



# Università degli Studi di Ferrara

DOTTORATO DI RICERCA IN  
ECONOMIA E DIREZIONE AZIENDALE  
(PhD IN ECONOMICS AND BUSINESS MANAGEMENT)

CICLO XXVI

COORDINATORE Prof. Massimiliano Mazzanti

## **Driving Forces of Effective Corporate Governance in Developing Countries: A Ghanaian Experience**

Settore Scientifico Disciplinare **SECS-P/07**

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Anni 2011/2013

## ABSTRACT

The concept of corporate governance dates back to the emergence of capitalism and modern stock organizations, development of global trade, and enormous growth of multinational firms during the 'industrial revolution' in the early part of the nineteenth century (Erismann-Peyer, Steger & Salzman, 2008). It has recently received much attention as a result of the incidence of corporate frauds, accounting scandals, excessive compensation packages, insider trading, self-dealing, misleading disclosures, and possible civil and criminal liabilities of corporate organizations. Internal and external stakeholders of corporations are striving to strengthen their assessment of the soundness of corporate governance practices within corporate bodies (Mark, 2011). Also, many economies are increasingly designing reforms to corporate governance practices to enhance the entire standards of corporate governance and to provide corporate entities possible financial and investment benefits (Grimminger & Benedetta, 2013). However, there has been a spate of arguments about the 'essential' principles of effective corporate governance, in that this concept develops and expands, and it changes in accordance with new insights and challenges within the business community (Jacques du Plessis, Hargovan & Bagaric, 2011).

Issues of corporate governance are relevant to developing, transition and emerging-market economies, in view of the assertion that these countries lack vibrant, long-established financial institutions to deal with issues related to corporate governance (McGee, 2009). The widespread existence of small companies that do not have their shares listed, and of large family-owned, foreign-owned and or state-owned enterprises whose stocks are also not widely listed locally, is argued to be the obvious logic behind the absence of corporate governance issues in these economies (Oman et al., 2003). However, the view that issues of corporate governance are less relevant to countries with insignificant amount of large corporate organizations with widely traded stocks is neither here nor there (McGee, 2009; Berglof and Claessens, 2003; Oman, et al., 2003). Just as good public governance allows the citizenry to effectively ascertain whether their interests are being served, corporate organizations, irrespective of their sizes and locations, must also strive to strengthen their governance practices, so that their shareholders can make reasonable investment decisions. Currently, virtually all developing, transition and emerging-market economies are faced with one pressing concern; how to establish the groundwork for long-term economic performance and competitiveness in diverse ways. But the setting up of such foundation to embark on such tasks cannot be materialized without the existence of good corporate governance in these economies. This has currently, prompted governments, directors, corporate owners, corporate managers and other stakeholders in these economies to realize the relevance of effective corporate governance practice.

The significance of corporate governance for socio-economic development of Ghana is rapidly being favorably noticed by academics, business professionals, policymakers and regulators. The transfer of State-Owned Enterprises (SOEs) to private individuals mirrors this favorable notification. The recommendations of the companies code 1963 (Act 179), Securities Industry Laws, 1993 (PNDCL 333) as amended by the Securities Industry Act, 2000 (Act 590) as well as the listing regulations, 1990 (L.I. 1509) of Ghana Stock Exchange (GSE), all point to the fact that corporate governance is incrementally receiving the necessary attention in Ghana. Academics, policymakers, business professionals as well as regulators have the notion that the adoption of the recommended guidelines would serve as a significant step in influencing management and director behavior in regards to effective and efficient discharge of

their duties and responsibilities in enhancing shareholder interest (Moscu, 2013; Okpara, 2010; Ward, 2003).

The purpose of this study was to examine the driving forces of effective corporate governance practices within the context of Ghana. In order to retain theoretical flexibility, limit extraneous variation and sharpen external validity, the criterion-based sampling technique was employed to select four large corporate organizations listed on the Ghana Stock Exchange. Subsequently, in order to maximize a series of available information to the researcher, enhance data credibility and to offer a source of triangulation, a multi-method data gathering technique was applied in this study-archival record, interviews and observations. This study relied on theoretical propositions and the development of a case description for its analyses. With this, there was a descriptive framework for organizing the case study while following the theoretical propositions.

The findings obtained from this study reveal that large shareholders play significant role in determining effective corporate governance in Ghana. Even though major shareholders are effective in addressing incentive problems; this situation tends to create problems with regards to the interests of small equity holders. One of the findings of this study has indicated that a vital issue that arises regarding corporate governance is the one of the weak small shareholders vis-à-vis major ones. This is consistent with the existing body of knowledge in the sense that, in developing economies, the matter of corporate governance typically involves the expropriation of small equity holders by major equity holders. Also, the findings highlight that an effective and efficient board is a vital driver in determining good corporate governance in Ghana. But this usually happens when controlling equity holders do not deal with aspects of control, which are vested in the board. In other words, when major equity holders fully involve themselves in corporate decision-making processes, boards appear to be mere counselors or advisors to management.

Further, the findings divulge that, at times, compliance with the various principles of corporate governance that have been prescribed regarding board composition does not certainly result in effective and efficient board with respect to board control function. However, evidence shows that with an absence of large shareholders who closely monitor and control the activities of management, a large number of independent NEDs on boards is useful in their control and monitoring role. Moreover, the findings regarding director independence bring about some challenges to the various principles of corporate governance, which recommend that NEDs must be independent. In circumstances where the controlling shareholder appoints the majority of directors, independence remains a problem or huge challenge. Also, director appointment by large shareholders also brings about a challenge in that; it raises the issue pertaining to criteria for appointments. This finding overtly demonstrates that the appointment procedure of directors is not guided by clear criteria. More so, it has been established that although Ghana has sufficient laws and regulations with respect to corporate governance, the major challenge is the absence of active devices for their effective enforcement.

On the basis of these findings, the study recommends auxiliary measures that can help enhance corporate governance practice in Ghana. First, measures should be put in place to safeguard minority shareholders. La Porta et al. (2000) have suggested six (6) legal protection forms termed as anti-director rights measured by the 'anti-director rights index'. These are: 1) Permitting equity holders to mail their proxy votes to the company; 2) not requiring equity holders to deposit their shares before the annual general

meeting; 3) cumulative voting; 4) ensuring proportional representation of small/minority equity holders on boards; 5) the presence of a mechanism for oppressed small equity holders; and 6) allowing small equity holders to organize an extraordinary shareholders meeting. Second, the essence of considering the consequences of privatization on corporate governance, and the eventual position of large shareholders in the decision-making processes of organizations, call for a revision of Ghana's principles of corporate governance to protect minority shareholders. It has been deduced that instead of privatization through strategic investors/capital providers to empower local shareholders, it undermines them, and eventually makes them vulnerable to the expropriation problem. The study recommends that future divestitures should also address the concerns of local shareholders.

Further, the issue of director independence has been identified as a pressing issue in Ghana. In order to curb this, the positions should be announced in public with all the requirements so that a person who considers him/herself qualified would tender his/her application. This means that directors will be recruited from the market by applying a free and fair mechanism of inviting applications from well-qualified people. This can be achieved through the establishment of a board nomination committee. The role of this committee is to select and nominate well-qualified individuals for directorship positions. This calls for a critical assessment of the expertise and competence of the individual. After the selections have been done, the candidates should be subject to shareholder-elections. This will ensure transparency in the selection of board directors.

Finally, without an effective enforcement of the rules and regulations in regards to corporate governance, it would be very difficult for developing and transition economies to develop strong and vibrant capital markets, which are currently regarded as important for sustainable economic development for countries (Shleifer & Vishny, 1986; Berglof & Claessens, 2004). On the basis of this issue, the recommended strategy to ensuring effective enforcement of existing laws and regulations is by recognizing that the structure and capacity of the laws, and legal and regulatory framework are essential components of the corporate governance structure. In achieving this, the following mechanisms have been suggested by this study: Improving the regulatory framework by making the laws accessible to all equity holders and the populace; fashioning out effective mechanisms for law enforcement as well as strengthening enforcement mechanisms (by providing training, logistics, equipments and so on); taking on alternative dispute resolution strategies; creating a conducive environment by keeping up the possible will to execute policies; creating an independent and intrepid judiciary; and encouraging the media to report issues of corporate governance and become more critical/judicious on issues of corporate governance.

**Keywords: Corporate governance, developing countries, shareholder control, board control, Ghana**

## **Riassunto**

Il concetto di corporate governance risale alla nascita del capitalismo e moderne organizzazioni, lo sviluppo del commercio mondiale , e l'enorme crescita delle imprese multinazionali durante la "rivoluzione industriale" nella prima parte del XIX secolo ( Erismann - Peyer , Steger & Salzman , 2008) . Recentemente ha ricevuto molta attenzione a causa dell'incidenza delle frodi aziendali, scandali contabili, pacchetti di compensazione eccessiva , insider trading , self- dealing , informazioni fuorvianti , e le eventuale responsabilità civile e penale di organizzazioni aziendali . Stakeholder interni ed esterni di aziende stanno cercando di rafforzare la loro valutazione della solidità delle pratiche di governo societario in seno agli organi societari (Marco, 2011 ) . Inoltre , molte economie sono sempre più progettando riforme per pratiche di corporate governance per migliorare l'intero standard di corporate governance e per fornire entità aziendali possibili benefici finanziari e d'investimento ( Grimminger e Benedetta , 2013 ) . Tuttavia, c'è stata una ondata di argomenti sui principi " fondamentali " di un efficace governo societario , in quanto questo concetto si sviluppa e si espande , e cambia in conformità con nuove intuizioni e sfide all'interno della comunità imprenditoriale ( Jacques du Plessis , Hargovan & Bagaric , 2011) .

Le questioni di corporate governance sono rilevanti per lo sviluppo , transizione e le economie emergenti , in vista della affermazione che questi paesi mancano vivaci , a lungo consolidate istituzioni finanziarie per affrontare le questioni relative alla corporate governance ( McGee , 2009) . La diffusa presenza di piccole imprese che non dispongono di proprie azioni elencate e di grandi dimensioni a conduzione familiare , di proprietà straniera e o imprese di proprietà statale i cui titoli sono anche non molto presente a livello locale , si sostiene di essere la logica evidente dietro l'assenza di questioni di corporate governance in tali economie ( Oman et al. , 2003) . Tuttavia, la vista che le questioni di corporate governance sono meno rilevanti per i paesi con importo non irrilevante di grandi organizzazioni professionali attraverso titoli diffusamente negoziati non è, né qui né là (McGee , 2009; Berglöf e Claessens , 2003 . Oman, et al , 2003) . Proprio come il buon governo pubblico consente la cittadinanza di verificare efficacemente se i loro interessi vengono serviti , organizzazioni aziendali , indipendentemente dalle loro dimensioni e posizioni , devono anche cercare di rafforzare le loro pratiche di governo , in modo che i loro azionisti possono prendere decisioni di investimento ragionevoli. Attualmente , quasi tutti in via di sviluppo , di transizione e dei mercati emergenti economie si trovano ad affrontare una crescente preoccupazione , come stabilire le basi per la prestazione economica a lungo termine e la competitività in diversi modi . Ma l'istituzione di tale fondazione per intraprendere tali attività non può essere concretizzata senza l'esistenza di una buona corporate governance in queste economie . Ciò ha attualmente spinto i governi , amministratori, proprietari aziendali, manager aziendali e altre parti interessate in queste economie a realizzare l'importanza di efficaci pratiche di corporate governance .

Il significato di corporate governance per lo sviluppo socio - economico del Ghana viene rapidamente e favorevolmente notato da accademici, professionisti , politici e regolatori . Il trasferimento di aziende statale (SOE) in privati rispecchia questa notifica favorevole. Le raccomandazioni del codice società 1963 ( legge 179 ) , leggi Securities Industry , 1993 ( PNDCL 333 ) , come modificato dalla legge Securities Industry , 2000 ( legge 590 ) , così come i regolamenti di quotazione , 1990 ( LI 1509) del Ghana Borsa (GSE ) , tutti sottolineano il fatto che il governo societario è incrementale ricevendo la necessaria attenzione in Ghana . Accademici , politici, professionisti nonché i regolatori hanno l'idea che l'adozione delle linee guida raccomandate servirebbe come un passo significativo nell'influenzare la gestione e il comportamento regista con riferimento a scarico efficace ed efficiente delle proprie funzioni e

responsabilità nel migliorare l'interesse degli azionisti ( Moscu , 2013; Okpara , 2010; Ward , 2003) .

Lo scopo di questo studio era di esaminare le forze motrici di pratiche di corporate governance efficaci nel contesto del Ghana. Al fine di mantenere la flessibilità teorica, limitare la variazione estraneo e affinare la validità esterna, la tecnica di campionamento criterio-base di stato impiegato per selezionare quattro grandi organizzazioni aziendali quotati alla Borsa del Ghana. Successivamente, al fine di massimizzare una serie di informazioni a disposizione del ricercatore, rafforzare la credibilità dei dati e per offrire una fonte della triangolazione, una tecnica di raccolta dati multi-metodo è stata applicata in questo record studio-archivio, interviste e osservazioni. Questo studio è stato basato su proposizioni teoriche e lo sviluppo di una descrizione del caso di studio. Con questo, è stato delimitato un quadro descrittivo per l'organizzazione del caso di studio seguendo le proposizioni teoriche.

I risultati ottenuti da questo studio rivelano che i grandi azionisti svolgono un ruolo significativo nel determinare un efficace governo societario in Ghana . Anche se i principali azionisti sono efficaci per affrontare problemi di incentivo, questa situazione tende a creare problemi per quanto riguarda gli interessi dei piccoli azionisti . Uno dei risultati di questo studio ha indicato che una questione fondamentale che si pone per quanto riguarda la corporate governance è uno dei deboli piccoli azionisti *vis-à-vis* quelli principali . Ciò è coerente con l'attuale corpus di conoscenze , nel senso che , nelle economie in via di sviluppo , la questione della corporate governance in genere comporta l'espropriazione dei piccoli azionisti dai principali azionisti . Inoltre, i risultati evidenziano che una scheda efficace ed efficiente è un fattore fondamentale nel determinare una buona corporate governance in Ghana . Ma questo di solito accade quando azionisti di controllo non trattano gli aspetti del controllo , che sono maturate nel consiglio . In altre parole, quando i principali azionisti si comportano pienamente nei processi decisionali aziendali , tavole sembrano essere semplici consulenti o consiglieri di gestione.

Inoltre, i risultati divulgano che, a volte , il rispetto dei vari principi di corporate governance che sono stati prescritti in materia di composizione del consiglio non certo risultato in pensione efficace ed efficiente rispetto al bordo funzione di controllo . Tuttavia , le prove dimostrano che con l'assenza di grandi azionisti che strettamente monitorare e controllare le attività di gestione , un gran numero di NED indipendenti nei consigli di amministrazione è utile per il loro controllo e il ruolo di controllo . Inoltre , i risultati in materia dell'indipendenza dei amministrazione ha apportato alcune sfide per i vari principi di corporate governance , che raccomandano che il NED devono essere indipendenti . Nei casi in cui l'azionista di controllo nomina della maggioranza degli amministratori , l'indipendenza resta un problema o una sfida enorme . Inoltre , il direttore nomina da grandi azionisti comporta anche una sfida in quanto , solleva la questione dei criteri per le nomine . Questa scoperta dimostra apertamente che la procedura di nomina degli amministratori non è guidata da criteri chiari . Ulteriormente, è stato stabilito che, anche se il Ghana ha leggi e regolamenti sufficienti per quanto riguarda la corporate governance , la sfida principale è l'assenza di dispositivi attivi per la loro effettiva applicazione .

Sulla base di questi risultati , lo studio raccomanda misure ausiliarie che possono contribuire a migliorare la pratica di corporate governance in Ghana . In primo luogo , le misure dovrebbero essere messe in atto per tutelare gli azionisti di minoranza . La Porta *et al.* (2000) hanno suggerito sei ( 6 ) forme di protezione giuridica definiti come diritti anti- regista misurati dal "indice diritti anti- regista" . Questi sono : 1 ) Consentire azionisti per posta i loro deleghe di voto alla società; 2) non chiedere ai azionisti di depositare le proprie azioni prima dell'assemblea generale annuale; 3) il voto cumulativo , 4 ) assicurare la rappresentanza proporzionale di

azionisti piccoli / minoranza sul tavolo; 5) la presenza di un meccanismo per i titolari di piccole partecipazioni oppresse e 6) permettere ai piccoli azionisti di organizzare una riunione straordinaria degli azionisti. In secondo luogo, l'essenza di considerare le conseguenze della privatizzazione sul governo societario, e l'eventuale posizione dei grandi azionisti nei processi decisionali delle organizzazioni, richiedono una revisione dei principi del Ghana di corporate governance per tutelare gli azionisti di minoranza. Si è dedotto che invece di privatizzazione attraverso fornitori strategici investitori / capitale per potenziare azionisti locali, li indebolisce, e alla fine li rende vulnerabili al problema esproprio. Lo studio raccomanda che le cessioni future dovrebbero anche affrontare le preoccupazioni degli azionisti locali.

Inoltre, la questione dell'indipendenza regista è stato identificato come un problema urgente in Ghana. Per arginare questo, le posizioni dovrebbero essere annunciati in pubblico con tutti i requisiti in modo che una persona che considera lui / lei avrebbe qualificato gara il suo / la sua domanda. Questo significa che gli amministratori saranno reclutati dal mercato applicando un meccanismo di libera e leale di invitare domande da parte di persone qualificate. Ciò può essere ottenuto attraverso l'istituzione di un comitato consiliare di nomina. Il ruolo di questo comitato è quello di selezionare e nominare i soggetti qualificati per le posizioni dirigenziali. Ciò richiede una valutazione critica della competenza di persone. Dopo le selezioni sono state fatte, i candidati dovrebbero essere oggetto di azionisti-elezioni. Ciò garantirà trasparenza nella selezione dei consiglieri di amministrazione.

Infine, senza un effettiva applicazione delle norme e dei regolamenti in materia di corporate governance, sarebbe molto difficile per lo sviluppo e la transizione delle economie di sviluppare i mercati dei capitali forti e vibranti, che sono attualmente considerate importanti per lo sviluppo economico sostenibile per i paesi (Shleifer & Vishny, 1986; Berglöf & Claessens, 2004). Sulla base di questo problema, la strategia raccomandata per assicurare l'efficace applicazione delle leggi e dei regolamenti esistenti è da riconoscere che la struttura e la capacità delle leggi e il quadro giuridico e normativo sono componenti essenziali della struttura di corporate governance. Nel raggiungimento di questo, i seguenti meccanismi sono stati suggeriti da questo studio: miglioramento del quadro normativo, rendendo le leggi accessibili a tutti i detentori di capitale e la popolazione; modellare su meccanismi efficaci per l'applicazione della legge, nonché il rafforzamento dei meccanismi di attuazione (attraverso la formazione, la logistica, attrezzature e così via), che assumono strategie alternative di risoluzione delle controversie, creando un ambiente favorevole mantenendo la possibile volontà di eseguire politiche; creazione di un sistema giudiziario indipendente e intrepido e incoraggiare i media a segnalare problemi di corporate governance e diventata più critica / giudiziario su temi di corporate governance.

## ACKNOWLEDGEMENTS

Is there any possibility to realize what fascinates you the most in life? It never was corporate governance that fascinated me during childhood (regardless of the country that I come from, where corruption is rife). However, whilst growing up, the relevance of corporate governance became one of the issues that I developed strong interest in. It is for this reason that I decided to conduct a study on corporate governance. The theme of this thesis is to examine the driving forces of effective corporate governance in developing countries within the context of Ghana. Several people have constructively criticized my thinking and the development of this thesis. However, I must try, and the following have been particularly helpful in assisting me write this thesis.

First and foremost, I thank the Almighty Jehovah for His guidance, protection, knowledge, countenance, wisdom, health, mercy and grace. Oh Dear Jehovah, without you this work would not have been accomplished. I am really grateful for how far you have brought me.

I would like to thank my supervisor, Prof. Monia Castellini for her great source of inspiration and guidance during the entire period of my study. Meeting with Monia always offered me a renewed energy. A special thanks to my grandmum, who always remembered me in her prayers and was also, convinced that I would accomplish this titanic work in God's appointed time. I am indebted to Amanda Odoi for helping me during the entire application process of the programme and to establishing a strong foundation upon which the thesis was built. I am also grateful to Emmanuel Aboagye who, as an experienced researcher, taught me a lot of important issues in research that actually fine-tuned the work during the latter stages of this thesis. Co-authoring articles was a remarkable experience and a terminus a quo for comprehending academic work.

Thanks to Joyce Frimpong for allowing me to always have incalculable conversations with her, anytime I felt dispirited. A special thanks to Aaron Yao Fui Ahali, Collins Adjei Mensah, Diana Baafi, Mohammad Attar and Nana Afia Otuo Serebour for being a source of encouragement. Thank you Ali Sedki, Anahita Sassani, Anahita Lohrasbi, Leila, Houda, Ali Edris, Matar, Ayman, Yosef, Mostafa, Ika, Sayda, Irena, Giulia, Alessandro, Michelle and Angela, for offering me the needed support during the entire period of this programme. A special gratitude to all the staff of the Department of Economics and Management, University of Ferrara, with whom I intermingled during the period of my study. Also, I am thankful to the staff of the Doctoral Office, University of Ferrara particularly, Elena, Raffaella and Lena for their continual support during my doctoral study.

I am indebted to the managers, board directors, shareholders and other stakeholders of the corporate organizations who voluntarily participated in this research. Their participation provided this study with invaluable data that helped the study to achieve its objective. A special appreciation to the officials of the Security and Exchange Commission of Ghana and Ghana Stock Exchange for the crucial information they offered to this study. Thanks to all my current and former colleagues for the several deliberations on important issues related to my work and the enjoyable and sociable ambiance.

I want to thank my parents, siblings and uncles for their immeasurable support and advice on how to go about things in this contemporary world. Finally, I would like to thank my greatest source of inspiration, my father. Even though you are not in this world, the little I heard about you helped me to come this far and I am certain that you will order a copy of this thesis to read in heaven, and I can assure you that this thesis is a great piece of work you will be proud of.



## **DEDICATION**

*To Joyce Frimpong and Nana Ama Otuo-Serebour  
Agyemang*

*My grandmum, Nana Akua Afriyie*

*My parents*

*My siblings, Silas and Lovina*

*&*

*My friends*

## PUBLICATIONS

The following publications were written out of this thesis.

- Agyemang, O.S. & Castellini, M. (Accepted), Corporate Governance in an Emergent Economy: A Ghanaian Experience, Corporate Governance. Emeraldinsight (Scopus)
- Agyemang, O.S., Aboagye, E. & Ahali, Y.A (Accepted), Board of directors and Firm Performance of Banking Institutions: A Ghanaian Experience, European Journal of Economics, Finance and Administrative sciences (Scopus)
- Agyemang, O.S. & Castellini, M. (2013), Shareholder Control vs. Board Control: Evidence from a sub-Saharan African Economy, Global Journal of Governance and Strategies, 19 (4): 109-134.
- Agyemang, O.S. & Castellini, M. (2013), The Guidelines of Corporate Governance of Ghana: Issues, Deficiencies and Suggestions, International Business Research, 6(8): 163-173, doi:10.5539/ibr.v6n10p163
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- Castellini, M. & Agyemang, O.S. (2012) Ownership and Board Structures to Ensuring Effective Corporate Governance through Ownership and Board Control Systems, Corporate Ownership and Control, 9(3): 343-354.

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## LIST OF ABBREVIATIONS/ACRONYMS

AfDB	African Development bank
AGM	Annual General Meeting
Ai	African Investor
AIG	American Insurance Group
AML	Anti-Money Laundering
APEC	Asia-Pacific Economic Cooperation
CACG	Commonwealth Association of Corporate Governance
CalPERS	California Public Employees' Retirement System
CCE	Consejo Coordinador Empresarial (Business Coordinator Board)
CEO	Chief Executive Officer
CFO	Chief Financial Controller
CIMG	Chartered Institute of Marketing, Ghana
CIPE	Center for International Private Enterprise
CNBV	Comsio'n Nacional Bancaria y de Valores (National Banking and Securities Commission)
CSR	Corporate Social Responsibility
CSRC	China Securities Regulatory Commission
CVM	Comissão de Valores Mobiliários (Securities Commission of Brazil)
ECS	Executive Compensation Surveys
E.I	Executive Instrument
EPS	Earnings per Share
ERP	Economic Recovery Program
FDI	Foreign Direct Investment
FRC	Financial Reporting Council
FTSE	Financial Times Exchange Commission
GCRC	Global Credit Rating Company
GIPC	Ghana Investment Promotion Center
GFL	Ghana Federation Labor
GNAS	Ghana National Accounting Standards
GoG	Government of Ghana
GSE	Ghana Stock Exchange
GSEC	Ghana Securities and Exchange Commission
HR	Human Resource
IASB	International Accounting Standards Board
ICAG	Institute of Chartered Accountants, Ghana
ICC	International Chamber of Commerce
IFRS	International Financial Reporting Standard
IoD	Institute of Directors
IRRC	Compact Disclosure Investor Responsibility Research
ISS	Information Security Systems
L.I	Legislative Instrument
LTIP	Long-term Incentive Plans
NASDAQ	National Association of Securities Dealers Automated Quotations
NBSSI	National Board of Small Scale Industries
NEDs	Non-Executive Directors
NCA	National Communication Authority
NEPAD	New Partnership for African Development
NPV	Net Present Value

NYSE	New York Exchange Commission
OECD	Organization of Economic Cooperation and Development
PECC	Pacific Economic Cooperation Council
PNDCL	Provisional National Defence Council Law
PWC	PriceWaterhouseCoopers
ROE	Returns on Average Equity
SEC	Securities and Exchange Commission
SME	Small and Medium scale Enterprises
SOEs	State-Owned Enterprises
S&P	Standard & Poor
SSB	Social Security Bank
SSNIT	Social Security and National Insurance Trust
TCE	Transaction Cost Economics
TIA	Thai Investors Association
TOR	Tema Oil Refinery
TUC	Trade Union Congress
UK	Unite Kingdom
US	United States
USA	United States of America

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# CHAPTER ONE

## INTRODUCTION

It is worth mentioning that currently, the available empirical studies on corporate governance practice in Ghana are scant. This study therefore, seeks to examine the practice of corporate governance at firm level by highlighting the driving forces of corporate governance effectiveness within the Ghanaian context. The present chapter provides an introduction to the study and seeks to outline the fundamental themes that guide the study. It brings out the background of the study, a brief description of corporate governance in Ghana, statement of problem, research objectives, research questions and the significance of the study. It further presents a gist of the study's research methods and the structure of the study. Finally, a summary of this chapter is provided.

### 1.1 Background to the study

“Travelling the road of corporate governance [will not] guarantee success, but not travelling upon it, will almost certainly guarantee failure” (Senator Eric Abetz, 2003, p. 11).

If this observation by the Australian Senator, Abetz is anything to go by, then it is worth emphasizing that the relevance of effective corporate management cannot be overemphasized. Corporate organizations possess significant economic power, which eventually makes them politically powerful, but the manner in which this power is steered or harnessed for the welfare of individuals, firms, industry and society depends on effective corporate governance (Judge & Zattoni, 2012). The term, corporate governance has its origins from the emergence of capitalism and modern stock organizations, development of international trade, and enormous growth of multinational corporations during the ‘industrial revolution’ in the early part of the nineteenth century (Erismann-Peyer, Steger & Salzman, 2008). It has recently received much attention as a result of the incidence of corporate frauds, accounting scandals, excessive compensation packages, insider trading, self-dealing, misleading disclosures, and possible civil and criminal liabilities of corporate organizations. Accordingly, these have alerted both internal and external stakeholders to intensify their inspection of the unassailability of corporate governance practices within corporations (Mark, 2011). Also, many economies are incrementally making reforms to corporate governance practices to raise the entire standards of corporate governance and to offer corporate organizations possible financial and investment benefits (Grimminger & Benedetta, 2013). However, there has been a spate of arguments about the ‘essential’ principles of effective corporate governance, in the sense that this concept develops and expands, and it changes in accordance with new insights and challenges in the world of business (Jacques du Plessis, Hargovan & Bagaric, 2011).

The acknowledgment of the role of major corporations in the allotment of corporate resources in economies (be it a developed or developing economy) underscores contemporary debates on corporate governance (Agyemang & Castellini, 2013a). The discussion on sound and unsound corporate governance practice has been going on for many years among academics, professionals, policy-makers and so on. This sort of discussion on corporate governance is influenced by the manner in which corporate organizations are recognized. The foremost conceptualization of corporate organizations focused on a belief, which treated companies as properties of shareholders for the pursuit of their interests economically. However, a fundamental characteristic of a corporate

organization is its knack to possess a separate existence from its equity holders. As soon as a corporate organization gains its own separate existence, the matter of control comes to the fore.

In times passed by, control of a corporate organization was wielded by its capital providers in a direct form or administratively (Mintzberg, 1983). However, when ownership and management are split, as and when ownership turns out to be dispersed, control of the corporate organization poses a major test. The matter of the split of ownership from management that arises in the transfer of control of corporate organizations from capital providers to professional managers (Bijalwan & Madan, 2013; Scott, 1997) picked up a noticeable quality following Berle and Means work in 1932. The authors observed that:

[I]n the modern corporation, these two attributes of ownership (control and economic rights) no longer attach to the same individual or group. The stockholder has surrendered control over his wealth. He has become a supplier of capital, and a risk taker pure and simple, while ultimate responsibility and authority of ownership is attached to the stock ownership, the other attribute is attached to corporate control. Must we not, therefore recognize that we are no longer dealing with property in the old sense? Does the traditional logic of property still apply? Because an owner who also exercises control over his wealth is protected in the full receipt of the advantages derived from it, must it necessarily follow that an owner who has surrendered control of his wealth should likewise be protected to the full?

Berle and Means opine that the idea of ownership of property when put to work in a corporate organization particularly, large ones is not a clear-cut. Corollary to this, Mintzberg (1983) advances the inquiry as to who ought to control the corporate organization, and in the quest of what goals? The author contends that ownership has become fragmented and indeed, owner-control has weakened and corporate organizations have been verifiably controlled by their management. This subject matter has fascinated corporate governance experts globally, but the present kind of deliberation is in any case, molded by the Berle and Means thesis (Bijalwan & Madan, 2013; Stiles & Taylor, 2001).

The thought of who ought to control the affairs of a corporate organization is still receiving attention among corporate governance experts. Control, in this context, refers to the ability to settle on decisions by fashioning out good corporate strategies for the development of a corporate organization (Agyemang & Castellini, 2013a). Corporate strategies include the insistence of the fundamental long-term goals and targets of a company and the allotment of corporate assets that is fundamental and in addition, sufficient for the pursuance of such goals and targets. The board, in all facets of corporate governance discourse, has been acknowledged as a major controlling force in a firm, which through its activities, can make or unmake a corporate organization (Agyemang & Aboagye, 2013; Harris & Raviv, 2008; Stout, 2007). The board of directors is responsible for managing and controlling risks to the corporation's resources and future trading (Calder, 2008). Control by the board stems from its powers to agree on its own direction as well as the policies of the firm. When board control comes to light, the degree to which management could pursue their selfish interests would extensively be diminished. Consequently, management will be slanted to take decisions that will meet the long-term goals and targets that have been set by the board for the welfare of all stakeholders (Agyemang & Castellini, 2013a; Larcker & Tayan, 2011; Marnet, 2008).

The notion of shareholder control has also picked up grounds recently in corporate governance debate (Agyemang & Castellini, 2013b; Agyemang & Aboagye, 2013; Okpara, 2010; Berglof & Claessens, 2004; Carlsson, 2003; Denis & McConnell, 2003; Jensen & Meckling, 1976). The concept mirrors the sort of control wielded by equity holders, either directly or indirectly through the board of directors. Denis and McConnell (2003) put out that equity holders can wield control over a corporate organization via their influence on the choice of key personalities in the firm. For example, equity holders particularly, large ones regularly influence the selection of the board's chairperson, the Chief Executive Officer (CEO) as well as other directors of a corporate organization. Herman (1981) asserts that, the fundamental question in relation to who has an absolute power over key decisions gyrates ultimately around the strength of mind of a person or a group that has the power to name/select the top executives of a corporate organization. Therefore, if specific equity holders have the ability to appoint or influence the appointment of these prominent people within a company, then there is little or no doubt that they can wield control over both the board and management, and consequently control the company as well (Agyemang & Castellini, 2013a; Castellini & Agyemang, 2012; Berglof & Claessens, 2004; Carlsson, 2003; Denis & McConnell, 2003; Jensen & Meckling, 1976). However, the question of whether specific shareholders have the ability to control corporate organizations is fundamentally empirical. The next section of this chapter addresses the question of why the concept of corporate governance has until recently, become the teething and indispensable issue of discussion of corporate boards, corporate managers, policy-makers and academics.

## **1.2 Why corporate governance?**

Corporate governance has enjoyed a long tradition in the management sciences since the 1990s. Following its traditional understanding, corporate governance is defined as the application of a set of powerful micro-policy instruments in an organization to ensure an efficient and effective use of resources in achieving the main objectives of its capital providers, succeed in the competitive market, as well as maximizing its positive influence on other stakeholders and at the same time, minimizing its negative impacts on them (Castellini & Agyemang, 2012). Recent business scandals, financial crises, insider trading, accounting frauds and excessive compensation plans continue to provide abundant cause for worry and have fuelled the interest of corporate governance around the globe. Governments and economies are warned, global accounting and auditing companies are crushed, board directors are jailed and corporate organizations are ruined because of poor corporate governance practice (Tricker, 2003).

In the UK, corporate governance became a prominent issue after the failures of Coloroll and Polly Peck and this led to the establishment of the Committee on the Financial Aspect of Corporate Governance in May 1991. The failures of Coloroll and Polly Peck were as a result of irrational behavior in the UK in the 1980s, when investors were prevented from getting important information in the accounts of these corporations, pertaining to titanic contingent liabilities. This lack of transparency in accounting principles led to poor financial reporting and distortion in compensation packages as well as the lessening of shareholders and other stakeholders' effectiveness in having oversight responsibility (Larcker & Tayan, 2011). Immediately this information came to light, both organizations collapsed. In consequence of these failures, the UK started ensuring that, these possible black holes in accounting were addressed (Solomon & Solomon, 2005). In 1992, the Committee on the Financial Aspects of Corporate Governance published its report, and it became commonly known as the Cadbury Report, named after its Chair, Sir Adrian Cadbury. This report is generally considered as the one that sets the foundation for a 'best practice' structure of corporate governance in the UK and many countries across the globe (Mallin, 2011; Solomon & Solomon, 2005). It was voluntary in nature and the basic principle embedded in it was the power bestowed upon equity holders on the basis of getting rid of or

minimizing information asymmetry as well as structural modifications in the manner in which boards of directors of corporate organizations are run to ensure greater accountability of corporate managers (Leech, 2013). The report also paved the way for equity holders to exercise their ownership responsibilities by actively partaking in corporate management through voting rights.

Other reports purposely to elaborate on the Cadbury report followed: Greenbury report in 1995 focused on director's remuneration package; Hampel report on the important role that institutional investors can play in 1998; Combined code in 1998 focused on how directors could carry out a review of the effectiveness of the internal control systems; Turnbull on the implementation of the internal control requirements in 1999; Higgs in January 2003 focused on the role of non-executive directors; Smith on audit committee in January 2003; UK Director's Remuneration report regulations on director's remuneration in 2002; Combined code in 2003 built on the earlier reports; Turnbull guidance revised the earlier guidance in 2005; Combined code in 2006 tackled three main changes- allowing the company chair to sit on the remuneration committee, providing a 'vote withheld' option on proxy appointment forms and recommending companies to publish on their websites proxy details; Combined code in 2008 also made two main changes- removing restrictions on an individual chairing and allowing companies chairs to sit on the audit committee; Smith in 2008 on audit committee; Companies Act on the codification of the duties of directors; and the UK Corporate governance code in 2010 that reviewed the combined code.

The economies of the Southeast Asian countries were severely affected by the Asian financial crisis and this has been mainly attributed to poor corporate governance. The whole crisis originated from Thailand. In 1997, the Thai baht was devalued, following a collapse of the property market. Even before the crisis, there was, as in many other Asian countries, substantial minority shareholder wealth expropriation. In Thailand, management of Bangkok Bank of Commerce diverted gargantuan funds offshore to organizations under their control. In the case of Indonesia, between 1997 and 1998, managers diverted funds to sponsor a political party in the Indonesian PT Bank Bali (Solomon & Solomon, 2005). These cases offered an obvious mandate for the development of corporate governance in the Southeast Asian economies. In Indonesia, code for good corporate governance was released in March, 2001, which was updated in January, 2007. Currently, the Financial Services Authority of Indonesia has considered publishing scorecards to rate corporate organizations on the quality of their corporate governance practices as it begins administering Indonesian capital market. The criteria for the ratings will be based on how corporate organizations treat minority shareholders, the roles performed by board directors and so on. In order to enforce this, the Financial Services Authority has established *Otoritas Jasa Keuangan* (OJK) to improve its information-gathering capability to enhance corporate governance practices in Indonesia. In the case of Thailand, authorities have been able to revise the stock exchange code of best practices for directors of listed organizations. The Securities and Exchange Commission of Thailand has recently delegated 40 Thai Investors Association (TIA) to safeguard the rights of shareholders at annual general meetings of listing corporate organizations, as part of the checklist campaign of the annual general meeting.

In the US, the significance of corporate governance became obvious in 2002, as a series of corporate scandals, frauds, meltdowns and other irregularities resulted in the destruction of billions of dollars of shareholder wealth, loss of jobs, investigation of many executives and the record-breaking bankruptcy filings (Monks & Minow, 2004). In 2002, seven of the twelve major bankruptcies in the history of America were filed. Enron (through the application of special-purpose entities and destructive accounting methods to twist its financial situation), Tyco (through the funding of a \$2.1 million birthday party for the wife of the CEO of the corporate organization in 2002), Adelphia, WorldCom, Global Crossing, HealthSouth, Bear Stearns and American International Group were among those corporate organizations that filed for bankruptcies. Solomon



and Solomon (2004) put forth that no one can ponder on corporate governance without recalling the corporate scandals and accounting frauds that emanated from these companies. The most significant reason these corporate scandals spread rapidly throughout the world was the systemic failure of every one of the mechanisms set up to provide checks and balances (Monks & Minow, 2004). Surprisingly, every single individual became interested in corporate governance. Consequently, the Sarbanes-Oxley Act was rapidly passed by Congress and was signed into law by President George W. Bush on July 30, 2002. The New York Stock Exchange (NYSE) and NASDAQ recommended new listing regulations that directed organizations to improve their corporate governance practices or else they would not be allowed to trade their securities. Rating agencies such as Standard and Poor (S&P) and Moody's publicly declared that corporate governance would be factored in their future analyzes.

In Japan, a more recent case is the financial scandal that happened in Olympus. The company's former chairperson, his trusted deputy, the corporate auditor and four outsiders used accounting and auditing tricks to hide losses on investments dating from the 1990s (KNC, 2012). It only came to light after the company had appointed the first non-Japanese boss to head its operations. Consequently, the former chairperson and his accomplices were found guilty and in lieu of this, they filed a guilty plea in Tokyo District Court. Issues like this, calls for the development of corporate governance outside the western world.

Apart from the aforementioned proliferation of scandals and crises that occurred across the globe, Claessens (2003) stipulates additional reasons that have led to the vast attention of corporate governance issues. The private, market-based investment process is now vitally important for most economies across the globe than before. The issue of privatization has raised pressing concerns about corporate governance in sectors that were previously state-owned. Currently, corporate organizations are seeking capital from the public market, and partnerships and mutual societies have transmogrified themselves into listed corporate organizations. Also, issues of corporate governance have become much more important as a result of technological advancement, liberalization of financial markets, trade liberalization as well as other structural reforms (such as price deregulation and the withdrawal of restrictions on ownership and products).

Furthermore, given the increasing size of corporate organizations coupled with the increasing role of financial intermediaries, capital mobilization is increasingly one-step removed from the principal-owner, given the incremental size of corporations and the increasing responsibility of financial intermediaries. Institutional roles are rapidly increasing in many economies and as a result, many economies are shifting from the 'pay as you go' retirement structures. This has also raised the need for corporate governance issues. Moreover, the programs of deregulation and reforms have restructured the local and international financial structures. Currently, longstanding institutional frameworks of corporate governance are being substituted with new ones. Lastly, global financial integration, and trade and investment flows are rapidly increasing and as result, concerns on corporate governance have been incrementally fomented.

The pressing concerns that have been raised above, formed the basis for a number of plans, at both local and global levels, aimed at enhancing corporate governance practices. International organizations have dedicated increasing attention to corporate governance issues. For example, in 1999, the Commonwealth Association of Corporate Governance (CACG) and the Organization of Economic Development for Cooperation and Development (OECD) released separate, but related principles for good corporate governance. The principles of OECD were revised in 2004. In 1999, another vital step to harmonize guidelines of corporate governance was taken by the California Public Employees' Retirement System (CalPERS) in the USA. CalPERS released a set of corporate governance guidelines that it regarded as a minimum set of guidelines with which all markets

across the globe should strive to comply. The aim was allowing markets throughout the world to function liberally and equitably for all capital providers. Meanwhile, a substantial number of countries around the globe has put together country-specific guidelines aimed at enhancing corporate governance practices. Table 1.1.0 shows the practices that are considered to enhance good corporate governance if adopted.

**Table 1.1: Principles of corporate governance across the world**

Name of Principle	Country/Organization	Year
OECD principles/ Millstein report	Organization of Economic Cooperation and Development (OECD)	1999 updated in 2004
Commonwealth Association guidelines	Commonwealth Association for Corporate Governance	1999
CalPERS principles	California Public Employees' Retirement System	1999
APEC/PECC guidelines	Asia-Pacific Economic Cooperation	2001
Institute of International Finance code	Institute of International Finance	2002
CVM (securities commission) code	Brazil	2002 edited in 2009
CSRC (securities commission)code	China	2002
Stock Exchange code/Guide	Hong Kong	1989 updated in 2011
Kumar Mangalan Birla Report	India	2000 updated in 2009
Stock Exchange Code	Republic of Korea	1999 updated in 2003
High Level Finance Committee code	Malaysia	2000 updated in 2012
CCE/CNBV code	Mexico	1999 updated in 2010
SEC code	Pakistan	2002 updated in 2012
The Russian code of corporate conduct	Russia Federation	2002
GIME/Polish Governance Forum code	Poland	2002 updated in 2010
Institute of Directors code	Singapore	2001 updated in 2012
King code of governance	South Africa	2009
Stock Exchange code	Thailand	1997 updated in 1998
Codice di Autodisciplina/ the corporate governance code	Italy	2006 updated in 2011
German Panel of Corporate Governance	Germany	2000 amended in 2012
Unified good governance code	Spain	1996 updated in 2006
Corporate governance-recommendations	Belgium	1998 updated in 2009
Code of Corporate Governance	Nigeria	2003 updated in 2011

Source: European Corporate Governance Institute (Index of all codes)

### 1.3 Corporate Governance in Ghana

Issues of corporate governance are germane to emerging countries, in view of the assertion that these economies lack vibrant, long-established financial institutions to address matters pertaining to corporate governance (McGee, 2009). The widespread existence of small enterprises that do not have their shares listed, and of large family-owned, foreign-owned and or state-owned enterprises whose stocks are also not widely listed locally, is argued to be the obvious logic behind the absence of corporate governance issues in these economies (Oman *et al.*, 2003). However, the view that issues of corporate governance are less relevant to countries with insignificant amount of large corporate organizations with widely traded stocks is flawed (McGee, 2009; Berglof and Claessens,

2003; Oman, *et al.*, 2003). Just as good public governance allows the citizenry to effectively ascertain whether their interests are being served, corporate organisations, irrespective of their sizes and locations, must also strive to strengthen their governance practices so that their shareholders can make reasonable investment decisions. Currently, virtually all developing, transition and emerging-market economies are faced with one pressing concern; how to establish the groundwork for long-term economic performance and competitiveness in diverse ways. But the setting up of such foundation to embark on such tasks cannot be materialized without the existence of good corporate governance in these economies. This has currently, prompted governments, directors, corporate owners, corporate managers and other stakeholders in these economies to realize the indispensability of effective corporate governance practice.

In Ghana, more and more corporate organizations are being encouraged to apply good corporate governance in order to effectively and efficiently compete on the international market. The recommendations of the companies code 1963 (Act 179), Securities Industry Laws 1993 (PNDCL 333) as amended by the Securities Industry Act, 2000 (Act 590) as well as the listing regulations 1990 (L.I. 1509) of Ghana Stock Exchange (GSE), outline the roles of the board, directors and auditors. They also provide shareholders' rights and regulatory framework for the setting up, and operations of corporate organizations in corporate governance practice. The Institute of Directors (IoD-Ghana), the Private Enterprise Foundation and the State Enterprises Commission are all involved in the enhancement of effective corporate governance practice in Ghana.

There has been quite a number of programs to addressing corporate governance issues in Ghana. In 1999 and 2000, several seminars on issues of corporate governance were hosted by the Ghana Institute of Directors, in partnership with the Commonwealth Association of Governance. A report on Ghana's top 100 corporate organizations and some state-owned enterprises was presented during those conferences. The aim of the survey was to examine the prevailing situation in regards to corporate governance practice in both privately-owned and state-owned enterprises. The report revealed that good corporate governance practice was gaining roots in the operations of corporate organizations in Ghana. Nonetheless, the IoD recommended some measures for enhancing corporate governance practice in Ghana. These are; the strengthening of existing legal and regulatory frameworks that demand more transparency to back solid and stable corporate governance practice; and the clarification of governance roles and responsibilities. With the absence of transparency, there will not be any fundamental ingredients upon which good judgment can be attained. In 2001, a conference sponsored by the Center for International Private Enterprise (CIPE) was held in Accra to discuss issues pertaining to the significance of effective corporate governance for sustainable growth in West African economies.

The report of this conference pointed out the main constraint confronting corporate governance practice in state-owned enterprises in Ghana. Government interference in the affairs of these corporate organizations raises a lot of teething concerns in terms of corporate governance. This kind of interference leads to rarity of effective corporate governance practice in these corporate organizations. Etukudo (1999) in a report notes that this rarity of corporate governance practice in sub-Saharan African economies mostly arises from the unclear relationship among the state, as the owner of the corporate organizations, the board and senior management. The seldomness of effective corporate governance in state-owned enterprises in Ghana has led to abysmal performance and the failure of these corporate organizations (For example, Ghana International Airline, Merchant Bank, State Transport Corporation, Social Security Bank, Nsawam Cannery and so on). Lack of institutional and legal reforms in order to ensure that state-owned corporate organization managers are independent in carrying out their mundane activities as well as to strengthen their accountability in regard to finance, performance and fairness, resulted in poor performance of these corporate organizations.

In 1983, the government of Ghana considered the germaneness of undertaking comprehensive reforms of state-owned corporate organizations in Ghana by introducing the Economic Recovery Program (ERP). These reforms included: a) A policy reform to ensure that state-owned corporate organizations operate in a commercial way; b) institutional and legal reforms; c) rationalization of state-owned corporate organizations via divestiture and mergers; d) rehabilitation of selected profitable state-owned corporations e) improvement in the management of state-owned corporate organizations; and f) restoring financial solvency and discipline. With the establishment of the State Enterprises Commission law, 1987 (PNDCL 170) in 1987, these reforms were validated. To complement these reforms, the divestiture implementation program was launched in 1987, aimed at encouraging private sector growth by limiting the role of the state in the economy as well as to relieve the state of the drain on its scarce resources. Following these reforms, several state-owned corporate organizations have been divested. Some of them have been successful in their performance. Although not all have been successful, privatization of state-owned enterprises is vital to effective corporate governance practice in that, most state-owned corporate organizations do not comply with the existing rules and regulations in relation to corporate governance, and this eventually affects their performance.

Socio-Economic development of Africa and the world in general, raises alarm for the need to create an atmosphere to appreciate the intricacies and dynamics of corporate governance practice in developing countries. The New Partnership for African Development (NEPAD) is a vision that was adopted by African leaders to create a new partnership between the Western countries and African countries in achieving socio-economic development of the African region. This initiative considers good corporate governance as one of the germane issues for poverty reduction through investment-driven economic growth and economic governance. The initiative highlights the fact that in order to reduce poverty in an economy, effective corporate governance practice should be the bedrock since it helps allocate resources efficiently and effectively. This implies that there is an overt correlation between good corporate governance and poverty alleviation.

Transcending the borders of Africa, Ghana as a commonwealth country is required to develop good corporate governance structures. In 1999, the CACG made available some sets of principles to ensuring effective corporate governance practices throughout the commonwealth (CACG, 1999). The principle is concerned with: The profitability and efficiency of Commonwealth corporate businesses, and their ability to create wealth and employment; the long-term competitiveness of Commonwealth nations in the global market; the stability and credibility of the Commonwealth financial sectors, both nationally and internationally; and the relationship between corporate businesses within an economy and their sustained capacity to partake in the global economy (CACG, 1999). This beefs up the call for understanding the prevailing situation in regards to corporate governance practice and make such understanding the heart for additional enhancement strategies in the Ghanaian setting.

#### **1.4 Statement of problem**

The significance of corporate governance for socio-economic development of Ghana is rapidly being favorably noticed by academics, business professionals, policymakers as well as regulatory bodies. The transfer of State-Owned Enterprises (SOEs) to private individuals mirrors this favorable notification. The recommendations of the companies code 1963 (Act 179), Securities Industry Laws, 1993 (PNDCL 333) as amended by the Securities Industry Act, 2000 (Act 590) as well as the listing regulations, 1990 (L.I. 1509) of Ghana Stock Exchange (GSE), all point to the fact that corporate governance is incrementally receiving the necessary attention in Ghana. Academics, policymakers, business professionals as well as regulators have the notion that the adoption of the recommended guidelines would serve as a significant step in influencing

management and director behavior in regards to effective and efficient discharge of their duties and responsibilities in enhancing shareholder interest (Moscu, 2013; Okpara, 2010; Ward, 2003)

The promotion of the guidelines of good corporate governance and the transfer of SOEs to individual shareholders are important developments. However, for an effective and efficient system of corporate governance to prevail, knowledge on corporate governance is needed to serve as the basis for decisions. Unfortunately, research on understanding the driving forces of effective corporate governance in Ghana is scant. Mensah, Aboagye, Addo and Buasti (2003) in their study in Ghana found that corporate governance practice influences efficient and effective mobilization of investible funds. Also, Kyereboah-Coleman and Biekpe (2006) examined the impact of board characteristics on firm performance of non-financial listed corporate organizations on the Ghana Stock Exchange and found some relationships between board characteristics and firm performance. McGee (2009) in a study on corporate governance in transition and developing countries made an attempt to highlight the main attributes of corporate governance in Ghana.

However, it is worth mentioning that these limited studies on corporate governance in Ghana have concentrated on the relationship between corporate governance mechanisms or board characteristics and firm performance using available data from annual surrogate statements and other archival reports of companies. Hence most studies of such nature are impeded in the sense that they are limited to employing company financial and market performance as surrogate measures to effective corporate governance (Payne, Benson & Finegold, 2009). They have revealed inconclusive results and have not painstakingly covered the elements that drive the effectiveness of corporate governance practices in corporate organizations. Studies that have combined interviews, observations and archival records to enrich conventional data sources to explore the dynamics and intricacies of corporate governance practices have, to the best of the researcher's knowledge, not been conducted within the Ghanaian context. Therefore, it is against this backdrop that this study sought to examine the driving forces of effective corporate governance within the context of Ghana.

### **1.5 Objective of the study**

The main objective of the study was to examine the driving forces of effective corporate governance in Ghana. Dul and Hak (2008) opine that there are two kinds of research objectives; theory-oriented objective and practice-oriented objective. Whilst theory-oriented research objective aims at contributing to the development of theory, practice-oriented research objective aims at contributing to the knowledge of particular professionals responsible for a specific task. Consequently, this study combined the two elements by contributing to the development of theory as well as to the knowledge of business practitioners. This objective was divided into three sub-divisions. These were:

- to explore the concepts currently in the literature that are suitable for evaluating effective corporate governance;
- to assess the prevailing situation in regards to the effectiveness of corporate governance in Ghana, and the elements that drive this effectiveness; and
- to recommend auxiliary issues for further improvement of corporate governance in Ghana.

### **1.6 Research question**

Given the importance of corporate governance in Ghana, the principal research question of this study was: What are the driving forces of effective corporate governance in Ghana? This principal research question mirrors two important aspects: The need to appreciate corporate governance in the context of Ghana as well as the existing corporate governance practices in Ghana; and the functional objective of corporate governance.

### **1.6.1 Specific research questions**

In addressing the principal research question, a division into three (3) specific questions was made:

- What are the concepts available in the extant literature that are suitable for evaluating the effectiveness of corporate governance? This specific research question was answered by reviewing the extant body of knowledge. This helped in fashioning out the genesis for acquiring an understanding into the study in hand. Also, the concepts that were employed to exploring effective corporate governance were uncovered.
- What is the prevailing condition in regards to corporate governance effectiveness in Ghana, and the elements that drive this effectiveness? This question addressed the issue of corporate governance effectiveness in Ghana. It assessed the prevailing corporate governance practices in Ghana. The concepts that were uncovered in addressing the first specific question were applied in this assessment.
- What significant issues could be suggested as auxiliary for further development of corporate governance in Ghana? This contributed by highlighting those concerns that are needed to be looked at to further enhance the practice of corporate governance in Ghana.

### **1.7 Significance of the study**

The significance of a research can be evaluated on two main aspects: Scientific significance and social significance. The scientific significance of a research has to do with the importance of the study to the extant body of knowledge. In the context of this study, the social significance is explicitly connected to the importance of the empirical observations of corporate governance in general and specifically, Ghana. The significance of corporate governance arises from its influence on a corporation's capability to attract capital providers, allocate resources in a more efficient and effective manner, and achieve long-term sustainability (Bijalwan & Madan, 2013; Leech, 2013; Huse, Hoskisson, Zattoni & Viganò, 2011; Larcker & Tayan, 2011, Lamm, 2010; Okpara, 2010; McGee, 2009; Huse, 2007; Knell, 2006; Hilb, 2006; Kyereboah-Coleman & Biekpe, 2006).

To add up to the general significance of corporate governance, Ghana is supposed to improve good corporate governance practice as a vital measure for tackling issues of poverty alleviation. Corporate governance plays an important role to the development of the private sector, which is considered as the 'engine of growth'. Therefore, it is imperative for a country to develop good corporate governance structures since the growth of a country's private sector, *inter alia* depends on an incessant availability of long-term capital (OECD, 1999; World Bank, 2000). Emergent economies like Ghana, are more often than not, confronted with the challenge of attracting the required foreign capital to stimulate growth. By improving corporate governance, a country's competitiveness will be enhanced in attracting foreign capital (Bijalwan & Madan, 2013; McGee, 2009; Rubach & Seborá, 1998).

In order to sustain and encourage more foreign direct investment inflows into the Ghanaian economy, issues of corporate governance are needed to be looked at. This is because good corporate governance practice helps in preventing corporate scandals, accounting fraud, insider trading, misleading disclosures, self-dealing, excessive compensation packages and possible civil and criminal liabilities of corporations (Larcker & Tayan, 2011; Lipman & Lipman, 2006). Holding other things constant, corporate organizations can improve their performance and get easy access to capital by improving the quality of corporate governance. This stems from the assertion that "[g]ood corporate governance regime can absolve the harm that emanates from corporate deficiencies and address issues such as poor business leadership, unrelenting poor firm performance and a common wearing away of confidence in and around corporate organizations"

(Agyemang, Aboagye & Ahali, 2013, p.4). By accruing knowledge of, and suggesting measures that are needed for the improvement of quality corporate governance practices in Ghana, this study will assist in improving Ghana's competitiveness in attracting foreign capital as well as motivating local businessmen/businesswomen to invest without any doubts.

Corporate governance is dependent on the effectiveness and efficiency with which resources are allocated within an economy (OECD, 2004; World Bank, 2000; OECD, 1999; Clarke & Clegg, 1998). Investment decisions made by corporate organizations are driven by the framework of their corporate governance structures. This means that, to the extent that corporate organizations allocate resources in an economy, the effectiveness and efficiency of allocation of these resources depend on the efficacy of their corporate governance structures. Conducting research on corporate governance in Ghana, and suggesting measures for its improvement will assist in enhancing the allocation of resources in the Ghanaian economy and consequently, contributes to the socio-economic development of Ghana.

Even though globalization has been inclined to standardize specific features of corporate governance practices (such as board independence), global corporate governance structures in general, have widely remained diverse. These differences mirror exclusive combination of legal, economic, societal, cultural and other factors that have evolved over time (Larcker & Tayan, 2011). Therefore, conducting research on a national context is vitally important to get an in-depth understanding of how corporate governance structures work and to sketch out the behaviors of corporate managers.

A significant amount of research has been conducted on corporate governance. However, most of these works have been carried out on developed economies. It is worth considering that issues of corporate governance are vital for developing and transition economies (Okpara, 2010) like Ghana in that, developing economies are characterized by concentrated ownership and inefficient capital market. There is an absence of the long-established financial institution infrastructure in developing and transition economies to address the issues of corporate governance. McGee (2009, p. 10) put forth that studies on corporate governance in transition and emergent economies are important in that "the subject of corporate governance is new for them and even their top government and private sector leaders have little or no experience governing market oriented private firms that have a public constituency ...". This research in hand contributes in partially bridging the research lacuna on corporate governance issues and highlights the barriers and hindrances preventing the development of good corporate governance practice in developing countries particularly, Ghana.

## **1.8 Research methods**

Although chapter five provides the methodology and research methods employed in this study, this section presents a gist of it. In addressing the study's goal, objective and research sub-questions, the strategy for this research needed to back both corporate governance practice in Ghana, and the meaning and insight of its development. The application of a qualitative approach in carrying out research on corporate governance has increased recently. Yin (2011) argues that, qualitative research approach has recently become a pleasing, if not the mainstream, kind of research in both academic and professional fields of operation. In their study, McNulty, Zattoni and Douglas (2013) revealed that qualitative studies on corporate governance have increased in absolute figures since the 1990s, but still remain a small proportion of works on corporate governance. Since corporate governance is considered as an "evolving, complex, global, multi-level phenomenon" (McNulty *et al.*, 2013, p.184), it requires an enquiry that can be explored and examined using a qualitative research approach. In line with this, this study aspired to use qualitative case study approach to explore and examine corporate governance practices in Ghana in a real empirical context. The research approach provided the researcher an opportunity to access and generate a comprehensive

or detailed as well as sufficient data essential for answering the research sub-questions put forth by the study.

This study was conducted in the following four stages: An extensive review of the extant body of knowledge in relation to corporate governance, case selection, data collection and analysis of data.

### ***1.8.1 Extensive review of literature***

A vast number of books and articles explains corporate governance in regards to its significance, challenges and implementation. This stage of the study began with a painstaking quest of all relevant literature on corporate governance. It proceeded to examining the mechanisms that could be applied to mitigate the principal-agent problem in a corporate organization. Based on this examination, the general model of corporate governance was developed, that served as a guiding framework for this study. After the development of this model (See figure. 4.2), the researcher reviewed the practice of corporate governance in the context of developing countries and for that matter, Ghana vis-a-vis the various corporate governance mechanisms found in the extant literature. Thereafter, a pilot study (See section 4.6) was carried out to verify the conclusions that were drawn from the review that the researcher conducted by comparing corporate governance practice in Ghana and that of the various mechanisms of corporate governance. The pilot study supported the researcher's conclusion that, only two mechanisms namely, the ownership structure and the board of directors work in the Ghanaian context. After the pilot study had corroborated the conclusions drawn from the extant literature by the researcher, the actual conceptual framework (See figure. 4.3) of the study was then developed. Finally, the study's propositions that were to be tested against the study's conceptual framework were formulated.

### ***1.8.2 Research propositions***

A proposition is a cautious and hypothetical association between abstract constructs that is formulated in a form of declaration (Bhattacharjee, 2012). This declarative statement does not necessarily have to be a fact, but must be empirically tested to establish whether it is true or false. With an absence of propositions, case studies will probably be difficult, in that an investigator would probably be fascinated to capture 'everything', which is not possible to carry out. Propositions limit the scope of the study. Yin (2003, p. 23) suggests that 'the more a study contains specific propositions, the more it will stay within feasible limits'. Accordingly, five research propositions were formulated. These were:

- Proposition 1: *Shareholders with larger shares exert shareholder control in a company.* This proposition addresses the ownership structure and how it leads to shareholder control in a corporate organization.
- Proposition 2: *Effective and efficient board meetings lead to a panoptic board control in a company.* This proposition addresses how effective board meetings are and how they result in board control in a company.
- Proposition 3: *The non-duality structure with independent chairperson results in a panoptic board control in a company.* This proposition shows how board independence is linked to board control. In other words, how Chief Executive Officer-Chairperson separation leads to board control
- Proposition 4a: *Instituting a board audit committee with independent non-executive directors as its members leads to a panoptic board control in a company.* This proposition addresses how the setting up of an independent board audit committee leads to board control.



Proposition 4b: *Establishing a board remuneration committee with independent directors as its members leads to a panoptic board control in a company.* This proposition addresses how the establishment of an independent remuneration committee leads to board control.

### **1.8.3 Case selection**

Stake (1994) suggests three main types of case study: Intrinsic case study, collective case study and instrumental case study. The author describes an intrinsic case study as:

[N]ot undertaken primarily because the case represents other cases or because it illustrates a particular trait or problem, but because in all its particularity and ordinariness, [the] case itself is of interest....The purpose is not to come to understand some abstract concept or generic phenomena...The researcher temporarily subordinates other curiosities so that the case may reveal its story (p.237).

Collective case study is where a variety of cases is studied together in order to investigate the phenomena, population, or general setting. Instrumental case study is used to achieve something other than a specific situation (Baxter & Jack, 2008). It provides an insight into an issue or theory refinement. Stake (1994, p.237) contends that instrumental "... case is of secondary interest; it plays a supportive role, facilitating our understanding of something else". It often looks at in-depth, its context scrutinized, its ordinary actions detailed, since it assists the researcher to pursue his/her external interest.

Since this study was interested in gaining an insight and understanding of corporate governance practices in Ghana, the instrumental case was applied. Stiles and Taylor (2001) argue that corporate governance is an issue in listed corporate entities where the issue of ownership and control, which rest at the center of the corporate governance discourse, will surface. Listed corporate entities are likely to have widely fragmented ownership since they have the propensity to create capital from a very large number of capital providers. They also have the tendency to be large. In the context of this study, large corporate entities that are listed on the Ghana Stock Exchange (GSE) based on Ghanaian standard were selected. The criteria for this selection are provided in chapter five (see section 5.3.1).

### **1.8.4 Data collection**

Data gathering for qualitative study typically engages the researcher to relate with a phenomenon in its real-world context and the individuals in them (Yin, 2011). This study employed three sources of data collection techniques to gather data: Archival records, semi-structured interviews and observation (see section 5.6). All the three techniques complemented each other. Each technique gathered different forms of data and had helped the study in one way or the other. The main aim for data collection was to create a storehouse of information upon which the researcher could answer the research questions of the study, particularly specific research question two. This multi-approach system was used to maximize the series of available information to the researcher, enhance data credibility as well as to offer a source for triangulation among these methods. Each of these methods had its strengths and weaknesses, and by employing a combination of methods, weaknesses of one method were substituted by the strengths of the other. This combination also offered the researcher differing views about the subject matter.

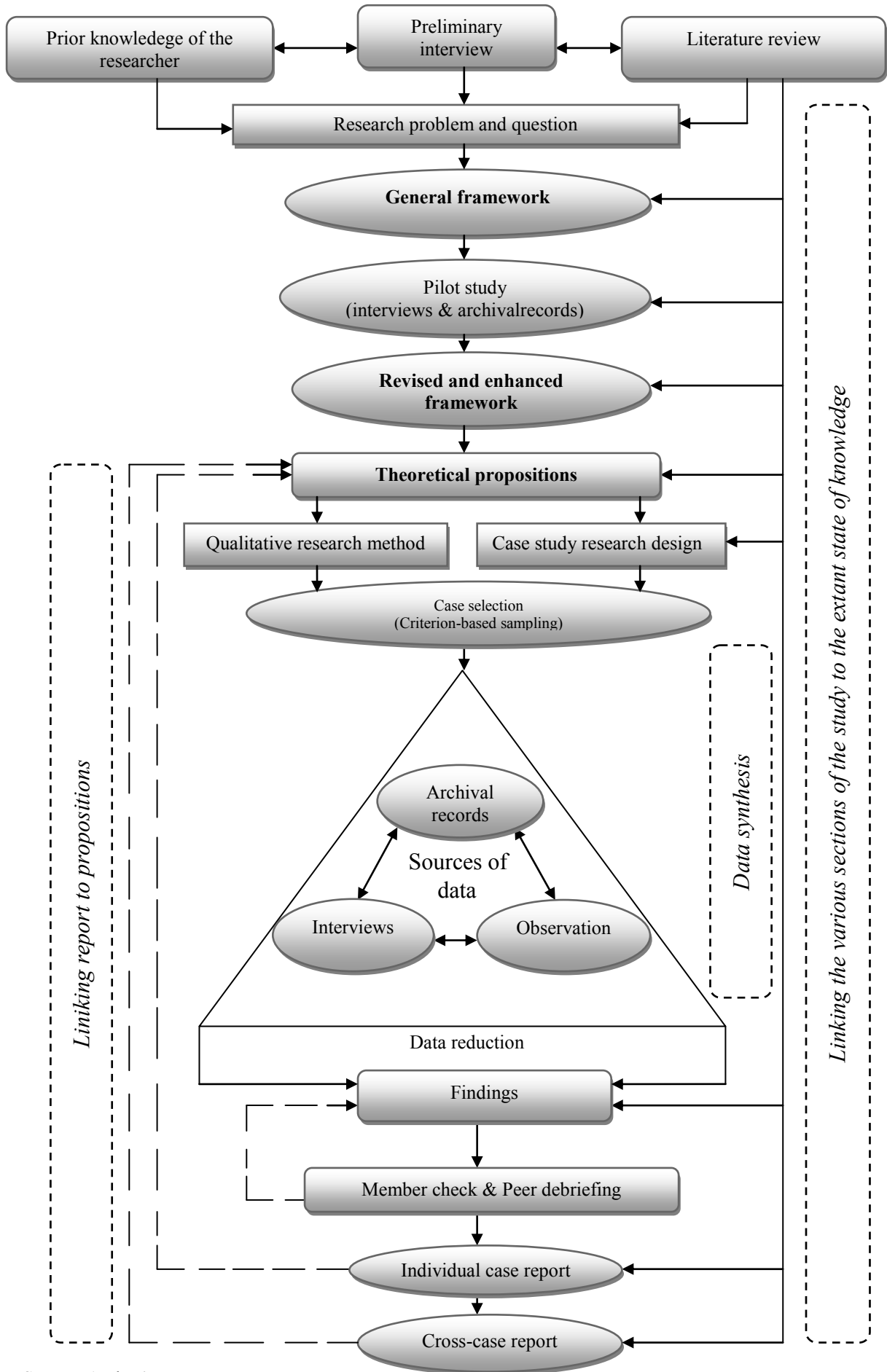
Even though archival records were first examined by the researcher, data collection was in actual sense an iterative and interactive method employing all three sources of data. For instance, the

archival records offered the researcher historical backgrounds of the companies, but these information gained weight through the introduction of other sources of data. During the interview session, relevant and interesting developments arose that helped the researcher. These developments were not available in the archival records. Also, interesting developments were highlighted during the observation session in that, some information that were gathered from the interviewees were in contradiction with what prevailed during the annual general meetings.

### **1.8.5 Data analysis**

Case study analysis typically involves detailed case write-ups for each case (Eisenhardt, 1989a). Those write-ups are often simply pure descriptions but they are central to the generation of insight (Gersick, 1988; Pettigrew, 1990). McNulty *et al.* (2013, p. 188) state that “corporate governance is a complex multi-level phenomenon and research can be developed along different levels of analyzes”. This study relied on theoretical propositions and the development of a case description for its analyses. With this, there was a descriptive framework for organizing the case study while following the propositions. Descriptions included narratives of the companies’ histories, tabular presentation of the companies’ performance and the ownership structure. Shareholders’ identities were also provided. Finally, data were summarized qualitatively in that, data acquired from each case were compared with other cases, and that resulted in the creation of four studies in one and one study from four (See section 5.7 for explanation). Figure 1.2 below shows the study’s overall methodological framework. A detailed explanation of this figure has been presented in chapter five.

**Figure 1.2: Methodological framework of the Study**



Source: Author's construct

### **1.8.6 Research quality**

In order to insure research quality, a conscious effort was made in regards to ensuring reliability and validity of this study (Bhattacharjee, 2012; Moore, 2010; Wicks, 2010; Yin, 2009) (see chapter 5 for a catholic discussion of the procedures taken). Also, the findings were communicated to informants and professionals to engage them again to respond and comment on the collected data and findings in connection with their exactness and quality. This procedure added credibility to the study by given respondents the opportunity to act in response to both the data and the final analysis (Cresswell & Miller, 2000).

In order to winnow out the logic from the errors, the concept of triangulation was extensively employed in this study. First, the application of data triangulation was attained through the use of multi-method approach of data collection. This technique helped the study to surmount the weaknesses associated with each of the data collection technique used in this study. Second, an experienced research assistant was contracted to assist the researcher during the period of data collection and analysis, this helped the study to achieve researcher triangulation (Bhattacharjee, 2012). Finally, the study also strived to attain both theoretical and methodological triangulation (see chapter 5 for further explanation).

### **1.8.7 Ethical matters**

Science has more often than not been stage-managed in unethical manner by people and organizations to convey or bolster their private agenda and engage in actions that are in stark contrast with the norms of scientific conduct (Bhattacharjee, 2012). Therefore, ethical issues in research are imperative. This study applied certain forms of ethical behavior that are universally accepted in the scientific society. First, before gathering the required data for the analyses of the study, respondents were informed that their participation in the study was voluntary, that they had the freedom to quit any time without any adverse effects, and that they were not going to be harmed in consequence of their partaking or non-partaking in the study. Also, prior to eliciting information from the respondents, the purpose, data collection techniques and significance of the research were communicated to them (see appendix 3).

Second, since one of the data collection techniques of the study was face-to-face interview, anonymity was impossible. However, respondents were assured of confidentiality in that they were promised their identities would not be divulged in any report, paper, or public seminars. This study did not claim that the application of confidentiality is akin to the use of anonymity, but it could offer a relevant help to curb unethical issues in scientific community. Finally, science has been argued to progress through sincerity, credibility and honesty, and investigators can best contribute their quotas to the benefit of science and the science community by wholly highlighting the weaknesses associated with their works so that other investigators could be saved from similar issues (Bhattacharjee, 2012). In the course of carrying out this work, the investigator encountered some limitations and they have been unequivocally and consistently itemized throughout the entire write-up.

### **1.8.8 Delimitations of scope**

As mentioned earlier that science progresses through sincerity and credibility on the part of the researcher, it was imperative for the researcher to divulge the entire limitations of the study that could influence its generalizability.

This was a study to establish the driving forces of effective corporate governance in Ghana thus the observable facts do not apply to other developing and transition economies. Also, the sample does not represent all organizations in Ghana therefore, the empirical observations cannot be a *pars pro toto* in the sense that, they cannot be generalized to cover corporate organizations that have not

been included in this study. However, the empirical results can be applied to other similar corporate organizations in Ghana and other developing countries in an analytical sense. With the application of inductive reasoning, the results can be applied to provide important appreciation in an effort to understanding the structure of corporate governance practices in those organizations. The rationale behind the decision to concentrate on corporate organizations in Ghana was that these corporate bodies significantly affect several stakeholders in the Ghanaian economy. Accordingly, it is desirable to ensure good corporate governance in corporate organizations in the sense that 'effective corporate governance practices can help increase stock price and make it easier for corporate entities...to secure low-cost capital.'(Agyemang & Aboagye, 2013, p. 136).

Notwithstanding the strengths of longitudinal case study research method, this study followed a cross-sectional case study method. The study therefore, presented cross-sectional and limited perspective of corporate governance practices in the selected corporate entities (Xiao, 2010). Although, the researcher was aware of the richer results this study could obtain from longitudinal case study design should he have adopted it, because of the limited time period of the entire doctorate studies, a cross-sectional design was employed to save time in order to meet the deadline of the programme (Shanahan, 2010).

Further, as citizens, corporate organizations and governments are always constrained with time and money, the researcher was no different. It was the researcher's strongest desire to conduct this study to cover all corporate organizations in Ghana, but because of the aforementioned constraints, the study was limited to only corporate organizations listed on the GSE. The researcher believed that if this study had taken into account all corporate organizations in Ghana, the study would have provided richer results. However, this step would have required more time and money to accomplish.

Lastly, after the researcher had again got to know that he would be constrained with time and money should he have gone ahead to conduct a study to cover all corporate entities on the GSE, he decided to concentrate entirely on all large corporate organizations listed on the GSE. Accordingly, those large companies were contacted, but not all agreed to partake in this study. And since this study was voluntary in nature, the researcher decided to carry out the study on the companies that agreed to participate. Consequently, the study concentrated on only four firms.

### **1.9 Outline of chapters**

The study consists of eight (8) chapters. Figure 1.3 below depicts the structure of the study. The present chapter is made up of the background of the study, the statement of problem, the research questions and objectives of the study, the significance of the study, a gist of the study's research methodology and finally, the organization of the study.

The second chapter addresses the various definitions of corporate governance, and the two contrasting theoretical perspectives of corporate governance: Shareholder perspective and Stakeholder perspective. It then proceeds to elaborate on the various corporate governance systems around the world namely, the Anglo-American model, Germanic model and Japanese model. It further highlights the debate on the possible convergence of the various systems of corporate governance, and ends with a discussion of the various principles and guidelines of corporate governance of OECD, CACG and Ghana.

The third chapter examines the theoretical foundation of the study. It begins with a review of the various theories of corporate governance. It then proceeds to bringing out the two main theories underpinning the study: Agency theory and Transaction Cost Economic theory. Finally, it examines the similarities and the differences between these two theories.

Chapter four examines the various mechanisms that could be employed to mitigate agency problem in an organization. It develops a general framework of effective corporate governance based on empirical evidence and proceeds to construct the conceptual framework of the study. It further formulates the study's propositions and finally, operationalizes the various variables in the conceptual framework.

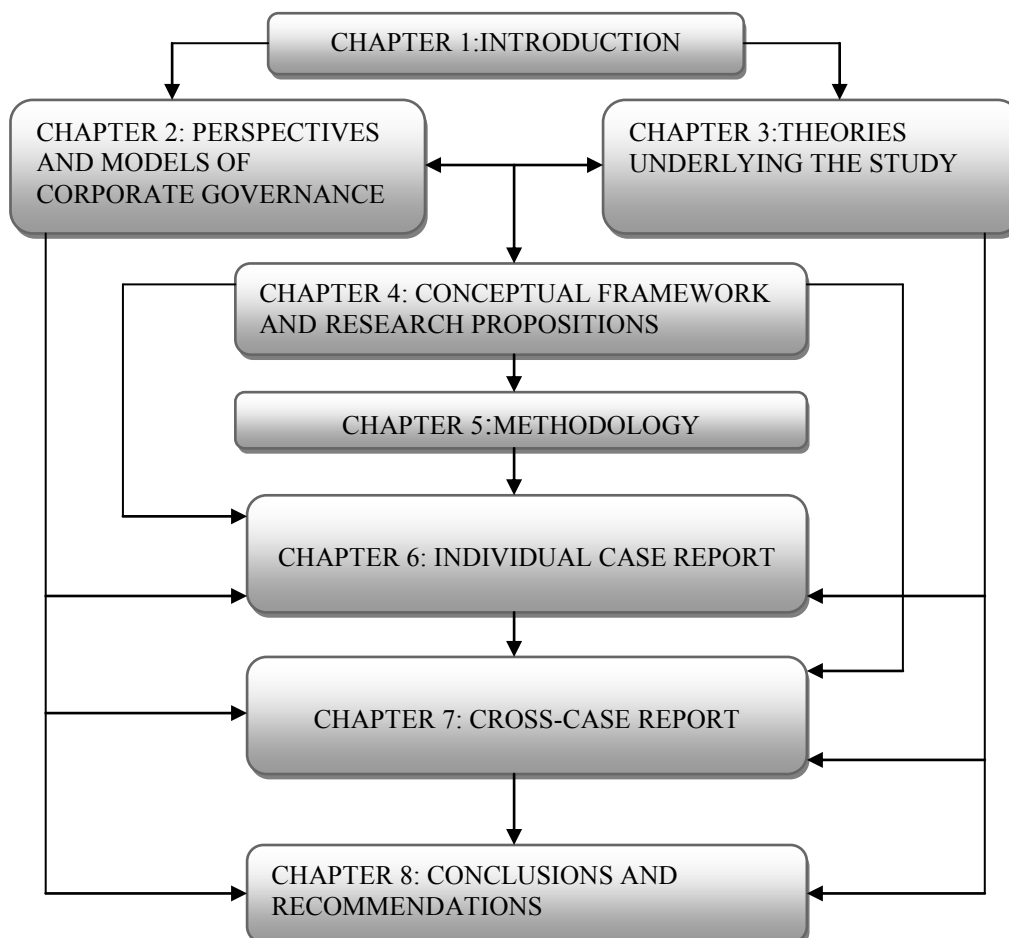
The fifth chapter examines the philosophical assumptions, research methodology, rationales for selecting qualitative analysis and case study research design, role of theory in research design, strategies employed to ensure research quality, data collection technique and analysis, the overall methodological framework of the study, ethical considerations and a summary.

The sixth chapter addresses the individual-case reports and discusses the research finding of the four organizations studied. It brings out the history, performance and the corporate governance arrangements of these four organizations.

