Corporate Governance and Family-Owned Companies Performance in Ghana

Author’s Details:
(1) Atta Emmanuel Kofi (2) Kong Yusheng (3) Agyemang Andrew Osei (4) Ayamba Emmanuel Caesar
(1)(2)(3)(4) School of Finance and Economics, Jiangsu University, Zhenjiang, China
Funding: National Natural Science Foundation of China (No. 71371087)

Abstract
Using a sample of 150 family-owned companies in the two major cities in Ghana, this study aims to examine the relationship between family-owned companies and performance taking into account good corporate governance principles such as Board Size, Board Independence and Gender Diversity. The results provide evidence that board characteristics are positively associated with the performance of family-owned companies in Ghana. However, some of the companies did not follow the recommended corporate governance practices, hence, had lower performance. It is therefore recommended that family-owned companies must put into practice good corporate governance principles to enhance performance

Keywords: Board of Directors, Board Characteristics, Corporate Governance, Family-owned, Family ties, Performance

Introduction
The aspect of corporate governance is key in driving the success of many forms across the world. However, the implementations of effective corporate governance strategies are affected by various factors, especially in the family based companies. This study aims at analyzing how the business relations of these firms are affected by private ties.

Corporate governance is critical literature in business, and it emphasizes the use of power in giving directions and controlling companies. Corporate management helps in the realization of the objectives of the organization, and it shows the means and ways of reaching decisions for the business (Tricker and Tricker 2015). It also offers the management's rights and responsibilities, which are aligned with the expectations of people in the community. This means that corporate governance has an impact on the financial stability and company performances, which translate to the country's growth of the economy. There is no agreed definition of corporate governance regardless of the many names terms proposed by authors. According to (Heenetigala and Armstrong 2011), corporate management is concerned with internal processes and structures that are useful in making decisions, controlling behavior and accountability at the helm of an organization.

For quite a long period of time, the classification of the family business was distinct from the rest, and they were classified differently. According to the study done by (Astrachan et al. 2002), the underlying features which the dichotomous classification of family and non-family business is artificial. The need to have good corporate governance in family based companies is essential, especially in the developing nations. The Small and Medium Enterprises (SMEs) in these countries contribute overwhelmingly in the Gross Domestic Product (GDP) bucket, and their management structure consists of the family members (Uwitonze 2016). The corporate governance system of an economy has a substantial impact on profitability together with the growth of the companies. Also, the corporate strategies affect the access to capital of the corporations and the cost of operations (Khanna and Palepu 2000; Adner and Helfat 2003).

According to (Khanna and Palepu 2000), the system of governance influences the decisions being made by the management and subsequently affects the profitability of the company. (Uwitonze 2016) also argue that corporate governance issue has for a long time dominated the policy management aspects in organizations, especially in the developed economies. Initially, the issue of corporate governance was mainly associated with the large companies, and it was brought about by the problems that resulted from the bad relationship between the shareholders and the management of the firms. This problem emanates from the fact that the management team of the firm has a conflict of interest in the firm. Besides, both the shareholders and the management team have different interests. For this reason, (Sarbah and Xiao 2015) note that it is tempting to believe that corporate
strategies could be effectively applied to the unlisted family companies because the strenuous relationship between the shareholders and the management may also arise.

For this reason, it is essential to understand the issue of corporate governance in the family based companies, and how the family ties affect business relations. Despite the argument that corporate strategies are important aspects in the management, profitability, and growth of a company, there is a growing global concern whether the same strategies would be applied to the family businesses, especially the unlisted ones. According to (Adner and Helfat 2003), it is important to apply the same corporate governance strategies to both listed and unlisted family business to induce the same impact on the profitability of the company.

