

**KWAME NKRUMAH UNIVERSITY OF SCIENCE AND TECHNOLOGY**

**KNUST**

**EFFECT OF CORPORATE GOVERNANCE AND FINANCIAL REPORTING  
QUALITY ON FINANCIAL PERFORMANCE OF LISTED FIRMS IN GHANA**

**BY CORBI SELORM AGBOLOSU**

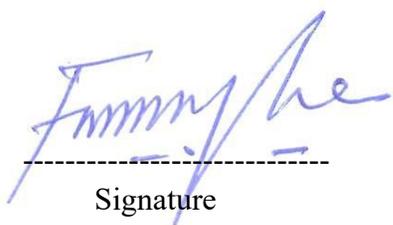
A THESIS SUBMITTED TO THE DEPARTMENT OF ACCOUNTING AND FINANCE,  
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IN PARTIAL FULFILMENT OF THE REQUIREMENTS FOR THE AWARD OF THE  
DEGREE OF

**MASTER OF SCIENCE ACCOUNTING AND FINANCE**

**NOVEMBER, 2023  
DECLARATION**

I, Corbi Selorm Agbolosu, hereby declare that this work presented herein is original work done by me and has not been published or submitted elsewhere for the requirement of a degree programme

at Kwame Nkrumah University of Science And Technology, Kumasi or any other educational institution. Any literature date or work done by other and cited within this thesis has been given due acknowledgement and listed in the reference section.

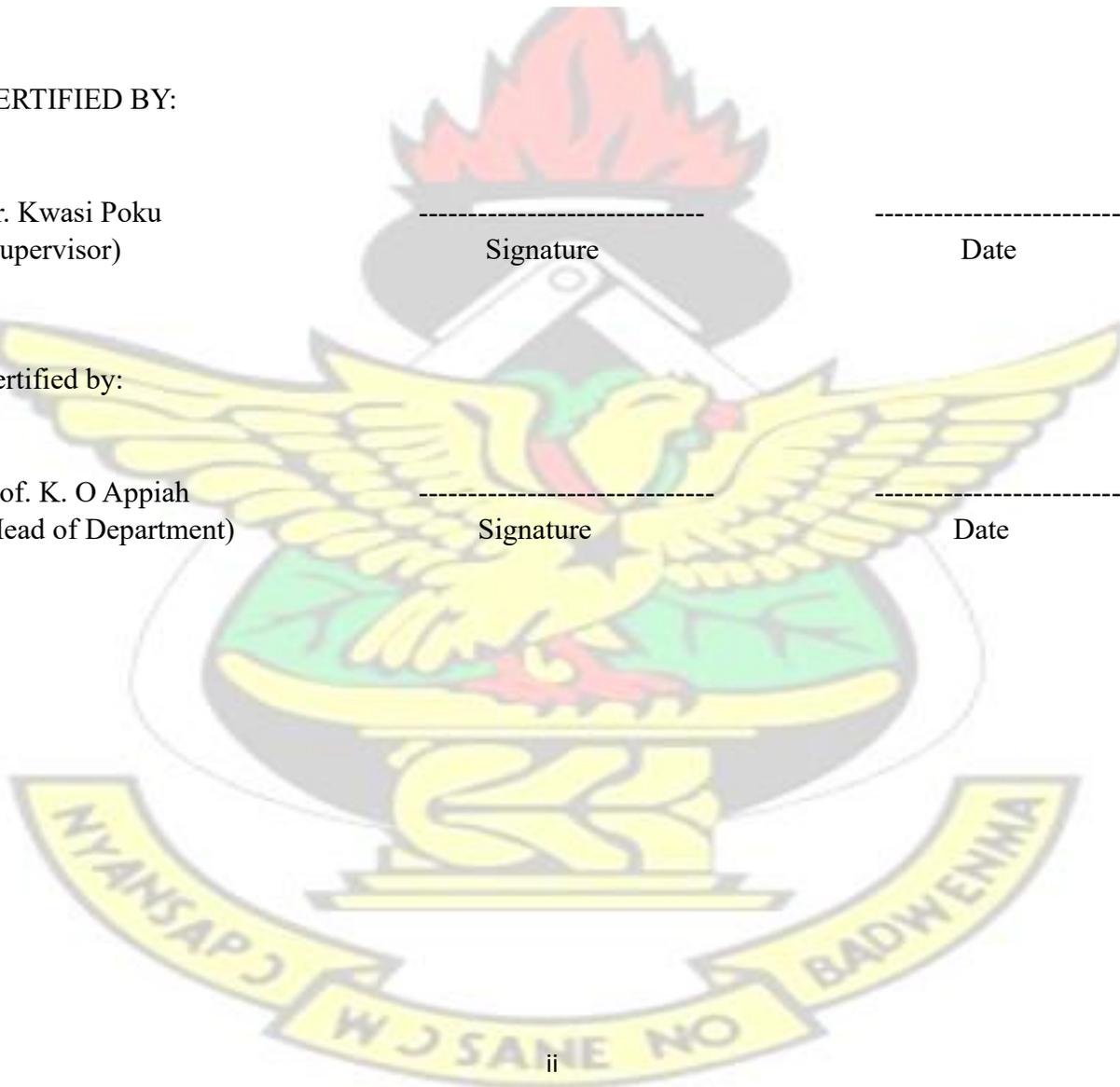
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ii  
**DEDICATION**