Chapter seven deals with the cross-case report of the four organizations investigated. It then proceeds to compare the empirical evidence with the corporate governance principles of Ghana.

Chapter eight covers the conclusion of the study, and assesses the implications and importance of the research findings to the academic and professional bodies. It then brings out the contributions and weaknesses of the study. It proceeds to suggest other areas related to corporate governance that need to be researched into in the future. Finally, a concluding remark of the study is made.

**Figure 1.3: Structure of the study, with chapter numbers and their interconnections**



Source: Author's construct

### **1.10 Summary**

This chapter outlined the structure of the study. It introduced the background, statement of problem, research objectives as well as the research questions of the study. The background of the study addressed the rise of corporate governance in general and particularly, Ghana. This chapter also highlighted the significance of the study and a summary of the research methods. It finally provided the outline of the structure of the research.

The next chapter presents the various definitions of corporate governance, and the two contrasting theoretical perspectives underlying the study: Shareholder perspective and Stakeholder perspective. It then proceeds to elaborate on the various corporate governance systems around the world, namely the Anglo-American model, Germanic model and Japanese model. It further highlights the debate on possible convergence of the various systems of corporate governance, and ends with a discussion of the various principles and guidelines of corporate governance of CACG, OECD and Ghana.

# CHAPTER TWO

## PERSPECTIVES AND MODELS OF CORPORATE GOVERNANCE

Chapter one outlined the structure of this study; this next chapter examines the various definitions of corporate governance, and the two contrasting theoretical perspectives underlying the study: Shareholder perspective and Stakeholder perspective. It then proceeds to elaborate on the various corporate governance systems around the world, namely the Anglo-American model, Germanic model and Japanese model. It further highlights the debate on the possible convergence of the various systems of corporate governance, and ends with a discussion of the various principles and guidelines of corporate governance.

### 2.1 Corporate Governance

The term, Corporate Governance as a relatively new term has been in popular use for the past two decades to describe the general codes by which businesses are steered and controlled. Despite its newness, there is however, no single or universally accepted definition of this term by academic scholars or practicing managers. Fannon (2003) posits that corporate governance is multi-faceted with its debate raising more issues than have been resolved. However, two distinctive features can be noted among the various definitions of corporate governance. Firstly, the term is defined either too narrowly or broadly in its scope. Secondly, the various definitions reflect the two main perspectives of corporate governance.

#### *Definitions of Corporate Governance*

Cadbury (1992) suggests that corporate governance practices are there to boost an efficient and effective use of resources that require an accountability of the usage of those resources. Monks and Minow (2004) define corporate governance as the connection among various participants (such as chief executives, shareholders, management and employees) in determining a corporation's direction and performance. Shleifer and Vishny (1997) were also of the notion that corporate governance is the way capital providers (shareholders) are assured of receiving returns on their investments. Neubauer and Lank (1998) define corporate governance as structure and procedure to guide and control corporations.

Corporate governance defines the changes that influence institutional procedures, comprising of those appointing the controllers and regulators involved in organizing the production and distribution of services (Turnbull, 1999). Sir Adrian Cadbury posits that corporate governance is concerned with ensuring a balance between social and economic ends, and between individuals and communal ends (Iskander & Chamlou, 2000). Mathiesen (2002) defines corporate governance as a field of economics that examines how to secure or motivate efficient management of corporations by using incentive apparatus like contracts, organizational designs and legislation. Mathiesen further notes that, the term is often limited to the question of improvement in financial performance of a corporation (for instance, how corporate owners motivate corporate managers to deliver a competitive rate of return). Clarke (2004) opines corporate governance concept requires the distribution of rights and responsibilities amongst different participants in a corporation, be it the board, shareholders, managers and/or other stakeholders, and also brings out the rules and processes for making corporate decisions. Macey (2008) put forth that the whole idea of corporate governance is to safeguard the integrity of the promises, made by corporate businesses to capital providers. However, corporations are left on their own devices to define the content of the promises themselves. Lamm (2010) defines corporate governance as the use of formality, thoroughness and transparency to an amalgamated structure of corporate policy in order to ensure that only prudent



risks are taken by the corporate entity to achieve shareholder value as well as to succeed in the market.

The African Development Bank (AfDB) defines corporate governance as a mechanism that frames corporation's duties and powers to deliver benefits to investors and those who have been directly influenced by the actions of the corporation (Cooper, 2007). International Chamber of Commerce (ICC) also defines corporate governance as a link that narrows the gap among corporate managers, board of directors and capital providers or organizations that provide capital for investment to get a return. It further notes corporate governance ensures that boards of directors are accountable to the set objectives of the corporation, and that the corporation ought to abide by the rules and regulations. The Organization of Economic Cooperation and Development (OECD) describe corporate governance as the practice by which corporate businesses are directed and controlled (OECD, 2004). The Commonwealth Association for Corporate Governance (CACG) describes corporate governance as essentially about leadership: Leadership with efficiency; leadership with probity; leadership with responsibility; and leadership with transparency and accountability (CACG guidelines, 1999). The Securities and Exchange Commission of Ghana (2010) defines corporate governance as the modus upon which corporate bodies are managed and operated.

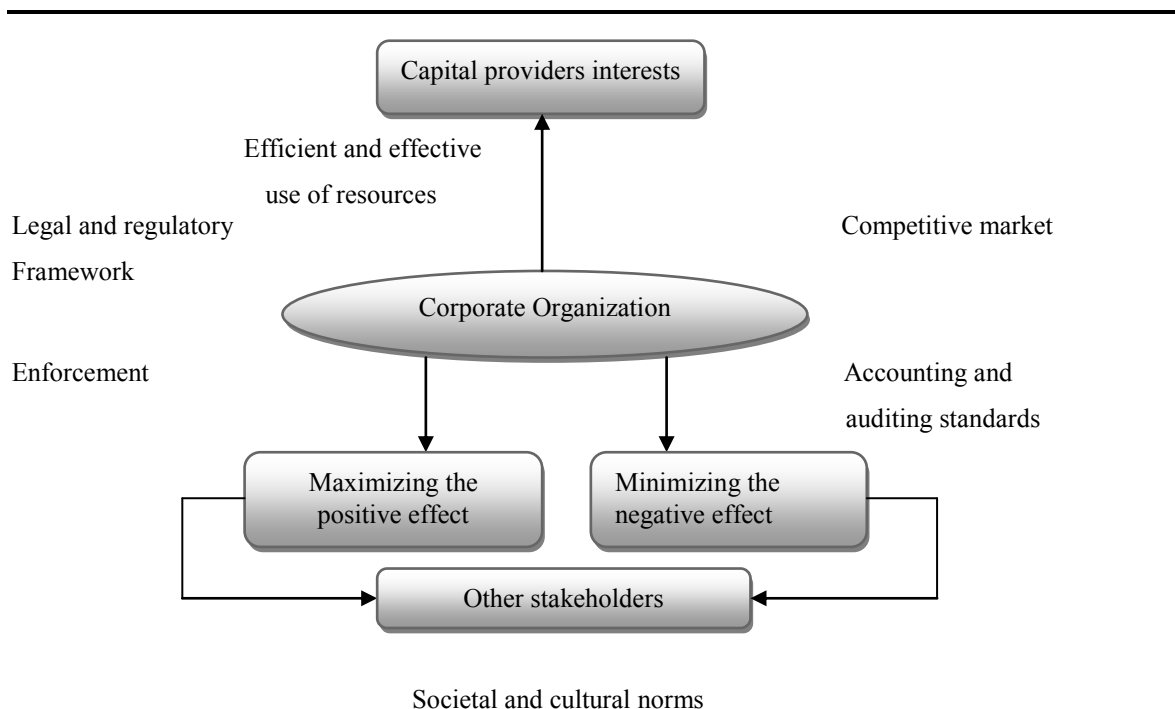
Although the above discussion talks or portrays the nature of corporate governance, it is doleful to note that all these definitions do not make any reference to ethical issues, which is the focal point of the current debate on reforms of corporate governance practice. Abusive behavior, accounting and auditing fraud, bribery, insider trading and harassment, and employee theft are all mentioned as evidence of declining ethical standards in corporations (Ferrell, Fraedrich & Ferrell, 2011). It is believed that as companies operate within communities, they should be subject to similar social and ethical standards that are applied to individual citizens. Instead of companies gearing their interests towards share price only, they should be accountable and answerable to the communities they operate within, the environment, their suppliers, their customers and the world in general. Whilst the board is responsible or accountable to shareholders (ie. the corporation's owners), its operations with respect to business ethics might have an influence on stakeholders' interests and thus influence the reputation and long-term interests of the corporate business (CACG, 1999). Hilb (2006) points out that for a world-class corporate entity to be innovative always and become more successful than its competitors, such company's board has to methodically and sustainably pursue and frequently measure the satisfaction and voluntary loyalty of equity holders as well as other stakeholders such as customers, employees (including management) and the citizenry. Board of directors always become unaccountable if its members decide to use their expertise to serve their own interests without taking into account firm value maximization, firm's strategic orientation and the interests of all stakeholders to which they are answerable to (Huse *et al.*, 2011).

Inferring from the above definitions or analyzes, one should be able to establish the role corporate governance plays in a corporate organization. In the context of this study, corporate governance can be understood as;

[A]n application of a set of powerful micro-policy instruments or an effective lever in a corporate business to ensure an efficient and effective use of resources in achieving the main objective of its capital providers, succeed in the competitive market, as well as maximizing its positive influence on other stakeholders (for example. managers, employees, creditors, suppliers, customers, labor unions and the local community as a whole) and to minimize its impacts considered as negative (Castellini & Agyemang, 2012).

Therefore, the concern of corporate governance is vested in the board and management, whose associations ought to be based on mutual reverence, trust and special uprightness.

**Figure 2.2: Corporate governance as defined within the context of the study**



Source: Author's construct

Figure 2.2 above gives a clear picture of how corporate governance is defined in the context of this study. It highlights how corporate managers are supposed to efficiently and effectively utilize limited resources of corporations to achieve the main objective of their equity holders. It also depicts how corporate organizations have a societal and cultural obligation beyond meeting the objectives of their equity holders. Good corporate governance practice in corporate organizations ought to back policies that offer acceptable living standard to other stakeholders such as employees, lessen risk for holders of debt, and develop the communities and environments they reside.

The figure also depicts a wide set of external driving forces that differ across countries. These forces have influence on a country's corporate governance system. These include; legal and regulatory framework, legal enforcement, competitive market, and accounting and auditing standards. These are considered in corporate governance discourse as external disciplining mechanisms on how management behaves.

## 2.2 Theoretical Perspectives of Corporate Governance

The various definitions of corporate governance discussed above mirrors two theoretical perspectives of corporate governance. These are: The shareholder perspective, which fits into the narrow scope of the definition of corporate governance; and the stakeholder perspective, which also corresponds to the wider scope of the definition of corporate governance. These two perspectives compete to define and determine the objective of a corporate business, whose interest the firm should serve, and the corporate governance structure.

The shareholder theory traces its origin to the works of Adam Smith (1776), Berle & Means (1932) and also the seminal paper by Jensen & Meckling (1976). This theory considers an organization as a device for shareholders to maximize their investment returns, on the basis that theoretically, shareholders are residual risk bearers (Jensen & Meckling, 1976). This means the objective task of

a corporate business ought to focus only on those who have monetary share of the corporation. Other stakeholders such as employees, suppliers, creditors and so on, who provide resources to the company do so on the basis of contracts that define the relation between their contributions to the firm's productive processes and the returns they get from those contributions (Lazonick & O'Sullivan, 2000). The implication is that shareholders' returns depend on the revenue (if any) that are left after the payment of all contractual claims.

Stakeholder theory, on the other hand, has gradually developed since the 1970s (Solomon and Solomon, 2004). One of the first demystifications of the stakeholder theory was exhibited by Freeman (1984), who proposed the general theory of the firm, integrating corporate accountability to a wider range of stakeholders. The fundamental issue of the stakeholder theory is that companies are too large, and their influence on society is ubiquitous that they should discharge accountability to many more sectors of society than just their shareholders (Solomon & Solomon, 2004; Solomon, 2007; Brink, 2011). In other words, an objective function of corporate businesses should not only be economically inclined, but also be socially accountable and efficient (Keasey *et al.* cited in Brink, 2011). This is because stakeholders are not only impacted or influenced by corporate businesses, but they in turn influence firms in some ways. In simple terms, they have a 'stake' rather than a 'share' in corporate businesses. Stakeholders herein include shareholders, managers, employees, suppliers, creditors, local communities, customers and the general public.

The discussion above leads the study to the debate between the shareholder and stakeholder perspectives, and the competing corporate governance structures around the world that are to be examined in the next section. For the purpose of this analysis, the shareholder perspective is defined as the maximization of a long-term market value of the firm, as characterized by its stock price, whereas the stakeholder context is described as the maximization of the total value of the firm, as distributed amongst all stakeholders such as shareholders, employees, customers, creditors, communities in the vicinity of the corporate businesses' operations, and the general public (Jensen, 2002).

In the early days of the Great depression, a debate emanated between Professor Adolf Berle of Columbia Law School and Professor Merrick Dodd of Harvard University on the role of corporate directors as fiduciaries. Berle (1931) contends that since powers of management are drawn from shareholders, it is the duty of managers to maximize the corporate business' value for the sole benefit of its equity holders. Dodd (1932) in response argues that opinions on the role and responsibilities of corporate entities would eventually get their way into the law books. His argument was that it is not only the duty of managers to maximize firm value to benefit its shareholders, but also to provide social benefits to other stakeholders. In the preface to the 1968 edition of his seminal work *The Modern Corporation and Private Property*, Berle interestingly accepted that successive events had confirmed Dodd's argument.

Jensen (2002) posits that even though stakeholder theory (that has its source from sociology and organizational behavior) is considered the major contender of shareholder theory, it is characterized by politics of special interest and managerial self-interest. The stakeholder theory has been popular and greatly acknowledged by numerous professional organizations, special interest groups and other organizational bodies, but it cannot be regarded as an appropriate competitor to value maximization since it fails to offer complete specification of the corporate objective function. Jensen (2002) argues that in addition to its incompleteness, the stakeholder theory serves the private interests of those who promote it, including outside managers, inside managers as well as directors of corporate businesses.

Danielson, Heck and Shaffer (2008) opine that if a corporate business is pressured to apportion some of its economic surplus to employees (ie. Paying wages in excess of the employees' marginal productivity) or by reducing prices to customers, they would benefit in the short-run. However, these policies might restrain future innovation, hurting shareholders and other stakeholders in the long-run. Hosmer (1995) suggests that in order to be considered as a stakeholder, it should be subject to how the individual or group at some point in the future can influence the achievements of the corporate business. This assertion has been buttressed by the Delaware Court, which ruled that the interest of other stakeholders ought to have thoughtful associations to the general interest of the shareholder (Walsh, 2002). Without this limitation, the stakeholder theory will become irreconcilable with corporate governance practice when the people who are considered as stakeholders increase significantly to the point where the concept "stakeholder" is no important for scrutiny. Stenberg (1997) argues that:

Stakeholder theory provides no effective standard against which corporate agents can be judged. Balancing stakeholder interests is an ill-defined notion, which cannot serve as an objective performance measure; managers responsible for interpreting as well as implementing it are effectively left free to pursue their own arbitrary ends (p.5).

Donaldson and Preston (1995) justify the stakeholder theory in the management literature, both explicitly and implicitly, on the basis of its descriptive accuracy, normative validity and its instrumental power. The authors recapitulate that even though these three justifications are mutually supportive, the normative base of the theory (i.e. why some claims, whether moral, property-based, and some associations are legitimate and worthy) attracts the attention of management professionals. Mcvea and Freeman (2005) contend that the structure of the stakeholder theory which developed out of a series of clinical studies of management practitioners over a period of ten years by Freeman (1984) has recently been spotted that, it has more influence on theorists and academics than corporate managers and entrepreneurs. The stakeholder theory perspective which was originally suggested as a strategic management apparatus, has since been 'hijacked' by management scholars to serve as a channel/conduit to make corporate businesses more ethical in the current debate of corporate governance. Therefore, it must be well-noted that to deal with situations that encompass business ethics and matters of conflict of interest that are more likely to raise public views, it would be more appropriate for boards of listed corporate organizations to accept the stakeholder point of view.

Nevertheless, the traditional shareholder perspective (ie. the finance model) of corporate governance is still attracting attention from management scholars as well as practitioners in the present corporate governance discourse (Healy, 2003). Healy (2003) points out that shareholder value is very important in terms of a country's economic development. In this line of argument, countries that apply the finance model in their corporate governance practices stand to benefit in terms of competition than countries that apply or adopt the stakeholder perspective (Healy, 2003). Jensen (2002) claims the main objective function of a corporate business in the finance model, as entrusted to its board of directors, is to maximize long term market value, which is primarily reflected in the company's stock price. Charkman (1994) however, asserts that the fundamental flaw of the shareholder model is its excessive attention on short-term market value. The performance of a corporate business is attentively monitored on three-monthly basis and thus exerting pressure on corporate managers to only concentrate on the current stock price, which subsequently leads to a rejection of the long-term market value of the corporate business. Jensen (2002, p.245) suggests that for corporate business managers to overcome this flaw there ought to be "a structure that will help them resist the temptation to maximize the short term financial

performance (usually profits, or sometimes even more silly, earnings per share) of the organization”.

The bone of contention between the shareholder and stakeholder perspectives is also reflected in the current discourse on Corporate Social Responsibility (CSR). The major question that arises is: What role should a corporate business play in terms of social responsibilities? Friedman (1970) states the only social responsibility of a corporate business is to use its resources to partake in activities that are purposely designed to increase or maximize its profits as much as it resides within the rules of the game. This means corporate businesses have to engage in activities that maximize shareholders’ wealth. Therefore, the only objective of a corporate business is to meet shareholders’ interests by maximizing their value, leaving the various social responsibilities to the government and other institutions. In simple terms, any corporate governance reforms ought to align management’s interests with that of shareholders, for example by aligning management’s incentive packages closely with firm profitability. This profit would benefit the entire corporation in that reinvested profits will assist in building up the corporation’s economic resources, thus allowing future capital investment and expenditure on valuable long-run ventures like research and development (Wearing, 2005). These activities will eventually help other stakeholders. For instance, the workforce will experience job security enhancement and the environment in which the firm situates will gain via huge efficient investment and a lesser amount of harmful industrial activities.

However, it has also been argued that a corporate business focusing only on maximizing shareholders’ value without considering CSR role may weaken or undermine its shareholders’ long term interest (Ferrell *et al.*, 2011). The environment of a business brings out numerous possible ethical conflicts. For instance: a) A corporate entity’s attempts to meet its goals may crash with workers efforts to accomplish their own goals; b) wishes of consumers for quality and safe produce may collide with a corporate entity’s goal to make sufficient returns, and c) top management’s aim to obtain considerable increases in remuneration may have a collision with shareholders’ desires to minimize costs and at the same time maximize the value of the firm (Ferrell *et al.*, 2011). Collins and Porras (1998) in their study suggest that shareholder value maximization has not been a major objective of corporate businesses that make more money. The authors conclude that corporate businesses that concentrate only on maximizing shareholder value are more inclined to perform badly than their counterparts that focus differently (*ie.* not only concentrating on maximizing shareholder value).

Therefore, the question that can be asked is: Is there any other way or approach to resolve the current debate between the shareholder perspective and the stakeholder viewpoint? Gamble and Kelly (2001) contend that changes are happening that will possibly make the traditional shareholder theory worthy of being accepted. They referred to these changes as “enlightened managerialism”. This is where corporations adopt non-legal binding codes in order to propagate best practice. Also, Gamble and Kelly observe the likelihood of an increasingly strong shareholder movement or ‘shareholder activism’, for example shareholder advisory group PIRC of Britain, CalPERS of US, l’Association pour la Defense des Actionnaires Minoritaires (ADAM) of France, TIA of Thailand and TIAA-CREF. These movements will serve to empower shareholders to act vehemently and efficiently in monitoring firm performance. This can be achieved through the modification of existing laws of governments to ensure greater shareholder democracy and greater accountability of corporations’ boards of directors to shareholders. Nevertheless, they admitted that increasing share ownership via privatization has not instituted a wider share-owning culture. Also, the authors support corporate pluralism and a more proper acknowledgement in firm governance of the risks incurred by all stakeholders- including shareholders, employees, suppliers, customers and so on.

The corporate pluralism position on the company in the stakeholding debate proposes to acknowledge the pluralistic structure of the modern company by changing the legal framework to accommodate it. The strength of this perspective is that it offers a way to make the company both more efficient and more legitimate..... (Gamble & Kelly, 2001, p. 115)

Jensen (2002) argues for an adjusted approach to shareholder theory and emphasizes the significance of firm value maximization; “two hundred years of work in economics and finance implies that in the absence of externalities and monopoly (and when all goods are priced), social welfare is maximized when each firm in an economy maximizes its total market value” (Jensen, 2001, p. 297). He admits that a corporate organization cannot maximize its value if it disregards other stakeholders’ interests. Therefore, he proposed an “Enlightened Value Maximization”, which he considers as identical to “Enlightened Stakeholder theory” to fuse the two theoretical perspectives. With this, there is “no doubt advocates of stakeholder theory would find it hard to accept the mechanism whereby focusing on firm market-value maximization leads inevitably to social welfare maximization” (Wearing, 2005, p. 12). However, leaving this pressing issue to one side, it appears logical to admit that maximizing more than one objective at the same time means ‘the absence of objective’.

[T]elling a manager to maximize current profits, market share, future growth in profits, and anything else one pleases will leave that manager with no objective. The result will be confusion and lack of purpose that will fundamentally handicap the firm in its competition for survival (Jensen, 2001,p.310).

Jensen (2001) further argues that stakeholder theory does not provide any criterion for what is better or otherwise, leaving corporate directors and managers with no criterion to solve corporate problems. He continues that if this is the case, why do corporate executives and directors accept stakeholder theory? He interestingly, states that the answer lies in the self-centered motive of managers of corporations.

Because stakeholder theory provides no definition of ‘better’, it leaves managers and directors unaccountable for their stewardship of the firm’s resources. With no criteria for performance, managers cannot be evaluated in any principled way. Therefore, stakeholder theory plays into the hands of self-interested managers allowing them to pursue their own interests at the expense of society and the firm’s financial claimants.....By expanding the power of managers in this unproductive way, stakeholder theory therefore increases agency costs in the economic system. Viewed in this way it is not surprising that many managers like it. (Jensen, 2001,p. 305).

This argument leads Jensen to agree on enlightened value maximization and enlightened stakeholder theory. By ignoring or mistreating any important constituency, firms should not expect to maximize their long-run market value (Jensen, 2001). In simple terms, for a corporate organization to succeed in the competitive market, it has to address the concerns of all stakeholders.

Jensen proposes this theory on a basis of finding a lasting solution to the bone of contention between the shareholder and stakeholder perspectives, but it is surprising to note that the term Enlightened Value Maximization can be changed into Enlightened Self-interest. This is because:

Findings on attitudes of stakeholding suggest that boards consider the embracing of the idea of stakeholders as one of the enlightened self-interest, rather than adopting a stronger version of the principle. Details of how the boards factored in stakeholders to decision-making remained hazy, leaving a sense of ad-hoc, case by case assessment, rather than any considered approach to stakeholder groups (Stiles & Taylor, 2001, p.101).

So far, this section has discussed shareholder and stakeholder perspectives of corporate governance. But the question is; is it possible for corporate governance to be enhanced by attempting to make some adjustments with regards to corporate ethical behavior? Many large corporate organizations have drafted a business code, but Kaptein (2004) put forth that the presence of a business code does not essentially mean that a corporate organization will stick to it, even though its contents at least, direct the corporate organization to the sort of business ethics it claims to endorse. However, Wearing (2005) contends that there are individuals who think corporate governance can be improved via extensive disclosure of a company's ethical programs.

It is obvious that the practical importance of shareholder and stakeholder perspectives of corporate governance will continue to be discussed for a very long period of time to come. Even though theoretically, it is important to highlight these two differing perspectives of corporate governance, it is worth noting that, in reality, the importance of corporate governance lies between these two distinctive standpoints.

## **2.3 Models of Corporate Governance**

There are many regimes written and recognized in and with the emergence of corporate governance. These regimes are on the stages and evolution of corporate governance in various countries such as Canada, China, Italy, Argentina, South Africa, United States, United Kingdom, New Zealand, Germany, Japan and many others. Various dimensions have however, been applied to distinguish these regimes into three broad models of corporate governance which have also evolved within the broader framework of the shareholder and stakeholder perspectives. These are the Anglo-American model, the Germanic model and the Japanese model (Weimer & Pape, 2000; Tricker, 1994). The discussion on corporate governance in this section will thus look at these three broad models.

### ***2.3.1 Anglo-American model***

The Anglo-American model reflects corporate governance practices in countries such as the United States, the United Kingdom, Australia, New Zealand, Canada, South Africa and other members of the Commonwealth including Ghana. These countries found under this model reflect the shareholder approach to corporate governance (Allen & Zhao, 2007; Solomon & Solomon, 2004; Bradley, Sundaram, & Malsh, 1999; Weimer, 1995; Tricker, 1994). Solomon and Solomon (2004) assert the web of relationships found in this model is only between a company and its owners (shareholders). The shareholder perspective states corporate businesses legitimate goals are to serve the interests of those who own it (i.e. stockholders) and are only accountable to them, while the legitimate claim of other stakeholders are principally satisfied by meeting the contractual terms between them and the corporation (Allen & Zhao, 2007; Solomon & Solomon, 2004). The shareholder perspective used by this model ensures that firms are run in the interests of shareholders with the aim to create wealth for them (Allen & Zhao, 2007). Shareholders' interest and sovereignty are mainly highlighted in the decision-making processes of a corporate organization.

Fisher and Lovell (2009) also view shareholders as only stakeholders who exert influence over the managerial-decision making processes as these managers, are viewed as the agents of shareholders

with the required objective of maximizing shareholder value. Scott (2001) indicates this arises from the perception that a firm is a property of those who have invested capital and it (firm) is required to pursue their (ie. shareholders) economic interests. With the objective to maximize shareholders wealth in a corporation, the Anglo-American model has further being found to measure the success of a corporation, for the most part, by its returns on invested financial capital. To achieve this, various approaches to suit this model are adopted to encourage managers of corporations to maximize the interests of shareholders. These are performance-related compensation schemes, transparent accounting standards and development of effective boards of directors (Roe, 2003).

With corporations accepted as properties of shareholders under the Anglo- American model, one may be tempted to lump up the idea of shareholders as one unit. This however, is clarified by Roe (2003) and, Weimer and Pape (2000). The authors argue that ownership of corporations under the Anglo-American however, have different shareholders being apportioned different level of stock or sovereignty towards decision-making. The united Kingdom for instance though with increasing changes in share ownership, foreign investors own twelve percent (12percent) of companies, followed by private individuals owning over twenty-one percent (21percent) of companies shares, while institutional shareholders hold about sixty-seven percent (67percent) of equity in corporations (Monks & Minow, 2002). In accordance with the data released by the Office of National Statistics in 2010, at the last quarter of 2008, institutional investors own virtually 40percent of UK equity, foreign investors own 41.5percent and individual shareholders own something over 10percent (Mallin, 2011). Denis and McConnell (2003) indicate these wide changing of shareholder ownership in this model results from existing laws to protecting minority shareholders. Grant (2003) put forward that the importance of this form of protection to countries under this model arose out of the United States market crash of 1929.

While there is existence of fragmented shareholding or ownership of companies under this model, the nature of board system is one-tier. The aim of firms is to be successful and for this to thrive, there ought to be the need for effective corporate governance. To ensure good corporate governance, an effectual and well-functioning management board is the most desired by all striving corporate organizations (Solomon & Solomon, 2004; Solomon, 2007). Solomon and Solomon (2004) suggest a firm's board is the heart of the company, and it needs to be in good physical shape, fit and carefully nurtured for the company to run effectively. Management decisions and control roles in this model are combined while executive and non-executive directors sit on the same board (Solomon & Solomon, 2004; Solomon, 2007; Maassen, 1999). This combination mirrors the original concept of the corporation founded by the entrepreneurial flair of the founder, hence imbibing decision-making as well as decision implementation role in the same person. Clarke (1993) argues this formation is viewed as advantageous as a result of its flexibility and quick adaptation it attains via speedy decision-making. Solomon and Solomon (2004) posit a company with 'good' corporate governance mechanisms, such as split roles or the best balance of executive and non-executive directors is apt to demonstrate more efficient monitoring of its board of directors.

However, recent developments of the folding up of corporations, viewed as failure in proper decision making has prompted changes to this form of board system. Changes advocated include increasing the number of non-executive directors to strengthen control over management, splitting the positions of board chairpersons and Chief Executive Officers (CEO), as well as formation of various board committees (Hopt & Leyens, 2004; Solomon & Solomon, 2004; Solomon, 2007). Currently, in the UK, there is a balance of executive and independent Non-executive directors (ie. at least 50percent of the board should be made up of independent Non-executive directors) for large companies, whilst smaller firms have at least two independent Non-executive directors (Financial Reporting Council, 2010). Non-Executive Directors (NEDs) are anticipated to be able to influence



management's decisions and offer autonomous views on firms' policies, performances, resources, appointments and standards of conduct. Majority of the NEDs are also expected to be independent of the board and free from any possible relationships which could affect their autonomy except those which concern their remuneration and shareholdings (Solomon & Solomon, 2004; Solomon, 2007).

Appointments of NEDs are carried out through a formal selection process by using a nomination committee to strengthen their independence. From the agency theory perspective, NEDs can be perceived as players who carry out a monitoring role on the rest of the board. Morck, Shleifer and Vishny (1988) point out that without the monitoring function of these NEDs; there are possibilities for executive directors to manipulate their position via gaining absolute control over their own payment packages and securing their jobs. However, there are perceptions among some academics and practitioners that the involvement of NEDs as outside directors on boards can damage corporate governance by reducing entrepreneurship in the business as well as weakening board unity (Solomon & Solomon, 2004; Solomon, 2007).

In 2008, the Combined Code of UK was amended in regards to the findings of a careful assessment of document presented by Financial Reporting Council (FRC). Two changes were made: 1) To get rid of limitations on a person chairing more than one FTSE 100 firm; and 2) for listed firms outside the FTSE 350, to permit the firm's chair to sit on the audit committee in case he/she is regarded independent on appointment (FRC, 2008). Smith review of audit committee contracted by FRC in 2008 also made the following recommendation:

[A]udit committees are encouraged to consider the need to include the risk of the withdrawal of their auditor from the market in their risk evaluation and planning [and that ]companies are encouraged to include in the audit committee's report information on the appointment, reappointment or removal of the auditor, including supporting information on tendering frequency, the tenure of the incumbent auditor and any contractual obligations that acted to restrict the committee's choice of auditor (Linklaters, 2008, p.4)

### **2.3.2 Germanic model**

Pape (1999) opines that countries that adopt the Germanic model of corporate governance, consider firms as institutions. These institutions are regarded as autonomous social units, encompassing shareholders' interests as well as other stakeholders' interests (Moerland, 1995a cited in Pape, 1999). This implies that Germanic model of corporate governance adheres to the stakeholder perspective. Stakeholders such as employees, lenders and shareholders influence managerial decisions in the Germanic model (Rubach & Sebora, 1998; Monks & Minow, 2002; 2008). The effectiveness and efficiency of the Germanic model depend mainly on returns on social capital (Rubach & Sebora, 1998; Roe, 2003).

Contrary to the Anglo-American one-tier board structure, the Germanic model is characterized by a two-tier board system (Sadowski Junkes & Lindenthal, 2005). The board system consists of the management board (*Vorsand*) and the supervisory board (*Aufsichtsrat*). Whilst the management board carries out the day-to-day operations of the corporate organization on issues such as manufacturing, finance, marketing, product development, strategy, distribution and supply chain, the supervisory board's duty is to approve financial statements, make decisions pertaining to major capital investment, mergers and acquisitions, pay dividends, and select and appoint the management board, supervise its activities and, if the need arises, fire its members (Larcker & Tayan, 2011; Sadowski *et al*, 2005).

The supervisory board represents employees. Firms with at least 2000 employees ought to have half of their seats of supervisory board reserved for employees, whereas in smaller firms, one-third of their supervisory board seats are to be set aside for employees (Larcker & Tayan, 2011; Mülbart, 1998; Hopt & Leyens, 2004). These requirements for employee representation are lawful obligations that can never be altered via bylaw alterations. Consequently, the Germanic model of corporate governance unreservedly considers jobs preservation, as in contrast to the Anglo-American model of corporate governance, which places emphasis on shareholder interests. This representation establishes harmony between capital providers and labor in wealth creation (Sebora & Rubach, 1998). The power given to employees is described as co-determination, and it is further spread out by the role of work councils as well as trade unions. Gilpin (2001) affirms that co-determination at the level of corporations has made labor a partner in corporate governance practices in Germany. Employees partaking in the decision-making processes of corporations make it possible for corporations to inform them when germane decisions are to be taken. Corporations also consult employees in making personal decisions. This consultation is law-determined via representation of employees on the supervisory board, national work councils as well as trade unions (Oxford Analytica cited in Monks and Minow, 2002). The national work councils have wider information and consultation rights as well as in possession of certain co-determination rights.

Information and consultation rights are embedded in personnel planning, changes in work procedures, the working environment, new technology as well as job content. However, this co-determination mainly exist in “social” matters such as the introduction of new payment procedures, rates of bonuses, performance-based pay, daily and weekly work schedules, overtime, short time working holidays, personal issues (recruitment, transfer and dismissal) and technical working devices (Sadowski *et al.*, 2005). Unlike collective bargaining, where lockouts and strikes are considered to be the main mechanism of solving industrial conflicts or disagreements, only diplomatic or non-violent negotiations are endorsed in the exercise of participating rights by national work councils (Sadowski *et al.*, 2005). Management and Work councils can reach a company-level agreement, which is known as work agreement (*Betriebsvereinbarungen*) (Bernhard, 1996 cited in Sadowski *et al.*, 2005).

In spite of the co-determination in the Germanic model, stockholders have a slight advantage in the decision-making processes when it comes to the appointment of the chairperson of the supervisory board (‘neutral’ person), who has a casting vote in times of tie in the vote. Stockholders can also fire supervisory board members with three quarters of a majority vote (Oxford Analytica cited in Monks and Minow, 2002). Yet, the power of shareholders in the Germanic model is different from that of the Anglo-American model in that, the principle of one-share-one vote is absent in the Germanic model. La Porta, Lopez-de-Silanes, Shleifer and Vishny (1997) argue that the principle of one-share-one vote is absent in Germany and therefore, shareholders’ protection in the Germanic model is comparatively less.

The degree of ownership concentration in the Germanic model is very high. Gorton and Schmid (1996) in a study, for instance, indicate that 80percent of listed firms in Germany have a non-financial owner holding at least 25percent of stocks. Special attentions are given to financial institutions as owners of corporations. The existence of proxy voting allows banks to vote on behalf of other stockholders, particularly persons who deposit their stocks in these financial institutions (Edwards & Fischer, 1994). Accordingly, financial institutions have a large degree of control, even over widely held corporations (Franks & Mayer, 2001). Banks and insurance companies perform a very significant role as spiders in the web of cross-shareholdings, comprising both financial and non-financial companies (Wenger & Kaserer, 1998; Scheneider-Lenné, 1994). The significant role of banks and cross-holdings means that the role of portfolio investors like pension and investment

funds have been negligible (Davis & Steil, 2000; Blommenstein & Funke, 1998). Larcker and Tayan (2011) stipulate that given the significant role financial institutions play, German shareholders conventionally do not have much influence over board issues as compared to the influence their counterparts exert in countries that adhere to the Anglo-American model. This subjects minority shareholders in Germany to a risk since they always have to depend on other stakeholders in safeguarding their rights.

Unlike the Anglo-American model, the role of stock market in the Germanic countries is minimal. Van der Elst (2000) argues the number of listed firms in Germany and their market capitalization are insignificant relative to the size of the economy. A minute number of corporations has share with high returns or turnover. In Germany, if large chunks of stocks change hands, it is done as a result of trade in block of stocks amongst large stockholders outside the stock market, resulting in price discrimination against minority shareholders (Franks & Mayer, 2001; Jenkinson & Ljungqvist, 2001; Koke, 2001). There is also an absence of hostile takeovers in Germanic countries (Bauman, 1998; Bernhardt, 2000; Walter & Smith, 1997). Contrary to the Anglo-American countries, a number of mechanisms has been developed to discourage takeovers in Germanic countries (KPMG, 1995, cited in Pape, 1999). For instance, takeovers are considered in Germany as destabilizers of businesses and therefore, discouraged (Gilpin, 2001). The exchange market's weakness is also compounded by negligent disclosure obligations coupled with auditing standards which serve the interests of tax authorities better than shareholders' interests (Fox, 1998; Nobes & Parker, 2000; Schmidt, 1998).

There are some changes that are occurring in the Germanic model. These changes are occurring as a result of pressures from market forces (Schilling, 2001). Solomon and Solomon (2004, p.168) opine "international institutional investments and increasingly open economies are forcing countries such as Germany to become more market-oriented". The current liberalization of capital markets and systematic movement from bank financing to financing via securities markets are starting to unknot certain characteristics of the Germanic model (Larcker & Tayan, 2011). There are also moves toward equity-oriented structure with the involvement of stockholders increasingly becoming relevant (Schilling, 2001). Management has been reacting by substituting the financial institutions on the supervisory board with past management and by seeking out 'anchor' stockholders (Digman & Galanis, 2009). The effect of the availability of exit as a result of globalization of production has altered the nature of co-determination by waning labor influence and in turn encouraging management discretion (Digman & Galanis, 2009). For example, Germany's code of corporate governance in 2000, involves some requirements for: Improved disclosure; encouraging performance-based pay, at ease voting as well as the enhancement of professionalism of the supervisory board; and making the board more accountable to stockholders. The creation of board committees is also gradually becoming relevant within the Germanic model of corporate governance (Hopt & Leyens, 2004).

Conventionally, management of German companies always think of how to meet the interests of their customers and employees, but currently, there is now adequate facts of a transformation of attention for example, in moving industrial facilities to other countries (Charkman, 2005). There is also a rule on management compensation and this forms the focal part of the legal amendments of the German Stock Corporation. The rule specifies that the overall compensation package of each member of the management board is to be disclosed by name and split into variable as well as fixed compensation constituents (Werder & Talaulicar, 2011). Digman and Galanis (2009), however, posit that despite recent changes in the Germanic model, its stakeholder orientation is not anticipated to vanish instantly. For example, corporate social responsibilities required from companies cannot stop, at least without substantial resistance from society (Monks and Minow, 2002).

### 2.3.3 Japanese model

The Japanese model considers corporate organizations as institutions. This model falls into the insider-dominated group (Hoshi, Kashyap & Scharfstein, 1991), and has a “credit-oriented” financial structure (Zysman, 1983); characterized by inter-firm stockholdings, inter-firm directorships and regular involvement by financial institutions (for example, banks) (Solomon & Solomon, 2004; Solomon, 2007). The economy of Japan, in spite of the reform after the World War II is to some extent characterized by the *Zaibatsu* (i.e. a group of family-based companies that emerged in the early 17<sup>th</sup> Century) (Bison, 1954 cited in Solomon and Solomon, 2004). Solomon and Solomon (2004) assert that these companies have since developed into the *Keiretsu* system, which is characterized by share ownership to one or more financial institutions (for instance, banks).

After the invasion of Japan, American authorities liquidated the *Zaibatsu* corporations with the aim of avoiding the concentration of power in a few. The American authorities did not insist on liquidating these corporations because they did not know how the power and centrality of banks within the *Zaibatsu* system worked. This oversight resulted in the emergence of another grouping from the *Zaibatsu* called *Keiretsu* (Coffee, 1991; Roe, 1993). The introduction of American-styled public corporations which is characterized by ownership dispersion by the American authorities was unsuccessful; individual ownership of common stock in Japanese public companies decreased from 70percent in 1949 to 22percent in 1996 (Kaen, 2003). Financial institutions (banks) aided in the creation and development of the various *Keiretsu* corporate groups as a device to pool mutual strengths and reciprocal assistance (Charkman, 1994). It has been argued that Japanese companies do not perceive stockholding relevant in terms of relationship among corporate partners. Learmount (2002) suggests cross-shareholding and exchange of stocks among corporate partners in Japan are simply attributes that indicate the closeness of business associations, other than the share ownership *per se*. The goal of the *Keiretsu* is to maximize the relationship value and financial performance of the *Keiretsu* as a ‘family’ unit contrary to the usual goal of maximizing the market value under the Anglo-American model (Kaen, 2003). This grouping of *Keiretsu* as family unit guarantees that individual corporations are safeguarded from hostile takeovers. For instance, Mitsubishi and Mistui are typical examples of the *Keiretsu*. The *Keiretsu* system of governance is characterized by relational contracting (contrary to the ‘contracting’ under the Anglo-American structure) between member companies to assist each other’s businesses and as a means to redistribute profits within the group. The author further argues that such practices are thought to be detrimental to the minority public stockholders’ interests in each company. This is because there is an absence of legal tradition to protect minority shareholders like the Germanic model, which is characterized by relatively weak legal tradition

The government of Japan also plays a significant role in the *Keiretsu*-bank system through its Central bank, Ministry of Finance and other ministries. The government acts as a monitoring agent to the *Keiretsu* via the formation of *gyosei shido* (an informal structure of ‘administrative guide’) for policy. This influence wielded by the government is done through the decision of the government to allow public servants who retire voluntarily at age 55, to join the private sector as managers. Rubach and Sebora (1998) consider it as part of the ‘old boy’ network that involves retired government servants to contribute directly in designing corporate strategies that are in accordance with policies of the government.

Jackson and Moerke (2005) posit the board system of the Japanese model is one-tier, which is dominated by inside directors, with no clear roles for outside directors. The one-tier board system reflects that of the Anglo-American model. And it is in sharp contrast with the Germanic model where it is characterized by two-tier board system (as mentioned earlier). The Anglo-American model is also in contrast with the Japanese model in terms of the composition of the board. This is

because; the board's composition within the Anglo-American model has majority independent outside directors. In the Japanese model, the legal duty or obligation of board of directors is such that they may be accountable to gross negligence in performance of their duty, including supervisory duty (Scott, 1996). The board is usually perceived to be representing employees rather than shareholders' interests. Whilst the Anglo-American structure considers board of directors as a link between management and stockholders, the significant role of Japanese board of directors is to facilitate and ensure employee participation in firm issues.

The system of governance of Japanese corporations consists of: The general assembly of stockholders; the board of directors; the offices of representative directors; and the office of auditors (Aoki, 1981 cited in Weimer, 1995). Corporate decisions are made by the board (Monks & Minow, 2002). The implementations of the decisions of the board are carried out by the office of representative directors. The supervisory role is also conducted by the office of auditors. The Commercial Code of Japan necessitate for the establishment of *Kansayaku* or a legal corporate auditors to monitor how the board complies with business laws and regulations (Ahmadjian & Okumura, 2011). The separation of the office of auditors from the board of directors and the office of representative directors reflects some of the characteristics of the Germanic model. It also partly mirrors some of the characteristics of the Anglo-American system in that, directors are elected and can be fired by the general assembly of stockholders.

The significance of stock markets in the Japanese model is lower than that of UK or US, but higher than Germany. There is an absence of active corporate control. Solomon and Solomon (2004, p.171) argues that "there is little takeover activity and shares are not traded as frequently in market based economies". In Japan, hostile takeovers are regarded as curse (Moerland, 1995a cited in Monks and Minow, 2005). The trend has been toward a more market-oriented Japanese system of corporate governance more recently (Cooke & Sawa, 1998 cited in Solomon & Solomon, 2004).

Gilpin (2001) argues that the Japanese model of corporate governance is changing. Japan has issued guidelines on exerting voting rights (Pension Fund Corporate Governance Research, 1998) and a series of codes of best practices (Corporate Governance Committee, 1998). In 2002, significant amendments were made regarding the inclusion of independent directors. It permitted corporate organizations to decide whether they preferred a system that was commonly known as "Anglo-American style" board with three committees- audit, remuneration and compensation. These three committees are supposed to be dominated by Non-executive directors (Ahmadjian & Okumura, 2011). Meanwhile, companies that followed this system were not obligated to adopt the *Kansayaku*.

#### **2.4 Categorization of corporate governance systems**

Attempts have been made to group the various corporate governance systems around the world as discussed in the previous section. Solomon and Solomon (2004) however, argue that such groupings is at best loose, and at worst not correct, as it represents in some instances, oversimplification of extremely complicated financial structures. The authors further argue that trying to force a country's corporate governance structure into a neat group is "reminiscent of the ugly sisters' attempts to squeeze their unshapely feet into Cinderella's shoe!" (p.148). The grouping is also useful for analytical purposes and allows analysis of the way in which economies interact with each one, as well as providing researchers with a pivot, on which they can rest their empirical analysis (Solomon & Solomon, 2004).

There are two widely accepted categorizations of corporate governance systems around the world. These are: The insider-dominated model; and the outsider dominated model. These groups are discussed in the next section.

#### ***2.4.1 Insider-dominated model***

The insider-dominated model refers to the corporate governance system in which a country's publicly listed firms are owned and controlled by a small number of major stockholders (Solomon & Solomon, 2004). Those small numbers of major stockholders may be members of the firm's founding family, banks, other firms (via cross-holding and pyramidal ownership structures) or the government. The insider model is relationship-based because of the predominant relationship between firms and their major stockholders. This model is characterized by ownership concentration, cross-holdings, cross-representation of managers and large shareholder associations in corporate decision-makings (Solomon & Solomon, 2004). Both the Germanic model and the Japanese model mirror the insider-dominated model.

There are problems that arise from the insider-dominated model. Solomon and Solomon (2004) argue that because of the close ties between stockholders and management, there is a reduced agency problem, which at first glance would be considered positive feature. The authors further argue that aligning the interests of stockholders with that of management is less difficult since they are the same people. Other problems are: Abuse of power because of low separation of ownership and control; limited information to minority shareholders; little transparency and regular abuse of firm's operations; impervious financial transactions; and misappropriation of funds.

#### ***2.4.2 Outsider-dominated model***

Solomon (2007) defines the outsider model as systems of finance and corporate governance where most large companies are controlled by their managers, but owned by outside stockholders such as banks or individual stockholders. The Anglo-American model reflects that of the Outsider-dominated model. The outsider-dominated model is also called market-based (Zysman, 1983). The model is characterized by: A priority of market regulation; shareholders of companies tend to have a transitory interest in the company; an absence of close relationships between stockholders and management; ownership dispersion; an existence of active market for corporate control-hostile takeovers; a primacy of stockholders rights over those of other organizational groups; strong investor protection; and shareholders have voting rights.

The existence of separation of ownership and control under the outsider-dominated model, results in agency problem. The agency problem is associated with costs to both management and stockholders (see chapter 3). The dominant characteristics of both the outsider and insider models are synopsized in Table 2.1.

**Table 2.1: Characteristics of Insider and Outsider models**

<b>Insider model</b>	<b>Outsider model</b>
Firms owned predominantly by insider stockholders who also wield control over management.	Large firms controlled by managers but owned predominantly by outside stockholders.
System characterized by little separation of ownership and control such that agency problems are rare	System characterized by separation of ownership and control which engenders significant agency problem
Hostile takeovers activity is rare	Frequent hostile takeovers acting as a disciplining mechanisms on company management
Concentration of ownership in a small groups (founding family members, other companies through pyramidal structures, state ownership)	Dispersed ownership
Excessive control by small group of 'insider' shareholders	Moderate control by large range of stockholders
Wealth transfer from minority stockholders to majority stockholders	No transfer of wealth from minority stockholders to majority stockholders
Weak investor protection in company law	Strong investor protection in company law
Potential abuse of power by majority shareholders	Potential for democracy
Majority shareholders tend to have more 'voice' in their investee companies	Shareholding characterized more by 'exit' than by 'voice'

Source: Solomon (2007)

## 2.5 Convergence of Corporate governance

### 2.5.1 Globalization and Corporate governance models

Bradley *et al.* (1999) are of the view that corporate governance practices are being shaped by globalization of industry. Globalization of industry as a growing trend of cross-border activities or actions of corporate businesses comprises trade, investments, and cooperation for the purpose of product development, production, sourcing and marketing (Clegg and Clarke, 1998). Clarke and Clegg (1998) state that these activities allow corporate organizations to venture into new markets, and utilize their technologies as well as organizational advantages to reduce risks and costs. World economies are increasingly becoming more amalgamated as corporate businesses expand their activities and assets beyond borders.

Globalization comes with greater economic efficiency, productivity, well-being, intense competition, greater needs for modifications and a greater demand of both national and international policies. Globalization also makes national economies to become co-dependent in terms of finance, trade and macroeconomic policy (Gilpin, 1987). There are various dimensions of globalization: Internationalization of corporate designs; technology diffusion, internationalization of financial markets; internationalization of the regulatory potentials of national societies into the world's political economy; and the diminished role of national governments in crafting the rule for global governance (Petrella cited in Clarke and Clegg, 1998). The other dimensions are research and development coupled with worldwide knowledge, and the alteration of the trends of consumption into cultured products with consumer markets worldwide.

These dimensions have consequences on corporate governance. They affect the local environment where the activities of corporate businesses take place. Clarke and Clegg (1998) argue that globalization of product market comes with strong competition in the home country, thereby increasing the intensity of competition to which locally-produced products are subjected.

Globalization of financial markets makes local corporate businesses to access finance or capital from foreign capital providers (investors). This is a laudable idea. However, this poses challenges to both the recipient economies and the capital providers. Whilst recipient economies are compelled to cope with the demands of international capital (for instance, by modifying their domestic system), capital providers would be confronted with monitoring and controlling challenges. Bradley *et al.* (1999) assert that increase in numbers of financial products, the

globalization of capital market as well as the increase in institutional capital providers (investors) makes it very difficult in terms of risk evaluation. Country to Country (cross-border) disclosure rules and regulations are underdeveloped and cannot serve as a reference point against which risk can be evaluated. Therefore, capital providers have to go through some complications in terms of assessment or evaluation since information that would be at their disposal is limited. This will also probably limit the extent to which management can be critically monitored by these investors. Globalization of capital also comes with challenges to governments' capability to regulate corporate businesses. This stems from the fact that, transnational companies may block or influence the manner in which legislations are enacted in order to safeguard their interests (Bebchuck & Roe, 1999).

The impact of globalization is reflected in the discourse of the probable convergence of the various corporate governance models, which would be discussed in the next section. In consequence of the growth of international trade and multinational corporate connections, the development of comparable international business ethics and standards are essentially increasing (Solomon & Solomon, 2004; Solomon, 2007). The process of globalization of capital, financial and product markets requires the insider model-bank-centered corporate governance of Germany and to a lesser extent Japan to move towards the outsider model-shareholder-centered corporate governance model of Anglo-American. Corollary to this, it might be useful to discuss the extent to which the Insider model of Japan and Germany may converge with the outsider model of Anglo-American in the next section.

### ***2.5.2 The discourse on convergence***

The debate on convergence has brought about two main contrasting thoughts or viewpoints: 1) The perspective, which argues that the systems will never converge; and 2) the perspective that argues the system will slowly converge. Tricker (1994) contends that differences will always continue and that:

[T]he one thing that seems certain is that the existing diversity and complexity of forms of corporate enterprise and patterns of corporate governance will continue, and very probably, increase. Alternative paradigms will be needed to improve the effectiveness of governance to influence the healthy development of corporate regulation and to understand the reality of the political process by which companies are governed, rather than the structures and mechanisms through which governance is exercised. In any development it will be important to avoid the polar extremities of governance based on an expensive bureaucracy or regulation and the adversarial class of vested interests. Governance powers and processes need to provide for the many different constitutional bases of modern enterprise and to reflect the reality of power over that entity, balancing independence and objectivity with executive commitment and motivation (p.8).

Gilpin (2001) posits that each of these corporate governance systems has its weaknesses and strengths. The Anglo-American model of corporate governance is characterized by dynamic and market-centered; with heavily, fluid capital that seeks out business opportunities internationally, specifically in innovative and new industries with the potential of high returns (Clarke & Clegg, 1999). The major shortcoming of the Anglo-American model is its volatility or unpredictability of finance leading to the focus on short-term benefits and disregarding long-term concerns of improving corporate businesses in industries, where returns are modest. On the other hand, the stakeholder models of Japan and Germany are more committed to long-term industrial strategies coupled with a stable capital investment arrangements as well as strong representative governance practices. Whilst the Japanese corporate governance system is more relationship-based, the US governance system is highly market-centered (Denis & McConnell, 2003). The stability and



security of the associations in the German corporate governance structure have led to a degree of rigidity in the face of new threats in competition. Clarke and Clegg (1998) contend that the speculative boom triggered by industrial wealth exposed the meagerness of secretive and most often, corrupt practices in Japan.

Corporate governance effectiveness depends on a suitable legal protection of capital providers coupled with ownership concentration (Shleifer & Vishny, 1997). Corporate governance structure in the US and the UK are based on strong legal tradition as well as effective board of directors than the German and Japanese corporate governance systems that are characterized by comparatively weak legal tradition with relatively weak investor protection and have more concentrated ownership in the hands of banks (Nanka-Bruce, 2009; Denis & McConnell, 2003; Roe, 2003; Guillén, 1999; Prowse, 1998; Shleifer & Vishny, 1997). Shleifer & Vishny (1997) contends most countries in the world lack the required legal tradition to develop governance practices. Denis and McConnell (2003) also point out that in spite of the variations in the legal tradition, there ought to be a reservation of some legal tradition for every country to achieve an effective corporate governance system- a reservation, which is not yet realized in many countries.

Rajan and Zingales (as cited in Denis & McConnell, 2003) hypothesize that, whilst the relationship-based governance model can overcome some of the problems associated with the lack of investor protection, the long term capability of corporate businesses to raise capital and allocate it efficiently will be better served under the market-centered model. Bradley *et al.* (2000) argue that the shareholder corporate governance model, such as in the US, allows for a more flexible and thus allows corporate businesses to better adapt dramatic changes. Coffee (1999) hypothesizes that there is the likelihood that corporate evolution will follow the path of at least resistance, and that evolution in corporate laws and regulations faces too many hindrances to be forecasted or predicted. When this happens, controlling shareholders will fight to protect their interests. Bebchuck and Roe (1999) surmise that the controlling stockholders of the world will fight to safeguard the private gains or benefits of control that comes with their concentrated equity ownership. Efforts to improve laws safeguarding minority stockholders obviously threaten those private benefits or gains of control. This means it is unlikely for a convergence in the legal structures since controlling stockholders are influential within economies. Denis and McConnell (2003) point out that since the controlling stockholders within economies are more influential, it makes it difficult to protect minority stockholders, hence difficult to converge.

The viewpoint of the possibility of convergence has raised two main ideas: Functional convergence (Coffee, 1999; La Porta La Porta, Lopez-de-Silanes, Shleifer & Vishny, 2000) and codes of best practices around the world (Denis & McConnell, 2003). Functional convergence happens when individual shareholders or/and corporate businesses adapt ways that develop strong governance in spite of an absence of legal traditions (Coffee, 1999; La porta *et al.*, 2000). For instance, shareholders can choose to invest their capital in corporate businesses that are considered to be more investor-friendly. Also, corporate businesses in less protective systems can tie themselves with effective corporate governance by listing on stock exchanges in a more protective regime or by being acquired by corporate businesses in a more protective system (Denis & McConnell, 2003).

Hansman and Kraakman (cited in Denis and McConnell, 2003) contend that there is a strong likelihood of convergence towards a single model. They opine that the basic corporate form has achieved a great deal of uniformity. That is, world economies are moving towards an agreement or consensus that management ought to act towards achieving shareholders' interests, and that this should involve all shareholders (i.e. whether large shareholders or minority shareholders). The authors identify three main factors that drive world economies towards a consensus: 1) The

competitive pressures of global commerce; 2) the failure of alternative models; and 3) the shift of interest group influence in favor of an emerging stockholders class.

There are indications of convergence in some areas. For example, there has been a report that Germany, Japan and the US depict signs of movements towards each other (Shleifer & Vishny, 1999; Hansmann & Kraakman, 2000 cited in Denis & McConnell, 2003). Large stockholders are now present in the US corporate businesses, whilst board structures in Japan and Germany are converging towards the Anglo-American model of a one-tier board system.

Denis and McConnell (2003) suggest that codes of best practices around the world are consistent with convergence towards an Anglo-American governance system. However, evidence from some countries is less favorable. Khanna, Kogan and Palepu (2006, p.84) opine that “globalization is not strong enough to overcome local vested interests. We conclude that globalization may have induced the adaption of some common corporate governance but that there is no evidence that these standards have been implemented”. Fiss and Zajac (2004) also conclude that many German corporate businesses engage in symbolic management by publicly adapting shareholder value orientation, but not implementing its practice.

The changes in corporate governance systems depict that the structures are drifting away from their traditional forms. This means that there are some answerable forces for this convergence. These are corporate governance codes of best practice, securities regulations, standard accounting and auditing practices, globalization of corporations, raising capital on overseas stock exchanges, research publications, international conferences and journals (Tricker, 2009; Jacques du Plessis *et al.*, 2011). On the other hand, there are also more than a few factors that will approximately ensure that there will be dissimilarities at all times. These factors are legal dissimilarities, standards in the legal procedure, stock market dissimilarities, ownership structures and history, and cultural and ethical groupings (Tricker, 2009; Jacques du Plessis *et al.*, 2011).

In wrapping up, McDonnell (2002) argues that:

The universe of theoretical possibilities is much richer than a dominant strand of the literature suggests, and we are currently far short of the sort of empirical evidence that might help us sort out these possibilities. Most commentators have focused on efficiency to the exclusion of other values. Moreover, even if convergence occurs, there is a possibility that we will not converge on the best system. Even if we converge to the current best system, convergence still may not be desirable (p.342)

## **2.6 Principles of corporate governance**

This section of the chapter addresses some of the principles for good corporate governance namely; the Organization of Economic Cooperation and Development principles of corporate governance (1999; 2004), Commonwealth Association for Corporate Governance (1999) principles of corporate governance and the principles for good corporate governance of Ghana.

### ***2.6.1 OECD principles of corporate governance***

The Organization of Economic Cooperation and Development (OECD) principles were endorsed by OECD ministers in 1999, and reviewed in 2004 to take account of recent developments and experiences in OECD member and non-member countries. These principles have since become an international benchmark for policy-makers, capital providers (investors), organizations as well as other stakeholders. The principles are: i) Ensuring the basis for an effective corporate governance framework; ii) the rights of shareholders and key ownership functions; iii) the equitable treatment

of shareholders/stockholders; iv) the role of stakeholders; v) disclosure and transparency; and vi) the responsibilities of the board . These principles are discussed below.

***Principle i: ensuring the basis for an effective corporate governance framework***

This principle requires countries to promote transparent and efficient markets coupled with rule of law, and clearly articulate the division of responsibilities among different supervisory, regulatory and enforcement authorities (OECD, 2004). It requires a country's corporate governance framework to impact on its overall economic performance, market integrity as well as creating incentives for market participants, and promoting transparent and efficient markets. The principle emphasizes largely on probity, accountability and transparency among institutions that revolve around corporate governance. Good dose of these three vitally important aspects to ensuring good corporate governance "might take the sting out of the fear of the abuse of power that underlies many protests" (Charkman, 2005, p. 19). A clearly articulated division of supervisory, regulatory, and enforcement authorities is needed to ensure that the interests of both the private and public sectors are met. In order to ensure this, the principle requires that those authorities ought to have the ability, integrity and resources to fulfill their duties and responsibilities in a more professional and objective way.

***Principle ii: rights of shareholders and key ownership functions***

This principle requires a country's corporate governance framework to safeguard and facilitate the rights of stockholders. These rights include: i) The right to secure methods of ownership registration; ii) the right to convey or transfer stocks or shares; iii) the right to obtain important and governance information on a timely and regular basis from the corporate business; iv) the right to partake and vote in general shareholder meetings; v) the voting right to elect and remove board members; and vi) the right to share profits of corporate businesses.

The right to timely and regular information gives shareholders opportunity to partake effectively in the decision-making processes of corporate organizations. The buying and selling of stocks depicts the existence of the corporate control that can be exerted by shareholders through market for corporate control. This principle allows OECD member countries to take away barriers and restrictions that hinder the transfer of shares in the processes of market for corporate control. The Anglo-American view on corporate governance reflects this principle.

Shareholders right to partake in the election of board of directors makes election processes more effective and brings on board, independent members who will safeguard their interests. In the Anglo-American model of corporate governance, directors are elected by shareholders, and the members are regarded as agents of stockholders (principals).

This principle reflects the shareholder perspective on corporate governance in which stockholders are regarded supreme and are permitted to exert definitive control over corporate businesses. Contrariwise, there is an inherent weakness in this principle in that, pointing out extensive rights of stockholders is different from effective corporate governance (Frederick, 1999). Extensive rights are made available in some world economies but the knack of stockholders to influence the corporate business is limited (OECD, 2003). This means that there are some mechanisms that are needed to facilitate this right.

***Principle iii: the equitable treatment of shareholders***

This principle requires that a country's "corporate governance framework should ensure 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" (OECD, 2004, p. 20). This principle calls for enactment of laws that will protect minority

shareholders. Denis and McConnell (2003) assert that any effort to improve laws to safeguard the rights of minority stockholders clearly threatens those private gains or benefits of control. The authors, further point out that those controlling stockholders are influential in corporate businesses; therefore, enacting laws to protect minority shareholders will be difficult. Zingales (as cited in Denis and McConnell, 2003) hypothesizes that the premium on voting shares in Italy is so much larger than any other nation of the world in that the law does not satisfactorily safeguard the rights of minority stockholders given whoever controls the corporate business scope to dilute minority stockholders. Bianchi and Enrique (1999) also assert that an effort by the government of Italy to increase the protection of minority stockholders was unsuccessful. These arguments point to the fact that, although the enactment of laws to protecting the rights of minority shareholders are categorically emphasized by this principle, it is very difficult to enact such laws in regards to the presence of controlling equity holders.

#### ***Principle iv: the role of stakeholders***

This principle calls for the recognition of the rights of stakeholders via enactment of laws or mutual agreements as well as an encouragement of active collaboration between corporate businesses and stakeholders. This points to the fact that, not only should corporate businesses operate in the interests of shareholders, stakeholders' rights also ought to be seen. Frederick (1999) point out that there were contentions on this principle in regards to the two perspectives of corporate governance: shareholder and stakeholder perspectives. However, a compromise was reached that the significant roles of stakeholders as providers of inputs should be considered since their collaboration is very significant for the very existence of the corporate business.

The principle also requires a country's corporate governance framework to ensure that stakeholders have the opportunity to seek redress for violation of their rights coupled with an accessibility of significant, adequate and reliable information on a timely and regular basis.

#### ***Principle v: disclosure and transparency***

This principle focuses on the problem of information asymmetry between the principal and the agent: 1) management and shareholders; 2) board of directors and shareholders; and 3) management and board of directors. The principle states that a "timely and accurate disclosure is made on all material matters regarding the corporation, including the financial situation, performance, ownership, and governance of the company" (OECD, 2004, p.22). This principle highlights on probity, transparency and accountability. The principle encourages insiders of a corporate business (management and directors) to disclose pertinent information that is necessary for the assessment of the performance of the company. The disclosure of such information by corporate insiders also helps the corporate outsiders (shareholders and other stakeholders) to partake in decision-making processes that determine the future of the corporate organization.

The principle emphasizes on high-quality accounting standards as well as financial and non-financial disclosure. It also highlights on the requirement of independent, competent and qualified auditors to conduct annual audits in order to provide an external and unbiased assurance to the board and shareholders.

#### ***Principle vi: the responsibilities of the board***

The principles of corporate governance by OECD highlight on the duties and responsibilities of the board. Principle VI requires board of directors to be independent in that, a satisfactory number of board members needs to be independent of management. The principle further states that the separation of the positions of the Chief Executive Officer (CEO) and the chairperson of the board may be considered as the best practice. This can help attain an appropriate balance of power,

increase accountability and objectivity, and improve the ability of the board to make decisions, independent of management.

Furthermore, the principle states that the board should act on a fully informed basis, with due diligence and care, and in the best interests of the corporate business and stockholders. The board should also treat all shareholders equally and take into account other stakeholders' interests. The principle further states certain key functions of the board:

1. reviewing and guiding strategies, key plans of operations, risk policy, annual budgets and business ideas;
2. setting performance goals, monitoring implementation and company performance, supervising major capital expenditures as well as acquisitions and divestitures;
3. monitoring the effectiveness of governance in a corporate business and making alterations when the need arises coupled with the supervision of disclosure and communications processes.
4. selecting, compensating, monitoring and, when the need arises, replacing key executives and, supervising succession planning;
5. aligning major executive and board remuneration with the long-term interests of the corporate business and stockholders;
6. monitoring and managing possible conflicts amongst managers, board of directors and stockholders, including misappropriation or misuse of the assets of the firm and abuse in related party transactions; and
7. ensuring the integrity of the corporate business' accounting and financial reporting structures: independent auditors, structures of risk management, operational and financial control, compliance with the law and important standards as well as required structures of control.

The aforementioned principles of the OECD emphasize that there are various factors that can make board members to discharge their duties effectively (OECD, 2004). These factors include: CEO-Chairperson separation, setting up of independent board committees and board independence.

### ***2.6.2 CACG Principles of Corporate Governance***

The Commonwealth Association for Corporate Governance (CACG) was founded in 1998 in reaction to the Edinburgh Declaration of the Commonwealth heads of Government meeting in 1997 to ensuring excellence in Corporate Governance in the Commonwealth (CACG, 1999). There are two main or primary objectives of the CACG. These are; to promote good standards in corporate governance and business activities throughout Commonwealth, and to expedite actions on the development of the required institutions which will be able to advance, teach and disseminate such standards.

In 1999, the CACG made available some sets of principles to ensure effective corporate governance practices throughout the commonwealth (CACG, 1999). The principle is concerned with: The profitability and efficiency of Commonwealth corporate businesses, and their ability to create wealth and employment; the long-term competitiveness of Commonwealth nations in the global market; the stability and credibility of the Commonwealth financial sectors, both national and international; and the relationship between corporate businesses within an economy and their sustained capacity to partake in the global economy (CACG, 1999).

The principle is also concerned with the relationship between corporate businesses and their various stakeholders: Shareholders; managers; employees; customers; suppliers; labor unions; financial providers; and so on. The CACG principle focuses on the board of directors as the main mechanism to ensuring effective corporate governance. The principle states that:

“it is the responsibility of the board of directors to ensure good corporate governance.....Accordingly, the board must agree on the corporations’ purpose (what it is for), its values (what it stands for), and the strategy to achieve its purpose. It must account to shareholders.....” (CACG, 1999, p.6).

The principle also reflects the sovereign rights of shareholders, since boards of directors who are considered to be the principal mechanism for ensuring effective corporate governance have to account to shareholders. The principle follows a set of 15 sub-principles of corporate governance aimed primarily at how boards of directors of corporate organizations should function:

***Principle i***

Exercise leadership, enterprise, integrity and judgment in directing the corporate business for continual prosperity;

***Principle ii***

Ensure that through a managed and effective process; board appointments are done to provide a mix of proficient directors;

***Principle iii***

Determine the corporate business’ goal and values, the strategy to achieve its goal and to implement its values in order to ensure that it survives and thrives, and also to ensure that procedures and practices are in place that safeguard the corporate business’ assets and reputation.

***Principle IV***

Monitor and assess the implementation of strategies, policies, management performance criteria and business plan.

***Principle v***

Ensure that the corporate business complies with all important laws, regulations and codes of best practices.

***Principle VI***

Ensure that the corporate organization communicates effectively with stockholders and other stakeholders.

***Principle vii***

Serve the legitimate interests of stockholders of the corporate business and account fully to them.

***Principle viii***

Identify the corporate business’ internal and external stakeholders and agree on a policy or policies to determine how the corporate organization ought to relate to them.

***Principle ix***

Ensure that no one person or a block of individuals has unfettered or unregulated power and that there is an appropriate balance of power and authority on the board which is, *inter alia*, usually reflected by separating the roles of the CEO and chairperson, and by having a balance between executive and non-executive directors.

***Principle x***

Regularly or frequently review processes and procedures to ensure the effectiveness of its internal systems of control, so that the decision-making ability and the accuracy of its reporting and financial results are maintained at a higher level at all times.

***Principle xi***

Frequently assess or evaluate its performance and effectiveness as a whole, and that of the individual directors, including the CEO.

***Principle xii***

Appoint the CEO and at least partake in the appointment of senior management, ensure motivation and protection of intellectual capital intrinsic to the corporate business, ensure that there is adequate training in the corporate business for management and employees, and a succession plan for senior management.

***Principle xiii***

Ensure that all technology and systems used in the corporate organization are adequate to properly run the business and for it to remain a meaningful competition.

***Principle xiv***

Identify key risk areas and key performance indicators of the corporate business and monitor these factors.

***Principle xv***

Ensure annually that the corporate business will continue as a going concern for its fiscal year.

**OECD and CACG principles of Corporate Governance: A reflection**

The aforementioned perspectives of corporate governance reflect in the two sets of principles of corporate governance being promulgated by the OECD and CACG. Most of the OECD principles of corporate governance have some similarities with the Cadbury Code (1992) of corporate governance, covering: Impartial treatment of all stockholders (Controlling shareholders and minority shareholders), stockholder responsibilities, transparency and disclosure, functions of the board of directors and the significance of NEDs. The OECD principle takes a middle-of-the-road position in terms of not only focusing entirely on the interests of shareholders. This is depicted by its recognition of other stakeholders such as the board of directors in the governance structure. The principles encourage market-based approach to the management of corporate businesses. However, one of the problems with these principles is their relevance, as there is an absence of legislative power backing them. Nevertheless, their impacts have been significant since most countries are using them as a reference point for self-evaluation and for developing their own codes of best practices in corporate governance (Solomon & Solomon, 2004; Solomon, 2007). For instance, they form the basis in the development of corporate governance principles by the Commonwealth.

The shareholder perspective is reflected in the CACG principles of effective corporate governance. The CACG principles emphasize on the traditional view where the board is considered as a representative of equity holders. These principles point out the functions of the board and the need for it to assume a leadership position in various ways. This reflects that the problems of corporate governance in the Commonwealth countries are largely linked to the failure of the board of directors to perform or undertake an effective monitoring, controlling and sleuthing mechanism.

The CACG and OECD principles clearly point out the elements or factors that determine the effectiveness of the board as a mechanism for corporate control. These elements are the composition of the board, independence of the board, the leadership structure (CEO-Chairperson separation), board committees such as the audit committee and access to timely and regular information by directors.

The impact of these two sets of principles around the world is significant. Solomon and Solomon (2004) assert that their impact is significant in that, countries have been using them as a reference-

point for self-assessment and for developing their own codes of best practices. On the other hand, these principles pose challenges to countries, especially developing economies. Developing economies that are willing to attract Foreign Direct Investments (FDI) run the risk of adopting these principles in a manner that may not effectively tackle the existing local circumstances. Turnbull (1999) also argues that the adoption may not automatically translate into effective corporate governance in such countries. Therefore, there is a need for these countries to adapt these principles based on the existing local circumstances. This argument then leads this discussion to the principles of corporate governance by the Securities and Exchange Commission (SEC) of Ghana.

### ***2.6.3 Principles of corporate governance of Ghana***

The regulatory framework for an effective corporate governance practice in Ghana is contained in the Companies code 1963 (Act 179), Securities Industry Law 1993 (PNDCL 333) as revised by the Securities Industry (Amendment) Act, 2000 (Act 590) and the listing regulations, 1990 (L.I. 1509) of the Ghana Stock Exchange.

In the context of this study, the regulatory framework of Ghana for effective corporate governance has been divided into six major sections, namely: 1) The mission, responsibilities and accountability of the board; 2) committees of the board; 3) relationship to shareholders and stakeholders, and the rights of shareholders; 4) financial affairs and auditing; 5) disclosures in annual reports; and 6) code of ethics. It may be useful now to proceed to discuss in detail the various sections of the regulatory framework of Ghana.

#### ***Section i: The mission, responsibilities and accountability of the board of directors***

This section specifies the principal objective of the board of directors of a corporate entity. The board of directors is to ensure that the corporate entity is properly managed in order to safeguard and enhance stockholders value and to meet the corporate entity's obligation to: 1) stockholders; 2) the industry in which it operates; and 3) the law. However, it also states that the interests of other stakeholders are significant as a derivative of the duty of stockholders.

Furthermore, this section brings out the primary responsibility of the board of directors. That is, it is to ensure that good corporate governance prevail within its operation. This section also clearly states the principal duties of the board:

- 1) The strategic guidance of the corporate entity in keeping its goals.
- 2) Overseeing or supervising the management of the business.
- 3) Identification of risk as well as the implementation of systems that manage risk.
- 4) Succession planning and the appointments, training, remuneration and replacement of senior management.
- 5) Supervision of internal control system.
- 6) Maintenance of the corporate entity's communications and information dissemination policy.

The principle also reflects the sovereign rights of shareholders, since boards of directors, who are to ensure that effective corporate governance prevails, are accountable to shareholders.

Again, this section of the principle brings out how the size of the board should be. It states that, the board's size of every corporate entity ought to be arrived at with the belief of promoting the board's effectiveness as well as ensuring appropriate representational needs. However, no specific number is set with regard to membership but goes on to mention between 8-16 members. The method of appointment to the board should be formal and transparent, and that shareholders should be provided with adequate information on all persons to be appointed. These information include: name, age and country of residence; whether appointment is executive and if so the specific area of responsibility; working experience; shareholding in the corporate entity as well as its subsidiaries;



family ties with any director and/or substantial stockholder of the corporate entity; and any conflict of interest.

The leadership structure of the corporate organization is clearly stated in this section of the principle. It states that there should be a separation of the roles of the chairperson and the CEO. In addition, in the event of this separation, the relationship between the CEO and the Chairperson with their respective responsibilities should be formally defined or stated.

The section, in addition, specifies the composition of the board. It states that the board should include a balance of executive directors and NEDs with a complement of independent NEDs being at least one third of the total membership of the board. The appointments of the NEDs should ordinarily be a matter for the board as a whole and the selection procedure ought to be based on merit. It defines the independence of a director based on the following criteria, he/she: is not a substantial stockholder of the corporate entity; is not an employee of the corporate business, is not a professional advisor or consultant to the corporate entity; is not a supplier or customer; no contractual connections with the corporate business; and free from any other relationships with the corporate entity, which may interfere with his or her ability to carry out his/her responsibilities independently. This section also specifies that all directors (i.e., Executive and NED) should have unrestricted access to all corporate business' information, records and documents.

In order for the board to discharge its duties effectively, this section states that the board should meet regularly and in the case of listed corporate entities, it should be at least six times a year. It further states that board committees are required to meet frequently in order to properly discharge their duties in an efficient and effective manner. However, the attendance of directors, particularly NEDs, at these meetings should be a major factor to let them continue to remain on the board.

#### ***Section ii: Committees of the board***

The section directs the board to constitute committees as it may deem appropriate to help it in carrying out its duties. It further stipulates that the constitution of such committees may include non-members of the board on a condition that the responsibility for any decisions or recommendations made shall remain only with directors who are members of the committee. In addition, the board's committees and their members should be published in the company's annual report.

The committees mentioned under this section are: the audit committee and remuneration committee. The audit committee should compose of at least three directors, of whom the majority should be NEDs. The membership of the committee should be those with adequate knowledge on finance, accounts and the basic elements of the laws under which the company operates. It further states that the chairperson of the audit committee should be a NED.

Furthermore, this section points out the primary functions of the audit committee. These are to:

1. recommend the appointment of the external auditors of the corporate organization;
2. liaise with external auditors for the purposes of upholding and ensuring audit quality, effectiveness, risk assessment/evaluation, interaction with internal auditors and dealing with situations governing the resignation of an external auditor;
3. review adequacy of systems of internal control and of the degree of compliance with material policies, laws and the code of ethics as well as business practices of the corporate organization;
4. provide a direct conduit of communication between the board, and the external auditor, internal auditors, accountants and compliance officers (if any) of the corporate organization;

5. report to the board of all issues of significant extraordinary financial transactions; and
6. help the board in developing corporate strategies that would improve board control and operating structures of the corporate organization.

More so, this section states that the audit committee: should have an authority to investigate any issue under its term of reference; be provided with the necessary apparatus to perform such investigation; and should have full access to regular and timely information. In addition, audit committee should also carry out an annual review of the corporate entity's internal control over financial, operational and compliance issues and report on the same to shareholders in the annual report of the company.

### ***Section iii: relationship to shareholders and stakeholders***

This section stipulates that corporate governance structures employed by the board should not be geared towards stakeholders' benefit at the expense of shareholders but should endeavor to increase shareholder value by monitoring and maintaining stakeholder relationships effectively and professionally.

In addition, this section emphasizes the rights of shareholders. These include: secure methods of ownership registration; convey or transfer shares; obtain timely and regular information on the firm; partake in voting; elect board members; share in the profits of the corporate business. Furthermore, shareholders have the right to partake in, and to be satisfactorily informed about decisions concerning fundamental changes such as: amendments of the statutes, or articles of incorporation or similar governance documents of the firm; the authorization of additional shares; variation of class rights; and extraordinary transactions that in effect result in the sale of the corporate business.

This section also points out the principle of equitable treatment of all shareholders. This principle: 1) requires equity ownership over and above specified thresholds to be disclosed; 2) ensures that market for corporate control of listed firms functions in an efficient and transparent way; and 3) specifies the rules and procedures governing the acquisition of corporate control with the goal of ensuring impartial treatment of all stockholders. In addition, minority stockholders are given the opportunity to obtain effective redress for violation of their rights. All shares issued unless otherwise specified rank *pari passu* (of equal step) with other share of the same class and in the case of ordinary shares, one share bears one vote. The section further forbids and punishes insider trading and self-dealing.

