in inability of managers to pursue

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selfish objectives. Moreover, agency problems decreases and firm performance increases.

Notwithstanding, the findings of Wiwattanakantung (2001) study affirmed that managerial shareholders do not always encourage a firm's performance. Wiwattanakantung contended that there is an inverse relationship behind the assumption of the linear relationship between managerial ownership and a firm's performance.

In view of the widespread corporate scandals and failures around the world as enumerated above, interest in the impact of corporate governance on corporate performance has increased. Though, findings of Wiwattanakantung and several studies (Shleifer & Vishny, 1997; OECD, 2009; Hermalin & Weisbach, 2003) revealed that the absence of good corporate governance is a major cause of failure of many well performing companies and ample evidence exists in literature supporting the position that good corporate governance has a positive impact on organizational performance, some researchers such as Marashdeh, contended that the composition of board of directors, ownership concentration and managerial ownership could either mar or make company's performance. This suggests that the mode of corporate governance is an important determinants of corporate performance. As a result, the present study conducted an in-depth investigation into the impact of corporate governance in the context of managerial ownership on corporate performance in Ghana using financial institutions listed on Ghana stock exchange as the focus of study.

Statement of the Problem

In their studies Shleifer and Vishny (1997) and Limpaphayom (2001) indicated that ownership structure is an important mechanism for mitigating

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agency problem and improving corporate governance. A thorough analysis of various ownership structures, according to Baah (2011), revealed that managerial ownership seems to be the most controversial. Notwithstanding, several studies (Baah, 2011; Raji, 2012; Marashdeh, 2014) indicated that it is a potent tool for aligning managerial interests with those of shareholders because increase of managerial ownership provides managers ample opportunity to employ monetary incentives to maximize profit.

However, several other studies (Demsetz & Villanonga, 2001; Numazu & Kerman, 2008; Ezazi, Sadeghisharif, Alipour & Amjadi, 2011) shows that managerial ownership hampers or it is inversely proportional to corporate performance. Some studies (Jensen & Mecklings (1976; Kajola, 2008; Demsetz & Villalonga, 2001) also shows that managerial ownership as a means of corporate governance, depending on the approach, could either make or mar the financial progress of a corporation.

The gap in literature, according to Okougbo (2011), necessitates further study into the influence of corporate governance in the form of managerial ownership influence firm's performance. As a result, this study investigated the influence of corporate governance in the form of managerial ownership on firm's performance with some listed companies in Ghana Stock Exchange as the focus of study.

Objectives

The primary objective of this study was to investigate the influence of corporate governance on firm performance using listed financial institutions on the Ghana Stock Exchange. The specific objectives are as follows:

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i. Ascertain the type of influence managerial/insider ownership exerts on the performance of listed financial institutions in Ghana Stock Exchange.
ii. Determine the type of influence board size exerts on the performance of listed financial institutions in Ghana Stock Exchange.
iii. Ascertain the type of influence board composition (independence) exerts on the performance of listed financial institutions in Ghana Stock Exchange
iv. Determine the type of influence audit committee exerts on the performance of listed financial institutions in Ghana Stock Exchange.

Hypotheses

In order to achieve the objectives of the study, the following hypotheses are relevant:

1. Hypothesis (Ho):
   There is a positive and significant relationship between managerial ownership and firm performance
2. Hypothesis (Ho):
   There is a positive and significant relationship between board size and firm performance
3. Hypothesis (Ho):
   There is a positive and significant relationship between board composition (independence) and firm performance
4. Hypothesis (Ho):
   There is a positive and significant relationship between audit committee and firm performance

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Significance of the Study

The relevance of this study can be seen from the dearth of information regarding the effect of corporate governance on the performance of listed financial institutions on the Ghana Stock Exchange. It is envisaged that the findings of the study will contribute to existing knowledge on the subject-matter and as a result will form an empirical background for researchers and business administrators interested in conducting investigative study regarding how corporate governance affects listed financial institutions on Ghana Stock Exchange. It is also envisaged that the results of the study will equip policy makers, shareholders and management personnel with relevant information on how corporate governance could be effectively employed through managerial ownership to ensure higher performance for the design and implementation of appropriate economic policies that will result in higher and sustainable growth rates for the corporation.

Delimitation

The present study was limited to only financial institutions listed on the Ghana stock exchange. The decision of the researcher to use financial institutions is informed in view of the relative ease it is to get the much needed information from the Ghana stock exchange about their financial ownership structures as well as their performance. Moreover, these institutions are willing to provide necessary information regarding their performance which is usually published in their annual budget statement.

Organisation of the Study

The present study was divided into five chapters. Chapter One focused on the background to the study, problem statement, significance of the study

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and the scope of the study. Chapter Two was devoted to the review of relevant literature. The existing literature on the subject under investigation would be reviewed so as to provide in-depth understanding of the research topic. Chapter Three focused on the methodology employed for the study. It comprised the research strategy, sources and method of data collection, the type of data (primary and secondary) as well as description of the mode of the analysis and presentation of data. Chapter Four discusses presentation and analyses of data coupled with research findings, while the final chapter, Chapter Five, was geared towards the summary of findings, conclusions and recommendations.

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CHAPTER TWO

LITERATURE REVIEW

Introduction

This section comprises the review of related literature relevant to the study. It provided in-depth review of the findings of other research works relating to the objectives of this study, as a result it dwelled on adequate examination and evaluation of the existing literature as it underscores the focus of the study. Since the essence of review is an attempt at surveying scholarly articles, books and other sources such as annual reports of companies listed on the Ghana Stock Exchange, that are relevant to a particular issue, area of research, or theory. The section is categorized as follows:

i. Concept of Corporate governance
ii. Shareholder Model
iii. Stock exchange in Ghana
iv. Corporate governance issues in developing countries
v. Corporate governance measures in Ghana
vi. Corporate governance mechanisms
vii. Ownership structure and corporate performance
viii. Managerial ownership: Incentive versus entrenchment effects
ix. Empirical literature on effects of corporate governance on firm's performance.

Concept of Corporate Governance

Corporate governance has been defined variously from different perspectives by several authors and professionals including regulators, professional bodies and academics. Marashdeh (2014) indicated that due to the

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increasing interest of firms regarding corporate fraud and fraudulent financial reporting, the concept of corporate governance became popular in both developed and developing countries. According to Marashdeh, there has been considerable debate about the definitions of corporate governance among researchers and scholars.

Gillan (2006) and Stenberg (2004) posit that there are two schools of thoughts as far as the concept of corporate governance is concerned. Narrow perspective, according to Gillan and Stenberg, sees corporate governance as satisfying the interests of the shareholders while broad perspectives view corporate governance as satisfying the interest of the stakeholders that is, employees, customers, suppliers and government. Gillan indicated that the different school of thoughts and their definition of corporate governance fundamentally relates to the epistemological assumption underpinning the concept.

Shareholder's perspective describes corporate governance as the principal's motivation to maximize their value, whilst organizational or stakeholder's perspective describes the concept in terms of controlling mechanisms to regulate and maintain business operations (Zingales cited in Marashdeh, 2014). Illuminating this perspective, Gillan and Starks (1998) indicated that corporate governance is a broad concept extending beyond management rather it involves the systemic control, rules and regulations of companies, in effect, dictates corporate direction, involvement in executive decision, supervision and accountability.

Defining corporate governance from the perspective of mitigating agency problems, Sheifer and Vishny (1997, p. 18) stated that it "deals with the

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ways in which suppliers and finance to corporations assure themselves of getting a return on their investment". Since it is difficult and in several occasion impossible for shareholders to oversee day to day operations of the corporation, they assign an agent to manage the company's operations in their interests. In this instance, according to Marashdeh (2014) there is ensuing conflicts of interest between the agents and the shareholders, especially if the principals are disappointed by their return on investment. Hence, it behooves shareholders to calculate agency costs (monitoring and controlling agents) against the amount they are likely to incur from negative managerial behavior when there is no proper supervision.

Based on Sheifer and Vishny's comments above, Keasey, Thompson and Wright (2005, p. 251) gave the following definition on corporate governance:

> The set of mechanisms – both institutional and market based – that induce the self-interested controllers of a company (those that make decisions regarding how the company will be operated) to make decisions that maximize the value of the company to its owners (the suppliers of capital).

Though extensive, Keasey et al.'s (2005) description of corporate governance is vague because, according to Denis and McConnell (2003), it lacks theoretical frameworks that could be proven via hypothesis or relationships (Marashdeh, 2014). Hence, Denis and McConnell (2003) defined corporate governance based on agency theory which allows for conceptualization of the relationship between firm performance and organizational structure. Denis and McConnell indicated that any understanding

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of firm structure or governance must expressly show that shareholders are the owners (principals) in the organization. These authors felt there should be much emphasis on the interests of the shareholders, whose overriding interest is value maximization.

It can be deduced from the aforementioned definitions that there several and often conflicting views on the concept of corporate governance and the essence of a corporation. Hence, in order to properly understand this heated debate, it is paramount to consider the different analytical background or approaches, namely the Shareholder Model and the Stakeholder Model. Adequate understanding of the two approaches or school of thoughts will provide proper basis for identifying good corporate governance practices that can foster corporate performance (Maher & Andersson, 1999).

Shareholder Model

Proposed by Milton Friedman, the shareholder's model asserts that "there is only one and only one social responsibility of business – to use its resources and engage in activities designed to increase its profits so long as it…engages in open and free competition, without deception or fraud." In effect, according to Smith (2003), it is expected that the capital given to company's managers (agent) be utilized or spent in line with stipulated terms outlined by shareholders. Corplaw (2013) described shareholder model as the centering on the notion that the sole responsibility of business is to increase profits. The model is based on the premise that managements are employed as agent of the shareholders (principal) to run the corporation for their benefit, as a result, the agents are duty bound, legally and morally obligated to serve the interest of the shareholders. However, according to Corplaw (2013), this bid to

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make as much money as possible is governed by conformity to the basic rules of the society, both those embodied in law and those embodied in ethical custom.

In their study, Maher and Andersson (1999) indicated that due to the separation of ownership and control in modern corporations, there is often a divergence of interests between the parties involved: the principal and the agent. In explicit terms, Jensen and Meckling (1976) contended that there is an agency loss between the agents and principals based on the extent to which returns to the residual claimants, the owners, falls below what they would be if the principals, the owners, were to manage the corporation directly. Essentially, according to Corplaw (2013), the main issue as far as stakeholder model is concerned in the modern corporation is that, due to share ownership of the institution, administrative actions including financial management often depart from those required to maximize shareholders returns.

In order to mitigate agency loss or enhance convergence of interest, Eisenhardt (cited in Frensch, 2007) intimated that some mechanisms are introduced. One of such mechanism is to provide incentive schemes for managers or administrators which reward them financially for maximizing shareholder interests. These form of schemes, according to Jensen and Meckling (1976) often times include plans to align the financial interests of executives with those of shareholders. For example, the terms of the scheme may tie executive compensation and levels of benefits to shareholders returns and have part of executive compensation deferred to the future to reward long-run value maximization of the corporation and deter short-run executive action which eventually harms corporate value.

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Anderson (2000) indicated that agency theory nurtures "homo economicus" ('model of man' with individualistic, self-serving and opportunistic leanings). A scheming individual who seeks to attain rewards and avoid punishments at all cost. This may include punishment for financial mismanagement (Donaldson & Davis, 1991). What account for such situation is the delegation of authority by the principals or shareholders to agents or administrator to act on their behalf thus allowing them to act opportunistically at the expense of the shareholders' wealth or interest. Smith (2003) posits that such opportunistic behavior includes shirking and indulging in excessive request for rewards or performance bonus irrespective of how it affects the shareholder financially. Hence, the bone of contention as far as agency theory is concerned is how the shareholders will ensure that administrators act in their interest rather than the administrators'.

In this regard, according to Eisenhardt (cited in Frensch, 2007) two agency problems arise due to incomplete information and uncertainty. Incomplete information painted an adverse situation wherein the shareholders cannot fully assess if the agent fulfills his ability for the job or did an accurate job for which he is being paid, on the other hand, there is the inexorable feeling of moral hazard by the shareholders because they cannot be sure if the agent has exerted his maximum effort. Both the agent and shareholder are motivated by opportunities for their own personal gain, and conflict often occur when the interests of the agent is in divergence to the shareholders (Jensen & Meckling, 1976). In order to maximize profit thereby improving companies performance, the shareholders end up imposing several control structures upon the agent so as to reduce the potential abuse of delegation and information asymmetry.

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Hence, the primary objective of agency theory according to Jensen and Meckling is to reduce the agency costs derived from the shareholders' internal controls to keep the agent's self-serving, individualistic and opportunistic behavior in check. Highlighting the forms of internal controls imposed by the shareholders, Daily, Dalton, and Cannella (2003) indicated that in addition to financial incentive schemes, the shareholders design an appropriate governance structure for the corporation which may include increasing the number of outside board members to perform audits and evaluations. Such governance structure will not allow a situation where the chief executive officer (CEO) is chair of the board of directors, because agency theory stipulates that when the CEO holds the dual role of chair, then the interests of the shareholders will be sacrificed to a degree in favour of management, that is, there will be managerial opportunism and agency loss.

The performance bonus, another schemes introduced by shareholders to motivate the executive to maximize shareholders' profit has been criticized by some economists, as reductionist model of human motivation, an over-simplification for mathematical modeling. However, Donaldson (1990) argued that irrespective of the intention of reductionism, the validity of a model in science rests on the utility of its predictions, not on the accuracy of its assumptions. In view of Donaldson's comment, Ferraro, Pfeffer, and Sutton (2005) stated that a simplistic model of human motivation such as those contained in agency theory guides both organizational and managerial theory building, and serve to produce behaviour in the organization that is consistent with those assumptions.

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Implication of shareholders' model for the present study

Several critics of shareholder theory, according to Smith (2003) seem to claim that because executives are charged with improving corporate performance and maximizing shareholder value (given large incentives to do so through stock options or other schema), they are often pressured into doing whatever necessary including setting up illegal partnerships and then shredding incriminating evidence as long as they are not caught. Since such manipulations are viewed by the society as reprehensible which is as a result of shareholder's model, these critics concluded that the model is bankrupt and must be discouraged.

However, a critical look at the shareholder's model reveals an incomplete and somewhat misrepresentative interpretation of the shareholder's model on the part of the critics. Indicative of this is the fact that shareholders get a return from their invested capital in two different ways: through dividends paid out by the corporation and through increased share prices. Going by Friedman (2000), proponent of Shareholder's model that business is about increasing profits, it becomes clear that the shareholder model spoke more to increasing dividends through profitability than to increasing share price in a (possibly irrational) stock market (cited in Smith, 2003).

Also critics claimed that shareholder model stipulates any action in pursuit of shareholders returns, however, according to the tenet of the model, pursuit of profits should be done legally and without deception, any overtly illegal behaviour is disallowed. Hence, the overarching arguments against the shareholder's model do not appear terribly compelling because it originates from incomplete and misinterpretation of what the model entails. Thus far, the

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study has shown that shareholder’s model does not nurture inordinate lust for profit rather a balanced ethical approach to increasing profits.

Though several critics agreed that shareholder model does not encourage manipulation by executives to achieve company’s goal, they argued that if society embraced the stakeholder’s model, executives would develop an innate self-correcting mechanism that would temper tendencies to act in a manner that ignores certain stakeholder’s interests’. As a result, the present study will conduct in-depth investigation into stakeholder’s model and its implication for the present study.

Stock Exchange in Ghana

Stock Exchange refers to an entity or a corporation, mutual organization that brings buyers and sellers of stock together (Raji, 2012). In Ghana, the principal stock exchange platform is the Ghana Stock Exchange (GSE). The exchange was incorporated in July 1989 as a private company limited by guarantee under Ghana’s Companies Code, 1963 (Act 179). Stock Exchange Act of 1971 (Act 384) was implemented to provide the Exchange adequate recognition as an authorized Stock Exchange and trading commenced on the floor of the Exchange in November 1990. The exchange was converted into a public company limited by guarantee on April 1994. Being the economic heartbeat of the country, Accra is the home of the Exchange and currently there are about 35 listed companies and 2 corporate bonds. The manufacturing and brewing sectors currently dominate the exchange. The banking sector occupies the third section while other listed companies fall into fourth section that includes insurance, mining and petroleum sectors. Most of the listed companies on the GSE are Ghanaian but there are some multinational corporations.

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Trading often take place on the floor of the Exchange under the Continuous Auction Trading System (CAT). Over the counter, trading is done in Ashanti Goldfields Company's shares. While non-resident investors can deal in securities listed on the exchange without obtaining prior exchange control permission, there are some restrictions on portfolio investors not resident in Ghana (Raji, 2012). At present the limit on all types of non-resident investor holdings (institutional or individual) are stated below:

i. A single investor (Non-citizen living outside Ghana) is allowed to hold up to (10%) of every equity.

ii. For every equity, foreign investors may hold up to a cumulative total of 74%.

iii. The limits also exclude trade in Ashanti Goldfields shares.

Though the aforementioned restrictions have been abolished by the Foreign exchange Act, 2006 (Act 723), there is an 8% withholding tax on dividend income for all investor. Baah (2011) and Raji (2012) intimated that capital gains on securities listed on the exchange will remain exempt from tax for some time until a date is determined. The exemption of capital gains applies to all investors on the Exchange. There are no exchange control regulations on the remittance of original investment capital, capital gains, dividends, interest payments, returns and other forms of earnings.

Corporate Governance Issues in Developing Countries

In recent times, according to Oman, Fries, and Buiter (2004) and Allen (2005), much attention has been given to corporate governance in emerging market due to its weaknesses in developing countries with resultant economic crises in these countries. Kearney (2012) indicated that emerging market

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requires well-developed physical financial infrastructure such as central banks, commercial banks and stock exchange to function effectively and these facilitators or processes are seriously lacking in developing nations. Consider processes such as systems of accounting, governance, regulation and other financial infrastructure are relatively fewer resulting in less efficient markets with less liquidity in comparison to developed countries. This situation often culminates in greater uncertainty and risk, impressing international diversification possibilities for investors from all countries in the world.

Some of the difficulties faced by developing economies include political instability, weak legislation, risk and uncertainty, low level of protection for investors and high levels of government intervention necessitates the installment of effective structures of corporate governance. In order to achieve this, Reed (2002) recommended improving the strength and transparency of capital market structures so as to increase the overall confidence of investors, improving the performance of domestic corporations, and encouraging growth via the use of equity instead of debt.

Identifying other sources of problem facing developing nations, Singh and Zammit (2006) mentions crony capitalism, that is, an economy that thrives on close relationships between business people or corporations and government officials fostering favoritism in the distribution of legal permits, government grants, special tax breaks, or other forms of state interventionism. This often led to poor corporate governance. Itemizing four key components of challenges facing developing economies in connection with corporate governance, Nenova (2003) stated:

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1. value transfer (from non-controlling shareholders or stakeholders) to dominate large shareholders;
2. ineffective disclosure practices;
3. weak legal framework; and
4. audit problem.

Findings of the study of several scholars and practitioners including Dallas and Ararat (2011) revealed that optimal form of governance is specific to individual corporations. In effect, the prevailing circumstance within which a corporation operates often dictates the best structure for governance, even in relation to companies that compete in the same sector of the market place. Fan, Wei and Xu (2011) and Marashdeh (2014) also intimated that studies have shown that several aspects of emerging markets could be very instrumental to controlling the choices made regarding the governance of a corporation, such as the ownership structure, development of the financial market and the quality of the public governance.

In their study, Fan et al. discovered that corporate transparency and the quality of corporate governance in the public sector could be influenced by various forms of corruption rendering the governance structure weak and such weakness coupled with the legal contexts within which businesses are operating could hamper the development of the financial market. In sum, Claessens and Yurtoglu (2013) posit that all the challenged faced by firms can be determined, to a large degree, by:

i. the overall level of development of the political economy, and
ii. the prevailing ownership structures for institutions

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Lending support to the findings of Claessens and Yurtoglu (2013), Shleifer and Vishny (1997) contended that the concentration of ownership is high in developing economies, where the rights of the shareholders is weak as a result of inadequacy of the regulations provided by the relevant laws. La Porta, Lopez-de-Silanes, Shleifer and Vishny (2000) asserted that in developing countries ownership is concentrated among just a handful of major shareholders, resulting in agency problem due to a misalignment of interests between managers and owners. This problem could occur in corporation with large or small shareholders.

Hence, Shleifer and Vishny (1997) contended that in emerging economies where ownership structure is concentrated, large and controlling shareholders could immensely mitigate agency problems because they have the incentives, motivations and ability to oversee the activities of managers to the mutual benefit of all shareholders whether they are many or fewer. However, Johnson, Boone, Breach and Friedman (2000) posit that corporation performance could be greatly hampered or lowered if the large controlling shareholders collude with managers to expropriate the corporation resources and work for their own benefit to the detriment of the firm.