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*To Father, Mother, my loving wife and Children*



## ACKNOWLEDGEMENT

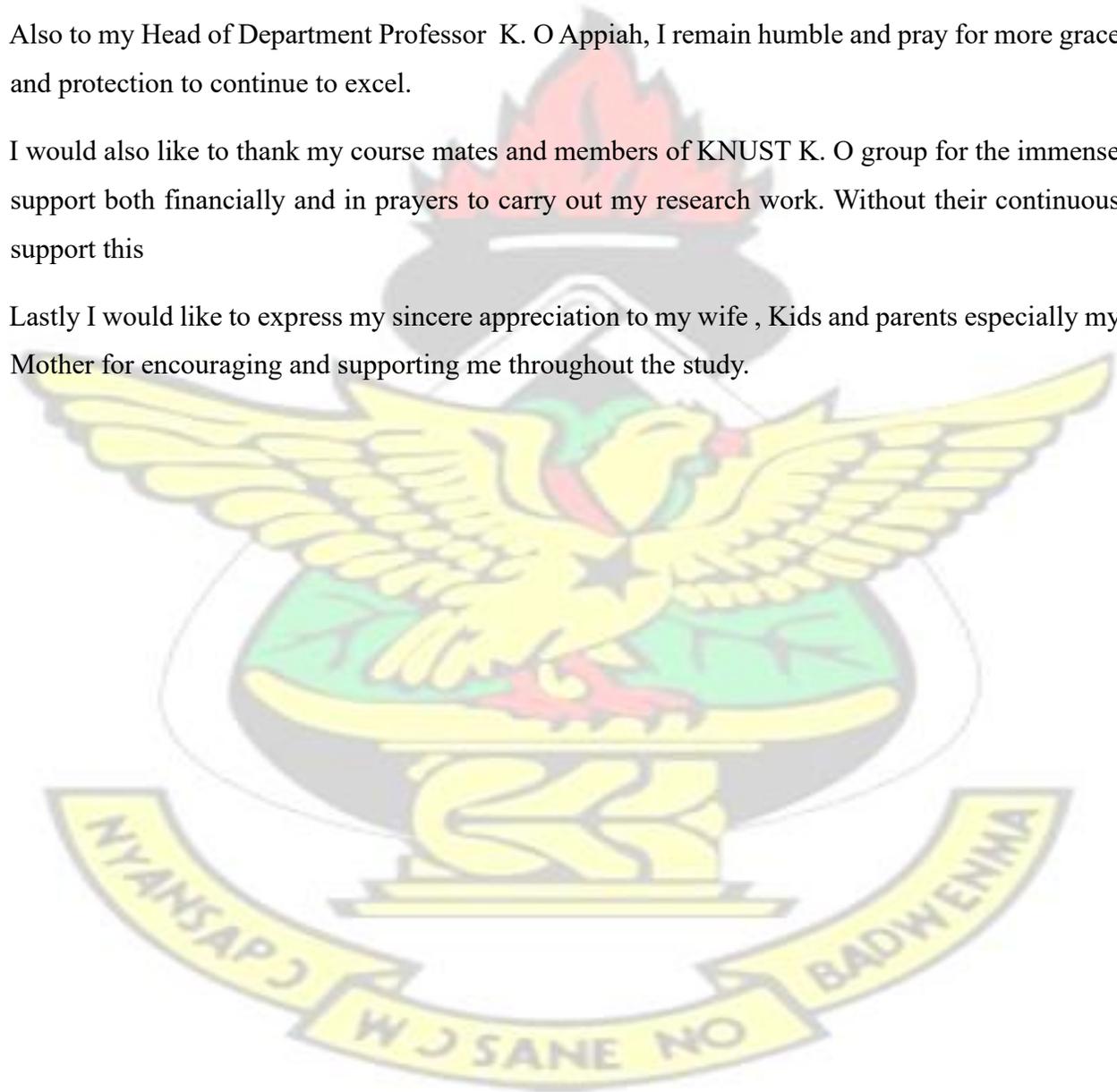
I am grateful to the Supreme Being by whose love, care and favour that I made it this far. His grace never stops flowing my route.

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## ABSTRACT

The study aimed to investigate the impact of corporate governance and financial reporting quality on the financial performance of publicly listed firms in Ghana. Utilizing a quantitative approach and panel data analysis, the study examined secondary data from the annual financial reports of 10 selected firms listed on the Ghana Stock Exchange between 2010 and 2021. The research design employed explanatory methods, with random effect regression models and robustness tests conducted using a dynamic model. The findings of the study reveal several significant relationships. Firstly, a positive association was found between board size and financial performance, indicating that larger boards are linked to improved financial outcomes for listed companies in Ghana. This finding aligns with the theoretical framework of agency theory, highlighting the benefits of diverse skills, expertise, and perspectives within larger boards. Secondly, the study demonstrates a positive impact of board independence on financial performance. A higher proportion of independent directors was found to be associated with better financial results. This supports the notion that independent directors contribute to transparency, accountability, and effective decision-making within organizations, promoting sustainable financial performance. Thirdly, the study identifies a positive relationship between audit committee size and financial performance. Companies with larger audit committees tend to achieve better financial outcomes, emphasizing the significance of effective oversight and monitoring in corporate governance practices. Furthermore, the findings highlight the positive relationship between financial reporting quality and financial performance. Companies with higher financial reporting quality exhibited better financial performance, indicating the importance of reliable and transparent financial reporting in enhancing market efficiency and reducing agency conflicts. The study's findings have implications for policymakers, regulators, and practitioners in Ghana. Policymakers can use the results to inform the development and implementation of corporate governance regulations and guidelines. Encouraging companies to have larger boards with diverse expertise and independent directors can contribute to improved financial performance. Similarly, promoting high-quality financial reporting practices and emphasizing the importance of well-sized audit committees can enhance transparency, accountability, and decision-making within organizations.



## CHAPTER ONE

### INTRODUCTION

#### 1.0 Background to the Study

Investors have an increased interest in measuring and monitoring a company's financial performance indicators in today's highly dynamic, competitive, and energetic corporate environment.

External stakeholders including investors, government, and others must evaluate an organization's success. This evaluates the company's success, identifies weaknesses, compares present and past performance, and compares recent performance to industry norms. A company is productive and efficient if it can satisfy all stakeholders (Bridoux and Vishwanathan, 2018). Managers care about their own well-being and profit maximisation, current and potential shareholders care about the company's ability to distribute dividends, commercial partners care about the company's solvency and stability, and the state cares about the company's tax efficiency and job creation. Organisations' corporate governance and financial success depend on their ability to satisfy stakeholders (Puangyanee, 2018; Akuffo, 2020; Dimitropoulos, 2022).

After the banking sector crisis, Ghanaians are worried about financial performance (Gyamerah et al., 2020). If the firm can function with set earnings, performance may improve. Profits allow the firm to pay dividends, grow, and survive. According to Wijaya (2021), a company's financial success is measured by how effectively it follows financial implementation rules in its commercial operations. Profit margins, daily sales growth, capital utilisation, financial resources, and year-end financial reports might indicate a company's financial health (Dutta and Nezlobin, 2017). This data may affect a company's performance and dividend payments (Osadchy et al.,

2018). Financial performance affects a company's viability since it shows management's capital utilisation and boosts the economy (Rahman and Subagio, 2021). A company's financial success influences its capacity to pay bills, profit, and grow. Every competitive business needs profitability and liquidity. When a corporation struggles to earn a profit and pay its obligations, it slows down and collapses.

After a company crisis affects public and investor faith in stock markets, effective corporate governance procedures assure good financial performance. Better corporate governance was demanded after the global financial failures of Arthur Anderson and Parmalat in 2001, Lehman Brothers in September 2008, WorldCom in July 2006, Enron in November 2001, Qintex in 1989, and HIH Insurance in Australia in 2008. The 1997 Asian Financial Crisis, caused by the currency exchange rate collapse and hot money bubble, enhanced corporate visibility. Banks in South Africa (Saambou) and (Fidentia) failed in 2002 and 2007 respectively; in the United States (Chase Bank nearly failed in April 2016; Midland Energy Limited nearly failed in 2018); in Kenya (United Bank (Kenya); Dubai Bank Kenya Limited failed in August 2015; and in Nigeria (NITEL and African Express Bank Ltd failed in 2006) due to poor corporate governance, illiquidity, and financial performance. Krishnan and Gao (2022) list several causes of corporate entity failures. Poor governance, industry competitiveness, technology advances, and government restraints cause corporate failure.

Corporate governance should maximise resource use, capital availability, and investor trust to secure shareholders' wealth (Appiah-Kubi et al., 2020). For two decades, investors, scholars, government officials, and politicians have been interested with corporate governance. Corporate governance may improve financial performance, however some blame banking institutions' corporate governance problems for the 2008 global financial crisis (Ullah et al., 2019). Corporate

governance is essential to financial success. In normal economic circumstances, corporations that successfully oversee managers and align their interests with shareholders should increase financial performance, according to Afrifa and Tauringana (2017). Typical economic scenarios like industry-wide financial crises have questioned such assumptions (OECD, 2021).

A nation's constitution, law, and regulations may define excellent corporate governance.

Corporate governance is increasing rapidly. The world wants greater corporate governance. The OECD encourages global corporate governance. Understanding that developed and emerging economies have different corporate governance frameworks is vital. Sarhan et al. (2019) think African business laws, SEC, and stock exchange admission rules, regulations, and guidelines impact corporate governance regionally. The fledgling Ghanaian market economy struggles. