**KWAME NKRUMAH UNIVERSITY OF SCIENCE AND TECHNOLOGY,**

**KUMASI**



# IMPACT OF CORPORATE GOVERNANCE ON FINANCIAL DISTRESS IN LISTED COMPANIES IN GHANA

**BY**

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## DECLARATION

I hereby declare that this submission is my own work towards the "MBA FINANCE" degree and that, to the best of my knowledge and belief, it contains no material previously published by another person nor 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 thesis is dedicated to the Almighty God for giving me the knowledge and understanding to undertake such insightful research. Also, I dedicate this book to my mother and my children: Halim and Hibatu

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## ABSTRACT

The study aimed to assess the impact of corporate governance on financial distress in listed companies in Ghana. The specific objectives of the study were to identify the effect of institutional ownership structure on financial distress of firms, determine the impact of Ghana stock exchange corporate governance index (GHCGI) on financial distress of firms, to ascertain the relationship between firm size and financial distress of firms and to determine the impact of board size on financial distress of firms. The sample size for the study comprised of the 26 existing listed companies in Ghana. Published annual reports of the listed companies were the main secondary source of data for the study. Panel data was used with a time series from the year 2015 to 2021. The findings showed that there is a statistically significant relationship between institutional ownership structure and financial distress of firms. Also, Ghana stock exchange corporate governance index had an insignificant relationship with financial distress. Again, it was observed that firm size had a statistically significant relationship with financial distress of the firms. Finally, it was revealed that board size had a statistically significant relationship with financial distress.

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| | |
|---|---|
| BOWN | Block holders ownership structure |
| BS | Board Size |
| CDU | CEO Duality |
| FAOWN | Family Ownership Structure |
| FOWN | Foreign ownership structure |
| FS | Family size |
| GHCGI | Ghana Stock Exchange Corporate Governance |
| GHT | Firm Growth |
| INSOWN | Institution ownership structure |
| LEV | Leverage |

# CHAPTER ONE

# INTRODUCTION

## 1.1 Background to the Study

Corporate governance (CG) is an important part of managing organizations in every emerging economy. Good governance and its impact on firm financial distress has been the most research areas in world today because of failures of most firm financially. The rate of frauds in many firms has resulted in organizational failures and financial distress that cause much interest of academics and researchers in researching deeply into the fundamentals of corporate governance in emerging economy. According to Tsamenyi and Uddin (2008), proving that proper procedures were followed when a result or conclusion is being questioned is the main challenge many organizations in underdeveloped and emerging countries face when trying to fulfill their CG commitments. Also, Ghana as emerging economies, is now gradually accepting the concept of CG, owing to its ability to positively influence organisational economic development (Abor and Adjasi, 2007). Further, (Alabede) 2016 posit that of late, there has been a greater media and public interest in corporate governance than ever before.

The research by Willis (2005), Dikopoulou and Mihiotis (2012) relate the management of corporate documentation to a number of issues that prohibit organizations from achieving their governance goals. Many firms or companies in emerging economics one way or the other had a lot of difficulties in financial distress. Due to its impact on so many participants, financial distress exposure is considered to be a significant issue in the financial and accounting industry (Brédart 2014). Financial distress, which includes difficulties with liquidity, a lack of equity, defaulted obligations, and a lack of current assets, is described as the humiliating condition of being incapable to pay maturity bills or costs. Investors, debt holders, creditors, workers, governance, auditors, and society are just a few of the many different groups that are impacted when a company has financial difficulties and ultimately collapses.

Corporate governance indicates the utmost sincerity and rigor in an organization's performance. Corporate governance assigns privileges and duties to various contributors inside organizations, such as managers, stakeholders, the board, and members, and clarifies the governance that oversees business operations. Management choices naturally influence the path of the businesses (Datta, 2018; Kamau, 2018). Therefore, decisions are made on the ownership structure of the company, its financial prospects based on its competencies, its corporate governance, and emerging economic elements on the market (Lamichhane, 2018). Many different situations where businesses have financial difficulties are regarded as financial distress. Financial difficulty is often characterized by a number of fundamental issues, including bankruptcy, insolvency, and failure (Maina and Sakwa, 2012). Financial hardship is the term used to describe unanticipated occurrences that severely affect a business. Financial distress, according to Senbet and Wang (2012), is characterized by excessive bankruptcies of creditors and contractual obligations. Inappropriate financial decisions have a substantial impact on the operations of businesses since managers' actions have a considerable relationship with the firm's finances (Sanda et al. 2005). When a company is unable to collect enough resources to pay its debts on time, financial distress gets worse. Businesses' finances could completely collapse or be liquidated if they receive insufficient help to pay their debts (Hu, 2011).

Financial distress can be brought on by inadequate management and economic turmoil claims Wruck (1990). A company is said to have entered a condition of financial distress when its business declines to the point where it can no longer pay its debts (Baldwin and Scott 1983). Emphasis has been placed on the indicators of financial distress are usually violations of debt covenants together with reduction of dividends. Financial distress is where firms are unable to pay their debts (Labie and Perilleux, 2008). This may lead firms into bankruptcy and even liquidation. A recent study (OECD) points out that financial distress is as a result of deficiency in company's corporate governance.

In addition to other continents, Africa has study on the impact of corporate governance mechanisms on business financial hardship, particularly in Ghana, where there was little research in the field of developing markets.

**1.2 Problem Statement**

Good corporate governance was one of the contributing elements to the world's greatest economic depression since the economic downturn of the 1930s, which resulted from several corporations experiencing financial difficulties and declaring bankruptcy (Brédart, 2014). Emerging economies and firms winding up greatly because of financial difficulties for which Ghana is not left out. Research shows that an incorporated CG approach is not yet being practiced in all countries, especially in our part of the world. Therefore, this study seeks to comprehend the impact of corporate governance and financial distress in Africa emerging market perspective.

Rapid advancements in the corporate governance have a significant positive impact on the goals of financial liberalization, economic growth, competition among corporate entities, enhanced customer service, and increased credit availability to small- to medium-sized firms in the area. In actual instances, the majority of Ghana's businesses are not included on the stock list. Never-ending operations in businesses can occasionally result in failure and unanticipated events; however this may not always be the cause of corporate failure (Senbet and Wang, 2012). According to Talian (2012), financial indicators could predict financial distress in Ghana. Financial factors include poor capital decisions, poor internal management, a lack of trained workers, and difficulty obtaining credit contribute to financial distress. Mandi (2014) came to the conclusion that Z scores can be used to identify financial elements, such as Ghanaian sovereign risk, that influence the future course of significant enterprises. According to Wamugo, Makau, and Kosimbei (2014), not all businesses in Ghana are thought of as having statutory management. Businesses still experience financial hardship even after creating high-quality products and amazing techniques to increase production. This is a sign that financial operators and managers in the company must operate the business efficiently for success to occur. Financial distress is a problem for both industrialized and developing nations worldwide. The research examined corporate governance, raised awareness of financial distress in a few Ghanaian businesses, suggested ways to completely eliminate or significantly reduce it, and developed policies to address the difficulties posed by moral hazard in order to lessen the incidence of financial distress. More also, Agency problems are more likely to heighten by corporate governance system characteristics and, therefore, they could contribute to worsening situations of financial distress (A Tron et al., 2023)

Corporate governance is growing more and more attention in emerging economies like Ghana, particularly among very large companies. Several researchers like (Abor et al, 2007; Aboagye-Otchere, 2012; Agyemang, O. S, 2013) looked at corporate governance in various ways on listed companies' in Ghana. The research gap revealed that limited studies have been conducted in the context of emerging markets, particularly in the Ghana Stock Exchange on the importance of how corporate governance (CG) may affect financial distress of listed companies in Ghana.

## 1.3 Objectives of the Study

The objectives are adapted from (Noman Tahira and Yar khan, 2020).

The reason of this study is to identify the impact of corporate governance on financial distress in listed companies in Ghana. The specific research objectives are to:

1. Determine the effect of institutional ownership structure on financial distress of firms.
2. Assess the impact of Ghana stock exchange corporate governance index on financial distress firms.
3. Ascertain the relationship between firm size and financial distress of firms.
4. Examine the impact of Board size on financial distress of firms.

## 1.4 Research questions of the study

The research is based on the following questions:

1. What is the effect of institutional ownership structure on financial distress of firms?
2. To what extent does Ghana stock exchange corporate governance index impact on financial distress firms?
3. What is the relationship between firm size and financial distress of firms?
4. How does Board size impact on financial distress of firms?

## 1.5 Significance of the study

This study seeks to unfold the importance of corporate governance (CG) and the impact it exerts to prevent financial distress in listed companies in Ghana an Africa emerging market perspective. The outcome of the study would not only bridge the research gap identified importance of how corporate governance (CG) impacts may effectively and efficiently has on financial distress of list companies in Ghana.

Corporate governance (CG) would also serve as a guide to policy makers, planners and stakeholders for the proper and efficient management of listed companies in stock exchange markets from financial distress. The outcome of this study is of much importance to firm and stock exchange administrators, managers, staff personnel on managing companies from financial distress and would also contribute a great deal in the field of academia.

**1.6 Methodology of the Study**

This study employs the quantitative research technique to help find out the impact of CG index on firm financial distress. This study employs the quantitative research technique. Secondary data were used to organize the data on listed companies in Ghana stock exchange. The data analysis techniques used on the secondary data include the measurement of corporate governance index (GHCGI) and measuring financial distress using Altman z -score to help analyze the data. The GHCGI is constructed base on essential factors of corporate governance practices (ownership structure, board structure and other control variables). The study uses binary coding approach to construct the GHCGI. The proxy for financial distress is the use of Altman Z- score and their values will serve as financial distress indicators. Panel data framework regression is use to test for the hypothesis, this will account for the heteroscedasticity and endogeneity in the data.

**1.7 Scope and Limitations of the study**

The study covers the relationship between CG and FD listed companies in Ghana. The listed companies have been selected because of easy access to audited information for the researchers. The study is limited to only non-financial listed companies in Ghana and does not cover all listed companies in Ghana. Other limitations include: The extent of literature the researchers are able to obtain as well as the degree of knowhow of the researchers, resources (including money) for the facilitation of the research, most companies could not publish the audited financial statement in time which can significantly affect the outcome of this study.

**1.8 Organization of the Study**

The study contains five chapters. Chapter one consists of the introduction to the study. It deals with an insight of what this study entails.  It enumerates study objectives, the research questions and the significance of undertaking the study. The second chapter deals with the literature review. It throws light on researches that have been conducted by other people on the topic. It brings to the fore the concepts, theories of CG and FD, as well as the corporate governance has on financial distress of listed companies in Ghana. Chapter three contains the methodology of the study. It illustrates how the researchers will gain access to the required data. This section suitably exposes and justifies the various methods the researchers employ to gather data systematically as well as the tools used for the effective analysis of our data. The fourth chapter addresses the analysis, presentation and discussion of our research findings. This covers the interpretations of the information generated and comments on the out-come of our findings. Finally, chapter five looks at the conclusions, implications and recommendations based on these findings.

# CHAPTER TWO

# LITERATURE REVIEW

## 2.0Introduction

This chapter analyzes the research on the connection between corporate governance practices and financial distress among businesses. Due to corporate scandals in 2007 and the Ghana's financial crisis, empirical researchers have turned their attention to the topic of corporate governance. The goal of the study is to examine various corporate governance measures and their impact on the financial crisis of organizations. This literature review finds out the relationship between corporate governance and financial distress, as well as identified gaps in the literature.

## 2.1Conceptual Review

The key concepts of CG and its mechanism that worth presenting (i.e., corporate governance index, ownership structure, board structure, control variables,). Financial distress is also defined and its relationship with CG is also explained

Due to its critical significance for businesses and stakeholders, such as buyers, creditors, and participants in capital markets generally, forecasting financial distress continues to be a research issue of interest. Financial distress typically refers to a situation when a company's cash inflows are insufficient to cover its day-to-day operating expenses (Abdullah et al, 2014). This situation will ultimately prevent the corporation from meeting its long-term financial commitments. Due to the various accounting practices and standards, definitions of financial difficulty vary between nations. Karl (2002) asserts that financial distress is a protracted process that has a detrimental effect on a company's capital structure, the effectiveness of its investment policies, and its ability to continue operating. Financial distress is primarily caused by excessive gearing or by what comes after a really upsetting incident, like a significant fraud. (Tsai, 2014). Edward I. et al (2013) also emphasis that the Z-Score model is still utilized globally as a primary or supporting tool for bankruptcy or financial distress prediction and analysis even though it was created more than 45 years ago and whilst there are other alternative failure prediction models available.

Although there are numerous models that predict financial distress in the literature, Z-score and O-score models are more frequently used (Adnan Aziz and Dar, 2006). Most financial distress research has been conducted in developed countries like the US and Australia (Agarwal and Taffler, 2008). Financial distress was largely predicted using the well-known Z-score of Altman (1968) or the O-score of Ohlson's logit model (Ohlson, 1980) A national financial distress model must be developed because a global financial distress model cannot be used everywhere, claim Altman et al. (2017). Ghana is considered a growing nation (developing country), it is crucial to create a model for predicting financial distress using data from Ghana. According to Roomi et al… (2015), the Z-score model is an effective predictor of financial difficulty in developing nations enterprises, where the CEO also serves as the board chairman. Many researchers have recommended the use of z score as a powerful to for analysis financial distress. According to Naman Y. et al. (2020), the z-score is the best method for predicting the financial health of publicly traded corporations. Additionally, the Altman z score model provides a trustworthy likelihood estimate for financial difficulty as well as precise results prediction. The z-score model can act as a tip-off tool to assist company managers in launching corrective actions. Additionally, the financial distress model might aid businesses in avoiding possible bankruptcy.

## 2.2Theoretical Review

The following theories underpin the study of corporate governance and financial distress.

### 2.2.1 Agency theory

Agency theory is predicated on the notion that the business's first management are often also its owners. It has further been argued by Jensen and Meckling (1976) that agency relationships arise when one party delegated authority to another party to do tasks or provide services (Jao and Pagalung., 2011)**.** As a business expands, the owners choose managers to administer it. The owners want the top leadership to operate the company in their best interests, hence there is a form of agency connection between them. Because they want to be sure that the firm will be manage to repay the loan with interest without experiencing financial hardship, major lenders are also worried about the company's management. The agency theory of governance in companies is based on the premise that a company's directors operate as the owners, or shareholders. In order to decrease financial burden on corporations, it is crucial to take specific actions to ensure that corporate management is effective.

This entails taking steps to monitor directors and exercise some influence over them. One way to accomplish this is by requesting reports from directors on the corporation's performance and having independent accountants attest to the veracity of such reports. Offering directors incentives would motivate them to act for the greater good of shareholders, such as bonus incentive programs for achieving or surpassing goal levels for profit or return on shareholder capital and clear and complete financial disclosure. Additional theories of business management that have evolved from agency theory include transaction cost theory, the idea of stewardship, dependency on resources theory, managerial hegemony theory, class hegemony theoretical terms, mental disorders organizational a historical perspective theory, stakeholder theory, and system theory.

**2.3 Empirical Review**

In the context of Nigeria, Bredart (2014) evaluated how board performance affected financial distress. Bredart had already demonstrated that since 2007, there has been a large increase in corporate bankruptcy. So, to identify the root of the majority of companies' financial difficulty, a study was carried out. The analysis found that, in the majority of firms, board size had a significant impact on insolvency or financial trouble. This demonstrates that in Nigeria, companies with large boards are less likely to file for bankruptcy than those with tiny boards. According to a 2013 study by Md-Rus, Mohd, Latif, and Alassan, ownership structure had a substantial impact on business performance. Study results, however, showed that government ownership had no discernible impact on businesses' financial performance.

