Effect of Corporate Governance on Firm Performance in Ghana

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Abstract:
This research focuses on the measurement of the quality of corporate governance and on whether there exists a relationship between corporate governance and firm performance for a sample of the top 100 companies in Ghana. With reference to the battery of models available from the literature and the Code of Corporate Governance applicable to Ghana, a checklist measuring the effect of 13 key factors was developed and studied in relation to the Taffler model. Analysis of the results shows that on the overall, there is no difference in performance for companies having the poor and excellent quality of governance. Hence no significant relationship has been found between corporate governance and financial performance.

Keywords: Corporate Governance, Firm performance, Top 100 companies, Ghana

INTRODUCTION

Major notorious accounting failures worldwide have dented investor confidence and have raised several questions about the effectiveness of a firm’s internal control system and governance structures. Indeed, the theme making the headlines for the past years is corporate governance (CG). Broadly speaking, CG is all about making sure that decisions are made effectively. This impetus towards corporate governance has been due to many factors. For instance, it matters for shareholders as it is a shield against abuse of directors while improving access to capital for the company itself and instilling financial stability in the market. The broad aim of the study is to tap the actual compliance with the CG provisions by Ghanaian firms, and more importantly to probe into the relationship between CG practice and its effect on performance. In fact the specific objectives set for this research are to i) generate a conceptual framework for CG practices to assist towards the establishment of a CG score ii) Analyze and gauge the state of CG practices of Ghanaian companies and iii) to examine the possible relationship between CG practices and firm performance based on a sample of the Top 100 companies in Ghana. The rest of this paper is organized as follows: section 2 reviews the previous literature and gives a brief overview of the CG situation in Ghana, section 3 discusses the research methodology, section 4 provides the analysis of results and section 5 concludes the paper.

Corporate governance is sometimes viewed as a business culture fostering economic growth by building up the confidence of investors (The HIH Royal Commission Report 2003). Others (Schmidt and Tyrell, 1997) adopted a more concise definition relating to a company: “corporate governance is the totality of the institutional and organizational mechanisms, and the corresponding decision-making, intervention and control rights, which serve to resolve conflicts of interest between the various groups which have a stake in a firm and which, either in isolation or in their interaction, determine how important decisions are taken in a firm, and ultimately also determine which decisions are taken”.

Therefore, it can be understood that according to Healey (2003a), the quality of decisions being taken by directors does not rely solely on their aptitudes in adopting the right course of action, but also to which extent these resolutions is congruent to the long-term goals of shareholders. This conflict of interest and other theories relating to the relationship among these participants in the governance system will be documented below.

It is a fact that the objectives pursued by shareholders and corporate managers tend to be different and contradictory with regards to their own interests. Consequently, this has nurtured the conception of a wide spectrum of approaches and processes ensuring that conflicting interest’ spill-over are minimized. One of the compromises gave birth to address this divergence is corporate governance. At its very root, according to some researchers (Harris and Raviv, 2008, Larcker, Richardson and Tuna, 2007), the theoretical platform on which foundations of corporate governance is built is weak and as such finds itself deprived of any theoretical base. Tricker (2000) and Parum (2005) also have the same line of reasoning and conclude that studies carried out on corporate governance have not been consistent whether empirically, methodologically, or even theoretically.
As such, a vast number of theoretical frameworks have seen the day, stemming from the fields of economics, finance, management or even sociology, so as to serve as a basis for researchers in their analysis of CG. Though to some (for instance Stiles and Taylor 2002), these piecemeal attempts to understanding CG leave them skeptic about the actual function of the Board of Directors (BOD) in a company, others like Solomon and Solomon (2004) have adopted an optimistic position and consider that these different frameworks share commonalities on a theoretical base. The well-known and widely discussed theories are the Agency cost theory (Berle and Means, 1932; Jensen and Meckling 1976), the Stakeholder theory (Freeman et al., 2004; Kiel and Nicholson, 2003b; John and Senbet 1998); the stewardship theory (Donaldson, 1990; Pfeffer, 1972) and the resource dependency (see Ruigrok et al., 2006).

**Literature Review**

**Conformance and Performance Issues**

It is to be noted that notwithstanding the numerous theories that have been used as an approach to CG, there are two main principles that prevail and are continuously applied. These are conformance issues (relating to directors’ obligations) and performance issues. Both need to be balanced to maximize the chance of business success. The conformance dimension concentrates on an implementation of a regulatory model of operation for directors and concerns issues like board structures and their roles for instance. Conversely, the performance issues encourage strategic value and promote the key drivers of performance.

In the early 1990s, there was evidence that CG was being induced fundamentally by conformance issues as BOD seeks to uphold their mechanisms as propounded by Francis (1997). However, in the mid-1990’s, Bosch (1995) and Hilmer (1993) have come to the view that too much focus was put on conformance issues to the detriment of performance dimensions and noticed the failure of CG processes to act as a catalyst for performance.

**Corporate Governance Disclosures Effect on Firm Performance**

The literature carries mixed results concerning the association between corporate governance and financial performance. Klapper and Love (2004) found a high positive association between better governance and operating performance using firm-level data of 14 emerging stock markets with return on assets as a proxy for operating performance, although affirming that this may vary among countries. Likewise, some other researchers (Gompers et al. 2001, Drobetz et al. 2004, Brown and Caylor 2004) reported a positive relationship between the quality of CG and their measures of profitability.

Also, there is international evidence suggesting this positive link on certain developed markets. For instance, Selvaggi and Upton (2008) claimed that good CG enhances firm’s performance for the United Kingdom and found the presence of a strong causality between the two variables. Similarly, Black (2001) reported the same conclusions in the case of Russian firms. In contrast, other studies reported no significant positive relationship between operating performance and CG. For instance, Bauer et al. (2004) argued that initially an insignificant relationship was reported which afterward turned to a significantly and statistically negative relationship. A similar outcome was also observed by Beiner et al. (2004). Moreover, other studies (see Park & Shin 2004 and Prevost et al. 2002) did not find any evidence of any relationship between the two variables.

**Board Effectiveness**

Under the umbrella of board effectiveness, lie several factors, but empirical studies have made use of board structure and composition with size, independence, and performance as the key parameters. A board of limited size is expected to be more performing than bigger ones due to better communication and decision making thus improving performance. However, this consensus has not been reached unanimously as Brown and Caylor (2004) suggest a positive link while Beiner et al. (2004) suggest an insignificant association. But it is argued that efficiency goes concurrently with the independence of board as evidenced by some authors in their studies while
others (Haniffa and Hudaib 2006) have documented that multiple directorships do not have a positive impact on performance.

**CEO Duality**
Rechner and Dalton (1991) concluded that firms with independent leadership outperformed those practicing CEO dualities. However, Daily and Dalton (1992) reported a neutral finding with no relationship with operating performance.

**Directors Remuneration**
The general belief upheld is that higher levels of managerial compensation will encourage directors to perform their role more effectively. Though higher performance is expected, the findings are not conclusive as some (Conyon and Schwalbac 2000) have found the existence of such a relationship while others have failed to find empirical support for such a relationship. For instance, Duffhues and Kabir (2008) argued that this predominant insight of a link between the two variables doesn’t always hold good as they did not report any significant relationship between executive pay and corporate performance.

**Audit Quality**
It is widely accepted that there exists a conventional wisdom that a higher quality level of audit forms part of a good governance mechanism. Indeed, auditors and audit committee play a crucial role in overseeing the financial management of the company improving performance consequently. Most empirical works (Ho 2005) carried out have revealed positive findings whilst some, like Brown and Caylor (2004), have concluded that although there is a link between audit quality, governance, and financial performance, the significance of the relationship lies between audit quality and dividend yield and not with operating performance.

