UNIVERSITY OF CAPE COAST

CORPORATE GOVERNANCE AND ORGANISATIONAL PERFORMANCE: ASSESSING THE EFFECTIVENESS OF PUBLIC LIMITED LIABILITY COMPANIES' GOVERNANCE PRACTICES IN GHANA

BY

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DECLARATION

Candidate's declaration

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

Candidate's Signature:………………………… Date:……………………

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Supervisor's declaration

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

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

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ABSTRACT

Corporate governance has several dimensions. This dimension determined the corporate governance performance of listed companies in Ghana and found out whether the companies that adhere to good corporate governance practices create value as reflected in the companies' return on equity.

Research questionnaires were administered to directors of sampled listed companies. Data was collected from the annual reports of the sampled companies and the Annual Facts Book of the Ghana Stock Exchange to find out their structure and financial performance. The study employed statistical tools and packages to analyse the data collected.

The study revealed that Ghanaian companies performed averagely in terms of corporate governance practices. The study found out that with the exception of the strategic planning role, the other main behavioural issues of board structure; ethics, transparency and accountability; board meetings; reward systems; control and risk management; and board training and awareness correlate insignificantly with corporate financial performance.

It was concluded that companies that adhere to generally accepted corporate governance behaviours enhanced in value. As such, the framework for corporate governance practice should align environmental changes.

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DEDICATION

In memory of my mother

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ACRONYMS

ABL	-	Accra Brewery Limited
AYTN	-	Aryton Drug Manufacturing Company Limited
CAL	-	CAL Bank Limited
FML	-	Fan Milk Ghana Limited
MLC	-	Mechanical Lloyd Company Limited
OECD	-	Organisation for Economic Cooperation and Development
SPL	-	Starwin Products Limited
SPSS	-	Statistical Product and Service Solutions

CHAPTER ONE

INTRODUCTION

Background to the study

Corporate governance is the process by which board of directors of companies are required by legislations to assert oversight responsibilities over a corporation. It involves strategy formulation, strategy implementation, strategy controls and ensures that corporate actions are not only justifiable but also aligned with the interests of shareholders and other stakeholders. It is about how a company achieves its objectives, how it governs itself and how it is accountable to its shareholders and other stakeholders.

According to Mueller (1981) governance differs from management because it involves monitoring and overseeing strategic direction, socio-economic and cultural context, externalities and constituencies of the institution. Whereas, management is more of a hands on activity and can be characterised as conducting or supervising action with judicious use of means to accomplish certain ends. As such, corporate governance is about ensuring that those responsible for directing and controlling an organisation ensure that resources are devoted to achieving the organisation's defined purpose, and render their stewardship to the shareholders and other stakeholders. The shareholders and other stakeholders should, in turn, hold the board accountable for their actions and inactions. The vital issues of corporate governance are about the board directing and controlling the organisation in the utmost interest of shareholders. Corporate boards must be answerable to shareholders, to account for their stewardship and to ensure sound control mechanisms and ethical health of the organisation. Thus, the board must challenge management actions which seem unethical and seek in depth clarifications on sophisticated transactions from management and independent sources. One of the board's main responsibilities is to strengthen its oversight mechanism.

It is necessary for companies to concentrate on the overall purpose of good corporate governance to assist companies to achieve their strategic objectives. As such, it is very essential to allow board of directors and management to drive their organisations forward and to exercise their mandate within a framework of effective accountability, probity, transparency, and ethical behaviours.

Corporate scandals such as "Enron", "WorldCom" and the recent credit and liquidity crisis that is threatening the global economic situation are widely believed to be a fundamental failure of corporate governance practices and behaviours. The importance of corporate governance cannot be over emphasised. Investors and other stakeholders would be interested in corporate governance behaviours and practices ratings and to factor these ratings into other forms of investment and risk analysis. There would be institutional demand for the evaluation of corporate governance practices and behaviours which may be comparable across international boundaries and between listed companies.

Statement of the problem

In Ghana corporate governance is practised within the framework of the Companies Code, 1963 Act 179. This law, promulgated in 1963 cannot be aligned and fit with the changing environment of today. In other jurisdictions, for example, the United Kingdom, despite the constant review of the legal framework there exists an additional corporate governance regime by the London Stock Exchange (2003) which is referred to as the Combined Code of Corporate Governance. The Combined Code is regularly updated to take care of the changing business, socioeconomic, political, and international environments. The lapse of not updating the Ghanaian corporate governance framework to reflect the changing environment may to an extent affect the financial and other performances of Ghanaian companies and their competitiveness internationally.

Good corporate governance structures encourage companies to create value by evolving appropriate strategic directions, innovations, and provide the appropriate ethical environment, transparency, probity, accountability and effective control mechanisms commensurate with inherent risks. Good corporate governance will continue to evolve as a result of the changing environment in which corporations operate. Corporate governance structures, behaviours and processes must align and fit the changing environment. The corporate governance practice must evolve within developments in the Ghanaian context and the context of globalisation.

Corporate governance structure must establish the roles of management and the board of directors with a balance of skills, experience and independence on the board in relation to the nature and scope of the company's activities. The board members must have the integrity, with responsibility and make ethical decisions taking into account legal obligations and interest of all stakeholders. The board must also put in place a reward system that would attract the appropriate skills needed to achieve the required performance.

The basic goal of every company is to add value to its worth, maximise the value to the worth and enhance the share value of the shareholders. The value of a listed company, to a very large extent, is reflected in the price of its share on the stock exchange. The performance of share prices of companies listed on the Ghana Stock Exchange in the last few years shows that whilst some have appreciated, others have fluctuated, some have depreciated and some have neither declined nor appreciated in value. For example, the share price of Mettalloplasica Ghana Limited had drastically depreciated on the Ghana Stock Exchange to the extent that the company had to be de-listed and subsequently liquidated. The share price of CAL Bank Limited, which was floated at an initial price offer of GH¢ 0.20 in 2004 and rose to GH¢ 0.70 in 2007, is now being traded at GH¢ 0.20. The share price of Starwin Ghana Limited remained at its initial price offer of GH¢ 0.50 from 2006 to date. Nevertheless, some companies such as Standard Chartered Bank Ghana Limited and Enterprise Insurance Company Limited share prices keep on appreciating every year. The problem of these differences in the performance of the price of shares of companies may be attributed to their financial performance which may be linked to behaviours and processes of leadership being practised at the various listed companies. Corporate governance practices, if not viewed as very risky to the success of the company may significantly affect the performance of the company. Corporate governance is a risk area for the efficiency and effectiveness of corporate performance. As such, there would be the need to adopt the risk – based approach in evaluating the corporate governance practices and behaviours. Human factor is perennial risk factor in business transactions and is from this perspective that core corporate governance behaviours and practices must fundamentally be explored and developed based on the processes and the behavioural framework within which the board functions.

Objectives of the study

The need for evaluation criteria to measure the vulnerability of companies to scandals has grown globally. Unprincipled corporate governance practices and behaviours are most often blamed for poor performance and scandalous activities of corporations. The corporate board of directors must ensure that the board itself adhere to appropriate corporate governance behaviours and practices necessary for the achievement of corporate goals. The objectives of this study were, therefore, to:

- Develop a framework for assessing board level behaviours and practices within public limited liability companies;
- Use the framework developed in (a) above to assess corporate governance behaviours and practices and their impact on corporate

value creation as reflected in the financial performance of listed companies in Ghana;

- Create awareness among board members about the need to observe a set of behaviours and practices supported by appropriate organisational culture and value system as prerequisite for good corporate performance; and
- Act as a driver of change, enhance corporate governance standards and stimulate growth in developing Ghana.

Scope of the study

The study covered corporate governance practices and behaviours in all public limited liability companies in Ghana. There are thirty four companies public limited liability companies listed on the Ghana Stock Exchange and operating in Ghana. All the thirty four listed public limited liability companies in Ghana constituted the population considered in the study.

Justification of the study

The study, it is hoped would serve as an addition to the existing literature on the subject matter. The study sought to fill gaps not covered by earlier studies and contribute to knowledge. The findings of the study will serve as a good source of information for students who will research around similar areas. It will also be a vital source of information for organisations and individuals interested in the development of organisations. It will also create a wake up call for some corporate boards and individual directors to appreciate the essence of adopting and practising generally accepted corporate governance principles for the benefit of all stakeholders and the public at large. The study will help Government agencies, regulatory institutions, and policy makers in the formulation of policy framework within which corporate governance should be practised.

Organisation of the study

The study is in five chapters. Following this introductory chapter is the second chapter which covers the theoretical and empirical literature reviewed. The literature reviewed focused on the following areas: definitions of corporate governance; agency theory; corporate governance principles; corporate board roles; corporate board structure; remuneration of directors; strategic evaluation and controls; corporate governance and ethics; empirical review of corporate governance and performance; and the Ghanaian experience.

The third chapter covers the methodology used. Thus, research design, population and sample size, sampling design and procedures, ethics and field challenges, and data collection method.

Chapter four presents the data analysis and results of the primary data collected, apply the techniques and procedures alluded to in chapter three. The data is presented in tables and charts to make the information more comprehensible.

Chapter five draws the study to a natural end, presenting the summary of findings on which conclusions were made and recommendations put forward which the researcher believes will help improve on corporate governance and organisation performance.

CHAPTER TWO

REVIEW OF RELATED LITERATURE

Introduction

This chapter covers the related theoretical and empirical literature reviewed. The related literature reviewed focussed on the following areas: definitions of corporate governance; corporate governance and agency theory; corporate governance principles; corporate board roles; corporate board structure; remuneration of directors; strategic evaluation and controls; corporate governance and ethics; empirical review of corporate governance and performance; and the Ghanaian experience.

Definitions of corporate governance

The practice of corporate governance is embedded in the issue of healthy organisational culture which safeguards policies and processes. The development of appropriate organisational and board culture is one of the essential elements of good corporate governance for achieving the strategic objectives of corporations. Helleigel, Slocum and Woodman (1992) define organisation culture as the philosophies, ideologies, values, beliefs, assumptions, expectations, attitudes, and norms shared by the members of an organisation. It is a system of shared values and beliefs that shape people in an organisation, organisational structure, and control systems to produce behavioural norms. It is the philosophy, ideology, values and beliefs and patterns of behaviour shared by the members of an organisation. In essence, it is the ‘glue’ which binds people together and defines ‘how we do things around here’.

Blair (1995) defines corporate governance as the whole set of legal, cultural and institutional arrangements that determine what public corporations can do, who controls them, and how that control is exercised, and how the risks and return from the activities they undertake are allocated.

O’Donovan (2003) defines it as an internal system encompassing policies, processes and people, which serve the need of shareholders and other stakeholders, by directing and controlling management activities with good business savvy, objectivity and integrity. Sound corporate governance is reliant on external marketplace commitment and legislation, plus a healthy board culture which safeguards policies and processes. He further states that the perceived quality of a company’s corporate governance can influence its share price as well as the cost of raising capital. Quality is determined by the financial markets, legislation and other external market forces plus how policies and processes are implemented and how people are led. External forces are to a large extent, outside the control of any board. The internal environment is quite a different matter, and offers companies the opportunity to differentiate from competitors through their board culture. To date, too much of corporate governance debate has centred on legislative policy, to deter fraudulent activities and transparency policy which misleads executives to treat the symptoms rather than the cause.

Monks and Minow (2004) on their part refer to corporate governance as the relationship among various participants in determining the direction and performance of corporations. They state that the primary participants are the shareholders, the management, and the board of directors and explained that corporate governance is about how companies are directed and controlled. They made it clear that good governance is an essential ingredient in corporate success and sustainable economic growth and that research in corporate governance requires an interdisciplinary analysis drawing on economics and law and a close understanding of modern business practice of the kind which comes from detailed empirical studies in a range of national systems.

It is clear from these expositions that the success of corporations depends, to a large extent, on the alignment of managerial motives and the interests of the shareholders through their efforts and the strategic control mechanisms of the board of directors. Inherent in these definitions are four issues that affect the effectiveness and efficiency of corporate performance. These issues are shareholder activism, effective managerial actions, organisational culture, and a committed and motivated board of directors. Corporate governance is, therefore, concerned with holding the balance between economic and social goals and between individual and communal goals. The corporate governance framework is there to encourage the efficient use of resources and equally to require accountability for the stewardship of those resources. The aim is to align as nearly as possible the interest of individuals, corporations and society.

Corporate governance and agency theory

Berle & Means (1932) addressed the divergence of the interests of the shareholders of the corporation from the managers who are hired to run it. They warned that widely dispersed ownership might release management from the overriding requirement of serving the interest of shareholders. They explained that shareholders most often find it difficult to tell managers to do all things possible to maximise the value of the company, and, if they do not comply, replace them with new managers because the process is more complex and difficult than it would appear at a glance. They observed that management of a company is much more familiar with the functioning of the company than most or even all of the shareholders. Shareholders would not even know whether management is or is not attempting to maximise the value of the company or its profits, especially when business is good and the share price is rising.

They further explained that shareholders get their information about the company primarily from that same management. Shareholder typically holds small proportion of the total shares of a company. The shareholders are generally broadly diversified and would have difficulty organising into what could affect the company's policies. Furthermore, an individual shareholder would probably not have the incentive to find the necessary information about the company, and even attempt to monitor management. The cost of obtaining and processing the required information would be huge, while the benefits to an individual shareholder would be small, even if the monitoring were successful. Shareholders usually have diversified portfolios in which no individual company's share is large, relative to their total holdings. They do not have much interest in one particular company. Therefore, the shareholders of listed companies have difficulties in policing managers.

Shareholders entrust the management and control of corporate entities to corporate board of directors. Jensen and Meckling (1976) state that separation of ownership from management has given rise to a set of ideas that they referred to as agency theory. They explained that the agency theory focuses on the relationship between the principals, who are the owners of the company, and agents, who are the people hired by the principals to perform a job for the principals. The principals are the shareholders and the agents are the directors or managers of the company. The shareholders elect and are represented by a board of directors which has a fiduciary responsibility to ensure that the company is run in its best interests to ensure the maximisation of value to the shareholders. They however, concluded that concentrated ownership is beneficial to corporate valuation because large investors are better at monitoring directors.

Morck, Shleifer, & Vishny (1988) distinguished between the negative control effects and the positive incentive effects of ownership concentration. They suggested that the absence of separation between ownership and control reduces conflict of interest and increases corporate value.

Inherent in the agency theory are some peculiar problems. Kidwell and Bennett (1993) identified two problems that can occur in agency relationship. The first is the agency problem that arises when the goals of the principals and agents conflict, and it is difficult or expensive for the principal to verify what the agent is actually doing. In a company, this means that the board of directors who are elected by the shareholders and who in turn hired the managers of the company would be unable to confirm that the managers were actually acting in the shareholders interests because managers are insiders with regard to the business operations and are better informed than their principals. Thus, managers may act opportunistically in pursuing their own interests to the detriment of the company. Managers may, for example, spend corporate funds on expensive perquisites and devote time and resources to pet projects, especially initiatives in which they have personal interests. These may not maximise value to the company. They may engage in power struggle where they may fight over resources for their own betterment, to the detriment of what is best for the company. They may reject or sabotage attractive merger offers because they may result in increased employment risk.

The second issue is the problem of risk sharing. This arises when the principal and the agent have different attitudes and preferences toward risk. For example, executives in a company may prefer additional diversification strategies because they increase the size of the company and thus the level of executive compensation. Such diversifications may not help the company to achieve the synergies of building on core competencies, sharing activities, or enhancing market strength and eventually erode shareholder value. In effect agents, thus executives, may have stronger preference toward diversification than shareholders because it reduces their potential level of risk from potential loss of employment.

Maurice and Thomas (1995) on their part identified moral hazard as the cause of these agency problems. They explained that moral hazard exists when either party to an agreement has an incentive not to abide by all provisions of the agreement, and one party finds it difficult, perhaps impossible, to find out if the other party is abiding by the agreement, or to actually enforce the agreement even when the information is available.

Chatterjee & Harrison (2001) in their work concluded that executives who have large holdings of shares in their company are more likely to have diversification strategies that are more consistent with shareholder interests of increasing long-term returns. Their conclusion supposes that, to some extent, executive’s interests can be aligned to the interest of shareholders and avoid the problem of risk sharing.

Corporate governance principles

Corporate governance is basically regulated by law. However principles, codes, and guidelines issued by stock exchanges, associations, institutional investors, and international organisations are most often not mandatory, although codes linked to stock exchange listing requirements have coercive effect. These corporate governance frameworks ensure strategic guidance of the company, the effective monitoring of management by the board, and the board’s accountability to the company and shareholders.

For example, the Organisation for Economic Cooperation and Development (2002) published the OECD Principles of Corporate Governance to assist OECD members and non-members in their effort to evaluate and improve the legal, institutional and regulatory framework for corporate governance in their countries. The publication identified six broad principles in corporate governance framework as:

- Promoting transparent and efficient markets, be consistent with the rule of law and clearly articulate the division of responsibilities among different supervisory, regulatory and enforcement authorities.
- Protecting and facilitating the exercise of shareholder's rights.
- Ensuring the equitable treatment of all shareholders, including minority and foreign shareholders. All shareholders should have the opportunity to obtain effective redress for violation of their rights.
- Recognising the rights of stakeholders established by law or through mutual agreements and encourage active co-operation between corporations and stakeholders in creating wealth, jobs and the sustainability of financially sound enterprises.
- Ensuring that timely and accurate disclosure is made on all material matters regarding the corporation including financial situation, performance, ownership and governance of the company, and
- Ensuring the strategic guidance of the company, the effective monitoring of management by the board, and the board's accountability to the company and the shareholders.

These conventions and codes are based on the principle of ‘comply or explain’. This means that companies have to state in their annual reports that they comply fully with the codes or the extent of non-compliance and provide reasons for the non-compliance. Following the high-profile collapse of Enron and WorldCom in the United States of America, the Congress of the United States of America passed the Sarbanes-Oxley Act of 2002 which legalises corporate governance principles and makes compliance obligatory for all companies in the United States of America.

Corporate board roles

The Ghanaian company law, Companies Code, 1963 Act 179 imposes a strict and absolute fiduciary duty on corporate board of directors to ensure that a company is run consistently with the long term interests of the shareholders. The board’s foremost role is to create a shared vision and mission for the company.

Gatewood, Taylor & Ferrel (1994) explained that an organisation’s mission is derived from its vision and that the mission defines the basic purpose or purposes of the organisation. The board must prepare a mission statement. A mission statement is a formal declaration of the organisation’s mission, often includes the company’s philosophy, its primary products and markets, the intended geographic scope, and the nature of relationships between the company, its stakeholders and society. The directors must translate the company’s mission into meaningful goals, which specify in more detail the company’s long term aspirations. Ivancevich, Lorenzi, Skinner and

Cosby (1994) described goals as the end points or targets stemming from the company's mission. They stated that goals are what the organisation seeks to accomplish through its ongoing, long-run operations. The board must, therefore, ensure that appropriate strategies are formulated to achieve the organisational goals.

According to Wendel & Cecil (1995), visioning is a term used when the board or organisational groups develop and /or describe their vision of what they want the organisation to be in the future. They explained that the board's view of the kind of company it is trying to create and its intent to stake out a particular business position represents a strategic vision for the company. The vision guides a variety of decisions that stakeholders make regarding their association with, support of, and action for the company.