A key economic indicator in many nations is characterized by the growth of enterprises (Beck and Demirguc-Kunt 2006; Baumol 2004), whether family owned or not. The profitability of the company signifies that the population has stabled and increasing disposable income which can be easily directed to consumption. The success of the family businesses, affects the well-being of the nation, as they are the engines for the creation of jobs, innovation and the spread of technology. Despite having a close relationship among the directors, the family owned businesses are able to make decisions quickly. The greatest hurdle in the family business is the transfer of management and ownership to the subsequent generation. Besides, the family businesses find it challenging in adapting the successful change in the industrial and economic conditions. According to (Melaku 2015), the involvement of family in the ownership and management of the company makes the corporate strategies employed different from the non-family owned corporations and also can be problematic and lead to negative effects due to jealousy, nepotism which will lead to lower level of production.

Family based firms face various challenges that make it impossible for strict management and profit based recommendations to be established. This study aims at analyzing the corporate governance strategies in the family based firms and establish how the business relations in such organizations are affected by the private ties of the key shareholders.

The general research objective of this study is to review corporate governance in the family based firms and establish how the business relations are affected by the family ties. In order to achieve the objective of the study, the study tries to answer the following questions: What is the proportion of family owned companies in Ghana? Do the family ties affect the management process of the family-owned companies? Does family owned business practice good corporate governance principles such as Smaller Board Size, Gender Diversity and required independency on the board?

This study is essential for policymakers as it provides the best recommendations which family owned firms can utilize in order to maximize their profits. The results and findings will provide the important challenges that this type of companies face, and this will help the corporate policy makers, shareholders and the management of the firms to understand the inevitable encounters and how to maneuver to maintain sustainability successfully.

**Literature Review & Hypothesis Development**

**Family Owned Companies**

There are two main theories from the school of thought for the corporate governance theory, mainly the stakeholder and agency theories. The traditional agency relationship offers the idea that an agent can act on behalf of another person (Enfield 2013). Apparently, there are chances of conflict arising when there are differences in the goals of an agent and a principle. In family and small businesses, the shareholder and owner act as the agent and principle. The stakeholder theory provides for managers to make decisions that take into consideration the manner of structuring systems of corporate governance of their business from different angles (Harrison and Wicks 2013).

A family company can be defined as the organization in which two or more key shareholders who are connected by family ties hold a significant large financial share or board control which enables them to make strategic management decisions and the overall goals of the company (Gubitta and Gianecchini 2002). According to the study done by (Astrachan and Shanker 2003), the family businesses are the pillars of many economies. For instance, in the Middle East regions, the family corporations constitute 95% of the private
sector. Consequently, about 90% of all business in the United States of America are family owned and they mostly constitute 50% of the Gross National Product and the employment. The social, economic and environmental impact of family based organizations is more widely recognized by both the academic scholars and policymakers at the government level. Understanding the ways in which the family businesses are governed is therefore essential to the growth of the economies, creation of employment and the profitability of the firm.

Corporate governance has evolved in over the years, and it has reached even the level of businesses run by family members. Based on an extensive literature review, it is proposed that,  

**H1: There are more family-owned than publicly-owned companies in Ghana**

**Board Size**

A board of limited size is expected to be more performing than bigger ones due to better communication and decision making thus improving performance (Meyer et al. 2012). Board of directors is one of the most important elements of corporate governance mechanism in overseeing the conduct of a company’s business and ensures that it was properly managed by their agents. Donnelly and Mulcahy (2008) argued that a company reduced information asymmetry between its managers and other stakeholders by having a large board size. Ahn et al. (2010) suggest that individuals with multiple directorships have limited capacity and time to monitor managers' actions. More importantly, they become too busy to provide useful advice on critical strategic decisions, leaving managers to pursue their own private benefits at the expense of various stakeholders. The size of the board affected the ability of the board to monitor and evaluate the management (Akhtaruddin et al. 2009; Zahra et al. 2000). The finance literature has generally found evidence consistent with the agency theory perspective that a smaller board is related to better firm performance for non-banking firms (Anderson and Reeb 2004; Aebi et al. 2012).

From this basis, the following hypothesis is proposed,  

**H2: Smaller Board Size of the family business has a positive impact on performance**

**Gender Diversity**

Gender diversity has become a topic of active policymaking in many countries, with some national governments establishing quotas for publicly traded and/or state-owned enterprises and others merely offering guidelines for diversity (Terjesen and Singh 2008). Previous research suggests that most women directors are likely to possess staff/support managerial skills such as legal, human resources, communications, and public relations skills. Similarly, previous research brings up the idea of ‘value in diversity,’ suggesting that female board members offer diverse viewpoints to the boardroom, help better represent all shareholders, and promote lively boardroom discussion (Letendre 2004) and transparency (Upadhyay and Zeng 2014). Given the ‘glass ceiling’ phenomenon, women also have to demonstrate additional competencies to reach directorship positions, which implies that women are quite likely to be highly proficient and diligent as directors (Eagly and Carli 2003). Gender diversity in corporate boardrooms bring many benefits to the shareholder and work effectively to mitigate the possibility of expropriation. (Fondas and Sassalos 2000) documented the presence of women on board increased the independence of the Board of Directors as well as provided distinctive quality of action from a different point of view in discussion in the boardroom by providing help and making a board interactive.

**H3: Gender Diversity in a family owned companies positively affect performance**

**Board Independence**

As part of corporate strategy, the board of directors played a fundamental role in determining the success of an organization. (Adawi and Rwegasira 2011) affirmed that the board’s effectiveness in performance must be determined by its independence because it is closely related to the strength of the board. In general, it is expected that independent directors display greater objectivity in their analysis of the management and behavior of the company. Independent directors are more willing to undertake social commitments and to satisfy the
interests of stakeholders (Ibrahim and Angelidis 1995). In this respect, independent directors are seen as more able to honour the obligations of the company. A higher proportion of independent directors improved the voluntary disclosure (Rouf and Abdur 2011). (Ho and Wong 2001) suggested that independent directors provided more voluntary disclosures to reduce the information asymmetry between shareholders and managers. The presence of independent director reduces litigation risk and protects their reputation. It is also argued that efficiency goes concurrently with the independence of board as evidenced by some authors in their studies (Haniffa and Hudaib 2006). Previous studies by (Vafeas and Theodorou 1998; Hermalin and Weisbach 2001; Peng 2004) argued that there is a positive relationship between independent directors and firm performance. Also (Fernandes 2008) documented that firms with independent directors have fewer agency problems and have more alignment to shareholders.

**H4: Family participation reduces the level of board independence**

**Mechanisms of Governance in Family Businesses**

There are many mechanisms of governance used in family units, such as family councils, family assemblies, family contributions, shareholders’ agreements, and shareholders’ boards. These tools have been regarded as useful in the clarification of rewards and demands that develop from this relationship with the family firm (Poza 2013). They also assist in the articulation and communication of the mission, values, and objectives of the family, management of family conflict, building trust and facilitating effective communication between the family and the business. Coordinated making of decisions is also possible. The two primary systems of governance are the family council and assembly.

The family assembly brings together every member of the family. Usually 14 years once or twice a year and give them information about the business and the family. It helps in the promotion of constructive dialogue, and the activities engaged in foster family cohesion, identity, pride, and trust. A family council is a workgroup tasked with the organization of meetings and education of the family, drafting rules, statements, and policies for deliberations and approval of family assembly (Sarbah and Xiao 2015). It helps with the coordination with the board of the company for the alignment of the shareholders and family objectives. Moreover, the family constitution refers to a morally binding agreement from the members of a family which are an articulation of the core values, vision and mission of the family (González et al. 2013). Apparently, the effectiveness of the mechanism of family governance is very much dependent on the process. The second hypothesis is therefore proposed as follows,

**H5: Family ties negatively affect the management process of the family-owned companies**

**Methodology**

The research methodology presents the step by step approach which the authors utilized in targeting, collecting and analyzing data to generate the findings. For accurate and unbiased results, the proper methodology has to be utilized in each stage. Descriptive research design has been utilized in coming up with ways of collecting data, coding and analyzing. The questionnaire was used in collecting information from the field. The survey is essential in getting a lot of information, it enables the author to survey a high number of people, and it is cost effective.

The target population is the family owned companies in Accra and Kumasi, the two major cities in Ghana. The study analyzed 150 family based companies in all. These companies have their board of management controlled by the family members. A simple random sampling technique was utilized in selecting the number of employees and firms that were provided with the data collection tools. A total of 150 firms were identified, and in each company, 5 employees were randomly selected to participate in the survey. Both primary data and secondary data were used in the study. The secondary data were extracted from credible and unbiased business reports and government records. A regression analysis was conducted aimed at answering the proposed research question.

**Model Specification & Variables**
With regard to the basic model to be estimated, a multivariate regression model has been built including most of the previously cited variables. This model can be expressed with the following equation, where \( i \) refers to the firms and \( t \) to the year.

\[
\text{PERF} = a + \beta_1 \text{FAMOWN}_{it} + \beta_2 \text{BS}_{it} + \beta_3 \text{GD}_{it} + \beta_4 \text{BI}_{it} + \beta_5 \text{TA}_{it} + \epsilon_{it}
\]

Where:

- FAMOWN = Family Owned Companies
- BS = Board Size
- GD = Gender Diversity
- BI = Board Independence
- TA = Total Assets
- \( \epsilon \) = is error term
- \( a \) = Constant

**Variables**

The dependent variable included in the model is ROA. Return on Assets (ROA) and Return on Equity (ROE) are accounting ratios which shows how effectively and efficiently management used corporate’s asset and equity to enhance inventory turnover and sales to earn a profit (Higgins 2012). Most measures of Corporate Financial Performance (CFP) is divided into two broad categories; accounting based measure (Bayoud et al. 2012; McWilliams and Siegel 2000; Mishra and Suar 2010) and market-based measure (Lioui and Sharma 2012). Following the precedent of the previous studies, the use of accounting based measure received vast attention and mostly used by researchers. Therefore, CFP will be measured by ROA.

The independent variables are Board Size, Gender Diversity, and Board Independence. These variables and their measurement are explained below in the context of this study. Board size refers to the number of directors represented on the board. Gender Diversity refers to the number of women sitting on the board of directors. Board Expertise refers to the educational or professional background of board members.

The control variable included in the model is TA. Total Assets (TA) is measured by taking the natural Log of all assets of the companies. (Prado-Lorenzo and Garcia-Sanchez 2010) argue that larger firms are likely to show more information in order to improve the confidence of stakeholders and reduce political cost. Studies of (Bayoud et al. 2012; Jizi et al. 2014) have used TA as a control variable.

**Results & Findings**

Table 1: Descriptive Statistics of Variables

<table>
<thead>
<tr>
<th>Variables</th>
<th>Observations</th>
<th>Mean</th>
<th>Standard Deviation</th>
<th>Minimum</th>
<th>Maximum</th>
</tr>
</thead>
<tbody>
<tr>
<td>PERF</td>
<td>750</td>
<td>5.397</td>
<td>1.434</td>
<td>2.6</td>
<td>8.9</td>
</tr>
<tr>
<td>BS</td>
<td>750</td>
<td>3.254</td>
<td>2.575</td>
<td>2</td>
<td>5</td>
</tr>
<tr>
<td>GD</td>
<td>750</td>
<td>0.308</td>
<td>0.119</td>
<td>0</td>
<td>2</td>
</tr>
<tr>
<td>BI</td>
<td>750</td>
<td>0.131</td>
<td>0.338</td>
<td>0</td>
<td>1</td>
</tr>
<tr>
<td>TA</td>
<td>750</td>
<td>7.92</td>
<td>1.54</td>
<td>160572</td>
<td>6573980</td>
</tr>
</tbody>
</table>

Generally speaking, results show that 70% of the family businesses surveyed had a board of directors or something similar prior to developing their family protocol. The board, however, often fails to play its formal role at its element of corporate governance. Rather, the board serves as a management committee engaged in following-up on company operations.