Furthermore, government ownership had no effect on how financially distressed a firm was. The impact of ownership structure financial distress was investigated using a logistic regression model. The findings indicated that government ownership had little bearing on a company's financial problems. Hu and Zheng (2015) also attempted to determine whether ownership structure affected the financial distress of South African businesses. According to the report, ownership structure is a feature that helps businesses lessen financial strain. In order to preserve consistency and transparency in all organizational activities and to improve the financial performance of the company, owners of organizations must make sure that the right structures are created. Using a sample of 378 Chinese stock market listed companies, this result was attained.

These businesses had had financial difficulties between 2000 and 2008. Akmetova and Batomunkueva (2014) looked at how Ghana's financial hardship was impacted by the membership of the board. A study revealed that a key element influencing corporate performance is the internal governance framework. Binary and multiple regression analyses were employed in the study to assess the data and make financial predictions. Further research revealed a strong correlation between board independence and financial difficulty.

Despite the difficulties with corporate governance, Yusuf (2015) argues that the Kenyan banking industry has continued to make considerable gains. Despite technical, legal, financial, political, and economic obstacles, commercial banks are recognized as the main forces behind economic growth in both emerging and industrialized nations. Therefore, it is crucial that this industry be closely monitored to guarantee that such situations are dealt with swiftly to minimize detrimental effects.

### 2.2.1 Corporate Governance

Corporate governance is a multi-faceted concept, its many definitions can be classified into regulatory stakeholders and agency conflict categories. According to the regulatory definition, corporate governance is the structure used to control and direct businesses (Bosch 1993). The corporate governance structure specifies the procedures and guidelines for making business-related decisions as well as how the board, management, shareholders, and other stakeholders are assigned rights and responsibilities. Its importance exits within the laws, regulations, rules, guidelines, and voluntary codes of Ghana. The Companies Act 1963, (Act 179) provide the basic framework for corporate governance (CG) in Ghana. Corporate governance primarily emphasizes the functions and responsibilities of management, the rights of stakeholders like investors and lenders, as well as a number of other things

(Otceer.edu.gh 2009). Corporate governance provides the framework for establishing firm goals, as well as the tools for achieving those goals and keeping track of success. Without sound governance, organizations are likely to fail and have negative effects on the economy. More also, Cadbury (1992) in simple terms define CG as the way firms are controlled and directed.

Organization for Economic Co-Operation and Development (OECD) principles of CG, (2004) are of the view that CG as a "set of interactions between a company's management, its board, its shareholders and other stakeholders. CG gives the framework through which the goals of the organization are set and also indicates how the goals are to be achieved and how performance is monitored.

Furthermore, Mensah and Adams (2014) emphasize the importance of CG since it makes an organization more accountable and helps to avert severe catastrophes. To support this claim, Aboagye-Otchere et al. (2012) and Willis (2005) point out that improving ethical behavior, abiding by the law, boosting productivity and effectiveness, and anticipating difficulties and catastrophes are all purposes of corporate management.

### 2.2.2 Corporate Governance Framework in Ghana

In Ghana corporate governance is regulated by the following regulation: Companies code 1963 Act 179 regulating all the companies Ghana stock exchange listing regulation 1990(L I 590) regulating listed companies ;Bank of Ghana regulation regulating banks and non-banking financial institutions; National insurance commission regulating all insurance companies in Ghana; Securities industry Law (PNDCL 330),Amendent ACT 2000(ACT 590) regulating stock exchange.

### 2.3.1 Agency theory

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This entails taking steps to: Monitor directors and exercise some influence over them. One way to accomplish this is by requesting reports from directors on the corporation's performance and having independent accountants attest to the veracity of such reports. Offering directors incentives would motivate them to act for the greater good of shareholders, such as bonus incentive programs for achieving or surpassing goal levels for profit or return on shareholder capital and clear and complete financial disclosure. Additional theories of business management that have evolved from agency theory include transaction cost theory, the idea of stewardship, dependency on resources theory, managerial hegemony theory, class hegemony theoretical terms, mental disorders organizational a historical perspective theory, stakeholder theory, and system theory.

### 2.3.2 Stakeholder Theory

The relationships between the business's stakeholders, including its customers, suppliers, workers, investors, and populations, are emphasized by the stakeholder theory of capitalism. The idea holds that a business should provide advantage to all stakeholders, not just shareholders. R. Edward Freeman initially introduced the Stakeholder Theory of organizational management and the ethics of companies, which addresses morality and values in managing a business, in 1984. The shareholders, often known as financial stakeholders, are one of the many groups that a business or organization must serve, according the notion of stakeholder theory of business. According to stakeholder theory, everyone who is in any way impacted by an organization or how it operates is a stakeholder, including staff members, clients, vendors, local communities, environmental organizations, governmental organizations, and more. According to the stakeholder theory, businesses should make an effort to treat all of these stakeholders fairly because doing so in the long term, it will help them prosper.

Stakeholder theory stands in stark contrast to shareholder theory. According to the theory of shareholder value, a company's primary goal should be to advance its shareholder interests. Because stakeholders are mainly concerned with financial growth, shareholder theory effectively translates to a business strategy of "make a greater profit at any cost." The technique of considering the needs of all parties engaged in a project through the project manager's viewpoint is known as stakeholder theory. According to the Project Management Institute, these stakeholders are "individuals and organizations that have an ownership stake in the project, or those whose goals may be adversely or favourably affected as as a consequence of project operation or its profitable completion." Stakeholder theory can, in practice, encourage a positive feedback loop that, in the end, results in higher returns for stakeholders and shareholders. For instance, employees are inspired to produce better, higher-quality work when they are acknowledged as valuable stakeholders. This might result in an increase in production volume and quality (or both), which would make customers happier and more content. Customers that are delighted tend to help increase sales and corporate growth, which is good for shareholders.

Treating all project stakeholders' team members, external stakeholders, and executives as valued collaborators can have a favourable impact on the project's outcome. Stakeholder theory detractors claim that it is impossible to fairly balance the requirements and interests of the numerous stakeholder groups. According to the stakeholder theory, stakeholders represent a number of significant and varied groups, and one or more of those groups will unavoidably lose out on important decisions at some time. Similar to this, some stakeholder groups will have more clout or influence than others, which can lead to conflict. These difficulties can be mainly overcome by project managers using a stakeholder management strategy. The expectations of each group of stakeholders and the procedures for communicating with them should be specified in this plan. Stakeholders should also be prioritized in the stakeholder management plan according to how much they care about the outcome and how much influence they have over the project.

### 2.4 Corporate Governance Index

An approach to gauge the extent to which an organization complies with relevant governance laws and standards of conduct globally is via the Corporate Governance Index (CGI). The importance and impacts of corporate governance have been extensively studied in the literature, but little has been discovered about how to develop a thorough Corporate Governance Index, among others. Black et al. (2019) claim that well-constructed "corporate accountability indexes" can forecast better company value in developing economies. Five subindices make up the overall index: control of transactions involving affiliated parties, ownership structure, shareholder rights, board process, and board structure. To evaluate the development of listed firms between 2004 and 2006, Cheung et al. (2010) and (Gompers et al. 2003) developed a corporate governance index (CGI) based on the updated OECD Standards of Corporate Governance. They created a Governance Index based on the CEO duality, the size of the board of directors, management holdings, and block shareholder holdings, which are all four major components of the company's governance structure. They view this index as a proximate indicator of the corporate governance system's effectiveness. Also, Noman et al. (2020) in similar case measure corporate governance index using similar variable like ownership structure, board structure and some control variables (firm size, firm growth and leverage)

## 2.5 Ownership structure

The internal structure of a corporate company and the obligations of those who have an equity or legal stake in it are both governed by the ownership structure. Managerial ownership, individual ownership, and ownership concentration were variables utilized to capture the ownership structure of the listed businesses, according to Khurshid et al. (2019).