### ***Section iv: financial affairs and auditing***

This section deals with the financial governance, financial reporting and disclosure of price sensitivity information responsibilities of the board, duties of external auditors, audit report, departures or deviations from standards, rotation of audit personnel and removal or resignation of an auditor.

The financial governance responsibilities of the board of directors under this section describe four main responsibilities, including:

1. maintaining satisfactory records for protecting the assets of the corporate organization;
2. making sure that the statutory payments payable by the corporate organization are executed on time;
3. making sure that the structures of internal control are present for monitoring risk, adherence to financial governance structures and compliance with the law; and

4. ensuring that the financial statements of the company are audited at such regular intervals as described by law, regulations or internal policies of the company by experienced and well-qualified auditors.

Also, the financial reporting responsibilities of the board of a company are defined in this section:

1. the accurateness of information contained in financial statements;
2. making sure required accounting policies have been consistently employed in the preparations of the financial statement;
3. making sure the annual financial statements of the company are presented according to the financial standards of Ghana National Accounting Standards (GNAS) and other accounting standards;
4. ensuring annual and interim financial statements of the company are dispersed to stockholders and regulators within the time frames described by law and regulation;
5. making sure annual and interim financial statements are prepared effectively in a sense that it can facilitate comparability;
6. making sure the report of auditors on financial statements are faithfully reproduced to the users of such statements; and
7. ensuring that a balanced and comprehensible evaluation is provided in the financial and operating results of the company in financial statements.

Moreover, the disclosures of price sensitive responsibilities of board of directors of listed companies are also described in this section. These include: 1) disseminating price sensitive information to the market and stockholders in a timely way; 2) requesting a temporary suspension in the securities of the company where a disclosure may cause unpropitious price movements in the market for the company's securities.

The role of the external auditor of a company is also defined in this section. It states that the external auditor should be a primary source of an objective, independent and effective opinion on financial statements of the company. This section urges the auditor to apply diligence, objectiveness and independence in the execution of his or her duties. In addition, the external auditor is to make sure that the audit of the company is conducted in accordance with the one required by the Institute of Chartered Accountants, Ghana (ICAG). This section further asserts that, the external auditor is required to indicate in his or her report if financial statements audited have been prepared in accordance with the GNAS standards.

Furthermore, the external auditor is required to specify any departures from accounting standards and should contain the auditors' opinion as to whether or not the departure is not intentional and also give reasons for such departure. Meanwhile, in order to ensure a continued effectiveness of audit, personnel including the audit partner should be frequently rotated or changed in order to offer fresh procedures in regards to audit work. Finally, the section put forth that the withdrawal, resignation or refusal to stand for re-election by an auditor should be followed by an explanation, which the corporate organization ought to dispatch to stockholders.

#### ***Section v: disclosures and annual report***

This section mandates the presentation of annual audited accounts of a corporate entity before its shareholders as specified in the principles. It requires shareholders to be provided with information on: 1) the financial and operating outcomes of the corporate business; 2) the objectives of the corporate business; 3) major share ownership and voting rights; 4) material predictable with factors; 4) material issues regarding employees and other stakeholders; and 5) board members and key executives, and their remuneration.

Also, this part of the code does not rule out the establishment of remuneration committee with NEDs as majority of its members. In addition, executive directors who serve on the remuneration committee must exclude themselves from matters concerning their own compensation packages. It goes on to declare the primary function of the remuneration committee. These are: 1) instituting an official and clear procedure for mounting policy on executive compensation; 2) making sure that a suitable structure is instituted to give performance-oriented incentives to managers; and 3) inspecting executive service contracts with an idea of discovering any unwarranted losses the corporate organization may encounter in occasions of early service termination. The membership of the remuneration committee and their policies should be disclosed during annual general meetings to shareholders in their annual report. The reports ought to contain at least the aggregate amount of fees, basic salaries, benefits in kind, allowances, pension contribution schemes, paid bonuses, paid compensations for office loss to directors and executive officers.

#### ***Section vi: code of ethics***

The section on code of ethics points out that every corporate organization is directed to have its own code of ethics and statement of business practices, which should be implemented as part of the mechanisms that ensure effective corporate governance. Boards of directors are responsible for the formulation of such document. However, its content is applicable to the board and all employees. The board is also required to introduce a mechanism that monitors adherence and discipline deviations or breaches.

#### **Principles of corporate governance of Ghana: A Reflection**

From the above discussion, it can be deduced that the principles of corporate governance of Ghana reflect shareholder perspective of the Anglo-American model of corporate governance. This is because the principles reflect the sovereign rights of shareholders, since boards of directors who are considered to be the principal mechanism to ensuring effective corporate governance have to account to shareholders. Also, the principles mirror the principles of corporate governance of CACG. Furthermore, the principles emphasize the traditional view where the board is regarded as representatives of shareholders. Finally, they obviously state the elements or factors that determine the effectiveness of the board as a mechanism for corporate control. These elements are the composition of the board, independence of the board, the leadership structure (CEO-Chairperson separation), board committees such as the audit committee and remuneration committee, and access to timely and regular information by directors. Table 2.2 below summarizes the characteristics of the OECD, CACG and Ghana's principles of corporate governance.

**Table 2.2: Summary of principles of OECD, CACG and Ghana**

	OECD	CACG	GHANA
<b>Board of Directors</b>	<ol style="list-style-type: none"> <li>1. There should be a combination of both Executive and Non-Executive directors.</li> <li>2. The separation of the positions of the CEO and Chairperson.</li> <li>3. Instituting board committees such as Audit and remuneration committees.</li> <li>4. It clearly defines the responsibilities of the board</li> </ol>	<ol style="list-style-type: none"> <li>1. Both executive and Non-executive directors</li> <li>2. The separation of the positions of the CEO and Chairperson</li> <li>3. Establishing board committees such as Audit and Remuneration committees.</li> <li>4. Responsibilities of the board are defined.</li> </ol>	<ol style="list-style-type: none"> <li>1. The board should consist of both Executive and Non-Executive members.</li> <li>2. The positions of the CEO and Chairperson should be separated.</li> <li>3. There should be committees such as Audit and Remuneration committees.</li> <li>4. Responsibilities of the board are defined</li> </ol>
<b>Shareholders</b>	<ol style="list-style-type: none"> <li>1. Safeguards and facilitates the rights of shareholders such as to secure methods of ownership, transfer stocks, obtain information on time, voting rights and to share profits.</li> <li>2. Equitable treatment of all shareholders irrespective of the size of equity held.</li> </ol>	<ol style="list-style-type: none"> <li>1. Protects and facilitates shareholders' rights in terms of obtaining information on time, voting rights, securing methods of ownership and profit sharing.</li> <li>2. Equitable treatment of all shareholders irrespective of the size of equity held.</li> </ol>	<ol style="list-style-type: none"> <li>1. Protects and facilitates shareholders' rights with respect to profit sharing, voting rights, securing methods of ownership and obtaining timely information.</li> <li>2. Equal treatment of all shareholders irrespective of the size of equity held.</li> </ol>
<b>Other Stakeholders</b>	Attention is given to other stakeholders since it calls for enactment of laws or mutual agreement.	Less recognition is given to rights of other stakeholders	Less attention is given to other stakeholders

Source: OECD (2004), CACG (1999), Ghana Companies code, Act 179 (1963)

## 2.10 Chapter summary

The various definitions of corporate governance practices mirror two contrasting theoretical perspectives of corporate governance; the shareholder and stakeholder perspectives. Whilst the shareholder perspective proposes that agents (managers) should take strategic decisions to maximize shareholder wealth, the stakeholder perspective contends that agents should take into consideration other stakeholders such as employees, suppliers, consumers and so on, when taking strategic decisions on the company.

There are many regimes written and recognized in and with the emergence of corporate governance. These regimes evolved within the frameworks of the shareholder and stakeholder perspectives of corporate governance. These are: The Anglo-American model, the Germanic model and the Japanese model. The Anglo-American model of corporate governance, which falls under the shareholder perspective of corporate governance, is characterized by ownership dispersion, primacy of shareholders' right over those of other organizational groups and protection of shareholders. On the other hand, both the Germanic and the Japanese models, which fall under the stakeholder perspective of corporate governance, are characterized by ownership concentration in a small number of individuals (for instance, family members, other companies through pyramidal structures, state ownership).

The Anglo-American model under the shareholder perspective of corporate governance is in stark contrast with the stakeholder-centred approach of the Germanic and Japanese models of corporate governance in that, whilst corporations are viewed as economic activities to maximize shareholders' value under the Anglo-American model, they are considered as social entities to meet the needs of all stakeholders (for instance, shareholders, employees, suppliers, customers and so on) in the case of stakeholder perspective of both the Germanic and the Japanese models.

Even though there have been calls for convergence of corporate governance practices as a result of competitive advantage, it must be noticed that each model has its own corporate governance values. Whilst the debate on convergence continues, there has been a proliferation of best practice codes across the globe (for example, the principles of corporate governance of the OECD, CACG and Ghana). Whilst the principles of the OECD takes the middle-of-the-road position in terms of not only focusing entirely on the interests of shareholders, the CACG principles fall under the shareholder perspective and view the board as a representative of shareholders. The principles of corporate governance of Ghana reflect shareholder perspective of the Anglo-American model of corporate governance. This is because the principles reflect the sovereign rights of shareholders, since boards of directors who are considered to be the principal mechanism for ensuring effective corporate governance have to account to shareholders. In the next chapter, the theoretical foundation of the study is presented.

## CHAPTER THREE

### THEORIES OF CORPORATE GOVERNANCE

The previous chapter discussed the two main theoretical perspectives of corporate governance and their associated models, and the principles of corporate governance of the OECD, CACG and Ghana. This chapter examines the theoretical foundation of the study. It begins with a review of the various theories of corporate governance. It then proceeds to bringing out the two main theories underpinning the study: Agency theory and Transaction Cost Economic theory. Finally, it examines the similarities and the differences between these two theories.

#### 3.1 Corporate Governance theories

Stiles and Taylor (2001) pinpoint seven main theoretical viewpoints that can be employed to examine corporate governance phenomenon. These are: a) Transaction cost economics theory; b) agency theory; c) resource dependency theory; d) stewardship theory; e) stakeholder theory (see chapter 2 for explanation); f) managerial hegemony theory; and g) class hegemony theory. These seven theories can also be categorized under the perspectives of both shareholder and stakeholder. The transaction cost economics (TCE) and agency theories mirrors the viewpoint of the shareholder perspective in examining corporate governance phenomenon. Williamson (1981) contends transaction cost economics and agency theories are considered to be compliments. There has been a difficulty in separating agency theory and transaction cost economics theory (Solomon & Solomon, 2004), and has been acknowledged in the literature (Gilson & Mnookin, 1985). The various theories are discussed below.

##### 3.1.1 Resource dependency theory

Resource dependency theory (Pfeffer & Salancik, 1978) deals with the relations among the environment, a corporate organization and other corporate organizations. Cornforth (2003) specifies that the existence of corporations significantly depend on other corporations as well as actors of resources. The central assertion of this theory is that corporate organizations must connect and “interlock” with both the outside environment and other corporations as they (corporate organizations) rely on them (ie. the outside environment and other corporations) for their existence. In view of this, directors of a particular corporate entity may participate or sit on the boards of other corporations for a variety of reasons. For instance, directors can serve as a connection between the outside environments, and/or to deepen and safeguard the corporation from alleged environmental menace. With this connection, costs resulting from uncertainty and search are significantly reduced (Huse, 2007).

Zahra and Pearce (1989) opine that the theory has both economic and sociological origins, and has been emphasizing on the distribution of power within a corporate organization. This theory, for many years, has been a dominant approach in sociology, strategy and organization theory, which is employed to induce the existence of active boards (Huse, 2007). A study conducted by Pfeffer (1973) on connections between corporations and their outside environment in fifty-seven (57) hospitals in the United States concludes that:

Organizations, as open social systems, are inextricably bound up with the conditions of their environments. Organizations must obtain support, both in the form of resources and in social legitimacy from their social context....It has been suggested that the board of directors is one vehicle for co-opting important segments of the environment (p. 326).

This connection brings out the significance of board composition that is normally recommended to comprise individuals who are well-informed and properly networked. For instance, Hilman, Canella and Paetzold (2000) assert that directors convey resources to the corporation, which include information, skills, and access to key elements such as buyers, public policy makers, suppliers, social groups and so on. Directors can be classified into four main groups: insiders; business experts; support specialists and influential people within communities (Abdullah and Valentine, 2009; Huse, 2007). The insiders are both present and past executives of a corporation who provide expertise in particular areas such as finance and law, general business strategies and directions. The business experts are present, past senior executives and directors of other corporations. They also provide technical know-how on corporate strategy, problem solving and decision making. The support experts are bankers, lawyers, insurance firm representatives and public relations specialists. They also support corporations with their technical know-how. Lastly, those who are influential in the community are the political leaders, academics, clergy, leaders of social or community organizations and so on.

The relevant board tasks from this theory are those of networking, door-opening, legitimacy and communication in inter-organizational associations (Huse, 2007). The resource dependency theory reflects both the shareholder and stakeholder perspectives in that, it promises to maximize both shareholder and other stakeholders' interests.

### ***3.1.2 Stewardship theory***

Sykes (1982) defines a steward as a person assigned to manage another person's property. The idea of this theory has historic and religious origin in the Western society (Saltman & Ferroussier-Davis, 2000). Its origin also stems from psychological and sociological perspective. Davis, Shoorman and Donaldson (1997) describe a steward as a person who safeguards and maximizes stockholders value through firm performance, because by so doing, the steward's utility functions are maximized. This means that stewards are firm executives and managers working for stockholders through the makings of decisions that maximize shareholder wealth. This theory does not emphasize on the viewpoint of individualism, but rather on the responsibilities of top management who as stewards, are satisfied and encouraged when organizational success is achieved (Abdullah & Valentine, 2009; Donaldson & Davis, 1991).

The main difference between agency theory and stewardship theory is managerial incentive. Jensen and Meckling (1976) pronounce that individualistic and self-centered 'model of man' who acts judiciously to secure financial advantage is the hub of agency theory. On the other hand, the stewardship model of man is based on a steward whose behavior is ordered such that pro-organizational, collectivistic demeanors have a higher utility than individualistic, self-interested demeanors (Davis, Schoorman & Donaldson, 1997). Agyris (1973) contends that agency theory considers employee or people as an economic being, which represses a person's own desires. On the contrary, stewardship theory appreciates the relevance of structures that endow the steward and make available maximum autonomy built on trust (Donaldson & Davis, 1991). Huse (2007) argues that the importance of trust is also associated with the decision-making culture of the board. The author continues that trust in the boardroom is anticipated to invigorate cohesiveness, ingenuousness, openhandedness, creativeness and involvedness.

Stewardship theory is also different from the agency theory in that, the roles of the Chief Executive Officer (CEO) and that of the Chairperson of the board are held by one person. This kind of model reflects the American model of corporate governance. Donaldson and Davis (1991) contend that the CEO duality is very significant in terms of maximizing shareholder wealth. Huse (2007) posits that in the absence of opportunism, when the positions of both the CEO and the Chairperson are held by one individual, it leads to greater unity of direction, and strong command and control. The

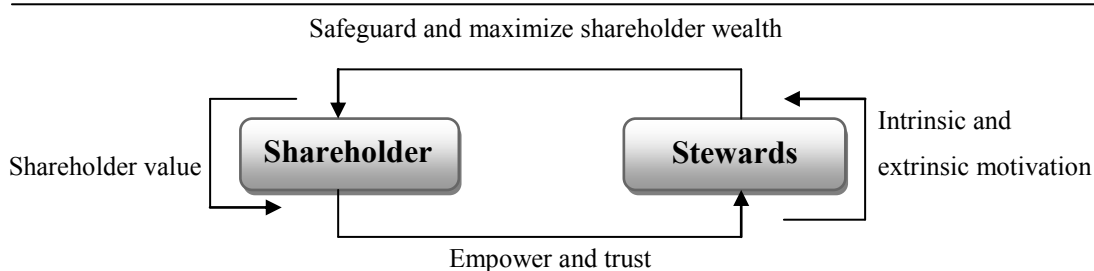


choice between the agency theory and that of the stewardship theory is synopsised by Donaldson and Davis as:

Ultimately, the question might not be whether agency theory or stewardship theory is more valid. Each might be valid for some phenomena but not for others (1991, p.60). The most valid theory of corporate governance may lie between the two extremes of stewardship and agency theory (1993, p.222).

The stewardship theory seems to be suitable for explaining corporate governance within stakeholders' perspective. It is also applied in the shareholder perspective in that, it promises to maximize shareholder value. Figure 3.1 below depicts the stewardship model.

**Figure 3.1: Stewardship model**



Source: Abdullah & Valentine (2009)

### 3.1.3 Managerial-hegemony theory

The roots of managerial-hegemony theory dates back to the work of Berle and Means (1932) on ownership and control of a corporation. With the growth of modern corporations in the 1930s, came an exodus from the traditional model of ownership to managerial control.

The managerial-hegemony theory addresses a corporate board as *de jure* rather than *de facto* governing body of a corporation. Scott (1997) points out that corporate management take up the real responsibilities of administering and controlling the corporation. Drucker (1974) labeled the role of the board as a 'legal fiction'. In addition Conforth (2004) named the role of the board as a 'rubber stamp'. Stiles and Taylor (2001, p.1) called the non-executive directors as "poodles, pet rocks, or parsley on the fish". Mace (1971) argues that in the managerial-hegemony theory, boards are not effective mechanisms to supervise and exert control over management. This theory reflects the shareholder perspective of corporate governance in that, the self-interest propensity of managers is a reflection of the individual maximizing behavior. Demb and Neubauer (1992) posit that this theory points to the enigmatic position of the board in the sense that, the powers passed on to it by stockholders are in reality exerted by management.

### 3.1.4 Class hegemony theory

This theory extends managerial hegemony theory. Class hegemony theory points out that, executives within a specific corporation and executives of other corporations, share common interest. Gomez-Mejia (1994) argues that whilst managerial hegemony theory ceases at the boundaries of corporations, class hegemony theory spreads managerial views beyond these boundaries. Shared interests and purposes generate ties among executives that go beyond one corporation. These ties among them further generate into relationships resulting in class among different corporations. Because of this (shared) power, the executive then shield themselves against decisions that affect their opportunities and wealth. The Class hegemony theory reflects the shareholder perspective of corporate governance, since it concentrates on a particular class of people's interest instead of the society at large. Table 3.1 below gives a summary of the various theories of corporate governance and their perspectives.

**Table 3.1: Summary of the various theories of corporate governance**

Dimension	Theoretical Perspectives						
	Agency theory and TCE	Managerial Hegemony	Class hegemony	Resource dependency	Stewardship	Stakeholder	
<b>Board control</b>	Ensure a match between managers and stockholders	Board as ‘a legal fiction’	Perpetuate ruling elite and class power	Reduce environmental uncertainty; boundary spanning	Ensure the stewardship relationship of firm’s assets	Inclusive pursuit of stakeholder interests	
<b>Theoretical foundation</b>	Economics and finance	Organizational theory	Sociology	Sociology	Organizational theory	Politics, law & management	
<b>Underlying perspective</b>	Shareholder	Shareholder	Shareholder	Shareholder/stakeholder	Mainly stakeholder with shareholder	Stakeholder	
<b>Literature</b>	Eisenhardt (1989b), Jensen and Meckling (1976), Williamson (1981)	Berle and Means (1932), Scott Mace (1997), (1971)	Gomez-Mejia (1994)	Pfeffer and Salancik (1978), Conforth (2003;2004)	Donaldson and Davis (1991), Abdullah and Valentine (2009)	Freeman and Evan (1984), Dodd (1932)	

Source: Adapted from Stiles and Taylor (2001)

### 3.2 Theories underlying the study

The shareholder perspective of corporate governance will provide an appropriate channel to examining and exploring driving forces of effective corporate governance in Ghana. Accordingly, the study will make use of both agency theory and transaction cost economic theory since the basic assumption of these theories, as will be discussed in the next section, reflects Ghana’s corporate governance practices. Also, the methods of promoting effective corporate governance that have been a debate all over the world are centered on these two theories. For instance, the CACG and OECD principles of corporate governance that were previously examined, largely center on these theories; despite the fact that these principles make mention of the stakeholder perspective (chapter 2). The principles of corporate governance of Ghana examined earlier also center largely on these two theories (see chapter 2)

#### 3.2.1 Agency theory

The emergence of agency theory is often traced back to Berle and Means (1932), despite the fact that some scholars consider its origin to Adam Smith in 1776. Letza, Sun and Kirkbride (2004) put forth that the agency problem was well highlighted by Adam Smith when he contended that directors of corporations were not likely to be as cautious with other people’s money as they would do to their own. Consequently, the corporation was considered as the means of contracting associations among people. Most vital among these contracting associations was the agency relationship, which has been defined as the ruling theory used in examining relationships in which one party (the principal) assigns a work, which the other party (agent) embarks on (Eisenhardt, 1989b), and involves the transfer of some decision making authorities to the agent (Jensen & Meckling, 1976). In other words, agency theory refers to a series of offers or plans in the governance of a corporate business which is naturally characterized by a large number of individual stockholders who allows other persons to administer and regulate the usage of their shared capital for an imminent benefit. The main assumptions and the background of agency theory have been recapitulated in table 3.2 below.

**Table 3.2: Overview of Agency theory**

Key ideas	Principal-agent relationships should reflect efficient organization information and Risk-bearing cost
Unit of analysis	Contract between Principal and Agent
Human information	Self-interest, Bounded rationality and Risk aversion
Organizational assumptions	Partial goal conflict among participants, Efficiency as the effective criterion, Information asymmetry between principal and Agent
Information assumptions	Information as a purchasable commodity
Contracting problem	Agency (moral hazard and adverse selection), Risk Sharing
Problem domain	Relationship in which the principal and agent have Partly different goals and risk preferences (compensation regulation, leadership impression Management, whistle blowing, vertical integration and transfer)

Source: Eisenhardt (1989b)

Agency theory envisages that, bearing in mind adverse selection and moral hazard problems, organizational interactions ought to reflect an efficient organization information and risk bearing cost. This theory has developed along two lines: The flexible positivist agency, which is principally used in examining mechanisms of corporate governance that solve the agency problem; and the principal-agent approach that draws in a more vigilant specification of assumptions, which are tailed by logical inference and mathematical evidence.

The positive agency theory deliberates on the conflicts and congruencies between the principal and agent. The principal is the one who provides the capital whilst the agent is the one who manages the corporate business. This theory now encompasses the associations between sizeable capital providers (both internal and external) and small capital providers (Nanka-Bruce, 2009). It contends that a manager of a corporate business (agent) has hidden information and tends to make use of it to attain excess rents. In other words, a manager of a corporate entity tends to pursue his/her own utility rather than that of the stockholders. This brings up, *inter alia*, the possibility of self-dealing, carelessness and deceptively attracted accounts by management. The principal (capital providers) on the other hand, is also conscious of the hidden information and hence a conflict of interests arises between them. This conflict of interests in the end makes both of them worse-off than what they would have gotten if they had shared all available information (moral hazard). This deviation of interests may reveal itself, among other differences, in profligate or risky investment, unsatisfactory effort, entrenchment and self-dealing (Marnet, 2008). When this happens, the principal is likely to fall into an adverse selection problem, since he or she would not know the agent who is better and hence bringing upon him/her cost.

As noted earlier, this agency relationship can possibly bring a problem since the agent will not perhaps act in the best interest of the principal always. Consequently, agency costs are then incurred, which includes bonding cost incurred by the agent, monitoring cost on the part of the principal, and minimization of welfare stemming from decisions taken by the agent that are not in line with the welfare maximization of the principal (Wearing, 2005). These aforementioned costs are the costs incurred in writing and administering contracts to guarantee harmony between the principal and the agent. Lee (2004) posits that agency costs have been a significant subject in most existing studies on corporate governance and performance. These costs do not only include costs that are directly incurred on reporting and putting out information, but also the costs that are indirectly incurred-such as verification and evaluation costs-in enforcing the accurateness of the information communicated (Gomez & Korine, 2008).

Agency theory stresses on reducing or minimizing the problem of moral hazard between stockholders and management through corporate control. Since monitoring cost is relatively costly,

stockholders create incentive contracts that align their interests with the interests of management. Some opponents of agency theory believe that, the theory resides on opportunism rather than self-interests. This assertion has been disputed by Gomez, Wiseman and Johnson (2005) that, agency theory dwells on the premise of self-interestedness instead of barefaced opportunism. These two assertions are analyzed in the next section.

### ***Opportunism and Self-interestedness***

Popov and Simonova (2006) categorize opportunism into five (5) groups based on different definitions they use. These are: a) That the relevant parties have distinct interests; b) that information is asymmetrical, which then gives the party whom information is at his/her disposal to have an unfair advantage to tap more of the economic rents; c) that the asymmetric information can be falsified or massaged so as to stop a disciplinary action that will be exercised by the affected party; d) that the other party might have the value of the information reduced; and e) that operations may be intentional and that the required information on the operational process would be biased in the process. Popov and Simonova perceive opportunism as an intentional hidden operation of the agent based on information asymmetry to attain personal interests at the expense of the other party. This assertion has been supported by Bruce, Buck and Main (2005) in their analysis about pay-performance sensitivity.

Gomez-Meija *et al.* (2005) in a reaction to some of the criticisms of Popov and Simonova contend that agency theory is underpinned by the self-interestedness of organizational player, which does not essentially point toward opportunism. They further go on to state that, self-interestedness can reflect opportunism under specific conditions. This theory does not take into consideration the sensitivity of the resultant associations that are developed on it, and does not also unequivocally make out exact contextual factors, hence generality and adaptation to the institutional context in which it is employed (Nanka-Bruce, 2009). For instance, compensation of agents for a demonstrable performance may not be associated with institutional performance.

Gomez-Meija *et al.* (2005) describe opportunism as the adaptation of one's activities to situations in order to pursue one's immediate interests, regardless of basic principles or economic outcomes. This means that, opportunism is considered as illogical behavior in which agents immensely discount the future to instantaneous rewards. The Authors further posit that self-interest is logical and considers principles and consequences. Therefore, there is a cooperation and tolerance or broadmindedness factor in self-interest. Self-interest can result in cooperation in the long-term on a condition that, it optimizes performance, but opportunism does not frequently result in cooperation.

Wright, Murkherji and Kroll (2001) describe agency theory as a theory that deals with a cooperative relationship between the agent and the principal by finding a balance between conflict and congruencies in terms of goal orientation, obligation and reciprocity, risk and self-interest. The more a company becomes larger, the more it gives rise to agency costs (Nanka-Bruce, 2009). Management also encounters agency costs in the firm from their minions, therefore all other things remaining constant, the larger the company, the more the possibility of agency costs and the less productive the company will be. The figure 3.2 below depicts the principal –agent relationship.

**Figure 3.2: Principal-Agent Relationship**



Source: Wright *et al.* (2001)

Capital providers reduce the volume of the resources they provide when managerial self-interest sets in. Management enjoys huge sum of gratuities and private benefits at the expense of stockholders because of the hidden information they (management) are unwilling to disclose (Shleifer & Vishny, 1997; Jensen & Meckling, 1976). This diminution in capital by capital providers is the agency costs of equity (Jensen and Meckling, 1976). The increment of managerial ownership decreases projects that are not of benefit since management has to bear a certain level of risk as an outcome of their actions. Controlling the self-interests of shareholders through expropriation or misallocation of resources decreases the resource value that minority shareholders are able and willing to inject into the company (Shleifer & Vishny, 1997). In order to avoid ex-post misappropriation or embezzlement of funds by management, shareholders have to institute some control measures and hence management's independence will be suppressed.

Brink (2011) point out that agency problem can be reduced in two main ways: *In screening*, where the shareholders investigate the organization, for instance, by running controls; and *in signaling*, where management gives signals to shareholders, either in accordance with the law (for instance, via reporting), voluntarily (for example, via codes of ethics) or a mixed form (via code of corporate governance). This will then force management to undertake or embark on a more efficient project. However, management is not only to be blamed for the inefficiencies or non-performance of the corporate business. Minority stockholders also have to seek legal protection or good corporate governance practices by the corporate business before they pump in additional resources, unless the corporate business still performs satisfactorily (Nanka-Bruce, 2009).

A number of mechanisms has been applied to address agency costs: Contracts, country laws and incentives (Jensen & Meckling, 1976). Contracts are employed to resolve ex-ante problem caused by non-alignment of principals' interests with that of agents' interests. These contracts can be between stockholders (principals) and management (agents), stockholders (principals) and directors (agents) and directors (principals) and management (agents). The contracts can be of two forms: Implicit and explicit. Implicit contracts are those established on unspoken mutual expectation, personal or individual roles, cultural norms and organizational common law or culture, whereas explicit contracts are centered on written representations that are lawfully binding, for instance, corporate by-laws, subscription agreements, stockholders agreements and employment contracts (Moldoveanu & Martin, 2001). Even though contracts can be used to settle the problem of ex-ante, it is not possible to write perfect contracts. This is in consequence to the fact that transaction costs are involved as well as bounded rationality.

Monitoring mechanism by shareholders also plays a significant role in reducing agency costs and hence inducing management not to act in the best interests of shareholders. In situations where ownership is dispersed, the board of directors is considered effective monitoring mechanism (Jensen 1993; Denis, 2001; Denis & McConnell, 2003; Berglof & Claessens, 2004; Nanka-Bruce, 2009). This means that the ownership structure determines shareholder's monitoring mechanism (see chapter 4 for further explanation). Lenders also serve as effective monitoring tool by decreasing the conflicts between debt providers and management. Incentives also serve as important mechanism to reducing agency costs by aligning the interests of shareholders with that of management. Furthermore, competitive markets (product, labor and capital) play a very significant role in disciplining management and encouraging them to take decisions that will serve shareholders' interests (See chapter 4 for further explanation).

### **3.2.2 Transaction cost economics theory**

Opponents of agency theory have called for an expansion of the orthodox method- where organizational researchers only apply agency theory in their studies- to incorporate other theoretical perspectives that serve to supplement and expand the theoretical context of their analysis. Even though agency theory is valid, the use of it alone to study an organization presents a fractional notion of the world, and it turns to ignore a good bit of the organization's complexity (Eisenhardt, 1989b). Also, the involvement of boards in studies pertaining to corporate governance practice calls for other theoretical perspective that can sufficiently capture a corporation's entire governance practices.

In the context of this study, the transaction cost economic theory has been fused with the agency theory to obtain a clear-cut picture of how corporations are governed. The Transaction Cost Economic (TCE) theory traces its root from Ronald Coase's (1960) work, *'The Nature of the Firm'*. Coase opines that the existence of an economic organization is to minimize or reduce transaction costs of trading in markets. This means, a corporation is considered as a governance structure for minimizing or reducing the cost of trading in markets (Stiles & Taylor, 2001). Here, the decision in terms of organizing a transaction either via the market or hierarchy (firm) relies on the efficiency of both methods of coordination or direction in minimizing or reducing the cost of that specific transaction. TCE theory emphasizes on the transaction cost, which is described as the costs that arise when persons exchange rights of ownership to economic assets and enforce their exclusive rights (Eggertson, 1990).

TCE theory is employed in the neo-institutional economics method to the study of organizations, and deviates from the traditional theory of the firm where perfect information and rationality are its main assumptions. It has been depicted by March and Simon (1958) that the assumption of rationality is invalid. However, Eggertson (1990) argues that although the TCE theory deviates from the assumptions of perfect market information, it holds on to the assumptions of rationality, and considers economic outcomes in organizations based on rational man model perspective where there is imperfect information.

The implementation of TCE is well thought-out to be costly since it includes various activities: 1) The search for information about the distribution of price and quality of products and labor inputs, the search for potential buyers and sellers and for important information about their behavior and conditions; 2) the bargaining that is needed to find the true position of buyers and sellers when prices are endogenous; 3) the making of contracts, the monitoring of contractual partners to see whether they abide by the terms of the contract; 4) the enforcement of a contract and the collection of damages when partners are unable to observe their contractual obligations; and 5) the safeguarding of property rights against third-party encroachment (Eggertson, 1990).

The basis of TCE theory lies within two major assumptions: Bounded rationality and opportunism. The result of assuming opportunism and bounded rationality is that corporate organizations must, "...organize transactions so as to economize on bounded rationality while simultaneously safeguarding the transactions in question against the hazard of opportunism" (Williamson, 1996, p.48). The idea of bounded rationality was used by Simon and March (1958) to criticize the traditional economic theory of the firm and propose the behavioral theory. Simon and March define bounded rationality as; limited capacity of human beings to devise and resolve complex problems. In other words, bounded rationality is a behavior that is deliberately rational but only limitedly so. Cyert and March (1963) argue that the idea of a rational person could only be applied in circumstances where there is an availability of full information about all states of nature in order to make optimal decisions. Full information exterminates uncertainty which constrains the establishment of the 'correct choice' in a specific condition.

Opportunism is defined as "self interest seeking with guile" also as "the active tendency of the human agent to take advantage, in any circumstances, of all available means to further his own privileges" (Crozier, 1964, p.265). This is because human agents' keen interests are to maximize their own utility, and as a result, they involve themselves in behaviors that affect information, that is, falsifying the information they provide coupled with misrepresentation of intentions (Williamson, 1987). Solomon and Solomon (2004) posit that such opportunistic behavior has calamitous implications on corporate finance as it would shy potential investors from investing in corporate organizations.

Transactions involving opportunistic individuals can be managed via perfectly written contracts. However, as a result of bounded rationality and transaction costs, writing complete contracts involving all states of nature is not possible as a result of the fact that, one has to search for information and hence incurs transaction costs (Williamson, 1987). Also, contracts cannot be perfectly written since the processing capacity of information of individuals is limited coupled with uncertainty emerging from lack of information about the future. Furthermore, contracts enforcements are costly since it requires state apparatus such as the police and law courts. In addition, Hart (1995) provides three justifications why contracts are not well-written: 1) It is hard for individuals to think in advance and strategize for all probable contingencies; 2) it is hard for the involving parties to bargain effectively, particularly where previous experience will perhaps not be a useful guide; and 3) it is difficult for a contract to be well-written in a manner in which outside authorities like the law court will find it easy to interpret and enforce it.

Contractual disturbances or uncertainties are also a clear-cut assumption of TCE. With this assumption, information about the past, present and future state of the company is not perfectly known as a result of a number of reasons. With the absence of bounded rationality and opportunism, contractual disturbances will be much less of a problem since wide-ranging rules would generally occur (Williamson, 1993b). Since it is not easy to determine or uncover *ex ante* who will always be involved in an opportunistic behavior, writing contracts are costly and also difficult to enforce (Williamson, 1993b). Aghion and Bolton (1992) contend that, in consequence of this contractual imperfection and wealth constraint, it is highly impossible to resolve all possible conflicts between the two contracting parties-the principal and agent.

In relation to corporate governance, the question of transaction arises from an investment that does not yield returns in the short run, but with a promise of future return (Dyck, 2001). The significance of TCE theory in corporate governance is associated with the limitations in the usage of contracts confronted by corporate stockholders if they want to bind management's interests with theirs. To Williamson (1981), the board of directors would serve as a mechanism to resolve the problems that emerge in regards to the opportunistic behavior of management.

There is a limitation regarding the role boards of directors play in safeguarding the interests of capital providers in TCE theory, since it has been argued that the interests of other stakeholders are safeguarded by different contracts between the corporate business and them (other stakeholders), which leaves shareholders unprotected (Williamson, 1981). These contracts constitute the basis of the claims by these stakeholders in a situation where the corporate business is disbanded. As residual claimants, stockholders will stay unprotected if the corporate business falls into bankruptcy. Accordingly, it has been argued that the board of directors' appropriate role is to safeguard the interests of shareholders. Although TCE is vital for corporate governance studies, it has some limitations in its application in corporate governance. For instance, the theory does not determine the way in which the board ought to be organized to effectively safeguard the interests of stockholders.

### ***3.2.3 Agency theory and Transaction Cost theory: A Reflection***

The similarities and dissimilarities between agency theory and transaction cost theory have been examined by Williamson (1987). These two theories are similar particularly, in managerial decisions and behavioral assumptions such as bounded rationality and opportunism. The term 'moral hazard' which is used in agency theory is the same as the term 'opportunism' in transaction cost economic theory. Williamson (1987) describes the main purpose of a corporate business as crafting governance mechanisms that economize the bounded rationality whilst concurrently, protecting the transactions in question against moral hazards or opportunism.

The transaction cost theory and agency theory attempt to tackle the same problem. For instance, 'how do we induce corporate managers to pursue the interests of shareholders and take decisions that maximize shareholders wealth?' Both theories consider the board of directors as a control mechanism representing shareholders to safeguard their interests against the opportunistic behavior of managers.

Despite their similarities, these two theories differ in some ways. Each one of them includes unique exogenous variables (Eisenhardt, 1989b). The unit of analysis under agency theory is the principal-agent contractual relationship. The agency theory places special attention on economic incentives of the contracting actors or parties (individuals). On the other hand, the unit of analysis under the transaction cost economic theory is transaction- that is, the unitization contract. Transaction cost economic theory examines the choice of organizational form by matching up transactions that have particular transaction features with the suitable governance mechanism (Williamson, 1996). In regards to cost, the focal costs concerns of agency theory are: 1) The monitoring expenditures of the principal; 2) the bonding expenditures by the agent; and 3) the residual loss (Jensen & Meckling, 1976). The first two costs are incurred to reinstate residual loss to pre-dilution of ownership (before the separation between ownership and control) level of agency cost (Kim & Mahoney, 2005).

However, transaction cost economic theory emphasizes on ex post transaction costs: 1) The search for information about the distribution of price and quality of products and labor inputs, the search for potential buyers and sellers, and for important information about their behavior and conditions; 2) the bargaining that is needed to finding the true position of buyers and sellers when prices are endogenous; 3) the making of contracts, the monitoring of contractual partners to see whether they abide by the terms of the contract; 4) the enforcement of a contract and the collection of damages when partners are unable to observe their contractual obligations; and 5) the safeguarding of property rights against third-party encroachment (Eggertson, 1990).

Negative externalities occur when one does not face the consequences of his or her own activities or actions. Agents involve themselves in acts that principals would not benefit from, since they do



not take on the consequences of their acts. Agency theory examines the potential economic consequences using the concept of asymmetric information and non-observability. In picking the unit operator and to winnowing the best from the unit operator, the other residual claimants have to align incentives and to put up more suitable monitoring structures. From agency theory, since the assessment keeps on with unitization, the main source of market friction will arise from the imperfect observability of the (lone) unit operator (i.e. hidden action), therefore the need for various governance structures under unitization (Kim & Mahoney, 2005). Notwithstanding such effort, there will be an existence of residual loss as a result of non-observability and information asymmetry. Kim & Mahoney (2005) suggest that the significant economic issue of reducing residual loss is further complicated by the differing risk attitudes of (risk-averse) agents and of (suggested risk neutral) principals. Transaction cost economic theory's sources of friction also add asset specificity and opportunism. This means that, the sources of markets for transaction costs theory are bounded rationality, uncertainty, asymmetry of information, asset specificity and opportunism.

Opposing positions have been raised in regards to the effectiveness of these two theories in resolving governance problems. These theories have been criticized for being too 'narrow' since they focus on the contract between the principal and agent, and the methods in which the contract can be made more efficient from the perspective of the principal (Eisenhardt, 1989b; Perrow, 1986). This assertion is also supported by Wright *et al.* (2001) that their assumptions discount eventualities that may be more reflective of realities in economic relationships. However, despite these criticisms, the agency theory and transaction cost theory are still in use or used to examine and explore corporate governance practices. Some of the empirical studies that have applied these two theories are: Anderson (1985), Baysinger and Butler (1985); Stapledon (1995); John & Senbet (1998); Martins, Serra, Leite, Ferreira and Li (2010). Table 3.3 shows a summary of the core concepts of agency and transaction cost theories.

**Table 3.3: Summary of Agency theory and Transaction cost theory**

	Agency theory	Transaction cost theory
Unit of Analysis	Principal-agent relationship	Transaction
Focal dimension	Incentives	Various types of asset specificity
Focal cost concern	Residual loss, monitoring, bonding cost	Hold up problems
Contractual focus	Ex ante incentive alignment, monitoring mechanism	Choice of (ex post) governance mechanism
Theoretical orientation	Constrained optimization	Comparative assessment
Strategic intent	Shareholder perspective	Shareholder perspective
Sources of market friction	Information asymmetry, non-observability, risk aversion (by agents)	Bounded rationality, uncertainty, information asymmetry, opportunism and asset specificity

Source: Adapted from Mahoney and Kim (2005)

### 3.4 Summary

From a shareholder perspective, corporate performance is closely linked to good corporate governance. The application of effective corporate governance is to enhance a company's capability to access finance at a lower cost and generally, improve its performance by ensuring efficiency with which resources are allocated within the company (Larcker & Tayan, 2011; OECD, 1999; Iskander & Chamlou, 2000; Claessens, 2004). The subjects of information asymmetry and the incentive problem, which are teething concerns in regards to effective corporate governance, are interconnected. The need for information is vital to addressing incentive problem-considered as the lack of inducement on the part of management to take decisions for value maximization.

The capability of a corporate organization to entice or attract capital providers is subject to how effective its corporate governance practice is, since this will induce capital providers to invest with

the hope that, they are investing in a credible company that will safeguard their investments, and in the end reward them appropriately. By all, not to be rewarded today or tomorrow, but also to be rewarded in five, ten, twenty, or fifty years later. In addition, an effective corporate governance practice improves the reputation of a corporate business by making it more attractive to customers and suppliers (Lipman & Lipman, 2006). A survey in 2002 by Mckinsey & Company, highlights that close to 80percent of institutional investors would definitely pay a premium for properly-governed corporate organizations (Watson & Coombes, 2002).

Kaen (2003) posits that the actual value of a corporate business is what capital providers or investors will make available to the corporate business on the basis of its anticipated returns to its owners. This is also subject to incentives that are provided to those who have been assigned to efficiently allocate resources and to accomplish specific goals of corporate governance. The incentive problem is a key issue in a company and thus the efficiency, by which corporate governance practice deals with this problem, is very important measure in assessing its (corporate governance) effectiveness. The TCE and Agency theory that underpin this study suggest both internal and external mechanisms that can be applied when dealing with incentive problems. In the next chapter, both the internal and external structures of corporate governance are discussed. Thereafter, the conceptual framework of the study is presented.

# **CHAPTER FOUR**

## **BOARD AND OWNERSHIP STRUCTURES TO ENSURING EFFECTIVE CORPORATE GOVERNANCE**

Chapter three discussed the seven main theoretical perspectives of corporate governance. It further discussed the two main theories underpinning this study. This chapter examines the various mechanisms that can be employed to mitigate agency problem in a corporate organization. It develops a general framework of effective corporate governance based on empirical evidence and proceeds to construct the conceptual framework of the study. It further formulates the study's propositions and finally, operationalizes the various variables in the conceptual framework.

### **4.1 Introduction**

Corporate governance mechanisms can take both internal and external forms to mitigate related problems in a corporate business (Gillan, 2006). These mechanisms are employed within corporate governance models around the world to encourage corporate managers to undertake the purposes considered within these models as discussed earlier (See chapter 2). The mechanisms can assist in mitigating related problems between management and ownership. The external mechanisms are those that operate outside the corporate organization: Legal and regulatory framework and competitive market comprising product market, capital market and managerial labor market. These external mechanisms are taken by corporate businesses since they are quite difficult to influence (Dyck, 2001).

On the other hand, the internal operating mechanisms of good corporate governance are board of directors, the ownership structure, compensation packages, bonding and debt policy (Denis, 2001; Jensen and Meckling, 1976). These are mechanisms that operate within corporate organizations, and can be altered to harmonize situations of every corporate business (Dyck, 2001). The internal mechanisms are more flexible than the external mechanisms and can be altered by shareholders as situations demand. These broad categories (ie. internal and external mechanisms) are elaborated in the next section.

### **4.2 Internal Mechanisms**

#### ***4.2.1 Board of directors***

Corporate governance is about maximizing corporate business' value subject to corporate business' financial, and other legal and contractual obligations (Iskander & Chamlou, 2000). In order to combat imbalances between shareholders' interests and other stakeholders' interests, there is a need for board of directors (board) to ensure effective corporate governance through long-term sustained value of the firm. This mechanism will be analyzed based on three issues: The composition of the board, size of the board, and a split of the positions of the CEO and board chair.

The secret of any efficient and effective board depends on the quality and competencies of the people who constitute it. This means that the quality of the board is subject to the quality of its members. Whilst board members role is to monitor management decisions, the effectiveness of this monitoring operation depends on their experiences and affiliations. Mace (1986) argues that a board that comprises inside directors has valuable knowledge when it comes to the operations of the firm, and that each advice it gives is valuable to the Chief Executive Officer (CEO) and the corporate business as a whole. This assertion is also supported by Pease and McMillan (1993) that for a board to be effective, its composition should be individuals with varied skills and backgrounds that are appropriate for the needs of the company. Studies have confirmed a positive relation between insider representation on the board and firm value (Coles, Daniel & Naveen,

2008; Klein, 1998; Rosenstein & Wyatt, 1997). However, it has been argued that a board consisting of inside directors may be hesitant to point out issues or criticize the CEO when he or she is acting contrary to the firm's goals. This may arise when board members fear losing their jobs and therefore, are less likely to be effective monitors.

In order to avoid these autocracies, a number of well-qualified and independent NEDs are supposed to be on the board in order to foster well-informed and impartial debate. Arguden (2009) points out that in order to make sure that each NED proactively partake in board's discussion and debate, he or she has to have an established track record that lay bare his or her veracity and high ethical values; financial literacy; an understanding of fiduciary duty<sup>1</sup>; and high listening, communication and persuasive skills. There are a number of studies that indicates that outside directors (NEDs), on a condition that they are independent can maintain a series of checks and balances than inside directors. Babatunde and Olaniran (2009) point out that the larger the proportion of outside directors (NEDs) on boards, the likelihood that: a) The appointment of an outside executive as Chief Executive Officer; b) a non-performing CEO to be dismissed; and c) significant positive share relations. Mace (2002) also puts forward that in order to ensure effective board, all insiders should be removed from the corporate board with an exception of the CEO, and a criterion should be established by the board to assess the CEO's annual performance.

Kaplan and Minton (1994) conducted a study on the effectiveness of outside directors on Japanese boards. This study was conducted after a poor stock performance and earning losses in Japanese firms, and was found that outside directors are better monitors of management. They conclude that such appointments, on average, stabilized and consequently, improved corporate performance in Japan. Weisbach (1988) hypothesizes that outside directors are effective monitors to management by analyzing the correlation between firm performance and the probability of CEO turnover in firms whose boards are mostly dominated by outside directors, and firms that are otherwise. The author's analysis is consistent with the hypothesis that firms whose boards are mostly made up of outside directors add to firm value through effective monitoring of CEOs.

Having discussed the board composition as one of the essential components of an effective board, the next essential component is the board's size. Arguments have been raised on the size of board of directors. Some argue that regulating or limiting the size of the board will enhance board effectiveness, which will eventually reflect in firm value. Murali (1996) contends that while extra directors could probably improve upon board's checks and balances, they may as well delay decision making processes. This is because, while a large and varied board of directors may increase the performance of the board in terms of knowledge and skills, the board may also face group subtleties, which will in turn make the board less effective in taking strategic decisions (Liao & Hsu, 2013; Van den Berghe & Levrau, 2004; Lipman & Lipman, 2006). It may also bring extra costs to the company in relation to director compensation and the coordination of agendas, sluggish/slacking decision making, less honest deliberation, diffusion of function and risk aversion (Larcker & Tayan, 2011).

Lorsch (2009) contends that it is a psychological fact that the fewer members a board has the easier it is for board members to deliberate on issues and to reaching a consensus. However, even a small board consisting of say nine or ten directors, who expect to be considered as peers, cannot be easily led. Hermalin and Weisbach (2003) reviewing related literature argue that the correlation between board size and firm value displays consistent outcomes, which is inversely related. Yermack (1996) examines a sample of 452 large firms between 1984 and 1991, and the result is consistent with the observation that smaller boards perform effectively than larger boards. In addition, the author

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<sup>1</sup> Fiduciary duty includes a duty of guardianship, a duty of fidelity and a duty of impartiality

establishes a negative correlation between board size and firm value. DeAndrea, Azofra and Lopez (2005) also establish that there is a negative correlation between board size and firm value by conducting a study on OECD countries about the relationship between the board size and firm value. This negative association was established after carrying out a test for robustness by controlling the variables such as internal functioning, board constitution, industry and country effects, and market performance measurements. Also, a study by Shukeri, Shin & Shaari (2012) on 300 Malaysian publicly-quoted firms depicts a negative relationship between board size and firm performance.

However, there is an assertion that supports a positive association between board size and firm performance in certain types of companies (Cole *et al.*, 2008; Adams & Mehran, 2003). Cole *et al.* (2008) using similar estimated performance-on-structure regression employed by Yermack (1996) on 8,165 firm-year observation from Compact Disclosure Investor Responsibility Research (IRRC) over the period 1992-2001 find that the widely accepted negative correlation between board size and firm performance does not hold for some large complex organizations that need extensive counseling needs. This implies that larger boards do help in increasing firm value in certain types of companies (such as large firms, diversified firms and high-debt firms). Also, other studies have shown that large boards are more effective, expedient and flexible in executing their responsibilities in that board members are always assigned to fewer committees, which provides them the fertile ground to specialize in their monitoring, sleuthing and controlling roles (Liao & Hsu, 2013; Coles *et al.*, 2008; Klein, 2002a).

Nevertheless, there are several studies that have been conducted across the globe and have illuminated an insignificant relationship between board size and firm performance. Ghabayen (2012) examines the association between board size and firm performance by using a sample of 102 corporate organizations in Saudi Arabia and finds no significant relationship between them. Also, a study conducted by Chaghadari (2011) on selected listed corporate organizations in Malaysia reveals an insignificant relationship between board size and firm performance. Similar study has also been conducted by Topak (2011) on quoted corporate organizations in Turkey and the study highlights an insignificant relationship between board size and firm performance.

Finally, one of the essential components of an effective board is the CEO-Chairperson separation. In theory, the Chief Executive Officer of a corporate business has been given power to make decisions on investment, whereas the board with the chairperson as the head is responsible when it comes to CEO monitoring, by putting in place goals, designing suitable compensation packages and evaluating the performance of management. From legal perspective the board chairperson is expected to insure that all formal rules and regulations are met in relation to board process (Huse *et al.*, 2011). There are numerous arguments that the principal-agent problem is intensified when one person undertakes these roles and responsibilities. Jensen (1993) notes that with an absence of an independent leader, it would be challenging for the board of directors to effectively carry out their fiduciary duties. Pease and McMillan (1993) postulate that in order to ensure objectivity by avoiding the concentration of power in the hands of one individual, there is a need to separate the roles of the chairperson and the CEO. The combination of the roles of the chairperson and CEO will lead to a compromise (finding the middle ground) between them, but their separation will enrich the board's independence while monitoring the CEO. Van den Berghe and Levrau (2004) also support the argument that agency theory endorses this separation and thus reduce the supremacy of management on the board.

However, it has also been argued that such a separation produces a new stratum of agency cost and raises information transfer cost from the CEO to the Chairperson (Brickley, Coles & Jarrell, 1994). As long as the CEO controls the quality, quantity and timing of available information to directors,

it is quite difficult for directors to be sure of getting what they need for true independent supervision. Baliga, Moyer and Rao (1996), and Daily and Dalton (1997) argue that there are no disparities in regard to the financial performance between corporations with and without combined positions, describing them as either ‘fussing about’ or ‘much ado about nothing’. Dalton and Dalton (2009) contend that the separation of these two roles does not necessarily indicate independence of the leadership structure. Their argument stems from the assertion that in most cases the person who is the ‘separate’ board chairperson is the former CEO of the firm. In some cases too this separate board chairperson is either the founder of the firm or former CEO of acquired or merged companies. The authors further argue that a single voice directing the company at the board level is the most efficient and effective form of leadership. In this situation, “there will be no parties and constituencies-internal and external- who will question who is in charge and who is accountable” (p. 83). The fundamental idea is that any subordinate or minor must be supervised by a single and clear-cut authority. For instance Mathew 6:24 state “no one can be a subordinate to two masters.....” (Good News Bible, 2007).

Prior studies on CEO duality structure and firm performance have revealed conflicting results. A study by Shukeri, Shin & Shaari (2012) on 300 publicly-quoted organizations in Malaysia reveals an insignificant relationship between the duality structure and firm performance. Also, in their study on duality leadership structure and firm performance by using S&P ExecuComp Database from 1999 to 2003, Chen, Lin & Yi (2008) reveal that there is no evidence that CEO duality leadership structure has a significant positive effect on firm performance. Moscu (2013) conducted a similar study using 62 firms quoted on Bucharest Stock Exchange and revealed an insignificant negative relationship between the dual leadership structure and firm performance. However, a research conducted by Amaral-Baptista, Klotzle and Campelo de Melo (2011) on CEO duality and firm performance in 121 publicly-traded corporate organizations on the Sao Paulo Stock Exchange (BOVESPA) highlights that those companies with CEO dual leadership structure, exhibited superior returns on equity in 2008 than their counterparts. In their study on CEO duality and firm performance in 128 publicly-listed firms in Hong Kong, Lam and Lee (2008) reveal that neither agency theory nor stewardship theory can appropriately demystify the relationship between CEO duality and firm performance. However, based on their study, the authors suggest that CEO duality structure is suitable for non-family firms while non-duality structure is appropriate for family-controlled firms.

Having discussed these three essential components, the following conclusions are drawn: 1) That a perfect or ideal board ought to be the one that consists of both inside and outside directors. The inside directors (such as the CEO) will bring their technical know-how to board meetings whilst outside directors provide relevant monitoring and sleuthing functions; 2) that the size of a board of an organization should be dependent on how large and complex the corporate organization is; in the sense that, large complex corporations are more inclined to establish large boards whilst non-complex or small corporate organizations practice otherwise; and 3) that it has not been concretely established that CEO-Chairperson separation leads to effective board based on the limited evidence in the extant body of knowledge.

#### ***4.2.2 Ownership Structure***

Shleifer and Vishny (1986) posit that ownership structure refers to the equity holders’ identities and the size of their holdings. Ownership structure is also typically defined by the size of equity that is held by corporate entity’s CEO, employees (possibly, as fraction of an Employee Stock Ownership Plan), other corporate insiders (comprising top managers and members of the board), large outside stockholders, institutions and the populace (Hirschey, 2003). It is considered as one of the major internal mechanisms that drive effective corporate governance. This section centers on managerial ownership and ownership concentration of outside shareholders.

Murali (1996) suggests that managerial ownership produces two opposing forces in governing managerial behavior. On the one hand, a larger fractional ownership by management guarantees a greater alignment of the interests of managers and stockholders, as management's higher share in their businesses mean they bear more of the wealth consequences of their acts. Murali (1996) further notes that this 'convergence of interest' suggests that larger managerial stakes will be correlated with high shareholder value. This means that management with considerable share interest in a corporation has significant incentive to administer the corporation in a value-maximizing way. On the other hand, 'managerial entrenchment' suggests that higher management ownership upsurges their ability to pursue non-firm-value decisions that improve their own wealth without fear of punishment. Denis and McConnell (2003) suggest that the crucial consequence of managerial ownership on firm value depends on the trade-off between management alignment with stockholders and the entrenchment outcome.

The correlation between managerial ownership and stockholder value is inconsistent. Morck, Shleifer and Vishny (1988) suggest certain levels of managerial ownership induce managers to make good decisions in order to maximize stockholder value. Yet, beyond that level, diminishing returns on managerial level set in. Denis, Denis and Sarin (1995) find that there is no correlation between performance and turnover in firms in which insiders own 5percent to 25percent of the firm, signifying that managers may turn out to be entrenched at quite low levels of ownership.

Another significant aspect of ownership structure is featured by ownership concentration by stockholders from outside. Babatunde and Olaniran (2009) suggest that ownership concentration is another procedure of mitigating agency problems. They note;

[T]he free-rider problem is minimized and internal constraints on managerial discretion can probably be imposed if ownership is concentrated in the hand of a large block of shareholders irrespective of whether they are individuals, organizations or investment funds. ..., the returns to monitoring will increase monitoring activity..... (P. 336).

This argument has been supported by Carlsson (2003) that when large chunks of stock are in the hands of a single or small number of stockholders, it induces the owners to change managers when the need arises, and match the corporation with the existing competitive environment. Denis and McConnell (2003) affirm that block holders can use their influence in a way that is likely to make management to take decisions to maximize shareholder value. Majority shareholdings play a significant role in management, and it is mirrored by the management board turnover following majority-block trading. Demsetz and Lehn (1985) also describe the ownership structure of a firm as being cooperatively decided by stockholders resulting in maximization of firm value. Franks and Mayer (1994) in a study on German Private Enterprises find that clustered share ownership is correlated with high rates of firm value. Similarly, Gedajlovic and Shapiro (2002) assessed the correlation between ownership structure and financial performance for 334 firms in Japan between 1986 and 1991. Even though corporate governance mechanisms in Japan are heavily frustrated by convention and fiat of government, a direct correlation exists between concentration of ownership and financial performance. Kaplan and Minton (1994) also suggest that the presence of large stockholder increases the probability that managers who are in corporate businesses that perform poorly would be booted out and replaced.

However, an important question is whether the presence of larger shareholders in a firm would always ensure effective corporate governance? Konijn, Kraussl and Lucas (2011) argue that shifting the balance of power towards shareholders who are considered as one of the stakeholders of a company could amount to agency conflicts among different stakeholders. Large stockholders might simply try to shield their private gains by abusing their increased power to favor themselves

at the expense of other stakeholders' interests. Empirical studies of Barclay and Holderness (1989), Nenova (2003) and Dyck and Zingales (2004) corroborate the possibility of such personal benefits of control by large shareholders. A study by Konijn *et al.* (2011) using a large dataset of US firms find that a large fraction of aggregated block ownership negatively affects firm performance, but the negative impact is larger if shareholders are dispersed. The implication is that the presence of large shareholders does not automatically lead to good corporate governance, but when ownership is fragmented to an extent that there is no single large shareholder in a corporate organization, corporate management tends to take decisions to enrich themselves to the detriment of shareholders. In simple terms, the existence of a large shareholder in a corporate organization will reduce principal-agent problem since this large shareholder will serve as an effective mechanism to monitor and scrutinize management's performance rather than depending on independent non-executive directors to stand in for its interests.

There is an argument that large shareholders are effective corporate governance mechanism in developing countries and as a result they are more likely to monitor and control management without relying on outside directors (Agyemang & Castellini, 2013; Babatunde & Olaniran, 2009; Berglof & Claessens, 2004). A study by Attig, Ghouil & Guedhami (2009) on the role multiple shareholders play in ensuring good corporate governance in 1,252 publicly-traded corporate organizations in East Asia reveals a positive and statistically significant association between the presence of multiple large shareholders and firm valuation. This implies that increasing the number of large shareholders enhances good corporate governance and consequently, improves corporate value in corporate organizations. In this case, the other stakeholders will perhaps rely on larger shareholders to restrict the discretionary purview of management.

#### **4.2.3 Chief Executive Officer Compensation**

The application of the performance-based director incentives can mitigate the conflict of interests between equity holders and management (Jensen & Meckling, 1976; McColgan, 2001). Agency theory posits that, binding management's compensation to stock performance induces management to take decisions that will be logically coherent with firm value maximization. The firm can set up performance-based director incentive scheme that binds the interests of stockholders with those of management to make them think like owners (Jensen & Meckling, 1976; Roe, 2003). McColgan (2001) argues that this form of executive compensation contracts can have a large impact on aligning shareholders' interests with that of management. Jensen and Meckling (1976) contend higher incentive packages should lead to a firm's value maximization. Ooghe and De Langhe (2002) also suggest that higher compensation packages to managers will lead to effective corporate governance and consequently, maximize shareholder value.

Mehran (1995) examines the correlation between the structure of compensation and firm value using data from 153 corporate businesses between 1979 and 1980. The author finds that firm value is directly correlated to the proportion of executive compensation, and to the proportion of equity held by managers. Jensen and Murphy (1990) report on economic meanings of the pay-performance relation by estimating the change in Chief Executive Officer Wealth in relation to a given change in stockholder wealth. They studied 2,213 Chief Executive Officers listed in the Executive Compensation Surveys (ECS) published by Forbes between 1974 and 1986. Their study highlights that the average CEO's wealth from salaries, stock-option grants, bonuses, stock ownership and potential losses in the event of dismissal changes by \$3.25 for every \$1,000 change in stockholder wealth, of this \$2.50 is as a result of stock ownership by CEO. The authors argue that, whereas there is a significant correlation between pay and performance, its economic meaning is too small to be consistent with optimal contracting.



There are four main forms of compensation: Basic salary, accounting-based-performance bonuses, executive stock options and long-term incentives (McColgan, 2001). These compensations determine the workplace of management as well as the amount of effort they exert in their work. Baker, Jensen and Murphy (1988) argue that the level of pay determines where management work, but the compensation contract structure determines how hard they work. In practicing effective corporate governance, effective compensation contracts ought to provide management with satisfactory incentive to make decisions that will maximize firm value.

Executive salary will probably be determined by the labor market, in tandem with other elements such as the firm size and the manager's position in the company (McColgan, 2001). Basic salaries are generally considered to be inefficient to induce managers to make shareholder-wealth maximizing decisions. Jensen and Murphy (1990) argue that equilibrium in managerial labor markets will obviate large salary cuts for executives who perform abysmally. This is in regards to the assertion that salary cuts below a certain minimum which is provided in the market are impossible. There are also likely to be equilibrium salary levels for executives in different industries, which most companies will wish to stay in line with. In conclusion, basic salaries are less likely to serve as an appropriate measure to induce managers to take decisions that maximize firm value.

Accounting-based performance bonuses serve as a mechanism for aligning managers' interests with that of the firms' stockholders. But reliance on accounting variables to pay executives can overtly offer a room for them to rejig the accounting system and undertake projects with short-run accounting returns by abandoning long-term positive Net Present Value (NPV) project (Wearing, 2005; Healy, 1985 cited in McColgan, 2001; Jensen and Murphy, 1990). For instance, PricewaterhouseCoopers (PWC) was forced to pay \$97.5 million to patch up a class of action lawsuit for associating itself with American Insurance Group (AIG) in overstating their profit margin (Ferrell *et al.*, 2011). Also, civil charges were filed against Fannie Mae's CEO, CFO and the ex-controller, who supposedly rejigged earnings in order to boost their additional benefits. This shows that managers can manipulate the accounting system to project better performance.

Another typical example is the case of Enron, when management manipulated the accounting records by classifying expenses as capital expenditure. DeChow and Sloan (cited in McColgan, 2001) report that research and development expenditures decline following the retirement of the CEO. This points to the fact that, bonuses based on accounting system is less likely to be an incentive to induce management to take decisions that will maximize shareholder value since they (management) will always be interested in manipulating accounting records to look good in the short-term at the expense of long-term positive projects. Wearing (2005, p.8) argues that it is vital that, "in achieving high share valuation, the managers do not focus on short-term objectives, since such policy could be inconsistent with achieving a high share valuation in the longer term". Corporate organizations which stick to short-term goals rather than long term goals would perhaps place much attention to specific financial indicators such as earnings per share or short term profits. A more recent case is the financial scandal that happened in Olympus. The company's former chairperson, his trusted deputy, the corporate auditor and four outsiders used accounting and auditing tricks to hide losses on investments dating from the 1990s (KNC, 2012). It only came to light after the company had appointed the first non-Japanese boss to head its operations. Consequently, the former chairperson and his accomplices were found guilty and in lieu of this, they filed a guilty plea in Tokyo District Court.

The executive stock option is considered as one of the effective means of aligning management's interests with that of equity holders. This mechanism allows company executives to acquire company shares at a particular price at specific periods in the future. It is regarded the best

surrogate for managerial shareholdings in that the higher the value of the corporate organization, the higher the value of the options and the profit executives can chalk upon implementing them (McColgan, 2001). The value of such stock options will rise concurrently with the firm's underlying assets risk. Stock options induce managers to make decisions to ensure value maximization. This means company executives have to take decisions to maximize firm value since they (managers) too benefit from doing so. However, stock options can be abused by creating mega-profits to management or executive concerned. For instance, in case an individual is granted a \$15 stock option and the actual stock price on market gets to \$45, 'exercising' that choice to purchase a stock costs \$15, amid an instant sale value of \$45, would result in an immediate profit of \$30. With 200,000 stock options would give an individual \$6 million profit, typically paid by shareholders.

Long-term Incentive Plans (LTIP) is the last mechanism to be discussed in this section. McColgan (2001) posits that the LTIP take different forms such as an award of stock in the corporate business on the achievement of long-term performance criteria such as Earnings per Share (EPS) growth above a given percentage after a certain number of years (UK) and restricted stock or multi-year bonus plans (US). It is similar to stock options and usually, termed under the classification of equity-based compensation.

One major criticism of both LTIP and Stock options arises from the problem of managerial risk aversion, since management is risk-averse as compared to shareholders to undertake dicey but firm-value maximizing projects (McColgan, 2001). McColgan (2001) contends that the cost associated with such compensation is higher to the corporate organization than the value gained by corporate executives, as risk aversion drives them to mark down the actual value of such forms of compensation.

The performance-based incentive mechanism is associated with the problem of hidden information (Hart, 1995). This hidden information is only known to management (agent). This information can be portrayed as better in the short-term at the expense of long-term. The use of performance-based compensation is higher in the shareholder models of corporate governance (that is the Anglo-American model) that are associated with more efficient markets and broadly fragmented ownership than in the stakeholder models (Germanic and Japanese models). In the Ghanaian context, the performance-based incentive mechanism must determine the extent to which it induces management to take decisions that maximize shareholder value. This mechanism may not be effective in Ghana; since this has the propensity to be applied in situations where ownership is fragmented and active markets for corporate control exists. Berglof and Claessens (2004) suggest that performance-based mechanisms in developing countries are ineffective as a result of the fact that large shareholders exist who can easily hire and fire management when they perform poorly.

#### **4.2.4 Debt financing**

Financial policies toward capital structure could also be a measure to control agency problem. Jensen and Meckling (1976) argue that the existence of debt decreases the percentage of equity and thus enables higher levels of insider ownership. Jensen (1986) further argues that the existence of debt in the capital structure of the firm acts as a bonding mechanism for corporate business managers. Issuance of debt, rather than paying dividends, management contractually bind themselves to pay out future cash flows in a way not achievable via dividends. External capital market monitoring brought to firms in consequence of debt financing, forces management to take decisions for value maximization, instead of maximizing their personal interest (Easterbrook, 1984). Brennan (1995b) also argues that the role of a capital structure of a corporate business ought to ensure its socially optimal liquidation.

McColgan (2001) contends that bankruptcy cost of debt and the personal embarrassment coming from bankruptcy serve as effective incentive mechanisms in encouraging managers to be more efficient. Harris and Raviv (1991) suggest that higher levels of debt increase the decision on liquidation by making default more likely. In their study on corporate organizations in the UK, Franks, Mayer and Renneboog (2001) highlight that companies that are associated with low interest coverage and high leverage are more inclined to undergo forced turnover of top executives. This implies that debt can be an effective control measure to monitoring inefficient management.

However, how much debt is appropriate is a problem on the other side. The optimal capital structure should be at the point where marginal costs of debt are equal to a firm's marginal benefits. This point is called the value maximizing point. Nonetheless, issuance of debt beyond that optimal point will increase risk and decrease firm value. Stultz (1990) contends that debts could be applied to minimize the risk associated to over-investment, but this application could also result in under-investment in regards to the costs related to raising new funds.

The use of long-term debt by corporate businesses in Ghana and its impact on corporate governance is far from reach as a result of lack of research on this subject.

#### **4.2.5 Bonding**

Denis (2001) defines bonding as a contract between managers and shareholders that aims at enticing managers to take all decisions that favor shareholders' interests. Contracts are made through a construction of a system that would ensure that managers act in the interest of shareholders' benefits. Bonding involves arrangements that punish agents (managers) for acting in ways believed to be detrimental to the interests of shareholders (principal) or reward them (agent) for co-aligning their interests with that of the principal. However, Denis (2001) argues that this approach is not adequate for eliminating incentive problems, and hence not effective to inducing managers to take decisions that meet shareholders' interest. The author further notes that bounded rationality and transaction costs make writing catholic contracts that specify every possible event challenging. Berglof and Claessens (2004) posit that contracts rely on the existence of laws and regulations as well as the effectiveness in which such laws and regulations are enforced. It can be deduced that, if laws are not enforced, as in the case of developing and transition countries of which Ghana is no exception, contracts can certainly not compel corporate executives to effectively and efficiently strategize to enhance shareholder value.

### **4.3 External mechanisms of corporate governance**

#### **4.3.1 Laws and regulations**

Laws and regulations not only serve to correct market failures, reduce agency and transaction costs, and attain social goals, but in addition to haul out bribery and corruption. These are imposed on the corporate entity to address concerns beyond the penumbra of interests the corporate business impacts directly, and include rules about competition and antitrust, normal trade and security (Cunningham, 1999). Denis (2001) posits that these laws and regulations govern the set up and cessation of firms, and their operations in a country. These play a crucial role in creating effective corporate governance in a country as well as protecting the rights of investors and creditors. Shleifer and Vishny (1997) contend that the legal protection for investors and ownership concentration are key factors to judging effective corporate governance. This framework includes laws relating to minority shareholders' rights, stock exchange rights and laws against corruption. Scott (1997) argues that these regulations define the association between managers and other stakeholders. It also affects how other mechanisms operate effectively particularly the way they evolve. Berglof and Claessens (2004) posit that ownership structure reacts to effectiveness of legal and regulatory framework.

The legal environment encompasses two main relevant aspects: a) The protection offered in the laws (*de jure* protection) and to what extent the laws are enforced in real life (*de facto* protection). These two aspects play a very significant role in determining effective corporate governance in Ghana. Shleifer and Vishny (1997) contend that the variations in corporate governance systems around the world stem from the fact that there are differences in the nature of legal obligations between management and their financiers, as well as the disparities in the interpretation and enforcement of these legal obligations by courts of competent jurisdictions. The national differences in ownership structure, financing, dividend policies and development of market structure are associated with how far financiers are legally protected from being expropriated by insiders (La Porta, Lopez-de-Silanes, Shleifer & Vishny, 1997). Shleifer and Vishny (1997) further argue that the main reason investors provide external financing to corporate businesses is that they receive control rights in exchange. Hart (1995) describes external financing as a contract between financiers and the corporate business as a legal entity, which provides the former certain rights in relation to the assets of the firm. If this term of contract is violated by management, then the financial providers have the right to appeal to courts to make sure that their rights are enforced.

The legislative practices address the incentive problem by ensuring that self-interest managers take decisions that will enhance shareholder value. For instance, Cadbury report makes recommendations by which listed companies in the UK are encouraged to conform, and they are obliged to provide clarifications if they do not conform. The existence of these recommendations induces management to take decisions to maximize shareholder value. The principles of OECD and CACG to ensuring effective corporate governance emphasize on the need to formulate corporate governance legal and regulatory framework to ensure the protection of shareholders and other stakeholders.

It has been argued that the regime of laws and regulations do not automatically result in effective corporate governance. Jensen (1993, p. 850) contends that the legal and regulatory framework “is far too blunt an instrument to handle problems of wasteful managerial behavior effectively as courts do not as a matter of practice question the judgment of management”. Jensen further argues that the legal and regulatory apparatus is entangled to the political system and as a result, depending on the relative impact of various constituencies, the law may serve to impair the agency problem between management and shareholders. The link between laws and regulations, and the political system (Jensen, 1993) creates rules and regulations in relation to managerial disciplines in countries particularly, developing and transition countries (Berglof & Claessens, 2004).

Berglof and Claessens (2004) posit that private and public enforcements of rules and regulations of a country have an influential role to ensuring effective corporate governance practice in an economy. However, the legal and regulatory framework to ensuring effective corporate governance in Ghana is in general, considered to be weak because of its poor enforcement (Mensah *et al.*, 2003; McGee, 2009). Poor laws and regulations, and poor enforcement of existing laws and regulations, are problems in developing economies (Okpara, 2010; Cooper, 2007; Berglof & Claessens, 2004; Lin, 2000; World Bank, 2005). Immordino and Pagano (2010) in a study substantiate that unlike governments of developed economies, those (governments) in developing economies tend to logically assume lower standards in the sense that, they believe, the costs of law enforcement are somewhat higher. Consequently, the alacrity on the part of authorities, in supporting the implementation of effective corporate governance is weak in developing economies (Cooper, 2007).

### **4.3.2 Competitive Markets**

There are three (3) main competitive markets that help to align management's interests with that of shareholders. These are managerial labor market, capital market and product market. The subsequent subsections will address these three issues.

#### **Managerial Labor Market**

Fama (1980, p. 295) argues that '...the primary disciplining of managers comes through managerial labor markets, both within and outside of the firm...'. He further contends that managerial labor market can decrease agency cost by resolving possible incentive problems associated with the separation of ownership and control of the corporate business.

Managers of corporate businesses rent their human capital to the corporate business (Fama, 1980), and rates of their rents signaled by the managerial labor market are likely to depend on the success or failure of the corporate business (Hirschey, 1986). Management has a very strong incentive to manage the corporate business efficiently and at the same time keep share prices high in consequence of the fact that compensations to management are generally directly associated with shareholder value (Lewellen, 1971). In the managerial labor market, the past performance of a corporate business provides information on the talents of managers. Baysinger and Henry (1985) argue that if a manager fails to perform efficiently at a level that is consistent with his or her compensation, the managerial labor market would put in place a new standard for future compensation in accordance with this information.

This market provides good incentives and monitors management via two ways. First and foremost, Fama (1980, p. 292) suggests "[t]he outside managerial labor market exerts many direct pressures on the firm to sort and compensate managers according to performance". The author further suggests that managerial labor market ought to attribute the talent of a manager to at least information about his or her current and past performance. Differently put, managerial labor market competitiveness can give information about the past performance of a potential manager. The second aspect is that there is also an internal monitoring of managers themselves in that, managers at the top measure the productivity of lower managers.

Management's successes in the managerial labor market and job security depend upon how they use their human capital to take decisions that maximize shareholder value. Fama (1980) posits that during this process they promote those managers who perform well among them to higher positions, whilst those who perform poorly are identified, demoted or fired. Jensen and Murphy (1990) also affirm that in managerial labor market, managers who perform poorly are punished. This means that competition in management provides a very strong incentive for managers to improve upon their performance thus taking decisions to meet shareholder value.

An efficient capital market is very significant to the managerial labor market (Jensen and Meckling, 1976). Jensen and Meckling (1976) argue that the prices of a firm in an efficient capital market can reflect the true value of that firm. Coffee Jr (1984) also suggests that the capital market provide relevant re-assessment of a firm's management. Therefore, managerial labor market comparatively, provides low-cost for the selection and replacement of top managers.

Competition in the managerial labor market is rare in developing countries (Lin, 2000). This is because corporate governance in developing countries is somewhat characterized by cronyism, nepotism and favoritism when it comes to appointment of managers. In their study on corporate governance and corruption in Ghana, Mensah *et al.* (2003) opine that these problems (ie. nepotism and favoritism) are faced by large number of African countries and therefore, creating challenges in relation to the applicability of managerial labor markets.

### **Capital market**

Capital markets are markets in which debt (bonds) and stocks (equity) are traded. These markets are categorized into two main types: The primary market and secondary market. The primary market is where securities that are new are issued. The secondary market includes deals with existing securities, and it includes stock exchange (example, Ghana Stock Exchange) and bond market. The secondary market is very critical market in relation to the fact that corporate governance can be exercised through *exit*. *Exit* happens when stockholders decide to sell their stocks to end their membership. The secondary market has the potential to providing a change in the ownership structure of a corporate entity coupled with a change in control.

In the capital market, non-performing managers can be disciplined or punished (Larcker & Tayan, 2011; Manne, 1965) in that, managers who fail to perform may risk takeover when outside investors envisage that the corporate business' assets could produce higher earnings (Iskander & Chamlou, 2000). In addition, management members compete for the rights to manage the resources of the corporation (Jensen & Ruback, 1983). Haque, Arun and Kirkpatrick (2008) argue that capital market can employ governance role in mitigating agency problems through penalizing managers as well as improving the overall governance of the firm. Gugler, Mueller and Burcin Yurtoglu (2003) contend that a country's external capital market strength determines the degree of a corporate business' investment performance irrespective of how closely managers' and shareholders' interests match. Aside working as a source of investment finance (Samuel, 1996), a capital market has both *direct* and *indirect* impacts on the processes of governance of listed companies (Singh, 2003). On the one hand, the *direct* governance practices include tightening listing requirements, imposition of disclosure and accounting rules, ensuring minority shareholder protection, attracting reputable agents and controlling insider dealing arrangements (Claessens, 2003; Singh, Weisse & Singh, 2002). On the other hand, capital market can put forth *indirect* impacts via pricing mechanisms, involving both disciplinary and allocation measures, and the takeover mechanisms (Haque *et al.*, 2008; Singh, 2003; Samuel, 1996). Singh (2003) asserts that the firm basically performs its allocation role by pricing corporate securities.

Tobin (1984 cited in Haque *et al.*, 2008) distinguishes between the two concepts of efficiency of share price in stock market, namely, *information arbitrage efficiency* where all available information are incorporated into the share price and, *fundamental valuation efficiency* where stock prices rightly mirror the future discounted earnings of a corporate business. The stock market assisted by market for corporate control namely, takeovers, management buy-outs and leverage buy-outs, can improve the efficiency and performance of a corporate business by replacing poorly performed management and transferring the assets of the corporate business to more effective and efficient management (Haque *et al.*, 2008; Singh, 2003).

Studies have observed that the effectiveness of pricing mechanism in developing countries is not fully developed as a result of poor corporate business practices related to transparency, accountability and poor financial development. Singh (2003) argues that takeover mechanisms have an inherent flaw in their operations, and are expensive to practice to solve corporate governance problem. Claessens and Berglof (2004) also contend that if a capital market is characterized by weak property rights environment, insider investors might get involved in the trading of private information before it is opened to the general public. Doidge, Andrew karolyi and Stulz (2007) in their study state that the utmost gains a firm can derive from practicing effective corporate governance is the easiness of access of capital by the firm on better terms, but these gains are of no value if the firm is domiciled in a country, which is characterized by poor financial development in the sense that the firm will unsubstantially gain from any governance-oriented mechanism that is aimed at minimizing the costs of funds. Demirag and Serter (2003 cited in Haque *et al.*, 2008) argue that majority of family-based corporate businesses in developing

countries tend to own and control banks via pyramidal or complex shareholding act as a substitute for external capital market. Corporate managers who do not rely solely on external finance are less unlikely to be disciplined by the capital market (Prowse, 1994).

Haque *et al.* (2008) contend that institutional investors such as insurance companies, pension fund, non-pension banks and mutual funds, having been a significant portion of capital market, tend to manipulate the corporate governance system. These institutional investors are more likely to be efficient than individual investors in collecting, analyzing and performing on objective, corporate-specific fundamental information, and consequently, influence a corporate business' investment and other financial decisions (Haque *et al.*, 2008; Samuel, 1996).

There are several governance roles that are to be taken by these institutional investors to solve agency problem: a) Engaging in dialogue which centers on mutual understanding of objectives; b) evaluation of overall governance disclosures in relation to board structure and composition; c) monitoring and evaluation of performance associated with shareholder value and activism; d) exercising voting power on all major corporate decisions; and 5) interventions where applicable especially, on issues such as decisions on investment, corporate and operational strategies, acquisitions or disposal strategy, internal control mechanism, and board and management controls (Millan, 2004 cited in Haque *et al.*, 2008).

The presence of institutional investors tends to induce effective governance role of the capital market (with which the corporate business is valued and governed) (Haque *et al.*, 2008). The establishment of monitoring and disciplinary acts by institutional investors may serve as a laudable substitute for debt financing as well as markets for corporate control (Samuel, 1996). This mechanism is very important for organizations in developing countries since they depend on debt and equity.

Debt market can serve as a mitigating factor in solving agency problem by providing debt holders with incentives and power to control and monitor insiders' expropriation (Haque *et al.*, 2008; Gul & Tsui, 1998; Stiglitz, 1985 cited in Prowse, 1994). When more debts are in the hands of a few creditors, it is more likely to help creditors in exercising significant cash flow as well as control rights, hence reducing agency cost (Vishny & Shleifer, 1997). This means creditors can liquidate a corporate business, acquire the assets used as collateral and partake in voting processes of relevant corporate decisions, on condition that, the corporate business is unable to pay its debt or run effectively. However, regardless of the rights of creditors, the effectiveness of a country's legal and regulatory framework is fundamental. It has been argued that capital market role in developing countries is unlikely to be effective in solving agency problem (Okpara, 2010; Haque *et al.*, 2008; Berglof & Claessens, 2004). Capital markets in developing economies give little incentive for effective corporate governance practices, because of the dominance of few large companies, low trading volumes and liquidity, absence of long-term debt instruments and inactiveness of institutional shareholders (Iskander & Chamlou, 2000; Haque *et al.*, 2008).

In the context of this study, the questions that arise are: Does market for corporate control serve as an effective mechanism to achieving effective corporate governance in Ghana? If it does; to what extent? The circumstances under which an effective competitive capital market can be developed are at early stages in Ghana. Therefore, the condition in which capital market serves as an external mechanism for corporate control is not functioning in Ghana. This is because, major corporate organizations currently in Ghana were owned by the state and thus the government provided capital and exercised control over their day-to-day activities. This implies that the market for corporate control was not in operation, because it was in stark contrast with the standpoints of the centrally system of government (Socialism). However, things have started to change because of the mixed

economic system the country is currently practicing. Consequently, there has been an establishment of a stock market to expedite actions on stockholders *entry* and *exit* through merging, acquisition and selling of stocks.

Presently, there are twenty-four (24) brokerage firms that gather governance information in Ghana. This information forms a very significant constituent in the capital market for corporate control. Although, Ghana Stock Exchange has been adjudged the 'Most Innovative African Stock Exchange' at the African Investor (Ai) prestigious annual index series awards, its weak institutional foundation coupled with enforcement gaps pose a challenge. Prowse (1998) points out that for a market to serve as an effective mechanism for corporate control; it needs an existence of an active capital market, which is not the situation in Ghana. Capital market development depends typically on the rules and regulatory framework that smoothens the progress of enforcement and the improvement of court dealings that permit a more efficient dispute resolution (Djankov, La Porta, Lopez-de-Silanes & Shleifer, 2003). The World Bank assessment report on Ghana's corporate governance rates the legal and regulatory framework *materially not observed*, meaning in view of its progress, inadequacies are sufficient to raise doubts about the authorities' ability to achieving observance (World Bank, 2005).

### ***Product market***

Friedman (1953 cited in Singh *et al.*, 2002) acknowledges perfect competitive market as an important mechanism in dealing with the problems of separation of ownership and control in modern corporations or about the associated problem of corporate governance. This is because competitive market would ensure natural selection of corporate businesses that maximize profit with optimal ownership patterns and corporate governance to survive. Jensen (1993) asserts that firms that do not supply the product that customers are yearning for, at a competitive price cannot survive. This is because these firms cannot sell their products to maximize profit and as a result, cannot survive. The major limitation on the behavior and governance structure of large corporate businesses is the keen competition in product markets (Singh *et al.*, 2002).

Porter (1990 cited in Jensen, 1993) finds that most prosperous economies in the world are those characterized by keen competition that brings about market efficiency via survival of the fittest. The product market makes available incentives to management to survive over a long-term, and mete out the ultimate disciplinary action of exit or bankruptcy as the last resort on corporate businesses that disregard the signals (Jensen, 1993). Therefore, the ultimate disciplinary action that could be meted out to a corporate business' manager comes from a threat of bankruptcy when the company disregards the signals of product market.

Gillan (2006) contends that theoretically, the connection between product market competition and different facets of corporate governance includes compensation structure and CEO turnover. Arguments are that competition alone cannot jettison these problems mentioned above. Singh *et al.* (2002) argue that both the capital market and product market suffer from imperfection and it is easier for a large profitable corporate business to takeover a small profitable corporate business than the other way round. The chances of survival of large unprofitable corporate businesses are relatively higher than those smaller, relatively profitable firms (Haque *et al.*, 2008).

Product market competition is perhaps the most powerful force towards economic efficiency in this world and as a result, its position as one of the mechanisms for effective corporate governance cannot be underestimated (Shleifer & Vishny, 1997; Kar, 2000 cited in Haque *et al.*, 2008). However, in relation to this study, the use of product market mechanism in the context of Ghana is currently limited, but it is now growing as a result of the trade liberalization policies. This implies that, to a large extent, product market competition is likely to result from the external sector in



consequence of the relaxation of import restrictions. As Ghana's markets are flooded with imported goods from other economies, product market competition will gradually develop and serve as a disciplining mechanism for poor managerial behavior in the long run.

Product markets depend on rules and regulations such as anti-trust laws to function well. But due to poor law enforcement as discussed by Berglof & Claessens (2004), there have been challenges in relation to the discipline of product market in developing countries. To add up to the general challenges of product market in disciplining management (as discussed earlier), poor law enforcement also limits the full functionality of product market discipline currently in Ghana.

#### **4.4 Conclusion**

The above discussion points out that Ghana's business landscape in respect of corporate governance is associated with weak legal and regulatory framework, less developed capital market and an uncompetitive managerial and product markets. This means that the use of external mechanisms as corporate control measures in achieving effective corporate governance in Ghana is not in existence. Therefore, effective corporate governance in Ghana can be attained and achieved via internal control mechanisms. However, some of the internal control mechanisms also rely on the legal and regulatory frameworks for their application. For instance, bonding and debt financing rely on an effective legal and regulatory framework of a country. As mentioned earlier, Ghana's legal and regulatory framework is weak and as a result its recognition in this study as an effective control mechanism to ensuring effective corporate governance will be overlooked. On the other hand, as performance-based incentives also depend on competitive market, its application in this study is overlooked in relation to the fact that the capital market is less developed in Ghana. Further, the non-existence of active capital market basically limits the usefulness of performance-based incentives (Larcker & Tayan, 2011).

Berglof and Claessens (2004) argue that the mechanisms that are more likely to be effective in developing economies are those that rely less on these laws and regulations. The simple explanation is that there are some mechanisms that can work with or without the existence of laws and regulations. However, the study contends that for mechanisms of corporate governance to effectively work in an economy, the existence and effective enforcements of laws and regulations are imperative (Agyemang *et al.*, 2013; Okpara, 2010; Djankov *et al.*, 2003). As per the study's discussion, it was highlighted that all the external mechanisms as well as certain internal mechanisms of corporate governance are not applicable within the Ghanaian context. Therefore, internal mechanisms such as the ownership structure and board of directors seem to be the only mechanisms in the Ghanaian setting. Accordingly, the study will be based on these two mechanisms to construct the study's conceptual framework. However, before the construction of the conceptual framework, a pilot study was conducted to verify this inference (see section 4.6).

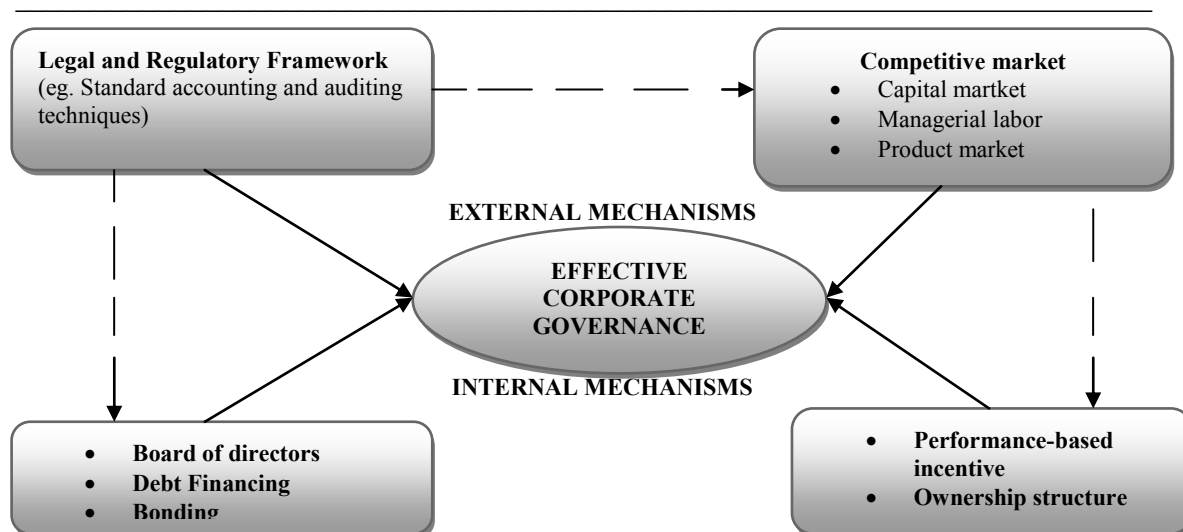
#### **4.5 General Corporate Governance framework**

The mechanisms mentioned above are employed in the general corporate governance model to induce managers to take decisions that match up with the goals in the various models addressed (see chapter 2). Accordingly, the study's sub-question one (1) (see section 1.5) has been answered on the basis of the mechanisms that have been reviewed and portrayed in the model. The shareholder viewpoint of corporate governance has its objective of narrowing the differences between stockholders and managers. In the absence of reducing these differences, agency costs set in, hence reducing shareholder value. This means that mechanisms are considered to be effective if they are slanted to enhance shareholder value via strategic decisions by corporate managers.

The two categories of mechanisms for corporate control discussed above form the various components of the general model of corporate governance for this research are shown in figure 4.1 below. The study is sentient about the construction of the conceptual framework in that:

Models and frameworks are helpful for clarifying theories and abstract concepts or constructs. But to be useful in practice, a model or framework must be applicable to the conditions that it is attempting to describe, analyze, or predict (Clarkson, 1995, p. 94).

**Figure 4.1: General Framework of Corporate Governance**



Key: the dashed lines depict how the external mechanisms affect the internal mechanisms, whilst the full lines depict how the two mechanisms (internal and external) serve as a determining factors of effective corporate governance.

The above general model of corporate governance depicts how both external and internal mechanisms act as driving elements of effective corporate governance. As discussed above, the external mechanisms have a certain level of influence on the internal mechanisms. For instance, the legal and regulatory framework mechanism affects the operations of the internal mechanisms (such as debt financing and bonding). Berglof and Claessens (2004) point out that, contracts between managers and shareholders depend on the existence of laws and regulations as well as the effectiveness in which such laws and regulations are enforced. This means that if laws are improperly enforced, as in the case of developing countries, contracts cannot compel managers to take decisions that favor stockholders' interest. Haque *et al.* (2008) also argue that, since companies depend on debt financing in order to meet their investment needs, the relationship between stockholders and creditors tends to be driven by agreements, which in turn depend on the legal and regulatory frameworks upon which companies operate. The legal and regulatory framework also affects the board of directors of a company in the sense that the duties and responsibilities of the board are enumerated in the various corporate governance codes around the world.

Further, the performance-based incentive is influenced by the competitive market (external mechanism). This comes about when executive stock option is considered to be one of the effective measures of aligning management's interests with that of stockholders. McColgan (2001) posits that, the higher the value of the firm, the higher the value of the executive stock option that managers can make upon exercising their duties effectively. This means stock options induce managers to take decisions that increase shareholder value. However, this study argues that in the absence of effective and efficient capital market, the application of performance-based incentive

mechanism to ensuring good corporate governance in an economy will be ineffective because of its reliance on the capital market.

This study tends to concentrate on mechanisms that focus on the gap between shareholders' interests and managers' interests. This implies that any mechanism that focuses on narrowing this hiatus would be appropriate. Denis (2001) and Denis and McConnell (2003) point out that an effective mechanism can be measured based on two benchmarks: 1) The magnitude to which the mechanism focuses on bridging the gap between the interests of shareholders and that of management; and 2) the magnitude to which the mechanism increases company performance and value. As noted earlier, this study focuses on the first benchmark, since it is possibly acceptable from the viewpoint of agency theory that the real meaning of corporate governance is to induce managers to take decisions that favor shareholders' interests via focusing on narrowing the gap between managers' interests and those of shareholders' (Jensen & Meckling, 1976; Hart, 1995). It has been argued that corporate performance and firm value are products of effective corporate activity, which depends on effective corporate governance, and other factors such as the level of competition in a specific industry and overall economic performance of a country (Donaldson & Davis 1991, Denis, 2001). Therefore, the drawing of a direct link from corporate governance mechanisms to corporate performance is out of proportion and by far insufficient to measure corporate governance effectiveness (Van den Berghe & Levrau, 2013; Castellini & Agyemang, 2012). This study further contends that the plausible way these mechanisms can come to play to enhance corporate performance is to focus on reducing the lacuna that exists between the interests of corporate managers and equity holders. Accordingly, this study will use the mechanisms that focus on narrowing the gap between the interests of shareholders and that of management in Ghana.

#### **4.6 Pilot Study**

In order to test the earlier conclusion (section 4.4) that internal mechanisms such as the ownership structure and board of directors appear to be the only effective corporate governance mechanisms within the Ghanaian setting, a pilot study was carried out. This was to confirm that the ownership structure and the board of directors are the main corporate governance mechanisms in driving effective corporate governance within the Ghanaian setting. The study employed three main criteria in selecting a corporate organization for the pilot study: 1) The company is supposed to operate under the companies code 1963 of Ghana; 2) the company has to have at least one major shareholder with control rights since large shareholders play vital roles in controlling agency problems (Shleifer & Vishny, 1986); and 3) access to the corporate organization as well as its willingness to partake in the study when contacted (Yin, 2009). As a result of these three criteria, GoldMilk Ghana Ltd. was selected.

#### ***Introduction***

The study was carried out in July 2011. Open interviews and internal documents were mainly employed as data collection techniques. Open interviews were applied since they offered the possibility of collecting a wide gamut of data on the corporate organization's board of directors and ownership structure. Both the chief executive officer and the board chairperson were involved in the interviews. Other employees were also involved in the interview to gain extra insight into the operations and activities of the company.

#### ***Background and profile of GoldMilk Ghana Ltd.***

GoldMilk Ghana Ltd. was incorporated in 1960 as Ghana Milk Company by a group of Scandinavian investors purposely to provide milk to complement the protein requirements of the Ghanaian people. The company's principal product was pasteurized milk. In 1962, two significant changes took place: 1) The company's name was changed to the present name, GoldMilk Ghana

Ltd.; and 2) the company's product portfolio was broadened to include yoghurt, ice cream and ice lollies (GoldMilk Ghana Ltd. annual report. 2011).

In 1967, the company became the first foreign corporate organization to become Limited Liability Company. It was also among the first corporate organizations to be listed on the GSE in 1990. GoldMilk Ghana Ltd directly employs over 350 people. Aside this, it indirectly employs more than 8,000 people across the length and breadth of Ghana.

#### **Corporate governance arrangement**

The company believes that full disclosures as well as transparency in its day-to-day activities are in the interests of ensuring good corporate governance practice. The company's corporate governance framework has to reside within the framework of Ghana's companies code 1963. This framework considers equity holders as active constituents of the corporate organization and therefore, they have the right to participate in the operations of the corporate organization. The company has a unitary board system, which oversees management's activities. This board is the highest decision-making body in the corporate organization and as a result, it has control rights. The company also has management body with the CEO, heading it. The management body is responsible for the day-to-day activities of the company.

#### ***Ownership structure and control***

The ownership structure of GoldMilk Ghana Ltd. started changing after it became publicly-limited liability company in 1967. In 1990, the company was listed on GSE and subsequently, its shares started to be actively traded on the stock exchange. Currently, the company has 5,330 shareholders holding a total of 116,207,288 shares. GoldMilk International A/S is the majority shareholder with 56.64percent of the total shares of the company. Although GoldMilk International A/S is the majority shareholder, it does not consider the company as its subsidiary. This is because GoldMilk International A/S does not have absolute control over the board of GoldMilk Ghana Ltd.

The board is required to report to all equity holders irrespective of their holdings during the company's annual general meetings. Even though information on the company is supposed to be communicated by the board to all shareholders, GoldMilk International A/S always has access to significant information before they are conveyed to other shareholders. This implies that minority shareholders always rely on the annual general meetings' reports to get hold of the statutory information required by the companies code 1963 and the listing regulations of GSE. Also, GoldMilk International A/S has access to key personalities such as the CEO and the board chairperson. In consequence of this easy access by GoldMilk International A/S to key individuals, all the intricacies with respect to the day-to-day activities of the company are influenced by GoldMilk International A/S.

#### ***Board of directors***

The board of this company is made up of eight persons of whom seven are non-executive directors. The executive director is the CEO of the company. The non-executive directors are appointed by the company's shareholders and are independent of management. They are free from any constraints that could materially get in the way they execute their independent duties and responsibilities.

The topmost positions of the company are separated; the board chairperson and the CEO. The board chairperson is appointed by the shareholders but in real sense, majority shareholders in the company execute such an appointment. This is because, all decisions that are to be taken by the company are made known to majority shareholders for their approval before they are conveyed to the minority shareholders. The implication is that the voting processes that take place during the

company's annual general meetings are just formalities to meeting the statutory requirement of the companies code 1963. Further, the CEO of the company reports to the board and the board, with assistance from the majority shareholder appoints/fires the CEO. The CEO executes management strategies and policies approved by the Board.

The role of the board chairperson includes setting up meeting dates, meeting agendas, meeting venues as well as chairing board meetings. The board of the company meets at least four times a year. Information about board meetings are sent to board members two weeks before meetings are taken place. It has instituted a board audit committee to review and analyze external audit. It also ensures the independence and candor of the auditors. In addition, it reviews the internal financial controls of the company, compliance with the standard accounting and auditing laws, and the protection of assets of the company.

### ***Results from the pilot study***

The pilot study of GoldMilk Ghana Ltd. highlights some issues that are important to this study. It portrays that with the presence of large equity holders, the incentive problem can be dealt with. The involvement of large shareholders in the appointment/selection of key personalities such as the CEO overtly shows that in circumstances, where the CEO is accused of poor managerial behavior, he can be fired and replaced by large shareholders. This is in line with the assertion that large shareholders are credible threats to management and can deal with incentive problems by taking the necessary step when needed.

The study also highlights that board effectiveness in regards to control is vital for addressing incentive problems because, through board discussions, it can establish whether management is undertaking measures to meeting shareholders' interests or not. The board can also take steps to punish management for poor managerial behaviour. This is in line with the assertion of Morck, Stangeland and Yeung (1998) as discussed in chapter two (see section 2.3.1).

### ***Conclusion***

The findings of this pilot study do verify the study's theoretical inference that the ownership structure and the board of directors are germane corporate governance mechanisms for addressing agency problems in corporate organizations within the context of Ghana. This implies that, the ownership and the board of directors are the main corporate governance mechanisms that have to be included in the conceptual framework of the main study. The study then turns its attention to the development of its conceptual framework as discussed in the next section.

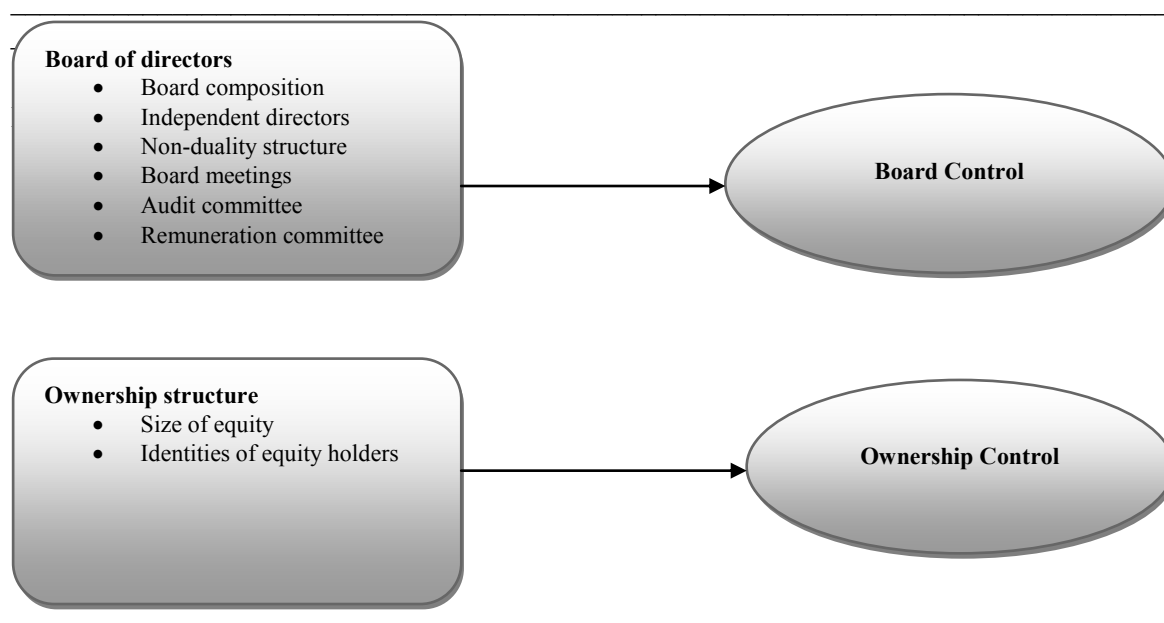
## **4.7 The conceptual framework**

The primary objective of this study is to examine the factors that drive effective corporate governance in Ghana using large listed corporate organizations on the Ghana Stock Exchange (GSE). As discussed earlier, the ownership structure and the board of directors seem to be the only internal mechanisms that ensure effective corporate governance practice in Ghana. This study's framework makes use of these two mechanisms as depicted in figure 4.2 below. The framework is made up of the elements in the general model of corporate governance depicted in figure 4.2 above, which have been established for an empirical research, based on the review of existing literature and the assessment of the Ghanaian setting. The framework has also been established on the basis of Ghana's principles of corporate governance (see chapter 2). And as a consequence, some other concepts associated with ownership structure and boards of directors are looked at.

In addition, the agency theory discussed (see chapter 3) suggests that good corporate governance practices reduce agency problems by narrowing the gap between the interests of shareholders and that of management. Macey (2008) opines that the objective of good corporate governance is to

persuade, compel, induce or encourage management to keep the promises they make to shareholders. Furthermore, the author points out that from an economic context, corporate governance mechanisms can be evaluated or assessed based on how effective they are in controlling corporate deviance (that is, any actions by corporate managers or directors that are not in support of the legitimate, investment-backed expectations of shareholders). The value of a firm does not depend only on its future economic potentials, or how resources are effectively and efficiently managed, but also on the effectiveness of control mechanisms, which aid guarantee that shareholders' funds are not expropriated or wasted in value lessening ventures (Marnet, 2008; Jackson & Strange, 2008). Therefore, effectiveness is defined in this study as how the ownership structure and board of directors serve as internal control mechanisms to narrowing the gap between the interests of shareholders and managers (Jensen & Meckling, 1976; Hart, 1995). This then leads the study to its conceptual framework as illustrated below.

**Figure 4.2: The Conceptual framework of the study**



Source: Castellini & Agyemang (2012)

The above research framework evinces how the ownership structure and board of directors solve the incentive problem in Ghana. The ownership structure (Independent variable) determines ownership control whilst the board of directors (Independent variable) determines board control. The ownership structure looks at the size of equity held by shareholders and the shareholder's identities. The board of directors also looks at the composition of the board, independence of directors, the non-duality structure, board meetings, and the board audit and remuneration committees. Effective corporate governance is achieved when there is a presence of ownership control and board control.

The indicators of board control are reviewing and guiding firm strategy, ensuring compliance with the law, select and replace CEOs, reviewing CEO remuneration, credibility of independent audit and assessing CEO performance. The indicators of Ownership control are shareholder's influence on corporate business' activities such as election of board of directors, CEO as well as external auditors, obtaining timely and sufficient information, voting control (veto), and influence on the decisions of corporate organizations.

#### 4.7.1 Ownership Structure

There are two main essentials of ownership structure that provide incentives to actively monitor management and hence improve corporate governance. These are identities of shareholders and the size of equity held by shareholders.

The first benchmark of ownership structure is the size of equity held by one person relative to the total number of remaining stocks of equity capital (Shleifer & Vishny, 1986; Roe, 2003). The presence of large equity holders in a corporate organization can either have a negative or positive impact on firm performance. The *shared benefits hypothesis* suggests that a large equity holder empowered with the required shareholder rights is advantageous to all stakeholders of a corporate organization as he/she/it mitigates the principal-agent problem between stakeholders as a group and management (Konijn *et al.*, 2011). Roe (2003) posits that ownership structure determines shareholder control in relation to the fact that shareholding concentration creates strong and effective shareholders that can monitor, and inspect management. When large chunks of stocks are in the hands of a single or small number of shareholders, it induces the owners to change managers when the need arises, and match the corporation with the existing competitive environment (Carlsson, 2003). This assertion is also supported by Denis & McConnell (2003) that stockholders who hold a sizeable number of shares of equity capital regularly monitor management because they have the incentive and resources to pursue that. The systems of Japan and German depict that shareholders with a sizeable number of share of equity are actively involved in monitoring management and taking decisions when needed.

A number of studies supports the suggestion of the agency cost literature in terms of the advantages linked to high concentration of ownership. Morck, Nakamura & Shivdasani (2000) in a study report that the value of firms in Japan has the propensity to rise with increased large block holders. Melyoki (2005) in a study on Tanzania-China Textile Company (FTC) Limited in Tanzania finds that large shareholders take corrective action by replacing management teams when they discover that incentive problems are in existence. Okpara (2010) examined the ownership structure and effective corporate governance for 100 firms listed on Nigerian Stock Exchange and Equity Securities. The study reveals that special treatment is always accorded to large block holders, whilst minority stockholders are not allowed to put across their views or are overlooked by chairpersons. The implication is that large block holders have the right to monitor board since special treatments are accorded them.

On the contrary, the *private benefits hypothesis* contends that large equity holders can be disadvantageous to firm performance in that if they are in a hunt for their own objectives, they can expropriate value for their private benefits at the expense of other stakeholders. Therefore, the traditional principal-agent problem between equity holders and management is substituted by a principal-agent problem between influential large shareholders and other stakeholders of the corporate organization (LaPorta, Lopez-de-Silanes, Shleifer & Vishny, 2002). Also, conflicts of interests will probably crop up both between equity holders with voting rights and those without any voting rights and are attracted to the assured dividend, as well as between blockholders and small equity holders with no possibility to monitor or inspect management (Melis, 2000). Konijn *et al.* (2011) in their study on the relation between blockholder concentration and firm value using a dataset consisting of about 3,500 US firms for the period 1996-2001 find out that the presence of blockholder concentration negatively affects firm performance. They further state that this negative influence implies that there may be space for private benefit of control, probably to the detriment of other stakeholders particularly, minority shareholders.

The other benchmark of ownership structure mentioned in the related literature is the identities of stockholders. Banks and other financial institutions play more important roles in corporate

governance in Germany and Japan. Hirschey (2003) posits that concentration of ownership on the part of institutions results in effective monitoring incentives cum monitoring activity. For instance, the possibility that NEDs will be in a position to notice evidence or proof of managerial malpractices is increased when there is a substantial institutional ownership. Denis and McConnell (2003) affirm that German banks have more voting rights than their equity ownership would suggest by virtue of the fact that they vote the proxies of many individual stockholders. The authors further go on that these banks and other financial institutions have a large amount of control over firms in Germany. If a company is making profit, these banks and other financial institutions act as monitors, inspectors and guardians, but when it is performing abysmally, they intervene in its corporate governance practices.

These interventions come to the fore when these banks and other financial institutions have an interest in the company. These banks and other financial institutions may also appoint board directors of companies in which they invest based on efficiency-related determinants of poor stock performance and low returns (Rubach & Sebor, 1998). John and Vasudevan (2003) carried out a study on voting results of 169 stockholder proposals over the period, 1990-1995. These proposals were about a situation under which shareholders sought to have annual general elections for all the members serving on the corporate board. They linked the voting results to a sequence of disparate ownership structure characteristics, including institutional ownership, insider ownership and outside block holders. The pattern of support reveals that proposals in general, are successful when they get their large support from institutions that hold a substantial fraction of a company's shares.

In wrapping up, it can be deduced that it is the degree of ownership that makes shareholders to exercise shareholder control instead of their identities. Ghana is characterized by large shareholders and it can be anticipated that large stockholders will engage in shareholder control through monitoring incentives and monitoring activities.

#### **4.7.2 Shareholder control**

Herman (1981, p. 17) defines control as a word “used in many disciplines as well as in common parlance. It relates to power- the capacity to initiate, constrain, circumscribe, or terminate action, either directly or by influence.....”. Stock (1997, p. 35) also defines control in an exact viewpoint as a term that “designate a structural relation in which particular individual or collective actors have the *de facto* capacity to mobilize the powers that are legally vested in the corporation”. Conventionally, the role of equity holders has been painstakingly deliberated in regards to firm control, and this discussion is no different in that control involves a degree of power that is much easier to comprehend. Accordingly, for the purpose of this discussion, shareholder control refers to how shareholders directly or indirectly (influencing through board of directors) exercise control over the operations of a corporation. There is a contention that equity holders hunt for power in the form of influencing the activities of their companies instead of wielding control (Leech, 2013). Corollary to this, this discussion will make use of ‘shareholder’s hunt for power in the form of influence’ as a surrogate measure for control. Therefore, the idea of shareholder control is indicated by four main components: Influencing the corporate organization through election of board directors, CEO as well as external auditors; obtain timely and regular information; control of vote; and influencing corporate decisions. Shareholders can exert control over a corporation via influencing the appointments of ‘important’ personalities of the corporation: The chairperson of the board; the CEO; external auditors and others (Denis & McConnell, 2003).

Bebchuk and Roe (1999) contend that corporate systems that are characterized or not characterized by a controlling shareholder are distinctively critical in some ways. In corporate entities where ownership is fragmented, shareholder control leads to a struggle for superiority or victory between rivals in that a rival can seek to usurp control forcibly from the incumbent contrary to its



(incumbent) will. Contrariwise, in corporations where ownership is concentrated, control is not contestable but instead it is 'fixed' in the sense that, it is confined and cannot be obtained contrary to the will of the incumbent but through only negotiation with the incumbent (Bebchuck & Roe 1999). There are arguments that the presence of controlling shareholders will permit minority shareholders to play a lesser role on how the corporate organization is governed (Leech, 2013; Okpara, 2010). Nevertheless, the role minority shareholders could play is subject to the distribution of the remaining shares among them (Leech, 2013). To put differently, the power of large equity holder in controlling a corporate organization is dependent on the fragmentation of other equity holdings. For instance, if a person holds 10 percent of the total stocks of a corporate organization and the remainder is highly dispersed, it is pretty probable that he/she could exercise a certain level of influence in the corporate organization. However, if the remaining equity holders of the corporate organization include two block holders of say 40 per cent each, then with their collusion, the 10 percent he/she holds would not possibly give him/her the kind of influence he/she desires. It is also expected that small shareholders' interests will be violated because of their role in the company. Berglof and Claessens (2004) in their study on corporate governance in developing economies found that large equity holders, with their control rights, are inclined to abuse minority equity holders in that there is a presence of weak legal protection to safeguard the interests of minority equity holders.

However, with the role of large shareholders in controlling corporate organizations, all shareholders irrespective of their holdings, benefit. This is because shareholder control over the corporation's management induces corporate managers to gear corporate decision-making processes towards shareholder wealth maximization. Although the presence of large shareholders in corporate organizations exposes minority shareholders to some disadvantages as mentioned above, minority shareholders also reap some advantages when corporate decision-making processes are geared towards shareholder value maximization. Carlsson (2003) argues that when large chunks of stocks fall in the hands of a single individual or a small group of equity holders, there is an incentive on the part of these equity holders to monitor and control management painstakingly and enhance corporate efficiency. If the ownership structure at the initial stages is widely fragmented, the rise of a large equity holder will perhaps overcome the free-rider problem in monitoring and controlling management, and the rights of the largest equity holder can minimize its urge for expropriation and maximize incentives to pay out corporate dividends (Jensen & Meckling, 1976). Okpara (2010) also posits that equity holders who hold large number of stocks limit agency problem by having a sufficient number of stake to take a more active and effective interest in the corporate body. The implication is that these large equity holders have sufficient influence and ownership in dealing with their monitoring, sleuthing and controlling activities in a corporate body that will eventually serve shareholder interest.

#### **4.7.3 Board of directors**

Corporate managers need to account effectively to some independent, competent, effective and well motivated board to ensure credibility and legitimacy (Marnet, 2008; Peasnell, Pope & Young, 2005; Monks & Minow, 2004; Higgs, 2003). For instance, a corporation's board of directors has the responsibility to supervise the corporation's management, and if the board refuses to painstakingly supervise its management, it may not be difficult for management to conduct itself dishonorably. Also, through effective board mediation, the problems of extreme reliance on legal rights, proxy fights, the sale of stocks and other types of unhelpful resolution may be avoided (Baysinger & Butler, 1985). Payne *et al.* (2009) in their study on corporate boards, team effectiveness and financial performance in *Fortune 1000* companies find that more effective boards positively contribute significantly to their respective companies.

Forbes and Milliken (1999, p.492) define board performance as ‘the board’s ability to perform its control and service tasks effectively’. Jacques du Plessis *et al.* (2011) however, posits that for a board to act effectively, its functions of guiding, directing, monitoring, overseeing, supervising and complying ought to be distinguished from management’s function of administering the day to day activities of the firm. Cadbury report (1992) suggests some factors that establish an effective board: Board composition; director independence; the structure of the board leadership; meetings of the board; and board committee. The OECD, CACG and the recommended guidelines of Ghana stress on these factors as key issues in establishing an effective board.

### ***Composition of board***

Discussing the responsibilities of the board in a theory of corporate governance with no discussion on its composition is an unfortunate as discussing the theory of the firm without talking about the firm’s internal structure (Baysinger & Butler, 1985). The quest for competent and skillful directors to serve on boards of companies has currently become tougher, a fifty-fifty between opposite trends (Ward, 2003). Obviously, the board’s capability to conduct its responsibilities depends on the degree of its members’ affiliations as well as the proportional representation of its members. The principal aspects of board composition are: inside versus outside directors; the board size; and age of directors.

Probably, the single most important debated issue in terms of board composition is the percentage of inside directors to outside directors on boards. In quite a few decades, there has been a histrionic shift from boards dominated by inside directors toward boards dominated by outside directors (Vance, 1983 cited in Lam, 1992). Suggestions under the corporate board reform have that corporations with boards having a larger number of outside directors will better serve the interests of shareholders than corporations with smaller number of outside directors. Mace (1986) however, argues that boards that include inside directors have valuable knowledge about the operations of the firm, and that each advise given is valuable to the CEO. On the contrary, Babatunde and Olaniran (2009) points out that the larger the proportion of outside directors on boards, the likelihood that: The appointment of the CEO will be an outsider; a non-performing CEO be fired; and significant positive share relation. The amalgamation of inside directors and outside directors has been advocated by the one-tier board system (Massen, 1999; OECD, 1999). The main issue is that inside directors are less likely to determinedly supervise the CEO. Therefore, with the inclusion of outside directors, the supervision of the CEO will be done in an aggressive way thus ensuring board effectiveness.

Having boards that are made up mainly of strong non-executive directors is the best act of assuring that boards of such nature can and will live up to what is expected of them. So how do Non-Executive directors serve as a nucleus of personnel around which boards can act as monitors and controllers and live up to the increasing demands being placed upon their shoulders? There is no clear-cut answer to this question! Non- executive directors must be selected based on the competencies this study discusses at the tail end of this paragraph. Although most companies today have nomination committees manning the affairs of nomination and selection procedures, there are some fundamental requirements they adhere to that seem to suffice their task. The questions that are needed to be asked to make sure whether the candidate is well-fit to be qualified as a member are as follows: 1) Does the candidate have the required finesse, knowledge and experience the company requires from the board as in accounting, auditing, marketing, technology and so on?; 2) is the candidate a person who adhere to a strict moral or ethical code?; 3) is the person someone who appears to be appealing and is capable to take on constructive or productive discussions with other members of the board?; and 4) is the person a candidate who will fit into the group? Requiring answers to these questions demand not only interviewing the person, but information on him or her can be acquired from others who have seen him or her in action. Meanwhile, this

procedure is cumbersome in nature, but if companies need well-qualified candidates to be on their boards, it is considered appropriate for companies to adhere to such a process.

Having discussed the inside versus outside directors, the next essential element of board composition is the size of the board. This constituent has been explored and examined by many researchers. A number of studies has find that larger corporations tend to have more directors (Koontz, 1967; Pfeffer, 1972; Juran & Loudon, 1966 cited in Lam, 1992). This is as a result of the need for larger corporations to maintain more points of contact with the outside environment and the greater administrative burden of larger corporations. Board of directors has been described in some studies as ‘boundary spanning agents’, that is, persons who facilitate dealings between two or more organizations. Lam (1992) argues it is increasingly significant for corporations to maintain contacts with other stakeholders who are concerned with and influenced by the corporation’s actions.

Larger corporations are complex organizations in that, it is considered not possible for all members to stay aware of all relevant and crucial aspects of operations of these corporations. Accordingly, corporations are putting in place specialized board committees to monitor specific issues. This has made corporations to establish boards with more members. But the question of optimal size of a board has still not been adequately addressed (Lam, 1992). Vance, and Juan and Loudon (both cited in Lam, 1992) note that while larger corporations have larger boards, size is largely not relevant to corporate performance.

Furthermore, other researchers have asserted that when boards become too large, they pave the way for individual members to avoid personal duty and responsibility as no one feels that he or she will have enough influence to make a significant investment of time and energy. Herman (1981) for instance, suggests that larger boards lead to weaker boards. Murali (1996) affirms that while extra directors could possibly improve upon board’s checks and balances, they may as well delay decision making processes. Gautschi III and Jones (1987) in a study on the relationship between corporate board structure and illegal corporate behavior find that corporations that have larger boards are more likely to engage in a more criminal activity than corporations with smaller boards. Other studies have confirmed a negative correlation between board size and firm value (DeAndrea, Azofra and Lopez, 2005; Yermack, 1996). However, some researchers also contend that larger boards are important in that they would offer a larger pool of expertise and experience. For instance, Changanti *et al.* (1985 cited in Lam, 1992) in a study on the issue of board size in the retailing industry find that a smaller board size is significantly related with business failures.

Pfeffer (1972) points out that board size is a function of the corporation’s need in dealing with relevant outside constituencies. His empirical findings explain partially by firm size (in relation to sales volume), need to access capital markets (in relation to debt/equity ratio) and whether or not the firm is locally regulated. Meanwhile, Koontz (1967) has suggested an optimal board size, which ranges between five and thirteen board members. Less than five is not adequate or sufficient to cover all the legal board responsibilities, whereas more than thirteen becomes unwieldy with not every member getting an adequate chance to participate. But empirical evidence seems to suggest that the optimal board size is more difficult to assess. Colley, Doyle, Logan & Stettinius (2005) put forth that both smaller and larger boards are associated with advantages and disadvantages. On the one hand, smaller boards are inclined to be more concerned and focused, and their members frequently find it easier to build trust among each other and work jointly. However, smaller boards are vulnerable to the controlling prowess of preponderant clique/personality. On the other hand, as boards turn out to be larger, they create talents of pool that could perhaps assist boards’ monitoring and controlling roles. But keeping such larger number of individuals to work together effectively and efficiently as a team is difficult. In lieu of this, a larger board can waste resources and reduce

individual productivity (Anand, 2008). It can therefore, be concluded that board size is not a significant determinant of board effectiveness since this depends on corporate organization's specific situations.

Another significant aspect that determines the composition of a board is the ages of board members. Koontz (1967) recognizes and approves of a solid trend towards more mandatory retirement for directors of board. It is on a view that, most boards are made up of older people who are less productive. This is confirmed by Cochran, Wartick and Wood (1984) in their study on average age of boards of directors and firm performance. They find out that there is a weak, negative relationship between board age and financial performance, that is, younger boards tend to be more associated with profitable corporations. However, Lam (1992) concludes that though the trend is statistically significant, it is not meaningful in determining board effectiveness with respect to control. Therefore, this study will overlook the impact of board members' ages on board effectiveness.

### ***Board/Director Independence***

Director independence is vitally important for both counseling and supervisory roles of the board. This stems from the assertion that in order for board directors to effectively and efficiently carry out their advisory and oversight responsibilities, they are expected to portray independence. Director independence empowers directors to impartially assess the performances of top executives, firm strategies, business models, and risk-management measures put forward by management (Larcker, & Tayan, 2011). Monks and Minow (2002) point out that the existence of non-executive Directors (NED) is more and more viewed as an unnecessary condition to ensure inefficiency of board in exercising decision control and protecting stockholders' interests. The underlying argument is that if a director is a close ally of the CEO, it is just as difficult for him or her to be objective as it would be for an employee when it comes to assessing management performance (Lorsh & Maclver, 1989). This raises the question of director-credibility. Reforms of corporate governance at all stages of hard and soft law as well as company's value statements are worthless if board members lack credibility (Hilb, 2006).

The idea that directors are trustworthy or credible persons who can monitor management on behalf of stockholders depends on directors being able to bring independent judgment to bear on the decision of the board (Denis & McConnell, 2003). This is because a fervent board needs veracity cum action in the sense that, veracity without action is equal to mediocrity. Just being morally upright does not suffice a board member's capability to handle ethical matters that crop up in a corporate entity. This is because, board members should be able to contribute effectively in ensuring effective governance via using the information and expertise they possess to enhance creativity as well as logical coherence in the decision-making processes and control over company resources. They are to bring to the fore differing interests, perspectives and backgrounds into the boardroom that will help the company in its quest for value maximization (Huse *et al.*, 2011). In addition, they should mercilessly pursue objectivity, accountability, openness and independence.

The issue of director independence can be traced back to the 1970s when information about high-profile corporate crimes arose. The Watergate issue brought about a number of illegal corporate campaign contributions to light. These contributions were regarded as notices of purchasing influence and favor from the US political system. A number of campaign finance reforms laws was introduced following this scandal. Monks and Minow (2002) add up that at the international level, corrupt activities where bribes were given to foreign officials in order to exclude competition were also highlighted.

Analysts were surprised as to why board of directors whose work was to elude such gargantuan crimes had failed in controlling managers. Monks and Minow (2002) argue that such illegal acts have come to be linked to lack of independence on the part of board of directors and thus their inability to stop management from such illegal acts. This has had the consequence of incremental awareness of the relevance of independent directors. The OECD and CACG principles as well as the companies code 1963 (Act 179) of Ghana address the issue of independent directors. These principles call for an inclusion of independent board members. But the multi-million dollar question that arises is; who should we refer as an independent director?

Baysinger and Butler (1985) explain that director independence involves both economic and psychological facets. Socioeconomic independence refers to absence of significant ties to directors-economically and socially-that might cause bias on their thinking on the board and thus influence their capability to knowledgeably assess and control management. Director independence is also affected by the way board directors are selected be it on elections or appointments. John and Senbet (1998), emphasizing on the Anglo-American viewpoint where ownership is fragmented argue that, the CEO proposes those to be voted as directors, a practice that will definitely lead to poor corporate governance through board's ineffectiveness. Corollary to this, psychological, social or economic ties may develop between the CEO and a director. This situation can mar the capability of directors to determinedly or aggressively assess management performance. This is because, when replacements and choice of board members are influenced by CEOs, they (board members) are likely to avoid being critical on the CEO (Huse, 2007).

Several factors come to play when evaluating director socioeconomic independence. One stance, points to the assertion that it should be narrowed down to the relationship with the CEO and the corporation. Eisenberg (1976 cited in Baysinger and Butler, 1985) suggests that for directors to be independent, they must not be currently employed by the corporation or have any significant psychological or economic dependence on management. The author continues that a board member who depends on management for his or her position, related to senior managers by blood or marriage, or represents organizations that do a significant amount of business with the corporation cannot determinedly monitor management.

The 2010 Code of best practices of Securities and Exchange Commission of Ghana suggests that director independence requires that sufficient number of board directors should not be employed by the corporation or be closely related to the corporation or its management via tight economic, family and so on. The Code further states that independent directors or NEDs can contribute significantly to the decision-making processes of the board by bringing an objective and fair views to bare on the assessment of management's performance. Baysinger and Butler (1985) states that:

It appears, however, that over the 1970-80 interval those firms which "got out in front" of the evolutionary process of developing more independent boards reaped measurable performance dividends, later on, as a result.....This suggests that while the board is only one of many corporate control devices, it may be one of the most important (p.120).

In the context of this study, independence of directors is indicated by: An absence of social (family) ties with the CEO; the absence of business associations with the corporation other than the directorship; and not being a representative of, or elected/appointed by a major stockholder. From an agency theory viewpoint, establishment of an independent NEDs on corporate boards should assist to reduce the conflict of interests between stockholders and management as they perform a monitoring function by introducing an independent voice on board (Solomon & Solomon, 2004).

Therefore, this section concludes that director independence is one of the significant determinants of board control via board effectiveness.

### ***Board leadership structure***

Lorsch (2009) argues that the emergence of leadership structure of a board has influence on how well the board is able to demonstrate its monitoring, sleuthing and controlling functions over its management and the corporate body in general. In theory, the Chief Executive Officer of a corporate business has been given power to take decisions on investment, whereas the board with the chairperson as the head is responsible when it comes to CEO monitoring by putting in place goals, designing suitable compensation packages and evaluating the performance of management. There are numerous arguments that the principal-agent problem is intensified when one person takes on these roles and responsibilities. Jensen (1993) notes without an independent leader, it is difficult for the board to carry out its functions effectively. Millstein and McAVoy (2003) advocate that the separation of the two positions with an independent director as chairperson is vital to position the board as an objective monitoring and controlling mechanism. Pease and McMillan (1993) postulate that in order to ensure objectivity by avoiding the concentration of power in the hands of one individual, there is the need to separate the roles of the board chairperson and the CEO. The combination of the roles of the chairperson and CEO will lead to a compromise (finding the middle ground) between them, but their separations will enrich the board's independence while monitoring the CEO. Van den Berghe and Levrau (2004) also support the argument that agency theory endorses this separation thus reducing the supremacy of management on the board.

Even though the concept of a non-duality structure has been discussed for decades, it is only in recent times that it received attention as a practice from many countries. For instance, most companies in the US such as Aon, intercontinental hotels, Tenet Healthcare and Walt Disney Company have non-executive chairpersons. As discussed earlier on, the major arguments in favor of this idea stem from the assertion that separating the two positions and selecting a non-executive chairperson will heighten the capability of the board to monitor and control the actions of the CEO as well as to function independently. Also, with the separation of these two positions, the board has a leader who is free from any interference that is considered to mar its solitary mandate to act effectively. This idea makes directors to feel more comfortable to act boldly to challenge the CEO on some decisions that are likely to affect the company. Furthermore, more often than not, capital providers prefer investing in companies with non-executive chairperson, and because of that, companies that have this type of system attract a lot of investors. Countries such as Germany, Switzerland, Holland and the Scandinavian countries have these two positions (CEO and chairperson) separated by law.

Advocates for the separation of the CEO/Chairperson roles have raised issues about the leadership qualities of the board chairperson. An effective non-executive chairperson ought to be a person who adheres to moral principles and has logical coherence among decisions. Also, he/she should be of pleasing appearance and adhere to corporate governance principles. Non-executive chair is expected to promote effective and efficient distribution of information and prospects; have the required respect from his or her cohorts and management; and communicates in an effective and efficient manner. The chairperson has to have appropriate experience and required skills to appreciate the bolts and nuts of the competitive market. He or she should be able to deal with uncertainty as well as to lead and superintend the board to take decisions on time. In addition, the chair ought to be adept in recognizing, developing and encouraging his or her cohorts; lead by example; manage the dissimilarities among his or her cohorts; take necessary steps to develop his or her cohorts and so on. The chair should also be able to understand the concerns of the company's shareholders and other stakeholders.

Pick (2009) argues that beside the relatively well-tailored duties of board chairpersons, they have the role of essentially leading the group of their compatriots and organizing efficient and effective discussions among them. The author points out four main roles that chairpersons must adhere to. First and foremost, chairpersons have to develop a mechanism that will be able to manage the “status dilemma” that is prevalent on boards. The status dilemma occurs since boards are made up of a group of equals. In this case, board members build up a sense of who is more competent, powerful and influential, usually stemming from the external status that their compatriots possess (for example, sex, age, race, ethnicity, and so on) (Berger, Cohen & Zeldith, 1972). Pick further contends that this problem can lead to a more dependence on the most visible status characteristics members possess (that is, their external profession, competence and expertise). The author furthers that this can lead to non-productive contributions or involvements in key issues, pomposity and jockeying among members. Also, members become still when they are not sure of how a specific comment would mirror on their status within their compatriots. In times like these, it is a challenge to chairpersons to keep these status dynamics from hurting the excellence of members (Pick, 2009).

The second important role of the chairperson is by managing “role tensions”. This kind of role assists boards to manage the multiple responsibilities they play with management. This task allows boards to advise management, and offer their experience and expertise to direct management in the direction of a blossoming strategy. The third significant role is about how chairpersons could sustain cohesion among their compatriots. Since boards more often than not, conduct their jobs in the presence of and in dealings with management, it makes cohesion and solidity important (Pick, 2009). This means that for boards to be influential, they must maintain a cohesive voice vis-à-vis top or senior management. The last but not the least role of board chairpersons is to help their compatriots to appreciate their roles as boards. Here, chairpersons are to ensure that their cohorts are working with a shared vision.

However, it has also been argued that such separation produces a new stratum of agency cost and raises information transfer cost from the CEO to the Chairperson (Brickley, Coles & Jarrell, 1994). As long as the CEO controls the quality, quantity and timing of available information to the directors, it is quite difficult for directors to be sure of getting what they need for true independent supervision. Baliga, Moyer and Rao (1996) and Daily and Dalton (1997) conclude that there is no disparities in the financial performance between corporations with and without combined positions, describing them as either ‘fussing about’ or ‘much ado about nothing’.

Dalton and Dalton (2009) argue that the separation of these two roles does not necessarily indicate independence of the leadership structure. Their argument stems from the assertion that in most cases the person who is the ‘separate’ board chairperson is the former CEO of the firm. In some cases too this separate board chairperson is either the founder of the firm or former CEO of acquired or merged companies. The authors further argue that a single voice directing the company at the board level is the most efficient and effective form of leadership. In this situation, “there will be no parties and constituencies-internal and external- who will question who is in charge and who is accountable” (p. 83). The fundamental idea is that any subordinate or minor must be supervised by a single and clear-cut authority. However, FinKelstein and D’Aveni (1994) contend that the combined structure and separated structure could determine higher or lower performance of a corporate business depending on how they are fit with the internal and external conditions of that corporation.

Despite these arguments, Cadbury (1999); CACG (1999); OECD (2004); the recommended guidelines of Ghana, and many others have persistently advocated the non-duality (separated roles) structure. Thus this section concludes that non-duality structure is one of the key determinants of board control through board effectiveness.

### ***Board meetings***

Board meetings are events whereby board directors meet to discuss and exchange ideas on how they wish to exercise their monitoring and controlling role over management and corporate businesses. It can also be explained as those board gatherings in which discussions are made concerning the discharge of the decision rights delegated by shareholders. They are meant to provide guidance and oversight. Therefore, the programme of the board has to encompass all vital issues of the firm. These meetings have to be effective and efficient in a manner that will inform board members about the issues the firm is encountering and how to deal with them. The board's time has to be properly and efficiently utilized to make available the required and appropriate information, to permit in-depth discussion of every vital aspect for decision-making and to get into a conclusion on strategic decisions (Arguden, 2009). In order for directors to function and give what are inside of them to the benefit of the company, they should be fully informed about all the major developments of the company. Given the right information to board members at the right time is vital to ensuring board control. Also, ensuring meeting turnouts is of great importance. Meeting turnouts ought to be scheduled to include dates, hours, locations of the meetings and this can be designed for the whole year thus permitting members to have ample time to plan before meetings. Furthermore, board members ought to meet in less formal settings and spend time together at offsite strategy retreats. Special retreats can be held to discuss strategic issues about the firm. With this, 'the board can raise questions from the diversity of experiences and different perspectives of its members and evaluate the competences needed' (Steger, Lorange, Neubauer, Ward & George, 2004, p.26)

Board meetings have to concentrate on the following: 1) Matters that each committee's chairperson may wish to bring on board; 2) the firm's key or strategic priorities; 3) mitigations concerning risk; 4) internal control procedures; 5) endorsement and monitoring of budget; 6) vital investment decisions; 7) mergers and acquisitions; 8) stock performance; 9) compensation packages for top executives; 10) performance evaluation of management; 11) performance evaluation of members; and 12) new ventures, competitive market and product development prospects (Arguden, 2009). By taking into account the various recommendations of the chairs of each committee, the CEO and any other member of the board, the chairperson always ought to set the agenda for board meetings. The agenda for the meeting always has to be made available to each member of the board in order to give them sufficient time to study and prepare themselves adequately before board meetings. Finally, effective and efficient use of minutes may perhaps increase the effectiveness of the board to act as monitors and controllers.

The principles of OECD and CACG, and the companies code 1963 (Act 179) of Ghana stress on the significance of passing information to members when the need arises. This means that timeliness and adequacy of governance information can serve as significant indicators of effectiveness of board. Vafeas (1995) advocates that frequent board meetings is one of the indicators that can be used to measure effectiveness of board with special emphasis on control. This assertion has also been supported by Andres-Alonso and Vallelado-Gonzalez (2006) that the more frequent the meetings, the more detailed the control and monitoring of management as well as the more significant advisory role, which eventually has a direct effect on performance. This section therefore, concludes that, timeliness and adequacy of governance information are important indicators of effectiveness of board with respect to board control.

### ***Board Committees***

It is not every corporate issue that is discussed and interrogated by the full board thus the need to set up board committees. This implies that effective boards need effective committees that are made up of qualified members. Cadbury Report (2002) pronounces that the establishment of board committees is one way to avoid board meetings from being otherwise burdened. Charkman (2005)



also notes that the main objective of board committees is to effectively and efficiently manage board issues in a more detailed manner than would otherwise be appropriate to the whole board. Another objective is to increase objectivity either because of inherent conflict of interest such as executive remuneration, or the more responsive affair of disciplining personal favorites as in the exercise of patronage in the appointment of new members. The author also posits that the setting up of board committees gives an opportunity for NEDs to involve themselves in a more detailed aspects of corporate governance, which is considered to be key, and “the confidence to intervene when they should and knowledge about when not to” (Charkman, 2005, p.322). Furthermore, when the board delegates some of its responsibilities to board committees, it would have ample time to concentrate on strategic issues (Lechem, 2002). The establishment of board committees serves as a means of controlling management by boards. Some of these committees are the audit committee and remuneration committee.

The audit committee is perhaps the most significant board committee in that it is responsible for overseeing the corporation’s dealings with its external auditors and supervising the corporation’s financial reporting procedure as well as assessing the financial statements of the corporation (Lipman & Lipman, 2006; Jacques du Plessis *et al.*, 2011; Felo, 2011). Massen (1999) contends that audit committees are connected to the control functions of the board. Canyon and Mallin (1997) also point out that audit committees potentially offer numerous benefits. These include; quality financial reporting, putting in place a climate of discipline and control which limits the chances of fraud, strengthening the positions of both internal and external auditors by making available much more independent channels devoid of the influence of management, and increasing public confidence in the credibility of financial statements when published. In order to ensure these benefits, members of the audit committee must consist of independent directors who have the aptitude, agility and the zeal to appreciate the full twists and turns in accounting and auditing concepts. Also, audit committee members should possess the latest knowledge on the nuts and bolts of audit and byzantine financial instruments (Ward, 2003). However, the sustainability of the veracity of the audit process depends on the manner in which the committee employs and settles on the compensation plan of the independent auditor and pre- endorses all services (both auditing and non-auditing) made available by the auditor (Lipman & Lipman, 2006).

Remuneration committee is also considered important in that, it acts in a manner in which larger firms can be in a position to control the levels of remuneration. It is a committee that monitors the level and structure of remuneration of directors and senior management. Knell (2006) asserts that the remuneration levels are supposed to be adequate to attract, keep and induce directors and managers of the quality needed to administer the firm in a successful way. However, a firm is supposed to be careful of not paying more than it is needed for this purpose. The rationale behind this is to avoid a remuneration plan that unjustly and outrageously enriches management at the expense of stockholders. In relation to this, concerns have been made regarding the levels of remuneration, and as a result, most remuneration committees in large corporations now rely on remuneration consultants to assist them design their remuneration plans. A study conducted by Cadman, Carter & Hillegeist (2008) points out that, 86percent of remuneration committees in large corporations use consultants to assist them in designing remuneration plans.

Ethical matters arise when there is a would-be conflict of interest when the consultant hired by the remuneration committee also provides remuneration services to the corporation’s management team. The implication is that, there is a likelihood that the consultant will suggest a somewhat large remuneration packages for the CEO and other senior managers as an approach to guarantee that management will employ him or her to conduct other services for the corporation. In order to curb this conflict of interests, recommendations have been made that regulators should put forward extra

disclosures surrounding the use of remuneration consultants to guarantee that using them does not denigrate the interests of shareholders (Felo, 2011).

Issues that arise from this characteristic come from the composition and the leadership of such committees. The leadership and composition of such committees are vital in establishing the extent of influence that independent non-executive directors can have. In order to increase this influence, these committees should be composed mostly of independent directors and chaired by independent non-executive directors. Independence of committee members has now become the new coin of the realm. One committee that is needed to be entirely made up of outside directors is the remuneration committee. Conger and Lawler (2009) argue that in addition to the remuneration committee, other board committees should predominantly, if not exclusively, be outside directors. But one should not conclude that having a vibrant independent leadership on such committees is an alternative for having a non-executive chairperson. If there is non-existence of non-executive chairperson, independent leadership is fragmented among a number of persons. There is no one independent director who has the sole responsibility to the board as well as making sure that its gamut of actions is interconnected. Therefore, it is a good practice to have committees, but it is a partial solution to ensuring board effectiveness.

The OECD (1999), CACG (1999), OECD (2004), and the recommended guidelines of Ghana recommend the establishment of audit and remuneration committees with independent directors as majority. The rationale behind this is that executive directors who are members of the board may be biased towards the CEO, leading to remuneration plans that will one-sidedly enrich management, typically to the detriment of shareholders. This section thus concludes that audit and remuneration committees with qualified, competent, independent and tough minded directors as majority determine effectiveness of board with respect to board control.

#### **4.7.4 Board control**

The board functions at the apex of a corporation with a considerable potential to influence decisions on the direction and performance of the corporation (Gabrielsson & Diamanto, 2006; Mintzberg, 1983; Zahra & Pearce, 1989). One of the most important ways for boards to control the directions of a corporation is through “decision control”, encompassing board operations such as the determination of the basic long-term goals of the corporation as well as adopting the path of actions and the allotment of resources required for carrying out those goals. Board of directors also has control over reporting of audited financial reports of the corporate business, the usage of external auditing of the corporate business’ state of affairs in terms of finance, and compliance with the Generally Accepted Accounting and Auditing rules and principles (Marnet, 2008) or International Financial Reporting Standard (IFRS) issued by International Accounting Standards Board (IASB).

The Anglo-American model points out that the legal obligation of the board to stockholders includes duties of honesty, care and candor to oversee management in order to ensure that they operate in accordance with the interests of stockholders. This implies that the board is supposed to review and give an approval to strategic options put forth by management-since management has in-depth understanding of the company to develop strategies that can be executed. However, the board should also make sure that decisions they make on these strategic options are properly supervised in relation to their execution. This reflects the case of Ghana where the Companies Code 1963 (Act 179) suggests that board of directors ought to have oversight responsibility over management for it to work in accordance with shareholders’ interests. The supervisory role implies a degree of opposition between executive and non-executive (Maasen, 1999; Stiles & Taylor, 2001). Two organizations in the United States; the Business Roundtable and the American Law Institute have recommended important actions for the board in respect of board control. The

Business Roundtable suggests that the operations of the board in relation to board control involve selecting, dismissing CEO, determining management's compensation and reviewing succession plan. The American Law Institute also asserts similar list of responsibilities: electing, reviewing and where necessary dismissing and replacing senior executives, oversee the conduct of the firm's operations with a view of assessing, on an on-going basis, whether the firm's assets are properly used in a way that maximizes shareholders' wealth (Monks & Minow, 2002).

The recommended guidelines of Ghana also points out relatively similar duties: Overseeing of internal control system; overseeing the management and conduct of the corporation; succession planning and the appointment, training, remuneration and replacement; strategic guidance of the corporate body in keeping with its business goals; identification of risk and the implementation of systems that manage risk and maintenance of the firm's communications and information dissemination policy. Therefore, the possible set of indicators of board control can be: Approval of corporation's strategy; selection of, and ability to dismiss the CEO; setting the CEO's remuneration; and assessing the performance of the CEO, individual board members and the board as a whole.

#### **4.8 Research propositions**

A proposition puts our focus on certain concerns that ought to be explored and examined within the scope of the study. It is a cautious and conjectural association between abstract constructs that is affirmed in a declarative manner (Bhattacharjee, 2012). Yin (2009; 2003) asserts that propositions reflect relevant theoretical issues and evidence about individual(s). Without propositions, case studies may be difficult, because a researcher might be fascinated to cover 'everything' which is impossible to conduct. Propositions assist in narrowing down the scope of the study. Yin (2003, p.23) posits "the more a study contains specific propositions, the more it will stay within feasible limits".

In order to connect the research questions to the model of the study depicted above (see figure 4.2) in finding answers to the study's sub-questions two (2), the following propositions were formulated:

##### ***Proposition 1***

*Shareholders with larger shares exert shareholder control in a company.*

This proposition addresses the ownership structure and how it leads to shareholders control in a corporate organization.

##### ***Proposition 2***

*Effective and efficient board meetings lead to a panoptic board control in a company.*

This proposition addresses how effective board meetings are and how they result in board control in a company.

##### ***Proposition 3***

*The non-duality structure with independent chairperson results in a panoptic board control in a company.*

This proposition shows how board independence is linked to board control. In other words, how Chief Executive Officer-Chairperson separation leads to board control

##### ***Proposition 4(a)***

*Instituting a board audit committee with independent non-executive directors as its members leads to a panoptic board control in a company.*

This proposition addresses how an independent board audit committee leads to board control.

***Proposition 4(b)***

*Establishing a board remuneration committee with independent directors as its members leads to a panoptic board control in a company.*

This proposition addresses how an independent remuneration committee leads to board control.

These propositions addressed above reflect the present situation in terms of corporate governance in Ghana. The study will revolve around these propositions and the empirical evidence will determine whether these propositions reflect and drive the prevailing corporate governance practices in Ghana.

**4.9 Operationalization of variables**

The major task of empirical social research is the accurate and detailed operationalization of variables (Bryman, 2001), given that many of the constructs such as bias, alienation and liberalism are difficult to explain, not to mention how to measure precisely (Bhattacharjee, 2012). Operationalization refers to the specification of how, in practice, the constituents indicated in the model are to be examined (Verschuren & Doreeward, 1999). In other words, it is a technique of formulating accurate measures for abstract constructs (Bhattacharjee, 2012). Alejandro and Hasanaga (2005) suggest that the more precise the definitions, the more objective and transferable knowledge they generate. A researcher could search the extant body of knowledge pertaining to his/her research area to get to know if there are existing prevalidated measures that could be adopted or adapted to measure his/her constructs of interests (Bhattacharjee, 2012). Accordingly, the study employed such strategy to define the variables in the theoretical propositions. Table 4.1 below depicts the indicators and their definitions.

**Table 4.1: Definitions of the variables in the propositions**

<b>Variable</b>	<b>Explanation</b>	<b>Indicator</b>	<b>Literature</b>
<i>Shareholder control</i>	<i>how shareholders directly or indirectly exert control over the operations of the firm</i>	<i>1. exerting power over decisions, 2. influence the appointment of 'important personalities' such as the CEO and Chairperson, 3. influence corporate decisions taken by the board or management, 4. direct partaking in the running of the corporate entity</i>	<i>Denis &amp; McConnel (2001); Babatunde &amp; Olaniran (2009).</i>
<i>Board Control</i>	<i>undertaking actions to exert control and monitor management</i>	<i>1. selection of, and ability to dismiss the CEO 2. assessing the performance of the CEO, activities of the board and other top executives 3. Approval of corporate strategy 4. setting the CEO's remuneration package</i>	<i>Jensen and Meckling (1976), Mintzberg (1983), OECD (1999), CACG (1999), Companies Code (1963), Monks &amp; Minow (2004), Payne et al. (2009), Brink (2011)</i>
<i>Ownership Structure</i>	<i>are identities of shareholders and the size of equity held by shareholders</i>	<i>1. identities of shareholders 2. the size of equity held by shareholders</i>	<i>Shleifer &amp; Vishny (1986), Roe (2003), Carlsson (2003), Denis &amp; McConnell (2003)</i>
<i>Board composition</i>	<i>The percentages of outside and inside directors</i>	<i>1. Executive directors 2. Non-executive directors</i>	<i>Mace (1986), Babatunde &amp; Olaniran (2009), OECD (1999), CACG (1999), Companies Code (1963), Solomon (2007).</i>
<i>Board/Director independence</i>	<i>Not employed by the company or have a significant social or economic independence to management.</i>	<i>1. Non-existence of social ties with the CEO 2. Non-existence of business association with the firm or management 3. Not representing or elected by a major equity holder.</i>	<i>Lorsh &amp; McIver (1989), Denis &amp; McConnel (2001), Baysinger and Butler (1985), Knell (2006), GSEC (2011)</i>
<i>Non-duality structure</i>	<i>Separation of the positions of the CEO and the Chairperson.</i>	<i>CEO-chairperson separation</i>	<i>Jensen (1993), Millstein &amp; McAvoy (2003), OECD (2004), CACG (1999), Companies Code (1963)</i>
<i>Board meetings</i>	<i>Meetings by the board to discuss and exchange ideas on how they would be in a position to serve as monitors as well as to undertake key strategic issues concerning the firm</i>	<i>1. timeliness of meetings 2. adequacy of information available to outside directors</i>	<i>Demb &amp; Neubauer (1992), OECD (1999), CACG (1999). Companies code (1963)</i>
<i>The board Audit Committee</i>	<i>Committee to effectively and efficiently manage financial affairs of the firm</i>	<i>1. how functioning is the committee 2. The kind of directors on the audit committee</i>	<i>Massen (1999), Canyon and Mallin (1997), OECD (1999), CAGG (1999) Companies code (1963)</i>
<i>The board remuneration committee</i>	<i>The committee that sets the CEO's and other top executives' remuneration packages</i>	<i>1. how functioning the committee is 2. The sort of directors that constitutes the committee</i>	<i>Felo (2011), OECD (1999), CACG (1999), Knell (2006), Companies code (1963).</i>

Source: Castellini & Agyemang (2012)

#### 4.10 Conclusion

Even though, there has been an existence of corporate governance principles in Ghana, so far, to the best of the researcher's knowledge, there is no research study on the extent to which listed companies have complied with the requirements of these principles. The absence of empirical data on the adoption and implementation of the principle provides an opportunity for the researcher to

carry out such original study on Ghana. This study will thus establish whether the listed companies in Ghana are practicing effective corporate governance. There is therefore, an opportunity to carry out an original research on what serves as a driving force in corporate governance practices in Ghana. The various propositions have been used against the agency theory and the transaction cost economic theory expecting that, these two theories would provide general mechanisms to addressing an incentive problem. The findings of the research in chapter six are expected to provide answers to specific research question two of the study (see chapter one). The next chapter presents the study's research design and methodology.

## CHAPTER FIVE

### METHODOLOGY AND RESEARCH DESIGN

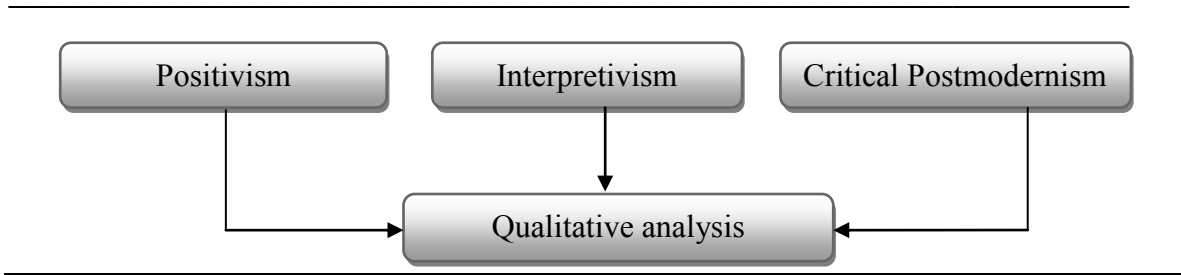
The preceding chapter presented the study's conceptual framework with its theoretical propositions; this next chapter makes an effort to address the objective of the study by developing a multi-method research plan that supports the exploratory and descriptive nature of this study. It examines the study's philosophical assumptions, research design, the overall methodological framework, and the study's multiple data collection and analysis techniques that were employed to gather the required data needed to address the study's research questions. It also discusses the principles for ensuring research quality and ethical consideration of this study. It further highlights the limitations of the study's research design and how they were surmounted. Finally, a summary of this chapter is presented.

#### 5.1 Research paradigm

Researchers more often than not, have to select an appropriate mental models or frames of references that can be applied to arrange their logical reasoning and observations (Bhattacharjee, 2012; Neuman, 2010). These mental belief systems or mental models are called research paradigms. Research paradigms are usually difficult to recognize, in the sense that they are implicit, assumed and sometimes taken for granted. However, recognizing them is crucial to appreciating and unifying disparities in individuals' perceptions about the same phenomenon in its natural setting (Bhattacharjee, 2012). This appreciation and unification of different views of individuals about the same phenomenon determine the problems that are worth researching, and the techniques that can be applied to examine these problems (Perry & Cavaye, 2004). The choice of research methodology is dependent on the research paradigm that steers the entire research activity and therefore, 'beliefs about nature of reality and humanity (ontology), the theory of knowledge that informs the research (epistemology), how that knowledge may be gained (methodology)' (Tuli, 2010, p. 99), and what counts as basic values as well as what is consciousness (moral choices, ethics and normative judgments) (McGregor & Murnane, 2010), shape and explain the conduct of an enquiry (Popkewitz, Tabachnick & Zeichner, 1979).

Ontology informs the methodology about the nature of reality or the assumptions about how this world is perceived by individuals (Tuli, 2010; Guba & Lincoln, 1994). On the other hand, whilst epistemology informs the methodology about the nature of knowledge or assumptions about the best manner in which this world can be inquired (Bhattacharjee, 2012), methodology refers to the process that translates ontological and epistemological principles into techniques, which divulge how the world is to be examined (Sarantakos, 2005). Axiology is basically concerned with the role and voice of the investigator and the research participants (Ponterotto, 2005). Through an application of these four sets of principles, a number of research paradigms has been developed to steer research (Bhattacharjee, 2012; Tuli, 2010). Gephart (1999) grouped research paradigms into three (3) philosophical discrete groups as positivism, interpretivism and critical postmodernism (see figure 5.1 below). These three research paradigms are ideal for this research in that they are popular paradigms in contemporary organizational and management studies.

**Figure 5.1: Underpinning philosophical assumptions of the study**



Source: Author's construct

It is worth mentioning that these three research paradigms vary in relation to their ontological, epistemological, methodological (Guba & Lincoln, 1994) and axiological perspectives (McGregor & Murnane, 2010; Ponterotto, 2005). But it is also worth considering that there is no consensus in regards to whether these three philosophical groups essentially contradict or whether they can be considered as contributing differing tasks in the same research (Myers, 1997). This clearly demonstrates that in order to establish a comprehensive appreciation of the research problem, the understanding and application of multiple research paradigms will probably be needed (Bhattacharjee, 2012). Table 5.1 below summarizes these three philosophical perspectives in relation to their ontological, epistemological, axiological and methodological perspectives. For the purpose of further appreciation of these three philosophical perspectives, the logic behind them is highlighted in the table as well.



**Table 5.1: Summary of research paradigms**

	<b>Positivism (Scientific, empirical)</b>	<b>Interpretivism (Humanistic)</b>	<b>Critical postmodernism (Power)</b>
Ontology	<ul style="list-style-type: none"> <li>-reality is <i>out there</i>; waiting to be explored</li> <li>-there is single reality made of discrete elements: when we find them all via scientific technique, we have a full picture of reality</li> <li>-a single reality exists that people cannot see</li> <li>-a fact is a fact; it cannot be interpreted</li> <li>-true nature of reality can only be attained by testing theories</li> <li>-seeing is believing</li> <li>-laws of nature can be derived from scientific data</li> <li>-human nature is established by things people are unaware of and have to control over</li> <li>-humans are passive, malleable and controllable</li> <li>-reality is determined by the environment, inherited potential or the interaction of the two</li> <li>-reality is external to our consciousness</li> </ul>	<ul style="list-style-type: none"> <li>-reality is <i>in here</i> (in people's minds and collectively constructed)</li> <li>-social reality is relative to the observer and everyday concepts need to be understood to appreciate this reality</li> <li>-emphasis is on the life-world and shared meanings and understandings of that world</li> <li>-reality is socially constructed through the lived experiences of people</li> <li>-human nature is determined by how people see themselves</li> <li>-human beings are active and self-creating</li> <li>-human beings can act deliberately</li> <li>-reality can be an outcome of people's minds or the interactions of individuals</li> <li>-reality constitutes that which is constructed by people by interacting with their contexts and other persons</li> <li>-reality is conditional upon human experiences</li> </ul>	<ul style="list-style-type: none"> <li>-reality is <i>here and now</i></li> <li>-reality is molded by ethnic, cultural, gender, social and political values and mediated by power relations</li> <li>-reality is constructed within social-historical context</li> <li>-humans are <i>not</i> confined to one specific state or set of conditions; things can change</li> <li>-human beings have the capacity to wield control over social arrangements and institutions; create a new reality</li> <li>-humans who are oppressed are able to emancipate themselves and challenge the status quo</li> <li>-reality is material, never fully understood and is deeply molded by power</li> <li>-seeks to truly appreciate the real situations in order to change everyday power balance</li> </ul>
Epistemology	<ul style="list-style-type: none"> <li>-the one truth is out there waiting to be discovered through scientific method</li> <li>-strive for certainties, laws of behaviors, principles that offer explanations resulting in predictions and control of phenomena</li> <li>-knowledge is objective (bias free)</li> <li>-knowledge is fragmented and not related); mind and matter are separate</li> <li>-only knowledge generated using the scientific method is valid</li> <li>-only things that can be observed are worthy of study</li> <li>-knowledge is an outcome of scientific technique</li> </ul>	<ul style="list-style-type: none"> <li>-truth is created and there is more than one truth; depends on humans' interpretations of their world</li> <li>-strive for confidence</li> <li>-knowledge is constructed by individuals</li> <li>-agreed on knowledge in one culture may not be valid in another culture</li> <li>-takes into account social and cultural influences on knowledge creation</li> <li>-knowledge is subjective or Intersubjective and includes viewpoint</li> <li>-there are several ways of knowing apart from the scientific technique</li> <li>-knowledge can be cognitive, feelings and embodied</li> </ul>	<ul style="list-style-type: none"> <li>-truth is grounded in the context</li> <li>-knowledge is grounded in social and historical perspectives</li> <li>-knowledge is emancipatory, created via critically questioning the manner things 'have always been done'</li> <li>-knowledge is about hidden power structures that permeate society</li> <li>-knowledge is dialectic (transformative), consensual and normative</li> <li>-knowledge is material and is subject to modification</li> </ul>

**Table 5.1 continues: Summary of research paradigms**

	<b>Positivism</b>	<b>Interpretivism</b>	<b>Critical postmodernism</b>
Axiology	<ul style="list-style-type: none"> <li>-values neutral (values are often ignored)</li> <li>-moral issues are beyond empirical enquiry</li> <li>-no place for prejudice, values, feelings, perceptions, hopes or expectations of either investigator or research participants</li> <li>-researcher strives to control for anything that can contaminate the research</li> <li>-association between researcher and participant is objective and dualistic</li> </ul>	<ul style="list-style-type: none"> <li>-values laden</li> <li>Intent is to uncover the beliefs, customs and so on that mold human behavior</li> <li>-bias, feelings, hopes, expectations, perceptions and values are central to the research process</li> <li>-participants play a major role in the research, even instigating it</li> <li>-the standpoints of the 'insiders' supersedes that of the investigator</li> <li>-role of investigator is to uncover conscious and unconscious explanations people have for their life via dialogue with and among study participants</li> <li>-relationship between the researcher and participants is intense, prolonged and dialogic (deep insights via interaction)</li> </ul>	<ul style="list-style-type: none"> <li>-values oriented and values driven</li> <li>-researcher's pragmatic values regarding social justice are central to the study</li> <li>-goal is to critically examine unquestioned values, beliefs and norms to divulge power</li> <li>-researcher seeks to appreciate the consequences of power so as to assist people to empower themselves</li> <li>-very participatory research process that is grounded in terms of the insiders' standpoint, respecting that researchers have contributing finesses</li> <li>-role of the researcher is to challenge insiders with expert research findings resulting in self-reflection and emancipation</li> <li>-goal is to create societal change by emancipating citizens to take action</li> <li>-relationship between researcher and participants is dialogic, transactional and dialectic</li> </ul>
Methodology	<p><i>Seeking causality, laws and relations through:</i>  <b>Quantitative:</b>            Experiments, Quasi-experiments, field experiments and surveys</p> <p><i>Seeking relations and regularities through:</i>  <b>Qualitative:</b>            Quasi experiments, field experiments, surveys, ethnoscience (new ethnography), ethnography Phenomenology, case studies, and content analysis</p>	<p>Seeking theory and patterns through:            Phenomenology, case studies, content analysis, grounded theory, natural/interpretive inquiry, discourse analysis, thematic analysis, document analysis</p> <p><i>Seeking meanings and interpretations via:</i>            Case studies, discourse analysis, ethical enquiry, life history study, narrative study, hermeneutic enquiry, heuristic enquiry</p>	<p>Seeking reflection, emancipation and problem solving through:            Action research, discourse analysis, participatory research, critical analysis, feminist enquiry, case study and reflective phenomenology</p>
Logic	<ul style="list-style-type: none"> <li>-deductive, justification, formal logic</li> <li>-via objective observation, experts form research questions and hypotheses or propositions and test empirically</li> <li>-concerned with prediction, control and explanation</li> </ul>	<ul style="list-style-type: none"> <li>-inductive logic, effort to find various interpretations of reality and recognize patterns that govern and guide human behaviour</li> <li>-meaningful findings are more valuable than generalization</li> </ul>	<ul style="list-style-type: none"> <li>-inductive logic, aimed at emancipation</li> <li>-concerned with critiquing and societal change</li> <li>-logic is to divulge power</li> <li>-assumes that researchers can assist people become aware of unconscious thoughts</li> </ul>

Source: Adapted from McGregor & Murnane (2010)

### **5.1.1 Positivism**

The positivist research paradigm of examining social reality is founded on the philosophical perspective of the French Philosopher, August Comte (1798-1857), founder of the discipline of Sociology who strived to merge rationalism with empiricism. He posited that observations and theory have globular reliance on each other. While theories may be developed through logical reasoning, they are only valid if they can be confirmed via observations. This emphasis on confirmation began the schism of contemporary science from philosophy and metaphysics, and further formation of the 'scientific techniques' as fundamental ways of authenticating scientific arguments. The positivism research paradigm has to do with unearthing truth and illuminating it empirically (Henning, Van Rensburg & Smith, 2004).

The positivists argue that scientific knowledge comprises facts while its ontology regards the reality as free from social construction (Walsham, 1995b). If the study is made up of a steady and static reality, then the investigator can employ an 'objective' standpoint; a realist ontology- a mental model in an objective, real world- and separated epistemological perspective founded on a mental model that people's perceptions and thoughts are either right or wrong, true or false as well as a mental model founded on a perspective of knowledge as hard, real and attainable. Positivism considers human behavior as passive, controlled and established by external forces.

The positivist research paradigm is associated with an array of theories and practices such as Comtean-kind positivism, behaviorism, logical positivism (non-realism), cognitive science and empiricism (Hwang, 1996). Even though this research paradigm continues to influence contemporary management research, interpretive constructionism and critical postmodernism critics have raised issues in regards to its subjectivity in explaining social reality. Its critics hold the view that objectivity needs to be substituted by subjectivity in the process of scientific investigation and that constructionism and critical postmodernism provide alternative theoretical, methodological and practical techniques to research (Gephart, 1999).

In its undiluted structure, the realist viewpoint represents basically, the traditions of classical positivist. But a modified objectivist viewpoint called postpositivism or postempiricism (Bhattacharjee, 2012) amends positivism by suggesting that it is not possible to confirm the truth even though it is possible to reject false mental models, though it maintains the positivist perspective of an objective truth and its focus on the scientific technique. This vividly represents the critical realist perspective, which contends that there is external reality that is both theory-free and value-free from people's perceptions and thoughts, but it is hardly to know such social reality with any degree of certainty (Bhattacharjee, 2012). Therefore, the positivist emphasis on experimental and quantitative techniques have been supplanted or complemented to some degree by an interest in applying qualitative techniques to collect catholic information outside of already existing or prevalidated variables (Gephart, 1999).

### **5.1.2 Interpretivism**

If investigators believe that the most appropriate way to examine social order is through subjective explanation of participants involved, such as by interviewing different participants and unifying variations among their responses by applying their own subjective viewpoints to create and sustain a sense of truth specifically, in the face of rival explanations of social reality, then they are using interpretivism research paradigm (Bhattacharjee, 2012). It inductively constructs social science concepts employing concepts of social actors as the cornerstones for logical induction (Gephart, 1999). The premise of interpretive investigators is that access to social reality (whether socially constructed or given) is only through social constructions such as language, awareness and common appreciations (Myers, 2013). Interpretivism research paradigm is strengthened by observation and interpretation. Therefore, to observe is to gather information about events, whilst

to interpret is to draw out conclusions or by concluding the match between information and some abstract trends (Aikenhead, 1997). It strives to appreciate phenomena via the explanations people assign to them (Deetz, 1996).

The interpretivism research paradigm emphasizes on putting analysis in context (Reeves & Hedberg, 2003). It has to do with appreciating the world as it is from subjective experiences of people. It does not predefine endogenous or exogenous variables, but concentrates on the full intricacy of human sense of making as the situation arises (Kaplan & Maxwell, 1994). Interpretivists are not interested in building a new theory, but to infer or assess, and fine-tune interpretive theories. Walsham (1995b) suggests three (3) differing uses of theory in interpretive case research; theory steering the research design and data gathering, theory as an iterative procedure of data gathering and analysis, and theory as a result of a case research. The application of theory as an iterative technique between data gathering and analysis has been employed in this study.

Burrell and Morgan (1979) argue that interpretivism research paradigm is not a single research paradigm, but in actual fact a large family of different research paradigms. The philosophical foundation of interpretive research paradigm is hermeneutic and phenomenology (Boland, 1985). Hermeneutics is an important kind of interpretive philosophy that emerged in the late nineteenth century. As a philosophical technique to human appreciation, hermeneutics offers the philosophical foundation for interpretivism research paradigm. It is an iterative process of moving back and forth from pieces of observations (text) to the entire social phenomenon (context) to unify their visible discord and to construct a theory that is in line with the differing subjective perspectives and experiences of the research participants (Bhattacharjee, 2012). Such iteration between the meaning of a phenomenon and observations must persist until 'theoretical saturation' is attained, whereby any extra back and forth movement does not result in any more information about the phenomenon.

It is imperative that even though this study is not basically phenomenological; some aspects of it are strengthened by the principles of phenomenology, which emphasize on ascertaining and reporting germane features of phenomena in their natural context. Phenomenology is an interpretive research method that focuses on the study of conscious experiences as a way of appreciating the social reality around us (Bhattacharjee, 2012). It concerns itself with a systematic reflection and analysis of phenomena connected to conscious experiences, such as human inferences, perceptions and thoughts, actions, with the aim of a) understanding and explaining reality from differing subjective viewpoints of the involved participants, and b) appreciating the symbolic appreciations underpinning these subjective experiences (Bhattacharjee, 2012). This enquiry demands that investigators get rid of any prejudices, empathize with the situation of participants and focus on extant dimensions of that situation, so that they can exhaustively savvy the deep structures that establish the conscious, feeling and behavior of the participants involved in the study. Interviews and observations are the main data gathering techniques of phenomenology.

This study employed the interpretivism research paradigm to get hold of an in-depth understanding of how corporate governance is practiced and the elements that drive its effectiveness in developing countries particularly, Ghana. Table 5.2 below re-echoes the features of interpretivism research paradigm as grouped into; a) the aim of the study, b) the nature of reality (ontology), nature of knowledge and the association between the researcher and what it is researched into, and c) the methodology employed.

**Table 5.2: Re-echoing the features of interpretivism research paradigm**

<b>Characteristic</b>	<b>Description</b>
Aim of study	to get hold of an in-depth understanding of how corporate governance is practiced and the elements that drive its effectiveness in developing countries particularly, Ghana
Ontology	<ul style="list-style-type: none"> <li>• There are multiple social realities</li> <li>• Social reality can be explored, constructed via human interactions and meaningful actions</li> <li>• Ascertaining and reporting germane features of phenomena in their natural context. These reporting could be text or visual expression</li> <li>• Several social realities exist as a result of differing human conscious, behavior, feelings and experiences</li> </ul>
Epistemology	<ul style="list-style-type: none"> <li>• Phenomena are appreciated via mental models of interpretation that is affected by interaction with social realities</li> <li>• Researcher and the researched-into are intertwined in an interactive way of communicating. For instance, talking and listening, and reading and writing</li> <li>• More personal, interactive way of data gathering</li> <li>• Those involved in the research socially construct knowledge by the real life context</li> </ul>
Methodology	<ul style="list-style-type: none"> <li>• Data gathered using observation, interviews, text messages and reflective sessions</li> <li>• Analysis delves into themes to identify multiple layers of meaning while maintaining the fragility and ambiguity of subjects' lived experiences</li> <li>• Research is the outcome of the investigator's values</li> </ul>

Source: Adapted from Myers (2013); Bhattacharjee (2012); Tuli, (2010); McGregor & Murnane ( 2010); Walsham (1995b); Kaplan and Maxwell (1994); Burrell and Morgan (1979).

The role of an investigator is to uncover conscious and unconscious explanations people have for their life via dialogue with and among study participants (McGregor & Murnane, 2010). The relationship between the researcher and participants is powerful, prolonged and dialogic (deep insights via interaction). This implies that in the interpretive technique, the investigator does not stand above or outside, but is a participant observer (Carr & Kemmis, 1986) who involves him/herself in the ongoing activities and becomes aware of the meanings of actions and the manner in which these actions are portrayed within particular social contexts.

### 5.1.3 Critical postmodernism

Critical postmodernism blends critical theory and postmodern thought (Gephart, 2004). Critical research explains the historical emergence of social realities and the current settings in which these social realities mold contradictions with repercussions for social activity and human liberty (Gephart, 2004). Thus critical investigators assume that social reality is historically structured and that it is produced and reproduced by individuals (Myers, 2013). Critical research concentrates on the conflicts, oppositions and contradictions in contemporary society, and hunts for emancipation. These contradictions, oppositions and conflicts are considered to be the basis for the exploitation that arises when hegemonic worldviews cover up opposition, conflicts and contradictions, leaving individuals ignorant of clear kinds of domination and subjugation, which exist (Gephart, 2004). In consequence, critical research uncovers relations of dominance and subjugation, and produces explanations in order to make social actors instinctively conscious of the roles they play in the production and reproduction of social structures.

Critical postmodernism of exploring social reality is based on the assertion that reality is *here* and *now* and that it is formed by ethnic, cultural, gender, social and political values, and mediated by power relations (McGregor & Murnane, 2010). Social reality is material, never fully understood and is deeply molded by power, but critical postmodernism seeks to fully appreciate the real situations in order to change everyday power. Since human beings have the capacity to wield

control over social structures and institutions, critical postmodernism induces researchers to challenge insiders with expert research findings leading to self-reflection and to create societal change by emancipating the '*controlled*' (people) to take actions. Therefore, critical postmodernism seeks to deconstruct power structures and domination that permeate society by opening opportunities for social involvement among people formerly excluded and controlled (McGregor & Murnane, 2010; Gephart, 2004).

Methodologically, critical postmodern research more often than not, has concentrated on discourse at the micro level as compared to some extent macro level focus in critical theory study (Gephart, 1999). It assumes that there are several perspectives of the world, and it employs interpretive and positivism approaches to uncover conflicting meanings held by groups in power-laden relations. However, its methodology differs from that of positivism and interpretivism in that it is committed to transactional, dialectical, and dialogic analysis between the researcher and research participants (McGregor & Murnane, 2010; Gephart, 1999).

#### **5.1.4 Rationale for the adoption of the philosophical perspectives**

Studies are always founded on philosophical viewpoints. Whilst some studies are founded on a single research paradigm, others are founded on multi-paradigmatic technique to research. This approach is dependent on the type of the study. However, holistic and more exhaustive appreciations of social phenomenon such as how corporate governance is effectively practiced in one organization than others require an understanding and application of a multi-paradigmatic method to research.

The above discussion about the three philosophical perspectives to research, points out that the philosophical standpoint underpinning this study largely stems from interpretivism research approach, which is of hermeneutic quality. But the study has some trails of the other two philosophical viewpoints - positivism/post-positivism and critical postmodernism.

Interpretive techniques often offer the study wider scope to deal with issues of influence and impact, and to ask questions as to why and how specific circumstances and practices take place within a particular phenomenon in its natural setting. In consequence, an interpretive approach of objective hermeneutic nature was employed in that it explains how individuals make sense of the world via intuition that emerges from 'the understanding of underlying meaning, not the explanation of causal relationships' (Alvelsson & Deetz, 2000, p. 52). Also, objective hermeneutic approach employs an objective perspective of the research phenomenon, but uses an understanding and interpretive approach to examine this phenomenon. This approach offered the researcher the opportunity to access and create the required data for a comprehensive description of corporate governance practices within the context of Ghana. It also offered an unassailable foundation for finding answers to the central research question, and with this the leeway for in-depth probing.

The positivist research paradigm to some extent was employed in this study in that the study put forth five main theoretical propositions that were tested empirically. Also, apart from the objective observation the researcher conducted during the annual general meetings of the four cases, replication logic was employed by the researcher to ensure external validity. In regards to critical postmodernism paradigm research and its extent of application in this study, the researcher was able to divulge the power struggles in all the cases. This is because one aspect of this research was to reveal how shareholders and boards of directors wield control over corporate organizations. Also, the study took an interest in exploring how corporate governance practices in these corporate organizations have been modified over the years. This offered the researcher the possibility to get hold of the modifications of corporate governance practices in these companies.

In summary, this study was largely founded on interpretivism research paradigm of objective hermeneutic nature. In addition, the study employed two additional philosophical perspectives to research-positivism/post-positivism and critical postmodernism. However, this study is not claiming that these two philosophical assumptions were extensively applied in this study in the sense that most aspects pertaining to their ontological, epistemological, axiological and methodological perspectives were not applicable to this study. The next section of this chapter addresses the research methodology of the study.

## **5.2 Research methodology and methods**

The main aim of conducting research is to contribute to knowledge by creating or testing theories. Research methodology is the way or manner a person makes a conscious effort to examine and obtain more insight about the social world (Burrell & Morgan, 1979). In other words, it is the way a research problem is methodically solved. The most relevant aspect of a research methodology originates from the fact that it provides the logic behind the selected methods. Kothari (1985, p.8) asserts that;

When we talk about a research methodology, we not only talk about research methods, but consider the logic behind the methods we use in the context of our research and explain why we are using a particular method or technique so that research results are capable of being evaluated either by the researcher him/herself or by others”.

Formulating the research question essentially determines the methodology that is appropriate and desirable for the empirical aspect of the study (Aaltio & Heilmann, 2010).

In addressing the study’s goal, objective and research sub-questions, the multi-method research strategy was needed to back both corporate governance practice in Ghana, and the meaning and insight of its development. This research strategy provided the researcher an opportunity to access and generate a comprehensive or detailed and sufficient data essential for answering the research sub-questions put forth by the study:

1. What are the concepts available in the extant literature that are suitable for evaluating effectiveness of corporate governance?
2. What is the prevailing condition in regards to corporate governance effectiveness in Ghana, and the elements that drive this effectiveness?
3. What significant issues could be suggested as auxiliary for further development of corporate governance in Ghana?

This research strategy was typified by two essential aspects: Qualitative study and case study. These aspects and their justifications are presented in detail in the next section.

### **5.2.1 Qualitative research versus quantitative research**

Cresswell (1994, p.2) defines qualitative research as “an enquiry process of understanding a social or human problem, based on building a complex, holistic picture, formed with words, reporting detailed views of informants and conducted in a natural setting”. Denzin and Lincoln (2005) have the same notion about qualitative research. They view it as “...a situative activity that locates the [researcher] in the world” (p. 3). They add that qualitative research consists of “a set of interpretive, material practices that make the world visible” (p.3). This transforms the world into a gamut of representations such as interviews, field notes, discussions, images and footages. Many a times, qualitative research is referred as an interpretive, naturalistic, critical, hermeneutic, participatory or phenomenological (Tuli, 2010; Stake, 2010).

There is a clear distinction between qualitative research and quantitative analysis. First and foremost, whilst qualitative analysis is founded on creativity, which is contingent on the researcher's capacity to conceptualize and discern the true nature of a situation (Cooper & Schlinder, 2010); quantitative research is always founded on statistical inference. Also, Gillham (2000) is of the notion that qualitative method has more to offer to researchers than what quantitative analysis can provide. The author highlights six (6) main qualities that make qualitative analysis superior to quantitative method. These are:

- Qualitative method examines situations where not much is known about their existence and prevailing conditions characterizing them.
- Qualitative approach explores the intricacies and dynamics that transcend the scope of quantitative approach.
- Qualitative analysis strives to get in-depth understanding of the happenings within a specific group or organization- informal realism that can only be ascertained from within.
- Qualitative method views a situation from inside out in order to establish the real case scenario from the notion of those involved.
- It conducts studies into *process* that leads to outcomes instead of into how *significant* the outcomes are.
- It strives to conduct an investigation where other approaches such as experimental research are not feasible or not ethically rationalized.

Further, whilst qualitative analysis generally focuses on interpretation and offers absolute views of particular concepts in regards to their deep appreciation and environmental engagement, quantitative method is often regarded to be more scientific by concentrating on applying specific definitions and operationalizing the meaning of particular concepts and variables (Tewksbury, 2009). In qualitative research, sampling procedures are focused on seeking information from particular groups and subgroups in the population, whilst sampling techniques in quantitative research seek to establish representativeness of findings by selecting subjects randomly (Hancock, 2002). In qualitative analysis, data are used to construct theories and concepts that help us to appreciate the social world (that is, inductive approach), whilst quantitative approach is deductive in the sense that theories that have already been proposed are subject to test. Table 5.3 depicts the differences between qualitative and quantitative approaches.

**Table 5.3: The differences between qualitative and quantitative analyses**

<b>Qualitative analysis</b>	<b>Quantitative analysis</b>
Subjective	Objective
Holistic	Reductionist
Phenomenological	Scientific
Anti positivist	Positivist
Descriptive	Experimental
Naturalistic	Contrived
Inductive	Deductive
Small samples	Large samples
Individual measures are formulated taking into consideration specific facets of the study	Existence of standard measures

Source: Adopted from Hancock (2002)

Yin (2011) argues that, qualitative research approach has recently become a pleasing, if not the mainstream, kind of research in both academic and professional fields of operation. Notwithstanding its reservations by some researchers, it has incrementally regarded as a powerful and reliable tool for highlighting and appreciating the human world (Higgs & Cherry, 2009). This is because '[a] creative and investigative mindset is needed for qualitative analysis, based on an



ethically enlightened and participant-in-context attitude, and a set of analytic strategies' (Bhattacharjee, 2012, p. 113).

Qualitative research is characterized by three main distinctive facets (Pope & Mays, 2006). First and foremost, it is subjective and offers a distinctive appreciation of a social phenomenon. Also, it studies a phenomenon in its natural setting instead of within its experimental or artificial context. Finally, it usually employs multi-method techniques in dealing with relevant questions about a social phenomenon. Corollary to these aspects, it can be concluded that qualitative research offers a less abstract and conclusive framework for a study. It constructs and conveys clear protocols for enacting research design chosen as the foundation for self and external assessment of the research design (Higgs & Cherry, 2009).

### **5.2.2 Rationale for the qualitative analysis**

Having discussed the differences between quantitative analysis and qualitative research, it is imperative to pinpoint the rationale behind the selection of the qualitative analysis for this study.

This study strived to offer a comprehensive, a close to practice, a sort of flexible and diverse appreciation about the practice of corporate governance in firms within the context of Ghana. Accordingly, qualitative analysis was considered a better technique to reveal these intricacies and dynamics of this subject in the sense that 'the most powerful way that qualitative research can bring about change in practice is to research practice as it is actually happening' (Higgs & Cherry, 2009, p. 11). Also, the application of a qualitative approach in carrying out research on corporate governance has increased recently. In their study, McNulty *et al.* (2013) revealed that qualitative studies on corporate governance have increased in absolute figures since the 1990s, but remain a small proportion of works on corporate governance. Since corporate governance is considered as an 'evolving, complex, global, multi-level phenomenon' (McNulty *et al.*, 2013, p.184), it requires for an enquiry that can be explored and examined using a qualitative research approach. In line with this, this study aspired to use qualitative approach to explore and examine corporate governance practices in Ghana in a real empirical context.

### **5.2.3 Assumptions of qualitative research and their connection to this study**

Qualitative research approach is veered towards discovery, description, critical, interpretive and holistic appreciation of processes and activities. The following list highlights some fundamental assumptions of qualitative research and connects them to the study of corporate governance in the Ghanaian setting.

- *Qualitative research facilitates holistic standpoint:* It assumes that a phenomenon is studied in whole and that complex systems can never be essentially lessened to a number of variables and linear causal associations. "The advantage of qualitative portrayals of holistic settings and impacts is that greater attention can be given to nuance, setting, interdependencies, complexities, idiosyncrasies, and context" (Apap, 2002, p. 43). The conceptual framework of this study in chapter 4 in combination of a qualitative research approach furnished the researcher the idea of appreciating corporate governance practices in Ghana holistically.
- *Qualitative research integrates an evolving design:* It also assumes that research design cannot be completely formulated prior to the fieldwork. The meanings and insights that emerge from the research process and, each data collection and analysis process refine subsequent data collection and analysis. This study required suppleness to respond to the meanings and insights that emerged and eventually, followed new channels of investigation as required.

- *Qualitative research is descriptive:* It centers on describing and appreciating a phenomenon. This description includes an in-depth explanation of the context of the research, processes, activities and events. This study attempted to describe corporate governance practices in Ghana and the factors that drive its effectiveness, and relied on these descriptions to recommend policy and managerial measures to ameliorate these practices.
- *Qualitative research basically has to do with process instead of result:* It is concerned with the activities, processes and events of a phenomenon in its natural setting. This study carried out fieldwork on the practices of corporate governance in firms in Ghana in order to gain understanding of this phenomenon and its natural setting.
- *Qualitative research uses the researcher as the basic instrument for data collection and analysis:* It assumes that the researcher is the only instrument that can reconcile data rather than via interviews, archival records, observation and other data collection techniques. In the context of this study, data were gathered through the application of interviews from company chief executive officers, board chairpersons, board directors, shareholders, company secretaries, officials of SEC and GSE, and past chief executives and directors. Archival records were also gathered from the companies' annual reports, extracts from internal files, prospectuses, circular to shareholders and other vital records. In order to observe the actual corporate governance practices of the companies, the researcher attended the annual general meetings of the companies
- *Qualitative research is interested in how informants are able to express themselves openly to bring out their experiences and perceptions about the phenomenon under study and its natural setting:* Corporate governance is a concept which draws a variety of views from numerous stakeholders to concur on one or more ways of addressing it. This approach assumes that each view presented by each stakeholder brings out distinctive interpretation, understanding, perception and values of the concept of corporate governance. This research concentrated on the individual's understanding, interpretations and perceptions of corporate governance.

### 5.3 Major research strategies

The qualitative research technique complemented the second aspect of the research strategy. However, before determining the exact research strategy that was suitable for carrying out this study, a discussion of five main research strategies suggested by Yin (2009) was conducted. These are; surveys, experiments, archival analysis, history and case study. Each one of these research strategies in social science research has distinctive way of collecting and analyzing data, in accordance with its own logic (Yin, 2009). Also, all the strategies are associated with some merits and demerits. It is worth mentioning that history and archival analysis rely on previous data and as result, this discussion would address only archival records. The study used archival analysis as a surrogate measure for history since the two strategies share almost the same merits and demerits. The following are brief explanations of these research strategies.

**Surveys** are non-experimental strategies that neither control nor influence exogenous factors, but measure these factors and test their impacts through the application of statistical technique (Bhattacharjee, 2012). Even though surveys are focused basically to quantify some factual information, they also address qualitative information (Zikmund, 2010). There are two types of surveys; cross-sectional field surveys and longitudinal field surveys. In cross-sectional surveys, exogenous and endogenous variables are measured simultaneously, whilst in longitudinal field surveys, exogenous variables are measured first before the measurement of endogenous variables. The strengths of surveys lie in their capability to capture and control for a substantial number of variables and to study a problem using several theories or viewpoints (Bhattacharjee, 2012).

Another strength of surveys lies in external validity since data is gathered in field contexts. Aside their strengths, they are characterized by some weaknesses; internal validity (cause-effect associations) is difficult to infer and it may be subject to biases on the part of informants.

**Experiments** are studies that aim to test cause-effect associations in a firmly controlled context by isolating the cause from effect in time, managing the cause of one category of subjects (the treatment category) but not to another category (control category), and examining how the mean effects differ between the subjects in these categories. Experiments can be carried out in field settings such as in organizations where the subject of attention is truly happening (field experiment) or in laboratory or artificial context such as at a tertiary institution (laboratory experiment) (Bhattacharjee, 2012; Coolican, 2009). The basic strength of experiments lies in their powerful internal validity as a result of their capability to separate, control, and increasingly analyze a small number of elements. However, their weakness is connected to their inability to generalize in the sense that real life usually is complex than arranged laboratory context (Bhattacharjee, 2012).

**Archival analysis** is an analysis of data that has been collected and documented by other sources in the past. Such data may include business data, financial data from stock markets, government agencies data and so on. The strength of this analysis comes to the fore when primary data collection for a research is costly, time-consuming and not feasible. In this case, the availability of archival analysis is appropriate for addressing research questions (Bhattacharjee, 2012). It is associated with some limitations: 1) Data would probably not have been gathered in a systematic way and therefore, inappropriate for scientific enquiry; 2) Inasmuch as data was gathered for different reason, they might not sufficiently answer the research questions; and 3) internal validity is quite difficult to achieve if the sequential precedence between cause and effect is not clear (Bhattacharjee, 2012).

**Case study** can be defined as an empirical research strategy employed to examine a contemporary phenomenon, concentrating on the intricacies and dynamics of the case, within its real-life context (Yin, 2009; Roth, 1999). Case study is an ideal research strategy when contemporary events are investigated and there is no possibility to control the behavioral events (Teegavarapu & Summers, 2008). By comparing it with other social science research strategies discussed above, it is worth noting that case study research strategy is distinctive because although experiments and historical studies can address the same type of research question of case study, the latter does not address contemporary issues, while the former control behavioral events (Yin, 2009). Accordingly, it was deduced that case study research strategy was considered appropriate to address the study's problem and questions. The next section of this chapter thoroughly explains case study research strategy and the rationale behind its selection as the preferred research strategy for this study.

#### **5.4 Case study**

Case study method allows an investigator to thoroughly evaluate or examine data within a particular context. Yin (2003, p.13) defines a case study 'as an empirical inquiry that investigates a contemporary phenomenon within its real-life context; especially when the boundaries between phenomenon and context are not clearly evident'. To Yin, case study is applied in many circumstances to contribute to knowledge of individual, group or an organization. Case studies can also be applied in economic related topics such as investigating the structure of a given industry. Zaidah (2007) explains that case studies explore and examine contemporary real-life phenomenon through contextually analyzing a limited number of events and how they are connected. Dul and Hak (2008) also describe it as a study in which a single case or a smaller number of cases in their actual life context are being selected, and scores obtained from these cases are qualitatively analyzed. To the authors, a case study means a project whereby a theory-oriented or practice-oriented objective is developed and attained.

Yin (2009) categorizes case studies into three: Exploratory, descriptive and explanatory. First, exploratory case study explores any phenomenon in the data that is of interest to the investigator. With this case study, there will be a prior fieldwork before the study's research questions are proposed, and from this, a framework of the study can also be proposed. They are conducted when the researcher knows little about the phenomenon (Zikmund, 2010). Dul and Hak (2008) opine that in practice, an exploratory study aims at identifying other kinds of theory such as 'theories in use' rather than 'academic theories'. Theories in use are practitioners (manager, entrepreneur, policy maker, staff member, a team, company, business sector and so on) knowledge in terms of the object of the study, variables, hypotheses or propositions and a practice domain.

Yin (2009) contends a pilot study is regarded as an example of an exploratory case study and it is very important in crafting out the protocol that would be used for the main study. Other data collection methods in exploratory studies are literature review, expert surveys, personal interviews and focus group discussions (Zikmund, 2010). Even though it is the objective of a study that establishes whether it is explanatory, descriptive or exploratory, each data collection technique offers different ways of collecting data (Zikmund, 2010). The outcomes of this research usually highlight some pattern on the phenomenon that will possibly lay a foundation for developing theories, which can be subject to quantitative testing later on (Sekran, 2009). However, the main danger of this study is that the initial findings may seem more convincing to be released prematurely or early as conclusions (Yin, 2003). Corollary to this, exploratory studies ought to be followed by other studies to obtain more convincing and conclusive evidence (Zikmund, 2010).

Second, a descriptive analysis tries to portray how a phenomenon looks like. Zaidah (2007) posits that 'descriptive case study sets to describe the natural phenomenon which occurs within the data in question...'. The author further suggests that descriptive case studies may be in a narrative form. This particular study requires a theory to point the data collection in the correct order and this makes it less confusing than other types of research technique. It assists the investigator to analytically think, and to appreciate the characterizing features of a phenomenon in its natural setting (Sekaran, 2009). Cavana, Delahaye and Sekaran (2001) argue that expert panels, participant observations and surveys are the usual techniques to gather data in descriptive studies.

Descriptive research attempts to find answers to 'how', 'where', 'what', 'when', 'why' and 'who' questions (Zikmund, 2010). Questions that start with - *how*- deal mainly with the manner in which the objective of the study mirrors the techniques employed in carrying out the research (Dane, 1999). The *where* questions deal with both the social and physical environment in which a study is carried out. Further, questions that start with-*what*- essentially focus on the topic and underlying theory of the study. Dane (1999) continues to elaborate that the *when* questions take into consideration the timeline of a study. In regards to the 'why' questions, researchers basically have to concentrate on the rationale for carrying out the study. The *who* questions ask which people will play instrumental parts in carrying out the research-researchers, study participants and research customers.

Third, an explanatory case study also tries to analyze or scrutinize why and how something occurs or occurred. Here, a case study research question is more likely to be of 'how' and 'why'. The fundamental goals of exploratory study are to establish cause-and-effect associations between factors and by testing research propositions to establish the relevance of theories as well as the capability of specific theories to predict societal issues (Zikmund, 2010). Schell (1992) suggests there are two special cases where an explanatory case study can be used to test 'how' and 'why' questions: critical or strategic and deviant cases. The critical or strategic case seeks to evaluate the evidence for a conclusion emphasizing on the most favorable illustration of a specific issue. Schell (1992, p.5) explains that the deviant case "seeks to upset the adage that the exception proves the

rule, by showing how a general rule needs to be re-defined: If the rule isn't faulty, then at best it is only true in limited application". Even though the worth of exploratory research lies in internal validity and reliability, it paves the way for value-free atmosphere, which will probably not be appropriate for carrying out studies in management and marketing fields (McDaniel & Gates, 2006). Table 5.4 sets out a summary of the aforementioned studies and their relevance to business research.

**Table 5.4: A synopsis of exploratory, descriptive and explanatory studies in business research**

<b>Exploratory</b>	<b>Descriptive</b>	<b>Explanatory</b>
Familiarization of the essential facts, context and issues	Provision of a catholic, favorably precise situation	Testing of theoretical propositions
Development of broad state of affair about a phenomenon	Getting hold of new information that goes contrary to past information	Expatiating and augmenting an explanation of a theory
Formulating and concentrating on questions in regards to future study	Developing a set of classification types or groups	Extension of theory to fresh concerns or topics
Creating new issues, concepts or propositions	Systematic clarification of series of steps	Confirming or disconfirming an explanation or proposition
Establishing the viability of carrying out a study	Recording a causal procedure	Connecting issues with a wide-ranging principle
Creating approaches for measuring and getting hold of future information	Reporting on the background, profile, activities of a phenomenon in its natural setting	Establishing the best explanation among the numerous explanations.

Source: Adapted from Neuman (2010)

Yin (2009) argues that there is a common misconception among social scientists about the individualistic notion of the various research approaches. The author further suggests a pluralistic and inclusive notion of these research approaches, in that each technique can be applied to all three forms of research-exploratory, descriptive and explanatory- and to build and test theories. The selection of research approach is dependent on three main conditions; 1) the kind of research question put forward, 2) the degree of control an investigator possesses over real behavioral events; and 3) the extent of concentration on current events as opposed to past events (Yin, 2009). Table 5.5 portrays these three main conditions in regards to the selection of research strategies.

- Types of research questions:** The most relevant condition to strike out the differences among the various research approaches is to identify or establish the type of research question posed (Yin, 2009). Yin (2009) argues that the fundamental classification schemes for the forms of questions is the traditional series: 'who', 'what', 'where', 'how' and 'why'. The author further contends that certain types of questions that start with 'what' are exploratory and that as an exploratory research, any of the five research strategies can be applied-for instance, an exploratory case study, an exploratory experiment, or an exploratory survey. In the context of this study, the three research questions posed essentially begin with *what*.
- Degree of control a researcher possesses over real behavioral events:** Having discussed that certain 'what' questions can be applied in exploratory studies, it is imperative to further discuss the extent of control a research has over actual behavioral events. Case study is more desirable in examining real behavioral events, but when important behavioral events are free from manipulation (Yin, 2009). In the context of this study, past and present chief executives and board chairpersons, board members, shareholders and officials of SEC and GSE were interviewed in their natural setting. The interviews basically centred on corporate governance practices in the four-publicly listed corporate organizations. As mentioned earlier, these interviews were carried out

in the interviewees natural setting; implying that there was an absence of any degree of control by the researcher over the real behavioral events of the study.

- **The extent of concentration on contemporary events as against past events:** Even though case study is dependent on many of the approaches applied in history, it includes two data collection techniques, which are not normally included in historical studies: Direct observation of the events being explored and interviews of the individuals who are involved in the events (Yin, 2009). Further, in some circumstances case study and histories overlap, but the former's unique strength lies in its knack to deal with lots of evidence-interviews, archival records, artifacts and observations- as compared to the latter (Yin, 2009). In this study, a multi-method strategy was employed-interviews, direct observation and archival records- to gather a catholic and adequate data on how corporate governance is practiced in the four corporate organizations. Also, even though the study took into consideration the past corporate governance practices of the corporate organizations, the main goal of the study was to explore and describe their current corporate governance practices.

**Table 5.5: Conditions for selecting a research design**

<b>METHOD</b>	<b>Form of Research Question</b>	<b>Requires Control of Behavioral Events?</b>	<b>Focuses on Contemporary Events</b>
Experiment	how, why?	Yes	Yes
Survey	Who, what, where, how many, how much?	No	Yes
Archival Analysis	who, what, where, how many, how much?	No	Yes/no
History	how, why?	No	No
<b>Case study</b>	<b>how, why?</b>	<b>No</b>	<b>Yes</b>

Source: Yin (2009, p. 8)

In wrapping up, the case study approach was employed in this study. The rationale behind this decision was that this type of approach, unlike other approaches, adds two sources of evidence: Direct observation of the events studied as well as interviews of the individuals engaged in the events (Yin, 2009). Also, it is distinctive in the sense that it has the capability to deal with lots of evidence. For example, documents, interviews, observations as well as artefacts. Lastly, since this study's aim was to 'get under the skin' of companies to examine what is happening in regard to their corporate governance practices, which can only be noticed from within (that is, to scrutinize the case from the inside out) these companies, it was deemed appropriate to employ this approach.

Further, from the above discussed case study approaches, this study made use of both exploratory and descriptive case study approaches since the area being studied has not been extensively explored and examined within the context of the study. Tricker (2000) suggests that exploratory and descriptive case study approaches should be applied or employed in corporate governance studies where theories are still in development. It is even less developed in developing countries especially, African economies (McNulty *et al.*, 2013; World Bank, 2000; Akinboade & Okeahalam, 2003).

#### **5.4.1 Types of case study design**

Having discussed the justifiable rationale behind the adoption of case study as the most preferred strategy for this study, this section will be dedicated to discussing the two main types of case study

designs: Single-case study and multiple-case study. On the one hand, the single-case study will be discussed based on its holistic and embedded nature; single-case (holistic) and single-case (embedded) (Yin, 2009). Multiple-case study, on the other hand, will be discussed on the basis of how holistic or embedded it is; multiple-case (holistic) and multiple-case (embedded). It is worth mentioning that the selection of any one of these case study designs is dependent on the sort of questions and objectives a study poses and how they are to be addressed (Xiao, 2010). Table 5.6 below highlights the two main case study types and their characterizing qualities.

**Table 5.6: Types of case study design**

	Single-case study (I)	Multiple-case study(II)
Holistic (single-unit of analysis) (I)	Type I	Type III
Embedded (multiple units of analysis) (II)	Type II	Type IV

Source: Adapted from Yin (2003; 2009)

The table above shows four main types of designs of case studies; single-case study (holistic) (Type I), single-case study (embedded) (Type II), multiple-case study (holistic) (Type III) and multiple-case study (embedded) (Type IV) designs. This clearly demonstrates that a case study research may involve the investigation of a single unit of analysis (holistic case study) or multiple units of analysis (embedded case study)

When a single case study investigates only the global nature of a phenomenon, a holistic case study design is applied, but when sub-units are examined in a single context, an embedded single case study is employed (Fletcher & Plakoyiannaki, 2010). The application of *type II* suggests that an equal attention ought to be accorded to both the subunits and the case at large. However, inasmuch as the application of a single-case study design is associated with some benefits in regards to setting out an unambiguous focus on its unit of analysis as well as assisting researchers to succeed in appreciating a phenomenon in its natural setting comprehensively, investigators are warned about the possible shift in the focus and/or kind of a study in the course of execution (Xiao, 2010). Yin (2009) points out five main rationales for an application of a single case research design. First and foremost, it is applied if the case's goal is to capture the conditions and circumstances of an everyday or commonplace scenario. Second, if the case represents an *extreme case* or a *unique case* in which a particular situation will probably be so rare that any single case is useful documenting and examining. Third, if it represents a *critical case* in testing a well-constructed theory whereby the theory has an unambiguous set of theoretical propositions and the conditions within which the propositions are considered to be factually accurate. In this situation, a single-case study can be applied to confirm, challenge, or extend the theory (Yin, 2009). Fourth, if there is a *revelatory case* in which a researcher is enthralled into analyzing a phenomenon formerly inaccessible to scientific enquiry. Fifth, if a case is *longitudinal* in nature, single-case study is applied to study the same case at two or more differing points in time.

The above discussion on single-case study vividly highlighted that a single-case research design was not applicable to this study in that the nature of this study did not satisfy any of these justifiable rationales. Corollary to this, the study then turned its focus on multiple case study research design and whether it was applicable to this study. There is a general agreement in the literature that an application of a multiple-case study design offers the best capabilities for testing theories or theoretical propositions in the sense that it allows investigators to methodologically compare differences between/among cases (Bleijenbergh, 2010). Even though theoretical propositions can be formulated from a single-case study, a much powerful conceptual argument can be generated with a multiple-case study design (Foley, 2010). Unlike a single-case study, multiple-case study design uses many instruments and bounded cases are analyzed using multi-method data

collection technique (Chmiliar, 2010). It offers results that are much powerful (Parkhe, 1993) and robust (Herriot & Firestone, 1983).

Multiple case studies may have one unit or several units of analysis, but the selection of the unit of analysis is dependent on the need to establish and describe the object (s) the investigator is interested, and considers them useful in addressing his/her research problem (Fletcher & Plakoyiannaki, 2010). Practically, the unit of analysis will possibly be obtained from three differing levels; individual, group and/or organizational. Whilst holistic case design involves a single unit of analysis, embedded case study design involves several units of analysis (Fletcher & Plakoyiannaki, 2010; Yin, 2009). This implies that an investigator can include subunits such as departments, faculties, organizations, teams, group of individuals and regulatory bodies (Chmiliar, 2010; Yin, 2010; Zikmund, 2010; Teegavarapu & Summers, 2008). In the context of this study, a multiple-case research design with a multiple unit of analysis was employed to select three units of analysis namely; management body, board of directors and shareholders of corporate organizations. This implies that *Type IV* in accordance with the categories portrayed in table 5.1.2 was chosen to address the study's research problem and questions.

#### *Case selection*

Stake (1994) suggests three main types of case study: Intrinsic case study, collective case study and instrumental case study. The author describes an intrinsic case study as:

...not undertaken primarily because the case represents other cases or because it illustrates a particular trait or problem, but because in all its particularity and ordinariness, [the] case itself is of interest....The purpose is not to come to understand some abstract concept or generic phenomena...The researcher temporarily subordinates other curiosities so that the case may reveal its story (p. 237).

Collective case study is where a variety of cases is studied together in order to investigate the phenomena, population, or general setting. On the other hand, Instrumental case study is used to achieve something other than a specific situation (Baxter & Jack, 2008). It provides an insight into an issue or theory refinement. Stake (1995, p.237) contends that "the case is of secondary interest; it plays a supportive role, facilitating our understanding of something else". The case often looks at in-depth, its context scrutinized, its ordinary actions detailed, since it assists the researcher to pursue his/her external interest. This case is chosen when there is a presence of a research question and puzzlement. Patton and Appelbaum (2003) describe the instrumental case as a strategic case selection.

Since this study was interested in gaining an insight and understanding of corporate governance practices in Ghana, the instrumental case was applied. Stiles and Taylor (2001) argue that corporate governance is an issue in listed corporate entities where the idea of ownership and control, which rest at the center of the corporate governance discourse, will surface. Listed corporate entities are likely to have widely dispersed ownership since they have the propensity to create capital from a very large number of capital providers. These corporate entities have the tendency to be large. In the context of this study, large corporate entities that are listed on Ghana Stock Exchange (GSE) based on Ghanaian standard were selected.

The selection of cases is significant facet in case studies. For instance, in order to control extraneous variation as well as to help define the limits for extrapolating the findings, the selection of more suitable cases is deemed necessary (Eisenhardt, 1989a). Meanwhile, sampling cases from a selected population is rare in theory building (Eisenhardt, 1989a) or theory testing with regard to case studies. As a result, the study employed a criterion-based sampling technique where cases were selected to provide rich evidences, but not for statistical reasons. The rationale behind this



selection was that this technique furnishes the investigator a combination of circumstances to alter the emphasis of the study at early stages so that the data collected are a mirror image of what is happening in the field rather than conjecturing about what is supposed to have taken place (Coyle, 1997; Glaser, 1978; Straus & Cobin, 1990). Thompson (1999) posits that sampling technique in qualitative study is guided not by the need to generalize about something, but somewhat by the need to select subjects and data possible to produce robust, rich and unfathomable levels of appreciation. Sampling for qualitative case study is about suitability, objective and access to adequate information rather than representativeness as in the case of quantitative research (Bleijenbergh, 2010; Fletcher & Plakoyiannaki, 2010).

In order to apply the criterion-based sampling technique in this study, the various companies in Ghana were categorized in terms of their sizes as depicted in Table 5.7 below. This grouping was based on the National Board of Small Scale Industries (NBSSI) categorization of companies in Ghana.

**Table 5.7: Classification of Companies in Ghana**

	<b>Micro</b>	<b>Small</b>	<b>Medium</b>	<b>Large</b>
<b>Number of Workers</b>	1-5	6-29	30-99	Above 100
<b>Value of fixed Assets (US \$)</b>	Not exceeding 10,000	Not exceeding 100,000	Equal to 100,000	Exceeding 100,000

**Note:** Value of fixed assets excludes land and building

Source: National Board of Small Scale Industries

Even though there are many large companies in Ghana, this study limited itself to those large companies that are listed on the GSE. Large companies are those that employ more than 100 workers and have a value of fixed assets exceeding US\$100,000. The rationale was that selecting cases with same characteristics retains theoretical flexibility, constrains extraneous variation and sharpens external validity (Eisenhardt, 1989a).

At the beginning of the research, the strategy was to cover all large corporate organizations listed on the Ghana Stock Exchange. Accordingly, these companies were contacted and their authorities concurred to participate. But when it was time for data collection, most of these companies were reluctant to cooperate, and without spending much time wooing them, the researcher thought it wise to proceed to collect data from the four (4) companies that were willing to cooperate, since generally, for a case study research, between four and ten cases are considered appropriate. This is because; fewer than four cases are too few to provide the necessary and adequate evidence, while more than ten cases are not needed (Eisenhardt, 1989a). Therefore, the requirement for adequacy of evidence was realized in this study. In each of these cases the researcher interviewed individuals that were rich in information regarding the practice of corporate governance in corporate organizations. Thus it can be judged that the cases were wholly representative of the population.

### **Summary of the research design**

Research design ultimately consists of a logical sequence that serves as a nexus between empirical data and the study's initial research questions and eventually, to its conclusion (Yin, 2003). It also deals with the whole purpose of the study (Maxwell, 1996). In case study research method, a catalog of research design has not yet been developed (Yin, 2003). To Yin (2003), there are no textbooks that encapsulate the various research designs for quasi-experimental circumstances. The most important constituents of a case study research design are: a) the study's question, b) the propositions of the study; c) the units of analysis; d) the logical sequence that links the data to the propositions, and e) the benchmarks for implementing the findings (Yin, 2003). Each of these constituents is dealt with in the subsequent sections.

### ***Research question***

The conceptual part of this study was addressed by identifying the central research question. Case study research is connected to ‘how’, ‘why’, and ‘what’ questions. The study attempted to explore the driving forces of effective corporate governance by highlighting the prevailing corporate governance practices in Ghana. In consequence, the primary question that was identified was ‘what are the driving forces of effective corporate governance in Ghana?’ From this, the following sub-questions were asked ‘what are the concepts available in the extant literature that are suitable for evaluating the effectiveness of corporate governance in Ghana?’, ‘what is the prevailing condition in regards to corporate governance effectiveness in Ghana, and the elements that drive this effectiveness?’ and ‘what significant issues could be suggested as auxiliary for further development of corporate governance in Ghana?’ (See section 1.5). The study answered these questions by employing a case study research as a conduit to appreciate nature and the usage of the theories of corporate governance.

### ***Study propositions***

Propositions are statements that specify the relationship among concepts (Dul & Hak, 2008). These put the study’s focus on certain concerns that ought to be explored and examined within the scope of the study. Yin (2003) opines that propositions reflect relevant theoretical issues and evidence about an individual(s). Without propositions, case studies may be difficult, because a researcher might be fascinated to cover ‘everything’, which is impossible to conduct. Propositions assist in narrowing down the scope of the study. Yin (2003, p.23) posits “the more a study contains specific propositions, the more it will stay within feasible limits”. In order to connect the research questions to the conceptual framework (see figure 4.1.1) to find answers to sub-question two (see section 1.5.1), five propositions were coined and examined (see section 4.7).

### ***Unit of analysis***

The unit of analysis is a constituent or component that is connected to the central problem of what the case is to the researcher. In case study research, the researcher ought to be able to identify the unit to be analyzed be it individual, a group, department or an organizational level (Yin, 2009; Teegavarapu & Summers, 2008). In the current study, the unit of analysis was limited to management body, board of directors and shareholders of corporate organizations. Relevant information of each individual case was collected and each individual case was included in a multiple case.

### ***Linking the data to propositions and interpreting the findings***

The fourth and fifth constituents of a case study research design are the logical linkage of data to propositions and interpretation of the study’s findings. The two constituents suggest or foretell the stages in data analysis in case study research and how the research design lays a solid groundwork for the analysis (Yin, 2003). Linking data to propositions can be done in so many ways, but Campbell (cited in Yin, 2003) suggests the idea of ‘pattern matching’ which is considered to be one promising approach for case study research. This technique of analysis in case study research links data to the propositions. Different patterns can be clarified based on assessing two or more differing propositions. Accordingly, this study linked data that were collected to the propositions and finally, interpreted the findings.

## **5.5 Role of theory in research design**

After the coverage of these five components of research design, the next step will definitely result in the development of initial theory that will be connected to the study. Yin (2003, p.29) posits, “...for case studies, theory development as part of the design phase is essential, whether the ensuing case study’s purpose is to develop or test theory”. The theory should not necessarily be considered

to be a grand theory or for the researcher to become a master in theory development, but it can be a sufficient blueprint for the study.

Yin (2009) suggests that there are four theories that a researcher ought to consider in case study research namely, 1) individual theories consisting theories of individual development, cognitive behavior, personality, learning and disability, individual perception and interpersonal skills; 2) group theories consisting theories of family functioning, informal groups, work teams, supervisory-employee relations and interpersonal networks; 3) organizational theories such as theories of bureaucracies, organizational structure and functions, excellence in organizational performance and inter-organizational partnerships; and 4) societal theories such as theories of urban development, international behavior, cultural institutions, technological development and marketplace functions.

Development of theory in case studies will probably be constructed through an application of inductive or deductive reasoning (Packer, 2011; Zikmund, 2010; Gerring, 2007; Goulding, 2002). On the one hand, inductive approach of reasoning is a logically coherent manner of constructing a general proposition based on observing specific facts. It would possibly be derived from an extant framework imposing guidelines for the generation of specific appreciations (Kompf, 2010). On the other hand, deductive reasoning is a logically coherent manner of drawing a conclusion from a known premise or statement of fact by moving from a general assertion to a particular statement. This implies that these two reasoning approaches are on the same coin. However, even though they are usually considered as separate, it is in contention that in case study research, these two reasoning approaches are vague and mutually valuable in theory generation (Harlow, 2010, Zikmund, 2010). Table 5.8 below highlights the disparities between these two logical reasoning techniques.

**Table 5.8: Major disparities between inductive and deductive reasoning**

Inductive reasoning	Deductive reasoning
<ul style="list-style-type: none"> <li>• An extensive appreciation of the context of the study</li> <li>• The gathering of qualitative data</li> <li>• The awareness that the researcher is an integral part of the study</li> <li>• Less emphasis on generalization</li> <li>• There is some amount of flexibility that allows the researcher to alter the focus of the study as he/she progresses</li> <li>• Gaining a comprehensive appreciation of the importance human beings attach to events</li> </ul>	<ul style="list-style-type: none"> <li>• Highly structured technique</li> <li>• Independence of the researcher of what is being studied</li> <li>• Explains causal associations between variables</li> <li>• The gathering of quantitative data</li> <li>• Operationalization of concepts in order to ensure clearness of definitions</li> <li>• The relevance of selecting samples that are sizeable to make inferences</li> <li>• Requires scientific principles</li> <li>• It moves from theory to data</li> <li>• Intensification of controls to ensure data validity</li> </ul>

Source: Adapted from Saunders, Lewis & Thornhill (2009)

Case study research is characterized by some elements that permit both theory building (induction) and testing of theory (deduction) (Bhattacharjee, 2012). But it is contended that case study research ought to be made up of unadulterated induction (Eisenhardt, 1989a). Nonetheless, many researchers have advocated that case study research ought to merge both theory building and theory testing in that these two processes are critical for the advancement of science (Bhattacharjee, 2012; Zikmund, 2010). Accordingly, this study took a balanced perspective in that ‘[e]legant theories are not valuable if they do not match [up] with reality’ (Bhattacharjee, 2012, p. 4). Also, ‘pure induction

might prevent the researcher from benefiting from existing theories, just as pure deduction might prevent the development of new and useful theory' (Perry, 1998b, p. 789). Logically, a complete investigator is the one that can pass through the entire cycle of the research and can merge both theory building and theory testing approaches.

In order to achieve an effective combination of these two procedures in research, three possible approaches have been suggested (Nair & Riege, 1995). First and foremost, preliminary and convergent interviews with professionals are usually included in a research strategy particularly, during the literature review stage of a study (Carson, Gilmore & Gronhaug, 2001). This approach was achieved at the initial stages of this study in that professionals or practitioners were interviewed in relation to corporate governance practices in corporate organizations. Also, initial information on corporate governance practices was divulged during the literature review stage of this study.

Secondly, one or two pilot studies can be carried out to tweak the case study protocol before the actual data gathering (Yin, 2009). A pilot study can also be conducted to revise and enhance the initial conceptual framework of a study. Consequently, prior to the construction of the final conceptual framework and actual data gathering, a pilot study was carried out to revise the initial conceptual framework and to prepare the interview guide to steer and direct data gathering. The final approach of merging theory testing and theory building involves initial interviews during the verification and non-verification stage with unstructured questions as opposed to probe questions developed from prior theory. This was accomplished in the descriptive stage of this study. Primary data from the four corporate organizations was gathered through an application of semi-structured interviews, as steered and directed by the case study protocol.

## **5.6 Sources of data and data collection techniques**

Yin (2011) posits that data gathering for qualitative study typically engages the researcher to relate with a phenomenon in its real-world context and the individuals in them. Data collection ought to be directed by a case study protocol (See Appendix 1). This protocol forces the study to spell out in detail how it plans to answer the research questions. Rowley (2002) suggests that case study protocol needs to include three main sections: 1) an overview of the case study project; 2) field procedures such as the use of disparate sources of information and access arrangements to these sources; and 3) the case study questions or the questions that the researcher needs to keep in mind when collecting data.

Usually, case studies draw on multiple sources of evidence. These include documents, archival records, interviews, observations (direct or participant) and physical artifacts. Rowley (2002) points out three (3) principles of data collection in case study that this study followed: triangulation, case study database and chain of evidence. Triangulation is one of the major strengths of case studies as compared to other methods (Rowley, 2002) since it is of significant importance for 'interpreting, embedding and validating results' (Huse et. al., 2011, p. 21). With this principle, evidences are collected from multiple sources. This technique therefore, serves as validity procedure to fashion out categories and themes in a study (Creswell & Miller, 2000).

Furthermore, the study made use of a case study database during data collection. This was to ensure that the unprocessed data were available to other researchers. Davis (2010, p.79) asserts that '[a] formal case study database not only enables researchers who are not involved in the case study project to juxtapose data collected and cited in the database with claims made and conclusions drawn, but such a database also increases the reliability of the overall case study'. Therefore, the preparation of reliable and practical case study database for further analysis was imperative for ensuring accurateness of the data gathered and analysis. Following Davis (2010), the study's case

study database included notes that were made by the researcher, case study documents collected during the entire period of the study, case study tabular materials and case study narratives. The notes that were taken included messages gathered from interviews, observations and document analysis compiled throughout the entire research. Case study document was also gathered by the researcher by developing an annotated bibliography. Furthermore, tabular materials were obtained from quantitative data from each of the companies' annual reports such as percentage shareholdings of shareholders, company performance and other quantitative records. Lastly, the researcher employed case study narratives in documenting the answers to the various questions in the case study protocol. This was done by footnoting important evidences from the archival records, interviews and observations.

Finally, the researcher required maintaining a chain of evidence that would be easily accessible in the database. This was important because with this technique, an explicit link among the various questions that were asked, the data collected and the conclusions that were drawn was established. This followed Rowley (2002) suggestion that, data that are collected should follow the protocol and link the protocol questions, and at the same time maintain transparent propositions.

Based on the aforementioned three principles, the study employed three main sources of data collection: Archival records, interviews and observations.

#### ***Archival records***

Patton (1990, p.245) posits that archival records “analysis provides behind-the-scenes look at the program that may not be directly observable and about which the interviewer might not ask appropriate questions”. Lincoln and Guba (1985, p.27) also viewed archival records as “a stable source of information.....[in] that they may accurately reflect situations that occurred at sometime in the past and that they can be analyzed and re-analyzed without undergoing changes in the interim”. Prior to this research, archival research on secondary resources such as the corporate organizations' annual reports, prospectuses, extracts from internal memos and circular to shareholders helped the researcher to draw a firm profile and delineate each firm's recent history and performance. Additional information on each company was gathered from publications and company's press releases. As the knowledge and know-how of board of directors could contribute to explaining board effectiveness, additional quest helped the researcher in highlighting the professional backgrounds of most of the directors. Following other works (such as Baysinger & Zardkhoni, 1986; Hillman *et al.*, 2000; Ravasi & Zattoni, 2006), board directors were grouped on their presumed strategic roles as controllers of decisions (ie. representative of shareholders), executive directors, business experts and supporting specialists such as lawyers, bankers and other professionals. Data from the Ghana Stock Exchange on the companies were also referred to. These archival records helped corroborate and support the various evidences collected during the interviews.

#### ***Interviews***

Since “interviews are a ubiquitous way of collecting data throughout the social sciences” (Packer, 2011, p.42), the researcher conducted interviews to elicit information for the study's analysis. Interviews were conducted face-to-face with company directors, senior management, company secretaries and shareholders. Also, in order to attain historical data, past executive and non-executive directors of the company were interviewed to offer extra insight into the operations of the corporate organization in regards to corporate governance practice. The selection of this study's informants was aimed at: 1) Collecting data from respondents who were in a better position to offer rich information with regards to corporate governance; 2) capturing different views on board-related issues as well as company operations; and 3) minimizing the risk of selecting biased representation. Goulding (2002) posits that in a more realistic manner, a qualitative case study

research has to employ a face-to-face semi-structured, open-ended, ethnographic, in-depth conversational interview. The justification is that it has the possibility to produce rich and comprehensive accounts of a person's experience. It also allows interviewees to articulate themselves in a more candid manner to define the world from their own viewpoint, not only from the viewpoint of the investigator.

In the context of this study, interviewees were asked about how they carry out their various activities in relation to the topic in hand (corporate governance). Since semi-structured interview has recently become the workhorse of qualitative research (Packer, 2011), the study's interviews took the structure of semi-structured interview. Appendix 2 contains a set of questions that were asked during the interview session. Interviews with officials of the regulatory bodies such as the Ghana Stock Exchange (GSE) and Ghana Securities and Exchange Commission (GSEC) were also conducted in order to gain more insight into the subject matter. The various interviews that were conducted were tape recorded and transcribed immediately after each session. Following suggestions from Miles and Huberman (1994) as well as Ravasi and Zattoni (2006), transcriptions were reinforced by contact summary sheets and interview notes (such as report of important data, vital issues cropping up from the interviews as well as detailed quotations). Even though interviews were mostly carried out in English, some were also carried out in Akan (one of the local languages in Ghana). However, during the reporting stage, the quotations from the interviews that were carried out in the local language were translated into English.

### ***Observation***

Observation, as a data collection technique means an active engagement with a phenomenon in its natural setting. It 'can be an invaluable way of collecting data because what [the researcher] sees with [his/her] own eyes and perceive with [his/her] own senses is not filtered by what the author of some document might have seen' (Yin, 2011, p.143). Adler & Adler (1994) point out that the trademark of observation is its non-meddling feature that lessens any intrusion in the behavior of those observed, neither wangling nor provoking them. For this study, the researcher had direct experience of how corporate organizations conduct their annual general meetings. This observation involved two main components: 1) Observation of how corporate governance structures are put to use during the companies' annual general meetings as well as recording the observation in a set of field notes; and 2) subsequent interviews were conducted with selected shareholders to aid in cross-examining and member checking for data quality of the field notes. The role of the researcher was to observe how these corporate organizations carry out their annual general meetings. During these meetings, the researcher recorded the events that occurred in a set of field notes. These events were also tape-recorded. Following Merriam (1988, p. 98-99), vital issues were recorded in the field note: Descriptions of the event, the individuals involved; 'activities and interactions'; quoting directly or a gist of what participants said; and 'observer comments'.

The researcher paid a critical attention to voting on key decisions, how decisions were taken during such meetings, how minority shareholders were allowed to ask questions, election of board members, how board members reacted to minority shareholders' questions vis-à-vis majority shareholders questions and other gamut of actions. Subsequent interviews with shareholders who were present during such meetings offered an additional strategy to minimize researcher bias in regards to the data gathered from the observation. This offered the purpose of member checking and cross examination in that, it helped in evaluating the accurateness and quality of field notes and the researcher understanding of the activities and behaviors that prevailed during such meetings.

#### ***5.6.1 Summary of data collection techniques***

This study employed three sources of data collection techniques to gather data. All the three techniques complemented themselves. Each technique gathered different forms of data and had

helped the study in one way or the other. The main aim for data collection was to create a storehouse of information upon which the researcher could answer the research questions of the study, particularly specific research question 2. This multi-approach system was used to maximize the series of available information to the researcher, enhance data credibility as well as to offer a source for triangulation among these methods. Each of these methods had its strengths and weaknesses, and by employing a combination of methods, the weaknesses of one method were substituted by the strengths of another. This combination also offered the researcher differing views about the subject matter. Table 5.9 below depicts a summary of the techniques and their associated contributions to this study.

**Table 5.9: Summary of data collection techniques and their contributions to the study**

<b>Data technique</b>	<b>Type of data</b>	<b>Contribution</b>
Archival records	Textual data in the form of annual reports, prospectuses, extract from internal files, circular to shareholders and data from the regulatory bodies.	Offered firm profile and described each firm's recent history and performance. Helped corroborate and support the various evidences collected from other sources. It provided the researcher with the companies' histories, performances, ownership structures and shareholdings.
Interviews	Data related to ownership structure, ownership control, board of directors, board effectiveness and board control.	Produced rich and comprehensive accounts of the interviewees' experiences. It also allowed interviewees to articulate themselves in a more candid manner to define the world from their own viewpoint, not only from the viewpoint of the inquirer. It helped the researcher to gain a vivid understanding about the companies' governance structures.
Observation	Textual data in the form of field notes of the researcher-description of events, the manner in which individuals were involved in their activities and interactions, gist of what participants said and observer comments.	Helped the researcher to have direct experience with how corporate organizations conduct their annual general meetings. It furnished the researcher on how voting were done during annual general meetings, how decisions were taken during such meetings, how minority shareholders were allowed to ask questions, how board members were elected, how board members reacted to minority shareholders' questions vis-à-vis majority shareholders questions and other series of actions.

Source: Author's construct

Even though archival records were first examined by the researcher, data collection was in actual sense an iterative and interactive method employing all three sources of data. For instance, the archival records offered the researcher historical backgrounds of the companies, but these information gained weight through the introduction of other sources of data. During the interview session, relevant and interesting developments cropped up that helped the researcher. These developments were not available in the archival records. Also, interesting developments were highlighted during the observation session in that, some information that were gathered from the interviewees were in contradiction to what prevailed during annual general meetings. Below is a summary of how data were collected from the four corporate organizations.

#### ***Ghana Commercial Bank Ltd. (GCB)***

This case study was carried out in April 2012 and extra data was collected in August 2012. In all, twelve people were interviewed: one executive director, two non-executive directors, the company secretary, and two officers of the Ghana Stock Exchange and the Securities and Exchange Commission of Ghana. Shareholders of the corporate organization were also interviewed: two institutional representatives and two individual shareholders. Other people who have knowledge about the corporate organization were interviewed informally. Past executive and non-executive directors of the company were also interviewed to offer extra insight into the operations of the corporate organizations in regards to corporate governance practice. Observation of the firm's

annual general meeting was carried out in 2012. An examination of the firm's video recordings of previous years' annual general meetings was conducted. Records of the firm that were referred to included annual reports, prospectuses, extracts from internal files and circular to shareholders. Data from the Ghana Stock Exchange on the company were also referred to.

#### ***SIC Insurance Company Ltd. (SIC)***

This case study was carried out in May 2012 and extra data were collected in August 2012. Thirteen people formally participated in the interview session: one executive director, two non-executive directors, the company secretary, two officers of the Ghana Stock Exchange and the Securities and Exchange Commission, two representatives of institutional shareholders, three individual shareholders, and two past executive and non-executive directors. Informal interviews were also conducted to get more insight into the operations of the corporate organization from the citizenry. Observations of the company's annual general meeting were conducted in 2012. Also, footages of the company's previous years' annual general meetings were examined to get more insight into the operations of the company. Records of the firms such as annual reports, prospectuses, extract of internal files and circular to shareholders were examined. Data about the company from the Ghana Stock Exchange were examined.

#### ***UT Bank Ltd.***

This case study was conducted in June 2012 and additional data were collected in September 2012. Data were collected from interviews, observations and archival records. Formally, ten people were interviewed: the company's board chairperson, two non-executive directors, the company secretary, two officials of the Ghana Stock Exchange and the Securities and Exchange Commission of Ghana, two institutional representatives and two minority shareholders. Observations were carried out during the company's annual general meeting in 2012. Footages of the firm's previous years' annual general meetings were requested and examined. Archival records such as the company's previous annual reports, extract from internal files, circular to shareholders and prospectuses were requested and examined. Additional data to give insight into the operations of the company in relation to corporate governance practice were provided by the Ghana Stock Exchange.

#### ***Accra Breweries Ltd. (ABL)***

This case study was conducted in July 2012 and additional data were gathered in September 2012. In all, seven people partook in the interview session: the company's board chairperson, the managing director, the company's secretary, two officers of the Ghana Stock Exchange and the Securities and Exchange Commission of Ghana and two individual shareholders. Observations were also conducted during the company's annual general meeting. Footages of the company's previous years' annual general meetings were requested and examined. Archival records such as the company's previous annual reports, extract from internal files, circular to shareholders and prospectuses were demanded and examined. Additional data to give insight into the operations of the company in relation to corporate governance practice were provided by the Ghana Stock Exchange.

### **5.7 Analyzing case study evidence**

Analyzing case study evidence is one of the least developed and the most difficult facets in case studies (Yin, 2003). This is as a result of the multitude of different evidence from different sources. Rowley (2002) asserts data analysis in case study is basically to examine, categorize and tabulate evidence to evaluate whether the evidence supports the initial propositions of the study or otherwise.

Even though there is no agreed procedure in analyzing a case study results, there are a number of components that is often times found in most reports. The report ought to be coherent with the



event, program, situation or activity under study, and how the study effort is bounded by time and space (Hancock & Algozzine, 2006). Rowley (2002) suggests four main principles whereby a good case study analysis should adhere to: 1) The analysis ought to make use of all the significant evidence; 2) the analysis ought to take into consideration all the major rival interpretations and at the same time examine each of them; 3) the most relevant facets of the case study should be tackled in the analysis; and 4) the researchers prior knowledge should be drawn, but in an unbiased and dispassionate manner. Consequently, the study adhered to these four principles in analyzing the data that were gathered during the data collection period.

Case study analysis typically involves detailed case write-ups for each case (Eisenhardt, 1989a). Those write-ups are often simply pure descriptions but they are central to the generation of insight (Gersick, 1988; Pettigrew, 1990). The study relied on theoretical propositions and the development of a case description for its analysis. With this, there was a descriptive framework for organizing the case study while following the propositions. Descriptions included narratives of the companies' histories, tabular presentation of the companies' performance and the ownership structure. Shareholders' identities were also provided. Finally, the data were summarized qualitatively in that, data acquired from each case were compared with other cases, and that resulted in the creation of four studies in one and one study from four.

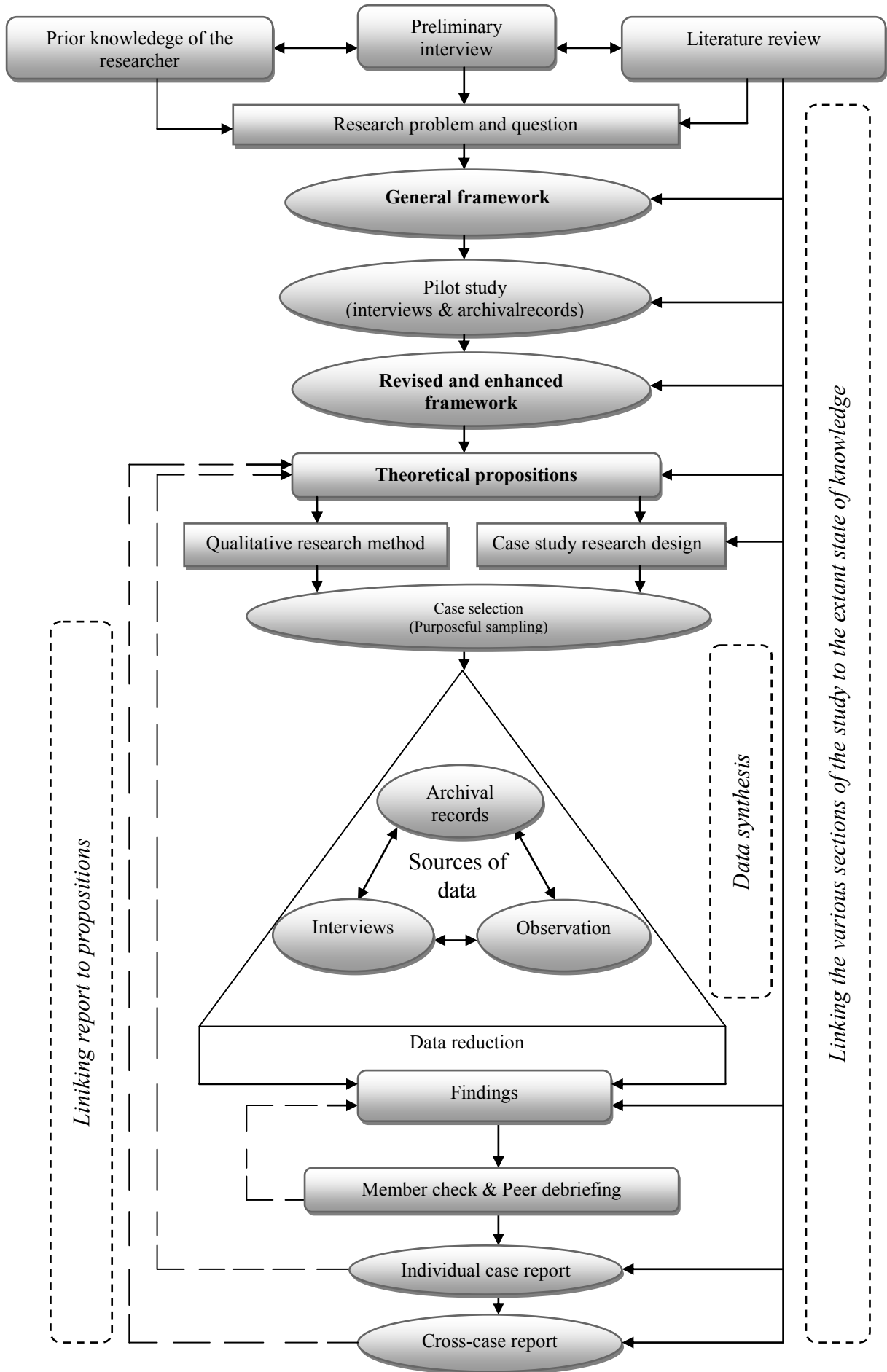
### **5.8 Methodological framework of the study**

The strategy of the research offered the overall methodological framework for a systematic study that addressed the study's objectives and questions. This section of this chapter summarizes the overall design, activities and sources of data for this research approach. Figure 5.2 below illustrates the methodological framework that was employed in this study. This methodological framework mirrors the sequential flow from preliminary activities that introduced the study and the development of the general model of corporate governance (see fig. 4.2) through to the pilot study (See section 4.6), the development of the final conceptual framework (see fig. 4.3), the formulation of theoretical propositions, the application of multi-method data collection technique and the report writing.

- *Preliminary activities:* For a justification and initiation of this study, the researcher:
  - ✓ Integrated his prior knowledge about corporate governance into the initial general model of corporate governance.
  - ✓ Conducted preliminary interviews with experts and professionals of corporate governance-business professionals and academics.
  - ✓ Carried out an extensive review of the extant body of knowledge on corporate governance, theoretical perspectives of corporate governance, models of corporate governance and previous studies on corporate governance.
- *Development of the general model of corporate governance-*Through an extensive review of the extant literature, preliminary interviews with practitioners and academics of corporate governance and the researcher's prior knowledge about the subject matter, a general model of corporate governance was constructed to serve as an initial guiding framework for this study. After the development of this model, the researcher reviewed the practice of corporate governance in the context of developing economies via-a-vis the various corporate governance mechanisms found in the extant literature. Thereafter, some interesting conclusions were drawn.
- *Pilot study-* A pilot study was carried out to verify the conclusions that were drawn from the review the researcher conducted by comparing corporate governance practice in Ghana and that of the various mechanisms of corporate governance. The pilot study supported the researcher's conclusion that, only two mechanisms namely, the ownership structure and board of directors work in the Ghanaian context.

- *Revised and enhanced conceptual framework-* After the pilot study had corroborated the conclusions drawn from the extant literature by the researcher; the final framework of the study was developed.
- *Theoretical propositions-* Subsequent to the development of the study's conceptual framework, five testable propositions were formulated. This stage also brought out the definitions of the variables that were included in the conceptual framework.
- *Data Collection, data reduction and data analysis-*The researcher gathered the necessary and sufficient data to address the study's research sub-question 2 by employing multi-method technique of data collection and evidence. Data were coded by the researcher as a method of data reduction. Amalgamation/aggregation of data was done by comparing and cross-checking data from their sources.
- *Findings-* The findings of the study were reported.
- *Member checking-* The findings were communicated to the informants and professionals to engage them again to respond and comment on the collected data and findings in connection with their exactness and quality. This procedure added credibility to the study by given respondents the opportunity to act in response to both the data and the ultimate analysis (Cresswell & Miller, 2000).
- *Individual reports-* The researcher started writing the individual case reports after the member checking, by linking the findings to the propositions.
- *Cross-case report-* The researcher compiled the reports of the individual cases into this document.

**Figure 5.2: Methodological framework of the Study**



## 5.9 Ensuring Research Quality

There are at least four (4) principles or criteria to ensuring the quality of a research design in social science: Construct validity, internal validity, external validity and reliability. Construct validity deals with the establishment of correct operational measures for the concepts being studied (Yin, 2009). Yin (2009) points out that construct validity is relatively difficult test to pass in case study research. However, the author further suggests three main tactics to increase construct validity when conducting a case study research: 1) The use of multiple sources of evidence; 2) establish chain of evidence; and 3) have key informants review draft report. An application of multiple sources of evidence is relevant during data collection and also serves as a tool to encourage convergent lines of enquiry (Yin, 2009). This method is termed, triangulation. The term, triangulation in qualitative study can normally be compared to marine navigation. In the context of marine navigation, it is a navigational term applied to establish a position of a vessel or proposed position at sea. The navigator uses at least two, but desirably three reference points to establish position. In other words, a triangle ought to be structured in the area in order to allow the navigator to precisely account for and measure the passage of the vessel. This concept is also applied to other positional and navigational exercises. For instance, in marine or military exercises, three reference points are applied to pinpoint the precise position of an object. In a realistic investigation, the investigator applies triangulation to pinpoint the navigation of the sources of data to a focal point.

Triangulation can be defined as ‘the combination of methodologies in the study of the same phenomenon’ (Denzin, 1989, p. 291). Also, triangulation has been defined by Stake (2000, p. 443) as ‘...process of using multiple perceptions to clarify meaning, verifying the repeatability of an observation or interpretation’. This helps the researcher to clearly get the meaning of his/her evidence to develop confidence that the evidence is of high-quality (Stake, 2010). It is an important technique not only for analyzing data but also for collecting data. In data collection technique, triangulation can be achieved by employing ‘multiple sources of data’ and/or strategies to examine the research questions or by including differing types of data-for instance, interviews with differing stakeholders in an organization (Tobin, 2010). This concept can reveal convergences, divergences and discontinuities that are relevant to describing the phenomenon (McGinn, 2010). It also contributes to intensifying rigor in the sense that comparisons, insights and fresh appreciations in the study will be created through analysis of other sources of data (Pauly, 2010). In this way, investigators can establish robust appreciation about the case under study that is likely to be regarded credible (McGinn, 2010).

In this study, multiple sources of evidence were employed: Interviewing various directors, executive and non-executive directors, senior members, company secretaries, senior members of management and shareholders. Evidence from documents and observations were also obtained. This tactic is relevant in data collection and was applied in this study, especially to fathom the relative power of majority shareholders on how they exercise control over corporations. Furthermore, the establishment of a chain of evidence during data collection in a case study is relevant. The study explicitly established a link between the various questions that were asked, the data collected and the conclusions that were drawn. Having key informants to review a case study draft report is also important during data collection in the sense that it provides key informants opportunity to remember and produce further evidence they had forgotten during the initial data collection time (Cresswell & Miller, 2000). The study adhered to such tactic to enrich the data that were collected.

