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**EFFECT OF CORPORATE GOVERNANCE ON FINANCIAL  
PERFORMANCE OF MUTUAL FUND COMPANIES IN GHANA**

**BY**

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## DECLARATION

I hereby declare that, this submission is my own work towards the award of a degree in MBA Finance and that, to the best of my knowledge, it contains no materials previously published by another person or group nor any material which has been accepted for the award of any other degree of the university, except where due acknowledgement has been made in the text.

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## DEDICATION

This work is dedicated to God, my wife Francisca Osei Sarpong and my lovely family for their encouragement and consistent love and support in making this thesis see the light of success.

# KNUST

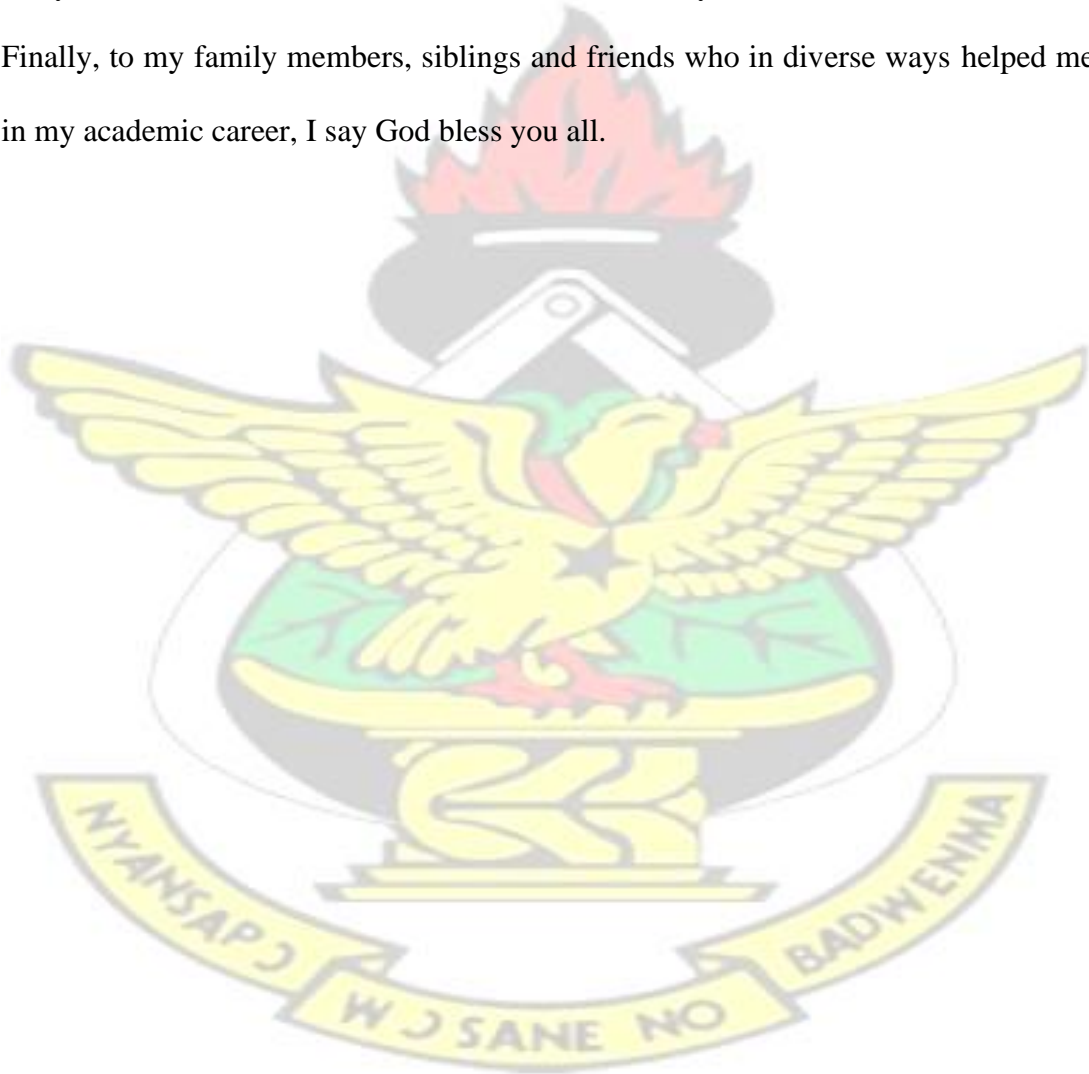


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## ABSTRACT

The study sets out to examine the effect of corporate governance on the financial performance of mutual fund companies in Ghana. Using panel regression specifically fixed effect and pooled ordinary least squares (OLS), the study revealed that there is a direct relationship between board size and yield to date or return, Sharpe ratio, management expense ratio and net asset value. It was revealed that there is an inverse relationship between gender diversity, Sharpe ratio and net asset value. The study revealed that there is an inverse relationship between CEO duality and yield to date or return, Sharpe ratio, management expenses ratio and net asset value. The study revealed that non-executive directors have no effect on yield to date or return, Sharpe ratio, management expenses and net asset value. Fund age was also found to be negative to fund performance. As fund age progresses, risk-adjusted returns decrease. This research is important because it sheds new light on the principal-agent issue in the mutual fund industry. A major policy recommendation is that management should ensure that CEO duality is not permitted to take place since it does not enhance financial performance.

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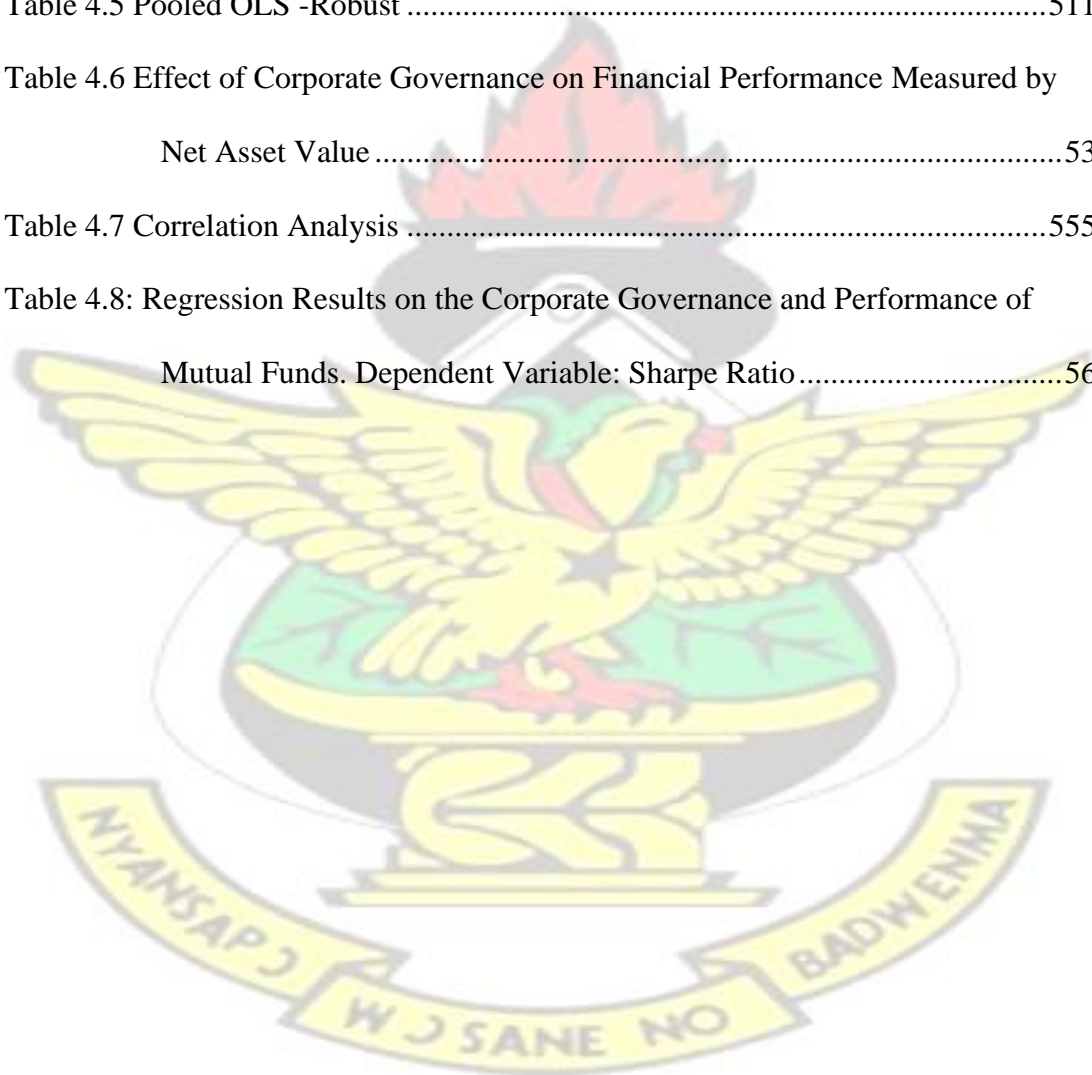


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## **CHAPTER ONE**

### **INTRODUCTION**

#### **1.1 Background of the study**

The debate about how corporate governance impacts on financial performance of a company has gone on for a very long time with different scholars coming up with different findings. It has become even more important in recent years because there have been many issues surrounding corporate governance and its consequences. Every organisation has some form of governance and corporate governance has an impact on the financial performance of firms depending on board characteristics including CEO duality, board size, the composition of the board, committees of the board and gender diversity (Kumar and Zattoni, 2013).

This study is a critical examination of the impact of the governance of a company on the financial performance of mutual fund companies in Ghana. The governing of a company's governance has a way of holding the management accountable and making them more responsible and responsive to the needs and demands of the owners of the company who are the shareholders. Without proper governance put in place, the managers of companies who are the agents of the owners will pursue only policies that will be in the interest of the managers. (Jensen and Meckling, 1993).

Mutual funds are companies owned by shareholders or investors who are not involved in the direction and management of the companies (Chen et al, 2011). The directors must provide direction for the companies to ensure that shareholders' interests are met. The problem is that the interest of directors and shareholders is not always the same. Without good governance, directors' interests and the owners may conflict with each

other. Shareholders, for example, will want to maximize their risk-adjusted returns so that they have more value for the money they have invested. Fund managers, on the other hand, have strong motivations to expand the fund size since the better the fund performs, the more solidified their positions become so that they will have perpetual employment (Mahoney, 2004). The fund managers also have the added motivation to increase the size of the fund because they will be able to generate more fees and returns for the fund which will make it possible for them to increase their salaries, increase management fees as well as increase the market share (Aljifri and Moustafa, 2007).

For the shareholders to be able to also maximise their shareholder value and returns on their investment, they try to regulate the activities and actions of the fund managers by putting in place effective corporate governance. A good corporate governance framework influences the behaviour of management who are responsible for managing a company's resources (Bopkin and Zangina, 2009). It has been established that well-governed companies are successful in achieving their overall objectives, and in satisfying the interest of the shareholders.