### 2.5.1 Institutional ownership structure

Institutional investors are businesses that concentrate on making investments, primarily in stocks and bonds. Few studies have examined the impact of institutional ownership, such as banks, pension funds, and insurance companies, on a company's ability to survive. The effectiveness of ownership concentration as a useful corporate governance instrument to oversee management was highlighted by institutional ownership structure. An adverse association between institutional ownership and financial distress was discovered by Mangena and Chamisa (2008). While Donker et al. (2009) believed that institutional ownership and financial difficulty played a beneficial influence,

There are several types of institutional investor: Investment management companies and mutual funds. These are businesses that generate money from small investors to establish one or more sizable investment funds that are subsequently used to buy government bonds as well as shares and bonds of other corporations, often those that are listed on stock exchanges around the world ;Private equity firms. These are companies that focus on buying private company equity with the goal of boosting the profitability of these businesses and ultimately recouping their investment; Pension funds. These companies have monies that will be used to provide pensions to people after they retire; Insurance companies. Insurance policy premiums and life assurance premiums provide the financial resources for insurance firms; An institutional investor may personally own just a small part of the shares of a significant public corporation; Small shareholders are unlikely to have much influence on decision-making by the board of directors, and so cannot contribute significantly to the governance of the companies they invest in.

### 2.5.2 Block holders' ownership

The owners of significant numbers of a company's shares, bonds, or blocks are known as block holders. These shareholders frequently have voting rights linked to their shares, which give them power over the corporation. The existence of a block holder can limit the confiscation of minority shareholders, according to Fu et al. (2014) in related literature. According to Chahine, S. (2007) through Shleifer and vishny (1997) state that , large-block shareholders may misuse their influence to try to gain control at the expense of other shareholders. Denis (2001) argues that while the presence of block holders could increase company value, it could also encourage block holder to seek benefits that are not available to other shareholders. The researcher is curious to find out how the success of the stock market for the firms they control is impacted by the overall percentage of shares held by such important shareholders.

If the stock exchange price of a surviving stock defines its worth for minority investors, the effect of block holder holding on this stock value discloses the net benefits or costs of big owners from their viewpoint. This highlights a lesser proportion of the production of total value, which would need to take into account, among other things, the likelihood that the value of the firm to block holders might vary from the market price owing to the personal benefits of control (Barclay and Holderness, 1989). According to Shleifer and Vishny (1997) and Becht et al. (2002), one of the main issues in corporate governance is whether huge owners (block holders) assist to address agency problems or make them worse. There has been much study on the effects of block holder ownership or ownership concentration on firm value and other performance indicators (Short, 1994).

Major ownership's impact on a company's success is yet unknown (Holderness, 2003). Simple regression models have been employed in empirical research in the past to examine the impact of ownership structure on enterprise value (Demsetz and Lehn, 1985; Woidtke, 2002; Short, 1994). There is no conclusive theoretical connection between big owners and firm value, despite the assumption made in the literature (Jensen and Meckling, 1976; Zeckhouser and Pound, 1990; Burkart, 1997) that large shareholders have more influence and stronger incentives to assure shareholder value maximization.

### 2.5.3 Foreign ownership

Foreign ownership is where someone who is not a citizen of a country owns a percentage of that country's assets (such as businesses, natural resources, real estate, bonds, equities, etc.), or when a company with its headquarters elsewhere owns those assets. (Wikipedia)

In a developing country, Dauma et al. (2003), Alan and Steve (2005) and Akimova and Schwödiauer (2004) used the regression method to examine the effects of foreign ownership on companies' financial performance and they found that the performance of firms is favourably impacted by foreign ownership.

Also, Gunduz and Tatoglu (2003) conducted a second study on the performance of foreign-owned businesses in Turkey using one-way analysis of variance (ANOVA) to look into how the performance of 202 non-financial listed companies was impacted by foreign ownership. The results show that foreign-owned companies perform much better than local companies in terms of ROA but not in terms of other financial performance parameters.

## 2.6 Board structure.

Board structure refers to the size of the board, its composition and its leadership. Corporate seeks to ensure effective and efficient performance these elements of board structure in relationship to financial distress

### 2.6.1 Board Size

The company's long-term prosperity is the board's responsibility. Khurshid et al (2019) posits that the independence, duality, insider-outsider directorship, and board size all serve as indicators of the composition of the board.  Larger size boards, according to Yermack (1996), have their own issues with conflicts of interest and decision-making discretion. The (unitary) size of the board of a big corporation in many nations consists of the chief executive officer or managing director, who is the company's board of directors executive director, additional executive directors, as well as other non-executive directors. Although usually a non-executive director, the chairman occasionally serves as an executive director.

The issue of slower decision-making and poor coordination is present on board size. And so, a board of directors should be neither too big nor too small. If it is too big, it may become slow-moving and have difficulty in reaching decisions on which all board members can agree. If it is too small, it may collectively lack a sufficient range of skills and experience. As stated in the Code of Best Practices, the size of the board "should be decided at with the objective of promoting productivity and ensuring proper proportional needs." It suggests that a board of between eight and 16 directors (for a listed company) should be considered ideal. The total number of corporate directors or members is used to calculate the board size.

### 2.6.2 CEO Duality

CEO duality structures have been theorized for many years; many nations have just recently begun to pay attention to them as a practice. The separation of the CEO from the chairman or vice chairperson role has been the subject of several studies. This arrangement is most common in countries with lax legal systems. Many contend that the principal-agent issue is particularly pronounced in a corporate setting where the CEO and chairperson are the same person (vice chairperson). CEO dualism has a way of affecting the company's overall performance. Fama and Jensen were the ones who originally advanced the justification for the separation of the CEO and chairperson roles (1983). Companies are worth higher when the CEO and chairperson roles are held separately, according to Yermack (1996). In organizations without a CEO dual role, a number of checks and balances are put in place, which stops the agent from engaging in opportunistic behavior. A company is more likely to employ the appropriate level of debt in their capital structure if there is a clear separation between the CEO and chairman (Fosberg, 2004). The current study also demonstrated that because stakeholders have more faith in organizations without dual CEOs, they are more likely to reduce the danger of financial crisis and increase their chances of raising more funding. CEO DUALITY Typically, board independence is also assessed by looking at how the CEO and chairman of the board are separated from one another. Various studies have produced contradictory results about the connection between dualism and financial trouble. However, Khurshid et al. (2018) employed the binary logit regression to statistically indicate a negative impact of duality on the risk of financial distress. Daily and Dalton (1994) reported a favorable influence of duality on financial distress.

### 2.7 Control variables

In order to account for the combined effect of corporate management on economic hardship and to prevent misleading correlations between the confounders and characterization errors in the estimated model, this research includes three (3) control variables. They employed the following control variables: firm size, net profit border, payout ratio, leveraging, and expansion of sales (Ting and Lean, 2015). Also, Naman Y. et al… (2020) posit that firm size, firm growth and leverage are the major control variable worth considering in the model.

#### 2.7.1 Firm size

Total assets, log size, revenue, and market capitalization are all ways that the size of the business can be stated. Small businesses are more risky than larger ones. Investor confidence is also influenced by the size of the firm. The more well-known the company becomes among the general public, the simpler it will be to gather information that will increase shareholder value. Even large businesses that have high overall assets draw investors to make investments in the business. It can be employed for business operations based on the firm size as determined by the total assets the company has. The natural logarithm of a firm's total assets is used to calculate firm size (Ehikioya, B. I. 2009). In a related literature confirmed that, nature log (ln) of all assets is used to measure firm size (Chen et al., 2005; Ghazali, 2010; Hasanand Ahmed, 2012).

### 2.7.2 Firm growth

Numerous researchers have examined the growth of businesses. Firm growth appears to go through distinct growth phases, also known as life cycles, according to research on the subject. Even though the terms used by different authors might be different, the events that each business goes through are pretty much the same. According to the majority of researchers, every business needs to start, then grow while facing a variety of obstacles and crises, and finally mature and decline.

### 2.7.3 Leverage

Leverage is a crucial instrument for assessing how well corporate debt is working. Businesses will profit from using leverage, but they will also experience losses (Weston and Copeland, 1997). When evaluating financial distress, investors should take the leverage notion into account. The larger the leverage, the higher the financial danger (Horne and Marchowicz, 2005). According to economic conditions, businesses that utilize more debt than their own capital have a stronger ability to make profits for their shareholders than those that use less. In contrast, businesses that utilize a larger proportion of debt than their own capital would produce a smaller return for shareholders than those that use a smaller proportion of debt. Leverage is a ratio that determines how much money a company uses to finance its assets (Sudana, 2009:23). The risk of rising corporate finance increases with the ratio since the debt portion of borrowing money to finance real estate developments increases. The smaller the company's debt ratio, the higher the level of funding supplied by the equity assets and the greater protection provided to creditors against the danger of unpaid debt. This is the preferred debt ratio among creditors. Companies with a high leverage approach are likely to encounter competitors with a more offensive approach and risk losing market share in the product market oligopoly.

### 2.9.1 Relationship between Corporate Governance and Financial Distress

Financial hardship prevents businesses from expanding, especially when they file for bankruptcy. During this phase, cash flow is decreased, profit margins are decreased, and liquidity levels are decreased (Crutzen and Van Caillie, 2007). When a corporation is in financial hardship, its financial status has reached the point of insolvency. Altman and Hotchkiss (2006) assert that failure, bankruptcy, and insolvency—three terms frequently employed in business research—can all be connected to company financial difficulty. Failure happens when either revenues are insufficient to pay costs due to the average rate of return being systematically lower than the cost of capital, or when the rate of return is not proportionate to the quantity of capital invested. A company has financial difficulties before filing for bankruptcy.

According to Otieno, Mugo, Njeje, and Kimathi (2015), internal auditing and communication are two financial reporting methods that can improve financial performance in a shifting business environment. According to Kinyua (2006), businesses are more likely to go into financial difficulties if managers fail to correctly interpret data gathered on shifting market trends. High dividends were likely to be received by shareholders of well-run banks, and vice versa. Most commercial banks

(71%) have seen a 46% reduction in profitability as a result of poor corporate governance. Corporate governance determines whether a corporation complies or complies not with Basel III regulations implemented by the Central Bank of Kenya to improve financial stability among firms. The report, however, concentrated on policy concerns rather than Kenya's financial problems.

Poor corporate governance, a dynamic economic environment with fierce competition, the influence of technology, and monetary policies created by Kenya's central banks have all been linked to the underwhelming performance of Kenyan businesses. According to Al-Saleh and Al-Kandari (2012), the expertise of board members can influence the success of the company. The study, however, concentrated on Kuwait's financial problems rather than Kenya's commercial banks. Members' qualifications, skills, and experience had a small but indirect impact on how well businesses performed financially. Board size, CEOs, and leadership characteristics were among the corporate governance policies identified by Wambua (2011) as having an impact on a company's financial health. Enobakhare (2010) discovered that institutional ownership, property speculation, board ownership, and nationalization all had an effect on business success while researching governance practices and business results in Nigeria. The study was conducted in Nigeria though, not Kenya. Whether a company is headquartered in a developed or developing country, corporate governance contributes 34.5% to the financial performance of all enterprises, according to Rogers (2006). The study also proved that internal regulations including lending and investment regulations improved a company's financial success. In their study, Kimathi (2015) found that Saccos' declining performance was linked to non-compliance with industry norms, problems with leadership, fierce rivalry, and monetary regulations.

***H1: There is a positively significant relationship between corporate governance and financial district***

### 2.11 Conceptual Framework

The conceptual framework is the diagrammatic representation of the major concepts in the study. It also depicts the researchers' idea on how the research problem is explored and how it embodies the specific direction the research will undertake. The diagram below illustrates the two major concepts in the study (CG and FD). The Agency theory and other relevant theories are the theoretical frameworks intended for CG and FD respectively. Ownership structure, board size as well as control variables such as Leverage, Firm size and Firm growth of the dependent variable (CG) are tested on the independent variable (FD) with a view to establish a link between them.

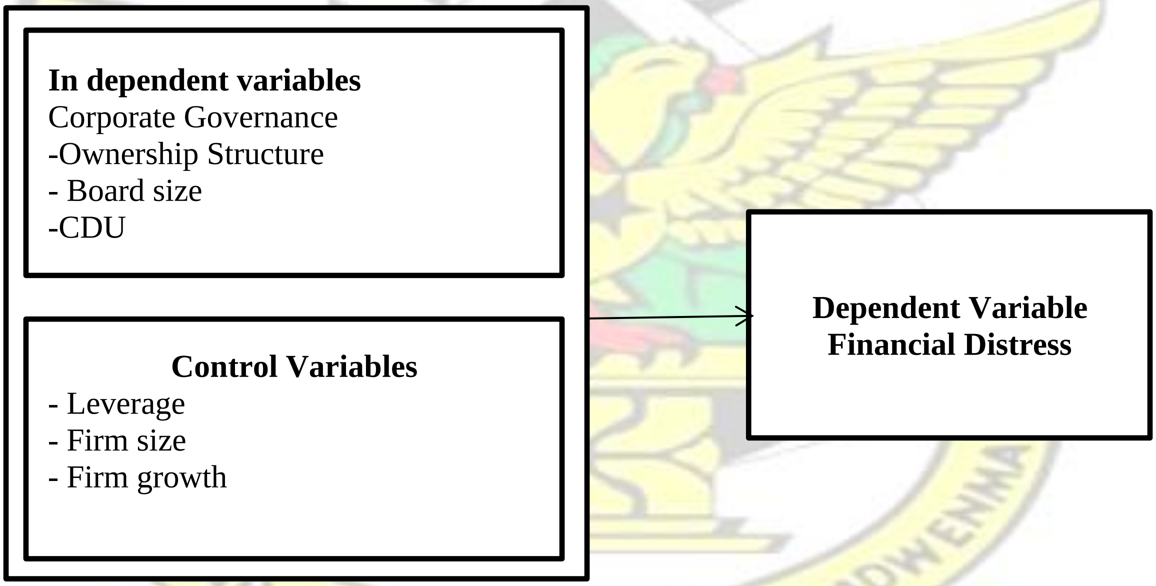


**Figure 2.1: Conceptual Framework**

**Author's own construct, (2023)**

### 2.12 Chapter Summary

The focus of the study is to establish the relationship between CG and FD. To achieve this, the researchers looked at the two concepts- corporate governance and financial distress and whether there exists any relationship. Concept of CG which are has greater impact on financial distress were all discussed. Theoretical frameworks appropriate for this study that the researchers explored are the agency theory for CG and its influence in relationship with financial distress.

# CHAPTER THREE

# RESEARCH METHODOLOGY

## 3.1 Introduction

Research is distinctive from other knowledge gathering endeavors. This is due to the fact data is systematically collected, analyzed and interpreted in a way that is suitable to the particular purpose or objective of the research. According to the definition of research, it is "something people do to find out things in a systematic fashion, thereby enhancing their understanding" (Saunders and others, 2007). This chapter discusses the research design, data, methods, model specification, diagnostic testing, variable description and measurement and chapter summary. research strategy to be used on the listed firm in the Ghana stock exchange, sampling strategy, ethical issues and data collection instruments employed by the researchers in carrying out the study.

## 3.2 Research design

A research design plan that detailed out the methods and procedures for gathering and analyzing information needed to structure and solve the research problems (Zikmund and Carr,2010, p 66) This study employs the quantitative research approach to help examine the relationship in terms of measurable data, variables, and relationship between variable

## 3.3 Data Collection

This section discusses the data collection technique employed by the researchers.

### 3.3.1 Secondary Data

To gather the secondary data needed for the study, the researcher had accurate information from the official web page of the Ghana stock exchange that provide facts that are applicable to the study. The researchers opt for secondary data as the main source of data collection because it can provide accurate and easy sources of information when its source is authenticated. Secondary data is unique, gathered for a specific reason and is applied to take care of a specific issue. It also allows the researchers' to have a high degree of control and authority over how the information is gathered.

### 3.4 Data analysis

This segment concentrates on the actual analysis and discussions on the data collected. This includes discussion of the steps involved in examining the information gathered through secondary data. Using panel data analysis, Naman Y. et al. (2020) investigated the connection between corporate governance and economic hardship in listed companies in developing nations like Ghana. The heterogeneity of enterprises in regard to relevant explanatory variables is taken into account via panel data analysis. The two variables were connected by a regression equation that was computed after many firm-specific factors had been taken into account.

### 3.5 Population and Sample of Study

The present study is based on the sample of 26 companies registered at the Ghana stock exchange (GHSE) over the period 2015 t0 2021. The non-financial sector is taken into account in this analysis for two reasons. First, the non-financial sector is essential to Ghana's economic growth. Additionally, the non-financial sector ranks second in terms of size and percentage contribution to the GDP and employment. Second, the requirements for financial reporting, accounting principles, regulations, and financial reporting differ between financial and non-financial enterprises (i.e., businesses in the financial sector). These differences could distort accounting metrics' accuracy (Shahwan, 2015). Combining examination of financial and non-financial entities may therefore result in inaccurate results. Financial decisions may be affected differently by financial businesses' particular financial structures and high levels of debt (Lim et al., 2007). Data on firm-specific financial indicators are taken from joint stock company balance sheet analyses issued by the Ghana stock exchange official website (2015–2021). The annual reports of the sampled companies are used to acquire information on ownership structure. The table below shows the distribution of sample companies on the Ghana stock exchange:

**Table 3.1 Distribution of Sample Companies**

| Sector | No. of Firm | % of Sample |
|---|---|---|
| Food | 6 | 23 |
| Chemical | **2** | 7 |
| Mining | 7 | 27 |
| Communication | 2 | 7 |
| Oil | 8 | 31 |
| Others | 1 | 3 |
| **TOTAL** | **26** | **100** |

### 3.6 Model Specification

To examine the first objective of the study which the effect of institutional ownership structure on financial distress of firms, the following econometric model is specified below;

$$FD_{it} = \beta_0 + \beta_1 INSOWN_{it} + \beta_2 FAOWN_{it} + \beta_3 GHCGI_{it} + \beta_4 B0WN_{it} + \beta_5 BS_{it} + \beta_6 CDU_{it} + \beta_7 FS_{it} + \beta_8 GHT_{it} + \beta_9 LEV_{it} + \mathcal{E}_{it}$$

where: **GHCGI** represents Ghana stock exchange corporate governance index, **FAOWN** represents Family ownership structure, **INSOWN** represents Institutional ownership structure, **BOWN** represents Block holder ownership structure, **BS** represents Board size, **CDU** represents CEO duality ,**FS** represents Firm size, **GHT** represents Firm growth, **LEV** represents Leverage and **Ɛ** = random disturbance

### 3.7 Financial distress model specification

Altman Z-score (1968) has been used as a stand-in for financial distress in several top research journals studies since it is believed to be the most effective tool for predicting the financial health of publicly traded organizations. In addition, the Altman Z-score model delivers accurate findings and may be trusted to predict the possibility of financial problems. Previous studies, such as those by Edward I. et al. (2013), Roomi et al. (2015), and Naman Y. et al. (2020), among others, used the Altman Z-score model to predict financial hardship. The following is an estimate for the Altman Z-score model:

$$\text{Z} - \text{Score}_{\text{it}} = 1.2\,\frac{\text{Net working Capital}}{\text{Total Assets}} + 1.4\,\frac{\text{Retaining Earnings}}{\text{Total Assets}} + 3.3\,\frac{\text{EBIT}}{\text{Total Assets}} + 0.6\,\frac{\text{Block Value Equity}}{\text{Block Value Debt}} + 1.0\,\frac{\text{Sales}}{\text{Total Assets}}$$

Financial Distress is proxy by the Z-Score score. Based on Z-Score values, companies are split into two categories: economically struggling as well as financially healthy. If the Z-Score number is 1.81 or higher, the company is thought to be financially healthy; if it is less than 1.81, the company is thought to be in financial distress. (Udin et al., 2017)

**3.8 Variable Description Measurement**

The binary coding technique was used in this research to generate the corporate governance index score (GHCGI) for non-financial firms listed at Ghana stock exchange GHSX.

The ordinal or binary coding approaches are used to grade the indices (Beattie et al., 2004). The ordinal coding scheme's CG restrictions on disclosure quality are something the researcher is curious to understand more about. Weight is assigned to each "provision" in this strategy with the help of experts (Beattie et al., 2004, Hassan and Marston, 2019). For this reason, firms that do not reveal CG information are assigned a value of 0; firms that do so are assigned a value of 1; firms that do so are awarded a value of 2; and firms that do so disclose both qualitative and quantitative information about any CG offering are assigned a value of 2. Researchers are allowed to choose how they want to assign weights to the outcomes of CG provisions because there is no rule for doing so with this kind of pattern (Tariq and Abbas, 2013). For the second scheme, the firm will be given a 1 if it shares information about any CG provision, and a 0 if it does not. This approach is also known as the unweighted approach. In accordance with Khan (2016), the GHCGI is created by taking into account 70 provisions using five sub-indices that are scaled between 0 and 1. If the CG provision was published in the annual report, it was given the number 1, otherwise. For the reasons listed below, binary coding is preferred. The coding system cannot be chosen based on any theoretical recommendations, to start. Because there is no personal bias involved, a binary coding scheme was chosen for this study, because it is more reliable.

**Table 3.2 Variables of the Study and their Measurement**

| **Variable names** | **Measurement** |
|---|---|
| **Dependent Variable** | |
| Financial Distress | $Z - \mathrm{Score}_{it} = 1.2\,\frac{\text{Net working Capital}}{\text{Total Assets}} + 1.4\,\frac{\text{Retaining Earnings}}{\text{Total Assets}} + 3.3\,\frac{\text{EBIT}}{\text{Total Assets}} + 0.6\,\frac{\text{Block Value Equity}}{\text{Block Value Debt}} + 1.0\,\frac{\text{Sales}}{\text{Total Assets}}$ |
| **Independent Variables** | |
| Institutional Ownership (INO) | Shares owned by Institutions<br>Total No. of Shares Outstanding |
| Foreign ownership | Foreign ownership<br>Total No. of Shares Outstanding |

| | |
|---|---|
| Block holder ownership | Block holder ownership<br>Total No. of Shares Outstanding |
| Board size (BS) | Total number of members or directors on the company's board |
| CEO Duality (CD) | A Dummy variable (1,0) 1 if the CEO is also the chairman of the board, otherwise 0. |
| **Control Variables** | |
| Firm's Size (FS) | Natural Log of Total Assets |
| Firm growth | Current year sale minus previous year sale<br>Previous year sale |
| Leverage (Lev) = | = Total Debts \Total Assets |

### 3.9 Chapter Summary

The present research investigates how the Global Human Capital Governance Index (GHCGI) affects corporate financial distress (Khurshid et al., 2019). The panel data regression framework is the estimate method used to evaluate our theory. For the periods in time, like annually in our research, the panel data resembles a pooled time series of cross-sectional measures of N enterprises. To account for unobserved variation and homogeneity of volatility in the data, we used the panel data estimation approach. Panel data also provides "more acceptable data, bring a lot of advantages, less mutual dependence among parameters, increased degrees of freedom, and more performance" (Gujarati, 2009) by merging time series of cross-sectional observations. To forecast objective outcomes, this research employed panel analysis of information, a fixed effect model, and both a randomised effect model. Contrary to the random effect model, which contends that intercepts are chosen arbitrarily and are not fixed with respect to every longitudinal section, the fixed effect model believes that slopes stay constant but that intersections fluctuate with time and cross section. The Hausman test (Hausman, 1978) was used in the research in order to preserve the outcomes of the fixed effects and random impact models.

# CHAPTER FOUR

# RESULTS AND DISCUSSION

## 4.1 Introduction

In this chapter, the study provides detailed discussions on the empirical results of the study. Firstly, this section will analyze the summary of descriptive statistics of all the variables employed in the study. Secondly, the impact of corporate governance on financial distress in listed companies will be analyzed using regression analysis.

## 4.2 Descriptive Statistics

Descriptive statistics uses statistical, numerical, and graphical tools to look for patterns in a data set. It often summarizes information from a data collection by disclosing the average indicators of the variables used in the study and offers that information in an easy-to-understand format (Gujarati, 2003). The descriptive statistics for the variables of interest are shown in table 4

**Table 4.1 Descriptive Statistics**

| Variable | Observation | Mean | Standard Deviation | Minimum | Maximum |
|---|---|---|---|---|---|
| ZSCORE | 323 | 1.558 | 4.772 | -11.061 | 9.610 |
| GHCGI | 324 | 0.256 | .668 | -.274 | 5.012 |
| FAOWN | 330 | 2.107 | 2.284 | -5.810 | 7.013 |
| BS | 330 | 0.667 | 2.844 | 4.901 | 7.201 |
| BOWN | 330 | 4.511 | 3.119 | 9.010 | 5.410 |
| INSOWN | 330 | 1.174 | 4.309 | 4.571 | 8.912 |
| CDU | 330 | 1.599 | 4.729 | -11.061 | 9.106 |
| GHT | 330 | 1.299 | 3.748 | 10.109 | 280.9 |
| LEV | 330 | 0.768 | 5.701 | -13.741 | 9.106 |

Source: Authors Computation (2023)

From the descriptive table, the study has 330 maximum observations containing the means, standard deviation, minimum and maximum. Also, the above table shows the average of each of the variables under the study using data from the 26 non-financial companies listed in the Ghana stock exchange from 2015 to 2021. The variables of the study comprise of the Institutional Ownership (INSOWN), Ghana Corporate Governance Index (GHCGI), Family Ownership Structure (FAOWN), Board Size (BS), CEO Duality (CDU), Firm Growth (GHT) and Leverage (LEV).

From the findings of the descriptive analysis, it could be observed that the mean value of Z-Score (financial distress) is 1.558, which indicates that mean value lies between -11.061 and 9.610. whereas with a standard deviation of 4.772 may be due to differences in firm size within the non- financial companies listed on Ghana stock exchange. The average of the Ghana corporate governance index (GHCGI) is 0.256 which lies between the ranges -0.274 to 5.012 with mean 0.256and standard deviation of 0.668. This indication of lower Ghana corporate governance index (GHCGI) shows that corporate governance levels are inefficiently practices in most of non-financial companies listed on the Ghana stock exchanges. The average value of family ownership is 2.107 which lies between the range -5.810 and 7.013 with standard deviation 2.284, which shows that most non-financial companies on the Ghana stock exchange are owner by family members and investors in that sections are more interested to run businesses based on family ownership. The average value of institutional ownership is 1.174. The minimum institutional ownership is 4.571 in small firm and 8.912 in the large companies. Which indicates that most businesses ownership are owned by institutions and that serve as a good indications of carrying businesses in long runs. The mean value of block holders ownership is 0.511, which lesser than institutional ownership. The greatest value block ownership is 5.410 prevailing in the country with 3.119 standard deviation, by implication investors do not trust most non-financial companies listed on the Ghana stock exchange and are more conscious to invest large amounts in the Ghanaian non -financial companies. Also, the mean value of foreign ownership is 2.107which lies between -

5.801(minimum value) and 7.411 (maximum value), which shows that the consideration of foreigners in Ghanaian non-financial companies is much lower.

Furthermore, the mean value of the board size is 0.667 which lies from 4.901 to7.201, with an average value of CEO Duality is 1.599 which lies between -11.061 to 9.106 with 4.729 standard deviation, which shows, that most of the non-financial companies listed on the Ghana stock exchange are run and managed by directors different from chairpersons.

**Table 4.2 Correlation Matrix**

| Variables | (1) | (2) | (3) | (4) | (5) | (6) | (7) | (8) | (9) |
|---|---|---|---|---|---|---|---|---|---|
| (1) ZSCORE | 1.000 | | | | | | | | |
| (2) GHCGI | 0.129 | 1.000 | | | | | | | |
| (3) FAOWN | 0.070 | -0.030 | 1.000 | | | | | | |
| (4) BS | -0.020 | -0.053 | 0.241 | 1.000 | | | | | |
| (5) BOWN | 0.004 | -0.137 | 0.244 | 0.821 | 1.000 | | | | |
| (6) INSOWN | 0.001 | 0.179 | 0.196 | -0.038 | -0.073 | 1.000 | | | |
| (7) CDU | 0.641 | 0.165 | 0.134 | 0.164 | 0.135 | -0.095 | 1.000 | | |
| (8) GHT | -0.173 | -0.079 | 0.021 | 0.057 | 0.095 | -0.040 | -0.110 | 1.000 | |
| (9) LEV | 0.736 | 0.163 | 0.187 | 0.187 | 0.192 | 0.014 | 0.850 | -0.171 | 1.000 |

Source: Authors Computation (2023)

The table 4.2 reports the results of the correlation matrix of the factors. The correlation matrix is a statistical tool that shows the tendency of fluctuation among the two or more variables understudy. . The higher tendency of the correlation coefficient is between CEO Duality( CDU ) and leverage (LEV) and lower tendency of the correlation coefficient is between family ownership is -0.020, block holders (BOWN) is 0.004, institutional ownership (INSOWN) is 0.001, CEO Duality (CDU) is 0.641, firm growth (GHT) is -0.173 and leverage(LEV ) is 0.736.. The result shows high correlation between the variables and therefore solves the problem of multicollinearity problems. This suggests that there is a significant correlation between the explanatory variables and the dependent variables.

**4.3 Regression Analysis**

Regression analysis is use to estimate or explain a response variable for a certain value of a factor value (Freund, 2006). Regression Analysis was run on Corporate Governance Index (GHCGI), Family Ownership Structure (FAOWN), Block holder ownership structure (BOWN), CEO Duality (CDU), Firm Growth (GHT) and Leverage (LEV). The negative coefficients imply that change in any of the independent variables (Ghana Stock Exchange Corporate Governance Index, Family Ownership Structure, Block holder ownership structure, and Firm Growth Leverage) will lead to a decline in the Financial distress (Z-score). Whiles a change in Board Size, Institutional Ownership Structure, CEO Duality and Leverage will lead to an increase in the financial distress (Z-score) of the firm. Management, the group in charge of managing the company's administrative activities, must be skilled at figuring out if the company is facing a financial crisis or is in a solid financial state. According to Bringham and Daves (2003), financial hardship happens when a company is unable to make obligations on time or when projections of cash flows indicate that the corporation will soon be unable to meet its obligations. This happens before the company experiences insolvency or collapse. The company may experience financial difficulty as a consequence of internal and external (internal) issues.

**Table 4.3: The Impact of Corporate Governance on Financial Distress of Firm**

| ZSCORE | Pool results | Fixed Effect | Random Effects |
|---|---|---|---|
| BS | 1.20*** (.011) | 1.20*** (.011) | 1.20*** (.011) |
| INSOWN | 2.03*** (.014) | 2.03*** (.014) | 2.03*** (.014) |
| GHCGI | -.02 (.934) | -.02 (.934) | -.02 (.934) |
| FAOWN | -.135***(0.61) | -.135***(0.61) | -.135***(0.61) |

| | | | |
|---|---|---|---|
| BOWN | -.162**(.09) | -.162**(.09) | -.162**(.09) |
| CDU | .091**(.195) | .091**(.195) | .091**(.195) |
| GHT | -.066*** (.123) | -.066*** (.123) | -.066*** (.123) |
| LEV | .472 (.124) | .472 (.124) | .472 (.124) |
| Constant | 1.35 (.318) | 1.35 (.318) | 1.35 (.318) |

Source: Authors Computation (2023)

### 4. 4 Analysing the Impact of Regression on the Variables

#### 4.4.1 Impact of Corporate Governance Index on Financial Distress of Firms

From the table 4.3, the researcher observed that there is significant impact of corporate governance issues on financial distress (z score), which means that for every 1% change in corporate governance issues in non -financial companies on the Ghana stock exchange, changes their financial distress (Zscore) by reducing it by 2%, which may deduce that good corporate governance practices help as an agent to reduce high risk of financial distress values. Most researchers, has indicated the great significance of good corporate governance on financial performance (Balasubramanian et al…, 2010). Recent studies prove that family ownership has a high significant impact on financial distress; because research shows that family member will do all it takes to prove the interest than going for bankruptcy. Family members try to promote strong and good corporate governance practices in business decisions making to reduce their financial distress. The coefficient of block holders ownership is -.162, which implies that every 1% increase block holder‘s ownership would risk of financial distress. On the basis that block holders will like to promote their interest and influence business decision to promote their wealth. There is also significant positive relationship between institutional ownership and Zscore model.

#### 4.4.2 Effect of Institutional Ownership Structure on Financial Distress Of Firms

From the table 4.3 above shows the relationship between Institutional Ownership (INSOWN) and financial distress (FD) of listed companies. The study indicate a positive association between financial distress (Z-score ) and institutional ownership. The both random and fixed effect shows that for every 1% increase in institution ownership would help to reduce the risk of financial distress by 20.3% .This implies that institutional investors may play active monitoring role on the managerial decision making to keep companies from financial distress. This is in line with Udin et..al (2017).

**4.4.4 Relationship between Firm Size And Financial Distress Of Firms**

Among the control variable firm growth and firm size are positive association with financial distress. The leverage of the firm has a strong implication on financial distress as 1% increase and leverage will shows 4% reduction in financial distress. This is back by home and macrhowiz (2005) state that, the larger the leverage the larger the financial distress of the company.

**4.4.5 Impact of Board size on financial distress on firms.**

From the table 4.3, the researcher observed that in term of the relationship between board size and financial distress. The fixed and random effect shows positive relationship as well as the CEO Duality all show positive relationship. Furthermore, the study also reveals that the board size and the CEO Duality may have a great influence on financial distress, for example if the company has a large board size it will incur cost in its operation hence increasing financial distress. The position of the chairman and the managing director could be handle but that may come will cost hence increasing financial distress. Most non-financial companies have their chairman different from their CEO.

# CHAPTER FIVE

# SUMMARY OF FINDINGS, CONCLUSION AND RECOMMENDATION

## 5.1 Introduction

The study aimed to examine the impact of corporate governance on financial distress in listed companies. The specific aims of the study were to identify the effect of institutional ownership structure on financial distress of firms, impact of Ghana Stock exchange corporate governance index on financial distress of firms, examine the relationship between firm size and financial distress of firms and to determine the impact of Board size on financial distress of firms.

## 5.2 Summary of Findings

The study objective was to identify the impact of corporate governance on financial distress in listed companies in Ghana. The study showed that the negative coefficients implied that change in any of the independent variables (Ghana Stock Exchange Corporate Governance Index, Family Ownership Structure, Block holder ownership structure, and Firm Growth Leverage) will lead to a negative change in the Financial distress. Institutional Ownership Structure, Bank size, CEO Duality and Leverage will lead to an increase in the financial distress (Z-score) of the firm. Also, the p-values showed that there is an insignificant relationship between the dependent variable Ghana Stock exchange corporate governance index, Family ownership structure, Block holder ownership structure, CEO duality, Firm Growth and Leverage with financial distress. However, there is a statistically significant relationship between the independent variables Institutional ownership structure and Board size and the dependent variable financial distress.

The findings from the study depicted that the negative coefficients imply that change in any of the independent variables (Ghana Stock Exchange Corporate Governance

Index, Family Ownership Structure, Block holder ownership structure, and Firm Growth Leverage) will lead to a decline in the Financial distress (Z-score). Whiles a change in Institutional Ownership Structure, Board size, CEO Duality and Leverage will lead to an increase in the financial distress (Z-score) of the firm. Also, the p-values showed that there is a statistically significant relationship between that Institutional ownership structure, Board size and Leverage with financial distress. Whereas Ghana Stock exchange Corporate governance index, Family ownership structure, Block holder ownership structure, CEO duality, Firm Growth and Leverage all have an insignificant relationship with financial distress.

The analysis pointed out that the negative coefficients imply that change in any of the independent variables (Ghana Stock Exchange Corporate Governance Index, Family Ownership Structure, Block holder ownership structure, and Firm Growth Leverage) will lead to a negative change in the Financial distress. Firm Size, Institutional Ownership Structure, CEO Duality and Leverage will lead to an increase in the financial distress (Z-score) of the firm. Also, the p-values showed that there is an insignificant relationship between the independent variables (Ghana Stock exchange corporate governance index, Family ownership structure, Block holder ownership structure, CEO duality, Firm Growth and Leverage) and the dependent variable financial distress. However, there is a statistically significant relationship between independent variables (Firm size, Institutional ownership structure, and Leverage) and the dependent variable financial distress (Z-score).

The analysis pointed out that the negative coefficients imply that change in any of the independent variables (Ghana Stock Exchange Corporate Governance Index, Family Ownership Structure, Block holder ownership structure, and Firm Growth Leverage) will lead to a negative change in the Financial distress. Whiles a change in Board

Size, Institutional Ownership Structure, CEO Duality and Leverage will lead to an increase in the financial distress (Z-score) of the firm. Also, the p-values showed that there is an insignificant relationship between the independent variables (Ghana Stock exchange corporate governance index, Family ownership structure, Block holder ownership structure, CEO duality, Firm Growth and Leverage) and the dependent variable financial distress. However, there is a statistically significant relationship between independent variables (Board size and Institutional ownership) and the dependent variable financial distress (Z-score).

### 5.3 Conclusion

The study aimed to assess the impact of impact of corporate governance on financial distress in listed companies. The specific objectives of the study were to identify the effect of institutional ownership structure on financial distress of firms, determine the impact of Ghana stock exchange corporate governance index on financial distress of firms, to ascertain the relationship between firm size and financial distress of firms and to determine the impact of board size on financial distress of firms. The sample size for the study comprised of the 26 existing firms in Ghana. The data was a panel data with a time series from the year 2015 to 2021. The findings showed that there is a statistically significant relationship between institutional ownership structure and financial distress of firms. Also, Ghana stock exchange corporate governance index had an insignificant relationship with financial distress. Again, it was observed that firm size had a statistically significant relationship with financial distress of the firms. Finally, it was revealed that board size had a statistically significant relationship with financial distress.

However, the findings are subjected to some limitations. Researcher believes that when more factors of corporate governance is added the results of the study may change. Also, non-financial companies are consider and the data set used is 7years (2015 to 2021), the results might be different if sample size is increase and data set is taken for longer period.

### 5.4 Recommendation

In view of the findings made and conclusions drawn, the study recommends that owners of non - financial companies should consider having relatively small board size but taking into consideration skill and experiences when appointing directors to prevent cost of their remunerations, which in the long the run reduce financial distress. Ghana stock exchange should make a policy to ensure that all non- financial companies listed on the Ghana exchange incorporate good corporate governance practices before such companies are listed on the stock exchange. This will help reduce financial distress ones those practices are being

Finally, study recommends that Ghana Stock Exchange should increase the listing requirement of companies' disclosures in good corporate governance practices to ensure high improvement and efficiency in the monitoring and controlling of the activities of the managers and the executive director's practice to reduce financial distress.

### 5.5 Suggestions for Further Research

While this study concentrated only on listed companies and non-financial companies, future research should be extended to the non-listed companies in Ghana. Future researchers should also work on the effect of board size on firm financial performance in Ghana stock exchange.

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