Internal validity refers to a causal relationship establishment whereby certain conditions are depicted to lead to other conditions. It has interest in only causal case studies, whereby the researcher or investigator tries to examine how one event leads to the other (Yin, 2009). The concern over internal validity may be spread to a wider problem of making inferences. Yin (2003,

p. 36) opines that “a case study involves an inference every time an event cannot be directly observed”. A researcher may ‘infer’ specific occurrence resulting from some initial event, based on documentary evidence and interview (Yin, 2009). Accordingly, the study determined the prior theory, correctly probed during interviewing stages, and generated comprehensive listening mechanisms (Perry, 2001). In addition, the study constructed connections between the gathered data in inferential structure, explanations and understandings in order to insure that deductions made were methodologically explored and examined. More so, the application of within-case analysis helped build explanations (Miles & Huberman, 1994). Finally, the study employed a pattern matching mechanism to ensure the quality of the research. Pattern matching is a comparison of at least two patterns by visual inspection to determine whether patterns correspond/match (ie. whether they are similar) or do not correspond (ie. whether they vary) (Dul & Hak, 2008). It is basically, a non-statistical test of the rightness of the proposition.

External validity is concerned with the establishment of the domain whereby the findings of the study can be generalized. Stake (1995) argues that generalization from a case study is unnecessary since each case tends to be distinctive. Rowley (2002) points out that “generalization can only be performed if the case study design has been appropriately informed by theory, and can therefore be seen to add to theory”. The approach of generalization is not statistical but rather analytical in which already developed theories can be used as a prototype to compare the findings of the case study (Rowley, 2002; Yin, 2003; Dul & Hak, 2008). Rowley (2002) further suggests that a replication can be claimed if two or more cases are depicted to support the same theory. Generalization is increased when a study’s propositions are supported in a series of replications, and it decreases when a study’s propositions are not supported in a number of such texts (Dul & Hak, 2008). Even though case study research does not offer generalization of findings, it can inform theory if juxtaposed with extant hypothetical propositions (Gibbert, Ruigrok & Wicki, 2008). Accordingly, a judicious selection of the cases and informants was employed to ensure external validity in theory construction and logical generalizations. The results of the present study were compared with the results of other studies and the conceptual framework developed through the review of extant art of knowledge (Yin, 2009). Although the study interviewed shareholders, the major objective was to target informants who had practical knowledge about corporate governance practices in the corporate organizations.

Reliability demonstrates the study’s operation such that data collection produced can be reprised to acquire the same result when another researcher uses it. It can be achieved by documenting the procedures and keeping records appropriately (Rowley, 2002). The main objective of reliability is to minimize biases and errors on the part of the investigator when conducting the study (Yin, 2009). Consequently, this study employed a common approach for data collection and this approach was guided by a case study protocol that included four sections: 1) An overview of the case study project; 2) field procedures such as the use of different sources of information as well as access arrangements of the sources; 3) a case study question, and 4) a guide for case report. This case study protocol was prepared in advance before data were collected by the researcher (see appendix 1). Also, another method to ensuring that a case study is reliable is to develop a case study database. Yin (2009) argues that with no case study database, the unprocessed data may not be accessible to independent researchers and may result in major setbacks, which will probably affect the credibility of the study. In order to avoid this shortfall, the study employed a case study database during its data collection period. Also, teamwork with a research assistant during the process of data gathering and analysis of the study, and with the supervisor of the thesis during the entire period of the research, reliability was achieved. Table 5.10 below indicates the mechanisms that were employed in this study to ensure quality research.

**Table 5.10: Strategies employed to ensure quality research**

<b>TESTS</b>	<b>Case study strategy</b>	<b>Phase of research in which strategy happened</b>
Construct validity	<ul style="list-style-type: none"> <li>• applying multiple sources of evidence</li> <li>• constructing chain of evidence</li> <li>• member checking</li> </ul>	data collection data collection composition
Internal validity	<ul style="list-style-type: none"> <li>• do pattern matching</li> <li>• do explanation building</li> <li>• address rival explanations</li> <li>• use logic models</li> </ul>	data analysis data analysis data analysis data analysis
External validity	<ul style="list-style-type: none"> <li>• application of replication logic</li> </ul>	research design
Reliability	<ul style="list-style-type: none"> <li>• application of case study protocol</li> <li>• developing case study database</li> </ul>	data collection data collection

Source: Adapted from Yin (2009)

In summary, the above strategies were employed during the entire period of the study. Yin (2009) argues in case study research, the numerous strategies should be employed throughout the entire stages of the work, not just its commencement. The next section will focus on limitations of case study design and how they were surmounted in this study.

### 5.10 Limitations of case study design

Case study research methodology can be a fertile source for appreciating several structures, which corroborate and sustain corporate businesses (Aaltio & Heilmann, 2010). Its strengths lie in its knack to obtain insider's perspective during the process of research, in its flexibility in applying differing techniques and in its ability to produce a more comprehensive and distinctive results (Zikmund, 2010; Yin, 2009; Dul & Hak, 2008; Goulding, 2002; Gillham, 2000). However, since there 'are no perfect research designs' (Patton, 1990, p.162), it is associated with some limitations. Table 5.11 below highlights the limitations that are related to case study research methodology.

**Table 5.11: Limitations of case study research and how they were surmounted**

<b>Limitations of case study</b>	<b>Literature</b>	<b>Proposed techniques to surmount setbacks</b>	<b>Chapters addressing these limitations</b>
<ul style="list-style-type: none"> <li>• Gear towards generating theories which are unreasonably complex</li> </ul>	Parkhe (1993) Eisenhardt (1989a)	<ul style="list-style-type: none"> <li>• Review of extant literature</li> <li>• Research problem and questions</li> <li>• Prior theory</li> </ul>	Chapter 2 Chapter 3 Chapter 4
<ul style="list-style-type: none"> <li>• Difficult and time consuming to conduct</li> </ul>	Eisenhardt (1989a) Parkhe (1993) Teegavarapu & Summers, 2008	Case study protocol  Propositions	Chapter 4 Chapter 5
<ul style="list-style-type: none"> <li>• Absence of external validity</li> </ul>	Eisenhardt (1989a) Yin (2009) Gillham (2000) Goulding (2002) Rowley (2002)	Theoretical replication  Literal replication	Chapter 4
<ul style="list-style-type: none"> <li>• Inadequate to result in theory building</li> </ul>	Parkhe (1993) Eisenhardt (1989a)	Multi-method research approach	Chapter 2 Chapter 3 Chapter 4 Chapter 5
<ul style="list-style-type: none"> <li>• Related to researcher prejudice</li> </ul>	Wicks (2010) Yin (2009) Moore (2010) Teegavarapu & Summers (2008)	<ul style="list-style-type: none"> <li>• Replication logic</li> <li>• Multi-method technique of data collection</li> <li>• Systematic rechecking of core constructs</li> <li>• Peer debriefing</li> <li>• Member checking</li> </ul>	Chapter 2 Chapter 3 Chapter 4 Chapter 5 Chapter 6 Chapter 7

Source: Author's construct

The above table highlights the limitations of a case study research approach and the proposed techniques used in this study to surmount them. Firstly, case study research methodology is argued to gear towards generating theories, which are unreasonably complex (Parkhe, 1993; Eisenhardt, 1989a). The study surmounted this setback through a well-structured case study design. Also, the study painstakingly reviewed the extant literature related to corporate governance in chapters 2, 3 and 4 to clearly spell out the research problem, questions and theoretical propositions. Further, a pilot study was conducted and this helped the study to enhance and revise the initial general corporate governance framework and the study's protocol (after cross-examining the initial interview structure). The restructuring of the study's protocol through proper arrangements helped the study to obtain reliable information to address the study's problem, questions and theoretical propositions.

It is in contention that case study research is difficult and time consuming (Teegavarapu & Summers, 2008; Parkhe, 1993; Eisenhardt, 1989a). In order to overcome this limitation, a well-structured case study protocol was developed to enumerate the various stages of the study. Also, five theoretical propositions were formulated to define the boundaries of the study. Case study research methodology is believed to lack external validity (Yin, 2009; Rowley, 2002; Goulding, 2002; Gillham, 2000). This study surmounted this limitation through theoretical and literal replication in chapter 5. Further, it is contended that there are some associated limitations to case study research that makes it impotent in theory building ((Parkhe, 1993; Eisenhardt, 1989a). In order to overcome this limitation, the study relied on multi-method strategy of researching in this chapter. Finally, case study is argued to be associated with subjectivity and therefore, it is considered to be bias (Wicks, 2010; Moore, 2010; Yin, 2009; Teegavarapu & Summers, 2008). This setback was surmounted through peer debriefing, member-checking, multi-method strategy of gathering data and replication logic.

### **5.11 Ethical consideration**

Ethical consideration is an indispensable and fundamental basis of scientific accomplishments and should be recognized always. Inasmuch as ethics is about a vision of good life, it can be deduced that research ethics is about a vision of good research knowledge. The term 'research ethics' is defined as a varied set of values, norms and institutional interconnections that always assist in constituting and regulating a scientific action.

I can flawlessly and lucidly declare that the literary lucubration, avowal of sincerity, introductory and concluding remarks, lineament composition, epistemological, ontological, axiological and methodological agreement, fundamental impeccability, orderly representation, intellectual declaration, germane connotations, unswerving representation, consultations, openly affirmed developments and smoothly coordinated facts are extracts from various scholarly sources- scholarly articles, books, abstracts of articles, Google search engine, SCOPUS, EBSCO, Index Copernicus and other sources- which include literary art of arriving at the truth via logical and coherent arguments.

I have tried to carry out this study as a researcher with credibility and honesty. I have strived and persistently struggled to acknowledge every single source in the text or the reference list section. In the event of any omissions, I admittedly, ceaselessly, profusely, devouringly, fervently and candidly request for forgiveness. Also, in the course of going through millions of pages in order to concretize, strengthen, invigorate, rejuvenate, revivify and consubstantiate this titanic work single-handedly, I may have repeated myself and in view of that, I honestly plead, passionately implore and obsequiously request for forgiveness on that score. It was very challenging when I was keeping track of the gathered information in the process of my writing. However, I have done my best and will always continue to do my best to take steps in accordance with good research ethics. I will

never ever let/permit personal considerations with respect to ethnicity, ideology, religious or materialistic sentiments to outshine my ethical conscientiousness.

### **5.12 Summary**

This chapter presented the research methodology. The initial proposal of this study highlighted the main constituents of the research-the strategy of the study, research design, data collection strategies and data analysis technique. The study employed a case study qualitative research design. The most essential constituents of a case study research design were discussed: a) the study's question, b) the propositions of the study; c) the units of analysis; d) the logical sequence that links the data to the propositions, and e) the benchmarks for implementing the findings. Also, the study applied a multi-method technique in addressing the complexities and dynamics of corporate governance practices in Ghana-archival records, interviews and observations. The application of this multi-method approach yielded a large repository of data. Even though the researcher was extremely careful in regards to the quality and credibility of the gathered data, data management and analysis about corporate governance practices in Ghana was a bit challenging.

The researcher encountered unexpected challenges and issues in regards to the methodological framework of the study. Whilst the researcher had expected the research design to develop gradually by envisaging that guided interview data would be the principal data collection technique in savvying corporate governance practices in Ghana, it proved to be incorrect evaluation since the study's findings were enriched when he applied two other methods of data collection to the research-archival records and observation.

The objective of the study was to examine the driving forces of effective corporate governance in Ghana by developing an in-depth understanding of the complex and dynamic concept of corporate governance through an exploratory and descriptive case study of four large publicly-listed corporate organizations on the Ghana Stock Exchange. The data gathered and analyzed offered evidence for the individual case reports in chapter 6. Also, the study was able to construct an initial general model of corporate governance. This was done in part to preliminary fix the research in a conceptual or theoretical framework. Furthermore, the researcher undertook a pilot study and this allowed him to revise and enhance the initial framework that was developed from the extant body of knowledge to one which satisfactorily guided this research. After the revised and enhanced framework was done, five principal testable propositions were drawn out of it. Finally, the analytical process of the data was done by linking the gathered data to the testable propositions and thereafter, interpreting the data. However, tracking the complex analytical process posed some challenges to the researcher.

For achieving the objectives of the research, the strategy of the study was suitable but highly challenging. Formulating the methodological and conceptual frameworks for an in-depth appreciation of corporate governance practices in Ghana was arduously achieved. The amount of data required for a detailed appreciation of corporate governance practice in Ghana was properly acquired to the degree greater than what the researcher expected. While the researcher did find answers to the research questions of the study, he believes, assumes and thinks that a more significant contribution of this research is the laid-down foundation this study offers for successive research on corporate governance practice in Ghana and in most developing and transition economies. The next chapter presents the individual case reports of the four cases.



## CHAPTER SIX

### CASE DESCRIPTION AND ANALYSES

Chapter five described the research methodology and methods of this study. This chapter presents the background, profile and activities of the four corporate organizations. The annual reports of their financial performance are also presented. It then proceeds to analyze the corporate governance framework of each corporate organization. Finally, it presents the results of the testable propositions of each corporate organization.

#### **6.1 Ghana Commercial Bank Limited (GCB)**

This section of the study analyzes the background, profile and activities of GCB. It then proceeds to analyze the financial performance of the bank for the period, 2008 to 2011. Further, the corporate governance framework of the bank will be analyzed by highlighting how both the ownership structure and board structure work to ensuring ownership control and board control respectively. It concludes by highlighting how the evidences gathered from the company through interviews, observations and archival records confirm or disconfirm the propositions.

##### ***6.1.1 Background, profile and activities of the Company***

Ghana Commercial Bank Limited (GCB) was established in 1953. It was first recognized as the Bank of the Gold Coast, which was aimed to make available banking services to the emerging economy for socio-economic development. It was to provide special banking services to Ghanaian businessmen, traders and farmers who were unable to access financial services from the expatriate financial institutions. In 1957, the year when Ghana gained independence, the bank of Ghana was set up as the Central Bank of Ghana and in consequence, the Bank of the Gold Coast was renamed, Ghana Commercial Bank to focus on commercial banking services. Ever since, GCB has been able to open branches across the length and breadth of the country, tapping the potentials of each one of the ten regions that constitute Ghana. The bank now has over 150 branches and 11 agencies throughout the country. Today GCB boasts of being the widest networked bank in Ghana.

The bank was solely owned by the state until 1996 when under the Government's privatization program, part of the state's ownership was divested. Currently, state ownership stands at 21.36percent while individual (48.83percent) and institutional (29.81percent) ownerships add up to 78.6percent (GCB Annual report, 2010). The bank's human resource capacity stood at 2,101 as at 2009. This is a landmark inferring from the number of employees (that is, 27) that started the bank. The growth of GCB has been tantamount to its customer base. During the first five years of its operations, the bank's customers were mainly made up of small Ghanaian traders and other nationals who were supposed to maintain credit balance accounts. This was because; the bank was then not sufficiently capitalized. From Ghanaian small traders as customers, the bank has now widened its customer base ranging from salaried workers through small and medium scale entrepreneurs to large trading partners, parastatals, quasi-state institutions and corporate customers.

The bank now provides a wide variety of products and services to the benefit of its cherished customers. From the conventional products of the Current and Saving Accounts, the bank now provides specialized products and services comprising Link2Home for Ghanaian nationals living abroad, doorstep cash collections, loans and overdrafts. It also provides investment products such as treasury bills as well as fixed and cash deposits. With the advent of information, communication and technology, the bank has taken advantage of introducing some internet-based products and services. These are internet banking, Royal banking, Smart Pay, "Kudi Nkuso", GCB Inland Express Money Transfer, international Money Remittance Payments, GCB Kidistar Account and

Mastercard. All these financial services have been instituted by the bank to increase profit and enhance shareholder value.

### ***Financial performance***

#### ***2008 Performance***

In 2008, the bank witnessed a profit before tax of GhC 49.7 million as compared to GhC 47.0 million in 2007, representing a rise of 5 percent. Profit after tax rose to GhC 37.59 million in 2008 from the previous level of GhC 32.87 million. This remarkable achievement was as a result of the bank's expansion of its credit portfolio, investment in new products, and the use of Information, Communication and Technology (ICT) to carry out services in an efficient manner via centralization and spending control. Gross Loans and Advances increased appreciably to GhC 1,087.1 million in 2008 from GhC 750.6 million in 2007. In percentages, Gross Loans and advances increased by 45.1 percent in 2008. This was in consequence of the competitive pricing method adopted by the bank's authorities and the Small and Medium Scale Enterprise (SME) advisory services being given to already existing and prospective customers.

Meanwhile, this increment brought about an increase in Loan Loss Provision from GhC 10.2 million in 2007 to GhC 16.7 million in 2008. The proportion of Gross Non-performing Loans to total credit portfolio was 2.0 percent. This was unchanged from the 2007 level. There was an increase in interest income from GhC 112.4 million in 2007 to GhC 181.7 million in 2008, representing a rise of 61.6 percent rise. This appreciable increase resulted from the effective pricing method adopted by the bank's authorities regardless of the intense competition in the market. Incomes out of loans and advances rose from GhC 75.5 million in 2007 to GhC 145 million in 2008 representing a rise of 92.1 percent. Furthermore, there was a rise in Investment income from GhC 32.2 million in 2007 to GhC 32.7 million in 2008, depicting an increase of GhC 0.5 million or 1.5 percent.

Recoveries and Dividends decreased from GhC 19.2 million in 2007 to GhC 3.0 million in 2008. Further, stockholder's funds increased to GhC 207.7 million in 2008 from GhC 176.9 in 2007, indicating a substantial rise of GhC 30.8 million or 17.4 percent. This increment was as a result of an increase in income surplus from GhC 73.1 million in 2007 to GhC 89.9 in 2008. The banks market capitalization was GhC 72,000,000, the same figure recorded in the previous year. Basic earnings per share increased to GhC 0.140 in 2008 as compared to GhC 0.122 in 2007, signifying a GhC 0.018 growth. Total assets also increased from GhC 1,154.7 million in 2007 to GhC 1,650.2 million in 2008, depicting a rise of GhC 839.4 million. More so, deposits in total rose from GhC 839.4 million in 2007 to GhC 1,030.1 million in 2008. This indicates a rise of GhC 190.7 million or 22.7 percent.

#### ***2009 Performance***

The bank recorded a profit before tax of GhC 20.6 million in 2009 as compared to GhC 49.7 million in 2008, depicting a fall of 58.5 percent. Profit after tax fell to GhC 18.8 million in 2009 from GhC 37.59 million in 2008. Gross Loans and Advances rose to GhC 1,319.0 million in 2009 from GhC 1,103.8 million in 2008, indicating a rise of 19.5 percent. The substantial increase was ascribable to increases in overdrafts and Term Loans especially to the petroleum sector. The rise of Gross loans and Advances brought some setbacks in ensuring the high portfolio management standards of the Bank. Provisions for impairment Loss rose to GhC 36.7 million in 2009 from GhC 8.8 million in 2008. The proportion of Non-performing Loans to Gross Loans and Advances was 19 percent, which was substantially higher than 2.0 percent in 2008. Interest Income rose to GhC 266.0 million in 2008 as against that of 2007, which was GhC 181.7 million, representing a growth of 46.4 percent. This appreciable increase was as a result of competitive pricing of the bank's assets

in regards to higher outstanding exposure to the petroleum sector coupled with its inventive and innovative products and services into the market.

Incomes accruals from loans and advances rose to GhC 229.2 million in 2009 from GhC 145.0 million in 2008, depicting a growth of 58.1percent. Investment income also increased appreciably to GhC 36.3 million in 2009 from GhC 32.7 million in 2008. Other operating incomes rose substantially to GhC 4.2 million in 2009 from GhC 3.0 million in 2008. These operating incomes comprise recoveries of bad debts written off, sale of properties, dividends received and so on. Shareholders fund, which at the end of 2008 stood at GhC 207.7 million lowered to GhC 203.4 million in 2009, representing a decline of GhC 4.3 million. The bank's market capitalization remained the same at GhC 72,000,000, as compared to the previous year's figure. Basic Earnings per share reduced to GhC 0.068 in 2009 from GhC 0.14 in 2008, indicating a reduction of GhC 0.072. Furthermore, total assets increased from GhC 1,650.2 million in 2008 to GhC 1,922.7 million in 2009, depicting a rise of 16.5 percent. Total Deposits shot up to GhC 1,259.5 million in 2009 from GhC 1,030.1 million in 2008, representing a rise of 22.9 percent.

#### *2010 Performance*

GCB chalked a profit before tax of GhC 91.3 million in 2010. This represents a growth of 343 percent from that of 2009, which recorded GhC 20.6 million. Profit after tax substantially increased to GhC 56.1 million in 2010 from GhC 18.8 million in 2009. Income performance of GhC 330.7 million, which indicates a growth of 64 percent, was recorded in 2010 as compared to GhC 202.5 million in 2009. This increment was largely, as a result of the strong growth in Net Interest Income that arose from a combination of strong deposit growth, improved margin management and progress witnessed on improving the quality of some loan assets that allowed the bank to write-back suspended income. The bank witnessed an increase in Non-performing loans, which resulted in a credit impairment allowance of GhC 70.9 million in 2010 as compared to GhC 36.7 million in 2009. Operating spending rose to GhC 168.5 in 2010, reflecting an increase in staff-related costs investments in improving delivery platform, information, communication and technology.

Furthermore, the 2010 results reflected a Return on Average Equity (ROE) of 25percent and Return on Average Assets (ROA) of 2.8percent as compared to that of 2009 that stood at 9 percent and 1percent respectively. Loans and Advances reduced to GHC 1,003 million in 2010. This was as a result of the measures that were put in place by its management to re-balance the bank's loan book. In so doing, the bank reduced its over-exposure to the oil sector while placing much attention to expand business in retail, Small and Medium Scale Enterprise and private corporate sector. Market capitalization of the company still remained at GhC 72,000,000. Basic Earnings per share rose to GhC 0.19 in 2010 as compared to the previous year's figure of GhC 0.068, representing a growth of GhC 0.122. Further, total assets rose to GhC 2,113 million in 2010 from GhC 1,922.9 million in 2009, representing a growth of 10percent. Total deposits increased to GhC 1,575 million in 2010, representing a growth of 25 percent as compared to the previous year's figure of GhC 1,259.5 million. This was driven by strong growth in customer deposits across retail, corporate sector and SME.

#### *2011 Performance*

The bank witnessed profit before tax of GhC 31.1 million in 2011 as compared to GhC 91.3 million, signifying a 56 percent reduction. This was mainly in consequence of the combination of expected revenue shortfall from restructuring of portfolios and higher costs offset by a significant decrease in impairment charges (GCB Annual report, 2011). Post tax profit decreased to GhC 17.8 million in 2011 from GhC 50.9 million in 2010, representing a reduction of GhC 33.1million. This shortfall was a direct result of a 50 percent decrease in the loan book, which was needed to bring the bank's exposure to the public sector within limits. Nonetheless, the full undesirable effect on

net income of this structural alteration was offset by well-built fee income performance, lower funding costs and considerably, lower credit impairment charges. Net income rose to GhC 278 million as compared to GhC 260.5 million in the previous year, representing a 7 percent growth.

There was a rise in net commission and fees to GhC 64.5 million in 2011, indicating a 41percent growth over the previous year. Operating costs for 2011 amounted to GhC 251.3 million, a rise of 31percent over the GhC 192.3 million witnessed in 2010. This increase was mainly driven by depreciation charges, staff costs, ICT operation costs, staff restructuring costs and non-credit related impairment losses. In addition, provision for defined benefit obligations witnessed a net increase of GhC 2.9 million. The bank thus evidenced a cost income ratio of 87 percent as compared to 58 percent in 2010. Impairment charge on loans and advances recorded GhC 10.6 million, a reduction of 85 percent from the GhC 70.9 million witnessed in the previous year. Loans and Advances decreased to GhC 476.2 million in 2011 from GhC 995.3 million in 2010, indicating a 52 percent decrease. The Government of Ghana retired the Tema Oil Refinery (TOR) debt by handing out bonds to the Bank. Corollary to this, there was a decrease in the loan book, which subsequently increased investment securities portfolio (GCB Annual Report, 2011).

However, the bank's market capitalization in 2008 stood at GhC 72,000,000. Basic Earnings per share reduced from GhC 0.19 in 2010 to GhC 0.07 in 2011, representing a reduction of GhC 0.12. Furthermore, total assets rose to GhC 2.46 billion, representing an 18 percent growth over the GhC 2.08 billion recorded over the same period last year. This growth was as a result of strong growth in customer deposits that increased to GhC 2.06 billion from GhC 1.58 billion, representing a growth of 30 percent. The bank attributes this improvement in customer deposits to some factors such as domestic payments for corporate and consumer banking customers, and enhanced product offering in cash management. Table 6.1 below shows a tabular representation of financial performance of the company from 2008 to 2011.

**Table 6.1.: Financial performance of GCB: 2008-2011**

GHC	2008	2009	2010	2011
Profit before Tax	49,713,392	20,640,271	91,312,559	29,681,000
Profit after Tax	37,590,000	18,800,000	56,100,000	16,683,000
Total Assets	1,650,220,348	1,922,664,249	2,112,821,536	2,454,564,000
Shareholders Fund	207,729,124	203,442,842	250,418,215	-
Customer Deposits	1,030,106,198	1,259,470,137	1,575,281,050	2,061,390,000
Total Loans & Advances	1,087,118,928	1,265,516,727	1,003,682,422	1,265,517,000
Earnings per Share	0.140	0.068	0.1901	0.070
Market Capitalization	72,000,000	72,000,000	72,000,000	72,000,000

Source: Annual reports of GCB (2008-2011)

### **6.1.2 Corporate governance layout**

Corporate governance layout has to match up with the framework that is contained in the Companies code 1963 (Act 179). The framework considers stockholders as active members of the firm and therefore, they have the right to partake in the company's dealings or affairs. GCB has a unitary board system, which supervises management and it is referred to as the Board of directors. The board is the topmost decision making body in the company and has decision-control privileges.

The company has senior management body, which is responsible for day-to-day operations. The Managing Director who is in effect the Chief Executive Officer of the company is the head of the management body. The members of the management body are referred to as General Management: For example, the general manager of inspection division and the general manager of human resource division. The Managing director serves as a conduit between the board and management body. All general managers are accountable to the Managing Director who presides over all

meetings of the management body and reports strategic issues that transpire at such meetings to the board of directors.

### ***6.1.3 Ownership structure and control***

#### ***Ownership structure***

The ownership structure of GCB has been changing since its establishment. The change in identity and level of ownership is as a result of the changes in the Ghanaian economy in regards to government holdings of companies and the ongoing realization of private possessions of companies. The bank was solely owned by the state until 1996 when under the divestiture implementation program, part of the state's ownership was divested. Table 6.2 below depicts the identities and the various holdings of the shareholders.

**Table 6.2: The Ownership Structure of GCB**

Identity of Shareholder	Shareholding and Percentage holdings					
	2008		2009		2010	
	Shareholding	Percentage	Shareholding	Percentage	Shareholding	Percentage
SSNIT	79,000,000	29.81%	79,000,000	29.81%	79,000,000	29.81%
GH/GV Act. By Min. of Fin & Econ. Plan.	56,608,613	21.36%	56,608,613	21.36%	56,608,613	21.36%
BBGN Northern Trust COAVFC 6314B	10,559,352	3.98%	17,439,804	6.53%	17,697,904	6.68%
Daniel Ofori	8,579,276	3.24%	7,229,276	2.73%	8,790,006	3.32%
BBG NBNY JPMCC Clearing GHC	6,051,271	2.28%	3,000,000	1.13%	-	-
QVT FD LP	5,759,067	2.17%	-	-	-	-
BBGN Re Epack Invst. Fund Ltd	5,626,898	2.12%	2,000,000	0.75%	2,000,000	0.75%
SCBN/ PICTET Africa Non Tax 6275J	-	-	2,199,990	0.83%	4,364,490	1.65%
BBGN/Barclays Mauritius Re Deut Africa	-	-	2,114,316	0.80%	-	-
SCBN/SSB & TAS Custodian Re SQM Frontier Africa	-	-	-	-	3,950,047	1.49%
SCBN/London Care of SSB LDN. Invst. Assets Mgt (PTY)	-	-	-	-	1,250,000	0.47%
SCBN/CITI NY Advanced Series Trust Para Emg Mkts.	-	-	1,190,800	0.45%	1,190,800	0.45%
SCBN/BBH Eaton Vance Emerald PPA EMEMKT EQ. FUNDS PLC.	-	-	1,245,700	0.47%	1,245,700	0.47%
SCBN/SSB Inv. Ad-Emerging Africa Fund-AACG	-	-	-	-	1,000,000	0.38%
SCBN/Northern Trust Co. AVFC 6314B	-	-	-	-	2,282,251	0.86%
SCBN/SSB Teacher Retirement systems of Texas FD	-	-	1,790,000	0.68%	1,790,000	0.68%

Identity of Shareholder	Shareholding and Percentage holdings					
	2008		2009		2010	
	Shareholding	Percentage	Shareholding	Percentage	Shareholding	Percentage
SCBN/SSB Eaton Vance Structured Emerging Mkt Fund	-	-	-	-	1,453,841	0.55%
BBG/SSB Eaton Vance Tax-managed Emerging Mkt. Fund	-	-	1,384,370	0.52%	1,384,370	0.52%
STD Bank Noms TVL PTY Ltd.	3,433,300	1.30%	1,924,208	0.73%	-	-
GCB Staff Provident Fund	2,996,695	1.13%	2,996,695	1.13%	2,996,695	1.13%
Falcon Family LP	-	-	2,523,238	0.95%	2,523,238	0.95%
BBGN HSBC Bank Plc.	1,931,767	0.73%	-	-	-	-
Ghana Reinsurance Co. Ltd.	1,799,651	0.68%	1,799,651	0.68%	1,799,651	0.68%
State Insurance Co. Ltd.	1,796,399	0.68%	1,796,399	0.68%	1,796,399	0.68%
Ghana Cocoa Board	1,600,000	0.60%	1,600,000	0.60%	1,600,000	0.60%
BBGN Barclays Mauritius	1,500,000	0.57%	-	-	-	-
BBGN HSS LUX HALBIS FD	1,400,000	0.53%	-	-	-	-
BBGN Barclays Mauritius Re/CAP Sec. Ltd	1,338,908	0.57%	-	-	-	-
AngloGold Ashanti Ltd. Provident Fund	1,300,000	0.49%	1,300,000	0.49%	-	-
Tema Oil Refinery Ltd.	1,000,000	0.38%	-	-	1,000,000	0.38%
BBGN SSB Vance Tax Managed FD	967,303	0.37%	-	-	-	-
ESSPA	944,529	0.36%	-	-	-	-

Source: Annual Reports of GCB from 2008-2010

Presently, state ownership stands at 21.36 percent, while individual and institutional ownership add up to 78.6 percent. Social Security and National Insurance Trust (SSNIT) holds the majority of the company's shares with 29.81 percent. However, SSNIT is a state institution whereby its head and other top managers are government appointees. Corollary to this, the state controls the holdings of SSNIT, making it (ie the state) the majority shareholder with 51.17 percent of the total shares of the company. There is an agreement between the government and SSNIT by which SSNIT is required to inform the government when it plans to sell out some of its holdings to another investor. Other current minority shareholders are: BBGN Northern Trust COAVFC 6314B (6.68 percent), Daniel Ofori (3.32 percent), SCBN/ PICTET Africa Non Tax 6275J (1.65 percent), GCB Staff Provident Fund (1.13 percent) and the general public- consisting of about 96,805 who own small numbers of shares (26.14 percent). The general public secured shares when GCB was listed on the Ghana Stock Exchange. The listing of the company was to some extent targeted to widening up the ownership stand of the company in accordance with the goals of the government's privatization policy.

### ***Ownership control***

Basically, there are two significant structures upon which shareholders exercise their controlling prowess over the company. These are Annual General Meetings and the incessant influence on decision-making processes of the company by the state. The application of these two structures to enable shareholders to exercise their controlling abilities mirrors the level of ownership of the company.

### ***The Government- majority shareholder***

With the combination of the Ministry of Finance and Economic Planning and SSNIT holdings, the state becomes majority shareholder of the company. Accordingly, the state has been wielding control over the company through its appointment of key personalities of the bank. It also has direct contact with these important people-the Managing director and board chair of the firm. Influence on decision-making processes or procedures including veto power in the company, access to information as well as direct involvement in the management of the company are relevant ways of control opened to the government. The government does not wait for decisions that are made at the annual general meetings or the minimum disclosures mandated by law to exert its control or influence over the company. This is because; the government can rely on the incessant delivery of information by the management of GCB to it (government) in the course of reporting. These provisions ensure that the government or the state has access to relevant information and decisions that come to light at GCB.

The reports that are made available to the Government consist of relevant operational issues such as total deposits, profits, loans and advances, directors emoluments, Auditors remunerations, floatation expenses, administrative expenses as well as advertising and marketing spending. Reports on these issues are made available to the government on daily, weekly, monthly and yearly bases in a pre-arranged form. Special reports are also made available to the government anytime upon a request. The implication is that annual general meetings are just rubber stamps or legal cosmetics and perhaps a platform to let minority or small equity holders to get abreast with some developments within their company. Figure 6.2 below depicts the direct and indirect control wielded by the government and minority shareholders of GCB. The government has strong direct connection with both the board and top management. This has been portrayed by a straight line from the government (large equity holder) to both the board and top management. The broken lines from the individual small shareholders to the board and management on the other hand, portray a limited level of connection. This makes the government a controlling force within the company.



**Fig 6.2: Domineering role of Government within the operations of GCB**



Source: Adapted from Roe (2003)

### *Minority shareholders*

There are two groups of small equity holders within GCB. First are those minority shareholders who have adequate shares to appoint a director. Second are those who do not have sufficient shares to select a director. Minority shareholders whose ownership stand is sufficient to appoint a director have access to board decisions and can exercise some degree of influence on board decisions.

Small equity holders whose ownership base does not permit them to select a director have no access to strategic decision-making processes of the company. Those shareholders consist of individuals and institutions: AngloGold Ashanti, Tema Oil Refinery, State Insurance co. Ltd., Ghana Reinsurance co. Ltd., and so on. A considerable number of persons who holds small number of shares is made up of members of the general public. Their influence on decision-making processes of the company is near to the ground in that; they have limited access to information.

This group of individuals with minority shares relies on annual general meetings to voice out their views and concerns in order to attempt exercising their influence on the decision-making processes of GCB. These come to bear in the questions about decisions that have been executed by management or those that are proposed during annual general meetings. Their actions are taken into consideration in accordance with the minimum statutory disclosures required by the companies code, 1963 and GSE listing regulations in which all equity holders ought to have access to annual audited reports and quarterly reports.

Annual audited reports are sent to every equity holder of the company whilst quarterly reports are made public via the company's webpage and GSE notice board. Other sources of information to minority equity holders include newspapers, radio and television. The statutory reports that are made available to equity holders include a notice of the annual general meeting and an invitation to attend such meeting. The agenda for the annual general meeting is prepared and designed by management and approved by the board. The program for the annual general meeting entails: receiving and considering audited financial statement for the year under review, declaration of dividend for the year under review, re-electing directors, appointment of auditors for the next financial year, fixing remuneration packages for directors and auditors, ratifying the appointment of a director and any other businesses.

Equity holders are permissible to vote during annual general meetings, which is in line with the requirement of the law (principles of corporate governance of Ghana) and as suggested in the OECD principles (see Chapter 2), of corporate governance. An equity holder of the company who is entitled to attend and vote is at liberty to appoint a proxy or surrogate (who need not also be an equity holder) to attend and vote in his/her stead. Even though the company's decisions are made

during annual general meetings through a voting process, as a result of the majority holdings of the government, these meetings are more often than not considered as a ‘cosmetic’.

The notion that GCB annual general meetings are just legal formalities is reinforced when minority shareholders’ questions and suggestions are not given the needed attention by the board of directors. Accordingly, these minority shareholders are always unable to influence situations at hand. They do not have the authority to discipline or punish management or directors. Interviews conducted on the opinions of the minority shareholders revealed that the manner in which annual general meetings are carried out restricts their aptitude to exercise control over the company. For instance, they are restricted to ask a certain number of questions during annual general meetings. Since the state is the majority shareholder, in most cases, when minority shareholders are not in agreement with issues that management or directors raise, they place their hopes in the government to safeguard them from the abuses of management or directors.

With regards to shareholder control, the minority shareholders collectively scored low in all the following indicators: Influence on the appointment/selection and access to important personalities of the company, influence on strategic-decision processes of management or directors and influence on the voting pattern during annual general meeting. Table 6.3 portrays responses to assertions on shareholder control.

**Table 6.3: Shareholder control at Ghana Commercial Bank**

	At all times	Occasionally	Absolutely not
Duties of the board are being fulfilled when they report to shareholders during AGMs	√		
Annual audited reports are made available to shareholders before AGMs	√		
Quarterly reports are made publicly	√		
All shareholders receive invitations to AGMs	√		
During AGMs, shareholders have the right to vote on board’s proposals/suggestions	√		
Large shareholders exert extensive influence during AGMs	√		
Decisions taken at AGMs are subject to voting	√		
The kind of influence that majority shareholders have in the selection or appointment of directors makes it possible for them to exert control over the firm	√		
It is easy for large shareholders to have access to very important personalities in the firm	√		
Decisions of management or directors can be questioned or altered by large shareholders	√		
Shareholders have the right to call for Extraordinary General Meetings for clarifications of issues		√	

Source: Fieldwork

The government appoints the majority of directors, the managing director and the board chairman of the company. Practically, decisions taken by the board are not influenced by the worries or concerns of minority shareholders. In an interview with one of the board members of the company, he revealed that when minority shareholders complain about certain decisions that are taken during annual general meetings, the board just sit, listen and keep quite over these complains since the board knows that such protests do not make any difference.

The extensive and invariable communication between GCB and the government induces management of GCB to constantly exert efforts towards achieving the interests of the government. In wrapping up, the percentage of ownership of GCB by the government enables it (the government) to exert control and this action ultimately, decreases the incentive problem in the organization.

#### ***6.1.4 Effectiveness of the board***

This section examines the factors that normally determine the effectiveness of the board of GCB in relation to board control. The factors are; the board composition, director independence, the leadership structure of the board, board meetings, board audit committee and board remuneration committee.

##### ***Board composition***

GCB has nine directors that constitute its board. Two of whom are non-executive directors and the remaining are executive directors. The directors include current and retired senior officers. The board chairperson is an academic with vast experience in economic policy analysis and economic reform measures. Other members include former Director and Head of Human Resource Department of the Central bank of Ghana, an academic, a business executive, Deputy Minister of Finance and Economic Planning, Investment banker, a lawyer, the current Director for Regulatory Administration Division of the National Communication Authority (NCA), a chartered accountant by profession, the managing director of the company, the company's secretary and two deputy managing directors in charge of operations and finance. The involvement of the deputy minister of Finance and Economic Planning on the board is based on his capability to influence management decisions or policies to the benefit of the government.

##### ***Board independence***

In order to determine director independence, the approach for appointment and probable rapport between the CEO and major shareholders were examined. In terms of appointment or selection, directors are selected via a procedure agreed on by the government. This means that the controlling shareholder (the government) selects its political cohorts in business decision-making processes of the company. The implication is that a large number of shareholders is not included in the decision-making processes and allocation of resources in the company. The method of discovering a prospective director to represent the government on the board is politically motivated. For instance, there was a change of government in 2008 and as a result, the board was reconstituted by the current government. Although the composition of the board is normally political in nature, the government through its council of state does select well-qualified people to form the board. This means that cronyism and nepotism have been the order of the day. However, the appointment of competent people to man the affairs of the board turns to minimize this scourge. Also, the manner in which the advisors are tasked by the government to select or appoint members to constitute the board makes directors to be economically or psychologically independent of management.

##### ***Leadership structure of the board***

The positions of the Chief Executive Officer and the board chairman have been separated. The company has instituted the board chairmanship as well as the managing directorship positions. The board chairman does not get involved in the day-to-day dealings of the company. He does not form part of the management, but necessary and sufficient information is provided to him by management anytime he requires. The board chairman manages the board, settles on its priorities, and lays down the agenda for meetings. The chairman makes sure that there is timely and sufficient/adequate communication between the management and members of the board in order to create an atmosphere of trust and a preparedness to bring out sound judgment about strategic issues for the company. This is because with proper communication, members would be able to understand and assist in articulating vitally important issues in the company. Also, with effective communication, an atmosphere of checks and balances in the processing of information in the company will be created so that it will be transparent and dependable (Charkman, 2005). The managing director, in turn, performs the functions of a CEO. He runs the company on a day-to-day

basis and accountable to corporate performance, chairs management meetings and reports to the board.

### ***Board meetings***

Even though board meetings are held four times per year, they can be increased when needed. For instance, in 2010, a total of 73 board meetings were held. In addition, a total of 25 ordinary and special board meetings were held in the same year. Preparations for these meetings involve sending reports to board members before meetings. These reports include dates, hours and locations of meetings. On the basis of the information provided by management to the board chairman, he (the board chairman) sets agenda for these meetings. Schedules of board meetings are deemed to tackle the following: Appraisal of previous meetings; quarterly business reports; profit forecast; internal control relevant to the preparation and fair presentation of the Bank's financial statements; taken reasonable steps for the prevention and detection of fraud and other irregularities; the company's strategic priorities; major investment decisions; the company's stock performance; and new business, market and product development opportunities. This is in line with Arguden with respect to how board meetings ought to be planned (Arguden, 2009). The close connection of the government in management indicates that board meetings are, in a practical manner, "an advice-giving/ consultative session".

### ***Board audit committee***

The board has instituted an audit and compliance committee. The committee is made up of three (3) non-executive directors. The committee's functions include: Reviewing, advising, reporting to the board on the satisfactoriness of the company's internal control; Advising the board on the maintenance of well-grounded books of account and the dependability/reliability of financial information used within the company; and other duties and responsibilities it may be assigned by the board from time to time.

The audit committee serves as a link between the external auditor and the board. The committee meets four (4) times a year to review inspection reports from 157 branches and divisions, auditor's report, Bank of Ghana Examination and other governance issues. In some cases, the committee meets more than the number of times it is required to meet in a year. For instance, in 2010, the committee met ten (10) times to deliberate on issues concerning the affairs of the bank.

The committee assists the board in being efficient and effective in its dealings. The actions of the committee are being influenced by the involvement of the government in the affairs of the bank. When issues are raised by external auditors, they are communicated to the government, which in agreement with GCB board; the audit committee is tasked to address those concerns with the external auditors. Through the audit and compliance committee, the board's alertness of management decisions and its capacity to exercise control over management decisions are enhanced.

### ***Remuneration committee***

The company has established a human resource and remuneration committee. The committee is made up of three (3) non-executive directors. The main responsibility of the committee is reviewing the recruitment and termination policies of the bank including employment contracts remuneration, pension and other rewards, making appropriate recommendations and any other responsibility that may be assigned by the board. Upon approval of the board, it sets the managing director and other top executives remuneration packages. Also, remuneration packages for board members are being set by this committee, but have to be approved by the shareholders of the bank during annual general meetings.

The committee helps the board in being efficient and effective in its actions. The operations of the committee are being influenced by the government. This is because the government normally has to approve remuneration packages for the managing director as well as other top managers of the bank. Even the remuneration packages of members of the board have to be evaluated by the government before the committee sets them. Table 6.4 depicts the summary of the interviews of the determinants of effectiveness of the board of directors with regards to its (the board) control function.

**Table 6.4: Effectiveness of board of directors at GCB**

	At all times	Occasionally	Absolutely not
For the past 10 years, majority of board members have been NEDs	√		
There is an existence of social or economic tie between directors and the firm			√
There is an existence of social or economic tie between directors and top managers			√
There is a presence of social or economic tie between directors and majority shareholders		√	
Positions of the CEO and the Chairperson have been separated and occupied by different people for the past 10 years	√		
There is an existence of an audit committee instituted by the board	√		
There is a presence of a board remuneration committee	√		
Majority of the members on the audit committee are NEDs	√		
NEDs form majority on the remuneration committee	√		
Membership appointments to the audit committee are made known to shareholders	√		
Membership appointments to the remuneration committee are made known to shareholders	√		
There are criteria for the selection and replacement of directors			√
There is a laid down procedure upon which board meetings are held	√		
Before board meetings, information about the firm are made available to members on time	√		

Source: Fieldwork

### **6.1.5 Board control**

The decision to hire or replace the managing director is not done by the board of directors. The board can only offer an advice to the government if directors hold the opinion that the managing director is not performing as expected of him. The decision about the remuneration package of the managing director is done by the human resource and remuneration committee of the board. Although the committee sets the remuneration package of the managing director, the government has to give an approval before it can be effected. More so, the board has put in place certain mechanisms to conduct a formal assessment/evaluation of the managing director, of individual directors, or activities of the board. Apart from the board's evaluation of management, it can be contended further that supplementary assessment is not needed since the government conducts its own assessment based on the frequent reports sent by GCB management. Therefore, the government executes all the controlling activities that are normally the sole duty of the board, with the outcome that the board conducts a counseling/advisory role to management rather than exerting

control over it. This evidence suggests that boards play a vital counseling/advisory role in companies. This is consistent with the findings of Coles *et al.* (2008), Adams and Ferreira (2007), Adam and Mehran (2003), and Agrawal and Knoeber (2001). Table 6.5 below depicts interviews that were conducted with regard to board control in the case of GCB. It can be deduced that the board has a limited control over GCB.

**Table 6.5: Board control at GCB**

	At all times	Occasionally	Absolutely not
Decisions in terms of hiring a CEO is made by the board			√
The CEO can be replaced by the board in case of mismanagement		√	
Strategies are discussed and approved by the board	√		
Decisions on the CEO's remuneration package is made by the board via the remuneration committee			√
The activities of the CEO are assessed by the board	√		
The board makes sure the firm complies with existing laws regarding the day to day running of the firm eg. Generally Accepted Accounting and Auditing Principles laid down by ICAG	√		
The board determines the type of information it needs from management anytime	√		

Source: Fieldwork

### **6.1.6 Analysis and confirmation of propositions**

The analysis of the ownership structure and equity holders control depicts that the government exerts control over management. The implication is that the agency problem is dealt with by the government via its regular monitoring of the performance of management. The government appoints the managing director as well as the majority of directors. The government's appointment of the majority of directors implies that if counteractive action is needed, such as changing the managing director, this decision can be taken by them. The government is regarded as an insider in that it takes part in the decision-making procedures of GCB. This is a verification/confirmation of proposition 1 that: *Shareholders with larger shares exert shareholder control in a company.*

With regards to board meetings, the findings depict that they are carried out in a more efficient and effective manner. This is because of the frequent availability of information to board members and their possible position to challenge management during board meetings. Even though all the indicators of effective and efficient board meetings are in place, the exclusion of the board in the control function of the bank means that board meetings do not have any connection with board control. This points out that proposition 2, which states that: *Effective and efficient board meetings lead to a panoptic board control in a company* is not confirmed in the case of GCB.

In terms of the leadership structure of the board, the separation of the positions of the board chairman and managing director is in line with agency theory in terms of strengthening board control. In spite of this, at GCB, the board chairman is not independent of the controlling shareholder and as a result, plays no vital role in the enhancement of board control. Since both the managing director and board chairman are appointed by the government, and hence not independent of the government, proposition 3, which states that: *The non-duality structure with independent chairperson results in panoptic board control in a company* is not confirmed in the case of GCB.

With respect to the audit committee, the findings reveal that the bank has such committee that has been formed with non-executive directors as its members. In spite of this, the role of the committee is insignificant in that the government does exercise director control over its activities. This

conclusion means that proposition 4(a), which states: *Instituting a board audit committee with independent directors as its members, leads to a panoptic board control in a company* is not confirmed in the case of GCB.

The findings of the remuneration committee depict that the bank has instituted a human resource and remuneration committee with non-executive directors as its members. However, the position and role of this committee is not necessary since the government does exercise director control. This stems from the evidence that remuneration packages for both the managing director and board chairman have to be communicated and approved by the controlling shareholder. This conclusion points out that proposition 4(b), which states that: *Establishing a board remuneration committee with independent directors as its members, leads to a panoptic control in a company* is not confirmed in the case of GCB.

## **6.2 SIC Insurance Company Limited**

The background, profile and activities of SIC are analyzed in this section. It then continues to analyze the financial performance of the insurance company from 2008 to 2011. Further, the corporate governance layout of SIC is analyzed by highlighting how both the ownership structure and board structure operate to ensuring ownership control and board control respectively. Lastly, analysis on the verification or non-verification of the study's propositions will be highlighted.

### ***6.2.1 Background, profile and activities of the Company***

SIC Insurance Company Ltd. is one of the oldest non-life insurance firms in Ghana. It traces its existence from the year, 1955. This was the year; the Gold Coast Insurance Company was instituted. Its name was changed to Ghana Insurance Company in 1957; the year Ghana became an independent nation. In February, 1962, it was incorporated by an Executive instrument (E.I) No. 17 as State Insurance Corporation. This was effected under the Statutory Corporation Act, 1962 (Act 232). It was then established as a corporate entity by a Legislative Instrument (L.I) No. 424 of 1964, with an initial paid-up capital of GhC 1 million. The company's mission is to provide innovative and competitive insurance and allied financial services to its clients through a highly skilled and motivated workforce with a commitment to deliver value to all stakeholders.

The corporation was transmogrified into a limited liability entity and was renamed, State Insurance Company of Ghana Limited in August, 1995 under the Government of Ghana's privatization program. It was registered in accordance with the requirement of the companies code, 1963 (Act 179) of Ghana. On October 2, 2007, a particular resolution was passed to change its name to SIC Insurance Company Limited. Further, in agreement with the requirements of the insurance Act, 2006, the company has separated its activities from the life business by instituting the SIC Life Limited. Another resolution was passed for the company to transfer the life business activities and assets to SIC Life Limited, and in accordance with this resolution, 80,000,000 ordinary shares were issued to the Government of Ghana (GoG).

The company has branches in all the ten regions of Ghana. Its business operations cover motor, fire, accident, and marine and aviation. It also provides special insurance products such as hoteliers and leisure policy, and policy for the hospitality sector. It has long-standing associations with insurance brokerage entities and some self-regulating agents, who make up some of its main distribution channels.

### ***Firm performance***

SIC has consistently without a fail, maintained a steady market leadership. In 2006, 40 percent of the insurance market was secured by SIC. This achievement is a reflection of the company's vision to maintaining their dominance in the Insurance industry in the country. SIC has won a lot of

awards as a result of their consistent leadership in the insurance sector without a fail. From 2003 to 2007, the company was adjudged insurance company of the year by the Chartered Institute of Marketing, Ghana (CIMG). It was the first insurance firm in Ghana to be ushered into the CIMG Hall of Fame category, Insurance category two years running (2008 and 2009). It was rated AA by the Global Credit Rating Company (GCRC) of South Africa. The implication is that SIC has a very high claims paying capacity and its fortification factors are strong.

## **Financial performance of SIC**

### *2008 Financial Performance*

In 2008, SIC recorded a profit before tax of GhC10.9 million as compared to GhC 9.3 million in 2007, representing a growth of GhC1.6 million. A Profit before Tax rose to GhC 8.6 million in 2008 from GhC 7 million in 2007, depicting a growth of GhC 1.6 million. The total assets of the company rose from GhC 91,925,300 in 2007 to GhC 119,573,137 in 2008, representing a growth of GhC 27,647,837. More so, Investment income, which comprises dividend, interest receivable, and gains and losses increased from GhC 1,660,297 in 2007 to GhC 2,374,385 in 2008, depicting a growth of GhC 714,088. Other incomes also rose to GhC 1,351,316 in 2008 from GhC 1,330,432 in 2007. Basic earnings per share increased to GhC 0.0444 in 2008 as compared to GhC 0.0360 in 2007. Meanwhile, return on shareholders' fund rose from 0.1299 percent in 2007 to 0.1318 percent, indicating a rise of 0.0019percent.

### *2009 Financial Performance*

SIC witnessed Profit before Tax of GhC7,487,560 in 2009 as compared to GhC10, 994,570 in 2008, indicating a reduction of GhC3,507,010. A Profit after Tax in 2009 decreased from GhC 8,696,418 in 2008 to GhC 5, 891,490, depicting a reduction of GhC 2,804,926. The company's total assets fell to GhC 117,438,935 in 2009 as compared to GhC 119,573,137 in 2008. Investment Income also decreased from GhC 2,374,385 in 2008 to GhC 1,925, 687 in 2009, depicting a fall of GhC 448,698. Other incomes stood at GhC 3,773,985 in 2009 as compared with GhC 1,351,316 in 2008, representing a growth of GhC 2,422,669. Basic Earnings per share in 2009 stood at GhC 0.0301 from GhC 0.0444 in 2008, depicting a reduction of GhC 0.0143. Further, Return on Shareholders Fund fell from 0.1318 percent in 2008 to 0.0952 percent in 2009, signifying a reduction of 0.0366percent.

### *2010 Financial Performance*

SIC witnessed a Profit before Tax of GhC8,044,295 in 2010 as compared to GhC7,487,560, representing an increase of GhC556,735. A Profit after Tax in 2010 increased from GhC 5,891,490 in 2009 to GhC 6,028,415, depicting a rise of GhC 136,925. The company's total assets rose to GhC 137,441,579 in 2010 as compared to GhC 117,438,935 in 2009, signifying a substantial increase of GhC 20,002,644. Investment Income also decreased further from GhC 1,925,687 in 2009 to GhC 1,610,638 in 2010, depicting a fall of GhC 315,049. Other incomes stood at GhC 1,717,940 in 2010 as compared to GhC 3,773,985 in 2009, representing a reduction of GhC 2,056,045. Basic Earnings per share in 2010 stood at GhC 0.0308 from GhC 0.0301 in 2009, depicting an increase of GhC 0.0007. Meanwhile, Return on Shareholders Fund fell further from 0.0952 percent in 2009 to 0.0719percent in 2010, signifying a reduction of 0.0233 percent.

### *2011 Performance*

SIC recorded a Pre-Tax profit of GhC7,337,329 in 2011 as against the previous year's GhC8,044,291, representing a GhC 706,962 reduction. Post-Tax profit in 2011 stood at GhC 6,081,044, depicting a growth of GhC 52,629 over the previous year's figure of GhC 6,028,415. A total asset recorded in 2011 was GhC 149,370,424, signifying a GhC 11,928,845 rise over the previous year's value of GhC 137,441,579. Furthermore, investment income was down by GhC 100,222 from GhC 1,610,638 in 2010 to GhC 1,510,416 in 2011. Other incomes rose to GhC



3,827,940 in 2011 as compared to GhC 1,717,940 in 2010, denoting a GhC 2,110,000 growth. Moreover, in 2011, the company witnessed a Basic Earnings per share of GhC 0.0311 as against GhC 0.0308 in 2010, indicating a rise of GhC 0.0003. Return on shareholders' fund recorded the same as compared to that of 2010. Table 6.6 depicts a tabular representation of SIC's financial performance from 2008 to 2011.

**Table 6.6: Financial performance of SIC: 2008-2011**

	2008	2009	2010	2011
Profit before Tax (GhC)	10,994,570	7,487,560	8,044,295	7,337,329
Profit after Tax (GhC)	8,696,418	5,891,490	6,028,415	6,081,044
Total Assets (GhC)	119,573,137	117,438,935	137,441,579	149,370,424
Return on Shareholders (percent)	0.1318	0.0952	0.0719	0.07
Investment Income(GhC)	2,374,385	1,925,687	1,610,638	1,510,416
Earnings per Share(GhC)	0.0444	0.0301	0.0308	0.0311

Source: Annual Reports of SIC from 2008-2011

### **6.2.2 Corporate governance layout**

The company's corporate governance framework has to be in line with the framework that is outlined in the companies code 1963. The company considers shareholders as one of its active members and therefore, the only group that is represented on its unitary board of directors. They are also permitted to exercise their franchise at the company's annual general meetings. This point of reference is encapsulated by a remark made by an equity holder during one of the company's annual general meetings:

.....We, as equity holders, like management, have our interests in the company as capital providers. The interests of management and us [Shareholders] differ and as equity holders, we ought to put some measures in place to ensure that the people we put in the helm of affairs of the company work for our interest and not theirs. We ought to find out the most effective and efficient mechanism. Probably, we should have a team of seven persons from ourselves [shareholders] who will be examining the company's quarterly reports and query management about issues that need further clarifications. I believe they [the team] can do better than the board.....

The company has senior management body, which is responsible for daily operations of the company. The managing director (who is in effect the Chief Executive Officer) of the company is the head of the management body.

### **6.2.3 Ownership structure and control**

#### **Ownership structure**

In 1995, individual and institutional capital providers secured some of the shares held by the government in SIC. This was in line with the Government of Ghana's (GOG) divestiture program. Currently, the government holds 40.0 percent of the total shares of the company. The general public holds 27.4, whilst institutional capital providers hold 32.6 percent. The Social Security and Insurance Trust (SSNIT) holds 11.291 percent of the institutional holdings. As a result of SSNIT holdings in the company, the state becomes the majority shareholder with 51.291 percent of the total equity of the company. This is because; SSNIT is a state institution whereby its head and other top managers are government appointees. As a result, the state controls the holdings of SSNIT. There is an agreement between the government and SSNIT by which SSNIT is required to

inform the former when it plans to sell out some of its holdings to another capital provider. The present number of equity holders is over 80,000. These equity holders include SIC employee share ownership plan. Table 6.7 below indicates the identities and the various equity holdings of the shareholders.

**Table 6.7: The Ownership Structure of SIC**

Identity of Shareholder	2008		2009		2010	
	Shareholding	Percentage	Shareholding	Percentage	Shareholding	Percentage
Government of Ghana	78,258,000	40.000%	78,258,000	40.000%	78,258,000	40.000%
SSNIT	22,090,392	11.291%	22,090,392	11.291%	22,090,392	11.291%
SIC Employee Share Ownership Plan	10,977,035	5.611%	10,977,035	5.611%	3,631,110	1.856
BBGN/HSBC Bank Plc Account Clients	8,900,000	4.549%				
STD Nom. TVL (Pty) Ltd./Standard Bank Plc Clients	8,807,501	4.502%	7,338,760	3.750%	7,027,160	3.592%
Ghana Reinsurance Company Limited	6,666,612	3.408%	6,666,612	3.410%	6,666,612	3.408%
BBGN/Barclays Mauritius Re Deut Africa Opportunity Fund			4,827,500	2.470%	3,172,000	1.621%
SIC Life Company Limited	3,333,300	1.704%	3,333,300	1.700%	3,333,300	1.704%
SIC-FSL/SIC Provident Fund	3,246,465	1.659%	3,246,465	1.6602%	3,146,465	1.608%
BBGN/Barclays Maur. Re. Renaissance African Master Fund					2,821,976	1.442%
BBGN/JP Morgan Chase Onshore 6178C	2,200,000	1.124%	2,200,000	1.120%	2,200,000	1.124%
Ghana Commercial Bank Limited	2,000,000	1.022%	2,000,000	1.020%	2,000,000	1.022%
Teachers' Fund	1,666,700	0.852%	1,666,700	0.850%	1,666,700	0.852%
Amoah Kofi Dr	1,500,000	0.767%	1,500,000	0.767%	1,500,000	0.767%
STD Nom. TVL (Pty) Ltd./Standard Bank Plc clients A/C					1,094,500	0.559%
BBGN/BBH Cust DZ Bank Int. S.A. Lux-Silk FD-African Lion FD GH			1,495,000	0.760%	3,222,993	1.647%
BBGN/Barclays Maur. Re. AIG Sub-Sah. Africa Master Fund			1,000,000	0.500%	1,000,000	0.511%
BBAGN/Barclays Cap.Sec. Ltd. Cayman Clients	1,458,950	0.746%	2,821,976	1.440%		
EDC Stockbrokers Limited	869,824	0.445%				
BBGN/Barclays Maur. Re. AIG Sub-Sah. Africa Mkt Fun	850,000	0.434%	850,000	0.430%	850,000	0.434%
BBGN/PICTET Africa Non Tax 6257J			600,000	0.310%	2,050,000	1.048
Mainstream Reinsurance	517,332	0.264%				
Ghana Cocoa Company	507,500	0.259%	507,500	0.260%	824,500	0.421
Donewell Life Company Limited	500,000	0.256%	500,000	0.260%		
STD.Nom/METLIFE Share Holders Fund	500,000	0.256%				
Strategic African Securities	500,000	0.256%	500,000	0.260%		
STD Nom. TVL (Pty) Ltd./Metlife Classic Fund					615,000	0.314%

Source: Annual reports of SIC from 2008-2010

The company's current minority shareholders include: STD Nom. TVL (Pty) Ltd. /Standard Bank Plc clients A/C (3.592 percent), Ghana Reinsurance Company Limited (3.408 percent), SIC Life Company Limited (1.704 percent), BBGN/BBH Cust DZ Bank Int. S.A. Lux-Silk FD-African Lion FD GH (1.647 percent), BBGN/Barclays Maur. Re. Deut Africa Opportunity Fund (1.621 percent), SIC- FSL/SIC Provident Fund (1.608 percent), BBGN/Barclays Maur. Re. Renaissance African Master Fund (1.442 percent), BBGN/JP Morgan Chase Onshore 6178C (1.124 percent), BBGN/PICTET Africa Non Tax 6257J (1.048 percent), Ghana Commercial Bank Limited (1.022percent), Teachers' Fund (0.852 percent), Dr. Kofi Amoah (0.767 percent), STD Nom. TVL (Pty) Ltd./Standard Bank Plc clients A/C (0.559 percent), BBGN/Barclays Maur. Re. AIG Sub-Sah. Africa Master Fund (0.511percent), BBGN/Barclays Maur. Re. Renaissance African Market Fund (0.434 percent), Ghana Cocoa Company Limited (0.421 percent), STD Nom. TVL (Pty) Ltd./Metlife Classic Fund (0.314 percent) and the general populace consisting of about 80,00 who owns small numbers of shares (26.14 percent). The general public secured shares when SIC was listed on the Ghana Stock Exchange. The listing of the company was to some extent targeted to widening up the ownership stand of the company in accordance with the goals of the government's privatization program.

### ***Ownership control***

Shareholder or ownership control at SIC mirrors the ownership structure as depicted in table 16. The government, who holds the majority of the shares, exerts more control over the company than the other equity holders. This controlling function of the government is demonstrated during AGMs and by its (government) persistent influence on the decision-making processes of management.

#### *The Government-Majority shareholder*

The state wields absolute control over the affairs of the company. In regards to access to information, the government has greater advantage than other equity holders. Monthly, quarterly and yearly reports are made available to the government upon request. The management of SIC, more often than not, requires government's approval/consent before major decisions are taken. The government also has access to key persons in the company. For instance, the government has greater access to the chairman of the board and Chief executive Officer (the Managing Director) of SIC. The government has the power to summon the board chairman and the managing director to interrogate on issues pertaining to the performance of the company and the way forward. The government through its council of state/advisory group appoints key people within the company. For example, in 2009, the present government, with its greater influence, reconstituted the board with its political cohorts. Also, the managing director at that time was also directed to proceed on leave and after sometime, he was retired. The position became vacant and as result, the government appointed an acting managing director through an advice given to it by its reconstituted board.

There are inefficiencies that occur at the manner in which this control is exerted by the government. For instance, urgent issues that are needed to be taken sometimes take a very long time. Notwithstanding this weakness, the government's influence on the affairs of the company is momentous and is taken critically by management. The expression of the view by management that the government is the most relevant equity holder, whose investment ought to be upheld always point to the fact that, the government is a credible menace and induces managers to undertake decisions to maximize shareholder value.

#### *Minority Shareholders*

The annual general meeting serves as a forum for minority equity holders to be informed about management decisions that have been made during the year under review and for considering proposals of management. This is because the company's annual general meetings are not all that

important to the government as it is consistently informed about the affairs of the company by management. The involvement of the minority equity holders in the day-to-day activities of the company is made easier by the minimum disclosures mandated by the companies code, 1963 and the GSE listing regulations. Such disclosures consist of annual audited reports and quarterly non-audited financial reports. These are made available on the company's official website, newspapers and on the GSE notice boards. As a matter of fact, the kind of role minority shareholders play on annual general meetings of the company does not affect decision-making processes during these meetings. Even though minority equity holders exercise their voting rights on proposals, the outcome of the vote does depend on the government since it (the government) is the majority shareholder.

The ways in which annual general meetings are held and agendas are set reduce the potential influence of minority equity holders on the affairs of the company. In 2012, the agenda for the annual general meeting, which offers the framework for allowing complete disclosure of information and, induce accountability and transparency came under considerable criticisms from minority equity holders. A minority equity holder articulated that:

The manner in which the agenda for the meeting has been prepared is such that a number of essential elements has been mislaid in order not to allow us [shareholders] to get hold of important matters within the company. This is to furnish management the necessary platform to conceal certain important information.

This assertion implies that minority equity holders can only get hold of information if management and directors permit. This is different from how the government is treated in getting information on the firm in that, the company's management always furnishes the government with all the necessary information about the company. Table 6.8 below depicts comments on aspects of shareholder control at GCB.

**Table 6.8: Shareholder Control at SIC Insurance Company Ltd.**

	<b>At all times</b>	<b>Occasionally</b>	<b>Absolutely not</b>
Duties of the board are being fulfilled when they report to shareholders during AGMs	√		
Annual audited reports are made available to shareholders before AGMs	√		
Quarterly reports are made publicly	√		
All shareholders receive invitations to AGMs	√		
During AGMs, shareholders have the right to vote on board's proposals/suggestions	√		
Large shareholders exert extensive influence during AGMs	√		
Decisions taken at AGMs are subject to voting	√		
The kind of influence that majority shareholders have in the selection or appointment of directors makes it possible for them to exert control over the firm	√		
It is easy for large shareholders to have access to very important personalities in the firm	√		
Decisions of management or directors can be questioned or altered by large shareholders	√		
Shareholders have the right to call for Extraordinary General Meetings for clarifications of issues		√	

Source: Fieldwork

#### **6.2.4 Effectiveness of the board**

The factors that usually determine the effectiveness of a board with respect to board control were explored and examined. These factors are: the board composition; director independence; the leadership structure of the board; board meetings; board audit committee; and board remuneration committee.

##### ***Board composition***

Currently, SIC has nine board members of whom eight are non-executive directors and the remainder, an executive director. The directors are made up of business magnates, an actuary, a chartered accountant by profession, a lawyer, a medical practitioner, an engineer, economist and a financial analyst, and the managing director who in effect is the Chief Executive Officer of the company. Some of the board members are either heads of, or occupy key positions in other corporate organizations. Others have also occupied key positions in other organizations. For instance, the current board chairperson served as the Chief Executive Officer of Ghana Reinsurance Company in 1997. He was also one of the board members of Ghana Stock Exchange. More so, the Managing Director of the company is the chairperson of the academic board of the Ghana Insurance College and also serves on the board of Ghana International Bank.

##### ***Board Independence***

To settle on director independence, the method of appointment and possible connection between the CEO and major equity holders were scrutinized. Appointment/Selection of members to serve on the company's board is made through a method agreed on by the government. This implies that the government, through its council of state (advisory body), appoints its political fellows to partake in the business decision-making processes of the company. Therefore, a large number of equity holders is not involved in the company's decision-making processes and allocation of the company's limited resources. The process of identifying a potential director to represent the government on the company's board is politically induced. A typical example is what happened in 2008, when there was a change of government. Consequently, the company's board was reconstituted by the present government in power. In an interview with one of the board members, this was what he had to say:

.....this problem has been with us since time in memorial and until the state started building strong institutions to find solutions to it once and for all, we would live with this for a very long time to come. Why am I saying this? Even though I was appointed by the government to serve on this board by bringing on board my expertise, I am not independent. This is because, I have been selected to serve the government's interest..... Also, upon the exit of this government, I will have no option than to exit or vacate my post..... Is that what we want in this country? I don't like this idea but our society has made or crafted it to be like that and we don't have any option but to live with it. It is pathetic.....

Although the constitution of the board is usually political, the government through its advisory group (council of state) does select well-qualified persons to serve on the company's board. With this, the advisors are charged by the government to appoint members who are economically, socially or psychologically independent of management.

##### ***The leadership structure of the board***

The positions of the board chairperson and that of the managing director have been separated. This brings about checks and balances in the decision-making processes of the company. This is in line with the fifth principle of OECD, which states that the separation of the positions of the Chief

Executive Officer (CEO) and the chairperson of the board may be considered as the best practice. This can help attain an appropriate balance of power, increase accountability and objectivity, and improve the ability of the board for decision making, which is independent of management.

However, as noted earlier, the government appoints the chairman and managing director (Chief Executive Officer) of SIC and as a result; the chairperson of the board is not independent of the government. The managing director works hand-in-hand with the board chairperson in managing the company as well as in the preparation for board meetings. This furnishes the chairperson with a lot of information when he needs them. During annual general meetings, the managing director relies on the company's chairperson for assistance. Any time the managing director deems it necessary to get an approval of an issue from the board, he first and foremost thrashes out with the chairperson who will eventually support the managing director's position during board deliberations. This points to the fact that the managing director has to convince the chairperson in order to have his support. The implication is that directors can fail to accept proposals of management.

### ***Board meetings***

Board meetings are carried out four times a year and can be scheduled or increased as situations require. Reports on the company are sent to members four (4) weeks ahead of the meeting in order to give board members ample time to prepare. One other channel upon which board members use to get access to information about the company is by meeting the managing director (Chief Executive Officer). Meeting agendas are set by management, but they need to be approved by the board. The agenda for the meeting is the first item to be deliberated and agreed on. Further, matters that directors put forward are incorporated into the agenda, which generally contains: Approval of previous board meeting minutes; matters/issues arising; quarterly financial performance report; and any other business. This arrangement does help in the management of the company's affairs and serves as a platform of progress assessment as well as serving as a basis for subsequent actions.

### ***Board audit committee***

SIC has established a formal audit and finance committee for the purpose of how to apply the financial reporting and internal control ethics, and for upholding a suitable connection with the organization's external auditors. The committee consists of four (4) non-executives directors. Rules governing the committee avoid/bar the board's chairperson from being the committee's chairperson. The committee requires at least two (2) of its members to be financially literate at the time such members are selected. It is required of the internal auditor of the company to attend meetings of the committee.

The principal duties and responsibilities of the committee are: Monitoring the maintenance of proper accounting records and the reliability of financial reports used in the affairs of the company; putting forward reasonable assurance of the protection of assets against unauthorized use or disposition; authorizing, directing and reviewing the program of the internal auditor; receiving reports from the internal auditor and considering the major findings of those reports; monitoring follow-up activities of management; keeping accounting policies of the company under review and making recommendations to the board to amend or repeal such policies; monitoring compliance with the vital legal and regulatory framework; presenting audit reports to board members during board meetings; discussing any challenges or reservations that arise from the interim or final audit and any issues the external auditor may wish to deliberate on; reviewing the way in which management ensures and monitors the manner, magnitude and efficacy of the company's accounting, risk management and financial control systems; and holding discussions with the external auditor ahead of the period their audit commences.

The committee has the authority of the board to scrutinize any actions that fall within its main duties. It also has the authority to seek any information it needs from any employee, past and present and such employee is fully obliged to cooperate with any demand made by the committee. The committee also has the authority of the board of directors to obtain outside legal or other independent professional advice and if it deems it necessary to seek the services of outsiders with vital experience and expertise to undertake its duties and responsibilities, it could do so. Through this arrangement, the board's awareness of decisions of management and the board's capability to exercise control over decisions of management are enhanced.

**Board remuneration committee**

The company has not established a formal remuneration committee. However, the audit and finance committee of the company has been delegated by the board to look into issues concerning compensation packages. The audit and finance committee has been tasked by the board to deal with the following issues: Recommending the levels of remuneration of non-executive directors for approval by the board and ultimately by the shareholders; undertaking of annual reviews of executives emoluments; and reviewing and recommending to the board, executives and staff bonuses and long-term incentive packages. Since non-executive remuneration packages are to be approved by the board and ultimately by shareholders, the government always has an influence on them. This is because before the board approves these remuneration packages, they are communicated to the government for its endorsement prior to annual general meetings. Table 6.9 below depicts the result of the interviews on the determinants of board effectiveness in respect of the board's control function.

**Table 6.9: Effectiveness of the board of SIC**

	At all times	Occasionally	Absolutely not
For the past 10 years, majority of board members have been NEDs	√		
There is an existence of social or economic tie between directors and the firm			√
There is an existence of social or economic tie between directors and top managers			√
There is a presence of social or economic tie between directors and majority shareholders		√	
Positions of the CEO and the Chairperson have been separated and occupied by different people for the past 10 years	√		
There is an existence of an audit committee instituted by the board	√		
There is a presence of a board remuneration committee			√
Majority of the members on the audit committee are NEDs	√		
NEDs form majority on the remuneration committee	<b>NO REMUNERATION COMMITTEE</b>		
Membership appointments to the audit committee are made known to shareholders	√		
Membership appointments to the remuneration committee are made known to shareholders	<b>NO REMUNERATION COMMITTEE</b>		
There are criteria for the selection and replacement of directors			√
There is a laid down procedure upon which board meetings are held	√		
Before board meetings, information about the firm are made available to members on time	√		

Source: Fieldwork



### 6.2.5 Board control

With an advice from the board of directors, the power of hiring or selecting the managing director is vested in the government. The board can only advise the government if directors have the view that the managing director is not performing satisfactorily. For instance, in 2012, with an advice from the board of directors to the government, the managing director was relieved of his position. The reason for his dismissal was not effectively communicated to other shareholders since the board did not want to disclose what happened. With this, most of the minority shareholders were disappointed with this action of the board. This displeasure came to bare during the company's 2012 annual general meeting when one of the minority shareholders raised the issue. He was looking for some clarifications from the board chairperson, but he did not get any. In accordance with this, most of the minority shareholders walked out of the meeting to exhibit their displeasure. They thought, with that demonstration, the board would be persuaded to give an explanation, but it did not work the way they (minority shareholders) wanted. In an interview with one of the minority shareholders after the meeting, this was what he had to say:

.....I do not consider our board as a credible or dependable board. A board, which does not want minority shareholders to know exactly what goes on in the company they have a stake in....Oh my God!! I have regretted investing in such a company. Today this, tomorrow that. What at all do they [board members] do? Perhaps it is not their fault since there is a big hand [the government] that instructs them to serve its interest. What I mean is, all of them [board members] are government appointees and they are being compelled to serve the government's interest. Everything is political..... There is something fishy somewhere and we [minority shareholders] need to know.

This revelation points to the assertion that although shareholders are usually assumed to possess the right to demand changes in companies, the right of minority shareholders to equally partake in carrying out these changes are normally impeded (Mantysaari, 2005). This overtly illuminates that the board of SIC does not have the authority to appoint or fire the company's managing director unless it has been given the go ahead by the government (the major shareholder) to undertake such decisions. Although the audit and finance committee of the company determines remuneration packages of the managing director and individual directors, it has to be always approved by the government. The board through its audit and finance committee has instituted a formal evaluation structure to evaluate/assess the performances of the managing director, board members and the activities of the board. An implicit assessment of the performance of management happens on an incessant basis. It can be stated further that additional evaluation of management, directors and the activities of the board is not vital in the sense that the government carries out an assessment, based on the normal presentation of reports to the government by management. Therefore, the government executes all the control functions, which are more often than not, in the domain of the board of directors. The implication is that the board plays a more advisory/counseling role to management rather than wielding control over it. Table 6.10 below shows the responses with regard to board control in the case of SIC. It can be figured out that the board of SIC has a limited control function.

**Table 6.10: Board control at SIC**

	At all times	Occasionally	Absolutely not
Decisions in terms of hiring a CEO is made by the board			√
The CEO can be replaced by the board in case of mismanagement		√	
Strategies are discussed and approved by the board	√		
Decisions on the CEO's remuneration package is made by the board via the remuneration committee			√
The activities of the CEO are assessed by the board	√		
The board makes sure the firm complies with existing laws regarding the day to day running of the firm eg, Generally Accepted Accounting and Auditing Principles laid down by ICAG	√		
The board determines the type of information it needs from management anytime	√		

Source: Fieldwork

### 6.2.6 Analysis and confirmation of propositions

The level of control that the government exerts in the case of SIC is significant. Regular access of information and the power to appoint or fire key individuals of the company imply that management will always take decisions to meet the government's interest. This portrays the government as a credible threat and therefore, plays a vital role in tackling agency problem. This verifies proposition 1 that *equity holders that possess the majority of shares in a corporate entity exert control*. Unlike GCB where the government always exerts effective control, the case of SIC is different in that this control is always not effectively and efficiently effected. The rate at which decisions are made by the government is slow and it points to the fact that, a certain degree of inefficiency exists with regards to the use of power possessed and information accessed by the government.

In respect of board meetings, the findings indicate that they are carried out in an effective and efficient way. This stems from the fact that board members are always being furnished with requisite information by management. This put board members in a position where they can query management on certain issues that are not clear to them during board meetings. Even though board members have control over management, inasmuch as the government always influences decisions of both management and the board, the control function of the board is limited. The implication is that, proposition 2, which states that: *Effective and efficient board meetings result in an extensive board control in a corporation* is not confirmed in the case of SIC.

The separation of the role of the managing director and that of the chairperson of the board is in line with the agency theory in terms of strengthening board control. Even with this, at SIC, the board chairperson is not independent of the controlling shareholder and because of this; he (chairperson) does not play any significant role in enhancing board control. Since the position of the managing director and that of the chairperson have always been government appointees, and hence being influenced by the government always, proposition 3 that: *The non-duality structure with an independent chairperson results in panoptic board control in a company* is not confirmed in the case of SIC.

The findings in terms of a prim and proper audit committee depict that a formal audit committee has been instituted with non-executive directors as its members. Even with this, the role of the committee is irrelevant stemming from the fact that the government does exert control over the affairs of the company. This means proposition 4(a), which states that: *Instituting a board audit committee with independent directors as its members, leads to an extensive board control in a company* is not confirmed in the case of SIC.

With regards to a board remuneration committee, the company has not established a formal remuneration committee. For this reason, proposition 4(b) that, *instituting a board remuneration committee with independent directors as its members, leads to a panoptic board control in a company is not* confirmed in the case of SIC. Notwithstanding the non-verification of this proposition, there are evidence that the presence of such a committee is necessary in enhancing the effectiveness and efficiency of the board in terms of its control function. The presence of the audit and finance committee to carry out works that are to be performed by the remuneration committee points to the need to institute such a prim and proper remuneration committee.

### **6.3 UT Bank Ghana Limited**

This section of the analyses will address the background, profile and activities of the UT bank. It will further the analyses by highlighting the financial performance of the bank for the period, 2008-2011. It will examine the bank's corporate governance framework by illuminating how both the ownership structure and board structure lead to shareholder control and board control respectively. Finally, the confirmation or disconfirmation of the study's propositions will be examined on the basis of the evidences gathered from the company.

#### **6.3.1 Background, profile and activities of the Company**

UT bank Ghana Limited (formerly UT Financial Services Limited) started business as a finance house in 1997 under the name Unique Trust Financial Services (UT Bank Annual Report, 2011). From an unassuming beginning as a privately owned business entity in Ghana, UT Financial Services became a publicly owned company in 2008 with stocks listed and actively traded on the Ghana Stock Exchange. Although UT was initially to focus on servicing the 'unbanked' informal sector, over the past few years, its services have extended to include the formal sector and offering stop gap loans and trade financing to Small and Medium Scale Enterprises (SMEs).

The bank offers a very solid business structure, flexible and opportune financial needs to its clients in at most forty-eight (48) hours. With its 26 branches countrywide, over 600 staff and a twelve-monthly turnover of GhC 74 million, UT bank is one of the fastest growing and formidable indigenous banks in Ghana. The bank has for some years dedicated itself to serving the desires of Ghanaian traders' businesses, not usually catered for by the traditional banks.

Currently, the bank provides a wide range of products and services to its valued clients. These are: 1) Unique Current Account- it is designed to allow clients to carry out their businesses with cheques. The motive behind this is that the bank does not want its clients to carry with them huge sums of money everywhere to make transactions; 2) Unique Savings Account- it is designed to induce persons to set aside money in a gradual manner to meet up future and unforeseen contingencies. This product can be used as security to apply for loans from the bank; 3) Unique smartcard- it is designed to secure a channel to make transactions based on biometric identification and therefore, allow holders of the card and merchants to carry out funds upload, spend and settle a variety of transactions including deposit, payment, withdrawal and transfer; 4) Foreign Accounts, which is made up of Foreign Exchange Account and Foreign Currency Account; 5) Investment Products- it is designed to provide a safe and sound return for money that a person, corporate entity, association and even government agencies are not prepared to make use of immediately; 6) Loans- consisting Asset Finance, Fon4loan and Business Loans; and 7) Remittances.

#### **Firm Performance**

UT bank Ghana Limited is one of the fastest growing indigenous banks in Ghana. In consequence of its overwhelming performance since its inception, the bank has received numerous awards that make it one of the outstanding companies that have been contributing immensely to the socio-economic development of Ghana. In 2003, the bank was regarded as being the best non-financial

institution by Ghana Investment Promotion Center (GIPC). The bank was also adjudged the 18<sup>th</sup> best company as well as the 3<sup>rd</sup> best financial institution in Ghana the same year by GIPC. In 2004, it maintained its position as the 3<sup>rd</sup> best financial institution as well as the best financial institution in Ghana. In addition, its position as the 18<sup>th</sup> best company in 2003 improved to 13<sup>th</sup> best corporate entity in 2004. Table 6.11 below shows the various endorsements, in terms of banking and national awards that UT has chalked over the years.

**Table 6.11: Banking and National awards of UT bank Ghana Ltd.**

YEAR	AWARDS
2005	1. 2 <sup>nd</sup> Best Company in Ghana by GIPC. 2. Best Non-Bank Financial Institution by GIPC. 3. Best Financial Institution by GIPC.
2006	1. UT won the Chartered Institute of Marketing, Ghana's (CIMG) advert of the year award. 2. The CEO of UT won the CIMG's Marketing Man of the year
2007	UT won an award for its outstanding contribution to the Socio-economic development of Ghana under the Business and Financial Services Excellence Awards.
2008	1. Order of the Volta Award conferred on the CEO by the then President of Ghana. 2. The Bank's CEO was adjudged the Most Respected CEO for the year 2007 by GIPC. 3. 2 <sup>nd</sup> most respected company by GIPC.
2009	1. 5 <sup>th</sup> Best Company in Ghana. 2. 2 <sup>nd</sup> Best Financial institution by GIPC. 3. Best Non-Bank Financial Institution in Ghana by GIPC.
2010	1. 5 <sup>th</sup> Best Company in Ghana by GIPC. 2. 2 <sup>nd</sup> Best Financial Institution in Ghana by GIPC. 3. Number one Indigenous Company by GIPC.
2011	1. 41 <sup>st</sup> Position of Top 100 companies in Ghana by GIPC. 2. Best bank in Short Term Loan Financing under the Ghana Banking Awards Scheme. 3. 2 <sup>nd</sup> Runner up of IT and electronic platform under the Ghana Banking Awards Scheme.

Source: UT annual reports (2008-2011)

In 2005, the bank was regarded as being the 2<sup>nd</sup> Best company in Ghana, Best Non-Bank Financial Institution as well as Best Financial Institution by GIPC. Whilst the bank's CEO won the CIMG's marketing man of the year, the bank, itself received the CIMG's advert of the year award in 2006. Moreover, because of the bank's outstanding contribution to the social and economic development of Ghana, it received award during the Business and financial Services Excellence awards held in 2007. Furthermore, in the year 2008, the Order of the Volta award was conferred on the bank's CEO for his visionary leadership by the then President of Ghana. The bank was also adjudged the second most respected company in Ghana by GIPC. UT bank became the fifth best company as well as the second best financial institution in Ghana in 2009. In addition, the bank was also regarded as the best non-bank financial institution in Ghana by GIPC. In 2010, the bank maintained its position as the fifth best company as well as the second best financial institution in Ghana. This same year, it was adjudged as the number one indigenous company in Ghana. More so, the bank was able to pick an award as the 2<sup>nd</sup> runner-up of IT and electronic platform under the Ghana Banking Awards Scheme in 2011. It also became the best bank in short term loan financing under the same award scheme in 2011.

## **Financial Performance of UT**

### *2008 Financial Performance*

By the mid-year of 2008, the bank's operational results were very strong, which accounted for its initial public offering becoming the major single profitable offer to date (UT Annual report, 2008). UT bank recorded a pre-tax profit of GHC 7.6 million in 2008 compared with GHC 5.9 million in 2007, representing a 28 percent growth. The post-tax profit of the bank in 2008 stood at GhC 5.3 million as weighed against GHC 4.4 million in 2007, showcasing a growth of GHC 0.9 million. With the bank's portfolio standing at GHC 100 million, Loans and Advances was up to GHC 98.1

million in 2008 as against GHC 57.2 million in 2007, indicating a 46 percent growth. The bank's inactive portfolio was halved and management was able to retain more than half of the bank's profit before provision for bad debt for the first time. The total operating income increased to GhC 33.8 million in 2008 as against GHC 30.8 million in the previous year, signifying a growth of 10 percent. The bank's cost efficiency ratio in 2008 was also up to 49 percent as compared with the recorded figure of 45 percent in 2007, indicating a 4 percent growth. Further, the bank's profit attributable to its shareholders increased to GHC 5.3 million in 2008 as against GHC 4.4 million recorded in 2007, portraying a 21 percent growth. More so, whilst the bank's earnings per share increased to GHC 0.035 in 2008 as weighed against GHC 0.022 in 2007, representing a 61 percent growth, Return on Average Invested Capital was decreased from 237 percent in 2007 to 64 percent in 2008. Moreover, weighing against the figure of GHC 11.1 million in 2007, the bank's total equity rose to GHC 16.9 million in 2008, exhibiting a growth of 52 percent. Finally, the bank chalked a growth of 68 percent of its total assets from GHC 75 million in 2007 to GHC 127.8 million in 2008.

#### *2009 Financial Performance*

UT bank witnessed a profit before tax of GhC 9.7 million in 2009 as weighed against the GHC 7.6 million in the previous year, exhibiting an increase of GHC 2.1 million. Profit after tax recorded GHC 7.5 million in the year under review compared with the recorded figure of GHC 5.3 million in the previous year, denoting a rise of GHC 2.2 million. Also, Loans and advances stood at GhC 138.3 million in 2009 weighing against the GHC 98.1 million recorded figure in the previous year. This means that Loans and Advances increased by GHC 40.3 in 2009. Further, the bank's total operating income rose by GHC 1.5 million, from GHC 33.8 million in the previous year to GHC 35.3 million in 2009. With regards to the cost efficiency ratio, the bank recorded a 1 percent growth from 49 percent in the past year to 50 percent in 2009. More so, the bank's profit attributable to its cherished ordinary shareholders stood at GHC 7.5 million in 2009 compared with GHC 5.3 that was recorded in the previous year, portraying an increase of GHC 2.2 million. Moreover, basic earnings per share increased to GHC 0.04 in 2009 against the recorded figure of GHC 0.035 in the preceding year, indicating an increase of GHC 0.005. The bank's total equity was up by GHC 5.5 million from GHC 16.8 million in the previous year to GHC 22.3 million in 2009. Lastly, the bank's total assets also exhibited a tremendous improvement judging from the previous year's figure of GHC 127.8 million. The total assets for the year, 2009, stood at GHC 211.9 million, denoting an increase of GHC 84 million.

#### *2010 Financial Performance*

The bank recorded a pre-tax profit of GhC 12.2 million in 2010, exhibiting a GhC 3.0 million growth over the previous year's value of GhC 9.7 million. Post-tax profit stood at GhC 9.9 million in 2010 as against the GhC 7.5 million witnessed in 2009. This implies the bank's net profit increased by GhC 2.4 million in 2010. The bank's loans and advances increased by GhC 177 million from GhC 138.3 million in 2009 to GhC 315.3 million in 2010. More so, its operating cost was up by 30 percent from the previous year's figure of GhC 35.3 million to GhC 45.7 million in 2010. This increase was predominantly as a result of the acquisition of 'UT Bank' and the costs of the expanded operations; its branches increased from 16 to 26 and staff from 400 to 600. Meanwhile, the cost to income ratio of the bank moved to 58 percent from the previous figure of 48 percent. Customer deposits surged up by 128 percent, from the GhC 165.3 recorded in 2009 to GhC 377.3 million in 2010. Further, shareholders fund also increased to GhC 51.1 million in 2010 from the immediate past year's GhC 22.3 million, representing a 129 percent increase. Meanwhile, basic earnings per share reduced by GhC 0.01 from GhC 0.04 in 2009 to GhC 0.03 in 2010. Finally, the bank witnessed a significant improvement in its total assets in 2010. It increased by 144 percent, from GhC 211.9 million in 2009 to GhC 516.6 million.

### *2011 Performance*

UT Bank overall market return for 2011 was -3.10 percent, a dismissal performance when compared to the value recorded in the previous year (UT Bank Annual report, 2011). Financial stocks rapidly dropped yielding a return of -13.69 percent at the end of 2011 calendar year. Meanwhile, UT bank stocks gained an inspiring 14.29 percent return. The share price of the bank generally held from month to month made some gains during the first half of the year. Profit before tax in 2011 was GhC 17.3 million as compared to GhC 12.1 million in 2010, signifying a growth of GhC 5.2 million. With the introduction of the National Stabilization Levy, the bank recorded a post tax profit of GhC 13.1 million, representing a GhC 3.2 million over the previous year's GhC 9.9 million. Total loans and advances stood at GhC 475.2 million as against the GhC 315.3 million in 2010, denoting a GhC 159.9 growth. The operating income of the bank was up by GhC 33.3 million from GhC 45.7 million in 2010 to GhC 79 million. Also, weighing cost to income ratio of 60 percent against 58 percent recorded in 2010, there was an increase of 45 percent (GhC 50 million) in 2011. More so, customer deposit surged up to GhC 545.8 million in 2011, showing a GhC 168.5 million rise over the figure recorded over the same period in 2010. There was an increase in shareholders fund by GhC 10.1 million from the immediate past year's figure of GhC 51.1 million to GhC 61.2 million in 2011. More so, the bank's basic earnings per share rose by GhC 0.01 in 2011. It increased from GhC 0.03 in 2010 to GhC 0.04 in 2011. Lastly, total assets went up to GhC 712 million, representing a 38 percent growth. This rapid increase necessitated an increase in deposit to assist loan book. Table 6.12 below shows a tabular representation of the financial performance of the UT bank from 2008 to 2011.

**Table 6.12: Financial Performance of UT Bank: 2008-2011**

GHC	2008	2009	2010	2011
Profit before Tax	7,550,000	9,705,000	12,160,000	17,300,000
Profit after Tax	5,300,000	7,521,000	9,905,000	13,065,000
Total Assets	127,823,000	211,921,000	516,632,000	712,864,000
Shareholders Fund	16,878,000	22,279,000	51,087,000	61,229,000
Customer Deposits	-	165,275,000	377,286,000	545,808,000
Total Loans & Advances	98,116,000	138,281,000	315,297,000	475,232,000
Earnings per Share	0.03	0.03	0.03	0.04

Source: UT bank Annual Report (2008-2011)

### **6.3.2 Corporate governance framework**

Corporate governance structure of this company reflects the shareholder perspective model of corporate governance enshrined in the companies code 1963 (Act 179) in which board directors are appointed by the company's shareholders. Shareholders are the only organizational constituents that carry out corporate governance-related activities in the company including voting at the annual general meeting. The corporate entity has a one-tier board system.

### **6.3.3 Ownership structure and Shareholder control**

#### **Ownership structure**

The initial capital for the establishment of this company was provided by two founding entrepreneurs. These entrepreneurs who still hold stocks in this company are a business consultant and retired military officer, and a distinguished Ghanaian business executive. In 2008, the two entrepreneurs decided to strengthen the company's brand to enable it to succeed in expanding to other operational areas. As a result, these two entrepreneurs created UT holding Ltd by combining their holdings to consolidate activities of their affiliated corporate entities.

The bank became a publicly owned company in 2008 with shares listed and actively traded on the Ghana Stock Exchange. The company issued 15,000,000,000 ordinary shares. In May, the same year, a resolution was passed to consolidate the authorized stocks of the company to 750,000,000. Databank Brokerage Ltd. and Databank Balance Fund, both subsidiaries of Databank Group obtained shares in that year. The ownership structure after the company's listing on the Ghana Stock Exchange in 2008 is portrayed in Table 6.13 below. The years covered in this table signify a period during which significant alterations took place with regards to the ownership structure of the corporate entity; mainly the spread of the ownership base of the bank with other shareholders obtaining major stocks.

UT holdings Ltd. is presently, the majority shareholder of UT bank. It holds 61.11 percent of the total shares of the bank. Even though UT holdings Ltd. holds a majority of the company's shares, it does not regard UT bank as its subsidiary. This is as a result of the fact that it does not have absolute control over the board of directors of the company stemming from the fact that there are some limitations provided in the company's rules and regulations guiding it.

**Table 6.13: The Ownership Structure of UT Bank**

Identity of Shareholder	2008		2009		2010	
	Shareholding	Percentage	Shareholding	Percentage	Shareholding	Percentage
UT Holdings Ltd					184,565,098	61.11%
Nsonamoah Joseph Mr	60,219,750	28.58%	60,698,900	28.8%		
Amoabeng Prince Capt.	60,219,750	28.58%	60,698,900	28.8%		
SCBN/SSB London Investec Premier Funds PCC Ltd Africa Fund					17,000,000	5.63%
BBGN/Barclays Mauritius RE Kura Africa Fund					14,690,879	4.86%
Databank Brokerage Ltd	11,695,900	5.55%	11,695,900	5.55%		
SCBN/SSB London Care of SSB LDN. INV. Assets Mgt(PTY)					9,639,750	3.19%
SCBN/ Standchart Mauritius Re Kura Africa Fund						
BBGN/Epack Investment Fund Ltd/Zenith Bank	6,666,600	3.16%	6,666,600	3.16%		
SCBN/EPACK Investment Fund Ltd- Transactions A/C					6,666,600	2.21%
SCBN/ Standchart Mauritius Re Deut Africa Opportunities Fund						
UTFSL ESOP	4,000,000	1.89%	4,000,000	1.89%		
SCBN/Chase Offshore 6179C						
SCBN/ELAC Policy Holders Fund	2,300,000	1.09%	2,300,000	1.09%	2,300,000	0.76%
SCBN/Investec Institutional Pan Africa Fund LLC-IAM4					2,600,000	0.86%
SCGN/JP Morgan Chase Duet Gamla Liv Africa Opportunities Fund IC						
SCBN//UNIL GH Managers Pension Fund	1,200,000	0.57%	1,200,000	0.57%	1,200,000	0.40%
SCBN/BB Mauritius RE UBS AG LDN. Nubuke AFR Multi STR Master					1,476,400	0.49%
UT Bank Ltd Share Deals Account					1,441,300	0.48%
Kura Africa Fund Share Warehousing Account						
SCGN/JPMC The Fulcrum Africa All Cap Master Fund						
BBGN/SAS Fortune Fund	1,000,000	0.48%	1,000,000	0.48%		
Databank Financial Service	1,000,000	0.48%	1,000,000	0.48%		
BBGN/Databank Balance Fund	999,000	0.48%	999,000	0.48%		
COCOBOD End of Service Benefit Scheme					1,056,989	0.35%
SCBN/Mauritius Re Kura Africa Step Change FD SPC for and on behalf of Kura Afr Step Change Main S.P						
SCBN/Kura Africa Fund						
KEK Insurance Broker Ltd	700,000	0.33%	700,000	0.33%	700,000	0.23%
Teachers Fund	700,000	0.33%	700,000	0.33%	700,000	0.23%
Mould-Arbenser Mariel Mrs	666,000	0.32%	666,000	0.32%	666,000	0.22%
Mould Alex Mr.	666,000	0.32%	666,000	0.32%	666,000	0.22%
Mega African Capital Ltd	666,000	0.31%	666,000	0.31%	660,000	0.22%
Nanka-Bruce Richard Henry Morton	650,000	0.30%	650,000	0.30%	750,000	0.25%
SCBN RE ELAC Shareholders Fund	650,000	0.30%	650,000	0.30%	650,000	0.22%
SCBN/Barclays Mauritius RE Herrison Fund SPC For Et On Behalf of KURA Africa Sgre					822,167	0.27%
Aidoo Charles Sydney			500,000	0.24%	500,000	0.17%
Bediako Kwaku Mr.			500,000	0.24%		
Ben-Ahmed Musah Mr.			500,000	0.24%		

Source: UT Bank Annual Reports (2008-2010)



### ***Shareholder control***

Unlike the previous two cases, where stockholders with majority of the companies' equity capital are able to exert control over the corporate entity, the governing rules and regulations of this bank have set a limit to the extent of control executable by a single equity holder through the board. A single equity holder is entitled to appoint only one director to the board of the company. However, the controlling shareholder (UT holdings Ltd.) has the tendency to wield a certain level of influence on management decision-making processes. Management seeks information from the representative of the controlling shareholder before any major decision is made.

The founding members of UT bank demanded vehemently that equity holders ought to be directors so that they could partake directly in the decision-making processes of the bank. If not, they can select people to represent them on the board. In this case, each equity holder has direct access to the person he/she/it has selected.

Directors are mandated to report to stockholders irrespective of their holdings during annual general meetings. Inasmuch as equity holders with at least 5 percent of equity capital can either be board members or select board members, such equity holders have access to important information about the dealings of the bank. Annual general meetings are vital to minority equity holders who in real terms cannot access information directly through board members. In respect of influencing decisions, these annual meetings serve as forums to inform minority shareholders about the operations of the bank since they have no adequate/satisfactory power to alter decisions. In case of voting on issues that are raised during annual general meetings, the votes of minority equity holders cannot change any decision that UT holdings backs. When asked if minority equity holders, who add up to over 9000 can influence any made decisions at annual general meetings, this was what one of the non-executive directors had to say: 'there is no such influence; but when they churn out their grievances or questions, they [the questions] are courteously answered during such meetings'.

Accessing information about the bank's operations and performance mirrors the ownership structure. In spite of that, all equity holders have access to the bank's report as required by the companies' code 1963 and GSE listing regulations. Reports that are to be made known to equity holders are annual audited reports and quarterly unaudited financial statements of the company. Whilst annual audited reports are sent to each equity holder of the company at least twenty-one days as required by the companies code 1963 prior to annual general meetings, the quarterly financial statements of the bank are always made available on the company's website, GSE notice board and newspapers.

Annual audited reports contain the agenda for the annual general meeting and an invitation to the general meeting. The agenda of the annual general meeting includes; adoption of the year's statement of account of the bank, adoption of the year's annual report, confirmation of the previous year's minute, appointment/selection of external auditors, dividends declaration and consideration, confirmation of directors, fix remuneration of directors, and any other issues that arise. In addition, equity holders are also given the chance to tender issues that concern them to be included in the agenda. However, no such act was encountered during the study's observation. Table 6.14 below brings out the responses in respect of shareholder control at UT bank.

**Table 6.14: Shareholder Control at UT Bank**

	At all times	Occasionally	Absolutely not
Duties of the board are being fulfilled when they report to shareholders during AGMs	√		
Annual audited reports are made available to shareholders before AGMs	√		
Quarterly reports are made publicly	√		
All shareholders receive invitations to AGMs	√		
During AGMs, shareholders have the right to vote on board's proposals/suggestions	√		
Large shareholders exert extensive influence during AGMs	√		
Decisions taken at AGMs are subject to voting	√		
The kind of influence that majority shareholders have in the selection or appointment of directors makes it possible for them to exert control over the firm		√	
It is easy for large shareholders to have access to very important personalities in the firm	√		
Decisions of management or directors can be questioned or altered by large shareholders	√		
Shareholders have the right to call for Extraordinary General Meetings for clarifications of issues		√	

Source: Fieldwork

### **6.3.4 Effectiveness of Board of directors**

Factors that determine board effectiveness of the board of UT bank in exercising control are examined. These are; board composition; director independence; leadership structure of the board; board meetings, board audit committee and board remuneration committee.

#### ***Board composition***

Currently, UT bank has six board members of whom four (4) are non-executive directors. The executive directors include the Chief executive officer and his deputy. These directors are business professionals in areas such as investment, insurance, accountancy, management and so on. The two founding entrepreneurs are members of the board. They are on the board not because they founded the company, but by the degrees of their equity holdings. The constitution of the board directly mirrors the ownership structure of the company.

Board members frequently receive training in order to keep themselves abreast with current issues pertaining to corporate governance. In addition to corporate governance, in 2011, board members attended training on Information Security Systems (ISS) and Anti-Money Laundering (AML). This is in line with Knell (2006) that board members' skills and knowledge ought to be regularly updated and refreshed in order to fulfill their role both on the board and on board committees.

#### ***Director Independence***

The company's regulations governing it make it clear that equity holders who hold at least 5 percent of the equity capital in the company do qualify to select a director to represent them on the company's board. Equity holders directly select directors and most of such selectees are employees of those equity holders (ie. the appointers). In reality, this is the case of institutional investors. With the exception of the board chairperson, all the directors of the company do not have any business relationship with the company. This implies that there is no existence of psychological or economic relationships between them and the CEO. However, directors are not independent of the shareholders who appointed them.

The tradition in this company is that, immediately an equity holder has acquired adequate holdings that qualify him/her/it to select a director, the secretary of the company will convey this information about his/her/its right to select a director. As equity holders select board members they

prefer, at the time of their selection, there are no direct links between these appointments and any particular criterion since there are no clear criteria to guide these appointments. Nevertheless, the secretary of the company makes available an informal general guides to an equity holder who qualifies to make such appointment. Meanwhile, financial and investment skills were cited as key skills a director ought to possess in order to deliberate as well as influence board decisions.

### ***Leadership structure of the board***

The two top-most positions in the company have been divided. Both the chairperson and the Chief Executive Officer were founding members of the company. Logically, the division of these two positions in this company is considered as power-sharing between the founders, as opposed to considering it as an effort to introduce checks and balances to induce accountability. The CEO concentrates on the day-to-day issues of the company, accountable to corporate performance, chairs management meetings and reports to the board. The board chairman, on the other hand, manages the board, settles on its priorities, and lays down the agenda for meetings.

### ***Board meetings***

Board meetings are held four times in a year as stipulated by the company's regulations, but can be increased when the need arises. For example, the board met six times in 2011. The *modus operandi* for carrying out these meetings is fully known to all board members. The secretary of the company put together the agenda for meetings and deliberates it with the CEO. Board members are also allowed to suggest topics for deliberation at the commencement of the meeting. Along with management reports, the meeting agenda is sent to all directors twenty-one days prior to the meeting in order to allow them prepare for the meeting.

The monthly reports of management made available by the CEO provide a source for board members to exert control over management decisions by allowing members to ask critical questions. One of the directors of the company stated that the reports he has been receiving from the CEO are more detailed and informative, a situation that is different when he was serving as a board member in a company, he chose not to disclose. This is consistent with Knell (2006) that all board information need to be disseminated to board members in good time so that they can be understood and digested. This allows evocative deliberations to take place and significant decisions to be made.

### ***Board audit committee***

The bank has established an audit committee comprising three (3) Non-executive directors. In 2011, the audit committee was reconstituted and renamed Audit, Risk and Compliance committee. The committee is supposed to meet four times in a year as stipulated by the company's regulations, but when the need arises, committee members can increase the number of times they meet. For instance, in 2011, the committee met five (5) times.

This committee is supposed to authorize, direct and review the program of the internal audit unit of the company, review the company's compliance with financial and risk management control systems as well as review audit reports. It reviews important financial and other risk revelations and the mechanisms that are needed to be taken to monitor, control and report such revelations.

### ***Remuneration committee***

The bank has instituted a remuneration committee, which is made up of three (3) non-executive directors. The Committee is responsible for reviewing all human resource policies to ensure that workers are treated honestly and work in very favorable environments. It is also responsible for putting up performance indicators for the company and determining the structure of remuneration of the Bank's Chairperson and executive directors. Also, the Committee reviews and approves the

remuneration packages, incentive plans and staff bonuses for the company. These responsibilities make the board to get to know all HR, compliance and financial aspect of the firm. This is in line with the claim that the establishment of board committees is vital in assisting boards to gain vivid understanding of the company's dealings including financial aspect (Tricker, 1994). Table 6.15 shows the responses in regards to the determinants of board effectiveness in terms of the control function of the UT board.

**Table 6.15: Effectiveness of the board of directors at UT Bank**

	<b>At all times</b>	<b>Occasionally</b>	<b>Absolutely not</b>
For the past 10 years, majority of board members have been NEDs	√		
There is an existence of social or economic tie between directors and the firm			√
There is an existence of social or economic tie between directors and top managers			√
There is a presence of social or economic tie between directors and majority shareholders	√		
Positions of the CEO and the Chairperson have been separated and occupied by different people for the past 10 years	√		
There is an existence of an audit committee instituted by the board	√		
There is a presence of a board remuneration committee	√		
Majority of the members on the audit committee are NEDs	√		
NEDs form majority on the remuneration committee	√		
Membership appointments to the audit committee are made known to shareholders	√		
Membership appointments to the remuneration committee are made known to shareholders	√		
There are criteria for the selection and replacement of directors			√
There is a laid down procedure upon which board meetings are held	√		
Before board meetings, information about the firm are made available to members on time	√		

Source: fieldwork

### **6.3.5 Board Control**

Board members carry out all activities connected to the control function of the board (see table 6.16). Decision to hire the CEO is made by board members. Board members also have the ability to replace the CEO for non-performance. Members through the remuneration committee approve the CEOs remuneration package and always hold detail and informative deliberations on the company's strategy prior to the approval.

The board through its remuneration committee has put forward formal evaluation indicators to evaluate the activities of the CEO, board activities as well as individual directors. Also, the board through its audit committee makes sure that the bank complies with the existing laws (ie. Generally Accepted Accounting and Auditing Principles that are laid down by the ICAG) regarding the day-to-day running of the firm.

**Table 6.16: Board Control at UT Bank**

	At all times	Occasionally	Absolutely not
Decisions in terms of hiring a CEO is made by the board	√		
The CEO can be replaced by the board in case of mismanagement	√		
Strategies are discussed and approved by the board	√		
Decisions on the CEO's remuneration package is made by the board via the remuneration committee	√		
The activities of the CEO are assessed by the board	√		
The board makes sure the firm complies with existing laws regarding the day to day running of the firm eg, Generally Accepted Accounting and Auditing Principles laid down by ICAG	√		
The board determines the type of information it needs from management anytime	√		

Source: Fieldwork

### 6.3.6 Analysis and confirmation of propositions

In regards to ownership control at UT bank, the above discussions have shown that UT holding Ltd., which holds the majority of equity capital, exerts substantial influence on the decision-making processes of the company, and that major decisions can never be made without an approval from it. The implication is that UT holding Ltd. exerts substantial control over the company's management. Even though UT holding Ltd. has influence over the company, via the board members, such influence is limited since there is a limitation on the number of directors it can select. But it still has substantial influence on management via the direct connections between UT holdings Ltd. representative and the Chief Executive Officer of UT bank. In respect of agency problems, it can be wrapped up that UT holdings takes action to reduce agency problem in the company. This backs proposition 1 that *equity holders with majority of equity capital exert significant control in a corporate entity*.

The results in respect of board control show that the board of UT bank exerts substantial control. The majority of board members are appointees of different equity holders. These appointees are independent of management and therefore, can have views that are independent of management without compromising. Important aspects of effective and efficient board meetings are observed, and this means board meeting sessions help contribute in the enhancement of board control. This implies that Proposition 2, which states that: *Effective and efficient board meetings result in a panoptic board control in a corporation* is confirmed in the case of UT bank.

In terms of the leadership structure of UT bank, the positions of the CEO and the Chairperson of the company are separated. However, accountability is not encouraged in that this separation is viewed as a power sharing idea within the company by the two founding entrepreneurs. This means that the non-duality structure in the company's present arrangement does not attend to the role encouraged in agency theory, which tends in fostering board control over management. This means that proposition 3, which states that: *The non-duality structure with independent chairperson results in a panoptic board control in a company* is thus not confirmed in the case of UT bank.

The findings reveal that UT bank has established a board audit committee with non-executive directors as its members. This enhances board control over management in the sense that, non-executive directors of UT bank are independent of management and free from any economic or other connections with the company which could materially or psychologically compromise their independent judgment. This implies that Proposition 4(a), which states that: *Instituting a board*

*audit committee with independent director as its members, leads to an extensive board control in a company* is verified in the case of UT bank.

With respect to board remuneration committee, the findings indicate that the bank has established a remuneration committee with non-executive members as its constituents. This enhances board control over management. This means that Proposition 4(b), which states that: *Establishing a remuneration committee with independent non-executive members as its constituents leads to a significant board control* is confirmed in the case of UT bank

#### **6.4 Accra Brewery Limited (ABL)**

This section of the study's analyses will concentrate on the background, profile and activities of Accra Brewery Limited. It will then continue to analyze the financial performance of the corporate organization. Further, it analyzes the corporate governance layout of the company by highlighting how both the ownership structure and board structure work to ensuring ownership control and board control respectively. It finally addresses how the evidences gathered from the company through interviews, observations and archival records confirm or disconfirm the propositions.

##### ***6.4.1 Background, profile and activities of the Company***

Accra Brewery Limited (ABL) is the first brewing corporate organization in West Africa. It was originally established as Overseas Breweries in 1931. In 1975, the locally registered Accra Brewery Limited acquired the assets of Overseas Brewery Ltd. In 1997, it became a subsidiary of SABMiller Plc. As a subsidiary of SABMiller, the company appreciates that its profitability stems from healthy environment, growing economies and the conscientious use of scarce natural resources.

The company's vision is to be the most esteemed corporate body in the beverage sector by being: 1) The investment of choice; 2) The employer of choice; and 3) The partner of choice. ABL has a mission to own and nurture local and international brands that are the first choice of consumers. The core values of the company are: 1) That people are the company's enduring advantage; 2) that accountability is clear and personal; 3) that the company appreciates and respects its customers and consumers; 4) that the company work and win in teams; and 6) that the company's reputation is indivisible.

Currently, ABL engages in the production, marketing and distribution of alcoholic and non-alcoholic drinks and the company's leading brands include Club Gold Export, Stone Strong Lager, Castle Milk Stout, Redd's Fruit Fusion, Chibuku Shake, Castle Milk Stout, Club Cola, Club Orange, Chairman Malt Liquor, Club Shandy, Club Quinine Tonic and Peroni Nastro Azzurro.

##### ***Company performance***

ABL has approximately 30percent volume share of Ghana's beverage sector. In 2006, ABL adopted a strategy to gain their dominance in clearly demarcated areas. Each demarcated area has a minimum of twenty outlets and a maximum of sixty outlets. With this, the six key sales drivers of availability, activations, pricing, visibility, quality as well as advocacy were excellently and perfectly executed. Presently, the company has gained market share in all areas where the concept was introduced. In 2008/2009 financial year, the company invested USD\$ 20 million to purchase equipments such as bottle washer, an electronic bottle inspector, filler and a pasteurizer. After such investment, the company was able to increase its packaging capacity from 22,000 bottles per hour to 36,000 bottles per hour.

ABL is one of the most important corporate organizations to the Ghanaian economy. It is presently, one of the largest corporate tax payers in the country. In 2010, the total value-added that the

company directly contributed to Ghana's economy, 70 percent was in the form of taxes (Kapstein, Kim, Ruster & Van Manen, 2011). In terms of jobs, the company is connected directly and indirectly with a substantial number of jobs. Even though the company's employment figure stands at 900, its activities assist in supporting almost 18000 jobs across the length and breadth of the Ghanaian economy. The implication is that for every job that is created by ABL, another 20 jobs are created throughout the country.

In addition to the company's economic significance to the Ghanaian economy, ABL over the years has contributed immensely in the social needs of Ghanaians. The company focuses on three main areas: education; health and the environment. In respect of education, ABL has focused on improving school attendance by providing pupils and students with transportation in several communities in the country (example, Aboabo, Koforidua, Ada and so on). The company has also provided thousands of people living in Adabraka with free health and when the need arises, with required medical treatment. Lastly, ABL supports local farmers who provide the company with the necessary raw materials with farm equipments.

### ***Financial Performance***

#### ***2008 Financial Performance***

In 2008, ABL witnessed a profit before tax of GhC 1,804,000 as compared to the previous year's figure of GhC 326,000. This shows a substantial growth of 414 percent. Profit after tax recorded GhC 886,000, signifying a 163.1 percent growth over the figure recorded over the same period in 2007. The company's operating cash flow witnessed a 58 percent fall, from GhC 7,053,000 in 2007 to GhC 2,912,000 in 2008. Shareholders' fund recorded an increase from GhC 10, 530, 00 in 2007 to GhC 11,167,000 in 2008, representing a 6.0 percent rise. More so, the company's earnings per share in 2008 rose to GhC 0.0036 as compared with the previous year's value of GhC 0.0014. This portrays a significant growth of 163.1 percent. Lastly, ABL's total asset rose from GhC 24, 232,000 in 2006 to GhC 26,954,000 in 2008, denoting a growth of GhC 2, 722, 000.

#### ***2009 Financial Performance***

ABL witnessed a pre-tax profit of GhC 2,427,000 in 2009, representing a 244.8 percent growth over the previous year's figure of GhC 1,676,000. Post-tax profit of the company also saw a substantial growth of 352.8 percent, from GhC 886,000 in 2008 to GhC 2, 240, 00 in 2009. More so, ABL's operating cash flow increased from GhC 2,912,000 in 2008 to GhC 22,182,000 in 2009, denoting a significant growth of 661.7 percent. Shareholders' funds reduced from GhC 11,167,000 in 2008 to GhC 8,303,000 in 2009, representing a 25.6 percent reduction. Further, ABL's earnings per share recorded GhC 0.0090 in 2009 from GhC 0.0036 in 2008, signifying a 352.8 percent rise. Lastly, the company's total assets increased considerably to GhC 55, 815, 00 in 2009 as compared to GhC 26,954,000 in 2008, depicting a growth of GhC 28,861,000.

#### ***2010 Financial Performance***

In 2010, the company witnessed a profit before tax of GhC 6,813,000 as compared with the previous year's figure of GhC 2,427,000, representing a significant growth of 180.7 percent. ABL recorded a post tax profit of GhC 5,671,000 in 2010, a GhC 3,431,000 growth over the recorded figure of GhC 2,240,000 in the previous year. Further, the company's operating cash flow stood at GhC 5,080,000 in 2010, signifying a reduction of 122.9 percent as compared with GhC 22,182,000 recorded in 2009. ABL's shareholders' funds also reduced to GhC 2,632,000 in 2010 from GhC 8,303,000 in 2009, indicating a 68 percent reduction. However, Earnings per share recorded GhC 0.0227 in 2010 as compared with the GhC 0.0090 in 2009, denoting a growth of 153.1 percent. Finally, ABL's total assets for 2010 financial year stood at GhC 73,610,000, portraying a GhC 17,795,000 growth over previous year's value of GhC 55,815,000. Table 6.17 below depicts a tabular representation of the financial performance of ABL from 2008-2010.

**Table 6.17: Financial Performance of ABL: From 2008-2010**

GHC	2008	2009	2010
Profit before Tax	1,676,000	2,427,000	6,813,000
Profit after Tax	886,000	3,431,000	5,671,000
Total Assets	26,954,000	55,815,000	73,610,000
Shareholders Fund	11,167,000	8,303,000	2,632,000
Operating Cash Flow	2,912,000	22,182,000	5,080,000
Earnings Per Share	0.0036	0.0090	0.0227

Source: ABL Annual Report (2008-2010)

#### **6.4.2 Corporate governance framework**

The company's corporate governance framework has to fit within the one recommended in the companies code 1963. This framework regards equity holders as constituents of the company and that they have the right to take part in the company's affairs. ABL has a unitary board, which is referred as supervisory board. This board supervises the activities of management and it is the uppermost decision making body in the company. It has decision control rights.

The company also has an Executive Management Committee that is responsible for the day-to-day operations of the company. The Managing director heads this committee. Members who constitute this committee are referred to as directors. For instance; the finance director, technical director, operations director and so on. This committee serves as a nexus between the managing director and supervisory board. All senior managers report to the managing director who presides and superintends over all meetings and reports to the supervisory board. More so, the Managing Director reports to the management of SABMiller.

#### **6.4.3 Ownership structure and control**

##### ***Ownership structure***

Over the years, the ownership structure of ABL has changed. This change in the identity and degree of ownership mirrors changes in the Ghanaian economy with regards to government ownership of organizations and the development of private ownership of organizations progressively. The company was established and owned by Overseas Brewery Ltd. In 1975, a state controlled locally registered company called Accra Brewery Limited acquired the assets of Overseas Brewery Ltd. Twenty-two years after, the state decided to sell its shares in the company as a result of the divestiture implementation program by the state. In view of this, SABMiller plc purchased the majority of the shares making it the majority shareholder with 69.20 percent. ABL is now a subsidiary of SABMiller. This mirrors the growing control of important Ghanaian corporate organizations by multinational companies. Table 6.18 below indicates the identities and the various holdings of the shareholders of ABL.



**Table 6.18: The Ownership Structure of ABL**

Identity of Shareholder	2008		2009		2010	
	Shareholding	Percentage	Shareholding	Percentage	Shareholding	Percentage
Overseas Brewery Limited	172,624,029	69.20%	172,624,029	69.20%	172,624,029	69.20%
SSNIT	27,763,719	11.13%	27,763,719	11.13%	27,763,719	11.13%
BBGN/SSB TST X71 AX71	14,904,183	5.97%	14,904,183	5.97%	23,904,183	9.58%
Strategic Initiative Limited	4,049,465	1.62%	4,049,465	1.62%		
Ziga Investments Limited	3,074,666	1.23%	3,074,666	1.23%	3,074,666	1.23%
B.B.G. Nominee/EPACK Investment Fund Limited	2,954,330	1.18%	2,954,330	1.18%	1,480,183	0.59%
Mr. G. Amenuvor	2,294,262	0.92%	2,294,262	0.92%	2,294,262	0.92%
StarLife Assurance Company Limited	1,920,000	0.77%	1,920,000	0.77%	1,920,000	0.77%
Accra Brewery Ltd Employees Trust	1,897,762	0.76%	1,897,762	0.76%	1,897,762	0.76%
Databank Brokerage Limited	1,408,366	0.56%	1,408,366	0.56%	1,408,366	0.56%
Mr. P. Hammond	510,000	0.20%	510,000	0.20%	510,000	0.20%
SAS Nominees 3	498,800	0.20%	498,800	0.20%		
SAS Nominees 1	413,400	0.17%	413,400	0.17%		
Mr. J. Idun-Ogde	400,000	0.16%	400,000	0.16%	400,000	0.16%
Mr. H. Hotz	369,884	0.15%	369,884	0.15%	369,884	0.15%
Merban Stockbrokers Portfolio	299,753	0.12%	299,753	0.12%	296,853	0.12%
SAS/MERKI Janet Aku	294,117	0.12%	294,117	0.12%		
Mr. F.T. Gambrah	267,000	0.11%	267,000	0.11%	267,000	0.11%
Mr. H. J. K. Ephraim	253,300	0.10%	253,300	0.10%	253,300	0.10%
Kwaku Okyere and Co Limited	210,000	0.08%	210,000	0.08%	210,000	0.08%
Ephraim					200,600	0.08%
Segbawu					191,190	0.08%
Star Assurance Company Ltd					184,980	

Source: Annual Reports of ABL (2008-2010)

Other shareholders of the company are the Social Security and National Insurance Trust (SSNIT) (11.13%), Ziga Investment Company (1.23%), StarLife Assurance Company Ltd. (0.77%), Accra Brewery Ltd. Employees Trust (0.76%), Epack Investment Fund (0.59%), Databank Brokerage Ltd. (0.56%), HOTZ (0.15%), Merban Stockbrokers Portfolio (0.12%), Kwaku Okyere and Company Ltd. (0.08%), Star Assurance Company Ltd. (0.07%), Unique Trust Financial Services (0.07%) and the general public (5.67%) –who consist of 3700 individual shareholders.

### ***Ownership Control***

Equity holders exercise control over the activities of the company upon two main structures: Shareholders annual general meeting and the incessant influence on decision-making processes of the company by SABMiller. The application of these two structures mirrors the degree of ownership of the organization.

#### *Majority Shareholder (SABMiller)*

SABMiller Plc is one of the world's major brewers with brewing interests and distribution accords globally. The group's broad portfolio of brands includes premium international beers such as Pilsner Urguel, Peroni Nastro Azzurro, and Grolsch and so on. SABMiller is also one of the world's major bottlers of Coca Cola Products. Its control of ABL is made known through its appointment/selection of 'important' people in the company as well as its direct access to these key people-the board chairperson and managing director.

Access to information and influence on decision-making procedures including veto power, as well as direct participation in the management and operations of the company are vital ways of control available to SABMiller Plc. SABMiller does not rely on the company's annual general meeting or the minimum disclosures mandated by law to exert control over ABL. It always relies on the incessant flooding of information via a process of reporting by ABL management to it. This arrangement does guarantee that SABMiller always has access to vital information and decisions taken at ABL.

The reports to SABMiller Plc involve vital operational issues: Sale targets, cash positions as well as product quality. These reports are daily, weekly, monthly, quarterly and yearly made available to SABMiller in a prescribed structure. This means that the company's annual general meeting is a sheer legal requirement and probably, serves more as a platform for the minority equity holders to be educated on developments within the corporate organization. Figure 6.2 depicts the direct and indirect control exerted by SABMiller and the company's minority shareholders. SABMiller has strong and direct connection to both the board and top management of ABL. This has been portrayed by a straight line from SABMiller Plc to both the board and top management. The broken lines from the individual small shareholders to the board and management on the other hand, portray a limited accessibility by small equity holders to both the management and board of ABL. This makes SABMiller Plc a controlling force within the company.

**Figure 6.2: Domineering role of SABMiller on the operations of ABL**



Source: Adapted from Roe (2003)

### *Small equity holders*

There are two groups of small equity holders at ABL: 1) Small equity holders who have adequate stocks to allow them select a director; and 2) those minority equity holders who do not possess adequate stocks to let them take this action. Small equity holders who have the qualification to appoint directors do so and therefore, they have access to board of directors and can exercise influence on board decisions.

Those small equity holders who are not eligible to select/appoint directors have no access to the company's decision-making procedures in that, they have imperfect access to information and have no capacity to influence decisions. These small equity holders are usually individuals and some institutions: Epack Investment Fund, Databank Brokerage Ltd., Ziga Investment Company, Unique Trust Financial Services and so on.

This group of small equity holders depends on the company's annual general meeting to voice out their opinions and strives to exercise influence on the company's decision-making processes. These are mirrored in the type of questions about decisions that have been put to work, or which are recommended at the company's annual general meeting. These minority shareholders' actions are taken as a result of the bare minimum mandated disclosures by the companies' code and the GSE listing regulations. The companies' code and the GSE listing regulations require that all equity holders irrespective of their holdings should have access to: the company's yearly audited reports and quarterly reports. Whilst the annual audited reports are forwarded to all equity holders, the quarterly reports are made public via GSE notice boards and the media.

The reports that are sent to equity holders involve a notice of the company's annual general meeting and an invitation. The agenda of the meeting includes: adoption of the year's statement of account of the company, adoption of the year's annual report, confirmation of the previous year's minute, appointment/selection of external auditors, dividends declaration and consideration, confirmation of directors, fix remuneration of directors, and any other issues that arise. This agenda is prepared by management and it is needed to be given an approval by the board of directors.

Equity holders are allowed to vote during the company's annual general meeting. This is in line with the requirement of the companies code 1963 and also recommended in the OECD and CACG principles of corporate governance (See Chapter 2). They are permitted by law to vote by proxy. Even though decisions are made via voting process, since the large chunk of shares are held by SABMiller, the company's annual general meetings are basically a cosmetic.

The notion that ABL annual general meeting is regarded as a legal procedure/formality is highlighted by the fact that, practically, individual small equity holders do ask questions that

exhibit keen insight and good judgment at these meetings, but if they are unsatisfied with the answers, there is nothing they can do since they cannot change the state of affairs. They do not have power to punish management or directors. Interviews conducted to elicit information from small equity holders point to the fact that, the manner in which the annual general meetings are conducted regulates their capacity to exercise control.

In regards to equity holder control, via influence on the selection and access to ‘important’ personalities, influence on strategic decisions of management/board, and influence on decisions as well as the level of vote, the company’s small equity holders scored low in all. Table 6.19 below depicts the responses with regards to shareholder control in ABL.

**Table 6.19: Shareholder Control at Accra Brewery Limited**

	At all times	Occasionally	Absolutely not
Duties of the board are being fulfilled when they report to shareholders during AGMs	√		
Annual audited reports are made available to shareholders before AGMs	√		
Quarterly reports are made publicly	√		
All shareholders receive invitations to AGMs	√		
During AGMs, shareholders have the right to vote on board’s proposals/suggestions		√	
Large shareholders exert extensive influence during AGMs	√		
Decisions taken at AGMs are subject to voting	√		
The kind of influence that majority shareholders have in the selection or appointment of directors makes it possible for them to exert control over the firm	√		
It is easy for large shareholders to have access to very important personalities in the firm	√		
Decisions of management or directors can be questioned or altered by large shareholders	√		
Shareholders have the right to call for Extraordinary General Meetings for clarifications		√	

Source: Fieldwork

SABMiller Plc appoints the majority of board members, the managing director as well as the board chairman of ABL. Practically; small equity holders cannot influence board members. The far-reaching and incessant communication between ABL and management of SABMiller in the decision-making processes of the company, induce ABL’s management to ceaselessly strive towards meeting SABMiller’s interests. The implication is that SABMiller’s holdings permit and induce it to exert control and thus lessen incentive problems.

#### **6.4.4 Effectiveness of the Board**

Factors that determine board effectiveness in exerting its control function were scrutinized. These factors are: the board composition; director independence; the leadership structure of the board; board meetings, board audit committee and board remuneration committee.

##### ***Board constitution***

Currently, ABL board has four (4) directors and its composition mirrors the ownership structure of the company. Three of the directors are non-executive directors. The executive director is the managing director of the company. These members are well-informed individuals with experience in the brewing industry as well as in their areas of discipline.

##### ***Director independence***

Director independence was examined by taken into account the manner in which appointment/selection of board members is done and whether there is any close relationship

between board members and management or the company. With regards to appointment/selection, board members are selected via a procedure settled on by SABMiller. This means that all directors are SABMiller appointees.

The procedure of spotting a potential board member to represent SABMiller on the board as well as senior management is conducted by SABMiller Plc. In respect of the procedure to recruit board members, SABMiller approaches persons and asks them if they are interested in serving as board members of ABL. These persons are then asked to tender their curriculum vitae for a careful examination by SABMiller Management before an appointment. The manner in which SABMiller carries out the appointment is devised to make sure that board members are psychologically or economically independent of management.

#### ***The leadership structure of the Board***

The positions of the managing director and the board chairman have been divided. ABL has established the board chairmanship as well as the managing directorship positions. The board chairman does not meddle in the day-to-day operations of the firm. The board chairman is not part of the executive management committee of the company, but important and adequate information is provided to him by management, anytime he demands. The managing director, on the other hand, performs functions of Chief Executive Officer. He runs the company on a day-to-day basis and always accountable to firm performance. The managing director chairs the executive management committee and reports to the board.

#### ***Board meetings***

Board meetings are held four times in a year, and can also be arranged as the need arises. For instance, they can be arranged to deliberate on issues that are urgent and cannot wait for normal meetings. For normal board meetings, all board members are notified twenty-one days before they take place. Preparation for the company's board meetings includes sending information to board members at least a week before the meeting is held. The company's Executive Management Committee members, whose issues are required to be integrated in the agenda, prepare reports which are appraised by a committee comprising the managing director, the company secretary and the company's financial controller. This is done to ensure the fineness of the content of the report. Therefore, points/items that are included in the agenda are normally obtained from the Executive Management Committee and are compiled by the company secretary.

#### ***Board Audit Committee***

The board has set up an audit committee, which is made up four members of whom three are non-executive directors. The committee is chaired by an executive of SABMiller. This committee appraises both the operational and financial aspects of the firm. It also appraises the financial performance, risk management, compliance with policies and laws, audit reports as well as business practices of the firm.

The audit committee meets four times (ie. quarterly) in a year to deliberate on the financial statements of the firm and management report made available by the external auditor. The committee helps the board in being effective and efficient in its activities. The activities of the committee are influenced by the involvement of an executive from SABMiller Plc, who at the same time chairs the committee.

#### ***Remuneration Committee***

ABL has not established a formal remuneration committee. No apparent reason was given. However, as ABL keeps on growing there is an increasing need for a remuneration committee. Currently, discussions are on-going about the formation of a remuneration committee. Table 6.20

below shows the responses in regards to the determinants of board effectiveness with respect to the control function of the board.

**Table 6.20: Effectiveness of the board of directors at ABL**

	<b>At all times</b>	<b>Occasionally</b>	<b>Absolutely not</b>
The past 10 years, majority of board members have been NEDs	√		
There is an existence of social or economic ties between directors and the firm			√
There is an existence of social or economic tie between directors and top managers			√
There is a presence of social or economic tie between directors and majority shareholders		√	
Positions of the CEO and the Chairperson have been separated and occupied by different people for the past 10 years	√		
There is an existence of an audit committee instituted by the board	√		
There is a presence of a board remuneration committee	<b>NO REMUNERATION COMMITTEE</b>		
Majority of the members on the audit committee are NEDs	√		
NEDs form majority on the remuneration committee	<b>NO REMUNERATION COMMITTEE</b>		
Membership appointment to the audit committee are made known to shareholders	√		
Membership appointment to the remuneration committee are made known to shareholders	<b>NO REMUNERATION COMMITTEE</b>		
There are criteria for the selection and replacement of directors	√		
There is a laid down procedure upon which board meetings are held	√		
Before board meetings, information about the firm are made available to members on time	√		

Source: Fieldwork

#### **6.4.5 Board Control**

The decision of hiring and firing the managing director is not done by the company's board. The board only advises SABMiller management if the board holds the view that the managing director is not performing as required of him. Also, decisions and actions of the managing director's remuneration as well as formal assessments/appraisal of the managing director, of individual board members and board activities, are not carried out by the board. A hidden assessment of management activities takes place on a continuing basis. But such an evaluation is not necessary since SABMiller carries out assessment, based on the regular reports that are made available to it (SABMiller) by ABL management. Thus SABMiller conducts all the control activities, which are normally vested in the board. This sort of role SABMiller plc plays in the affairs of the company makes the board to function as an advisory body to management rather than wielding control over it. Table 6.21 below portrays the responses with regard to board control in the case of ABL. It can be figured out that the board of ABL has a limited control function.

**Table 6.21: Board Control at Accra Brewery Limited**

	At all times	Occasionally	Absolutely not
Decisions in terms of hiring a CEO is made by the board			√
The CEO can be replaced by the board in case of mismanagement			√
Strategies are discussed and approved by the board	√		
Decisions on the CEO's remuneration package is made by the board via the remuneration committee			√
The activities of the CEO are assessed by the board			√
The board makes sure the firm complies with existing laws regarding the day to day running of the firm eg, Generally Accepted Accounting and Auditing Principles laid down by ICAG	√		
The board determines the type of information it needs from management anytime	√		

Source: Fieldwork

#### 6.4.6 Analysis and verification of Propositions

Analysis of the ownership structure and ownership control depicts that SABMiller Plc exerts control over management. This solves the agency problem via SABMiller Plc's regular monitoring of the performance of management. SABMiller Plc appoints the managing director as well as the majority of directors. SABMiller Plc's appointment of the majority of directors implies that if counteractive action is needed, such as changing the managing director, this decision can be taken by them. The SABMiller Plc is regarded as an insider in that it takes part in the decision-making processors of ABL. This is a verification of proposition 1 that: *Shareholders with larger shares exert shareholder control in a company.*

With regards to board meetings, the findings depict that they are carried out in a more efficient and effective manner. This is because of the frequent availability of information to board members and their possible position to challenge management during board meetings. Even though all the indicators of effective and efficient board meetings are in place, the exclusion of the board in the controlling function of the company means that board meetings do not have any connection with board control. This turns to point out that proposition 2, which states that: *Effective and efficient board meetings lead to a panoptic board control in a company* is not confirmed in the case of ABL.

In terms of the leadership structure of the board, the separation of the positions of the board chairman and managing director is in line with agency theory in respect of strengthening board control. In spite of this, at ABL, the board chairman is not independent of the controlling shareholder and as a result, plays no vital role in the enhancement of board control. Since both the managing director and board chairman are appointees of SABMiller Plc, and hence not independent of SABMiller Plc, proposition 3 that: *The non-duality structure with an independent director as the board chairperson, results in a panoptic board control in a company*, is not confirmed in the case of ABL.

With respect to the audit committee, the findings reveal that the company has such committee that has been formed with non-executive directors as majority of its members. In spite of this, the role of the committee is insignificant in that SABMiller Plc does exercise director control. This means that proposition 4(a), which that: *Instituting a board audit committee with independent directors as its members, leads to a panoptic board control in a company* is not confirmed in the case of ABL.

The board of ABL has not set up a board remuneration committee. This means that proposition 4(b), which states that: *Setting up a remuneration committee with independent non-executive*

*members as its constituents, leads to a significant board control* could thus not be confirmed in the case of ABL.

## **6.5 Conclusion**

This chapter analyzed the data collected from the four corporate organizations through interviews, observations and archival records. The analyses addressed the backgrounds, profiles and activities of the organization. It then proceeded to analyze the corporate governance framework of each of the four companies by highlighting how ownership structure and board control operate to ensuring ownership control and board control respectively. Finally, based on the evidences highlighted, the analyses and confirmation or disconfirmation of the study's propositions were addressed. The next chapter highlights cross-case analyses of the four companies and subsequently, compares the empirical facts of the study to the guidelines of corporate governance of Ghana.



## CHAPTER SEVEN

### CROSS CASE ANALYSES AND COMPARISON OF RECOMMENDED GUIDELINES WITH EMPIRICAL OBSERVATION

The preceding chapter examined the individual cases of the study. This current chapter presents cross-case analyses of the data gathered from the four corporate organizations. It finally, compares the recommended guidelines of corporate governance of Ghana to the empirical evidence of the study.

#### 7.1 Ownership structure and ownership control

##### 7.1.1 Ownership structure

There is a presence of ownership concentration in all the four (4) organizations examined. This implies that each corporate organization has a large shareholder that holds a sizeable amount of its equity capital. These large shareholders hold more than 50 percent of the equity capital of their respective corporations. Their control over the companies stems from the evidence that the distribution of the remaining shares of each of the companies is so widely fragmented among minority equity holders that, it is not possible for them (minority shareholders) to determine voting outcomes (Leech, 2013). Table 7.1 depicts the large equity holders' identities and the degree of their holdings in the organizations. With the exception of ABL, the controlling shareholders are local bodies. This means that key decisions that have upshots on the performance of these companies, and the Ghanaian economy at large, are taken locally.

**Table 7.1: Ownership Structure of the four corporate organizations**

	GCB	SIC	UT	ABL
Controlling shareholder	Government of Ghana & SSNIT	Government of Ghana & SSNIT	UT holdings Ltd.	SABMiller
Degree of holdings by controlling shareholders (percent)	51.17	51.291	61.11	69.20
Holdings of other shareholders combined (percent)	48.83	48.709	38.89	30.8
Ownership by foreign shareholders (percent)	5.76	14.614	19.66	69.20
Ownership by local shareholders (percent)	94.24	85.386	80.34	30.8
Number of individual shareholders	96,805	-	9,858	3,700
Market capitalization (GHC)	72,000,000	2,500,000	85,275,000	-
Issued Shares	265,000,000*	195,645,000*	456,310,181*	249,446,664

Source: The annual reports of the companies. \*The total number of issued shares as at 07/05/2013

The ownership structures of these corporations mirror historical developments in Ghana that keep on shaping corporate governance practice of the country. The ownership concentration of ABL reflects the country's privatization policy that was adopted to divest State-Owned Enterprises (SOEs) through the selling of large number of stocks to strategic investors. Even though the state holds a large number of shares of GCB and SIC, ownership structures of these two corporations reflect the privatization program (ie. the Divestiture Implementation Policy) of the government in the 1990s.

UT bank was set up after the economic reforms. Its ownership structure mirrors the sources of the funds used for its establishment, which mainly came from UT holdings Ltd. This feature of ownership concentration is not only limited to these companies. Most companies in Ghana have

been, and continue, to be divested, through the selling of large amounts of the state shares to strategic investors, resulting in ownership concentration in corporations. For instance, SSNIT, which holds 55 percent of the total shares of Merchant Bank Limited, Ghana, decided to sell its stake to Fortiz bank in 2013, as part of its plans to deal with the liquidity and solvency of the bank.

### **7.1.2 Ownership Control**

All the four organizations are characterized by controlling shareholders. These controlling shareholders exert control over the activities of the companies through their participation in the decision-making activities of these companies. And this participation is always made possible through the incessant flow of information to these controlling shareholders. For instance, while minority shareholders always depend on information that are always available in annual audited and quarterly un-audited reports, majority shareholders always have access to information upon request.

Also, management of these four corporate organizations always consult controlling shareholders before any major decisions are made. The set goals that management are striving to realize are also in consonance with that of controlling shareholders. In order to ensure free flow of information from management to them (ie. controlling shareholders), they have put in place some internal structures and mechanisms in these companies.

Controlling shareholders of these corporate organizations have access to key personalities in the companies. For instance, they have access to the board chairperson and chief executive officer. These key personalities are either appointed/selected by these controlling shareholders or have a certain level of influence in their selection. Apart from UT bank, controlling shareholders of the remaining three companies appoint or select the board chairperson, chief executive officer and the majority of the directors who constitute their boards.

The level of influence of these controlling shareholders always comes to the fore during annual general meetings of the companies. For example, when major decisions that need shareholders' approval are to be voted on, controlling shareholders, more often than not, determine the outcome of the voting. The panoptic control exerted by controlling shareholders has been considered and positively regarded by the regulatory authorities (ie. the SEC and GSE) in Ghana. This may stem from the fact that the rules and regulations in regards to corporate governance are poorly enforced thus leaving large shareholders to protect their investments. In this case, large shareholders serve as a substitute for legal protection by ensuring investor protection in Ghana. This is in line with the assertion by La Porta *et al.* (2000) that the emergence of ownership concentration is a substitute for legal protection for economies with poor investor-protection. In an interview with one of the officers of the Securities and Exchange Commission, he said:

Since companies in developed countries are well-supervised, they have the tendency to perform well. This situation is different from Ghana's experience. This is because, our companies are poorly supervised and for that matter, it is incumbent on these controlling shareholders to supervise their companies in order to put them on track so that they can perform well. Until we started enforcing our laws, we should not attempt to oppose this kind of occurrence.

This evidence is in line with the assertion that in times of unpredictable or weak enforcement of legal and regulatory framework, shareholders do not anticipate that their interests will be safeguarded through lawful channels and hence they do take a more direct involvement in governance oversight, either via better rights offered through charters and bylaws, or via direct

representation on companies' boards (Larcker & Tayan, 2011). In circumstances in which legal institutions are ineffective in exercising their functions, principal-agent problems calls for large shareholders to monitor and control corporate managers in order to avert or reduce expropriation (Chong & Lopez-de-Silanes, 2007). The findings of this study apply to a large number of listed and non-listed companies in Ghana. In other words, this shareholder control phenomenon, which is as a result of ownership concentration, applies to a large number of corporate organizations in Ghana. The implication is that the separation of ownership and control is absent in Ghana. Whilst this conclusion challenges Berle and Means assertion that ownership and control have been separated, it backs the existing body of knowledge, that apart from the United States and United Kingdom, in most countries, ownership and control work hand-in-hand (ie. have not been separated) (Berglof & Claessens, 2004; Clark & Clegg, 1998). Table 7.2 depicts responses with respect to ownership control in the four companies via interviews and documents.

**Table 7.2: Ownership control in Ghanaian corporate organizations**

	GCB			SIC			UT			ABL		
	A	O	N	A	O	N	A	O	N	A	O	N
Duties of the board are fulfilled when they report to shareholders during AGMs	√			√			√			√		
Annual audited reports are made available to shareholders before AGMs	√			√			√			√		
Quarterly reports are made in public	√			√			√			√		
All shareholders receive invitations to AGMs	√			√			√			√		
During AGMs, shareholders have the right to vote on board's proposals/suggestions	√			√			√				√	
Large shareholders exert extensive influence on AGMs	√			√			√			√		
Decisions taken at AGMs are subject to voting	√			√			√			√		
The kind of influence that majority shareholders have in the selection or appointment of directors makes it possible for them to exert control over the firm	√			√				√		√		
It is easy for large shareholders to have access to very important personalities in the firm	√			√			√			√		
Decisions of management or directors can be questioned or altered by large shareholders	√			√			√			√		
Shareholders have the right to call for Extraordinary General Meetings for clarifications on certain issues		√			√			√			√	

Key: A= At all times, O= Occasionally, N= Never/Absolutely Not

## 7.2 Effectiveness of the Board

### *Board composition*

All corporate organizations studied have boards of directors that are characterized by more non-executive directors than executive directors. The rules and regulations governing these four companies have categorically made it clear that NEDs should always form the majority on the board. Two of the corporate organizations (GCB and SIC) studied, include on their boards persons who hold senior government positions or who have one way or the other, have links to the government. It is clear that those individuals are on the board to make sure that the government's influences on the decision-making processes of these companies are properly effected. Even though UT and ABL do not have such persons on their board, the state still has a certain level of influence in their decision-making processes. This is consistent with the observation that corporate governance in developing economies is directly or indirectly characterized by politics (Berglof & Claessens, 2004).

### ***Director independence***

In all four companies studied, director appointments are closely linked to shareholdings. At GCB, SIC and ABL, majority shareholders appoint the majority of directors who serve on their boards. For instance, at GCB and SIC, since the state is the majority shareholder, it (ie. the state) appoints almost all their board members. At ABL, the majority shareholder also appoints the majority of directors who serve on the company's board. In the case of UT, even though director selection is connected to shareholding, it has been unambiguously stated in the company's rules and regulations governing it that, equity holders with at least 5 percent of the total equity capital of the company is entitled to appoint/select a director to represent them on the company's board.

Also, in all four organizations, the nomination of directors has to be approved by all shareholders, irrespective of their shareholdings, at their (ie. the companies) annual general meetings. Most of the minority shareholders interviewed expressed their displeasure in terms of the approval process. They considered it as a 'rubber stamp' in that, before those nominated are presented to them at annual general meetings, the majority shareholders had already given their approval and in lieu of this, their votes cannot influence the approval process. One interviewee observed that:

My brother, I was not surprised when those who were nominated to be board members were given an approval to serve on the company's board. It is nothing new. It has been there since the day I started attending these meetings. Even if we [minority shareholders] disapprove, they will still go ahead to be appointed as directors.....

Furthermore, in all four organizations, the CEO or managing director does not have any influence over the selection of directors. There is an absence of business connection between the organizations and their board members. This implies that board members are always independent of the CEOs of these organizations. Board members normally know the shareholders that selected them and to whom they are accountable to in all four organizations. The implication is that, board members or directors are not independent of the shareholders who selected them to represent them.

There are no overt criteria for the selection of directors in all cases. Shareholders apply their own value judgment in selecting individuals they perceive as suitable for the directorship job. However, in all cases, it was noticed that for a person to be appointed, he/she has to possess a special kind of finesse and knowledge that are considered as being useful for board discussions. For instance, he/she is supposed to have knowledge about the organization as well as the financial aspects of the organization. Also, he/she has to have a good insight into the industry in which the company operates.

### ***Board leadership structure***

In all organizations studied, the post of the Board Chairperson and that of the CEO have been separated. This split is considered by the organizations as a way of bringing in checks and balances to avoid circumstances where a person will be created (for instance, a 'Frankenstein Monster'), who would perhaps be difficult to be monitored and controlled. In that case, this decision (ie. the decision to separate the two posts) is taken to exert control and it therefore, helps in solving agency problem. In the case of UT bank, this split is more or less considered as power sharing between the two founding fathers of the organization, instead of checks and balances mechanism. This situation does not foster board control in this organization.

### ***Board meetings***

The boards of the four organizations have a formal procedure for conducting their meetings. These procedures are explicitly stated in the rules and regulations governing these organizations. The

procedures include meeting preparations, conveying board papers as well as meeting agenda to board members in order to give them ample time to prepare. Meeting procedures of these organizations are in consonance with the internationally standardized way of conducting board meetings.

In principle, board meetings of these organizations follow an agenda that includes minutes' approval, the quarterly reports, and issues arising as well as other businesses. In all four cases, management always prepare meeting agendas but more often than not, they seek advice from the board chairperson. Notwithstanding that, directors are also allowed to incorporate new ideas into the set agendas for deliberation. The manner in which meeting agendas are set as well as board meetings are executed paves the way for directors to effectively pay attention to all important issues, which are considered as vital for carrying out board control functions effectively.

#### ***Board audit committee***

All four corporate organizations have instituted formal board audit committees with non-executive directors as the majority of their members. With the exception of ABL, membership composition of the audit committee is made up of non-executive directors only. In the case of ABL, although the committee is not entirely made up of non-executive directors, non-executive directors constitute the majority. At GCB, SIC and UT, the board audit committee meets at least four times in a year but can be increased when situations demand. In the case of ABL, the committee is supposed to meet at least three times in a year but can be increased when circumstances require.

Also, in all cases, the principal duties and responsibilities of the committee are: Monitoring the maintenance of proper accounting records and the reliability of financial reports used in the affairs of the company; putting forward reasonable assurance of the protection of assets against unauthorized use or disposition; authorizing, directing and reviewing the program of the internal auditor; receiving reports from the internal auditor and considering the major findings of those reports; monitoring follow-up activities of management; keeping accounting policies of the company under review and making recommendations to the board to amend or repeal such policies; monitoring compliance with the vital legal and regulatory framework; presenting audit reports to board members during board meetings; discussing any challenges or reservations that arise from the interim or final audit and any issues the external auditor may wish to deliberate on; reviewing the way in which management ensures and monitors the manner, magnitude and efficacy of the company's accounting, risk management and financial control systems; and holding discussions with the external auditor ahead of the period their audit commences.

#### ***Board remuneration committee***

GCB and UT bank have established a formal board remuneration committee with non-executive directors as members of the committee. At GCB, the main responsibility of the committee is reviewing the recruitment and termination policies of the bank including employment contracts remuneration, pension and other rewards, making appropriate recommendations and any other responsibility that may be assigned by the board. Furthermore, UT bank's remuneration committee is responsible for reviewing all human resource policies to ensure that workers are treated honestly and work in very favorable environments. It is also responsible for putting up performance indicators for the company and determining the structure of remuneration of the Bank's chairperson and executive directors. Also, the Committee reviews and approves the remuneration packages, incentive plans and staff bonuses for the company. These responsibilities make the board to get to know all HR, compliance and financial aspects of the firm.

SIC and ABL have not established a formal board remuneration committee. However, at SIC, the audit and finance committee of the company has been delegated by the board to look into issues

concerning compensation packages. This committee has been tasked by the board to deal with the following issues: recommending the levels of remuneration of non-executive directors for approval by the board and ultimately by the shareholders; undertaking of annual reviews of executives emoluments; and reviewing and recommending to the board, executives and staff bonuses and long-term incentive packages. In the case of ABL, discussions are on-going about the formation of a remuneration committee. Table 7.3 below depicts the responses in regards to the determinants of board effectiveness of Ghanaian Companies.

**Table 7.3: Board effectiveness in Ghanaian corporate organizations**

	GCB			SIC			UT			ABL		
	A	O	N	A	O	N	A	O	N	A	O	N
For the past 10 years, majority of board members have been NEDs	√			√			√			√		
There is an existence of social or economic tie between directors and the firm			√			√		√				√
There is an existence of social or economic tie between directors and top managers			√			√		√				√
There is a presence of social or economic tie between directors and majority shareholders		√			√		√				√	
Positions of the CEO and the Chairperson have been divided and occupied by different persons for the past 10 years	√			√			√			√		
There is an existence of board audit committee instituted by the board	√			√			√			√		
There is a presence of a board remuneration committee	√			<b>No Remuneration Committee</b>			√			<b>No Remuneration Committee</b>		
Majority of the members on the audit board are NEDs	√			√			√			√		
NEDs form majority on the board remuneration committee	√			<b>No Committee</b>			√			<b>No Remuneration Committee</b>		
Membership appointments to the audit committee are made known to shareholders	√			√			√			√		
Membership appointments to the remuneration committee are made known to shareholders	√			<b>No Remuneration committee</b>			√			<b>No Remuneration Committee</b>		
There are criteria for the selection and replacement of directors			√			√			√			√
There is a laid down procedure upon which board meetings are held	√			√			√			√		
Before board meetings, information about the firm are made available to members on time	√			√			√			√		

Key: A= At all times, O= Occasionally, N= Never/Absolutely Not

### 7.3 Board control

In the case of UT bank, board members/directors carry out all activities in relation to the control function of the board: taking decisions in terms of hiring and disciplining the CEO; replacing the CEO in case of mismanagement; discussing and approving the company's strategies, determining the type of information they need from management; and setting up the CEOs compensation package. In the other three cases of GCB, SIC and ABL, board members have limited control over the activities of the organizations. The only control activity that members carry out is to discuss and approve corporate strategies in these three organizations. But these discussions of corporate strategies are not for the purpose of exerting board control over the activities of management. They rather aid the purpose of providing board members with a chance to offer advice to management on how the set goals can be realized.

With respect to a formal assessment of the activities of the Chief executive officer, the board and individual board members, it was observed that, directors of GCB, SIC and ABL perform an implicit assessment of their chief executive officers/ managing directors. The levels of assessment of boards of directors of GCB, SIC and ABL differ from that of UT bank in that, directors of GCB, SIC and ABL do conduct such assessments only when they are discussing and approving corporate strategies of these organizations. In the case of UT bank, the board performs its controlling function without any interference from the controlling shareholder.

At GCB, SIC and ABL, the control function of directors has been replaced by the controlling prowess of their controlling shareholders. This is in line with the assertion of Roe (2003) that, when a controlling shareholder exerts an extensive control over the activities of management, it leaves little room for the board to exercise its control function. Although the controlling shareholders of GCB, SIC and ABL exercise control over the activities of the company, they (ie. the controlling shareholders) leave room for directors to exert a certain level of control as witnessed via their involvement in control activities. Table 7.4 indicates responses with respect to board control in Ghanaian companies.

**Table 7.4: Board control in Ghanaian corporate organizations**

	GCB			SIC			UT			ABL		
	A	O	N	A	O	N	A	O	N	A	O	N
Decisions in terms of hiring a CEO are made by the board			√			√	√					√
The CEO can be replaced by the board in case of mismanagement		√			√		√					√
Strategies are discussed and approved by the board	√			√			√		√			
Decisions on the CEO's remuneration package are made by the board via the remuneration committee			√			√	√					√
The activities of the CEO are assessed by the board	√			√			√					√
The board makes sure the firm complies with existing laws regarding the day to day running of the firm eg, Generally Accepted Accounting and Auditing Principles laid down by ICAG	√			√			√			√		
The board determines the type of information it needs from management anytime	√			√			√					√

Key: A= At all times, O= Occasionally, N= Never/Absolutely Not



#### **7.4 Analysis and confirmation of propositions**

It has been revealed that the four organizations investigated have large controlling shareholders. And that these controlling shareholders are the vital driving force of effective corporate governance in these organizations. This means that Proposition 1, which states that: *Shareholders with larger shares exert shareholder control in a company* is verified in all four organizations.

With respect to board meetings, the observable facts depict that, elements of effective and efficient board meetings are in existence in all four organizations. However, the connection between effective and efficient board meetings and board control was only realized in one organization. This implies that, Proposition 2, which states: *Effective and efficient board meetings result in a panoptic board control* is verified in one organization and not verified in the other three.

With regards to the leadership structure, the observable facts depict that the position of the chief executive officer and that of the chairperson have been separated in all four corporate organizations. However, the relationship between this separation and board control was not realized (See chapter 6). This means that, Proposition 3, which states: *The non-duality structure with an independent director as the board chairperson, results in a panoptic board control in a company* is not confirmed in all four organizations.

In terms of a prim and proper audit committee, the findings indicate that all four corporate organizations have established a formal board audit committee with non-executive directors as its members. However, the observable facts also reveal that, there is a relationship between a board audit committee and board control in only one organization. This implies that Proposition 4, which states: *Instituting a board audit committee with independent directors as its members, leads to board control in an organization* is verified in one organization and not verified in the other three.

The findings of a board remuneration committee show that two of the four organizations investigated have established a remuneration committee. In spite of this, a relationship between a board remuneration committee and board control does exist in only one of these two organizations. This implies that, Proposition 5, which states: *Setting up a board remuneration committee with independent directors as its members, leads to board control* is confirmed in one organization and not confirmed in the other three.

#### **7.5 Comparison of the recommended guidelines with the empirical evidence**

This section compares the recommended guidelines of corporate governance of Ghana with the observable facts of the study. It first compares the recommended guidelines with the empirical facts in terms of shareholder rights and control. It then continues to compare the recommended guidelines with the empirical evidence in relation to board effectiveness and control. Lastly, a discussion on the comparison of the recommended guidelines of Ghana with the observable facts in regards to shareholder rights and shareholder control as well as board effectiveness and board control is conducted.

##### **7.5.1 Shareholder control**

The regulatory framework for effective corporate governance in Ghana is contained in the securities and exchange commission of Ghana's principles of corporate governance. This framework deals with issues that intensify the focus of this study (see Chapter 2). For instance, it deals with issues such as shareholder rights and control, activities of the board in exerting its control function and determinants of board effectiveness in regards to board control. Table 7.5 reveals the aspects of shareholder control contained in this framework which have been compared with the observable facts of the four cases investigated.

**Table 7.5: Shareholder Control**

<b>Principles of Ghana</b>	<b>Observable Facts</b>
Shareholders have to actively get involved to protect, preserve and actively exercise the supreme authority of the organization through annual general meetings	Controlling shareholders actively partake in the affairs of the company by influencing decision-making processes in the four organizations.
Shareholders have the right to be satisfactorily informed about decisions concerning fundamental changes such as amendment of statutes, authorization of additional shares and so on.	Information of this kind is normally provided. However, in order for these changes to be effected, an approval from controlling shareholders is needed
Shareholders have the right to partake in the decision-making processes of the organization. For instance, partaking in the company's voting process, obtaining timely and regular information and so on.	Large shareholders have greater access to information since they have access to key persons such as the board chairperson and Chief Executive Officer. Minority shareholders, on the other hand, only rely on the statutory disclosures of the companies.
The rights of shareholders are to be safeguarded and the manner in which these rights are to be effected ought to be secured	This requirement is clearly stated in the various rules and regulations governing all four corporate organizations.
There should be an equitable treatment of all shareholders irrespective of their holdings	Large shareholders always receive the necessary attention. For instance, they have access to key persons in the organizations; have greater access to information and so on.

### ***7.5.2 Board effectiveness in regards to Board Control***

The recommendations of the principles of corporate governance of Ghana in regards to board effectiveness and control, and their associated determinants are indicated in Table 7.6 below. They are compared with the observable facts from the four cases.