## **1.2 Problem statement**

Various scholars in previous studies have identified that the governance of fund management companies largely influences their performance, but assertion has been faced with agency risks in fund investment and has adversely impacted the shareholders' interests (Haslem, 2012). The shareholders give authority to the directors to provide leadership to the company on their behalf. In principle, the board's actions should always serve the interests of the shareholders, but the directors may have conflicts of interest that prevent this from happening. There is some risk that



directors may act in their own personal interests and put these interests ahead of the best interests of their shareholders.

Bogle (2009) argued that managers of mutual fund companies have a fiduciary responsibility to the shareholders of mutual funds but are more concerned about their financial interest when managing the assets of these funds.

According to Markowitz (1952), the theory of portfolio assumes that investors form expectations about the risk and return of securities and trade in an appropriate manner. Some fund managers have made investment decisions and what information they use is largely unknown at present and consequently, the investment process remains a black box (Drachter et al., 2007).

The main issue that has led to this research is the recent collapse of some universal banks in Ghana and the over 400 other financial sector institutions in Ghana that have been folded up and liquidated by the Bank of Ghana. There have been several questions asked which have not been answered yet and this study tries to find answers to some of those questions. Among the questions are:

1. Why is it that none of the foreign financial institutions is facing the challenges that the Ghanaian indigenous financial institutions are facing?
2. Why are the foreign financial institutions not collapsing but some Ghanaian financial institutions which have higher capital than some foreign financial institutions are collapsing?
3. What are foreign financial institutions doing right that the local financial institutions are doing wrongly? These and many other questions remain to be answered.

The concern of the research is to pose a question as to whether corporate governance has anything to do with the failure of these financial institutions and try to find the answer to it using licensed mutual fund companies in Ghana.

Scholars have argued that effective corporate governance will put management of any company in check and for that matter if the financial institutions have effective board of directors in place, they will be able to identify the wrong things that their managers are doing and help them to correct those wrong things, or the board will sanction those managers found culpable in the performance of their duties.

The link between fund managers and directors of funds was examined by Ding and Wermers (2005) for the first time. They concluded that mutual funds with a bigger size board and a larger number of independent directors are likely to fire and replace poor-performing managers. According to Chen and Huang (2011), a positive connection exists between good governance and a company's long-term success. Their study revealed that well-governed organisations are more successful and command superior values and higher equity returns relative to badly-governed firms. Brown et al. (2004) confirmed that well-governed companies are comparatively more successful in achieving their overall objectives, and in satisfying the interests of their shareholders. Similar study on the governance of companies in the financial sector carried out by Handley-Schachler et al. (2007) revealed that the purpose of the company is to consider what is best for the company and in doing so it should take into consideration the legitimate interests and expectations of all its stakeholders. In relation to that, other researchers such as Warburton (2011) argued that strict fiduciary responsibility to the shareholders reduces agency risks and selfish behaviour by internal stakeholders such as fund managers and full-time executives.

Based on the findings of the above excellent scholars, the core objective of this study is to analyse the effect of corporate governance on the financial performance of mutual fund companies in Ghana. Licensed mutual fund companies which arguably are the most popular investment companies in Ghana are used for the study.

### **1.3 Research objective**

The overall objective of the research is to analyse the effect of corporate governance on financial performance of mutual fund companies in Ghana.

The specific objective(s) of the study are:

1. To analyse the effect of corporate governance on the financial performance of licensed mutual fund companies in Ghana.
2. To assess the relationship between corporate governance and the performance of mutual funds in Ghana.

### **1.4 Research questions**

Based on the objective(s) of the study the following research questions are put forward:

1. What are the effects of corporate governance on the financial performance of licensed mutual fund companies in Ghana?
2. What is the relationship between corporate governance and the performance of mutual funds in Ghana?

### **1.5 Significance of the study**

Conducting this research will prove invaluable to several users of research output. These beneficiaries are researchers, industry practitioners and policy formulators. The outcome of the study will add to existing knowledge on the subject matter where researchers can assess and use as input for further studies. It will confirm or dispel some of the findings that have already been found by other scholars in the study of corporate governance and its effect on firm performance.

The significance to the industry practitioners is that it will make available guidelines to mutual fund companies on how to constitute their boards to perform effectively so that it can have positive effect or influence on the performance of their companies. They will understand how a properly constituted governing board can play its supervising role in making sure that the management of the company performs to their maximum.

The study will furthermore provide policy formulators better measures to adopt to mitigate agency problems as well as the acceptable policy that will motivate shareholders. Policy makers will be able to know how to constitute their boards and the various expertise that will be needed on the various boards so that they can play their roles more effectively.



## **1.6 Scope of the study**

Licensed mutual fund companies were used for the study because they have consistent data for the period under review and are arguably the most popular investment companies in Ghana.

The study looks at the financial performance of the licensed mutual fund companies in Ghana from 2012 to 2019. As a result of unavailability of data corporate governance mechanisms were also limited to the CEO duality, the board size, gender diversity and non-executive directors.

## **1.7 Summary of Methodology**

Secondary data was used in this research. The secondary data which was obtained from the annual reports of licensed mutual funds from 2012 to 2019 was analyzed using fixed effect and pooled ordinary least squares (OLS) regression.

## **1.8 Organization of the study**

This research is divided into five chapters. Chapter one provides the background of the research, problem statement, research objectives, research questions, significance of the study, scope of the research and summary of methodology. Chapter two presents available materials on the topic which consisted of a theoretical review, conceptual review and empirical review. Chapter three presents the methodology used to achieve the research objective. Chapter four presents data gathered, discussions and analysis. Chapter five summarises the findings and conclusion of the study and offers some recommendations.



## **CHAPTER TWO**

### **LITERATURE REVIEW**

#### **2.1. Introduction**

This chapter covers reviews of all the literary works that have been undertaken by other scholars on the subject matter. Theories on corporate governance were also reviewed. The chapter also looked at some codes of corporate governance and systems that have been developed internationally and looked at the corporate governance culture within the Ghanaian context. The researcher also reviewed some literature on collective investment schemes in Ghana as well as operation of mutual funds and how corporate governance influences the performance of these mutual funds. Some empirical works that have been carried out by earlier researchers were also reviewed to get their perspective so that they can serve as the basis for the current work to compare.

#### **2.2 Conceptual Review**

Various writers and theorists have provided several useful interpretations of corporate governance.

The Cadbury Committee which provided the first corporate governance code for the UK (1992), defined it as the system by which companies are directed and controlled. They expanded on this definition by stating that the board is at the centre of the governance framework of their organisations. The duty of shareholders in the governance process is the appointment of directors, who collectively have the integrity, the requisite skills and experience necessary to fulfil the Board's responsibilities and protect shareholders' interests. The committee contended that the

main role of the directors is setting the overall objectives and strategic targets for an organisation, providing the framework for management to operate within, and monitoring the performance of management.

The Organisation for Economic Cooperation and Development (OECD, 2004) interpreted governance of companies as the procedures and processes by which organisations are directed and controlled. The governance of companies is the responsibility of the boards of directors, and corporate governance involves inter-relationships between the board and others with interests in the company, particularly the company's shareholders. Although a company operates through the collective efforts of stakeholders, the board of directors has a responsibility to provide leadership to the company such that the objectives of the company are accomplished.

Corporate governance is a range of tools in a company which ensure that the resources of a company are utilised in an efficient and effective way to achieve the objectives of the company (Castellini & Agyemang, 2012). The governance of a company is the use of formality, diligence and transparency to an organisation's policy to ensure that management takes prudent risks to successfully operate in the market and achieve shareholder value as well (Lamm 2010). Agyemang et al. (2013) argued that the governance of a company is characterised by laid down procedures and structures to reduce the agency costs incurred by companies.

On the other hand, Solomon (2007), described the governance of companies as a set of principles and procedures to ensure that companies account to their stakeholders and perform their business in a socially responsible manner.

From the various definitions, it is obvious that for a company to thrive and achieve its aims and objectives, a myriad of systems must be established to effectively oversee the managers of the company and direct the complex relationship involving the shareholders, managers and the board of directors which are very vital for the smooth running of the business.

## **2.3 Theoretical Literature**

Many theorists have propounded several theories to expound the governance of a company. Chief among these theories are the agency theory, the stakeholder theory, and the stewardship theory.

### **2.3.1 Agency Theory**

Agency theory explains how the owners of a company who are known as “principals” and managers of a company also called “agents” within an organisation relate to one another to run a business entity. When the directors are not themselves shareholders, there is ownership separation in the company, and control, which is exercised by the directors who are agents of the shareholders. The directors act as stewards of the company in the interests of the shareholders.

The genesis of agency theory can be traced to Berle and Means (1932) who contended that when there is the separation of ownership and control in the company, there is some risk that managers who are charged with running the company may not act in the best interests of shareholder but rather put their selfish interests ahead of the best interests of their shareholders.

The underlying issue of the agency risk is that there is a higher potential for managers to be greedier about satisfying their own personal interests, and therefore they will do anything possible to make sure that they have achieved those interests and neglect that of the owners or the principals (Daily et.al, 2003).

The major areas where agency conflict can arise are effort, time horizon, moral hazard, risk aversion and earnings retention and dividends.

**Effort:** It may be argued that when the directors are not themselves substantial shareholders in their company, they have no incentive to find ways of improving performance and profitability. They may therefore put less effort and energy into their work than entrepreneurs who are active in the direction and management of their company. In other words, directors may lack the drive that entrepreneurs give to their business.

**Time horizon:** Owners are normally interested in the long-term sustainability and success of their company. When executive directors do not own shares in their company, they may be more concerned about short-term performance and profits, since they may not expect to remain with the company permanently.

**Moral Hazard:** This occurs where an individual takes more risks knowing that another person will bear the burden of those risks. Directors have a personal interest in their status as company directors. In addition to a large remuneration, they may also enjoy other benefits, such as a company car, use of a company place, use of a company house or apartment, and so on. They may be inclined to pursue strategies that promote the growth of the company to boost their status. As a result, there may be a risk that a



board of directors will make acquisitions of other companies that may not inure to the benefit of the company and the shareholders.

Risk-aversion: Some managers may not like to take on huge risk due to their own risk aversion and will prefer to invest in areas where there is low risk and low returns. But if the principals are risk loving investors who believe the maxim that the higher the risk the higher the returns and consequently want their investment to be made in areas of high returns, then the manager's risk aversion will disagree with the principals or owners who may want to accept higher risks to get higher returns. This brings principal- agent conflict.

Earnings retention and dividends: One other possible source of agency conflict is the retention of earnings dividends. While shareholders may want to have returns on the investment in the form of annual dividend payment to them, the managers with a view to strengthen their employment status and increase their salaries and allowances, may want to retain a greater percentage of the profit to expand the business. This will ensure the continuity of the business and the continual stay of office by the managers to the detriment of the owners.

### **2.3.2 Stakeholder theory**

Stakeholders are interested parties to any activities or events that will affect them in diverse ways. A company or business can have different interest groups, be they shareholders, management, employees or customers of an organisation or a business. According to Freeman (1984), stakeholders in a company are any individuals, groups or organisations who have an interest or stake in what the company does.



The stakeholder theory thinks that although an entity should seek to act in the interests of its shareholders, it must also consider the interests of other stakeholders, including the public. A company should seek to balance corporate and social interests. Those who support the stakeholder theory advocate that the stakeholders' representatives on boards of companies will positively meet their entitlements (Ping, Cheng and Wing, 2011). The decisions by the board of directors should consider the interests of all committed stakeholders, and not just the implications of the decision for the company's shareholders.

### **2.3.3 Stewardship theory**

This theory conflicts with the agency theory in that it is grounded in psychology, sociology, and leadership methods of supervision, rather than the economic (pecuniary) tool of agency theory. Propounded by Donaldson and Davis (1991), the stewardship theory advocates that the executive managers, far from being opportunistic shirker, are responsible stewards who want to do a good job by aligning their interests with that of the shareholders. Davis, Schoorman and Donaldson (1997) argued that management executives have motives that are in alignment with shareholders' objectives. Executive managers who identify with their companies want to be good stewards of corporate assets and are more committed to maximising organisational performance. The stewards believe that when they have delivered to make the shareholders happy then the shareholders will be happy to maintain them, thereby entrusting more responsibilities to the stewards. This makes them forsake their self-interest and pursue the interests of the owners and the organisation.

## **2.4. The Corporate Governance Code for Listed Companies 2018 - Ghana**

The Securities and Exchange Commission (SEC) of Ghana produced the Code for Listed Companies (2018). The code applies to all companies whose operations are regulated by SEC. The Ghana code, unlike the others, has provisions in the form of rules and regulations and consequently, the Commission may impose penalties for any breaches of the Code. The Code allows the Commission to regulate and promote the growth of the capital market and protect the interests of investors.

Over the years, credit intermediation has been changing from the banking to the nonbank sector, including asset management companies. Corporate governance practitioners and regulators are concerned about the number corporate failures in recent times and are poised to improve board effectiveness and other governance systems to prevent the huge financial losses to shareholders. The licenses of fifty-three (53) fund management companies were revoked for non-compliance with the Securities Industry Act, 2016 (Act 929) (SEC 2019). The licenses of the specified companies were revoked with the view to sanitising the fund management sub-sector, halt the continual regulatory breaches as well and protecting the funds of investors. The affected market operators failed to comply with their license conditions or restrictions and other provisions of the SEC laws and regulations. Fund managers provide investment management services as fiduciary agents for clients (Elliot 2014). Fund management companies carry out a variety of activities to fulfil their core mandate of investing cash for clients. They invest primarily in money market and equity instruments which are relatively safe and liquid with good return. Additionally, it is the policy of most fund management companies to keep sufficient cash and cash equivalents to honour client redemption requests.

## **2.5 Corporate Governance Systems**

These are the structural mechanisms put in place or enacted by the owners to supervise the managers to keep in check any opportunistic behaviour so that the decisions and actions of the managers will be consistent with interests of the shareholders. To be more impactful, a governance mechanism should reduce the agency's problems and help deliver long-term corporate success and economic growth (Denis, 2001). The agency theory suggests that when managers are given the chance, they will behave in a self-interest manner which may conflict with shareholders' interests. To pursue the interests of the shareholders, control mechanisms are needed to promote the long-term sustainability and company success.

The Board of Directors is at the centre of corporate governance framework, and it involves inter-relationships between the board and others with interests in the company, particularly the shareholders of the company. Some control mechanisms established to align the interests of principal and agent as well as enhance the company's performance and maximise shareholder wealth are as follows:

- Duality of CEO and Chairman position
- Board Size
- The Composition of the Board
- The Committees of the Board
- Gender Diversity

### **2.5.1 Duality of CEO and Chairman**

One of the corporate governance directives is that companies should have separate individuals to perform the role of board chair and CEO. The board is led by the board

chair and is responsible for the overall direction of the corporation. The executive leadership of the company's business rest with the chief executive officer. When these two roles are carried out by the same person, which is normally referred to as CEO duality, it can bring about abuse of power as the board will not be able to direct the CEO who is the same person leading the board (Cadbury (2002). On the contrary, Rechner and Dalton (1991) argued that when the roles of the chair and the CEO are exercised by separate individuals, then there is separation of leadership. The independence of the board will seriously be compromised if the CEO concurrently serve as the board chairperson of the board (Dalton et al. 1998). The tenets of the agency theory are to the effect that centralization of authority in one person will make management dominate the board which could impact negatively on performance (Jensen and Meckling,1976). The principals appoint the directors to act as stewards of the company in their interest by overseeing the operational management of the company and ensuring that the right things are done by management, which will ensure the benefit of the company and its owners.

Since the main function of the board is provision of strategic direction and control of a corporation on behalf of the owners, CEO duality will make management dominate the board and somehow conflicting role for one person to play (Lam and Lee, 2008). Monks and Minow (1996) argued that the segregation of the two positions would strengthen the non-executive directors to do independent assessment and monitoring of the executives thereby creating a more conducive atmosphere for accountability.

Alternatively, other studies support the view that combining the two roles brings about higher firm performance and increase in shareholder wealth. Proponents of CEO duality cited uniform command chain, minimal conflicting decision-making, and



superior performance as some of the benefits (Donaldson, 1990). Dual leadership structure has a significant positive influence on return on assets (Dehaene, De Vuyst and Ooghe, 2001).

### **2.5.2 Board Size**

Researchers have discussed extensively the board size and its effect on the board. While some scholars are of the opinion that a larger board can take on board different expertise and experiences to enrich the board's decision-making process, others also contend that larger boards breed apathy and laziness on the part of some members. Large boards are susceptible to have inactive members who will eventually make decision-making slow and less efficient and effective (Jensen, 1993). Nevertheless, a very small board size may lack wider expertise, skills and experience that may be required for an effective board. The Ghana Code (2018) proposes that board size should neither be too small to lack wider expertise and skills required for an effective board nor too large to compromise interactive discussions during Board meetings. The Code further stipulates that if the board size is smaller than five (5) members or larger than thirteen (13), a disclosure should be made in the annual report by the board why it regards this number as appropriate. When the board is optimally constituted, it tends to be more effective in their activities.

### **2.5.3 The Composition of the Board**

Board composition has to do with the two categories of directors who are represented on the board, including executive directors and external directors. The board should consist of an appropriate combination of executive directors and non-executive



directors who are carefully appointed and selected following the company's strict appointment procedures. The proportion of internal directors versus outside directors also has significant implications on the governance system.

The Code (2018) provided by SEC of Ghana, directs that the board of the companies it regulates should comprise of several directors, who collectively should have the integrity, skills, and experience necessary to fulfil the Board's responsibilities and safeguard shareholders' interests. The Code stipulates that there should be a balanced board in terms of executive and non-executive directors having the necessary skills, experience, and knowledge to effectively govern the company. Best practice requires that there should not be any dominant individual or group in the governing process. The presence of executive directors (i.e. those with full-time executive roles in addition to being board members) on the board is of paramount importance. Weir and Laing (2001) argued that executive directors offer firm-specific expertise and a lot of appropriate experience and competencies to the corporation. Daily and Dalton (1993), on the contrary, suggested that executive directors are not strong enough to enhance board independence as well as monitor the CEO that they report. As a result, Dalton et al (1998) argued that a higher number of independent NEDs is required in any properly functioning board to provide constructive criticism, proffer expert advice as well as demand accountability from management. Fama and Jensen (1983), in their studies, argued that external directors are more committed to protecting shareholders' interests. They are chosen for their independence, objectivity, and business skills. NEDs play important role in monitoring and disciplining poor performing executives on behalf of shareholders (Hermalin, B.E. and Weisbach, M.S., 1988).

Whereas some studies have found that boards dominated by external directors are more independent and have power to monitor CEOs and well as improve company performance (Rosentein and Wyatt, 1990), other studies suggest that there is no positive link between increase in the number of NEDs and firm performance (Weir and Laing, 2001; Bhagat and Black, 1998).

#### **2.5.4 The Committees of the Board**

Many boards work in committees based on their expertise. They are grouped and are tasked to handle and supervise certain aspects of the business operations. For instance, the committee on finance will look at everything that has to do with the finance and accounting department and have oversight responsibility in that regard. Shareholder protection and generally responsible behaviour can be enhanced in corporate boards due to the proper institution and utilisation of board sub-committees (Harrison, 1987).

The board should delegate duties and functions to its committees and will retain ultimate overall responsibility for such duties and functions. Most codes require that functional boards should have committees such as the audit, remuneration, nominations, and risk committees. According to Harrison (1987), operating board committees provide objective and independent review of the executive management and corporate affairs thereby protect the interests of shareholders.

The Ghana Code (2018) recommends various board sub-committees and their specialist functions. The risk committee which consists largely of external directors reviews the risk facing the company and assesses the risk exposure of the company and the strategy to manage those risks. The risk committee also assesses the extent to which risks should be accepted, subject to mitigation, considers the effectiveness of

risk mitigation measures and recommends to the board on risk management strategy. The audit committee's role is to review the internal control system and audit effectiveness as well as monitoring of the financial statements' integrity. They are part of the appointment and removal of external auditors and ensure that the auditors are independent. They also provide a medium that encourages confidential whistleblowing. At the centre of their role is oversight, review, and assessment. The remuneration committee recommends a remuneration policy to the board for directors. The committee is mostly made up of external directors. They ensure fair remuneration packages for directors. According to Klein (1998), and Weir and Laing (2000) the determination of senior management pay by the remunerations committee reduces the agency risk in that managers are incentivised to ensure their interests are not misaligned with shareholders' interests. The committee reviews executive remuneration and determine which component is performance-related so as to tie in performance with the company's overall long-term goals and objectives.

The nominations committee makes recommendations to the board as regards suitable candidates for directorship to enable the board fulfil its responsibility of nominating candidates for approval of the shareholders. They assess board candidates thoroughly and fairly and recommend new board members not forgetting the need for the existence of right balance between executive and non-executive directors (NEDs). They also ensure that there is diverse background and the right gender mix on the board. Members of the board committees must have a wealth of business expertise to be useful and effective. They must be objective and remain unbiased. They must also have recent and relevant financial experience.

Klein (1998) studied the link between the creation of board committees and financial performance of firms but found no statistically significant relationships; the correlation was weak. Petra's (2007) examination on board structures, on the contrary, found no link between the existence of board committees and firms' financial performance. Other studies (Weir and Laing et al., 2002) concluded that the composition of the audit committee has no connection with the performance of a company.

### **2.5.5 Gender Diversity**

One of the important provisions set out in almost all corporate governance codes is gender diversity.

Diversity is an important issue in corporate governance which is defined as the range of ethnic and gender representation on boards of directors (Erhardt et al., 2003). However, ethnic groups are not generalized across all countries hence women play a very important role in this regard. For this reason, the Higgs Report (2003) stressed the importance of incorporating more women on the board of directors, especially when there is little or no female representation. Different researchers found different relationships between gender diversity and firm performance. Based on different research and different theories, there are positive, negative and no relationship between gender diversity and firm performance. For instance, Taghizadeh and Saremi (2013) examined the impact of gender diversity on firm performance on Malaysian Public Listed Firm.

The results of the study indicated that ROE is influenced by percentage of female directors on board of directors which suggests that high percentage of female directors



on board of directors increase ROE. According to Gallego-Álvarez et al. (2012), diversity may lead to an improvement in monitoring management, due to greater boardroom independence and more complex and exhaustive decision-making processes. However, at the same time as gender diversity increases creativity, more complexity in decision-making is generated, which will imply potential conflicts and a lower degree of cohesion. They contended that the demand for gender diversity remains quite controversial.

However, Dobbin and Jung (2010) explored how female directors influence profits, stock performance, and institutional shareholding and found that the diversity of the board has no effect on profits, but an adverse impact on stock price. Marinova et al. (2016) studied the influence of gender diversity of the board on firm performance, based on evidence from the Netherlands and Denmark. Their findings showed that board gender diversity has no influence corporate performance.

## **2.6. Overview of Unit Trusts and Mutual Funds in Ghana**

Fund management companies pool investors' resources together for investment to achieve economies of scale. Funds of investors are pooled together to enable fund managers purchase a widely diversified portfolio of financial assets to achieve good returns on investment and at the same time provide short-term liquidity needs.

Investors' money is managed by professionals by complying with strict investment objectives, policies, and restrictions. Investors who put their money into these funds acquire an ownership interest in the assets of the company and have a proportional share of the returns generated. It allows investors to be able to invest in instruments that they could not have been able to afford to invest on their own.



Fund managers are paid management fees in return for managing the investment portfolio of the company. In other words, the management fees are used to compensate the managers and commission brokers.

Investment companies in Ghana can be categorised into mutual funds and unit trusts. Mutual funds can be closed-end or open-end. Currently, there are over thirty (30) mutual funds and some twenty-five (25) unit trust schemes licensed in Ghana. They are all open-ended which means they can take new investments and existing investors can exit whenever they like unless a particular scheme has limitations, agreed by the shareholders or unit holders.

Some of these are equity funds which invest entirely in equities. Others are fixed income funds which invest only in government treasury instruments, corporate debt, and fixed deposits. Some again invest in both equities and fixed income instruments and so are called balanced funds.

The securities law and regulations provide for the main types of investment companies in Ghana but there are variations in the categorisation from one jurisdiction to another. SEC of Ghana regulates all fund management companies in Ghana through licensing, regulation of the activities of market operators, monitoring and maintaining surveillance over the activities of the securities market.

SEC of Ghana is committed to regulating and promoting a well-organized, vibrant, fair, and transparent securities market where market operators can securely operate and protect investors' assets.

### **2.6.1 Fund Management sub-sector in Ghana**

The Securities Industry Act, 2016 (Act 929) of Ghana defines a mutual fund as a company formed exclusively to hold and manage a portfolio of securities or financial assets. Fund management firms pool together investors' funds and then invest in securities and other financial assets from time to time to achieve their investment objectives. Professional fund managers manage these funds. Shareholders or Unit holders are the investors who purchase securities managed by these investment companies and are entitled to a proportional share of the fund's entire investment portfolio.

At the fundamental level, all mutual funds can be classified as equity fund (stocks), fixed-income funds (bonds) and money market funds. In Ghana, mutual funds are either closed-ended or open-ended.

### **2.6.2 Open-ended funds**

They are asset management companies that investors can continue to buy shares after the initial public offering. For instance, NTHC Horizon Fund Limited is an open-ended fund in Ghana. In other words, open-ended funds continue to offer shares to investors without limit. By continuing to offer shares, open-ended mutual funds obtain additional capital for investment. Also, they are prepared to buy new shares or redeem any outstanding shares on each trading day, and this makes the fund more liquid. The volume of shares of mutual fund companies changes as and when shares are purchased or redeemed by investors. An open-ended fund determines its share price by dividing the net assets of the fund by the number of shares outstanding.

### **2.6.3 Closed-ended funds**

Closed-ended funds are fund management companies that do not sell any additional shares after the initial public offering. The number of shares they issue are fixed and are not prepared to buy back their own shares even if investors elect to sell their shares back to them. After the initial public offer, trading in the shares of a closed-ended mutual fund is only done on a secondary market and prices of such shares are fixed by the laws of demand and supply. So if some shareholders of a mutual fund want to disposal their shares, they would have to go to the stock exchange or the bond exchange market to sell to those investors who are also interested in buying the same shares.

### **2.6.4 Unit Trusts**

Another type of fund management company is a unit trust established under a deed of trust. It is not a separate company but is a scheme established by a trust deed which means it has trustees in addition to fund managers and custodians and the investors are known as unit holders. An entity aiming to set up a unit trust should manage the trust and must appoint a trustee who should be independent of the manager. Unit holders are effectively the beneficiaries under the trust with income flowing directly to them rather than reinvesting into the fund. They are open-ended fund and a unit holder's interest of a unit trust is made up of units and the price of a unit is directly influenced by the fund's total asset value.

### **2.6.5 Types of Mutual Funds**

Fundamentally, a mutual fund can be classified as equity, money market and fixed-income fund. Equity funds invest only in shares of stock issued by companies either locally or from multinational entities.

Funds that invest primarily in short-term government securities are called money market funds. For example, in Ghana, the Central bank through the universal banks sells treasury bills on behalf of the government.

Funds that invest mainly in government and corporate bonds which are all fixed income securities are called fixed-income funds.

All fund management companies face risk, although some companies are riskier than others. Each company has its own specific risk appetite but generally, there is a positive relationship between risk and return. As a result, to increase the chances of higher return, an investor must be prepared to take a higher risk. Risk cannot completely be eliminated.

## **2.7 Empirical Literature**

### **2.7.1 Board Governance and Performance**

Studies conducted in countries around the world to examine the link between corporate governance and fund performance have concluded with mixed results.

For example, Kumar and Zattoni (2013) examined three research issues on corporate governance and fund performance. He found that good governance is very instrumental in determining the preferences of fund managers investment decision-making. He also found that mutual funds give preference to investing with well-



governed companies than poor governed companies. He argued that managers of foreign funds are very thoughtful about the attributes of governance related to the characteristics of the board and auditors' independence.

### **2.7.2 Board Size and Firm Performance**

One of the important factors that determine board effectiveness is the size of the board or the number of directors in the board. Mutual fund companies balance their advisory needs with the costs associated with decision-making when choosing the board size. According to Wermers (2006), there is the possibility of replacement of underperforming managers when fund management companies have bigger boards and a high representation of external directors.

In examining these relationships, Anderson et al. (2004) reported that there is a positive link between board size and firm performance respectively. Similarly, Isshaq, Bokpin, and Mensah Onumah (2009) documented that the size of the board is positively and statistically significantly related to share price. Bigger boards are seen to lead to improved company performance because they have varied backgrounds and skills available for better decision making and monitoring of the CEO's performance.

According to Jensen and Meckling (1976), larger board size could improve board effectiveness and support management in reducing agency costs and check bad management, thereby lead to better financial performance.

Kumar and Singh (2013) on the other hand, found a negative relationship between board size and firm performance. The same conclusion was drawn by Shakir (2008) which suggest that there is a negative link between the size of the board and firm performance. In the same vein, Conyon and Peck (1998) argued that a firm should



have a comparatively small board size to perform its monitoring function effectively. Large board size is perceived to be ineffective in monitoring performance and could also be costly in terms of increased compensation and other incentives (Haniffa and Hudaib, 2006).

### **2.7.3 Board Composition and Firm Performance**

Board composition helps to reduce the agency risks. But the key issue which has been highly debated is whether directors should be outsiders or internal directors. The agency theory is to the effect that the involvement of many outside directors generally leads better firm performance. The chief executive officer (CEO) turnover to firm performance is significantly lower where the managing director or the CEO also chairs the board (Goyal & Park, 2002). Firms with CEO role segregated from board chairs are expected to reduce the risk of corporate failure and the likelihood of raising additional capital with ease is high because of the confidence reposed in them by stakeholders. The association between poor performance and CEO resignation is very strong for companies with boards dominated by outside directors as against companies whose boards are dominated by internal directors (Weisbach, 1988). The reason could be that outside directors are powerful and effective in monitoring and disciplining CEOs. In the same vein, Ramdani and Van (2009) reported that the proportion of NEDs has significant effect on firm performance.

Abdullah and Parvez (2012), found the composition of the board to be negative and unimportant determining factor of the firm performance. On the other hand, John and Senbet (1998) argued that firms with boards dominated by outside directors are more independent and can perform better.

Board composition and the motivation of the board members are both important factors in explaining pension fund performance (Jackowicz and Kowalewski (2011)). Using the first release of the Morningstar Stewardship Grades 2004, Wellman and Zhou (2008) examined the link between the governance of mutual fund and fund performance. Among the five variables used in calculating their grades, it was found that board quality and audit fees variables showed the most explanatory power hence investors bought funds with good grades but sold funds with poor grades. Wellman and Zhou (2008) again argued that Board Quality variables showed the most explanatory power which they contended to largely support the conclusion of Gompers et al. (2003) that good governance has a significant impact on performance. Hermalin and Weisbach (1991) and Bhagat and Black (2002) reported that there is no relationship between the degree of board independence and four measures of performance.

#### **2.7.4 Gender Diversity and performance**

Demographic diversity refers to age, race, gender, and ethnicity. Diversity, according to Erhardt et al. (2003), is the different ethnic and gender representation on the boards of companies and is one of the important issues that have generated a lot of interest in the debate over corporate governance.

It is extremely important to incorporate more women as members of the board, especially when the female representation is little or non-existent (Higgs Report, 2003).

Aghazadeh and Sarema (2013) studied the effect of gender diversity on corporate performance of publicly listed firms in Malaysia. The findings showed that Return on

Equity (ROE) is affected by the proportion of female directors on boards which suggest that, increase in the presence of female directors on the board increases ROE. However, Dobbin and Jung (2010) explored how female directors influence profits, stock performance, and institutional shareholding and found that the diversity of the board has no effect on profits, but an adverse impact on stock price.

Marinova et al. (2016) studied the influence of gender diversity of the board on firm performance, based on evidence from the Netherlands and Denmark. Their findings showed that board gender diversity has no influence on corporate performance.

### **2.7.5 Funds size**

Funds sizes is one the determinants of performance. Empirical studies about fund size can be categorized into two groups which are made of researchers who test the direct relation between size and performance and second group who shows that this relation is attributed to the existence of economies of scale in the mutual funds industry (Ben Belgacem & Hellara, 2011). Studies examining the direct impact of size on performance found inconclusive results. For example, Ben Belgacem & Hellara (2011) examined the ability of well-known fund characteristics such as the recent past performance, fund size, management fee, fund age, net asset value and fund growth to explain Tunisian equity mutual fund performance and find that the past performance and fund size have a positive and significant influence on future performance for all fund categories, irrespective of what performance was used. This may indicate the existence of scale economies in the Tunisian equity mutual fund industry. The author also confirmed the empirical evidence that historical performance contains some information about the future performance and such information may be relevant to mutual fund investors. It was also found that fund size is positively related to future

performance of small fund category as well as large fund category. Golec (1996) and Payne et al. (1999) pointed to the existence of a significantly positive relation between the performance funds and their size. This result indicated that the funds' size helps managers to diversify their portfolios and to share management fees amongst many investors. This is confirmed by (Indro et al, 1999). However, they showed that the relation sign depends on the total net asset (TNA) under management: an increasing relation between size and return expect exists for the funds in the largest size deciles.

In finding risk-adjusted returns of funds, a concave relation was found between fund size and firm performance, increasing from small to large funds and decreasing for very large funds. However, Dahlquist et al. (2000) found that the size has a negative influence on performance. According to Demine and Roller (1992) fund size may influence performance in the mutual fund industry when a fund gets extremely large; it then becomes more and more difficult to continue delivering high returns if it unable to deploy its entire capital into its trading strategies. Secondly, larger funds need more managers, which may make the funds' organisation more complex and conce of the entire funds. It could therefore be argued that fund size may negatively affect the performance due to liquidity and organisation diseconomies. Indro et al. (1999) documented that the trades on information or the implement strategies become more difficult for larger funds. In consistence with this accession, Latzko (1999) and Wang (2018) found that economies of scale and scope exist for their sample of mutual funds by estimating a cost function and even using several functional forms after testing whether mutual funds can reap economies of scale by increasing their sizes. Finally, empirical evidence suggests that fund size may have a positive or (negative) impact on future performance due to increasing or(decreasing) returns to scale (Ben Belgacem and Hellara, 2011).



### 2.7.6 Fund Age

The age of mutual fund could play a very significant role in deciding performance since younger funds may face significant higher costs in their start-up period. This is due to marketing costs and initial cash flows because it will place a greater burden on the funds' transaction costs. According to Gregory, Matatko and Luther (1997), the returns of new mutual funds may be affected a learning period. Gregory et al. (1997) provided evidence that mature funds perform better than younger ones. One of the reasons of underperformance of younger funds, according to Bauer et al. (2002) is their exposure to higher market risk since they are invested in fewer stocks.

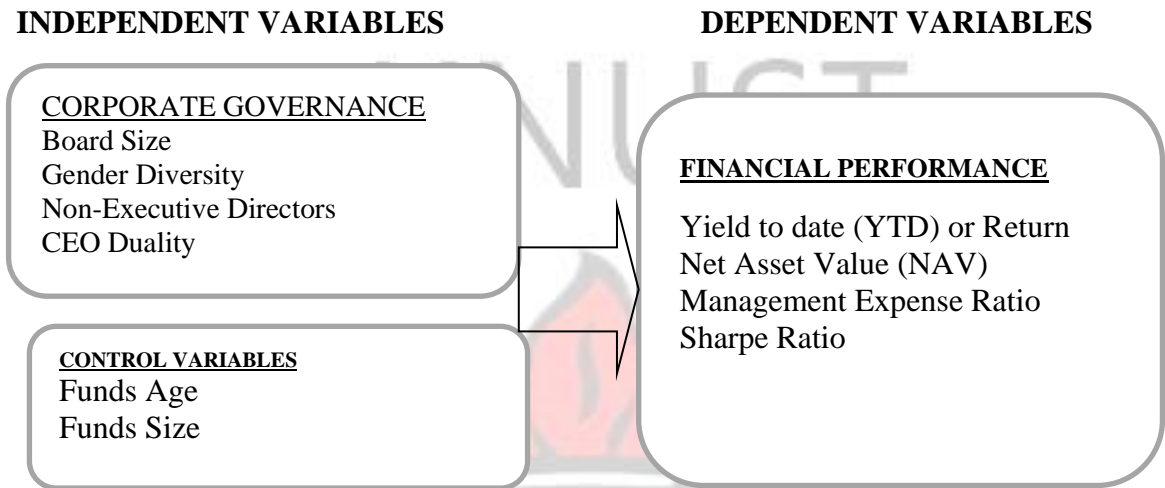
A study made by Jusoh and Lin (2012) showed a converse relationship between fund age and performance; young funds performed better than old ones. Otten and Bams (2001) also pointed out that younger funds did better than the mutual ones and that investor should put their monies in younger funds. Similarly, Persson and Karlsson (2005) found younger funds performing better than old ones.

However, Peterson et al. (2001) found no relationship between performance and funds age. There is a relationship between fund age and fund size; younger funds tend to be smaller than older ones, which makes younger funds' return and rating more vulnerable for manipulation. The smaller the fund, the more a handful fortunate stock picks could buoy the performance of the entire funds.



## 2.8 Conceptual Framework

Based on the research objective(s), the following conceptual framework has been constructed. The framework for the current study is demonstrated in Figure 2.1.



**Figure 2.1: Conceptual framework**

Source: Researcher's Own Construct, 2023

As indicated in Figure 2.1, the explanatory variables involve four factors (segregation of CEO and chairman, board size, board composition and gender diversity). The dependent variables to be established is the fund financial performance which are the yield to date (YTD) or return, net asset value (NAV), management expense ratio, and the Sharpe ratio. The control variables involve two factors (funds age and funds size).

## **CHAPTER THREE**

### **RESEARCH METHODOLOGY**

#### **3.1 Introduction**

This chapter provides an outline of the methodology adapted to finding answers from respondents to the research question. The framework of the methodology covers the research design, the population of the study, sample and sampling procedures, the sources of data as well as the instruments for collecting the data. It additionally covers the data gathering methods, the strategies for data examination just as the model for the research.

#### **3.2 Research Design**

The motivation behind a research configuration is to guarantee that the proof acquired empowers a researcher to address the underlying research questions as obviously as possible (de Vaus 2002).

Research designs can be exploratory, descriptive or explanatory and it can have various purposes (Saunders, Lewis and Thornhills 2009). This research adopted a descriptive research design and explanatory design. Exploratory research is used to find out something new. Descriptive research is used to obtain information regarding the status of the phenomena or population. It describes what exists with respect to variables in a situation. Good descriptive research work can challenge acceptable assumptions about the way things are and tend to provoke further explanatory studies into the phenomena. Explanatory research tends to find the relationship between two or more variables and to find out if there exist any relationship among the variables. It

also looks at establishing whether an independent variable has any effect on the dependent variable; and if so to what extent are they related.

### **3.3 Population of the Study**

The number of populaces in an investigation is the accumulation of every single imaginable individual, items or measurement of interest to the researcher (Mason, Lind, Marchal and Irwin 1999). For Saunders et al (2009), population of an inquiry is the comprehensive number of all the individual(s) who have certain characteristics and are important to a researcher.

The population for this research is limited to licensed mutual fund companies in Ghana. These funds were used for the study because they have consistent data for the period under review and are arguably the most popular investment companies in Ghana.

### **3.4 Sample Selection**

Two criteria were used in selecting the sample for this study.

- i) Mutual fund companies which were licensed and operating during the period between 2012 to 2019.
- ii) Mutual fund companies whose annual reports for the period, 2012 to 2019, were available either on their companies' websites or elsewhere on the internet.

### **3.5 Source of data**

Research data can be categorized into two main type (Kumar 2011). That is primary data and secondary data. Primary data are data that are collected first-hand from the

respondents through the use of questionnaires. Secondary data are data obtained from secondary sources such as government publications, published articles, census, personal records, clients' histories (Saunders et al, 2009). This research work used secondary data. Secondary data was in the form of Yield to date (YTD) or Return, Net asset value, management expense ratio and Sharpe ratio and the corporate governance variables such board size, gender diversity, non-executive directors and CEO duality were obtained. It was obtained from the financial statements, annual reports of mutual funds and SEC annual reports within eight-year period, from 2012-2019.

### **3.6 Data collection method.**

Data on financial performance of licensed mutual fund companies were collected from secondary sources. Wikipedia defines an annual report as a detailed publication of a firm's activities throughout the previous year. They are designed in a manner so as to give investors and other stakeholders' information about the firm's activities and financial performance over the period in question.

This study therefore is based on secondary data. Secondary data is data that has already been collected for some other purpose.

Secondary data was collected from the annual reports of the licensed mutual fund companies from 2012 to 2019 published on the website of the companies. I chose these years because the Corporate Governance Guidelines of Best Practices in Ghana was release in 2019.



### **3.7 Data Analysis Techniques**

The data gathered from secondary sources was put into tables and figures. With the help of Statistical Package for Social Scientists (SPSS), the data was analysed using descriptive statistics. Financial performance trend analysis was conducted using Microsoft excel to ascertain the effect of corporate governance on the financial performance of the licensed mutual fund companies in Ghana. The regression and correlation models estimated was analysed using SPSS for analysing panel data.

### **3.8 Data Validity**

Burns and Grove (2012) provide four vital concepts that produce positive outcomes for the instrument for data collection given the need that data collection and analysis be conducted using a quantitative manner. Validity and dependability are these concepts. Whereas reliability facilitates the process of findings when the data collecting instrument is used, validity refers to the extent or degree whereby the data findings relate with the thing being assessed. Given many procedures, the validity and reliability are made feasible.

A pre-test was performed to evaluate the validity and reliability of the data and results. The secondary sources of data used were obtained from trusted sources and hence can conclude confidently that the data and results are valid and reliable.



### **3.9 Ethical Issues**

Since this research was conducted under tight scientific guidelines, ethical standards were always observed. First and foremost, ethics was considered while selecting appropriate study techniques. The researcher made sure that each approach was consistent with the positivist approach that was used.

The Privacy and confidentiality of information were very vital as data provided were used only for the intended study. Not for achieving political gain but only for the purpose of academic.

### **3.10 Measuring Performance**

Variables used in measuring the financial performance of the licensed mutual fund management companies were Yield to date (YTD) or return, Net asset value, management expense ratio and Sharpe ratio.

#### **3.10.1 Yield to date (YTD) or Return**

These measures the return earned on the investment of an investor for the period under consideration.

#### **3.10.2 Net Asset Value (NAV)**

A fund's net asset value (NAV) represents its market value per share. That is how much each share in the market currently worth.

#### **3.10.3 Management expense ratio (MER)**

The MER, measures how much of a fund's assets can be used for administrative and other operating **expenses** (Investopedia (2020)). On the average, actively managed

mutual funds have expense ratio of between **0.5%** and **1.0%** and may not go beyond 2.5%.

#### **3.10.4 Sharpe ratio.**

This ratio measures the risk-adjusted returns of a fund using standard deviation. A fund with higher Sharpe ratio implies that its returns have been better relative to the risk it has taken on. Risk-adjusted returns across all fund categories can be compared using the Sharpe ratio since it uses standard deviation.



**Table 3 1: Description of Variables used in the Study**

<b>VARIABLE</b>	<b>MEASUREMENT</b>	<b>EXPECTATION SIGN</b>
<b>DEPENDENT VARIABLES</b>		
Yield to Date or Return	Current value minus beginning value divided by beginning value	
Sharpe Ratio	Return of portfolio minus risk-free rate divided by standard deviation of portfolio's excess return	
Management Expenses ratio	Total expenses divided by the total assets under management	
Net Asset Value	Total Assets minus Total Liabilities	
<b>INDEPENDENT VARIABLES</b>		
Board Size	Total number of directors on the board	+
Gender Diversity	Male or female or cross	
Non-Executive Directors	Number of non-executive directors on the board	
CEO Duality	Where the CEO of a company also serves as the chairman of the Board of Directors.	-
<b>CONTROL VARIABLES</b>		
Fund Age	The age of a fund (in years) from its first takedown to the time an IRR is calculated.	+/-
Fund Size	The amount of money in a particular fund.	+/-

Source: Author's construct 2023

### 3.11 Estimation Technique

The data to analyse has cross section and time dimensions. In order to analyse the data, panel framework is used. An obvious benefit of panel data is control for heterogeneity among economic agents hence once it is neglected the result obtained will be biased. Panel data are better able to study dynamics of adjustment (Baltagi 2005). Under panel framework the following are considered:

- Pooled OLS
- Fixed effect
- Random effect

#### 3.11.1 Pooled OLS regression

The pooled OLS does not recognise the distinct heterogeneity in the data and pool all the observation together and estimate the model. The pooled OLS assume that

- the cross-sectional units are homogenous
- The errors do not correlate with the independent variables (Baltagi 2005)

The model has a common intercept and is expressed as

$$Y_{it} = \beta + \alpha_k X_{k,it} + u_{it} \dots\dots\dots (1)$$

Where  $Y_{it}$  is the outcome variable,  $i=1.., n$   $t=1.., T$

$i$  denotes cross section and  $t$  is time

$\beta$  is the common intercept

$\alpha_k$  represents the coefficients of the independent variables

$X_{k,it}$  denotes the independent variables

$u_{it}$  is the error term



## Model Specification

Following equation (1) we specify the models below:

$$ytd = \beta + \alpha_1 bds_{it} + \alpha_2 gds_{it} + \alpha_3 ned_{it} + \alpha_4 dlt_{it} + u_{it} \dots \dots \dots (2)$$

$$spr = \beta + \alpha_1 bds_{it} + \alpha_2 gds_{it} + \alpha_3 ned_{it} + \alpha_4 dlt_{it} + u_{it} \dots \dots \dots (3)$$

$$mer = \beta + \alpha_1 bds_{it} + \alpha_2 gds_{it} + \alpha_3 ned_{it} + \alpha_4 dlt_{it} + u_{it} \dots \dots \dots (4)$$

$$nav = \beta + \alpha_1 bds_{it} + \alpha_2 gds_{it} + \alpha_3 ned_{it} + \alpha_4 dlt_{it} + u_{it} \dots \dots \dots (5)$$

### 3.11.2 Fixed effect model

Fixed effect is used to analyze the effect of variables that can vary over time. It accounts for the effect of firm heterogeneity. Fixed effect assumes that the independent variables correlate with the error term. (Baltagi 2005) The equation for the fixed effect can be expressed as

$$Y_{it} = \alpha_i + \beta_k X_{k,it} + u_{it} \dots \dots \dots (6)$$
$$v_{it} = w_i + \varepsilon_{it}$$

Where  $Y_{it}$  is the dependent variable,  $i=1.., n$   $t=1.., T$

$i$  denotes cross section and  $t$  is time

$\alpha_i$  is unknown intercept for each entity

$\beta_k$  represents the coefficients of the independent variables

$X_{k,it}$  denotes the independent variables

$u_{it}$  is the error term

Following equation (6) we specify the models below:

$$ytd = \alpha_i + \beta_1 bds_{it} + \beta_2 gds_{it} + \beta_3 ned_{it} + \beta_4 dlt_{it} + u_{it} \dots \dots \dots (7)$$

$$spr = \alpha_i + \beta_1 bds_{it} + \beta_2 gds_{it} + \beta_3 ned_{it} + \beta_4 dlt_{it} + u_{it} \dots \dots \dots (8)$$

$$mer = \alpha_i + \beta_1 bds_{it} + \beta_2 gds_{it} + \beta_3 ned_{it} + \beta_4 dlt_{it} + u_{it} \dots \dots \dots (9)$$

$$nav = \alpha_i + \beta_1 bds_{it} + \beta_2 gds_{it} + \beta_3 ned_{it} + \beta_4 dlt_{it} + u_{it} \dots \dots \dots (10)$$

### 3.11.3 Random Effect Model

In the random effect model, variation across entities is assumed to be random and uncorrelated with the independent variables. The equation for the random effect can be expressed as

$$Y_{it} = \beta_0 + \alpha_k X_{k,it} + v_{it} \quad \dots\dots\dots (11)$$

$$v_{it} = w_i + \varepsilon_{it}$$

Where  $Y_{it}$  is the dependent variable,  $i=1\dots, n$   $t=1\dots, T$

$i$  denotes cross section and  $t$  is time

$\beta_0$  is the entity intercept

$\beta_k$  represents the coefficients of the independent variables

$X_{k,it}$  denotes the independent variables

$w_i$  is firm-specific error term

$\varepsilon_{it}$  is idiosyncratic iid

Following equation (11) we specify the models below:

$$ytd = \beta_0 + \beta_1 bds_{it} + \beta_2 gds_{it} + \beta_3 ned_{it} + \beta_4 dlt_{it} + v_{it} \dots\dots\dots (12)$$

$$spr = \beta_0 + \beta_1 bds_{it} + \beta_2 gds_{it} + \beta_3 ned_{it} + \beta_4 dlt_{it} + v_{it} \dots\dots\dots (13)$$

$$mer = \beta_0 + \beta_1 bds_{it} + \beta_2 gds_{it} + \beta_3 ned_{it} + \beta_4 dlt_{it} + v_{it} \dots\dots\dots (14)$$

$$nav = \beta_0 + \beta_1 bds_{it} + \beta_2 gds_{it} + \beta_3 ned_{it} + \beta_4 dlt_{it} + v_{it} \dots\dots\dots (15)$$

Test: Var(u)=0                      Chibar2=0.00                      Prob>chibar2=1.000

Since the p-value is more than 5% we cannot reject the null hypothesis. The pooled OLS is therefore appropriate than the random effect model. We therefore estimate equation (3) with pooled OLS. In conclusion model 3 is preferred to models 8 and 13. We cannot reject the null hypothesis hence the pooled OLS is appropriate than the fixed effect model.

## CHAPTER FOUR

### DATA ANALYSIS AND DISCUSSION

#### 4.1 Introduction

This part of the research presents the results of the effect of corporate governance on financial performance of mutual fund companies in Ghana which was analysed by using fixed effect and Pooled OLS regression.

#### 4.2 Effect of Corporate Governance on Financial Performance of mutual fund companies in Ghana

##### 4.2.1. Descriptive Statistics

This section presents brief discussion of the descriptive statistics of the variable used for the study.

**Table 4.1 Descriptive statistics**

	N	Mean	Std. Dev.	Min	Max	kurtosis	Skewness
Yield to date	113	17.159	17.881	-8.54	89.2	5.821	1.42
Sharpe ratio	128	-1.998	2.702	-6.37	2.944	2.489	.171
Management expense ratio	128	.062	.046	.029	.175	4.85	1.822
Net Asset Value	128	.77	.268	.302	1.238	2.52	-.067
Board size	128	4.234	2.322	0	9	2.601	-.57
Gender diversity	128	1.172	1.02	0	3	1.636	.098
Non-executive directors	128	1.422	1.773	0	6	2.17	.819
CEO duality	128	96.188	6.023	67	100	8.18	-2.206

The descriptive statistics for the study are as shown in table 4.1. It presents the number of observations for each variable, the minimum and maximum, the mean, the standard deviation, skewness and kurtosis.

The mean for the dependent variables including yield to date, Sharpe ratio, management expenses ratio and net asset value are 17.159, -1.998, 0.062 and 0.77 respectively. For the independent variable board size, the mean is 4.234 with standard deviation of 2.322. The minimum score for board size is zero (0) and the maximum is 9. Gender diversity have a mean of 1.172 and standard deviation 1.02 with a minimum score of zero (0) and a maximum score of 3. Non-executive directors have a mean of 1.422 and standard deviation of 1.773 with a minimum score of zero (0) and maximum of 6. CEO duality has a mean of 96.188 and standard deviation of 6.023 and has a minimum score of 67 and a maximum score of 100.

Apart from yield to date, management expenses ratio and CEO duality, all the other variables are normally distributed taking into consideration the values of skewness.



**Table 4.2 Correlation matrix**

	Correlation matrix							
	Yield to date	Sharpe ratio	Management expenses ratio	Net asset value	Board size	Gender diversity	Non executive directors	CEO duality
Yield to date	1							
Sharpe ratio	-0.00745	1						
Management expenses ratio	-0.183	0.0418	1					
Net asset value	-0.116	0.742***	0.657***	1				
Board size	0.242**	0.211*	0.160	0.268**	1			
Gender diversity	0.126	0.163	0.0558	0.158	0.644***	1		
Non-executive directors	0.0651	0.0497	0.0710	0.0758	0.280**	0.264**	1	1
CEO duality	-0.265**	0.00199	0.147	0.119	0.0527	0.0561	0.409***	1

\*  $p < 0.05$ , \*\*  $p < 0.01$ , \*\*\*  $p < 0.001$

The correlation matrix in table 4.2 is used to the presence of multicollinearity among the explanatory variables. According to Pallant (2005) there is multicollinearity when the independent variables are highly correlated ( $r=0.9$  and above). From table 4.3 the correlation for all the explanatory variables is far below 0.9 and can conclude that multicollinearity is not present among the variables.

#### 4.2.2 Effect of Corporate Governance on Financial Performance measured by yield to date or return

This section presents the result of effect of corporate governance on financial performance measured by yield to date or return.

**Table 4.3 Fixed Effect Estimation- Robust**

	Model			
	Dependent Variable: Yield to date or Return			
	(1)	(2)	(3)	(4)
Board size	2.768*** (0.630)	1.973* (0.869)	2.034* (0.893)	3.202** (0.838)
Gender diversity		3.477 (2.557)	3.538 (2.612)	0.559 (2.684)
Non-executive directors			-0.764 (2.489)	-1.136 (2.568)
CEO duality				-1.261*** (0.219)
Constant	4.862 (2.800)	4.334 (2.407)	5.004 (3.247)	124.8*** (21.08)
<i>N</i>	113	113	113	113
<i>R</i> <sup>2</sup>	0.077	0.085	0.086	0.219
Test of probability	0.0005	0.0002	0.0010	0.0001

Standard errors in parentheses

\*  $p < 0.05$ , \*\*  $p < 0.01$ , \*\*\*  $p < 0.001$

In order to determine the effect of corporate governance on financial performance of mutual funds in Ghana, four outcome variables were used. These are yield to date or return, Sharpe ratio, management expenses and net asset value.

Table 4.3 presents the results of the effect of corporate governance on yield to date/return. Four models are put forward to investigate the influence of corporate governance on yield to date.

The F-values ( $p < 0.001$ ) which is the test of probability for all the four models are statistically significant at 1%. This means that the overall regression for each model is statistically significant.

The coefficient of board size for models 1, 2, 3 and 4 are significant with  $p < 0.001$ ,  $p < 0.05$ ,  $p < 0.05$  and  $p < 0.01$  respectively. In model 1 the coefficient of board size is 2.768. This means that a unit increase board size will lead to 2.768 increases in financial performance (yield to date/return) and vice versa. In models 2 and 3 the coefficient of board size is approximately 2. In the final model 4, the coefficient of board size is 3.202. This result suggests that a unit increase in board size will improve financial performance (yield to date or return) by 3.202. On the other hand, a unit decrease in board size will lead to a decrease in financial performance (yield to date or return) of mutual fund companies in Ghana. The result shows that board size is positive and statistically significant for all the four models.

CEO duality is statistically significant with  $p < 0.001$  in model 4. The coefficient of CEO duality is -1.261. This result suggests that a unit increase in CEO duality will lead to 1.261 reductions in financial performance (yield to date or return). On the other hand, a unit decrease in CEO duality will lead to an improvement in yield to date or

return. Gender diversity and non-executive directors have no effect on yield to date or return since their p-values are not significant.

#### 4.4.3 Effect of Corporate Governance on Financial Performance measured by the Sharpe ratio

This section presents the result of effect of corporate governance on financial performance measured by the Sharpe ratio.

**Table 4.4: Pooled OLS- Robust**

	Model			
	Dependent variable: Sharpe ratio			
	(1)	(2)	(3)	(4)
Board size	0.835 (0.820)	2.763** (0.804)	2.854* (0.995)	2.977** (0.826)
Gender diversity		-2.754** (0.696)	-3.255** (0.971)	-2.794*** (0.557)
Non-executive directors			0.364 (0.793)	0.636 (0.640)
CEO duality				-16.35** (4.114)
Constant	-1.425 (1.317)	-2.746* (1.138)	-3.171* (1.015)	71.25** (18.75)
<i>N</i>	26	20	14	14
<i>R</i> <sup>2</sup>	0.036	0.264	0.431	0.524
Test of probability	0.3185	0.0016	0.0053	0.0006

Robust Standard errors in parentheses All the variable are in natural logarithm

\*  $p < 0.05$ , \*\*  $p < 0.01$ , \*\*\*  $p < 0.001$



In model 1, board size has no effect on Sharpe ratio. However, when female board directors are included in the model 2, both board size and female directors had positive and negative influence on the Sharpe ratio.

In model 2 the coefficient of board size is 2.763 and is statistically significant with  $p < 0.01$ . This means that a 1% increase in board size will lead to 2.763% improvement in financial performance (Sharpe ratio). And the opposite does vice versa. The coefficient of Gender diversity in model 2 is -2.754 and is statistically significant with  $p < 0.01$ . This result suggests that a 1% increase in gender diversity will reduce the Sharpe ratio by 2.754% while the opposite does vice versa.

In model 3, the coefficient of board size is 2.854 and significant with  $p < 0.01$  level when non-executive directors were included in the regression. Gender diversity still maintain its negative sign. Thus, in model 3 the coefficient of gender diversity is -3.255 and is statistically significant with  $p < 0.01$ . This result suggests that a 1% increase in will lead to 3.255% reduction in Sharpe ratio.

In the final model 4, the coefficients of both board size and female board directors are significant with  $p < 0.01$  and  $p < 0.001$  respectively. The coefficient of board size is 2.979. This means that there is a direct relationship between board size and Sharpe ratio. The coefficient of female board directors is -2.794. This result suggests that a 1% increase in gender diversity will lead to reduction in Sharpe ratio.

In model 4, the coefficient of CEO duality of -16.35 is statistically significant with  $p < 0.01$ . This result suggests that a 1% increase in CEO duality will lead to 16.35% decrease in Sharpe ratio. On the other hand, a 1% decrease in CEO duality will lead to 16.355% increase in financial performance (Sharpe ratio)

In all the four models, the result suggests that board size has a positive sign and also significant in models 2, 3 and 4. The study can, therefore, conclude that there is a direct relationship between board size and Sharpe ratio. Gender diversity have a negative sign in models 2, 3 and 4 and statistically significant with  $p < 0.01$ ,  $p < 0.01$  and  $p < 0.001$  respectively. The result suggests that there is an inverse relationship between gender diversity and Sharpe ratio.

#### 4.4.4 Effect of Corporate Governance on Financial Performance measured by Management expense ratio

This section presents the result of effect of corporate governance on financial performance measured by Management expenses ratio.

**Table 4.5 Pooled OLS -Robust**

	Model			
	Dependent variable: Management expenses ratio			
	(1)	(2)	(3)	(4)
Board size	0.00351** (0.00118)	0.00519*** (0.00117)	0.00519*** (0.00124)	0.00541*** (0.00121)
Gender diversity		-0.00573* (0.00215)	-0.00571* (0.00222)	-0.00556* (0.00195)
Non-executive directors			-0.0000270 (0.00127)	-0.00185 (0.00157)
CEO duality				0.00116* (0.000488)
Constant	0.0470*** (0.00450)	0.0466*** (0.00410)	0.0466*** (0.00398)	-0.0631 (0.0454)
N	128	128	128	128

$R^2$		0.032	0.041	0.041	0.060
Test of probability		0.0092	0.0017	0.0025	0.0007

Robust Standard errors in parentheses

\*  $p < 0.05$ , \*\*  $p < 0.01$ , \*\*\*  $p < 0.001$

Concerning table 4.5, board size is positive and statistically significant in all the four models. In model 1 the coefficient is 0.000351 and is statistically significant with  $p < 0.01$ . This result means that a unit increase in board size will lead to 0.00351 increases in management expenses ratio. In models 2, 3 and 4 the coefficient of board size is approximately 0.005 and each is statistically significant with  $p < 0.001$ . This result suggests that a unit increase in board size will increase management expenses ratio by 0.005 while the opposite does vice versa.

The coefficient of gender diversity is approximately -0.006 each for models 2,3 and 4 is statistically significant with  $p < 0.05$ . CEO duality has a coefficient of 0.0016 and statistically significant with  $p < 0.05$ . This result suggests that there a direct relationship between CEO duality and management expenses ratio.

#### **4.4.5 Effect of Corporate Governance on Financial Performance measured by Net Asset Value**

This section presents the result of effect of corporate governance on financial performance measured by Net Asset Value.

**Table 4.6 Effect of Corporate Governance on Financial Performance measured by Net Asset Value**

Model 4					
Dependent variable: Net Asset Value					
	(1)	(2)	(3)	(4)	(5)
Board size	0.0252* (0.0105)	0.0254 (0.0120)	0.0253 (0.0122)	0.0264* (0.0121)	0.00923** (0.00260)
Gender diversity		-0.000728 (0.0206)	-0.00126 (0.0225)	-0.000459 (0.0220)	-0.0188** (0.00523)
Non-executive directors			0.00116 (0.00903)	-0.00815 (0.0101)	0.0132*** (0.00315)
CEO duality				0.00590 (0.00429)	- (0.00129)
L4.nnav					0.00874*** (0.0102)
Constant	0.663*** (0.0424)	0.663*** (0.0427)	0.662*** (0.0425)	0.103 (0.405)	1.665*** (0.124)
N	128	128	128	128	64
R <sup>2</sup>	0.048	0.048	0.048	0.062	0.297
Test of probability	0.0293	0.0866	0.1257	0.0681	0.0000

Robust Standard errors in parentheses \*  $p < 0.05$ , \*\*  $p < 0.01$ , \*\*\*  $p < 0.001$  nnav represents net asset value

In table 4.6 board size has a positive sign in all the four models. It has a coefficient of 0.0252, 0.0264 and 0.00923 in models 1, 4 and is statistically significant with  $p < 0.05$ ,  $p < 0.05$  and  $p < 0.01$ .



In the final model 5, the coefficient of board size is 0.00923 and suggests that a unit increase in board size will lead to 0.00923 improvements in net asset value. On the other hand, a unit decrease in board size will lead to a reduction in net asset value.

The coefficient of gender diversity is -0.0188 and is statistically significant with  $p < 0.01$ . This result suggests a unit increase in gender diversity will lead to 0.0188 reductions in net asset value of mutual fund companies in Ghana.

The coefficient of non-executive directors is 0.0135 and is statistically significant with  $p < 0.001$ . This means that a unit increase in non-executive directors will lead to 0.0132 increases in net asset value. On the other hand, a unit decrease in non-executive directors will lead to 0.0132 decreases in net asset value.

CEO duality has a coefficient of -0.000874 and is statistically significant with  $p < 0.001$ . This result suggests that a unit increase in CEO duality will lead to 0.000874 reductions in net asset value. On the other hand, a unit decrease in CEO duality will lead to 0.000874 increases in net asset value. The result means that there is an inverse relationship between CEO duality and net asset value.

## 4.5 Correlation Analysis

**Table 4.7 Correlation Analysis**

	SHARPE	Bds	Gd	Neds	Dlt	Fsize	Fage
SHARPE	1.00						
Bds	-0.08	1.00					
Gd	-0.07	-0.15	1.00				
Neds	-0.05	0.60	-0.25	1.00			
Dlt	-0.08	-0.26	-0.42	0.52	1.00		
Fsize	-0.21	-0.04	-0.05	-0.06	-0.23	1.00	
Fage	0.19	0.35	-0.62	0.37	0.23	0.54	1.00

Table 4.7 indicates the relationships between the dependent variable and independent variables. From the above matrix, it is evident that Sharpe Ratio and board size are negatively correlated at -0.08. There is positive correlation between board size and gender diversity significant at 0.023. Gender diversity is also positively correlated with non-executive directors significant at 0.002. There is negative correlation between board size and CEO duality which is significant at 0.042. There is a negative correlation between board size and non-executive directors significant at 0.002. The correlation matrix table overall showed that, there is no multicollinearity which made both the dependent variable and the independent variables fit for running the regression of this study.

## 4.6 Regression Results

**Table 4.8: Regression Results on the Corporate Governance and Performance of Mutual Funds. Dependent Variable: Sharpe Ratio**

INDEPENDENT VARIABLES	Coef	Std. Err	Z	P-values
<b>Bds</b>	-0.8828	8.6277	-0.10	0.919
<b>SQBS</b>	3.1306	13.8619	0.23	0.823
<b>Gd</b>	-0.4254	0.6137	-0.69	0.493
	-			
Neds	1.6395	0.6872	-2.39	0.023
Dlt	1.2247	0.3630	3.37	0.002
Fsize	0.0670	0.1310	0.51	0.613
Fage	-0.0679	0.0288	-2.35	0.025
Observation	40			
Groups	8			
Wald chi2	0.54			
prob>chi2	0.4617			
F(7,32)	11.90			
Prob>F	0.0000			

Regression analysis is used to investigate the relationship between corporate governance and the performance of mutual funds. Overall, one equation was used to run the panel regression model for performance measures. The F-statistics proved the validity of the estimated models. The board size and non-executive directors were found to be negative and insignificant determinants of the firm performance. The firm size was positive but not a significant 69 predictor of the firm performance. On the other hand, the results indicate statistically significant negative relationships in the case of gender diversity and fund age. The study also recorded a positive and statistically significant relationship between the frequency of CEO duality and firm performance.

The board of directors are responsible for managing the firm and its operations. With statistically insignificant outcomes for both the board size and the squared board size, boards of mutual funds are irrelevant in Ghana. This is consistent with Fama & Jensen (1983) who argued that boards of mutual funds are irrelevant because of investors' monitoring. It implies a substitution effect between external and internal monitoring: boards should be more effective when market monitoring is weak. Another previous study such as the one conducted by Ebrahim Mohammed Al-Matari, (2012) also found that board size is negatively and insignificantly related to firm performance. This finding is not consistent with the findings of (Jensen, 1993; Ding & Wermers 2005; Jensen & Meckling 1976 and Naveen et al. 2013). These previous empirical studies find a positive relationship between board size and firm value. Hypothesis 1 is therefore not supported. The (Ghana, 2010) SEC Code of Best Practice specifies the composition of the board. It states that the board should include a balance of Executive Directors (ED) and Non-Executive Directors (NEDs) with a complement of independent NEDs being at least one-third of the total membership of the board. The results of the study indicated a statistically insignificant and negative relationship between non-executive directors and firm performance. The negative and statistically insignificant association between non-executive directors and performance suggests that in mutual funds, boards of mutual funds are irrelevant and 70 where a greater proportion of the directors comes from outside rather than the inside demonstrates a downturn in performance. This implies that the involvement of outside directors does not enhance the ability of the firm to protect itself against threats from the environment and align the firm's resources for greater advantage. The results about the effect of the board composition on the Sharpe ratio which showed a negative insignificant relationship indicate that the hypothesis (H2) postulating this relationship was not



supported. The negatively insignificant relationship between board composition and firm performance has been confirmed by some previous studies such as those conducted by (Jensen, 1993; Al-Matari et al. 2012). This is not consistent with the findings of Rosenstein and Wyatt (1990) which documented a positive stock price reaction to the appointment of outside directors even when outside directors already constitute a majority, suggesting that outside directors provide expertise beyond monitoring service.

Gender diversity showed a negative but statistically significant relationship with performance. This result suggested that mutual funds with women on their boards demonstrate an adverse effect on performance than those without women on their boards. This result confirms the findings of a previous study by Dobbin and Jung (2010) Hypothesis 3 which states that there is a positive relationship between gender diversity and firm performance was not supported by the hypothesis. Although the hypothesized direction was correct, the hypothesis was not supported at the 5% significant level. This finding was inconsistent with Dobbin and Jung (2010) who indicated that there is a significant positive effect of gender diversity for block-holding public pension funds.

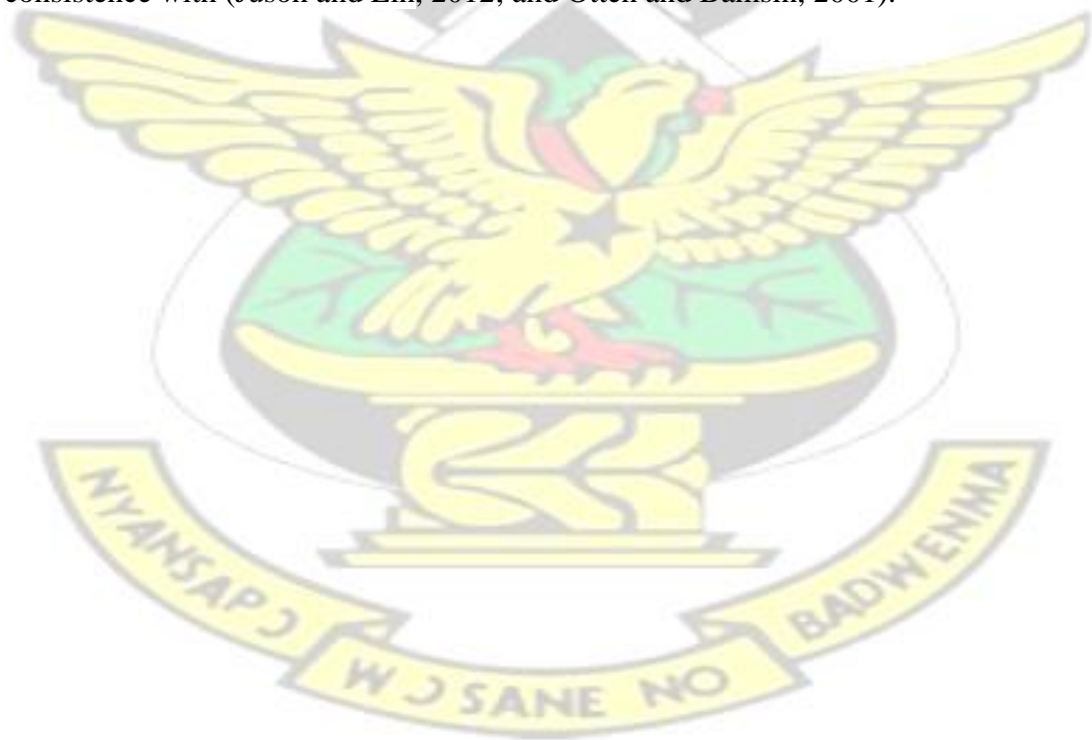
There is a positive and significant association between the frequency of board meetings and performance, implying that the more frequently the board meets the more they try to uphold the governance of the organisation. Also, the more frequently the board meets, the more they tend to generate higher financial performance. It is consistent with (Collins et al; 2015 and Davidson et al. 2007; Basil Al-Najjar (2012). Hypothesis 4 which states that there is a positive relationship between the frequency of board meetings and firm performance was supported by the hypothesis. But not

consistent with Vafeas (1999) which found that an annual number of board meetings is inversely related to firm value. This result is driven by increases in board activity following share price declines.

#### **4.7 Control variables**

With regards to the Firm Size of the fund, the result showed a positive and insignificant relationship with firm performance. That is to say that the larger the firm's size, the higher its performance. The size of a fund influences performance but is not relevant to the performance outcome of the firms.

Finally, age has a negative significant impact on performance, meaning that the longer the number of years the fund has been in existence the lower the performance. This is consistency with (Jusoh and Lin, 2012; and Otten and Bamsin, 2001).



## **CHAPTER FIVE**

### **SUMMARY OF FINDINGS, CONCLUSION AND RECOMMENDATIONS**

#### **5.1 Introduction**

This chapter summarises the findings and conclusion of the study. It also outlined some recommendations that can be adopted by mutual fund companies in Ghana to increase their financial performance.

#### **5.2 Summary of Findings**

##### **5.2.1 Effect of Corporate governance on the financial performance of mutual funds in Ghana**

The study revealed that there is a direct relationship between board size and yield to date/return, Sharpe ratio, management expenses ratio and net asset value. This means that an increase in board size will lead to the improvement of the financial performance of mutual funds companies in Ghana, measured by yield to date or return, Sharpe ratio, management expenses ratio and net asset value.

It was revealed that there is an inverse relationship between gender diversity and the Sharpe ratio, management expenses ratio and net asset value. This means that as gender diversity increase, the Sharpe ratio and net asset value decreases. gender diversity does not affect yield to date or return.

The study revealed that there is an inverse relationship between CEO duality and yield to date or return, Sharpe ratio, management expenses ratio and net asset value. This means that an increase in CEO duality will lead to reductions in the financial

performance of mutual fund companies in Ghana with respect to yield to date or return, Sharpe ratio, management expenses ratio and net asset value.

The study revealed that non-executive directors have no effect on yield to date, Sharpe ratio and management expenses. It only has a positive and significant effect on the net asset value of mutual fund companies in Ghana.

### **5.3 Conclusion**

Secondary data in the form of Yield to date (YTD) or return, Net asset value, management expense ratio and Sharpe ratio were also collected from the annual reports of licence mutual funds in Ghana.

It can be concluded that a maximum board size of nine tends to increase the financial performance of mutual funds in Ghana. It can be concluded that CEO duality hurts the financial performance of mutual funds in Ghana.

The study concludes that an increase in gender diversity will lead to a reduction in the financial performance of mutual fund companies in Ghana with reference to the Sharpe ratio, management expenses ratio and net asset value.

### **5.4 Based on the findings of the study the following recommendations are suggested:**

First and foremost, mutual fund companies in Ghana should adopt a larger board size of at most 9 members. This will allow the boards to have diverse experience and expertise on the boards so that they can discharge their duties more effectively.



The study recommends a board size of 9 for mutual funds in Ghana since with 9 as the maximum a unit increase in board size led to an increase in the financial performance of mutual companies in Ghana.

It is recommended that a CEO of a mutual fund should not hold another position since it always leads to a reduction in financial performance.

The study recommends that there is no need to increase the number of female board directors (gender diversity) in mutual funds in Ghana since any attempt to increase the number of female board directors leads to a reduction in the financial performance of mutual funds in Ghana.

### **5.5 Recommendation for Further Studies**

Other researchers can also analyse the corporate governance structure of the licensed mutual funds in Ghana so that the findings can be generalized.

Further studies can also consider the effect of macroeconomic variables on licensed mutual fund companies in Ghana.

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