**Transparency and Disclosure**
Greater disclosure and transparency enhance the reliability of financial information reported, closing the gap on information asymmetry and leading to higher quality of earnings forecasts by investors. Based on the premise that better corporate disclosure and transparency lead to better performance, Loh (2002) unraveled a list of potential benefits springing from a higher level of transparency. This not only leads to better corporate performance but increases management trustworthiness, widens the investors’ base and improves access to capital.

**Social Responsibility**
Corporate social responsibility is becoming a growing need of any organizations as they find them having a level of interaction between different stakeholders and with the society at large. Consequently, ethical behavior on their part would send the correct signal to the different stakeholders and impact on performance. For instance, Ho (2005) depicted in his survey a better performance standard than for firms without these fundamentals.

**Conceptual Framework**
While scrutinizing the different approaches and models used in the literature, and like some authors (Campos et al. 2002, Black et al. 2004), a conceptual framework has been developed based on the Ghanaian CG. Thus the conceptual model has been developed wrapping 13 aspects in the checklist but classified under 9 factors for analysis as depicted by the figure below and to mitigate the element of subjectivity, various elements of CG practices have been included covering a large number of questions as shown in table hereafter. Thus, it can be argued that the measures used are strong proxies and the factors constituting the checklist have been the most important ones as per previous literature while encompassing all aspects of CG. Concerning the scoring of the quality of CG, the same position as that of the World Bank survey on Ghanaian listed firms has been adopted as shown in Appendix 1.
RESEARCH METHODOLOGY
A cross-sectional approach has been used which illustrate a specific situation and occurrence at a particular point of time being in 2015. Indeed firms’ extent of compliance with CG practices and its link with their performances will be evaluated over this period. The Companies which have been selected for assessment of CG for the present study are the top 100 companies in Ghana according to their annual profit. For the proposed study, secondary data was collected using a checklist as the research instrument, with sources of information for this assessment being the companies’ annual reports whereby information about CG was readily accessible. The different sections enumerated on the checklist address issues on CG practices with regards to the proposed model designed in the conceptual framework discussed below. The data gathered from the annual reports for the purpose of the checklist were of various forms ranging from quantitative like the number of independent directors or number of shares held by each director, to categorical concerning the presence of a disclosure like list of shareholders holding more than 5% of the company, and ending with qualitative data extraction involving the scoring of the CG practices based on wording in the annual report suggesting compliance is being achieved.

As for the figures necessary for the computation of the Z-score, a proxy for firm performance, these were gathered again from the companies’ annual reports.

Sampling Techniques
Surveying the whole population is not only unrealistic but also unfeasible. As such, non-probability sampling was more apt to suit the data collection and analysis skills, more precisely judgmental sampling. The latter was more suitable since it enables the researcher to focus on the sample which suits his study. In fact, the top 100 companies selected guaranteed assurance of those firms with highest performance with sufficient disclosures regarding best practice recommendations of CG. Then, the underlying sample was broken down into 3 groups representativeness of the sample being top 40 companies, 30 middle ones, and 30 last companies to facilitate analysis and interpretation.

Scoring Corporate Governance Practices
Basically, each survey possesses its own way of constructing CG scores as it is contingent on the researcher’s approach. Most parts of researches done in this field of study have focussed on available ratings constructed by several rating agencies. For instance, Klapper and Love (2004) made use of Credit Lyonnais Securities Asia to build up their governance indices while Brown and Caylor (2004) adopted the Institutional Shareholder Services database and alongside the application of Deminor ratings by Bauer et al. (2004). However, these ratings are usually in the ogle of institutional debate as they are sometimes argued not to be related with performance or, if so, only to a limited extent due to significant factors being overlooked, thereby encouraging construction of own indexes. Essentially, Drobetz et al. (2004) computed their rating according to responses obtained from their surveys and added that to maintain transparency alongside interpretation, equal weighting was used across the different proxies. Similarly, Beiner et al. (2004) and Campos et al. (2002) in their construction of the rating, made reference to the underlying country’s Code of Corporate Governance and
OECD’s (1999) Principles of Corporate Governance. Therefore, the scoring of CG is subjective, particular to the researcher and country and that is why the present study will attempt to construct a suitable index for the purposes of this survey.

Proxies for Financial Performance
Given the fact that measures used to capture the essentials of financial performance differ across studies, this underlines that there is no agreed consensus on which proxy is the best. For instance, Larcker et al. (2007) argued that return on assets “is likely to remove the impact of governance that we are trying to estimate” if “governance structures are stable over time” whilst others disagree on whether Tobin Q is a good approximate for firm value. In the light of the above, it is to be noted that there exists from the literature an extensive list of proxies adopted or models to estimate performance. However, one of the widely used composite measures of performance is Taffler’s z-score model (1977) whereby calculations are based on several financial ratios being weighted and aggregated. Compared to the conventional ratio analysis, the Z-score model discriminates financially healthy firms from those bearing a risk of potential failure. The model is as follows:  

\[ Z = \sum_{i=1}^{n} w_i \cdot x_i \]

Univariate analysis
This was used to gain an insight into the data by presenting the individual variables constituting the CG framework through their mean and standard deviation according to the three categories of companies. The mean score was classified as “not observed,” “partially observed” and “observed” based on different scales depending upon the number of questions per determinant factor of CG. It is to be noted that according to Ho (2005), assessing the individual determinants of CG may not allow a full insight of the effect of CG as much as all the dimensions in unison. As such, a pie chart was used to represent not only the three levels of compliance of governance standards but also the three level of performance too, based on all companies surveyed to grasp a brief overview of the situation. Tests of normality, homogeneity of variance, independence, test of association and that of correlation were performed, and nothing abnormal was to be noted

Regression Equations
Regression analysis allows the prediction of an outcome variable from one predictor variable, and this will be analyzed through a simple regression as depicted by equation (1) below alongside the testing of the hypotheses deduced from the ANOVA shown in (2).

1. \[ Z\text{-Score} = \beta_0 + \beta_1 \text{Gov-Score} + \varepsilon \]
2. \( H_0: \) The regression model can be used to predict the change in \( Z\)-Score  
   \( H_1: \) The regression model cannot be used to predict the change in \( Z\)-Score

RESULTS, FINDINGS, AND DISCUSSION

Corporate Governance Score
Aggregating the nine factors from the conceptualized model, constituting the provisions of the Code of Corporate Governance, the CG score was constructed. Graphically, it is encouraging to note that above 50% of the sample has excellent CG framework in place covering the various issues and thus most companies are implementing the requirements of the Code. Moreover, 35% of the companies surveyed depict clearly the enthusiasm and the companies’ commitment towards the upholding of the wide spectrum of provisions under the umbrella of our National Code of Corporate Governance. However, though not being hefty with 10% only, there are still some companies, all found in the bottom 20%, lagging behind in the pursuance of their compliance with much improvement needed to meet the intent of CG practices.

Corporate Governance & Firm Performance
Pooling together all the figures relating to performance across the three samples, an astonishing result has been yielded. Indeed, almost all companies have got excellent performance with no danger of bankruptcy

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surrounding them. This is remarkable in the sense that the financial crisis has not engulfed their profitability levels according to the Taffler model, which means no specific adjustment has to be done to account for this particular phenomenon and besides this low 8% poor performing companies stipulates that companies found in the bottom half of the top 100 list are not to be viewed as having low operating performance due to their reduced size and scale of activities.

**Test of Association:**

*Table 2: Cross Tabulation of Gov-Score and Z-Score for companies*

<table>
<thead>
<tr>
<th>Gov Score</th>
<th>Top 40 firms</th>
<th>Middle 30 firms</th>
<th>Bottom 30 firms</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Z - Score</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Poor</td>
<td>Satisfactory</td>
<td>Excellent</td>
</tr>
<tr>
<td>Poor</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Satisfactory</td>
<td>4</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Excellent</td>
<td>0</td>
<td>2</td>
<td>34</td>
</tr>
<tr>
<td>Total</td>
<td>4</td>
<td>2</td>
<td>34</td>
</tr>
<tr>
<td>Percentage</td>
<td>10%</td>
<td>5%</td>
<td>85%</td>
</tr>
</tbody>
</table>

A hefty 90% of the top 40 companies have made it a must to ensure compliance with the CG principles which indicate clearly a real concern for the best firms to be viewed as having a high quality of CG so essential to their activities and to their surroundings. In fact, these had important repercussions on their performances as out of the 90% (n=36), 34 had achieved the performance of high standard, which may leave us to presume the vital role played by efficient boards among others. Concerning, the other 10%, they have registered satisfactory governance score implying they have limited themselves to compliance of the main provisions and it is astonishing to see that those 4 companies have seen their profitability at low levels announcing imminent or eventual risk of facing bankruptcy.

Out of the 46.67% (n=14) of the companies which did have satisfactory and acceptable levels of CG provisions, it has been observed from the table that all of them had experienced a healthy financial status which differs completely from the observations in the top 30 companies. As such, those companies that were gauging the same extent of CG had found themselves in poor financial conditions. Besides, the remaining 53.33% allows us to contemplate the likelihood of an eventual relationship as excellent CG are taking the companies to high levels, except for one company which seems to be an anomaly.
Indeed, some important observations can be drawn out based on the cross-tabulation analysis. For instance, out of 50% of the companies having minimal compliance with CG provisions, all of them excel in their respective field of activities. But what is most alarming is that out of the 30% (n=9) having neglected the importance of the Code of CG, 8 firms had achieved very honorable performance level which suggests that having a poor CG framework does not adversely affect the profitability of the company.

**Chi-Square Test**

Table 3: Chi-Square Test for firms

<table>
<thead>
<tr>
<th>Category of firms</th>
<th>Pearson Chi-Square</th>
<th>Likelihood Ratio</th>
<th>Linear-by-Linear Association</th>
</tr>
</thead>
<tbody>
<tr>
<td>Top 40 firms</td>
<td>0</td>
<td>0.002</td>
<td>0</td>
</tr>
<tr>
<td>Middle 30 firms</td>
<td>0.353</td>
<td>0.266</td>
<td>0.366</td>
</tr>
<tr>
<td>Bottom 30 firms</td>
<td>0.135</td>
<td>0.136</td>
<td>0.453</td>
</tr>
</tbody>
</table>

It is apparent and clear that the chi-square test does not place reliance on assumptions of normality of data as the categorical data are not by nature continuous but however, it has got 2 important underlying assumptions nevertheless. The first one has been fulfilled as depicted by the test of independence carried out previously whereby the independence of data has been found. The second assumption requires that all expected frequencies should be greater than 5 but however in the present case 5 cells have had expected count less than 5 with the smallest expected count being 0.10 which reveals a loss in statistical power. Nonetheless, as can be inferred by the above test the test has not failed to detect a genuine effect as the value of the chi-square statistic is highly significant (p-value < 0.001) suggesting and implying that the type of CG framework adopted by a company had a significant effect on whether the company would perform better or not. The likelihood ratio and the linear-by-linear association statistics confirm the main chi-square result of an evidence of an association between CG and firm performance.

From the above table, we can notice that all statistics are pointing at the acceptance of the null hypothesis, which testifies that there is no association between CG practices and the level of performance as can be depicted by the insignificance of the values of the different statistics.

The highly insignificant result represented by a p-value exceeding the 5% significance level, indicates that there is no association between the CG of the firm and the consequent performance levels attained by the companies which perhaps may have been exacerbated by the loss in statistical power experienced.

**Cramer’s V analysis**

Table 4: Cramer’s V for firms

<table>
<thead>
<tr>
<th>Statistic</th>
<th>Value</th>
<th>Sig.</th>
<th>Interpretation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cramer’s V</td>
<td>1.000</td>
<td>0.000</td>
<td>Evidence of a very strong association</td>
</tr>
</tbody>
</table>

Since there has been evidence of an association, we can proceed further to test the strength of the association between the two variables through the Cramer’s V. It can be noticed that an extremely strong association exists between the CG quality and the firm performance as out of a maximum possible value of 1, the Cramer’s statistic has yielded 1 which is dumbfounding as results. Nevertheless, this value cannot be said to have occurred by pure chance as it is highly significant with a p-value being less than 1%, depicting and reaffirming again that the relationship is significant.

**Correlations**

Table 5: Correlations Analysis

<table>
<thead>
<tr>
<th>Category of firms</th>
<th>Correlation Coefficient</th>
<th>Significance</th>
<th>Interpretation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Top 40 firms</td>
<td>0.714</td>
<td>0</td>
<td>Evidence of positive correlation</td>
</tr>
<tr>
<td>Middle 30 firms</td>
<td>-0.061</td>
<td>0.799</td>
<td>Evidence of negative correlation</td>
</tr>
<tr>
<td>Bottom 30 firms</td>
<td>0.428</td>
<td>0.06</td>
<td>Evidence of positive correlation</td>
</tr>
</tbody>
</table>

Given the fact that the data has violated parametric assumptions, the Spearman’s rho, a non-parametric test has been used to measure the interrelationship between the two variables. The correlation coefficient enables the quantifying of the strength of the relationship between two variables. From the above table, it is clear that the
coefficient indicates a strong positive relationship for top 40 firms, meaning that both variables will move in the same direction, that is higher governance scores will generally be associated with higher z-scores, and the reverse is also true. This is in truth in unison with our findings reported under the chi-square test, and on top of that, the result is significant even at 1% significance level, reducing the probability that such relationship has been established by luck. Moreover, deriving the coefficient of determination through \( r^2 \), (0.714) \(^2\), we can affirm that the Z-Score can account for approximately 51% of the variation in the governance score though being highly correlated, leaving the other 49% of the variability still to be accounted for by other variables.

Concerning the middle slice of the top 100 companies, a very weak negative relationship was reported, meaning that lower governance scores will be associated with a slightly higher performance levels but however the significance value being greater than 0.05 suggests that this relationship may not hold good and that in fact, the two variables may be simply independent. Computing the coefficient of determination, (-0.061) \(^2\), it can be concluded that 0.37% only of variation is accounted for the Z-Score in the governance score meaning that the relationship seems almost to be trivial as if having no underlying theory.

As for the bottom 30, there is evidence of an almost weak positive correlation meaning that higher governance scores will lead to higher operating performance, but however, the p-value is just above 0.05 reducing confidence in such a relationship and ascertaining the absence of such genuine relationship between the two variables. The coefficient of determination, (0.0428) \(^2\), reveals that in this model the Z-Score can account for 18.31% of the variation in the governance score revealing the presence of other independent variables to explain statistically the 81.69% variation of the dependent variable. Thus to enable us to have a clearer picture of the actual overall situation given the divergence of results, a simple regression analysis will be used to settle this issue.

**Regression Results**

*Table 6: Regression Results*

<table>
<thead>
<tr>
<th>Model Summary</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Model</td>
<td>R</td>
</tr>
<tr>
<td>1</td>
<td>.147 (^a)</td>
</tr>
</tbody>
</table>

*ANOVA*

<table>
<thead>
<tr>
<th>Model</th>
<th>Sum of Squares</th>
<th>df</th>
<th>Mean Square</th>
<th>F</th>
<th>Sig.</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Regression</td>
<td>296.318</td>
<td>1</td>
<td>296.318</td>
<td>1.281</td>
</tr>
<tr>
<td>Residual</td>
<td>13413.946</td>
<td>58</td>
<td>231.275</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td>13710.264</td>
<td>59</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

*Coefficients*

<table>
<thead>
<tr>
<th>Model</th>
<th>Unstandardized Coefficients</th>
<th>Standardized Coefficients</th>
<th>t</th>
<th>Sig.</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>(Constant)</td>
<td>-6.657</td>
<td>9.585</td>
<td>-.695</td>
</tr>
<tr>
<td>GovScore</td>
<td>.071</td>
<td>.063</td>
<td>.147</td>
<td>1.132</td>
</tr>
</tbody>
</table>

a. Predictors: (Constant), GovScore

b. Dependent Variable: ZScore

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To establish whether a linear relationship, in fact, exists between Gov-Score and Z-Score, a simple regression has been used to capture the overall fit of the model illustrated below.

\[ Z\text{-Score} = \beta_0 + \beta_1 \text{Gov-Score} + \varepsilon \]

Based on the results of table 13, it can be outlined that R has a value of 0.147 and since there is only one explanatory variable, this value portrays a simple correlation between CG and firm performance. However, the null hypothesis of \( \beta_1 \) being different from zero has been rejected since the observed significance is greater than 0.05. Moreover, the value of \( R^2 \) is very low and stands at 0.022 meaning that the governance score can only account for 2.2% in Z-Score variation which indicates the presence of other more relevant factors explaining this variation. In fact, if we generalize the model, things get exacerbated as definitely no relationship is seen between the two variables represented by the extremely low adjusted \( R^2 \). Also, it is worth noted that the Durbin Watson statistic is in the vicinity of 2 indicating the absence of autocorrelation which could have affected our model by inflating \( R^2 \) and making the model looks better than it was. The ANOVA lets us know whether the overall regression model can act as a good predictor of the outcome variable. Indeed it can be seen that the value representing the gradient of the regression line is 0.071, meaning that if Gov-Score is increased by one unit, performance level (Z-Score) will increase by an insignificant 0.071. However, this does not seem to reflect the genuine effect since the F-Value is very low and the p-value is not significant at the 5% level, and thus the model is not a good predictor of firm performance.

CONCLUSION

The final draft of the provisions of the Code of Corporate Governance for Ghana saw the day in 2004, and one cannot create a legitimate expectation to adopt this type of behavior overnight. Sufficient bridging space has to be given for the companies to accommodate to this new framework and change their internal systems and conduct of businesses. As such, compliance has not been met at the highest level, but this does not mean that these transitional provisions will affect the performance levels in a jiffy. Indeed, before the implementation of the Code, have the companies with their own internal systems put in place been always bankrupt and unprofitable? Of course, the answer is no, and thus the lack of relationship can be understood as another culture has been present to ensure profitability at high levels. This is concurrent with the argument of Roche (2005) who considers that an extended time period is a sine qua non to observe the influence of CG on shareholder value.

This study focused on a potential association between CG and firm performance between different categories in the first stance for the top 100 companies in Ghana. We created a measure to proxy CG and tested it against another one designed for firm performance based on the Taffler’s model. However, though a significant relationship has been documented for the top 20 categories of companies, the other results were inconclusive.

The findings showing an overall satisfactory level of corporate governance quality, are consistent with the researches done on Ghana, whereby the CG Unit of the World Bank documented that all the main principles were partially observed while Mahadeo and Soobaroyen (2009), under the aegis of the Ghanaian Research Council, showed that the implementation of the principles is in place. But the core of the study which involves mainly establishing a potential link between the two constructs has been unfruitful. In truth, contrary to the claims in the literature, the implementation of CG provisions in Ghana does not contribute towards firm performance. This is so mainly because the upholding of the principles is viewed by some as a mere procedural compliance while others compiled in a form, not in substance.

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