Corporate board structure

Baysinger & Haskisson (1990), in their work, asserted that independence is crucial when composing a corporate board. Majority of directors should be free of all ties to the managing director or the company. This means that a minimum of 'insiders', i.e. past or present members of the management team, should serve on the board, and that directors and their firms, should be barred from doing consulting, legal, or other work for the company. Such ties may lead directors to align themselves too closely with management. Getting the right mix of directors for a corporate board is a key requirement for successful organisation. The appointment of a director should be based on the person's ability and potential to make substantial contribution to the company's performance. The relevant knowledge, experience, skills and competencies are critical determinants of the appointment of the director. The directors should have the capacity to handle shareholders and other stakeholders increasing demands by being transparent, accountable, and ethical.

Remuneration of directors

Jensen & Murphy (1990) state that managerial rewards and incentive systems play a pivotal role in corporate governance mechanism. Rewards and incentive systems must be designed to help a company achieve its goals. From the viewpoint of corporate governance, one of the most critical roles of the board of directors is to create incentives that align the interests of the top executives with the interests of the corporation, i.e. long-term shareholder returns. Compensation disclosure in general leads to more value.

Shleifer & Vishny (1997), in their study, maintained that there is a weak, but positive relationship between executive pay and performance. Shareholders rely on top executives of the company to formulate, adopt and implement strategies that maximise the value of their shares. To ensure that a listed company adheres to best practice of rewarding members of the board of directors, there is the need for a board remuneration committee to review existing practice of rewarding both executive and non-executive directors of the company, note exceptions and report on them. It is important for the remuneration committee with the assistance of an independent consultant to have a schedule of set fees for non-executive directors for specific roles, such as attending board committee meetings. For executive directors, remuneration and incentive packages need to be competitive at the market place and support the interests of key stakeholders. The reward structure should attract, motivate and retain high calibre individuals capable of steering the affairs of the company successfully. The remuneration packages encourage long term commitment, encouraging long term strategic performance as well as short term gain. They also help share the risks and rewards of the company with key stakeholders.

Strategic evaluation and controls

Strategic evaluation and controls within a company are necessary to support corporate objectives, protect and maintain assets, place reliability on financial systems and records, and achieve operational, legal and statutory objectives. Gatewood, Taylor and Ferrel (1994) state that evaluation involves comparing the strategic goals with the result of the implementation strategy. Since companies cannot wait till after the implementation of a strategy, the board must put in place a mechanism to evaluate the strategy by using short-term indicators which are related to the long term goals of the company. Gatewood, Taylor and Ferrel (1994) also define strategic control as the feedback mechanism in the strategy management process; it compares the company’s performance to its intended performance. If the company fails to attain its goals, strategic control allows it to re-evaluate the way the strategy was planned, formulated and implemented.

On their part, Byars, Rue & Zahra (1996) observe that strategic controls promote consistency in action, increase commitment to corporate goals, and identify areas that need focused attention or intervention. Strategic controls are an integral component of an effective corporate board performance process. The results of strategic controls can help in establishing corporate goals, allocating resources, streamlining operations and creating an environment that encourages learning and continuous improvements. A strategic control system provides feedback about the company's operations, strategies and goal achievements. Most corporate governance codes stipulate that corporate boards should have audit committees to be responsible for the corporate control functions. For example, the Combined Code of the London Stock Exchange (2003) has such a provision and bars the executive from being members of the audit committee to safeguard its independence.

Corporate governance and ethics

Gorlin (1998) observes that corporate entities like individuals develop ethics to help them determine how to behave. These ethics reflect a company's beliefs about what actions are appropriate and fair among people. Eisenberg (1998) states that obedience to legal and ethical principles must be consistent with maximisation, even if greater gains might have been achieved by acting unlawfully or unethically, because law and ethics are channels through which maximisation must flow. In line with this argument, strategic responsibility for ethical practices in a company resides with the board. The board is duty bound to put in place code of ethics and whistle blowing policies. Processes should be in place to provide assurance to stakeholders that the code of ethics and whistle blowing policies are being followed. Continuous training programmes for employees should be available for all employees including directors. This would contribute to the creation of ethical health within the entire company. Board of directors are duty bound to adopt a policy and procedure approach which spells out measures that must be followed in all cases rather than a 'principle' based approach, which sets out general values and standards, but leaves the interpretation of how it should be applied to employees.

The board may consider having more than a single code of ethics, for example, one for the entire company and another for specific functions. The board should take the lead when it comes to setting a good example for the company or acting as mentor to employees. Ethics should be a thread running through the business on a day-to-day basis. The board must ensure that ethical health and processes, such as enforcing compliance or risks associated with reputation, permeate the business operations. By ensuring that code of ethics is adhered to the board becomes the keeper of corporate conscience. Even though, the board has ultimate responsibility they should put in place a process of ensuring that every employee of the company is responsible for the code of ethics.

Empirical review of corporate governance and performance

There are various researches that highlight the significance of corporate governance in developed and emerging markets. These studies provide evidence that there are empirical relationships between corporate governance and corporate performance. Results indicate that good corporate governance is associated with good corporate performance and corporate valuation.

Studies conducted by McKinsey and Company (2000) in cooperation with the World Bank found a relationship between the extent to which a company practices good corporate governance and its performance outcomes. The results of the study indicate that a strong correlation exists between corporate governance and price performance of large companies and that the average return of large capitalised firms with the best governance practices was more than five times higher than the performance of firms in the bottom corporate governance quartile. In a similar study, Credit Lyonnais Securities Asia (2001) found out that across emerging markets, companies in the top corporate governance quartile for their respective regions had a significantly higher return on capital employed than their market sample. In twelve of the emerging markets analysed, companies in the lowest corporate governance quartile had a lower return on capital than the market average.

Wiwattanakantang (2001) investigated the effects of controlling shareholders on corporate governance in Thailand. Her results indicate that the presence of controlling shareholders is associated with better corporate performance when this presence is assessed by accounting measures such as return on assets and the ratio of sales to assets.

On attitudes towards investment, Low (2002) in a study of over 200 institutional investors across Asia, United States of America and Latin

America found out that board practices were at least as important as financial performance. Over 80 percent of investors agreed that they would pay a premium for the shares of a better governed company than for those of a poorly governed company with comparable financial performance. The study demonstrated that the value of good corporate governance, that is, the premium that investors are willing to pay, varied across regions. Good corporate governance in the United States of America and the United Kingdom brought the lowest premium at 18 percent. However, for investments in Asian and Latin American countries, the premium rose to between 20 and 28 percent. The difference in the premium reflected the lack of good governance standards in Asia and Latin America compared to the standards in the United States of America and the United Kingdom.

La Porta, Lopez-de-Silanes, Shleifer and Vishny (2002) evaluated the value that is placed on companies by investors and conclude that shareholder protection guaranteed by good corporate governance practices is associated with higher valuation of companies. When shareholder rights are protected under the law, investors are willing to pay more for equity and debts.

Gompers, Ishi and Metrick (2003) computed a corporate governance index for 1,500 United States companies and conclude that better investor rights are associated with greater corporate valuation. They also found that governance practices are positively related to profits and growth in sales.

On the issue of board structure there is empirical evidence that there is link between board structure and corporate performance. Klapper and Love (2004) included various board structures and operation dummies in their study which finds a positive relationship between governance practices and corporate value. They used data on more than 400 companies in 25 emerging economies to show that good corporate governance practices are highly correlated with corporate performance. Their study also indicates the importance of legal framework which turns out that corporate governance practices tend to be worse in countries with poor legal framework. These results are confirmed by Brown and Caylor (2006) who found that firms with better governance practices are worth more, perform better, are less risky and volatile, and pay more dividends.

The Ghanaian experience

In Ghana, corporate governance is practised within the framework of the Companies Code of 1963 Act 179 for all types of companies. Even though the Companies Code of 1963 is yet to be reviewed to reflect the Ghanaian changing political, social, and technological environment since its promulgation in 1963 some companies report, in their annual reports, some corporate governance practices that conform to some of the conventions and codes of other jurisdictions. Their compliance to these corporate governance behaviours and processes may to some extent have a positive effect on of their performance. The ensuing chapters analyse the Ghanaian experience of the behaviours and processes of corporate governance practices and their impact on the effectiveness of corporate financial performance.

CHAPTER THREE

METHODOLOGY

Introduction

This chapter deals with the methodology used for the study. The chapter covers the research design; population and sample size; sampling design and procedure; ethics and field challenges; data collection method; and data analysis.

Research design

The study used a cross-sectional survey. A cross-sectional survey is a study of groups of individuals of a population on the basis of specified criteria at a point in time. In this situation, the study is focussed on the behaviours of the board of directors of the selected companies at the time of the study. The board of directors are the group of individuals and the population refers to the boards of directors of listed companies in Ghana. The survey was conducted on directors of the selected companies. The respondents were asked questions relating to their experiences and corporate governance practices at their companies and the effectiveness of these practices on corporate performance. Some of the questions were ranked so that the extent of compliance of listed companies to generally accepted corporate governance behaviours and practices could be analysed.

Population and sample size

The population size for the study was made up of all the thirty four public limited liability companies listed on the Ghana Stock Exchange. Out of the population size a total sample size of six companies was drawn. The sample size represented about eighteen percent of the population size. The size of the board of directors of each of the selected companies ranged between six and nine directors. All the directors of the selected companies were targeted as respondents. In all a total of forty three executive and non executive directors of the selected companies were involved in the study.