So far, the study has demonstrated that literature and findings of several studies undertaken in emerging or developing economies is inconclusive because these findings have been mixed with the data dwelling on the relationship between the performance of a corporation and the mechanisms of corporate governance. Marashdeh (2014) indicated that governance structure in one state or country could offer optimal protection for the investor, whereas it could be less than desirable elsewhere. Findings also revealed that the level of

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ownership concentration is likely to influence control of the management with concomitant effect on corporate performance. Hence, the study will provide ample information on managerial ownership and its relatedness to corporate performance.

Corporate Governance Measures

Considering the relevance and importance of the institution of effective corporate governance, the Ghanaian government, through her various agencies have come up with various institutional arrangements to protect the investors of their hard earned investment from unscrupulous management/directors of listed firms in Ghana. These institutional arrangements, provided in the "Code of Best Practices on Corporate Governance" issued in November 2010 are briefly discussed below.

i. The roles of the board and the management
ii. Shareholders rights and privileges
iii. The role of the Audit Committee

The roles of the board of directors

The guidelines expressly stated that the implementation of good corporate governance hinges on the competence and integrity of the board of the body corporate. Hence they are required to fulfill key functions, including:

i. The strategic guidance of the corporate body in keeping with its business objectives;
ii. Overseeing the management and conduct of the business;
iii. The identification of risk and the implementation of systems that manage risk;

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iv. Succession planning and the appointment, training, remuneration and replacement of senior management;
v. Overseeing of internal control systems;
vi. Maintenance of the corporate body's communications and information dissemination policy.

The CEO and management

They are responsible for:

i. Operating the firm in an effective and ethical manner
ii. Preparing the strategic plans and annual operating plans and budgets for the board's approval.
iii. The integrity of the firm's financial reporting system that fairly presents its financial position. The financial reports are expected to comply with relevant statutory and professional pronouncements.
iv. Establishing an effective system of internal controls to give reasonable assurance that the firm's books and records are accurate, its assets safeguarded and applicable laws complied with.

Shareholders rights and privilege

i. Secure methods of ownership registration
ii. Convey or transfer shares
iii. Obtain relevant information on the corporation on a timely and regular basis;
iv. Participate and vote in general shareholder meetings;
v. Elect members of the board; and
vi. Share in the profits of the corporation

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The role of the audit committee

The Companies Code, 1963 (Act 179) stipulates that the audit committee should comprise at least three directors, the majority of whom should be non-executive. The membership of the audit committees should ideally comprise directors with an adequate knowledge of finance, accounts and the basic element of the laws under the corporate body operates or is subject to. The primary functions of the audit committee will be to:

i. Recommend the appointment of the external auditors of the corporate body;
ii. Liase with the external auditors for the purposes of maintaining and ensuring audit quality, effectiveness, risk assessment, interaction with internal auditors and dealing with situations governing the resignation of the external auditors;
iii. Review the adequacy of systems of internal controls and of the degree of compliance with material policies, laws and the code of ethics and business practices of the corporate body;
iv. Provide a direct channel of communicating between the board and the external and internal auditors of the corporate body, accountants and compliance officers (if any) of the corporate body;
v. To report to the board on all issues of significant extraordinary financial transactions;
vi. To assist the board in developing policies that would enhance the controls and operating systems of the corporate body.

The above guidelines and code of corporate governance forms the measuring rod guiding the operations of listed companies in Ghana Stock Exchange. The

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level of compliance with the above will undoubtedly distinguish a well-governed corporation from others and will be an important ingredient to corporate performance.

Corporate Governance Mechanisms

Several studies including Kajola (2008) have shown that there are many factors or variables that may constitute the measuring rod through which corporate governance can be understood in an organization. Some of these mechanisms are briefly discussed below:

Size of board of directors

The board of directors plays a vital role in the implementation of effective/good corporate governance measures. They are usually very conversant and knowledgeable in specific industries and monitor the top managers, take corrective actions, replace poor performing managers and determine managers' compensation. Reducing board size to a particular level is often believed to improve the performance of a firm because the benefits by larger boards of increased monitoring are outweighed by the poorer communication and decision making of larger groups.

Findings of several studies regarding board size seem to tally with the aforementioned conclusion: a fairly clear negative relationship appears to exist between board size and firm performance. When the board is too big there is much tendency that it will be less effective in substantive discussion of major issues among directors in their supervision of management. In a study conducted by Mak and Yuanto (2003), using sample of firms in Malaysia and Singapore, discovered that firm valuation is highest when board has 5 directors, a number considered relatively small in these countries.

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Also, in a study conducted by Sanda, Mikailu and Garba (2005), they reported that firm performance is positively correlated with small as opposed to large boards. Considering these findings, Lipton and Lorsch (1992) contended that large boards are less effective and are easier for the CEO to control because when a board becomes too big, it is usually difficult to coordinate and hampers its ability to process and tackle strategic problems of the organization. Using relevant data from Finland, Yermack (1996) found out that there is negative correlation between board size and profitability. Similar conclusion was reached when Liang and Li (1999) used Chinese data to test the relationship between size of board of direction and corporate performance. Findings of Mak and Kusnadi (2005) also demonstrated that small size boards are positively related to high firm performance.

Board composition

Young (2003) indicated that director independence from a firm or its CEO is intuitively appealing since such director will find it easy to turn down an excessive pay packet, challenge the rationale behind a proposed merger or bring to bear the skepticism necessary for effective monitoring. Tornyeva and Wereko (2012) also posit that the proportion of the directors would to a large extent determine the quality of decisions taken since objectivity should be the focus and the capacity to monitor and control the management. John and Senbert (1998) posit that a board is seen to be more independent if it has more non-executive directors, because executive directors are more familiar with the activities of the organization and therefore could be in a better position to supervise and control top management especially if they perceived the opportunity to be promoted to positions occupied by incompetent executives.

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On the other hand, non-executive directors, according to Fama (1980), could act as “professional referees” to see to it that competition among executive directors stimulates actions consistent with shareholder value maximization.

In their study, Rosenstein and Wyatt (1990) indicated that financial markets usually respond positively to the announcement regarding the appointment of non-executive directors by shown an appreciable level of improvement in the performance of the corporate shares. While some studies such as Bhagat and Black (2002) could not really confirm any significant relationship between non-executive directors and firm performance. They discovered that poorly performing firms were more likely to increase the independence of their board. Klein (1998) also discovered that firm performance is insignificantly related to a higher proportion of outsiders on the board. Hence, the relationship between the proportion of non-executive directors and firm performance is mixed.

Though the essence of Agency Theory is that corporate governance should lead to higher stock prices or better long-term performance, because managers are better supervised and agency costs are decreased. However, Gompers, Ishii, and Metrick (2003) stated otherwise. They discovered that the evidence of a positive association between corporate governance and firm performance may have little to do with the underpinning of agency theory. Findings of studies conducted by Weir and Laing (2001) and Pinteris (2002) also revealed that there is no relationship between board composition and firm performance in term of accounting profit or firm value.

In line with Kajola (2008), several studies using financial statement data and Tobin’s Q find no link between board independence and firm performance,

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while those that used stock returns data discovered a positive relationship. However, a study conducted by Liang and Li (1999) using a sample of 228 small, private firms in China, revealed that the presence of non-executive directors is positively associated with higher returns on investment. Concretizing this conclusion, Tornyeva and Wereko (2012) posit that the findings of several studies supported the notion that the effective performance of the board depends largely on having the right proportion of executive and non-executive directors on the board.