**Table 7.6: Board Control**

<b>Board control</b>	<b>Observable facts</b>	
Effective board should properly manage the company in order to safeguard and enhance shareholder value, and to meet the company's obligation to shareholders. It also has to provide strategic guidance and effectively control the management of the company	In the cases of GCB, SIC and ABL, boards do not exert control. In the case of UT bank, the board does exert extensive control over the management of the company. During Annual General Meetings, formal reporting takes place as well as the provision of Annual Report.	
<b>Board effectiveness</b>		
<b>Description</b>	<b>Observable facts</b>	
Composition	The board should include a balance of Executive directors and independent Non-Executive directors, with the complement of Non-Executive directors being at least one-third of the total membership. Independent non-executive directors should be independent of management and should be free from other connections with the company, which may interfere with their ability to carry out their responsibilities in an independent manner.	Non-executive directors form the larger constituent of the boards of directors of all corporate organizations studied. In all four companies, NEDs are independent of management, but not independent of appointing shareholders.
Leadership Structure	The position of the Chief Executive Officer and that of the board chairperson should be separated. The chairperson should be a person who is independent and does not interfere in the management of the company.	The roles of the Chief Executive Officers and that of the Chairpersons have been separated in all companies investigated. The board chairpersons of these companies are independent of management, but not independent of controlling shareholders.
Selection and Board Independence	The selection procedure of new directors ought to be based on merit and should be formal and transparent.	In the cases of GCB, SIC and ABL, directors are selected by controlling shareholders. In the case of UT bank, selection/appointment can be done by a shareholder, if he/she/it satisfies a specified criterion. There are no lucid criteria for the selection of directors in all four organizations investigated.
Board Meetings	In order for the board to discharge its duties effectively, it should meet at least six times a year.	In all four organizations, boards of directors meet four times a year and can be increased as situation demands.
Board Committee	In order for the board to work effectively and avoid any conflict of interest, it should establish independent committees as it may deem appropriate to help it perform its duties: Independent Audit and Remunerations Committees.	All four companies investigated have established a formal board audit committee with independent non-executive directors as members. When it comes to a formal board remuneration committee, only GCB and UT bank boards have established one.
Board Succession Plan	In order for companies to adjust to the dynamics of corporate governance, the board should be responsible for the drawing of succession plans and appointments.	In all four companies, there is no succession plan in that, directors are all shareholder appointees

### **7.6 Discussion of the comparison of recommended guidelines of Ghana with the Observable facts**

Ghana's principles of corporate governance mirror the Anglo-American concept of corporate governance: That is., by effectively directing boards to monitor management to take decisions that will maximize shareholder wealth (See chapter 2).

A comparison of the principles of corporate governance with the observable facts reveals that in all four companies, a number of corporate governance practices suggested by the principles; does shape their current corporate governance structures. Also, this comparison shows that there are some germane aspects that are thoroughly needed to be applied by the organizations in relation to their corporate governance practices in order for them to be in conformity with the principles' recommendation.

In regards to the type of directors who constitute the board, the findings show that in all four companies, NEDs form the majority of their boards. The principles recommend that NEDs should at least be one-third of the total membership of the board. Although the principles recommend that all shareholders, irrespective of their holdings are supposed to be represented on the board, this was not the case in all four organizations. In all organizations, director appointment right is closely connected to the degree or magnitude of shareholdings (See Chapter 6).

With respect to board meetings, the four organizations portray uniform way in carrying out board meetings: Information are sent by management to directors on time; directors have opportunity to integrate items they deem germane for deliberations; and board deliberations are efficiently and effectively carried out. This is consistent with the recommendation of the principles. Even though this is consistent with the recommended guidelines of SEC, three of the companies' board meetings do not enhance board control since their controlling shareholders exert substantial influence on board activities.

In terms of leadership structure of the board, the two positions of the board chairperson and CEO have been separated in all four organizations. However, this proves inadequate to meeting the principles' recommendation. This is because, in three of the companies, their CEOs and board chairpersons are appointed by their controlling shareholders. And if these two top individuals of these organizations are always appointed by these controlling shareholders, then it leaves no room for board chairpersons of these companies to function effectively as expected of them. Also, the leadership structure of the remaining company proves inadequate in the sense that, these two positions are occupied by the founding fathers of the company. The implication is that, this sort of separation is more of 'power sharing' mechanism rather than a 'check and balance' measure to enhance board effectiveness.

A board audit committee has been set up in all four organizations studied, which is to some extent in line with the recommendation of the companies code 1963 (Act 179). However, they prove inadequate in three of the companies in that, committee members are not independent of the whims and caprices of their controlling shareholders. Even though the remaining company's committee members are not independent of its controlling shareholder, the manner in which committee members carry out their activities paves the way for the committee to effectively function to enhance board effectiveness.

Furthermore, a board remuneration committee has been established in two organizations, which is to some level consistent with the companies code's recommendation. However, they prove inadequate in one of the companies in that, committee members are not independent of controlling shareholders. Even though the remaining company's committee members are not independent of its controlling shareholder, the manner in which committee members carry out their activities makes the committee effective and efficient. The other two organizations have not instituted a formal board remuneration committee and therefore, do not meet the code's recommendation.

The principles recommend that the method of director appointment should be formal and transparent to all shareholders and that information about potential persons is to be made public. These include the working experience, accomplishments, stature and credibility of potential persons. However, none of the four organizations studied has a clear explanation in relation with the criteria for director appointments as recommended by the principles.

## **7.6 Conclusion**

This chapter divulged the cross-case analyses of the data collected from the four companies. It proceeded to compare the empirical evidence of the study with the recommended guidelines of

corporate governance of Ghana. It finally carried out a discussion of this comparison. The subsequent chapter brings out the overview of the research questions, a summary of the driving forces of effective corporate governance in Ghana, a reflection on the study, conclusions and recommendations, contributions and weaknesses of the study, areas for further studies and the concluding remarks of this study.

## CHAPTER EIGHT

### CONCLUSIONS AND RECOMMENDATIONS FOR CORPORATE GOVERNANCE DEVELOPMENT IN GHANA

The study's literature was presented in chapters 2 and 3. Chapter 4 of this study brought out the conceptual framework and its associated theoretical propositions. The research methodology of the study was described in chapter 5. In chapter 6, the individual reports of the four cases including the confirmation of the theoretical propositions were presented. The cross-case report of the four cases was presented in chapter 7. In this chapter, an overview of the research questions, a summary of the driving forces of effective corporate governance in Ghana, a reflection on the study, conclusions and recommendations, contributions and weaknesses of the study, areas for further studies and the concluding remarks are reported. Also, the findings in chapters 6 and 7 will be dovetailed to the study's literature in chapters 2, 3 and 4. It is worth noting that the review of literature was finalized in April 2011 since the researcher started collecting the required data at that time to examine the issues that emerged from the body of knowledge. Hence, more recent literature will be integrated into this chapter to help in the discussion of the findings. Although some of the research findings do corroborate expectations from the existing body of knowledge, it is the first time such a study has been carried out within a Ghanaian context. Therefore, this study contributes to the extant body of knowledge since the findings add a fresh depth of appreciation to our understanding of corporate governance practices in developing and transition economies and for that matter, Ghana. Nevertheless, this study does not consider only this addition as a contribution in the sense that, this chapter will also focus on other equally vitally important contributions to the existing body of knowledge by suggesting other areas that are to be given a critical attention in corporate governance discourse by scholars of both management and organization. Table 8.1 below depicts the overview of the propositions of the study.

**Table 8.1: Overview of the research propositions**

<b>Propositions</b>	<b>Confirmation</b>
Shareholders with larger shares exert shareholder control in a company	Confirmed in all cases
Effective and efficient board meetings result in an extensive board control	To a very small extent in that only one case confirmed this proposition.
The non-duality structure with independent chairperson results in board control	Not confirmed in all cases
Instituting a board audit committee with independent directors leads to board control in an organization	To a very small extent because only one case confirmed this proposition
Setting up a board remuneration committee with independent directors leads to board control	To a very small extent because only one case confirmed this proposition.

Source: Fieldwork

#### **8.1 An Overview of the research questions**

##### ***8.1.1 The concepts available in the extant literature, which are suitable for evaluating corporate governance effectiveness in Ghana.***

The various definitions of corporate governance reflect the two main perspectives of corporate governance; the shareholder perspective and stakeholder perspective (see chapter two). These two perspectives come with three main models of corporate governance: The Anglo-American, Germanic model and Japanese model. Whilst the Anglo-American model that falls under the outsider model is market-oriented with strong investor protection, the Germanic and Japanese models, under the insider model are block holder-based with weak investor protection. These three

models have been applied in most countries, but they have been modified to suit the prevailing conditions of these countries.

These models of corporate governance gradually developed in distinctive settings in which social patterns in relation to corporate governance are at variance. Currently, corporate governance practices around the globe are related to these differences. Debates are on-going about the probable convergence of the various models of corporate governance. The increasing economic globalization has catapulted the discourse on the best corporate governance model and the hindrances (such as powerful interest and lobby groups) to the development of a single corporate governance model (Goergen, Martynova, Renneboog, 2005; McCahery, Moerland, Raaijmakers & Renneboog, 2002). Recent studies and changes have shown a general direction of convergence of the models (Goergen *et al.*, 2005; Hopt & Leyens, 2004; Denis & McConnell, 2003; Haansman & Kraakman, 2000), but the studies and changes are not in agreement in regard to the trend of this convergence (Goergen *et al.*, 2005).

Currently, board structures of corporate businesses in Japan and Germany are converging towards the Anglo-American model of a one-tier board system. Changes are also happening in the Anglo-American market-centered model. For example, large shareholders have recently emerged in the UK and US (See Chapter 2). There is also a differing view that convergence is not likely to happen as a result of some basic differences that exist between the two main competing models. Therefore, the two contending models have to borrow the best practices from one another. This would lead to a 'hybrid model' with the right combination of corporate regulation, market discipline as well as power of corporate stakeholders (Goergen *et al.*, 2005).

Several theoretical perspectives can be employed to examine and explore corporate governance phenomenon: Transaction cost theory, agency theory, resource dependency theory, stewardship theory, stakeholder theory, managerial hegemony theory and class hegemony theory. In the context of this study, the agency and transaction cost theories were employed. The reason is that these two theories are similar particularly, in managerial decisions and behavioral assumptions such as bounded rationality and opportunism, which are present in the Ghanaian setting. The transaction cost and agency theories attempt to tackle similar problem. For instance, the problem of how to induce corporate managers to pursue the interests of shareholders and at the same time, to take decisions that would maximize shareholder value. Shareholders borne every cost of non-wealth actions/decisions by managers and therefore, the need to control management to take decisions to minimize these costs and maximize shareholder value are vitally important (Hart, 1995). The need to induce corporate managers to maximize shareholder value is extremely important in encouraging shareholders to supply the necessary and sufficient finance required by corporations, which is a vital issue in corporate governance debate nowadays (Berglof & Claessens, 2004).

The principal-agent and transaction cost theories highlight some general corporate governance mechanisms that induce management to take decisions that will serve the interests of shareholders. These corporate governance mechanisms have been grouped into two: Internal and External corporate governance mechanisms. Internal mechanisms operate within organizations and can be altered to harmonize situations of organizations (Dyck, 2001). These are; board of directors, ownership structure, performance-based director incentives, bonding and debt financing. External mechanisms are those that operate outside the firm; legal and regulatory framework, and competitive markets comprising the product market, capital market as well as managerial labor market (See chapter 2).

The prevailing conditions in Ghana do not allow the external corporate governance mechanisms to effectively function (See chapter 4). This is because Ghana is characterized by immature

competitive market as well as weak legal and regulatory framework. This is the case of developing economies in general (Berglof & Claessens, 2004; Lin, 2000). Also, some internal mechanisms such as bonding, debt financing and performance-based incentive do not function well in Ghana since they largely depend on the legal and regulatory framework. It was deduced from the literature that performance-based incentive mechanism are largely applied in countries where ownership is dispersed (such as the UK and US) and less applied in countries where ownership is concentrated (such as Germany and Japan).

Since Ghana is currently, characterized by a concentrated ownership, performance-based incentive mechanism perhaps will not be common. This deduction is consistent with Berglof & Claessens' (2004) assertion that performance-based mechanisms in developing countries are ineffective stemming from the evidence that large shareholders exist and could easily hire and fire management as and when they perform poorly. On the basis of this conclusion, this study concentrated on the internal mechanisms of the ownership structure and board structure as they appeared to be the only mechanisms that could be applied in answering the study's main research question (see chapters 1). The board structure and ownership structure formed the basis of the study's conceptual framework to examining the driving forces of corporate governance practices in Ghana as well as their effectiveness. The general idea of the study inferred from the literature linking the ownership structure and board structure was developed, and empirically applied. This took into account ownership control, board control and board effectiveness- board composition, director independence, leadership structure of the board, board meetings, board audit committee and board remuneration committee.

#### ***8.1.2 Prevailing condition in regards to corporate governance effectiveness in Ghana and the elements that drive this effectiveness***

The shareholder perspective of corporate governance put forth that, the objective task of an organization ought to focus only on those who have monetary share of the organization. It considers organizations as devices for shareholders to maximize their investment returns, on the basis that theoretically, they (ie. shareholders) are residual claimants (Jensen & Meckling, 1976). Accordingly, effective corporate governance was defined in this study as how the ownership structure and the board structure serve as good corporate governance mechanisms in reducing agency problem in an organization, by narrowing the gap between the interests of shareholders and managers. In the context of this study, effective corporate governance is realized if the mechanisms examined (ie. the ownership structure and the board structure) help in solving agency problems in the prevailing Ghanaian setting.

#### **Ownership Structure**

In all organizations studied, controlling shareholders function as monitors and controllers of managers. Controlling shareholders exert control over decisions of management via their incessant access to and selection (and the authority to dismiss) of key persons in the organizations, their frequent access to information and their activeness in decision-making processes of the organizations. With these possibilities, controlling shareholders induce management to take decisions that will maximize shareholder value and consequently, help reduce agency problem. Also, controlling shareholders of these organizations have the ultimate say in regards to decisions during annual general meetings, in view of the fact that, they have the control rights. This allows them to pervasively influence decisions of management and in consequence, management has to take actions to maximize shareholder value.

The revelation of this ownership concentration in all four organizations studied, is a feature that cuts across all Ghanaian organizations listed on the Ghana Stock Exchange, and a number of



organizations that is not listed. In simple terms, all Ghanaian organizations have controlling shareholders. Therefore, the four cases offer a dependable proof that the ownership structure is a vital driving force of effective corporate governance in Ghana. This revelation from the cases investigated in regards to the role of large shareholders is in line with the extant literature on corporate governance. Denise and McConnell (2003) opine that large shareholders have the incentive to use up resources to monitor and control management in order to make sure that their interests are met. Further, large shareholders are observed as vital corporate governance mechanism in the developing world in that; they strongly influence the course of achieving effective corporate governance in these economies (Berglof & Claessens, 2004).

### **Board effectiveness**

In regards to the board, the study concentrated on elements that are regarded vital in agency theory to determine board effectiveness in connection with board control. The elements examined in this study were; board composition, leadership structure of the board, director independence, meetings of the board, board audit committee and board remuneration committee.

#### *Board composition*

The findings of the study depict that in all organizations, non-executive directors form the majority of their boards. The degree to which board composition determines board effectiveness in connection with board control function is assessed to be low in three organizations. In these three cases, boards do not get involved in the crucial elements of control in the organizations since controlling shareholders execute such operations. This observable fact from these three organizations confirms the findings in the extant literature that the existence of large shareholders has the proclivity to weaken other corporate governance mechanisms (Berglof & Claessens, 2004). It is only in one case that board composition was evaluated to settle on board control to a large extent in the sense that non-executive directors do carry out all the crucial elements pertaining to board control in the organization. This enhances the debate in the extant body of knowledge that boards can be effective governance mechanism (Berglof & Claessens, 2004; Denis & McConnell, 2003). However, this study highlights that boards can only become effective corporate governance mechanism only if large shareholders allow them (by means of absenting themselves from performing control-related operations) to carry out their control function in corporate organizations.

The finding in regards to the number of non-executive directors relative to the board size in all organizations studied meets the recommendations of the principles of corporate governance of Ghana (See chapter 2), which states that at least one-third of board members should be non-executive directors.

#### *Director independence*

In all organizations studied, the extent to which director independence drives board effectiveness relative to board control is high. Such director independence has the propensity to transform into effective and efficient control of management. However, the observable facts also show that although directors are independent of management, the subject of director independence in relation to controlling shareholders continue to be challenging. The prevailing condition where controlling shareholders are given rights to select directors, present a great conundrum to director independence. This empirical evidence corroborates the extant body of knowledge in that; large shareholders in general, jeopardize director independence since large shareholders tend to have an authoritative command in relation to director appointment (Berglof & Claessens, 2004). The aspect of director independence in all four organizations met the recommended guidelines by the principles of corporate governance of Ghana.

### *Board leadership structure*

The extent to which the division of the roles of the chief executive officer and the board chairperson settles on board control is low for all four organizations studied. In regards to the suggested guidelines, the division of the roles in all four organizations meets the requirement of Ghana's principles of corporate governance since one person does not perform the two roles. However, the division of the roles in three organizations that scored low do not conform with the guidelines of the principles in that, board chairpersons in these organizations are not independent of controlling shareholders. In the case of the other organization, the split of the positions of the chief executive officer and board chair was found to be power sharing mechanism to appease the two founding fathers.

### *Board Meetings*

The extent to which board meetings settle on board effectiveness in regards to board control function is low for three organizations and high for one. As with other driving forces of board effectiveness, board meetings do not pave important way to board effectiveness with respect to board control in three organizations, because their boards do not wield control over management and corporate decisions. In the remaining organization, board meetings settle on board control in that, they (ie. board meetings) represent platforms that offer the board the authority to wield control over management and corporate decisions.

It is only in one of the four organizations studied that its board has put in place performance evaluation mechanism to assess the performance of directors, the CEO and the board. In regards to this finding, three organizations do not meet the recommendation of the principles of corporate governance of Ghana.

### *Board audit committee*

The role of the board audit committee in determining board control is low for three organizations and high for one. As with other determining forces of board effectiveness, the establishment of board audit committees does not necessarily lead to board effectiveness in relation to board control function in three organizations in that, controlling shareholders perform extensive control over the organizations. This is consistent with the earlier deduction that the ownership structure has influence on internal mechanisms of corporate governance (Berglof & Claessens, 2004). This result is also consistent with the study of Mendez and Garcia (2007) on the effects the ownership structure and board composition have on audit committees in Spain. Their results portrayed a negative relationship between large shareholders and audit committee activity. They attributed this result to the extensive control large shareholders wield over the activities of the committee.

As a matter of fact, the ineffectiveness of the board audit committees of these three organizations as a result of the presence of controlling shareholders makes the companies code 1963 recommendation with respect to board committees irrelevant. Since the board is ineffective as a result of the extensive control over its activities by the controlling shareholders, it can be envisaged that any committee established by the board will be ineffective.

### *Board remuneration committee*

Two of the organizations studied have established board remuneration committee. However, the role of the remuneration committee in determining board control is low for one of the two organizations and high for the other. The establishment of board remuneration committees does not lead to board control in these organizations (ie. low-scored organizations) in the sense that, their controlling shareholders perform extensive control over their operations. This is in line with the earlier deduction that the ownership structure has influence on internal mechanisms of corporate governance (Berglof & Claessens, 2004).

### ***8.1.3 Auxiliary issues that could be used for further enhancement of corporate governance in Ghana***

The observable facts reveal three key issues that need to be given the necessary attention to enhance corporate governance practice in Ghana. These are: Improving the corporate governance foundation; safeguarding the right of minority shareholders; and fashioning out measures to enhance board effectiveness.

#### ***Improving the corporate governance foundation***

The discussions in chapter 4 about the different corporate governance mechanisms that can be applied to induce management to advance the course of achieving shareholder wealth have revealed that a market-oriented economy is still gaining roots in Ghana. This is because a lot of factors that create efficient market-oriented economy are still developing. For instance, Ghana's capital market is still in its early stage. Hitherto, the capital market is not efficient to induce management to proceed along the course of maximizing shareholder value. In other words, it does not serve as an effective, efficient and dependable threat to corporate managers who do not take decisions to maximize shareholder value. Also, law enforcement, which is a key element for efficient and effective market-oriented economy is weak in Ghana.

The world bank (2003) reports that corporate governance in most developing and transition economies is not properly practiced because most developing and transition economies have not succeeded to always and equably enforce rules and regulations concerning corporate governance. Practices like insider trading and self-dealing are common. Such offenses by and large go undisciplined, even if harsh penalties apply in theory (World Bank, 2003). Ghana's position to supporting the implementation of corporate governance is undermined by weak monitoring and enforcement practices. In consequence of the aforementioned challenges, there is a need to improve the foundation for effective corporate governance in Ghana, which is no different to the needs of other emergent economies. For example, most commonwealth countries are faced with such challenges (Berglof & Claessens, 2004).

#### ***Safeguarding the right of minority shareholders***

Currently, large shareholders play significant role in determining effective corporate governance in Ghana, but they also cause a significant challenge to the enhancement of corporate governance practices. This is because shareholders with larger shares are more likely to represent a controlling interest (Okpara, 2010). Such control furnishes them (ie. shareholders with large shares) with the possibility of private benefit (ie. benefits that are unavailable to other shareholders) (La porta *et al.*, 2000), and with this practice, firm value is more likely to be reduced (Berglof & Claessens, 2004; Denis & McConnell, 2003).

The empirical facts of this study reveal that there are significant information and power asymmetries between controlling equity holders and small/minority equity holders. Presently, small equity holders cannot effectively influence decision-making processes of corporate organizations. Generally, minority shareholders do not have representatives on the boards of corporate organizations. Even in annual general meetings where they depend on for information about the growth of their firms, they are always denied of adequate voice (See Chapter 6 & 7). This usually makes them susceptible to the abuses of majority shareholders and in consequence, they play a lesser role on how corporate organizations are steered and directed.

The vulnerability of small equity holders means that the conventional agency problem confronting Anglo-American organizations, which sets equity holders against powerful management, is not salient in the Ghanaian setting. This is because the main problem is the struggle between controlling equity holders and minority equity holders. This is archetypal of most developing and

transition economies (Okpara, 2010; Berglof & Claessens, 2004). And this leads to expropriation problem where majority shareholders with their controlling prowess over corporate organizations tend to divert resources from corporate organizations in a manner, which dispossesses minority shareholders of their fair share of income from those resources (Oman, Fries & Buiters, 2003). These controlling rights of large shareholders not only offer them with unrestricted power to punish poorly performed management, but to channel company resources for their private gains (Zhonghua, 2008). Also, controlling shareholders always act contrary to the limitations imposed by central planning, and faced with opportunities to maximize their personal interest, probably be tempted to get involved in, or acquiesce to, corporate scandals (Chen, Firth, Gao & Rui, 2006). Such revelations have been reported to have taken place in some independent commonwealth economies, South-Eastern economies of Europe and China (Chen *et al.*, 2006; OECD, 2003). Even though this study has not found concrete evidence that such a deprivation of possession of minority shareholders is prevalent in Ghana, it brings out that the prevailing condition presents a fertile ground for this to happen.

The implication for further improvement of corporate governance practice in Ghana is to put some measures in place to safeguard minority shareholders. La Porta *et al.* (2000) have suggested six (6) legal protection forms termed as anti-director rights measured by the 'anti-director rights index'. These are: 1) Permitting equity holders to mail their proxy votes to the company; 2) not requiring equity holders to deposit their shares before the annual general meeting; 3) cumulative voting; 4) ensuring proportional representation of small/minority equity holders on boards; 5) the presence of a mechanism for oppressed small equity holders; and 6) allowing small equity holders to organize an extraordinary shareholders meeting.

The principles of corporate governance of Ghana recommend an equitable treatment of all shareholders (for example, minority shareholders should be given the opportunity to attain effective redress for violation of their rights) (See Chapter 2). Even though this section of the principle is aimed to safeguard the rights of minority shareholders, the main problem confronting Ghana in regards to laws is their enforcement. There may be an existence of laws to safeguard minorities, but their application is generally, poor. A law-oriented method of solving this problem, which is clearly spelt out by Black *et al.* (1999) in the context of Russia also applies to Ghana:

[T]he principal problem is not that laws aren't strong enough; but that they aren't enforced... unhappy shareholders can rarely develop enough facts to prove the rampant self-dealing that occurs every day. The courts respect only documentary evidence, which is rarely available, given limited discovery and manager's skills in covering their tracks...pursuing a case... will take years, and when you are done, enforcing a judgment is problematic, because enforcement is by the same biased or corrupt lower court that the shareholder began at (Black *et al.*, 1999 cited in Dyck, 2001, p. 11-12).

The problem of enforcing laws, and rules and regulations is a challenging issue confronting most developing and transition economies with respect to corporate governance (Okpara, 2010; Berglof & Claessens, 2004). If the law courts do not effectively perform their functions in developing countries where corruption is rife, governance structures in individual firms will lack appropriate means of enforcement (Charkman, 2005). A situation like this automatically leads to weak investor protection which will shy foreign investors away from these countries. Leuz, Lins & Warnock (2009) contend that foreign capital providers invest insignificant amount of money in corporate organizations that situate in countries where weak investor protection is the order of the day. This

then points to the fact that mechanisms should be put in place for such enforcement. For instance, meeting this problem needs the recognition that the structure and capacity of regulatory and judicial frameworks are essential parts of the corporate governance structure.

### ***Issues that affect board effectiveness***

A number of issues that drives board effectiveness in regards to board control function still needs to be dealt with. These include; director independence, assessment of directors and the leadership structure of the board.

### **Director independence**

The observable facts of the four cases reveal that the size of equity capital that is needed for shareholders to select representatives to the board is well-established in the various rules and regulations governing the companies. This regulation normally backs controlling shareholders because it permits them to select the majority of board members, the chairperson and the CEO, while excluding a lot of small equity holders from partaking in all vital decision-making processes. This is in line with the findings of Berglof and Claessens (2004) that director independence is weakened with the presence of controlling shareholders. This concern is needed to be addressed (see section 8.4.2 of this chapter for how this teething issue can be addressed by boards).

### **Director assessment**

With an exception of one corporate business, the various boards of the companies studied do not deal with issues pertaining to formal assessments of directors, the CEO and board activities. This means that boards need for particular skills, abilities and knowledge is not all that important. Since there are no laid down measures in assessing the CEO and other individual members of the companies, once these individuals are appointed or selected, they tend not to fully involve themselves in regards to how they apply their skills, knowledge, competences and expertise as required of them for the betterment of the companies. It is argued that director assessments- be it at board level, committee level or individual level- are relevant in that they facilitate the board's understanding of whether it is meeting its own performance expectations or otherwise (Larcker & Tayan, 2011). Also, director assessments aid boards to take a note of the performances of their directors and the manner in which directors apply their skills, knowledge, competences and expertise as required of them. In circumstances where a director is inactively involved in board activities, this assessment mechanism can be an effective and efficient way for introducing a discussion about enhancement or substitution (section 8.4.2 of this chapter extensively addresses this pressing concern).

### **Leadership structure of the Board**

All four corporate organizations have separated the roles of the board chairperson and the chief executive officer, but none of these separations enhances board control. The general evidence is that the schism of the two positions is only vital for the purposes of control when the board is, practically, involved in decision control. But in circumstances-as highlighted in our four cases-where major stockholders always control and monitor the affairs of their corporate organizations, such schism cannot be regarded as a value added mechanism.

## **8.2 Summary: driving forces of effective corporate governance in Ghana**

The following driving forces of effective corporate governance can be identified currently in Ghana.

### ***8.2.1 Ownership Structure***

The ownership structure, which drives ownership control, is a significant driving force that was witnessed in all four cases. Ghana is characterized by a concentrated ownership and in consequence; there is a substantial possibility that large equity holders form an important driving force of effective corporate governance in many Ghanaian corporate organizations.

### ***8.2.2 Board effectiveness***

Board of directors is also an important corporate governance mechanism to ensuring effective corporate governance in Ghana. However, its effectiveness with respect to its control function differs from organization to organization as witnessed in the four cases. Board effectiveness is restricted by the ownership structure as well as the extent of ownership control. In a situation where there is significant ownership control, the board is likely to be less involved in decision control and as result, it becomes an advisory body. This is consistent with the findings of Castellini and Agyemang (2013), Coles *et al.* (2008), Adams and Ferreira (2007), Adams and Mehran (2003), and Agrawal and Knoeber (2001). Meanwhile, the observable facts of the cases have indicated that in organizations where boards are vitally important for the purposes of control (ie. exerting decision control), board effectiveness at different levels, is driven by its composition, director independence, board meetings, board audit committee and board remuneration committee.

#### *Board composition and independence*

Board composition and director independence are two significant forces that drive effective corporate governance in one of the organizations studied. They foster effective corporate governance by enhancing board control. Generally, this happens in circumstances where the board exerts board control over management and it is in line with the agency theory (chapter 3). Even though these driving forces are found only in one company, it can be inferred that board composition and director independence can possibly be significant driving forces of effective corporate governance in corporate organizations that share the same characteristics with this company.

#### *Board meetings*

Board meetings were key driving force of effective corporate governance in one of the organizations studied. This is because they serve as a platform for conducting strategic-decision control operations of firms. Generally, board meetings are significant driving force of effective corporate governance in circumstances where boards exert control over management operations.

#### *Board audit committee*

The board audit committee was a significant driving force of effective corporate governance in one of the organizations studied. Normally, this occurs in circumstances where the board exerts control over management and it is in line with the agency literature. Although this driving force is found in one firm, the finding implies that in corporations with similar conditions, board audit committees can possibly be an important driving force of effective corporate governance.

#### *Board remuneration committee*

The board remuneration committee was a significant driving force of effective corporate governance in one of the companies studied. Normally, this occurs in circumstances where the board exerts control over management and it is consistent with the agency literature. Even though this driving force is witnessed in only one organization, the finding implies that, in firms with similar characterizing features, board remuneration committees are important force in driving effective corporate governance.

### *Skills and knowledge of directors*

Although skills and knowledge of directors are not included in the conceptual framework of this study, they are important requirement for effective board discussions to enhance board control. Payne *et al.* (2009) argue that boards with adequate finesse, power, external information and opportunity are more efficient in achieving their goals. Therefore, the questions that need to be asked to make sure whether the candidate is well-fit to be qualified as a member are as follows; 1) does the candidate have the necessary skills, knowledge and experience the company requires from the board as in accounting, auditing, marketing, technology and so on?, 2) is the candidate a person who adheres to a strict moral or ethical code?, 3) is the person someone who appears to be appealing and is capable to take on constructive or productive discussions with other members of the board?, and 4) is the person a candidate who will fit into the group? Requiring answers to these questions demand not only interviewing the person, but information on him or her can be acquired from others who have seen him or her in action. This issue extends the original conceptual framework of the study as developed in chapter 4 (see chapter 4).

### **8.3 Reflection on the study**

The findings of this study strengthen the emerging state of knowledge on corporate governance in developing and transition economies in that, this study has been undertaken in the context of a developing economy (Castellini & Agyemang, 2013; Berglof & Claessens, 2004). On the basis of the theoretical foundation of this study, a set of corporate governance mechanisms has been identified to operate both outside and inside of corporate organizations-external mechanisms and internal mechanisms. The external mechanisms that have been identified and discussed include the legal and regulatory framework and the competitive market of capital, product as well as managerial labor. The internal mechanisms of corporate governance discussed include bond, performance-based incentive, the ownership structure, debt financing and the board of directors. This aspect of the study answered the first specific research question of this study (see section 1.6.1).

The discussion in regards to both external and internal mechanisms of corporate governance was conducted in the context of a developing country. Accordingly, only two internal mechanisms were highlighted as the main elements that drive effective corporate governance in developing countries and for that matter, Ghana. In order to dig deeper into this revelation, a pilot study was conducted and its outcome corroborated the deduction that only ownership and board structures determine sound corporate governance in Ghana. Consequently, the conceptual framework of the study was constructed. On the basis of this, five theoretical propositions were formulated to utterly define the boundaries of the research. Further, data were gathered from four publicly-listed firms on the GSE to answer the study's specific research question 2 (see section 1.6.1). After the analyses of the data, it was highlighted that between these two structures (that is, the ownership structure and board structure), the ownership structure significantly drives effective corporate governance in Ghana. This is because these four companies are characterized by ownership concentration and that large shareholders totally dominate and have control over the firms thus averting agency problems in the companies. This tacitly implies that while minority equity holders are ineffective in the management of their companies, large shareholders play effective roles in managing their firms. This result corroborates the works of Leech (2013), Okpara (2010), and Berglof and Claessens (2004). It is also consistent with the assertion that in times of weak law enforcement regime, shareholders do not expect that their interests will be protected via lawful channels and therefore, they do take a more direct participation in the administration of their companies (Larcker & Tayan, 2011; La Porta *et al.* 1997).

Furthermore, the legal and regulatory framework of corporate governance does exist in Ghana, but needs further development in regards to its enforcement. Most developing economies have failed to consistently and evenly enforce their legal and regulatory framework with respect to corporate governance (World Bank, 2003). In Ghana, the capacity to carry out the implementation of good corporate governance is threatened by the presence of weak enforcement of existing rules and regulations. This is considered as the most challenging issue in Ghana (chapter 4) and in most developing and transition economies (Immordino & Pagano, 2010; Okpara, 2010; Berglof & Claessens, 2004). Effective enforcement of existing laws and regulations is a vital determinant for a sound foundation upon which effective corporate governance can thrive (Okpara, 2010; Leuz, Lins & Warnock, 2009; Berglof & Claessens, 2004; Oman *et al*, 2003; Shleifer & Vishny, 1999). Theoretically, the claim that an effective enforcement of existing laws and regulations (for instance, safeguarding minority shareholders) will induce investors as well as disperse ownership cannot be identified in the Ghanaian context. This goes a long way to negatively affect Ghana's capital market. Since Ghana has sufficient laws and regulations, an effective enforcement of them is needed to induce investment as well as to improve her capital market.

## **8.4 Conclusions and Recommendations**

### **8.4.1 Conclusions**

The proposition that shareholders who hold large proportions of equity capital wield an extensive shareholder control over the activities of corporate entities has been established. This implies that large shareholders in corporate organizations are considered important determining elements of effective corporate governance in Ghana. This finding is consistent with the findings in the general body of knowledge that shareholders with not inconsiderable shares in a corporate entity are considered to be the driving force of good corporate governance (Agyemang & Castellini, 2013a; Roe, 2003; Denis & McConnell, 2003; Shleifer & Vishny, 1986). It also reinforces the emerging body of knowledge on corporate governance in developing economies that major stockholders are the only imperative mechanism (Berglof & Claessens, 2004). Even though major shareholders are effective in addressing incentive problems; this situation tends to create problems with regards to the interests of small equity holders. One of the findings of this study has indicated that a vital issue that arises regarding corporate governance is the one of the weak small shareholders vis-à-vis major ones. This is consistent with the existing body of knowledge in the sense that, in developing economies, the matter of corporate governance typically involves the expropriation of small equity holders by major equity holders (Agyemang & Aboagye, 2013; Okpara, 2010; Zhonghua, 2008; Oman *et al.*, 2003; Denis & McConnell, 2003).

There is evidence that corroborates the theory with regards to the functions of the board in exercising its control function. The findings portray that an effective and efficient board is a vital driver in determining good corporate governance. This usually happens when controlling equity holders do not deal with aspects of control which are vested in the board. In other words, when major equity holders fully involve themselves in corporate decision-making processes, boards appear to be mere counselors or advisors to management. This corroborates the body of knowledge in the sense that, major equity holders are inclined to make other corporate mechanisms futile (Berglof & Claessens, 2004; Zhonghua, 2008; Roe, 2003). The same conclusion applies to the non-duality structure. Such split does not inevitably result in a more effective and efficient board with regards to board control. This means that corporate governance experts ought to be very careful when applying governance principles of advanced countries in developing economies, in that the conditions in regards to corporate governance practices are different in these economies.

The findings also depict that, at times, compliance with the various principles of corporate governance that have been prescribed regarding board composition does not certainly result in



effective and efficient board with respect to board control function. However, evidence shows that with an absence of large shareholders who closely monitor and control the activities of management, a large number of independent NEDs on boards is useful in their control and monitoring function. Furthermore, the findings regarding director independence bring about some challenges to the various principles of corporate governance, which recommend that NEDs must be independent. In circumstances where the controlling shareholder appoints the majority of directors, independence remains a problem or huge challenge. Also, director appointment by large shareholders also brings about a challenge in that; it raises the issue pertaining to criteria for appointments. This finding demonstrates that the appointment procedure of directors is not guided by clear criteria.

The confirmation from the case study poses a challenge to the privatization program that have been in place since the divestiture implementation program with the aim of broadening ownership and empowering Ghanaian entrepreneurs. When privatization prevails, it attracts strategic investors which will then lead to an emergence of large private equity holders who eventually rule out large number of small equity holders from key decision-making processes of corporate entities. This is in sharp contrast with the objective of the privatization program in Ghana. This means that post-privatization corporate governance guidelines should be carefully thought-out and designed.

#### **8.4.2 Recommendations**

##### **Recommendations for government and regulatory bodies**

###### *Enforcing existing laws and regulations for effective corporate governance*

Based on the theoretical foundation of this study, it has been established that although Ghana has sufficient laws and regulations with respect to corporate governance, the major challenge is the absence of active devices for their effective enforcement. Without an effective enforcement of the rules and regulations in regards to corporate governance, it will be very difficult for developing and transition economies to develop a strong and vibrant capital markets, which are currently regarded as important for sustainable economic development for countries (Shleifer & Vishny, 1986; Berglof & Claessens, 2004). Hail and Leuz (2006) argue that countries with well-developed legal enforcement structures have the tendency of attracting capital at lower cost than countries that are otherwise. Since the accounting and auditing rules are not always dependable or external auditors are perhaps not considered straightforward to confirm their appropriate application, countries should consider replacing a vigilant enforcement mechanism to discourage agency problems (Larcker & Tayan, 2011). Furthermore, since the significance of legal and regulatory framework is higher in countries whose economies are actively incorporated into the global capital markets than those whose economies are otherwise (Larcker & Tayan, 2011); countries like Ghana should consider enforcing their rules and regulations regarding corporate governance practices.

On the basis of this issue, the recommended strategy to ensuring effective enforcement of existing laws and regulations is by recognizing that the structure and capacity of the laws, and legal and regulatory framework are essential components of the corporate governance system. This will offer a sound protection that can help mitigate the pervasiveness and seriousness of agency problems since penalties can be meted out on self-centered management or insiders (Larcker & Tayan, 2011). Also, with this enforcement, investor confidence will be enhanced in the sense that corporate managers will be monitored and checked and property rights will be safeguarded. In achieving this, the following mechanisms have been suggested by this study: Improving the regulatory framework by making the laws accessible to all equity holders and the populace; fashioning out effective mechanisms for law enforcement as well as strengthening enforcement mechanisms (by providing training, logistics, equipments and so on); taking on alternative dispute resolution strategies; creating a conducive environment by keeping up the possible will to execute policies; creating an

independent and intrepid judiciary; and encouraging the media to report issues of corporate governance and become more critical/judicious on issues of corporate governance.

#### *Protection of Minority Equity holders*

An important issue that cropped up from the empirical findings was the need to safeguard small equity holders from the abuses of large equity holders. Safeguarding of small equity holders is currently an important issue in developing economies (Berglof & Claessens, 2004) of which Ghana is no exception. Corporate organizations that uphold the rights of minority shareholders win the confidence of capital providers, and they (capital providers) more often than not prefer retaining equity capital of the companies, which will eventually, increase the market value of the firms in the long run (Bijalwan & Madan, 2013). The protection of small equity holders basically demands that the implementation of existing rules and regulations be improved. It also requires a concurrent implementation of other strategies including the gaining of greater access to information, reviewing the current rules and regulations, educating small equity holders and an effective enforcement of existing recommendations and guidelines/principles of corporate governance.

Availability of information to small shareholders will enable them to challenge both management and large shareholders in relation to corporate decisions. This challenge can possibly help prevent a potential diversion of corporate resources. Mechanisms for easy access to information by minority shareholders include the development of highly regarded bodies such as a well-focused investigative financial body, brokerage firms and financial think-tanks that could assist in enhancing corporate governance practice. Empowering professional accounting and auditing bodies such as the ICAG should in addition, form part of the effort/attempt to improving corporate governance practices.

Finally, in order to protect the right of minority shareholders, they should be educated. This will make them aware of their rights to further reduce abuses from large shareholders. Educational campaigns can be carried out to bring about an understanding of their rights. The SEC of Ghana and GSE should also encourage corporate organizations to organize educational symposiums, conferences, forums and so on to sensitize their shareholders on their rights. The SEC and GSE can also encourage minority shareholders to form vibrant associations to safeguard their interests.

#### *Reforming annual general meetings*

An arrangement of a company's internal corporate decision-making processes helps in safeguarding minority shareholders. In all organizations studied, minority shareholders were not given ample time to express their grievances during annual general meetings. When board chairpersons chair those meetings, they may have an interest in safeguarding the board from shareholder criticisms. It is recommended that annual general meetings should be reformed so that they could be chaired by individuals who are independent of both management and boards. Those individuals should be elected by shareholders for each annual shareholder meeting. This will enable the board to be accountable to all shareholders. To give credence to this recommendation, regulatory bodies such as the SEC and GSE ought to include this in the listing requirements of GSE.

#### *Employee representation*

The recommendation of the principles of corporate governance of Ghana, which states that directors are supposed to consider the interests of other stakeholders, can only be manifested if other stakeholders such as employees are represented on boards. The SEC should partake in achieving the 'consideration of other stakeholders' into practice, and to try to include employee representation law. Employee representation on boards can enhance internal relations, minimize strikes and reduce agency costs via supervision of management remuneration and perquisites

(Larcker & Tayan, 2011). Also, allowing employees to serve on corporate boards is ‘a way to credibly commit to cooperative management style’ (Miller, 2000, p. 19). Corollary to this, the trade unions such as the Trade Union Congress (TUC) of Ghana and the Ghana Federation of labor (GFL) should keenly deliberate on this subject and try to seek actual employee representation on boards as recommended by law.

#### *Women representation*

Even though this study did not take into account how women are represented on boards of corporate organizations in Ghana, in the course of the study, it was evidenced that women were significantly under-represented on boards of all four cases investigated. It is argued that since managerial talent is consistently fragmented across men and women, limiting boards to predominantly include men-if not men only-gets rid of an equally qualified talented group in our societies (Larcker & Tayan, 2011). This means that the representation of women on corporate boards of directors might positively influence corporate performance. For instance, women representation on corporate boards can improve board independence by minimizing social differences that can compromise boards’ independence.

Also, women would probably demonstrate higher levels of credibility and teamwork than their counterparts, hence enhancing boardroom discussions. As a result of the possible benefits that corporations can derive from women representation on their boards, this study recommends that, regulatory bodies such as the SEC and GSE ought to work hand-in-hand to ensure women representation on boards of listed corporations by including this recommendation in the listing requirements of GSE.

#### *The issue of business accountability*

The issue of business accountability of corporate organizations to the Ghanaian community has relevant connotation with the development of corporate governance in Ghana. Corporate governance should be considered as a public policy matter, and attempts should be made to draw a clear distinction between corporate decision-making processes and political decision-making processes. This subject needs to be dealt with as an element of the wider initiative of improving effective corporate governance.

#### *Reviewing guidelines of corporate governance*

Although the principles of corporate governance of Ghana do address the inequality between large shareholders and small shareholders, companies are not implementing this recommendation. The SEC and GSE should effectively persuade organizations to execute this recommendation. Also, the SEC should conduct seasonal evaluations to get hold of the extent of compliance by corporate organizations as well as occasionally reviewing guidelines. This will induce self-monitoring and help out in achieving good corporate governance.

#### *Divestiture policies and corporate governance*

The essence of considering the consequences of privatization on corporate governance, and the eventual position of large shareholders in the decision-making processes of organizations, call for a revision of Ghana’s principles of corporate governance to protect minority shareholders. It has been deduced that instead of privatization through strategic investors/capital providers to empower local shareholders, it undermines them, and eventually makes them vulnerable to the expropriation problem. The study recommends that future divestitures should also address the concerns of local shareholders.

## **Recommendation regarding boards of directors**

### *Enhancing director independence*

The issue of director independence has been identified as a pressing issue in Ghana. In order to curb this, the positions should be announced in public with all the requirements so that a person who considers him/herself qualified would tender his/her application. This means that directors will be recruited from the market by applying a free and fair mechanism of inviting applications from well-qualified people. This can be achieved through the establishment of a board nomination committee. The role of this committee is to select and nominate well-qualified individuals for directorship positions. This calls for a critical assessment of the know-how and competence of the individual. After the selections have been done, the candidates should be subject to shareholder-elections. This will ensure transparency in the selection of board directors.

The nomination committee should be solely composed of independent non-executive directors to ensure that individuals selected are independent of management. However, there is no guarantee that director independence will automatically lead to good corporate governance. This is because “personal attributes might influence independence of perspective more than predetermined standards” (Larcker & Tayan, 2011 p. 14). And since personal attributes such as director’s business expertise, professional background, engagement level and ethical standards influence director independence, the study recommends that they should be factored into director independence analysis. This recommendation should not be considered as a regulation, but instead a best practice.

### *Director evaluation*

The idea of board evaluation is gaining grounds in the corporate community. This is because subjecting board of directors to any sort of evaluation is not something inappropriately unreasonable. A board assessment is the cornerstone to complement the public monitoring activity in the sense that without it, it is not possible to make any assessment of the intrinsic quality of governance in a corporate organization (Van den Berghe & Levrau, 2013). A board evaluation process, which is properly arranged can bring the required level of consciousness to the fore, enhance the appreciation of individual director’s viewpoints and disclose the complexities and dynamics of board issues. Consequently, it is recommended that organizations ought to put in place evaluation mechanisms. Effective and efficient boards need to introduce and put in place criteria for assessing their own performance and monitoring their accomplishments as well as to design remedial action mechanisms when the need arises (Tricker, 2003). Huse (2007) opines that the actual form of evaluation may differ, but he goes on to recommend that the evaluation should be formal and regular, taking place at least once a year. Director evaluation can be executed under the leadership of an independent director, with support from external consultants. Various suggestions have been made in regards to the objectives and forms of board evaluation.

Huse (2007) has grouped the objectives into two: Externally related objectives- which are associated with transparency; and Internally related objectives-which are associated with the development of internal effectiveness of the board by evaluating the manner in which the board conducts its business, by checking that all vital issues are appropriately prepared and deliberated, and by measuring the real contribution of each director to the board’s work in general, through his/her skills, competence and participation in board deliberations. The board could hold a meeting at least once a year, at which time the assessment of the board chairperson, individual directors as well as the chief executive officer’s respective performances would be conducted. Steger *et al.* (2004) suggest that if evaluations are undertaken meticulously and the procedure is well-designed and executed in a manner that all directors agree, with an assurance of confidentiality, these evaluations can bring gains to the board in general.

However, the issue of individual board member evaluation is threatening in the sense that it can destroy the shared power and authority vested among board members as well as their common trust on the board. Corollary to this, the study recommends a peer review mechanism-whereby individual directors are asked to evaluate the performance of every other director-or setting up a corporate governance committee, which should be composed of all non-executive directors of the board to carry out such assessments. After that, the board should effectively communicate the assessment process and system to equity holders and other stakeholders each year in annual reports and the steps taken as a result. However, such a comprehensive exercise need to tackle priorities and concentrate on the most important matters, the areas that deserve critical attention or/and are in need of further enhancement, rather than assessing the same areas repeatedly (Van den Berghe & Levrau, 2013). This recommendation can be executed by boards of directors through an externally supported board evaluation examination or self-assessment process.

#### *Introduction of new members*

Orientation to a new job is vital for optimal performance (Huse, 2007). Ward (2003, p.63) argues that 'bringing a board newbie up to speed requires more than just jumping a basket of "to read" materials on his or her desk'. The empirical observations from the cases show that organizations do not normally orient newly-appointed board members, or formally introduce them to their respective jobs. Newly-appointed directors should receive a formal method of orientation into the affairs of the organization. A personal contact between the company's key staffers and the newly-appointed director is imperative. This can be done by the board chairperson through the crafting of a curriculum scheme and agenda that can help insure that all newly-appointed directors are furnished with full, official and customized orientation on joining the board. Newly-appointed directors should be familiarized with the corporate organization's dealings and top management, its environment and be inducted in relation to their fiduciary roles and responsibilities as well as in regards to the expectation of the board. If newly-appointed director has little or no board experience, he/she must receive training.

#### *Board education*

Huse (2007, p. 194) argues that 'the board itself, but, as the highest authority in the corporate structure, the board is responsible for its own job specification, including the boardroom culture'. Board directors can be appropriately recruited and educated to bring forth their specific expertise to work on oversights so that the amount of unreasonable time spent on misgovernance can be redirected to vital issues (Ward, 2003). The empirical observations from the cases show that organizations often do not educate their members on some of the nitty-gritty of accounting and auditing. The Cadbury code (1992) highlights the role of directors' education in this regard and pronounces their role as follows:

The weight of responsibility borne by all directors and the increasing commitment which their duties require emphasise the importance of the manner in which they prepare themselves for their posts. Given the varying backgrounds, qualifications and experience of directors, it is highly desirable that they should all undertake some form of internal or external training; this is particularly important for directors.....with no previous board experience (section 4.19).

Since it is better to have competent and dynamic people in a bad structure than incompetent and inactive ones in a good structure, this study recommends that chairpersons of corporate organizations should make sure that board members consistently upgrade their skills and knowledge, as well as their considerable acquaintances with the organizations in order to bring into

actuality successful board tasks-both on the board as well as on board committees. This is because; good corporate governance structure does not suffice everything, therefore the accentuation of the training of board members is imperative (Charkman, 2005).

#### *Board structure*

The empirical observations of this study have shown varied results with respect to the leadership structure in driving corporate governance effectiveness. It is recommended that the implementation of the split leadership structure should be carefully looked at, and its importance established, on a case-by-case basis, by applying independent judgment and an analytical appreciation of how the split leadership structure could possibly interact with other governance structures to enhance board effectiveness. Although the principles of corporate governance of Ghana have recommended that the two roles ought to be separated, this is useful in circumstances where director independence is present. This is also the case of board composition and the setting up of board committees since an absence of board independence means a nonexistence of board effectiveness therefore, making other board characteristics fruitless. When board independence is compromised, directors' role of maintaining adequate objectivity is undermined.

Notwithstanding the conventional board independent criteria that have been addressed in the 2010 Code of best practices of Ghana, the Code does not painstakingly deal with issues pertaining to social connections that will make it possible for board members to have a sense of psychological relationship that could probably influence them to unduly depend on CEOs without upholding adequate independence. Accordingly, this study recommends that for an individual to be considered an independent director, his/her social connections with the company or other board members should be extensively crosschecked to clear any doubt. This can be done by subjecting the candidate to socially independent criteria. The study further suggests that in order for a candidate to satisfy all the socially independent criteria, he/she: Should not have graduated from the same educational institution the company's CEO graduated; was not born in the same town/village/community where the CEO was born; does not have similar academic discipline with the CEO; should not have any of his/her relatives married to a relative of the CEO; and does not have a third party connection with the CEO via another board member. Boards of corporate organizations can work hand-in-hand with their shareholders in dealing with this issue.

#### **Recommendation for educational institutions**

Recruiting from a market goes hand-in-hand with the development of a market for board members. Larcker and Tayan (2011) suggest that since board directors play vitally important role in regards to governance processes of companies, the quality of persons who are selected and elected to boards has a positive association with the quality of counsel and supervision boards offer to management. The cases have indicated that most organizations currently appoint either government functionaries or retired civil servants. This creates a lot of challenges to the organizations since most of these people do not normally possess the needed fitnesses in relation to private sector issues. Accordingly, there is the need to create a large pool of directors from which organizations could tap well-qualified and competent persons from.

In consequence of the crucial role board directors execute in the governance process, the quality of persons who are nominated and elected to the board has a positive relationship with the quality of advise and supervision the board offers to management (Larcker & Tayan, 2011). This means that if the competencies of board members are questionable, then the best system will prove frivolous. Given the intricacies and dynamics 'of the information processing demands placed on directors, boards need sufficient technical ability to evaluate options and make decisions' (Payne *et al.*, 2009, p. 709). With true visionary, skillful, well-educated and competent board members, corporate

strategies can be reviewed, approved and executed irrespective of the existing governance structure. This calls for the development of corporate governance practice via educational/training programs. And this can be achieved by tasking universities, polytechnics and other professional institutions to introduce courses/subjects on corporate governance.

### **8.5 Contribution of the study**

Firstly, a substantial amount of research has been carried out on the subject of corporate governance, and the challenges confronting its development and implementation in major western economies (Okpara, 2010). However, studies on corporate governance practices in developing and transition economies are meager. This study therefore, has contributed to the extant literature by partially bridging the research lacuna on this issue and unearthing the challenges inhibiting the development and execution of effective corporate governance in Ghana.

Secondly, in this study, corporate governance mechanisms have been pinpointed from the extant body of knowledge and met head-on with the specific Ghanaian context to determining those mechanisms that are essentially effective in inducing management to take decisions to maximize shareholder value. This study reinforces theoretical as well as empirical foundations of the extant art of knowledge with respect to corporate governance structures in developing and transition economies (Agyemang & Castellini, 2013; Okpara, 2010; Berglof & Claessens, 2004), by identifying the limitations of a large number of corporate governance mechanisms in Ghana's context.

Thirdly, corporate governance mechanisms that are currently driving effective corporate governance in Ghana have been illuminated in this study. These mechanisms were empirically examined and described. It has been identified that the ownership structure is a significant driving force of effective corporate governance in Ghana. This in line with the notion in the emerging body of knowledge on corporate governance in developing and transition economies that ownership structure is the most important corporate governance mechanism in these economies (Agyemang & Castellini, 2013; Okpara, 2010; Attig, Ghoul & Guedhami, 2009; Berglof & Claessens, 2004).

Fourthly, this study has shown the entanglement of corporate decision-making processes and that of political decision-making processes. This results from the involvement of government functionaries as well as retired civil servants on the boards of corporate organizations. This situation essentially highlights the basic accountability challenges between corporate organizations and the Ghanaian society, and as a result, makes the development of corporate governance highly complicated. With this, this study demonstrates that corporate governance practices in Ghana have similarities with those of most developing and transition economies (Okpara, 2010; McGee, 2009; Oman *et al.*, 2000).

Fifthly, a suitable self-explanatory conceptual framework for effective corporate governance has been developed from the prevailing conditions with respect to corporate governance in developing countries and for that matter, Ghana. Inasmuch as most developing and transition economies have similar features in relation to corporate governance (for example, weak or non-existent law enforcement mechanisms and immature competitive markets), the conceptual framework developed in this study could be tried and tested in other developing or transition economies.

Sixthly, the various recommendations of the principles of corporate governance of Ghana have been critically examined and challenged as to how they deal with the principal-agent problem of corporate governance in Ghana for instance, the possible expropriation of small shareholders by large shareholders. Accordingly, this study has suggested some measures that are absent in the principles of corporate governance of Ghana in regards to how to safeguard minority shareholders

from the abuses of majority shareholders. These suggestions should be considered as best practices rather than mere recommendations for corporate governance improvement in Ghana.

Seventhly, comparative analyses of the empirical observation of this study and the recommended guidelines of corporate governance of Ghana have been carried out, and aspects in which corporate organizations need to reform and improve their corporate governance practices in order to fully comply with the guidelines are highlighted; director independence, director evaluation, introduction of new directors and board education. This could possibly be the foundation upon which corporate governance structures in these organizations can be reformed and further improved.

Eighthly, this study has identified the essence of considering the consequences of privatization on corporate governance and the eventual position of large shareholders in the decision-making processes of organizations. It has been deduced that instead of privatization via strategic investors/capital providers to empower local shareholders, it undermines them, and eventually makes them vulnerable to the expropriation problem.

### **8.6 Weaknesses of the study**

This was a study to establish the driving forces of effective corporate governance in Ghana thus the observable facts do not apply to other developing and transition economies. Also, the sample does not represent all organizations in Ghana therefore, the empirical observations cannot be a *pars pro toto* in the sense that, they cannot be generalized to cover the corporate organizations that have not been included in this study. However, the empirical results can be applied to other similar corporate organizations in Ghana in an analytical sense. With the application of inductive reasoning, the results can be applied to provide important appreciation in an effort to understanding the structure of corporate governance practices in those organizations.

### **8.7 Areas for further studies**

A case study qualitative research method was employed in this study, focusing on corporate organizations listed on the Ghana Stock Exchange. The findings revealed important issues, which to a certain extent, apply to corporate organizations considering listing on the Ghana Stock Exchange. Further studies based on survey method of research, specifically in regards to non-listed corporate organizations, will offer a wide range of important issues for generalization.

Also, this study can be replicated in different economies (especially, in other developing and transition economies) by applying the same methodological framework in order to compare the findings. McNulty *et al.* (2013) suggest that an increase in the number of comparative studies of practices of corporate governance at the global level would substantially contribute to the creation of universal theory of corporate governance. This would also help develop further understanding on the broader enhancement of corporate governance in developing and transition economies.

Furthermore, a study can be conducted to acquire additional understanding about the motivation, if any, for corporate organizations to adopt and put to work the principles of corporate governance recommended by the Securities and Exchange Commission of Ghana.

Moreover, this study was geared towards large listed corporate organizations only. Therefore other future studies could be conducted in the context of unlisted companies- small and medium scale enterprises. This stems from the assertion that as unlisted companies grow, good corporate governance becomes essentially beneficial for their operations. Also, research on these unlisted firms will highlight the awkward subject of the domination of majority shareholders over their minority counterparts in developing countries (Charkman, 2005).



This study has concentrated largely on financial organizations. Research focusing on other sectors such as the health sector, industrial sector, and departments and agencies, is expected to offer additional understanding of corporate governance practices in Ghana.

Lastly, this study had its foundation on the principal-agent perspective. However, certain assumptions of this theory are in contention. For instance, the theory assumes that with the exception of shareholders, there is a perfect contract between corporate organizations and all other stakeholders (Child & Rodriguez, 2003; Hoskisson, Hitt, Johnson & Grossman, 2002). Nevertheless, it is argued that if researchers are to assume an imperfect contract between firms and all other stakeholders, then matters related to stakeholder perspective of corporate governance come into view naturally (Huse *et al.*, 2011; Hoskisson, Castleton, Withers, 2009). Accordingly, this then calls for a new perspective on corporate governance research (Huse *et al.*, 2011) that ought to be founded on identity theories (Payne *et al.*, 2009; Ashforth & Mael, 1989), team production theory (Payne *et al.*, 2009; Blair & Stout, 1999; 2001) and behavioral theory of the firm (Cyert & March, 1963). This study suggests that future studies on corporate governance that will specifically focus on board of directors and its effectiveness should strive to apply these three theories in that they challenge the existing conventional assumptions of agency theory, highlight the processes within and outside the boardroom and concentrate on process-centred data that will help researchers explore what they are unaware of (Huse *et al.*, 2011).

### **8.8 Concluding remarks**

This study has made an effort to examine the driving forces of effective corporate governance in developing countries and for that matter, Ghana. It does not claim to have identified the answer to the likelihood failure of corporate governance practice in developing countries, or to have developed a best practice model of corporate governance for these economies particularly, Ghana. However, the objective of the researcher was to highlight definite organizational governance in order to improve what is already identified about the practice of corporate governance in Ghana. This is because ‘travelling the road of corporate governance won’t guarantee success, but not travelling upon it, will almost certainly guarantee failure’ (Abetz, 2003, p. 11).

Although these concluding remarks present the end of the study, I believe, think and assume that it is not the end of the debate on corporate governance. It will perchance serve as a curtain raiser to assist the world in understanding the concept of corporate governance within the context of developing economies. It is an act of inviting academics, business professionals and all stakeholders to develop keen interest in corporate governance practice in developing countries. This study finally contends that, since governance as a social construction does not have one human face (McGreggor, 2000), it will be prudent if many faces and voices come in, to conclusively and collectively mould the governance of corporate entities particularly, those in developing countries.

As the fundamental principles of corporate governance are universal (Abetz, 2003), this study offers overt understanding into the complex world of governance of corporate organizations. It attempts to help in providing catholic appreciation of broad and varied concept tagged as corporate governance.

As declared by Abetz (2003, p.1) that ‘corporate governance should not be viewed as a goal to be attained, a benchmark to be met.....rather, it is a process that requires vigilance, constant review, and ongoing consideration’, I humbly invite others to take the watchful voyage of consideration and constant review of this subject matter. This is because, with enthusiastic watchfulness and constant review, the concept of corporate governance can be enhanced universally. Thank you!!

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## Appendix 1: Case study protocol

### THE CASE STUDY PROTOCOL

#### WHAT DRIVES EFFECTIVE CORPORATE GOVERNANCE IN GHANA?

Section	Contents
Case study overview	<ul style="list-style-type: none"><li>• Research objectives and sponsorship</li><li>• Matters pertaining to case study</li><li>• Important fields to read</li></ul>
Field procedure	<ul style="list-style-type: none"><li>• Official documents of cases</li><li>• Accessibility to the 'sites'</li><li>• Relevant information pertaining to human subjects, data sources and bureaucratic prompts</li></ul>
Case study questions	<ul style="list-style-type: none"><li>• Possible questions for gathering data</li><li>• 'Table shells' for particular arrays of data</li><li>• Possible information sources for addressing questions</li></ul>
Guide for case report	<ul style="list-style-type: none"><li>• outline</li><li>• data format</li><li>• the application and representation of other forms of documents</li><li>• bibliographic information</li></ul>

Source: Adapted from Yin (2009)

## Appendix 2: Exogenous and endogenous variables

### ENDOGENOUS VARIABLES

	<b>Analysis &amp; Conclusions</b>
<b>BOARD CONTROL</b>	
Indicators:	
1. Reviewing and guiding firm's strategy	
2. Selecting and replacing senior management particularly, the CEO	
3. Setting CEO remuneration	
4. Ensuring Compliance with the law	
5. Evaluating CEO's Performance	
<b>SHAREHOLDER CONTROL</b>	
Indicators:	
1. Access to timely and regular information	
2. Voting control over the company's decisions	
3. Influencing key decisions of the company	
4. Influencing the selection of and access to key decision-makers in the company, particularly the CEO and Chairperson	

### EXOGENOUS VARIABLES

	<b>Analysis &amp; Conclusions</b>
<b>OWNERSHIP STRUCTURE</b>	
1. The size of equity held by shareholders	
2. Identities of stockholders	
<b>BOARD OF DIRECTORS</b>	
<b>1) Composition of board</b>	
Percentage of inside directors to outside directors on the board	
<b>2) Board Independence</b>	
a) Absence of social (family) ties with the CEO	
b) Absence of business associations with the corporation	
c) Not being a representative of, or elected/appointed by a major stockholders	
<b>3) Board leadership structure</b>	
Chairperson-CEO separation	
<b>4) Board Meetings</b>	
a) Timeliness and adequacy of information	

to members before board meetings	
b) Assessment of board members and board of activities	
c) Procedures for conducting meetings	
<b>5) Board Audit Committees</b>	
a) Establishing audit committees	
b) The composition of the board (independent directors)	
c) Activities of the audit committee	

## **Appendix 3: TO EXAMINE THE DRIVING FORCES OF EFFECTIVE CORPORATE**

### **Introduction**

- Otuo Serebour Agyemang, a PhD student, contacting you to help in determining how good corporate governance is effectively and efficiently applied in your prestigious corporate organization
- I am making the very effort to interview those involved in decision-making to review corporate governance practice in your firm
- This will be an interview and it has been structured to be qualitative in nature. A follow-up interviews will take place if the need arises
- The rationale behind this interview is research only. Findings are to be published as part of my PhD and in academic journals but will be entirely anonymous. All information given will be treated as confidential. Any disclosed information about your corporate organization would be protected at the University
- This interview is supposed to last for 50 minutes
- Do you mind if the interview is tape-recorded?



#### Appendix 4: Interview schedule

Interview questions:	<i>Corporate governance</i>
PhD Candidate:	Otuo Serebour Agyemang, Department of Economics and Management, University of Ferrara, Italy
Contact detail via email:	otuoserebou.agyemang@student.unife.it

#### Interview Schedule

1. Please, when was the firm established?
2. Who are the founding stockholders of the firm?
3. Please, what is the performance of the firm for the past three years in terms of;
  - a) Profit;
  - b) Stockholders' dividends;
  - c) Assets value; and
  - d) Market capitalisation
4. How many members serve on the company's board?

#### Endogenous Variables

	Possible Questions
<b>Board Control</b>	
Indicators:	
6. Reviewing and guiding firm's strategy	<ol style="list-style-type: none"> <li>a. Is the role of the board makes it possible for it to discuss and approve the corporation's strategy? Please, explain</li> <li>b. During board meetings, do members ask management important questions about the corporation's strategy such as financial data, debt conditions, short- and long-term prognosis, and other important information like market shares, key media articles on the corporation and competition, financial analyst's reports for the corporation and major competitors , consumer preference survey, employee attitude surveys and so on?</li> <li>c. During board meetings, do members request for minutes of management committee meetings? Please explain</li> <li>d. Is there any standard of measurement set by the board to assess the performance of the company? Please, explain</li> </ol>
7. Selecting and replacing senior management particularly the CEO	<ol style="list-style-type: none"> <li>e. Does the appointment of the CEO made by the board? Can the board discipline management, particularly the CEO? Please, explain</li> <li>f. Does the board always have a name ready in case the CEO is suddenly incapacitated, makes a huge mistake, or</li> </ol>

	<p>gets another appointment?</p> <p>g. Does the board familiar with the senior staff to get a perspective on the CEOs performance and a sense of who should be nurtured as a candidate for the CEO position? Please explain</p> <p>h. When does the board have a sense of starting up the full scale search for a CEO? Please, explain</p> <p>i. How does the board carry out the search? Please, explain</p>
8. Setting CEO remuneration	<p>j. Does the board have a remuneration committee that sets CEO's remuneration?</p> <p>k. If yes, what is the composition of this committee?</p> <p>l. Is there any policy on how directors remuneration should be set and implemented? Please, explain</p>
9. Ensuring Compliance with the law	<p>m. Does the board monitor how management comply with the Generally Accepted Accounting and Auditing principles? If yes, how?</p>
10. Evaluating CEO's Performance	<p>n. Is the board in a position to assess the performance of the CEO? If yes, how does the board do it?</p>
<b>Shareholder Control</b>	
Indicators:	
5. Access to timely and regular information	<p>a. Please, explain the nature of information given to shareholders</p> <p>b. What are the measures or arrangements of providing information to stockholders?</p> <p>c. How many times in a year do shareholders get information on the corporation?</p> <p>d. In your opinion, please, do you think the information to shareholders is given on time and sufficient to allow them make decisions? Please explain</p> <p>e. Do majority shareholders have access to information more than the minority shareholders? Please explain</p>
6. Voting control over the company's decisions	<p>f. During annual general meetings, do shareholders who are present have voting rights? If yes, can they veto on decisions of the company?</p> <p>g. If no, please, explain why it is so?</p> <p>h. What is the voting pattern?</p>

7. Influencing key decisions of the company	i. Can shareholders make the ultimate decision on issues that will affect the corporation? Please, explain j. Do shareholders influence the working out of goals, which the corporation ought to achieve within a specific period of time? Please, explain
8. Influencing the selection of and access to key decision-makers in the company, particularly the CEO and Chairperson	k. Do shareholders have any influence in the selection of directors, chairperson or the CEO? Please, explain l. Do shareholders especially the majority shareholders have access to key decision-makers in the corporation such as the Chairperson and the CEO? Please, explain

### Board Control

	At all times	Occasionally	Absolutely not
Decisions in terms of hiring a CEO are made by the board			
The CEO can be punished/fired by the board			
Strategies of the corporation are discussed and approved by the board			
Decisions on CEO's remuneration are made by the board through the remuneration committee			
The activities of the CEO are assessed by the board			
The board makes sure the company complies with the law especially, balance sheets and earnings are in accordance with the generally accepted accounting principles			
The board determines what information they need from management			

### Shareholder Control

	At all times	Occasionally	Absolutely not
The duties of directors are being fulfilled when they report to the shareholders during annual general meetings (AGM)			
Annual audited reports are made available to shareholders before AGM			
Quarterly reports are made publicly			
All shareholders receive invitations to AGM			
During AGM, shareholders have the right to vote on the board's proposals/suggestions			

Majority shareholders exert extensive influence at the AGM			
Decisions taken at the AGM are subjected to voting			
The kind of influence that majority shareholders have in the selection or appointment of directors makes it possible for them( majority shareholders) to exert control over the corporation			
It is easy for majority shareholders to have access to very important persons of the corporation.			
The decisions of management or directors can be questioned or altered by shareholders			
Shareholders have the right to call for Extraordinary General Meeting of the corporation			

### Exogenous Variables

	Possible Questions
<b>Ownership Structure</b>	
3. Identities of stockholders	a) Please, who are the stockholders of your corporation?
2) The size of equity held by shareholders	b) Please, give details on the various stakes/ shares each of these shareholders hold base on percentages.
<b>BOARD OF DIRECTORS</b>	
<b>6) Composition of board</b>	
Percentage of inside directors to outside directors on the board	a) What is the total number of full time employees of the company that serve on the board? b) What is the total number of persons who are not employees of the corporation (NEDs) that serve on the board? c) Does the percentage of NEDs have any impact on the level of effectiveness of the board? If yes, how?
<b>7) Board Independence</b>	
d) Absence of social (family) ties with the CEO	1. Do present members of the board have any business ties with the corporation?
e) Absence of business associations with the corporation	2. Do present members have any social ties with the corporation?
f) Not being a representative of, or elected/appointed by a major stockholders	3. Do the current directors represent or appointed by a major stockholder? 4. Do social ties between the CEO and an individual make that individual unbecoming to be appointed as NED? Please explain 5. Do you think these ties can have an impact on the level of effectiveness of the board to control

	<p>management? Please explain</p> <p>6. Please, describe how selection of board members/Chairperson is done in your corporation.</p> <p>7. Do you think the nature in which board members are selected has any impact on the level of effectiveness of the board? If yes, in terms of what?</p>
<b>8) Board leadership structure</b>	
Chairperson-CEO separation	<p>1. Does the position of the CEO separated from the Chairperson in your company?</p> <p>2. If yes, what is its usefulness in respect of the board's ability to monitor/check management?</p>
<b>9) Board Meetings</b>	
d) Timeliness and adequacy of information to members before board meetings	<p>1. Do board members get access to sufficient information before meetings are held? Please explain</p> <p>2. Are information sent on time before the meeting date? Typically, how long?</p> <p>3. Are board meetings used for discussion rather than lengthy management presentations? Please, explain.</p> <p>4. Are there some limitations on services (term limits or limits on other comments) during board meetings to guarantee viewpoints and active partaking? Please, explain</p>
e) Assessment of board members and board activities	<p>5. Is there any approved mechanism in your company upon which directors and their activities are evaluated? Please explain</p>
f) Procedures for conducting meetings	<p>6. Does the board have an approved procedure in conducting meetings? Please explain</p>
<b>10) Board Audit Committees</b>	
d) Establishing audit committees	<p>1. Does the board have an audit committee?</p>
e) The composition of the board (independent directors)	<p>2. If yes, describe the composition of the board in respect of executive directors and NEDs.</p> <p>3. If no, please, explain why it is so?</p>
f) Activities of the audit committee	<p>4. Please, how does the audit committee function? How often does the committee conduct its business? What authority does the committee have? How does the committee report to the board?</p>

### Board Effectiveness

	<b>At all times</b>	<b>Occasionally</b>	<b>Absolutely not</b>
Majority of the board members are non-executive			

directors (NEDs)			
There are existence of social/business/economic ties between directors and the corporate entity or senior management or majority stockholders			
Positions of the Chief Executive Officer and the Chairperson of the board are separated and occupied by different persons			
The board institutes audit and remuneration committees			
Majority of the members of the audit and remuneration committees are constituted by NEDs			
Selection and appointment of members are made known to stockholders			
There are criteria for selecting and replacing directors			
The board has a procedure for conducting board meetings			
Before board meetings, information about the firm are made available to members in time			

### **Regulators**

1. Ghana has a set of principles of good corporate governance. Please, how are corporate businesses motivated to take on these principles?
2. In Ghana, there is an existence of large stockholders who exert major control on corporate entities.
  - a) Is it a matter of concern that majority stockholders may control minority shareholders?
  - b) How do you safeguard minority shareholders from the abuses of majority shareholders?

### **The extent of application of the transaction cost theory**

The TCE theory and agency theory have been applied to examine the practice of corporate governance in the context of Ghana. In this study, TCE theory has been employed to illuminate the limitations of some mechanisms of corporate governance (see chapter 4). Costs resulting from transactions are a major rationale behind the exclusion of contracts or bonding solutions for putting an end to governance problems, as they would entail writing contracts that are perfect, but this is not possible in practice as a result of bounded rationality and costs emanating from transactions.

External mechanisms of corporate governance (see chapter 4) were not recommended for empirical investigation in that, the application of such mechanisms entails significant transaction costs (for example, law courts are costly and their ineptitude to deal with issues of corporate governance ). Therefore, TCE theory provides an explanation as to why state institutions such as law courts usually provide less ‘satisfactory’ means of punishing corrupt top management of corporate organizations than for instance, ‘exit’. Hence, whilst equity holders will probably not really weigh the financial pros and cons of seeking redress in the law courts versus the application of an exit strategy, their behavior can be explained as if they really do.

In light of the limitations of exit options in the case of Ghana (such as the absence of effective and efficient competitive markets such as those available in the US and UK), it is laudable to focus on executive management behavior and particularly, the mechanisms that have the potency to induce management to take decisions to meet the interests of equity holders. This has been carried out via the lens of principal-agent theory. This clearly divulges that the TCE theory is applied to rationalize the application of agency theory, but it is not substantially applied in this study. Agency theory is significantly used to comprehend contemporary debates on corporate behavior in particular, the self-interestedness of managerial behavior.

# CURRICULUM VITAE

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## OBJECTIVE

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- To work in an institution in which I can enormously contribute to its growth and further develop my advanced analytical, communication, interpersonal, team work, client engagement, planning, problem solving, results-oriented and project management skills.

## PERSONAL INFORMATION

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- Date and Place of birth: August 27, 1983 in Kumasi/ Ghana
- Nationality: Ghanaian

## RESEARCH INTERESTS

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- Corporate governance
- Health economics
- Qualitative research

## EDUCATION

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- **PhD ., Economics and Business Management** April 8, 2014  
University of Ferrara, Ferrara, Italy  
Research Advisor: Prof. Monia Castellini  
Dissertation title: Driving Forces of Effective Corporate Governance in Developing Countries:  
A Ghanaian Experience
- **Master of Science, Economics** 2008 – 2010  
University of Cape Coast, Cape Coast, Ghana  
Research Advisors: Dr. Mark Kojo Armah and Mr. James Atta Peprah  
Thesis title: Determinants of Private Savings in Ghana: Evidence from Time Series Data
- **BA (Hons) Economics** 2003-2007  
Second Class (Upper Division)  
University of Cape Coast, Cape Coast, Ghana  
Project Advisor: Prof. Vijay Bhasin  
Project title: Impacts of Monetary and Fiscal Policies on Inflation in Ghana

## AWARDS AND GRANTS

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- University of Ferrara PhD Studentship Award (01/01/2011/31/12/2013)
- University of Ferrara Mobility Award (1800 Euros)
- Recipient of a research grant from the Educational Research Network for West and Central Africa (ERNWACA) in 2009.

## TEACHING EXPERIENCE

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- Delivering tutorial sessions for courses in microeconomics (principles), macroeconomics (principles), international finance and managerial economics (2011-2013) for groups of up to 24, 1-4 hours at a time, requiring prior-evaluation of curriculum, development of appropriate resources in conjunction with other presenters, delivery of sessions and course work marking
- Demonstrating at University of Ferrara summer school for Erasmus students (L2, Planning and Control) for a group of up to 15, 1-3 hours at a time.



## **EXTRA REVELANT EXPERIENCE**

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**Business trainer, Millennium Development Authority, Ghana**

01/2010- 01/2011

- Working as part of a team to provide basic business training to more than 2000 agro-chemical dealers and farmers in Ashanti and Brong-Ahafo regions of Ghana
- Taught courses on budgeting, planning and organisation in relation to their work and everyday activities.

**Auditor/Finance officer, Ghana Audit Service, Headquarters, Accra**

09/2007-08/2008

- Raising payment vouchers
- Account reconciliation
- Calculating allowances such as overtime, clothing and leave, sitting allowances and so on.
- Writing of cheques for payments
- Teaming up with a group of colleagues to audit public institutions.

## **RELEVANT SKILLS AND COURSES**

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- Teaching skills (First level) – introduction to teaching and lecturing techniques (a day course; University of Ferrara, 2011), Supervising PhD dissertation (2 day workshop, The European Institute for Advanced Studies in Management)
- The EIASM workshop (Copenhagen, 2013) – Doctoral and Young Seminar on Visualising, Measuring and Managing Intangibles and Intellectual
- The EIASM workshop (Brussels, 2013) - Workshop on Corporate Governance
- Microsoft Office; daily use of Microsoft Word (thesis and publications), PowerPoint (conference and workshop presentations), Excel (Data analysis)
- Statistical and Econometric Packages: STATA, SPSS, MICROFIT, R, Eviews

## **PROFESSIONAL MEMBERSHIP OF SOCIETIES**

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- Association of Research Managers and Administrators (from 2012)
- European Corporate Governance Institute (from 2013)

## **PUBLICATIONS**

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- **Agyemang, O.S.** & Castellini, M. (*Accepted*), Corporate Governance in an Emergent Economy: A Ghanaian Experience, *Corporate Governance*. Emeraldinsight (Scopus)
- **Agyemang, O.S.**, Aboagye, E. & Ahali, Y.A (*Accepted*), Board of directors and Firm Performance of Banking Institutions: A Ghanaian Experience, *European Journal of Economics, Finance and Administrative sciences* (Scopus)
- Aboagye, E., **Agyemang, O.S.** & Tjerbo, T (2014), Elderly Demand for Family-based Care and Support: Evidence from a Social Intervention Strategy, *Global Journal of Health Science*, 6(2): 94-104, doi:10.5539/gjhs.v6n2p94 (Scopus)
- **Agyemang, O.S.** & Castellini, M. (2013), Shareholder Control vs. Board Control: Evidence from a sub-Saharan African Economy, *Global Journal of Governance and Strategies*, 19 (4): 109-134.
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