Sampling design and procedures

The six public limited liability companies were selected randomly from all the thirty four companies. The selection was based on the order by which the companies were listed. The procedure employed for selecting the companies was to allow chance to determine the companies to be included in the sample. The number attributed to each company was written on each small slip of paper and deposited in a box. In all thirty four slips were deposited. Each slip of paper represented a company. After the small slips were thoroughly mixed, the first selection was made. The process was repeated until the sample size of six companies was chosen. The six selected companies are Accra Brewery Limited, CAL Bank Limited, Ayrton Drug Manufacturing Limited, Fan Milk Ghana Limited, Starwin Products Limited and Mechanical Lloyd Company Limited.

Ethics and field challenges

The respondents to the questionnaires were assured of confidentiality in the questionnaires. The researcher briefed the individual directors of the rationale and the objectives of the study and interacted with some of them to explain some aspects of the questionnaires they needed clarifications. The study was undertaken with utmost objectivity so as to avoid taking sides and this could not be done without considering justified viewpoints with substantiating evidences to establish basis of facts dissemination, analysis and appreciable conclusions.

There were various constraints that impeded the study conducted. These included inadequate budget, time and response to the questionnaires. To conduct an in depth study of this kind requires a strong financial backing. Unfortunately, enough funds were not available to support the study to cover all the thirty four public limited liability companies. Hence, the use of the simple sampling technique to select the six companies from the population of thirty four companies.

The retrieving of the questionnaires from some of the respondents was a major challenge. Some of the respondents failed to return the questionnaires after several reminders and follow-ups. These respondents cited varied reasons such as they have misplaced the questionnaire. Even after giving them another questionnaire, they still failed to return them.

Data collection method

To complement the work of earlier researchers, this study focused on corporate governance practices at the board level through a 36-item questionnaire for members of board of directors of the six selected companies. The researcher contacted the companies selected for the study to formalise the procedure of obtaining permission to undertake the study. The rationale and procedure of the study were communicated to the companies before the researcher contacted the individual directors who were the respondents.

Data from both primary and secondary sources formed the basis of the analytical review. Primary data was sourced from structured questionnaires. The questionnaires were distributed to both executive and non-executive directors of all the six sampled listed companies. The questionnaires consisted of both open and close questions. Possible answers were provided in the case of close ended questions whilst open ended questions required the respondents to provide the information in the space provided. The secondary data involved the review of literature on corporate governance, corporate performance, and related topics from the internet, newspaper publications, books, journals, annual reports of companies on the Ghana Stock Exchange and the 2008 Annual Facts Book of the Ghana Stock Exchange. The main objective of basing the analytical framework on both the primary and secondary data is to provide a concession between theoretical framework and the actual behaviour and processes of corporate governance practice.

Data analysis

Corporate governance has several dimensions. This dimension concentrates on corporate governance practices and their impact on equity returns of shareholders.

The study was conducted between 1st March and 15th April 2009. The financial performances of most of the studied companies for 2008 were not ready at the time of the study. Therefore, the financial analyses were based on 2007 results of the companies. The response rate was high. One director failed to respond to the questionnaire in the case of Accra Brewery Limited, Fan Milk Ghana Limited and Starwin Products Limited whilst two directors did not respond in the case of CAL Bank Limited, Aryton Drugs Manufacturing Limited and Mechanical Lloyd Company Limited.

For questions that could be answered by simple yes and no, the researcher used an indicator variable that took the value of 1 whenever the answer could be associated with good corporate governance practice and 0 otherwise. Questions that demand the degree of good corporate governance practice the researcher used an indicator value ranging from 1 to 5 with 1 being the least score. For all other questions, the researcher took an indicator value of 1 for good corporate governance practice and otherwise for 0. The researcher then averaged the results for each key corporate governance issue and for each company.

Data was presented with the aid of simple tables. Tables and charts were used to help create visual impressions for easy interpretation. Central tendency was computed to give an insight into how high or low the score of each company on each issue tends to vary. The questionnaires answered by the respondents were tabulated and data analysed by using descriptive, inferential and quantitative analysis techniques such as Statistical Product and Service Solutions.

CHAPTER FOUR

RESULTS AND DISCUSSION

Introduction

This chapter is categorised into three parts. The first part analysed the data collected from the directors of the companies studied and grouped the data according to eight dimensions of corporate governance behaviours and processes namely: corporate board structure; the board's commitment to general principles of good corporate governance; the strategic planning role of the board; board meetings; corporate reward systems; control and risk management processes; directors training and awareness; and ethics, transparency and accountability. The second part dealt with brief profiles of the selected companies as published in the Ghana Stock Exchange Fact Book (2008) and explores the linkages between the data analysed and the overall corporate governance performance of each company. The last part discusses the significance of good corporate governance behaviours and practices as prerequisite for effective corporate performance as reflected in the companies' return on equity.

Corporate governance scores

The data relating to corporate governance scores of the sampled companies are tabulated in table 1. The key corporate governance issue of board structure was scored out of a maximum score of 20 each. For a company to obtain the maximum point, the company should have directors with multi skills and put in place a succession plan in the event of planned or sudden departure of any member of the board. For example, Fan Milk Ghana Limited scored 13 because most of the respondents are of the opinion that the board structure of the company to some extent has the qualities described in the research questionnaire.

On the behavioural issues of strategy planning role of the board the maximum corporate governance score is 20. To obtain the highest score a company should have in place a comprehensive strategy planning process which includes strategy implementation, control and monitoring. All the directors should be involved in the process. For example, Starwin Ghana Limited obtained a very low score of 6 because most of the directors were of the opinion that their strategy planning process was inadequate.

A maximum score of 15 is allocated to the issue of board meetings. To obtain the maximum score sufficient time should be made for board meetings and that decisions at the meetings should be collectively taken in the best interest of the company. Board of directors should meet all the time necessary. For example, Accra Brewery Limited scored 10 points because the directors were of the opinion that the board somehow meet this benchmark.

The ultimate score for corporate reward system is 4. The best corporate reward system as required by the research questionnaire is for the company to have a remuneration committee with a clear term of reference. Majority of committee members should be non-executive directors and the chairman should also be a non-executive member. The directors of CAL Bank Limited were of the opinion that they satisfied all these requirements by scoring the maximum score.

On the issue of control and risk management, the highest expected score is 19. To score 19 a company should put in place a risk committee which has the capacity to deal with the company's multitude of risks. The company should have an audit committee chaired by a non-executive director. The audit reports should be reviewed by the board at least once every month. For example, Aryton Drug Manufacturing Company Limited scored 8 because in the opinion of the directors they could describe their performance in this regard as effective.

The highest score for board training and awareness is 6. To achieve this result a company should adopt a policy of organising an induction training session for all directors on appointment. Besides, there should be an ongoing programme to update the knowledge of directors. For example, Mechanical Lloyd Company Limited scored 3 meaning the directors considered what they had in place as only effective.

On the issue of ethics, transparency and accountability the ultimate score is 15 which means a company should have in place a code of ethics which covers transparency, accountability, integrity, and social responsibility to obtain the maximum point. Besides, the company should have a code of ethics compliance committee. The board and the individual directors should undergo regular performance evaluation by independent person. CAL Bank Limited scored 5 because they felt what they had was ineffective.

The sum of all the maximum corporate governance scores of the key behavioural issues totalled 100. This means that the maximum score for board structure is 20% of the cumulative corporate governance scores; commitment to corporate governance principles is 1%; strategy planning role is 20%; board meetings is 15%; corporate reward systems is 4%; control and risk management mechanism is 19%; board training and awareness is 6%; and commitment to ethics, transparency and accountability is 15%.

Table 1: Corporate governance scores of companies

Key corporate governance issues	Companies' average scores							
	ABL	CAL	AYTN	FML	SPL	MLC	Mean Scores	Max Scores
Board structure	7	8	6	13	7	6	7.83	20
Commitment to corporate governance principles	1	1	1	1	1	1	1	1
Strategy planning role	6	11	11	13	6	6	8.83	20
Board meetings	10	11	11	12	11	10	10.83	15
Corporate reward system	3	4	3	4	3	3	3.33	4
Control and risk management mechanisms	8	16	8	17	8	8	10.83	19
Board training and awareness	3	4	3	5	3	3	3.5	6
Commitment to ethics, transparency and accountability	4	5	5	9	5	4	5.33	15
Total average score	42	60	48	74	44	41	51.5	100

Source: Fieldwork, 2009

The average corporate governance scores in respect of board structure is 7.83, commitment to corporate governance principles is 1, strategy planning role is 8.83, board meetings is 10.83, corporate reward systems is 3.33, control and risk management mechanisms is 10.83, board training and awareness is 3.5, and commitment to ethics, transparency and accountability is 5.33. The result of the study as based on the data provided revealed that on the average the companies' corporate governance score is 51.5 which is at 51.5% rating.

Board structure

The study, as shown in figure 1, reveals that with the exception of Fan Milk Ghana Limited, which performance was rated 65% on the key issue of board structure, all the other five companies performance fall below 50%. Accra Brewery Limited is rated at a performance level of 35%, CAL Bank Limited at 40%, Aryton Drug Manufacturing Limited at 30%, Starwin Products Limited at 35% and Mechanical Lloyd Company Limited at 30%.

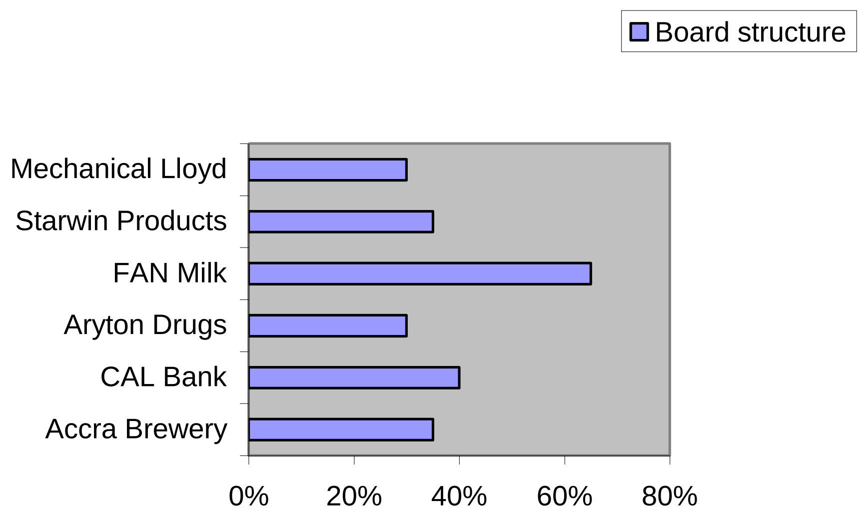

Figure 1: Corporate governance performance (board structure)

Source: Fieldwork, 2009

To use SPSS to determine the correlation between board structure scores and return on equity, the returns on equity of the companies which are in percentages were converted to decimals. Thus, Accra Brewery Limited's return on equity is 3.2004% and converted to 0.032004, CAL Bank Limited's return on equity is 21.6261% and converted to 0.216261, Ayrton Drug Manufacturing Company Limited's return on equity is 19.3370% and converted to 0.193370, Fan Milk Limited's return on equity is 28.1012% and converted to 0.281012, Starwin Products Limited's return on equity is 1.2544% and converted to 0.012544, and Mechanical Llyod Company Limited's return on equity is 8.9606% and converted to 0.089606.

Table 2: Correlation between board structure and return on equity

		Board structure	Return on equity
Board structure	Pearson correlation	1	0.650
	Sig. (2-tailed)		0.162
	N	6	6
Return On Equity	Pearson Correlation	0.650	1
	Sig. (2-tailed)	0.162	
	N	6	6

Source: Fieldwork, 2009

The Pearson correlation coefficient was used to measure the association between board structure scores and return on equity. The correlation of 0.650 reported in Table 2 is positive indicating a reasonably linear association between the two variables. However, based on the data provided, the significant test revealed that there is a weak correlation between board structure and return on equity of the companies.

Strategy planning role

The study shows that three of the companies, namely, Accra Brewery Limited, Starwin Products Limited and Mechanical Lloyd Company Limited scored 6 points each out of 20 points. This represents 30% rating for each company whilst CAL Bank Limited and Aryton Drug Manufacturing Limited scored 11 points each representing 55% performance rating. The best performer in this respect is Fan Milk Limited which scored 13 points representing 65% performance. These individual corporate ratings are shown in Figure 2.

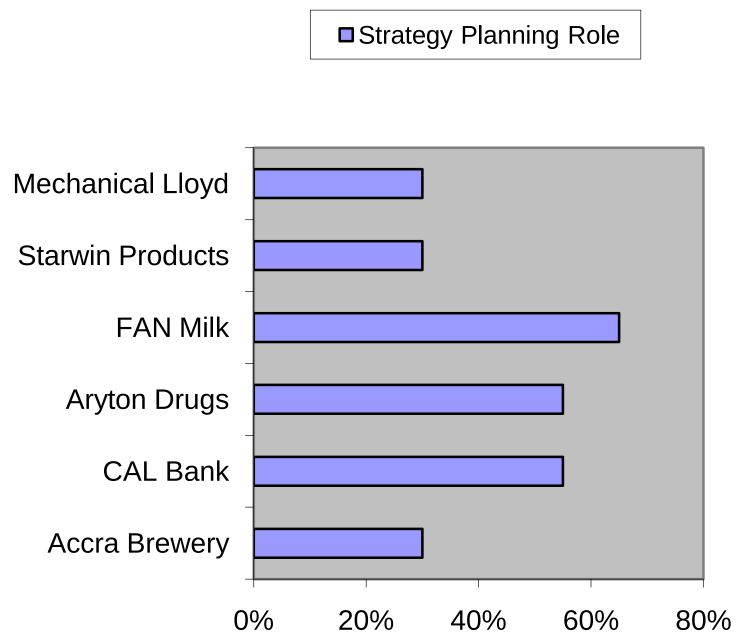

Figure 2: Corporate governance performance (strategy planning role)
Source: Fieldwork, 2009

Based on the data collected the correlation as depicted in Table 3 between strategy planning role and financial performance of companies was found to be somehow significant. The significance was proved at 1% level.

Table 3: Correlation between strategy planning role and return on equity

		Strategy planning role	Return on equity
Strategy planning role	Pearson correlation	1	0.969**
	Sig. (2-tailed)		0.001
	N	6	6
Return on equity	Pearson correlation	0.969**	1
	Sig. (2-tailed)	0.001	
	N	6	6

**. Correlation is significant at the 0.01 level (2-tailed).

Source: Fieldwork, 2009

Board meetings

The study shows that on the issue of board meetings CAL Bank Limited, Aryton Drug Manufacturing Limited and Starwin Products Limited scored 11 points each from a maximum point of 15 representing performance rating of 73% each. Accra Brewery Limited and Mechanical Lloyd Company Limited scored 10 points each, achieving 66.7% rating each. Fan milk Limited scored the highest with 12 points, thus 80%. The performance ratings in percentages are depicted in Figure 3.

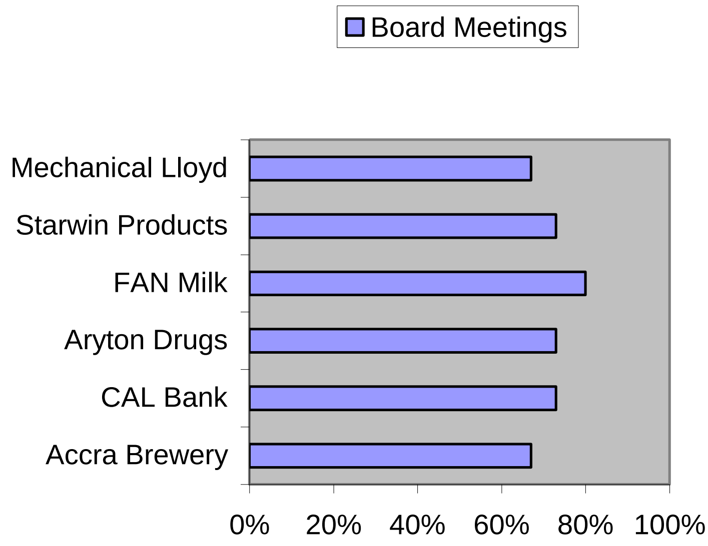

Figure 3: Corporate governance performance (board meetings)

Source: Fieldwork, 2009

Table 4: Correlations between board meetings and return on equity

		Board meetings	Return on equity
Board meetings	Pearson correlation	1	0.726
	Sig. (2-tailed)		0.102
	N	6	6
Return on equity	Pearson Correlation	0.726	1
	Sig. (2-tailed)	0.102	
	N	6	6

Source: Fieldwork, 2009

The correlation of 0.726 shown in table 4 suggests a relationship between board meetings and financial performance of companies. However, the correlation was found not to be significant based on the data provided.

Reward systems

It is clear from the study that all the companies performed extremely well on the issue of reward systems. Accra Brewery Limited, Aryton Drug Manufacturing Limited and Starwin Products Limited scored 3 points each out of 4 points. CAL Bank Limited and Fan Milk Ghana Limited scored the maximum points of 4 each. In percentage terms, as depicted in figure 4, Accra Brewery Limited, Aryton Drug Manufacturing Limited and Starwin Products Limited performed at 75% rating each whilst CAL Bank Limited and Fan Milk Ghana Limited achieved the maximum rating of 100%.

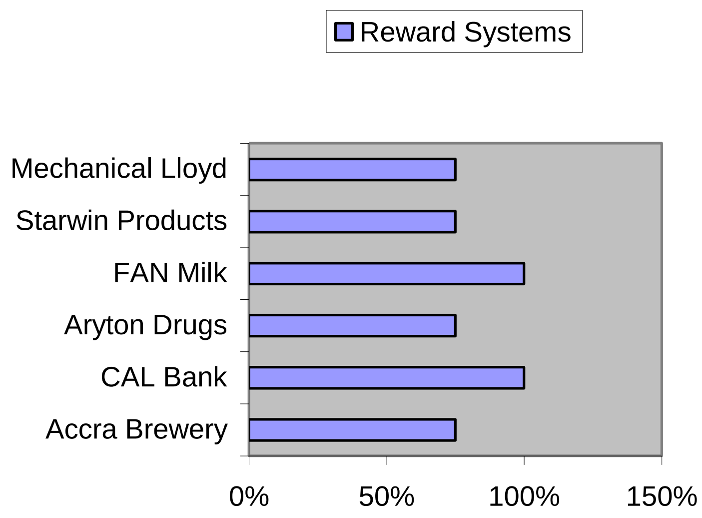

Figure 4: Corporate governance performance (reward systems)

Source: Fieldwork, 2009

Based on the data collected and analysed in table 5 the correlation of 0.793 portrayed a weak but positive correlation between reward systems and financial performance of companies. This finding is somehow consistent with Shleifer and Vishny (1997) who maintained that there is weak, but positive relationship with corporate reward systems and performance.

Table 5: Correlation between reward systems and return on equity

		Reward systems	Return on equity
Reward systems	Pearson correlation	1	0.793
	Sig. (2-tailed)		0.060
	N	6	6
Return On Equity	Pearson Correlation	0.793	1
	Sig. (2-tailed)	0.060	
	N	6	6

Source: Fieldwork, 2009

Control and risk management

The results for the control and risk management issue are depicted in Figure 5. The results revealed that Accra Brewery Limited, Ayrton Drug Manufacturing Limited, Starwin Products Limited and Mechanical Lloyd Company Limited scored 8 points each out of 19 points. Their performance ratings are at 42.1% each. These performances can be described as being below average.

CAL Bank Limited scored 16 points in respect of the corporate governance issue of control and risk management which is at 84% rating. Whereas, Fan Milk Ghana Limited scored 17 points this is at 89% performance rating. The corporate governance performances of CAL Bank Limited and Fan Milk Ghana Limited in this respect can be described as being very good.

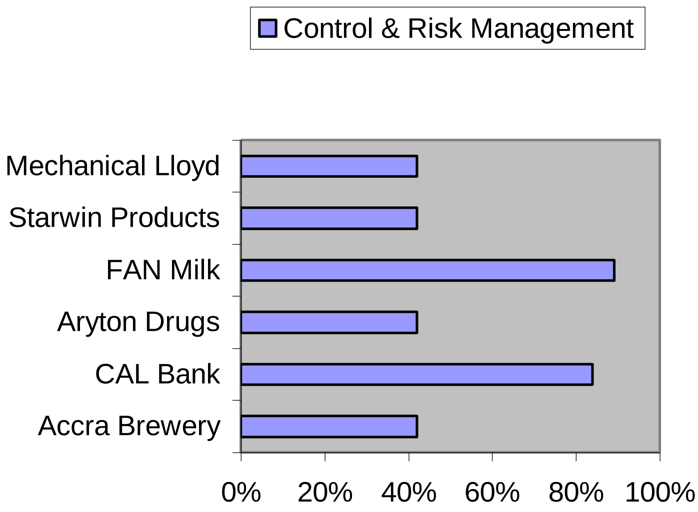

Figure 5: Corporate governance performance (control & risk management)

Source: Fieldwork, 2009

Based on the data collected and analysed in table 6 the positive correlation of 0.805 depicted positive but weak correlation between control and risk management systems and financial performance of companies. However, the evidence available was not enough to show any significant correlation between them.

Table 6: Correlation between control and risk management system and return on equity

		Control & risk management system	Return on equity
Control & Risk management system	Pearson correlation	1	0.805
	Sig. (2-tailed)		0.054
	N	6	6
Return On Equity	Pearson Correlation	0.805	1
	Sig. (2-tailed)	0.054	
	N	6	6

Source: Fieldwork, 2009

Board training and awareness

The result of board training and awareness is portrayed in figure 6. The study showed that Accra Brewery Limited, Ayrton Drug Manufacturing Limited and Mechanical Lloyd Company Limited scored 3 points each out of 6 points. Their performance ratings are 50% each.

CAL Bank Limited scored 4 points in respect of board training and awareness which is at 67% rating. Whereas Fan Milk Ghana Limited scored 5 points representing corporate governance performance rating of 83% in respect of board training and awareness.

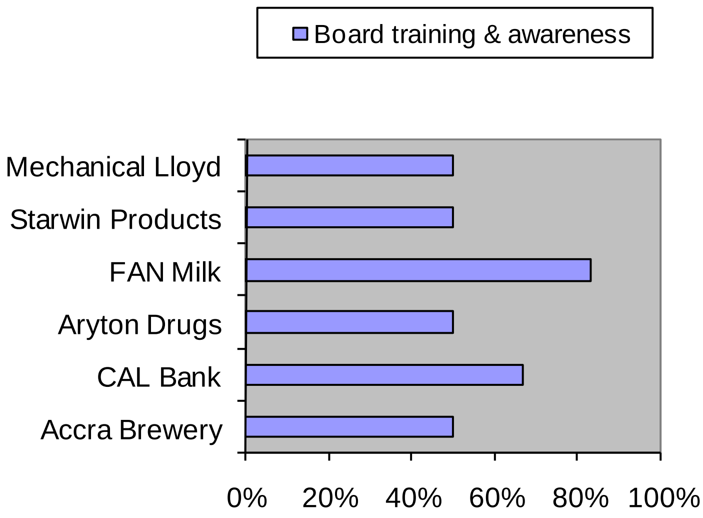

Figure 6: Corporate governance performance (board training & awareness)

Source: Fieldwork, 2009

The positive correlation of 0.805 shown in table 7 suggests a positive linear relationship between board training and awareness and financial performance of companies. However, the correlation was found not to be significant, based on the data provided.

Table 7: Correlation between board training & awareness and return on equity

		Board Training & Awareness	Return On Equity
Board Training & Awareness	Pearson Correlation	1	0.805
	Sig. (2-tailed)		0.053
	N	6	6
Return On Equity	Pearson Correlation	0.805	1
	Sig. (2-tailed)	0.053	
	N	6	6

Source: Fieldwork, 2009

Ethics, transparency and accountability

The worst area of corporate governance performance of the study was on the key issue of ethics, transparency and accountability. This is shown in figure 7. Apart from Fan Milk Ghana Limited, which scored 9 points out of 15 points, thus achieving 60% performance rating, all the other companies scored below average. Accra Brewery Limited and Mechanical Lloyd Company Limited were worst performers, scoring 4 points each, thus performing at the rate of 27%. CAL Bank Limited, Aryton Drug Manufacturing Limited and Starwin Products Limited scored 5 points each, achieving 33% performance rate.

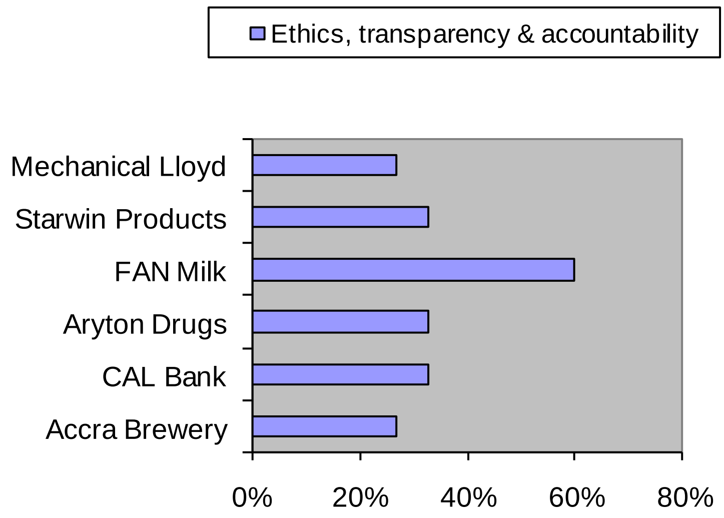

Figure 7: Corporate governance performance (ethics, transparency and accountability)

Source: Fieldwork, 2009

Based on the data collected and analysed in table 8 the positive correlation of 0.720 depicted a positive but weak correlation between ethics, transparency and accountability and financial performance of companies.

However, the evidence available was not enough to show any significant correlation between them.

Table 8: Correlation between ethics, transparency & accountability and return on equity

		Ethics, transparency & accountability	Return on equity
Ethics, transparency & accountability	Pearson correlation	1	0.720
	Sig. (2-tailed)		0.107
	N	6	6
Return On Equity	Pearson Correlation	0.720	1
	Sig. (2-tailed)	0.107	
	N	6	6

Source: Fieldwork, 2009

Corporate governance performance of all dimensions

On the key issue of ethics, transparency and accountability, the overall average performance score is 5.33. This represents 35.53% performance rating and is shown in Table 9. The overall average performance score on the key issue of board training and awareness is 3.5. This represents 58.83% performance rating. This overall average performance is shown in Table 9. On the average, the overall performance score in respect of control and risk management 10.83. This represents 57% performance rating and it is shown in Table 9. The overall average performance for corporate reward system is 3.33. This represents 83.25% performance rating as shown in Table 9. The companies studied achieved an overall average score of 10.83 out of 15 on the issue of board meetings. This represents 72.2% performance rating.

The overall average performance on the issue of strategic planning role of boards is 8.83 points. This represents 44.15% of the maximum performance score in this area. On the issue of board structure the overall corporate governance performance score is 7.83. This performance rating is at 39.15% as shown in Table 9.

Table 9: Corporate governance performance of key issues

Key issues	Corporate governance rating (%)
Ethics, transparency and accountability	35.53
Board training and awareness	58.83
Control and risk management	57.00
Reward systems	83.25
Board meetings	72.20
Strategy planning role	44.15
Commitment to governance principles	100.00
Board structure	39.15
Mix of all issues	51.50

Source: Fieldwork, 2009

Profile of companies and governance performance

The corporate profile of companies provides a background to the behaviours and processes at various levels of the organisation's structure. The corporate governance practices at the board level may depend on the organisation's culture that evolved over a period of time.

Accra Brewery Limited

Accra Brewery Limited was incorporated on 1st April, 1975 as a privately owned Ghanaian company. Before then, the company's activities in Ghana were carried on by Overseas Breweries Limited, a multinational company. The Overseas Breweries Limited operated its branch in Ghana from 1931. The activities of the company include brewing of beer/malt and production of aerated soft drinks. The company markets and distributes its own manufactured products. The company became a public limited liability company when it was provisionally listed on the Ghana Stock Exchange on the 12th of November, 1990. It obtained its full listing on the Ghana Stock Exchange on the 20th of December, 1991.

Accra Brewery Limited has a board structure of six directors. The board is composed of one executive director, who is the chief executive officer, and five non – executive directors. All the directors were involved in the study. On the whole the board achieved a total corporate governance average score of 42 out of 100 points representing a performance rate of 42%.

CAL Bank Limited

CAL Bank Limited was established in March 1989 as a private limited liability company under the name Continental Acceptances Limited. The name of the company was later changed to CAL Merchant Bank Limited and finally to CAL Bank Limited. The company was licensed as a bank by Bank of Ghana in June, 1990 and commenced operations in July, 1990. The business activities of the company include banking and other banking related operations. The bank became a public limited liability company on 5th November, 2004 when it was listed on the Ghana Stock Exchange. The company is governed by an eight member board of directors. The board is composed of two executive directors, one of whom is the Managing Director, and six non – executive directors. All the directors were the target of the study. The study revealed that the company performed relatively well in corporate governance practices, achieving an overall score of 60%.

Ayrton Drug Manufacturing Limited

Ayrton Drug Manufacturing Limited was incorporated as a private limited liability company on 24th September, 1965. The company was provisionally listed on the Ghana Stock Exchange on 22nd November, 2005 when it became public limited liability company. Ayrton drug Manufacturing Limited was formally listed on the Ghana Stock Exchange on 14th August, 2006. The company's activities include production and marketing of all kinds of drugs, chemicals, cosmetics, surgical and pharmaceutical instruments. The company has an eight- member board of directors. The board is made up of three executive directors and five non – executive directors. Based on the data collected and analysed, the company's corporate governance performance was rated at 48% level of good corporate practices. This performance is slightly below average.

Fan Milk Ghana Limited

Fan Milk Ghana Limited was incorporated on 6^{th} January, 1960 as a private limited liability company. The company became a public limited liability company when it was provisionally listed on the Ghana Stock Exchange in November, 1990. The company was fully listed on the Ghana Stock Exchange on 18^{th} October, 1991. The company is governed by a seven-member board of directors. The board consists of one executive director, who is the managing director and six non – executive directors. The principal activities of the company include the importation, manufacture and distribution of dairy products and fruit drinks.

Based on the data provided, the company recorded an impressive above average corporate governance performance on all the key issues of corporate governance practices. This is reflected in the overall corporate governance performance rating of the company. Table 10 shows the company's corporate governance performance rating is at 74%. The company's corporate governance performance rating is the best of the study.

Starwin Products Limited

Starwin Products Limited evolved from Sterling Products International Limited, an American pharmaceutical company that incorporated an affiliate, Sterling Products Ghana Limited in Ghana in 1960. The company changed its name to Starwin Products Limited in 1993. The company was transformed into public limited liability company and was listed on the Ghana Stock Exchange on 29th December, 2004. The company's activities include manufacturing and marketing of pharmaceutical drugs. The company has a seven – member board of directors. The company's board is composed of one executive director, who is the managing director, and six non-executive directors.

The study shows that the company's corporate governance performance rating is at 44%. This rating is shown in table 10. This means that there is a lot the company needs to do in terms of corporate governance practice.

Mechanical Lloyd Company Limited

Mechanical Lloyd Company Limited was incorporated in 1960 as a private limited liability company and named Technical Lloyd Limited. It was renamed Mechanical Lloyd Limited on 7th August, 1970. The name was again changed to Mechanical Lloyd Company Limited on 13th January, 1983. The company became public limited liability company on 11th December, 1992 and was listed on the Ghana Stock Exchange on 10th May, 1994. The company is the exclusive agents for the sale and servicing of BMW cars and motor cycles, Ford vehicles, Land Rover vehicles, and Lucas automobile products in Ghana. The company is governed by a seven – member board of directors. The board is composed of three executive directors and four non – executive directors.

Table 10 shows that the company corporate governance performance is at 41% rating. This is a corporate governance score of 41 points out of the maximum corporate governance performance score of 100. This can be described as a far below average corporate governance performance rating.

Table 10: Corporate governance performance rating of companies

Companies	Good rating (%)	Gap in rating (%)
Accra Brewery Limited	42	58
CAL Bank Limited	60	40
Ayrton Drug Manufacturing Limited	48	52
Fan Milk Limited	74	26
Starwin Products Limited	44	56
Mechanical Lloyd Company Limited	41	59

Source: Fieldwork, 2009

Corporate financial performance

The fundamental goal of every business corporation is to maximise the financial returns on the investments of the shareholders. There are several dimensions to determining the financial performance of a company. However, return on equity, in financial sense is the true bottom-line measure of company's financial performance. Return on equity is a measure of how the shareholders' investment in the company fared during a particular year. The measure is determined by applying the total shareholders' equity in the company to divide profit after tax for the year. The recent comparable financial returns on shareholders' investments of the companies being studied are analysed in Table 10. The return on equity for all the companies relates to 2007 financial year.

Table 11: Returns on equity in percentages of companies (2007 financial statements)

Companies	Return on equity%
Accra Brewery Limited	3.2004
CAL Bank Limited	21.6261
Ayrton Drug Manufacturing Limited	19.3370
Fan Milk Limited	28.1012
Starwin Products Limited	1.2544
Mechanical Lloyd Company Limited	8.9606

Source: Fact Book of Ghana Stock Exchange, 2008

The results show that Fan Milk Limited is the best performer with a return on equity of 28.1012%. CAL Bank Limited fared with a return on equity of 21.6261%. Aryton Drugs Manufacturing Company Limited achieved 19.3370%. All the other companies performed below 10%. Mechanical Lloyd

Company Limited fared at 8.9606% return on equity. Accra Brewery Limited and Starwin Products Limited fared at 3.2004% and 1.2544% of return on equity respectively.

Corporate governance and financial performance

The study as shown in figure 8 illustrates the relationship between corporate governance practices and financial performance of the companies studied. The figure depicts the corporate governance performance and financial performance of each company. It reveals that Fan Milk Ghana Limited was the best performer in both financial and corporate governance terms.

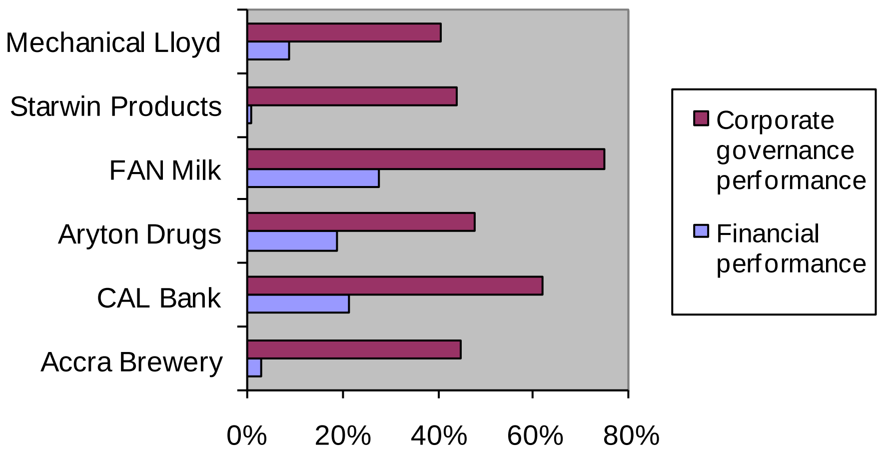

Figure 8: Corporate governance and financial performance (return on equity)

Source: Fieldwork, 2009

The correlation of the data collected was analysed by the use of SSPS in Table 12. The Pearson correlation coefficient was used to measure the association between the corporate governance scores and return on equity. The correlation of 0.869 reported in table 12 is positive indicating a strong reasonably linear association between the two variables. Based on the data provided, there is a strong correlation between corporate governance scores and return on equity of the companies. In other studies, La Porta, Lopez-de-Silannes, Shleifer and Vishny (2002) arrived at similar results. Klapper and Love (2004) confirmed in their study that good corporate governance practices are highly correlated with corporate performance. Brown and Caylor (2006) also found out that firms with better governance practices are worth more and perform better.

Table 12: Correlation between corporate governance and financial performance

		Corporate Governance Scores	Return On Equity
Corporate Governance Scores	Pearson Correlation	1	.869*
	Sig. (2-tailed)		.024
	N	6	6
Return On Equity	Pearson Correlation	.869*	1
	Sig. (2-tailed)	.024	
	N	6	6

*. Correlation is significant at the 0.05 level (2-tailed)

Source: Fieldwork, 2009

CHAPTER FIVE

SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

Introduction

This chapter draws the study to an end. It summarises the research findings on the assessment of corporate governance behaviours and practices of listed companies and their effectiveness. Conclusions were made on the findings and recommendations put forward which the researcher believes will contribute to the improvement of corporate governance practices and organisation performance.

Summary

The first objective of the study was to determine the main behavioural issues that drive corporate governance practices and also to determine the corporate governance performance of listed companies in Ghana. The key behavioural issues within which the corporate governance assessment is carried out are: the structure of the board of directors; the board's commitment to general principles of good corporate governance; the strategic planning role of the board; board meetings; corporate reward systems; control and risk management processes; directors training and awareness; and ethics, transparency and accountability. The results of the study portray how these behavioural issues impact on the effectiveness of listed companies in Ghana.

The next objective was to evolve a corporate governance assessment framework and use it to assess the corporate governance performance of listed companies within the framework of the main behavioural issues. The key finding in this regard is that the mix of all the main behavioural issues revealed that listed Ghanaian companies overall corporate governance performance rating is at 51.5%. The corporate governance performance rating of listed companies on the issue of:

- Corporate board structure is at 39.15%.
- Commitment to general principles of good corporate governance all corporate boards have in place a charter or a set of policies on corporate governance. The companies scored the maximum point.
- Directors' interest and emphasis on strategic planning is at 44.15%.
- Board meetings is at 72.2%
- Corporate reward system is at 83.25%.
- Control and risk management is at 57%.
- Board training and awareness is at 58.83%.
- Ethics, transparency and accountability is at 35.53%

Another objective was to determine the relationship between corporate governance performance and corporate financial performance as reflected in the listed companies' return on equity. The key findings in this regard are that:

- There was insignificant relationship between corporate board structure and return on equity.

- Strategic planning role of board of directors correlates financial performance at 1% significant level.
- The relationship between board meetings and return on equity is immaterial.
- There was a weak relationship between reward system and return on equity.
- The correlation between control and risk management and return on equity is insignificant.
- The correlation between board training and awareness, and return on equity is not material.
- There was a weak relationship between ethics, transparency and accountability, and return on equity is insignificant.

However, the study revealed that the mix of all the corporate governance main behavioural issues depicts a correlation between corporate governance performance and financial performance. This is at 5% significance level.

Conclusions

The first objective of this study is to assess the corporate governance performance of companies in Ghana. The results show that, on the average, Ghanaian companies' corporate governance performance rating is at 51.5%.

The second objective of the study is to determine the relationship between the main behavioural issues that drive corporate governance practices and corporate financial performance. The study was conducted within the framework of eight corporate governance main behavioural issues namely: corporate governance structure; the board's commitment to general principles of good corporate governance behaviours and practices; the strategic role of the board; board meetings; corporate reward systems; control and risk management processes; directors training and awareness; and ethics, transparency and accountability. Apart from the strategic planning role of the board of directors which significantly correlates financial performance, all the other main behavioural issues do not significantly correlate financial performance. There was proof that companies are aware of the need to practice good corporate governance principles within the designed behavioural framework.

The third objective adopted by the study was to determine the relationship between corporate governance behaviours and practices and the effectiveness of companies. The results of the study provide some evidence that companies that adhere to generally accepted corporate governance behaviours and practices create value, and these practices correlate corporate financial performance.

The research results of these behavioural issues lend to a number of implications for corporate governance practices. Firstly, failure to attain performance excellence in all the dimensions is self imposed by not strictly adhering to good corporate governance paradigms. Secondly, corporate governance practices are rendered by the board of directors which enforce and reinforce them on the companies. Thirdly, companies can improve on their performance considerably and attain excellence were the framework for corporate governance practice is constantly aligned to the changing environment.

Recommendations

The study reveals that the mix of all the corporate governance dimensions portrays a strong correlation between corporate governance performance and financial performance. However, all but the key issue of the strategic planning role depict insignificant correlation between corporate governance performance and financial performance. Therefore, this paper proposes that future research be conducted with the intention to achieve better procedural quality. These studies must involve larger number of samples and held in appropriate settings, at longer duration and with deeper intensity. The limitation of inadequate budget affects the procedural quality of this study.

It may be worthwhile to test the relationship between corporate governance behaviour and practices and other corporate financial performance measures. Return on capital employed, being a measure that relates the operating results to the total amount of funds used, may be used as a measure in relation to corporate governance behaviour and practices. Return on total assets which measures the efficiency with which assets are used is another measure worth looking into in relation to corporate governance practices.

The study focused on public limited liability companies. Further research could broaden the scope of study to include non listed companies. This may give opportunity for comparing corporate governance practices of listed and non listed companies.

Foreign direct investments act as catalyst for economic growth in an economy. Investors might consider the level of generally acceptable corporate governance behaviour and practices when making an investment decisions in an economy. As such, study to determine whether corporate governance behaviours and practices promote investment in Ghana may be worthwhile.

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APPENDICES

APPENDIX A

CORPORATE GOVERNANCE AND ORGANISATIONAL PERFORMANCE ASSESSMENT TOOL FOR PUBLIC LIMITED LIABILITY COMPANIES' GOVERNANCE PRACTICES IN GHANA

Dear Sir/Madam,

I am Edward Kwesi Akpakli, a MA (Organisation Development) student of University of Cape Coast. I am conducting a research on "Corporate Governance and organisation performance: Assessing the effectiveness of public limited liability companies' governance practices in Ghana" as part of the requirement for the award of MA degree in Organisation Development. This research questionnaire is purely for academic purposes only. Your responses will be treated as strictly confidential. Do not indicate your identity in your response.

The research will be meaningful only if you give your honest and truthful response. Indicate with a tick or specify or comment where necessary.

Board Structure

1. What is the size of your board?

Please specify. …………..

2. What is the size of non executive directors on your board?

Please specify. ………

3. Does any director or shareholder being represented on the board have a controlling interest (more than 20%)?

a. Yes [ ] b. No [ ]

If yes, please specify the number of directors and shareholder representative on the board who have controlling interest (more than 20%)…

4. Do any of the non executive directors have some sort of relationship with any member of the executive?

a. Yes [ ] b. No [ ]

If yes, please state the nature of relationship.

………………………………………………………………………………………

………………………………………………………………………………………

………………………………………………………………………………………

5. Does your board have a nomination committee?

a. Yes [ ] b. No [ ]

If yes, is there a charter or detailed terms of reference for the nomination committee?

a. Yes [ ] b. No [ ]

6. What is the size of the board's nomination committee?

Please specify (i) ……… executive directors and (ii) ….. non executive directors.

7. Do you have directors with the following expertise?

a. Strategy and change i. Yes [ ] ii. No [ ]

b. Technology (core business) i. Yes [ ] ii. No [ ]

c. Finance i. Yes [ ] ii. No [ ]

d. International business i. Yes [ ] ii. No [ ]

e. Legal i. Yes [ ] ii. No [ ]

8. Does your board have a succession plan?

a. Yes [ ] b. No [ ]

If yes, which of the following best describe the succession plan?

a. Very effective

b. Effective

c. Somehow effective

d. None of the above

Commitment to Corporate governance principles

9. Does the company have in place a charter on corporate governance or a set of policies on corporate governance practices?

a. Yes [ ] b. No [ ]

Strategy Planning Role

10. Are you involved in strategy setting?

a. Hardly ever

b. Occasionally

c. Some of the time

d. Most of the time

e. All of the time

11. Do you have a clear understanding of your company's strategic direction?

a. Hardly ever

b. Occasionally clear

c. Somehow clear

d. Clear

e. Very clear

12. Typically, how much time is spent by your board on strategic planning issues per month?

a. Less than 10 hours [ ]

b. 11 to 15 hours [ ]

c. 16 to 20 hours [ ]

d. 21 to 25 hours [ ]

e. More than 25 hours [ ]

13. Does your board conduct executive sessions with non executive directors in attendance?

a. Yes [ ] b. [ ]

Which of the following best describes the value of your board's executive session?

a. Very valuable to the board and the Managing Director understands their value.

b. Very valuable to the board but not sure the Managing Director understands their value.

c. Not particularly valuable to the board.

d. Not particularly valuable to the board and have strained the relationship between the board and the Managing Director.

Board Meetings

14. Do you have sufficient board meeting time to comply with your duties as a director?

a. Hardly ever

b. Occasionally

c. Some of the time

d. Most of the time

e. All of the time

15. Do you feel that the decisions taken by your board are collective and in the best interest of the company?

a. Not at all

b. Occasionally

c. Some of the time

d. Most of the time

e. All the time

16. How often does your board meet?

a. Hardly ever

b. Occasionally

c. Some of the time

d. Most of the time

e. All the time

17. Typically, how much time is spent by your board at board meetings?

a. 2 hours or less [ ]

b. 3 to 4 hours [ ]

c. 5 to 6 hours [ ]

d. 7 to 8 hours [ ]

e. More than 8 hours [ ]

Control and Risk Management Processes

18. Does your board have in place a risk committee?

a. Yes [ ] b. [ ]

19. Do you feel your board can adequately meet their responsibility of monitoring the company's multitude of risks?

a. Not quite

b. Occasionally

c. Somehow

d. Most of the time

e. Definitely

20. How would you estimate the effectiveness of your board to monitor a risk management plan to mitigate corporate exposures?

a. Very ineffective

b. Ineffective

c. Somewhat effective

d. Effective

e. Very effective

21. Does your board have an audit committee?

a. Yes [ ] b. [ ]

22. What is the composition of the audit committee?

a. ………. Non-executive directors. b. ………… Executive directors.

23. Who chairs the audit committee?

a. Non-executive director [ ] b. An executive director [ ]

24. How often are audit reports reviewed by the board?

a. Yearly

b. Half-yearly

c. Quarterly

d. Monthly

e. Others. Please specify………… .

Board training and awareness

25. Does your board have in place an induction session for directors on appointment?

a. Yes [ ] b. [ ]

26. Does your board ensure that directors are given ongoing training?

a. Yes [ ] b. [ ]

If yes, which of the following best describes the training sessions?

a. Very ineffective

b. Ineffective

c. Somehow effective

d. Effective

e. Very effective

Reward systems

27. Does your board have a remuneration committee?

a. Yes [ ] b. [ ]

If yes, is there a charter or term of reference for the remuneration committee?

a. Yes [ ] b. No [ ]

28. What is the composition of the remuneration committee?

a. ……………. Non-executive directors. b. ……………… Executive directors.

29. Who chairs the remuneration committee?

a. ………… Non-executive director. b. ……………. Executive director.

Ethics, transparency and accountability

30. Does your board have a code of ethics?

a. Yes [ ] b. [ ]

31. Does the code of ethics of your board cover transparency, accountability, integrity, and social responsibility?

a. Not quite

b. Somehow covered

c. Normally covered

d. Mostly covered

e. Fully covered

32. Does your board have a code of ethics compliance committee?

a. Yes [ ] b. [ ]

33. How best do you describe the work of your board's code of ethics compliance committee?

a. Very ineffective

b. Ineffective

c. Somehow effective

d. Effective

e. Very effective

34. Do directors of your board undergo regular performance evaluation?

a. Yes [ ] b. No [ ]

35. Who facilitates the evaluation process of your directors?

a. The chairman of the board. [ ]

b. Peers (other directors). [ ]

c. Independent consultant. [ ]

d. Others. Please specify……………………………………………

36. Kindly state in a brief statement what corporate governance practices and behaviours in your opinion contribute significantly to the effectiveness of companies in Ghana.

………………………………………………………………………………………

………………………………………………………………………………………

………………………………………………………………………………………

Thank you for your cooperation.