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In order to evaluate board performance for good corporate governance principle, the researchers took three variables into account. In terms of Board Size, about 80% of the companies had a very small size of board members. That is average of 3 with a minimum of 2 and maximum of 5. This is a clear indication that, most family businesses followed good corporate governance principle of keeping a smaller board of directors. Gender Diversity shows a mean of 0.30888 with a standard deviation of 0.119402 and with a minimum value of 0 and a maximum of 2. This means that women are not participating much in the board of family owned companies in Ghana. Thus companies have not created many opportunities in their governance system for women. Board Independence recorded average of 0.13127 with a minimum of 0 and maximum of 1. This indicates that most of the board of directors was inside directors.

The correlation matrix in Table 2 provides insights into which of the independent variables were related to the dependent variables.

Table 2: Correlation Matrix of variables

<table>
<thead>
<tr>
<th>Variables</th>
<th>PERF</th>
<th>BS</th>
<th>GD</th>
<th>BI</th>
<th>TA</th>
</tr>
</thead>
<tbody>
<tr>
<td>PERF</td>
<td>1</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>BS</td>
<td>0.5437</td>
<td>1</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>GD</td>
<td>0.7586</td>
<td>0.3275</td>
<td>1</td>
<td></td>
<td></td>
</tr>
<tr>
<td>BI</td>
<td>0.5607</td>
<td>0.1394</td>
<td>0.4861</td>
<td>1</td>
<td></td>
</tr>
<tr>
<td>TA</td>
<td>-0.0505</td>
<td>0.1696</td>
<td>0.0417</td>
<td>-0.0927</td>
<td>1</td>
</tr>
</tbody>
</table>

The correlation matrix as per table 2 above shows the relationship between all pairs of explanatory variables used in the regression model. It reveals that, with the exception of Total Assets (TA), all the other explanatory variables have a positive correlation with the dependent variable. The positive correlations imply that as Board Size (BS), Gender Diversity (GD), and Board Independence (BI) increase, the performance of family-owned companies also increases and vice versa. On the other hand, Total Assets (TA) shows a negative correlation. That is, as the total assets increases, it affects performance negatively.

The table below shows the regression analysis of the study.

Table 3: Regression

<table>
<thead>
<tr>
<th>Variables</th>
<th>Coefficient</th>
<th>t-Statistic</th>
<th>P-Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>FAMOWN</td>
<td>-1.427</td>
<td>-1.74</td>
<td>[0.084]</td>
</tr>
<tr>
<td>BS</td>
<td>0.064</td>
<td>2.03</td>
<td>[0.044]</td>
</tr>
<tr>
<td>BI</td>
<td>-0.075</td>
<td>-1.27</td>
<td>[0.205]</td>
</tr>
<tr>
<td>GD</td>
<td>0.122</td>
<td>1.8</td>
<td>[0.074]</td>
</tr>
<tr>
<td>TA</td>
<td>0.142</td>
<td>1.24</td>
<td>[0.214]</td>
</tr>
<tr>
<td>Constant</td>
<td>-2.144</td>
<td>-1.51</td>
<td>[0.134]</td>
</tr>
</tbody>
</table>

The table shows estimated coefficients, t-statistics and p-value. The dependent variable is the performance of the company measured by the model of the study. We measured BS by Number of directors who sit on the board. Gender Diversity was measured as Number of women directors sit on the board. The proportion on nonexecutive directors dived by the total number of directors on the board of the company measured the BI. We measured firm size as the natural log of the book value of total assets. Hausman test allows testing fixed versus random effects hypothesis. Hausman test follows an x² distribution performance. These results are statistically
significant and suggest that family ties negatively affect the performance of companies in Ghana. Hence, H5 which states that Family ties negatively affect the management processes of companies is accepted.

As evidenced in Table 3, the regression coefficient for BI is negative and statistically significant suggesting that a higher proportion of BI was not present in family companies. That is, there were more inside directors on the board than independent directors. This confirms H4 which states that family participation reduces the level of board independence.

In fact, the BS and GD show a positive relationship with performance. With respect to the TA, the results presented in Table 3 highlights the negative relationship between this and the performance, and it is statistically significant. Hence, H2 which proposes that a smaller board size of the family business has a positive relationship with the company’s performance in Ghana is accepted. Equally, H3 is accepted because it states that Gender diversity of family-owned companies has a positive impact on performance. Results from Table 3 confirm that hypothesis.

Discussions
Secondary data shows that there are more family-owned companies in Ghana than publicly-owned companies. Hence H1 is accepted. According to (Sarbah and Xiao 2013), 70% of all Ghanaian companies are family-owned, contributing to the country’s GDP. In this sense, public means non-family-owned, which included public corporations as well as private companies not under the control of a dominant family.

In terms of board size, all the companies consistently kept a smaller board of directors. With an average of 3 members in terms of board size with a maximum of 5 members and a minimum of 2 members on the board. This act of the companies keeping a smaller board size is in accordance with the requirements of corporate governance practices for non-Banks and Financial Institutions in Ghana. It’s therefore obvious that the smaller size of the board eventually affected the performance of family-owned businesses in Ghana.

Women on Board have been a constant recommendation by the CG code for Ghana, but per findings, most companies did not pay heed to these recommendations. With a maximum of 2 females and a minimum of 0 was recorded for Gender Diversity. Even though GD had a positive relationship with performance; however, if more women are seen on the board, it will increase the performance of family-owned businesses in Ghana. Gender diversity as a good corporate governance principle was not well practiced by most companies. They preferred to be male dominated or only males’ board which is not a good practice.

Even though a large percentage of companies have a larger number of non-family board members in their boards, these members do not necessarily have the commitment to and/or knowledge of the business required to improve performance. Board dynamics in those cases are not fluid enough. On the other hand, a lack of balance regarding knowledge of business between family and nonfamily board members results in inadequate alignment between recommendations made and implemented. A number of respondents think that, even though their businesses are fine, they could be even better if the board of directors, and mainly non-family board members, commit more and demand better results from the management team.

Family tie interference negatively affects the performance of family-owned businesses. This is because; poor attitude towards work by family ties is difficult to deal with in such businesses. Any attempt by non-family ties management member to deal with such issues renders the person losing his job. For fear of job security, non-family members also do not put in their maximum best to ensure good corporate governance of family-owned businesses.

Conclusions & Recommendation
This study sought to quantitatively examine the various aspects of family-owned businesses in Accra and Kumasi in Ghana. The first objective was to establish the percentage of family-owned companies in Ghana as a share of all registered companies. It was determined that 70% of all companies in Ghana are family-owned. The second objective was to assess the impact of family ties in the management process. It was determined that family ties negatively affect the management process of the family-owned companies. The last objective looked at good corporate governance principles taking into account, Board Size, Gender Diversity, and Board
Independence. Findings show that smaller board size and gender diversity of family-owned companies has a positive impact on performance. With the high influence of family ties in family-owned business, the findings indicated that family ties influence the independence of the board of directors.

There is no doubt that family-owned companies contribute more to the country’s GDP. However, there clearly appears to be problems with how they are run. It is therefore recommended that: The corporate governance laws, policies, and regulations should be enforced on family-owned businesses; The government should roll-out country-wide capacity development initiatives to make managers and owners of family-owned companies more knowledgeable and aware of the legal framework; and For future research, it is proposed that a complete list of family-owned companies is obtained from the relevant authorities, and data corroborated from the Ghanaian Statistical Service so as to increase the analytical power.

References