Audit committee

Audit committees, according to Kajola (2008), are the sub-committee of the board of the company. This is an important mechanism as far as corporate governance is concerned because its essence is to enhance the credibility and integrity of financial information produced by the company and to increase public confidence in the financial statement (Tornyeva & Wireko, 2012). Audit committee is one of the committees recommended in the code of corporate governance to have oversight responsibility over management in the preparation of the financial statements. In a bid to ensure the independence of the audit committee members, the committee must consist of only non-executive directors and with a membership of not less than three members. It is expected that the institution of audit committee will culminate in better corporate performance.

Regarding the audit committee, Klein (2002) discovered a negative correlation between earnings management and audit committee independence. Whereas Anderson, Mansi and Reeb (2004) discovered that entirely independent audit committees have lower debt financial costs.

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CEO duality

Kajola (2008) reported that several studies that investigated the separation of CEO and chairman of the board indicated that agency problems are higher when the same person occupies the two positions. Tornyeva and Wereko (2012) further indicated that these positions are the two most powerful position in the corporation, hence, concentrating it in the hands of one person will often lead to decisions that would not promote the interest of the shareholders. Hence, in a landmark study conducted by Yermack (1996) using a sample of 452 firms in the annual Forbes Magazine rankings of the 500 largest USA public firms between 1984 and 1991, reported that firms are more valuable and perform very well when CEO and the chairman of the board positions are occupied by different persons. However, Liang and Li (1999) sees things differently. The result of their study revealed that there is no positive relationship between separation of the position of CEO and board chair with corporate performance.

Concept of Firm Performance

According to Raji (2012), findings of several studies revealed that the objective functions and the costs of exercising control over managers differ significantly for different types of owners. This means, it is not only important to know the level of equity a shareholder contribute or owns, but rather who this shareholder is, ascertaining this is worthwhile because investors are quite different as far as wealth, risk aversion and the priority attached to shareholder value in comparison to other goals. Studies revealed that owner preferences and investment choices to a large extent are instrumental to shareholder (Thomsen & Pederson, 1997). Sometimes, according to Thomsen and Pederson (1997),

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conflicts of interest may occur among shareholders due to their economic relationship or status with the firm. For example, the government of a country and a bank may play dual role, the government may play the role of owners and regulators while a bank may also occupy the role of a lender and owner. Thomsen and Pedersen further stated that for individual members of stakeholders, preferences regarding company strategy always involve a tradeoff between the pursuit of shareholder value and other goals.

Baah (2011) indicated that managerial ownership seems to be the most controversial of all the ownership patterns due to its ambivalent effects on corporate performance. He indicated that on the one hand, it is seen as a tool for alignment of managerial interests with those of shareholders. The increase of managerial ownership provides managers with monetary incentives to maximize profit. On the other hand, Raji (2012) indicated that larger managerial ownership promotes entrenchment effect in managers which could be costly if these ones have low qualification or prefer to live an easy life.

However, Park and Shin (2003) and Singh and Davidson (2003) could not establish any relationship between managerial ownership and corporate performance. The inconsistencies in the research findings of several studies could be in part to the restrictive nature of data. Irrespective of these conflicting results, literature generally attests that there is no doubt that good corporate governance is instrumental to enhancing corporate performance.

Tobin's Q

Several studies (McConnell & Servaes, 1990; Denis, Denis & Sarin, 1997) employed this measurement of performance and the percentage of shares owned by the Board of Directors as a measure of ownership. These studies

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justify the use of Tobin's Q as measurement of growth opportunities, their findings showed that a Tobin's Q above 1 is a necessary condition for a corporation to be at a level of investment that maximizes its value whereas a Tobin's Q below 1 is characteristics of a corporation with no growth opportunities.

Marris Ratio

This ratio represents growth opportunities. Underscoring its relevance in firm performance, Hirigoyen and Caby (1997, p. 18-19) posit that this ratio "is a permanent valuation indicator of choices of the firm of the management and of strategic perspectives". These authors indicated that when Marris Ratio is higher than one (1), the corporation is said to be capable of creating value whereas when it is lower than 1, it depicts a declining trend in corporate value.

Return on Equity (ROE) and Return on Investment (ROI)

ROE and ROI are basic ratios utilized for measuring the performance of a corporation with wide validity and significance to the present study. According to Raji (2012), these measures are effective in measuring firm's Eperformance in both developed and developing economies. ROE is often used to demonstrate how a firm uses investment funds to generate earnings growth. Previous studies indicated that ROE's between 15% and 20% are considered desirable.

Empirical Review

Thomsen and Pederson (2000) conducted intensive investigation into ascertaining the relationship between corporate governance and economic performance of listed companies in Europe using Tobin's Q as the economic criteria. Findings of the study revealed that there is a significant positive

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relationship between corporate governance with concentrated ownership and economic performance. Although this relationship was non-linear and concentration of ownership over a given level had U-shaped curve and negative effects on performance, they concluded that unlike the concentrated ownership, when there is distributed ownership, the other shareholders cannot participate in the corporate policy, and this weakness is related to corporate governance mechanism which can affect optimal corporate performance.

In their study, Demsetz and Villanonga (2001) examined the relationship between corporate governance in connection with ownership structure of shareholders and firm performance. Using a sample of 233 listed companies and an hypothesis that ownership is considered as multidimensional and as an endogenous variable, discovered no meaningful statistical relationship existing between ownership structure and firm performance. This result gave credence to findings of previous studies that, while the unfocused ownership could lead to increase in agency problem though it has other benefit that could be very instrumental in resolving several economic problems.

In a study entitled: Corporate governance and corporate performance, Brown and Caylor (2004) critically examined the relationship between corporate governance and firm performance. They used Tobin's Q as their criteria for performance on 2,327 firms. Brown and Caylor placed 51 effecting factors in corporate governance in 8 categories including the following: accounting, the board of directors, legislating, teaching directors, directors' remuneration, shareholders, developing operations, and tendency for partnership. Findings revealed that proper corporate governance has more influence on the yield of the firm in connection with director's remuneration.

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Notwithstanding, other aspects also have direct influence on the firm's performance. The result also showed that the weakest executive aspect of corporate governance was in the existence of a specific policy for replacement of the auditor, because over ninety-eight percent of the companies have reward committees instead of audit committees.

In a landmark study, Numazu and Kerman (2008) investigated the impact of ownership structure on corporate performance of listed companies in Tehran Stock Exchange". Using hypotheses which underscored the existence of a significant relationship between ownership structure and performance, Numazu and Kerman collected data from 66 companies during 1382 and 1386. Panel data was used to test hypotheses. The researchers also divided ownership structure into two: institutional and private ownership categories. Private ownership on the other hand, was also divided into three categories namely: corporate, management and external shareholders.

Numazu and Kerman discovered that there is negative and meaningful relationship between the corporate ownership and firm performance. Management ownership was also a negative influence on firm performance while in the case of private ownership, no information specifying whether the ownership of external investors was observed in sample statistical companies. Generally, the overall finding of the study revealed that there is a meaningful relationship between the ownership structure and performance of the companies investigated.

Ezazi, Sadeghisharif, Alipour, and Amjadi (2011) conducted intensive investigation into the effect of ownership structure on share price volatility of listed firm in Tehran Stock Exchange. These researchers investigated the

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relationship between corporate governance via ownership structure and firm performance. Findings of the results revealed that the price of shares of the companies whose more percentage of shares are held by their greatest shareholders may have more volatility and the share price volatility of the companies that the more percentage of their shares is controlled by individual shareholders is lower. Ample attention should be given to the measure of ownership of five greater shareholders and institutional shareholders and members of the board of directors might not proffer any solution for investors interested in share price volatility.

Chapter Summary

Relevant literature examined coupled with the theoretical and conceptual frameworks clearly demonstrated that the relationship between corporate governance irrespective of its nature and structure is mixed depending on the type of measure utilized by researcher. Notwithstanding, several studies have shown that effective corporate governance exerts much influence on firm performance whether with negative or positive relationship. Hence, at this juncture it is vitally important to investigate the relationship existing between corporate governance and firm performance in the case of listed financial corporation/institutions on Ghana Stock Exchange.

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CHAPTER THREE

RESEARCH METHODS

Introduction

The focus of this chapter is to describe the methods and procedures employed to conduct this research study. The chapter begins with a description of the research design, followed by study population, sample and sampling technique, and instrumentation design. This chapter further looked into data analysis and model specification.

Research Design

In order to fully elicit relevant information pertinent to the objectives of the present study, the study was rooted in quantitative paradigm. Hopkins (2008) indicated that quantitative research paradigm involves the use of numerical measures and facilitates quantification and the type of relationship existing between variables. For the purpose of this study, it will help to decipher the type of relationship existing between corporate governance and firm performance. The extent of impact or relationship is expressed via descriptive and inferential statistics. In other words, quantitative paradigm helps a researcher determine the proportion of problems, and difficulties associated with a phenomenon in numeric terms so as to arrive at a useful conclusion. Morse (1991) stated that, it facilitates objective facts regarding a phenomenon such as the extent to which corporate governance mechanisms such as managerial ownership influence corporate performance. As a result, quantitative paradigm is practical and suitable for the present study since it helped the researcher determine the magnitude and form of relationship existing

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between corporate governance and firm's performance, so as to describe and make appropriate inferences in line with the objectives of the study.

The researcher employed ex-post facto research design for the study. In this type of research, Fraenkel and Wallen (2000) and Sarantakos (2005) posit that it facilitates the researcher's attempt to determine the relationships, causes, effects or reasons for existing differences in the behavior or status of corporation or institutions. The choice of ex-post facto research design is informed in view of the inability of the researcher to exercise any control over the independent variables because their manifestations have already occurred. In effect, according to Raji (2012), it is impossible to manipulate these variables. Ex-Post Facto design enhances the ability of the researcher by providing practical means of investigating how independent variables affect dependent variables and facilitates the researcher's observation of the independent variables after the event has occurred (Raji, 2012).

Population

The companies listed can be categorized into financial and non-financial firms. In order to achieve the objectives of the study, the researcher used all the financial firms listed on the Ghana Stock Exchange for the study. These companies comprised Cal Bank, HFC, Ecobank Ghana Limited, Ghana Commercial Bank, SG-SSB, Standard Chartered Bank.

Sample and Sampling Procedure

The researcher used purposive sampling technique for the study. Sarantakos (2005) referred to this type of sampling technique as deliberate or judgmental sampling method. Marlow (2001) indicated that this form of sampling method allows the researcher to literally handpick the sample

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according to the nature of the research problem and the desired objectives of the study. Sarantakos further indicated that this form of sampling method becomes necessary when respondents are selected or judged to possess certain characteristics or are information-rich as far as the research problem or objectives of the study is concerned. As a result, the sample of the study comprises financial institutions listed on Ghana Stock Exchange.

Model Specification

In view of the risk-taking orientation of corporate governance through managerial ownership which often impact investment decisions and corporate decisions, the researcher used Pearson's Product Moment Correlation and Multiple Regression. The formulae for the model the researcher intends to use will be:

$$PERF = \beta_1 MANown + \beta_2 Bsize + \beta_3 Comp + \beta_4 AUDcom$$

Variable Description

Tables 1 and 2 show the variables and their descriptions as utilized in the study.

Table 1 - *Dependent Variables Description*

Variable	Description/Measurement
ROA	Net income/Average Total Assets in issue
ROE	Profit After Tax/Total Equity Shares in issue
DY	Annual Dividends Per Share/Price Per Share

Source: Field Survey, 2016.

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Table 2 - *Independent Variables Description*

Variable	Description/Measurement
Bsize = Board Size	Number of directors on the board
Bcomp = Board Composition	Proportion of outside directors sitting on the board
AUDcom = Audit Committee	The composition and independence of the audit committees
MANown = Managerial Ownership	Ownership structure

Source: Field Survey, 2016.

Measuring Corporate Performance

The researcher used Return on Assets (ROA), Return on Equity (ROE), and Dividend Yield (DY) to calculate firm performance. Literature revealed that several researchers have adopted these measures of firm performance in the context of corporate governance through managerial ownership. These researchers include Raji (2012) and Roberts (2000).

Definition of Variables

Return on asset (ROA)

This tool measures how much profits a firm can achieve using one unit of assets. It is very important to ascertain the result of managerial decisions regarding the assets entrusted to them (Raji, 2012).

Return on equity (ROE)

This tool measures the earnings generated by shareholders' equity for a period of time, often annually. It comprises three main sections which the management can employ to ensure profitability, asset management, and

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financial leverage thereby maintaining the health of the corporation (Raji, 2012).

Dividend yield (DY)

This tool measures the annual dividend per share divided by current stock price. This tool is very useful in that it could easily facilitate comparison between relative attractiveness of various dividend-paying stocks (Raji, 2012).

Sources of Data

The main objective of the study is to ascertain or measure the effect of corporate governance through managerial ownership on the performance of companies listed on the Ghana Stock Exchange. Annual data, that is, calendar year will be used in the estimations of the model. In order to achieve this objective, data will be collected from two main sources. The balance sheet and income statement information from annual reports of the various financial companies will be the first source of data. The second source of data will be information regarding ownership and control from the Ghana Stock Exchange reports. Essentially, the researcher employed secondary data for the study in view of the nature of data and available statistical tools. The study also used "panel data" was used. This facilitated the researcher's effort to investigate the relationship between the various variables from two different perspectives. It allows for variable testing among different corporations within 2010 – 2014.

Data Processing and Analysis

The researcher used the Statistical Package for Social Science (SPSS) version 21 to extensively investigate and ascertain the type of relationship or effect of existing between corporate governance through managerial ownership

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and corporate performance. This facilitated effective summary of the findings of the study depicted in tables.

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CHAPTER FOUR

RESULTS AND DISCUSSION

Introduction

This chapter presents the analysis of the data collected via secondary sources. This data, as earlier stated, was a summary of the data collected from both the Annual Financial Statements of the various financial institutions sampled for the study and the Ghana Stock Exchange. Presentation of analysis commences with the descriptive statistics of the data collected from the aforementioned sources.

Descriptive Statistics of Data

Table 3 shows the descriptive statistics of all the variables used in the study.

Table 3 - *Descriptive Statistics*

	ROE	ROE	Tobin Q	Marris
Mean	0.08	0.095	1.93	4.19
Median	0.09	0.148	1.79	2.87
Kurtosis	12.612	129.112	4.675	121.374
Skewness	-2.137	-10.211	2.105	9.983
S. E. of Mean	0.005	0.042	0.048	0.219

Source: Field data, 2016.

Results from Table 3 revealed that the Mean ROE for the financial institutions sampled for this study is less than 15%, this means it is less than 10% which revealed that the institutions does not efficiently use investment funds to generate earnings growth. However, the Tobin Q (higher than 1) ratio shows that the firm has growth potentials and that the level of the investment maximizes the value and performances of the firm. It could also be seen from Table 1 that the Marris ratio depicting measure of performance and ownership

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structure was the highest of all the variables employed for the measurement of performance and ownership. Results from Table 1 showed that being a permanent valuation indicator of the corporations, Marris ratio is greater than one (1) suggesting that the financial institutions selected for this study are capable of creating value both at present and in the nearest future. It is also important to state that the result depicted in Table 3 showed that the data is skewed to the right indicating that the data is positive and that there is a clear possibility for growth in the nearest future.

Linear Regression Results

The estimated model used for the present study is stated below:

$$PERF = \beta_1 MANown + \beta_2 Bsize + \beta_3 Comp + \beta_4 AUDcom$$

Results obtained from applying the three main indicators of firm performance: return on asset (ROA), return on equity (ROE) and dividend yield (DY), on the model are depicted in Table 4.

Table 4 - *Linear Regression Results on Effects of Independent Variables on Firm Performance*

Independent Variable	Dependent Variable		
	ROA Parameter Estimates (β)	ROE Parameter Estimates (β)	DY Parameter Estimates (β)
BSize	0.615*	0.567	-0.728*
Bcomp	0.512	-0.773*	-0.384*
AUDcom	0.628	-.645*	0.334*
MANown	1.114	.798	.254

Source: Field data, 2016. ***Indicate significance at 5% level**

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Results from Table 4 show that the dependent variable Return on Assets had a co-efficient (β) of 0.615 and was significant at 5% level while Return on Equity recorded a co-efficient (β) of 0.567 and was significant at 5%. Dividend Yield on the other hand showed a co-efficient (β) of -0.728 and at significance level of 5%. The regression result in Table 4 demonstrated that board size is positively and significantly related to two indicators ROA and ROE while it is negatively and significantly related to DY. These results were manifested from the beta coefficients and level of significance of the relationships. In effect, most of the dependent variables were significantly related to board size, although one of these variables (DY) recorded negative correlation with it.

In the case of Board Composition (Bcomp), Table 4 revealed that Return on Asset had a co-efficient (β) of -0.512 and was significant at 5% level while Return on Equity recorded a co-efficient (β) of -0.773 and was significant at 5%. In the case of Dividend Yield (DY), the table showed a co-efficient (β) of -0.384 and at a significance of 5%. These regression results in the Table showed that board composition is negatively and significantly related to ROE and DY while it is positively and significantly related to ROA. In effect, while ROE and DY were negatively and significantly related to board composition, ROA was positively and significantly related to it. Worthy of note is that managerial ownership (1.114; 0.798; 0.254) was positively and significantly related to all the three indicators (ROA, ROE and DY).

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Table 5 - *Logistic Regression Result Regarding the Effects of Predictor Variables on Firm Performance (Above Market Average)*

Indicator Variable	Column 1 ROA Above Market Average Parameter Estimates (β)	Column 2 ROE Above Market Average Parameter Estimates (β)	Column 3 DY Above Market Average Parameter Estimates (β)
MANown	5.670	5.001	5.791
Bsize	0.487	0.673	1.382
Bcomp	-0.041	-0.039	-0.043
AUDcom	1.007	0.857	0.678

Source: Field data, 2016 ***Indicate significance at 5% level**

Testing Hypothesis

Hypothesis (H_0): There is a positive and significant relationship between managerial ownership and firm performance.

Findings from Table 5 provide ample statistics to test the first hypothesis. From Table 5 it could be seen that the result of Logistic Regression test carried out showed that there is a positive and significant correlation between managerial ownership and Return on Assets (β=5.670, $p<0.05$) while Return on Equity (β=5.001, $p<0.05$). The results for Dividend Yield (β=5.791, $p<0.05$) were also positive and significant. This result tally with the linear regression results in Table 4 where the Pearson Correlation on the three indicators (ROA, ROE and DY) was positive and significant at 5%. Hence the hypothesis was upheld.

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Hypothesis (H_0): There is a positive and significant relationship between board size and firm performance.

In testing the second hypothesis as stated above, Table 5 revealed that there is a positive and significant correlation between board size and Return on Assets ((β=0.487, $p<0.05$) as well as Return on Equity (β=0.673, $p<0.05$). In relation to Dividend Yield, there is also a positive correlation with board size (β=1.382, $p<0.05$). In view of the positive and significant relationship between board size and the three indicators, the second hypothesis was upheld.

Hypothesis (H_0): There is a positive and significant relationship between board composition and firm performance.

In measuring the third hypothesis as stated above, Table 5 revealed that the correlation is negative and not significant between board composition and Return on Assets ((β=0.041, $p>0.05$) as well as Return on Equity (β=0.039, $p<0.05$). Regarding Dividend Yield, the correlation is also negative and not significant with board composition (β=0.043, $p<0.05$). In view of the coefficient correlation which was negative and not significant for all the three indicators the third hypothesis was not accepted, in effect, rejected.

Hypothesis (H_0): There is a positive and significant relationship between audit committee and firm performance.

In testing the fourth hypothesis as stated above, Table 5 revealed that the correlation is positive and significant between audit committee and Return on Assets ((β=1.007, $p>0.05$) as well as Return on Equity (β=0.857, $p<0.05$). In connection with Dividend Yield, the correlation was also positive and significant with audit committee (β=0.678, $p<0.05$). In view of the coefficient

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correlation which was positive and significant for all the three indicators the fourth hypothesis was accepted, in effect, rejected.

Discussion and Implications of the Findings

Findings in relation to the first hypothesis revealed that there is a positive and significant relationship between managerial/insider ownership and firm performance. Several studies including Namazi and Kermani (2008), Kajola (2008); Raji (2012) and Tornyeva and Wereko (2012) have contended that when managers own shares in a company, they often become more committed to the organization since they have a stake in the residual income of the corporation, and when there is misappropriation or mismanagement they are going to be badly affected. This commitment, according to these authors spurs these managers into unflagging commitment which often translates into higher performance for the corporation.

Result of the present study tally and adequately confirm the findings of the aforementioned studies in relation to listed financial corporations in Ghana. Result also showed that there is statistically significant positive relationship between board size and the three indicators. This is in harmony with the findings of several studies such as Kajola (2008); Tornyeva and Wereko (2012); Baah (2011) and Yaw (2006). These researchers discovered that larger boards are better and can be instrumental to drastically improving firm performance. According to Tornyeva and Wereko, this position hinged on the assumption that larger boards are constituted with members from different backgrounds that brings with them diverse skills and professional expertise. Yaw indicated that such constitution enhances the knowledge base of the corporation and facilitate

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better decision making. It also places the board in a better position to monitor the activities of management.

Giving credence to the above finding regarding board size, Pearce and Zahra (1992) intimated that larger boards provide better access to their firm's external environment, risk reduction and acquisition of critical organizational resources needed for firm performance. This is because the constitutive members of the board are expected to be an important link between the company and their networks. Notwithstanding some critics sees board size in a different light. For example, Nanka-Bruce (2009) contended that larger boards are prone to agency and free-rider problems. She posits that "agency problem increases with board size because of more conflicting groups representing their own diverse interests as free-riding also increases as some directors neglect their monitoring and controlling duties to other directors on the board" (p. 32).

Gyakari (2009, p. 98) also asserted that "larger boards have larger financial cost implications since they consume more pecuniary and non-pecuniary company resources in the form of remuneration and perquisites than small boards". Amidst this argument, Aggarwal, Erel, Stulz and Williamson (2007) sees no relationship between board size and firm performance. At this juncture it is pertinent to raise the question: what is the optimal board size? As at now there is no answer that is all-embracing because companies differ from one another and several considerations are made before the appointment of directors.

Among other things, Brown and Caylor (2004) suggested a board size of between 6 and 15 members while some other professionals (Jensen, 1993; Lipton & Lorsch, 1992) argues for members ranging from 7 to 9. Since Brown

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and Caylor recommended from 6 to 15 and several authors recommended 7 to 9, then it would be safe to recommend between 7 and 9 board members since it will facilitate efficiency of operations, reduce the possibility of agency problem with the ultimate benefit of improved firm performance.

In relation to board composition (independence) and firm performance, result revealed a negative and not significant relationship. This result tally with the findings of several studies including Agrawal and Knoeber (1996), Ezzamel and Watson (2002), Weir and Laing (2001) and Haniffa and Hudaib (2006) that board independence does not have any influence on firm performance. These researchers are of the opinion that non-executive directors may not have total commitment to the cause of the company because of other commitments. In view of this, they may be seriously distracted or torn between private issues and the company's issues and will not be atop of issues affecting the performance of the company. In fact, Baysinger and Hoskisson (1990) asserted that non-executive directors on several occasion are limited in scope and understanding as far as the complexities and intricacy of running a corporation is concerned due to their temporal position.

However, findings of some studies (Scarborough, Haynie, & Shook, 2010; Huson, 2001; Nanka-Bruce, 2009) are in support of the notion that an independent board facilitates firm performance. For example Scarborough et al. posits that "a board with outside members makes it more likely that the board is looking out for the interest of the shareholders" (p. 6). They further stated: "board of directors with conflicts of interest will not engage themselves broadly and exercise their legal authority if directors personal interests are at odds with their fiduciary duty to stakeholders" (p. 6). Huson (2001) also intimated that

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independent boards often prefer recruiting outsider to replace non-performing CEOs rather than internal promotion. This will create a situation where every director including the CEO brings in innovating ideas to improve company's performance.

It is pertinent to state that the study of Zahra and Stanton (1988) and Kang and Shivdasani (1995) could not establish any relationship whatsoever between board composition (independence) with firm's performance. The aforementioned conclusions by various authors demonstrated that with each corporation there are contextual influences dictating what is optimal and what will improve firm performance. Hence, it behooves directors in charge of governance to sought practical, realistic and functional approach to improving firm performance.

The result of this study also revealed that there is a positive and statistically significant relationship between the effectiveness of the audit committee and firm performance. This result tally the findings of Carcello and Neal (2000) that audit committees can, via the effective performance of their monitoring function see to the assurance of the qualitative financial reporting and corporate accountability. However, the findings of Tornyeva and Wereko (2012) revealed that the audit committee members should be independent so as to ensure transparency and enhance affective monitoring. Lending support to the need for independent audit committee, Klein (2002) intimated that the problem associated with earnings control by management will be drastically reduced when the audit committee is independent.

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CHAPTER FIVE

SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

Summary

The primary objective of this study was to investigate the influence of corporate governance on firm performance using listed financial institutions on the Ghana Stock Exchange. The study also investigated whether managerial ownership and other corporate governance mechanism have any relationship with firm performance.

Ex-post factor research design was adopted for the study and purposive sampling was used in selecting sample for the study which comprises all financial institutions listed on Ghana Stock Exchange.

Key Findings

The investigative analyses of the study gave rise to the following major findings:

i. It was discovered that there is a positive and significant relationship between managerial/insider ownership and firm performance.

ii. The study also revealed that there is statistically significant positive relationship between board size and the three indicators (ROA, ROE and DY) which represents firm performance.

iii. In relation to board composition (independence) and firm performance, result revealed a negative and not significant relationship.

iv. The result of this study also revealed that there is positive and statistically significant relationship between the effectiveness of the audit committee and firm performance.

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Conclusions

Key findings of the study revealed that managerial ownership has a positive and statistically significant relationship with firm's performance because this ownership structure tally the interests of managers with those of the shareholders so as to increase firm's performance. In Ghana, according to Raji (2012), manager ownership of firms has been actualized via executive share options. The results of this study revealed that when managers also had the opportunity to be part of the shareholders of a corporation, they strive to improve performance of the company which will, in the long run, benefit themselves and other shareholders.

The study also revealed that board size is very crucial to improving firm performance since the findings of several professionals have demonstrated that the larger the board size, the more diverse and professional skill are brought in to catalyze firm's performance. The study also revealed that board independence have a negative relationship with firm performance in that non-executive directors are temporal and hence may be torn in their loyalty due to other interests and little understanding of the complexities of running a corporation. Finally, it was discovered that audit committee both in size and independence are important ingredient to fostering accountability and transparency which are the lubricants of firm performance.

Recommendations

In line with the emergent findings and the conclusion drawn, the following recommendations are proposed:

i. While the findings of the present study revealed that managerial/insider ownership can be very instrumental to improved firm performance, great

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care should be exercised because this form of ownership structure could lead to entrenchment of managers, which is very costly when they chose to pursue their self-interests. Hence, Cubbin and Leech (1982), contended that the overall impact of managerial ownership on firm performance largely depends on how well the entrenchment and incentive alignment are balanced.

ii. Considering the results of the study, it is prime time for corporations in Ghana to diversify shareholding as a way of attracting diverse skills and competencies among shareholders so as to foster firm's competence and performance. Efforts should also be made by shareholders to protect the corporation from manager's unnecessary interference with the company's business for personal gain.

Suggestions for Further Research

In view of the findings and methodology of the present study, the following suggestions are made for further studies:

i. Due to data and time constraints the present study could not investigate other corporate governance mechanisms. In view of this, it is suggested that in other researchers could investigate other important corporate mechanisms like remuneration committee, nomination committee, CEO's remuneration, capital structure, disclosure and frequency of board meetings.

ii. Since the performance of a company is often influenced by several factors, it is suggested that other researchers could delve into impact of social, legal, economic and the political environment on firm's performance.

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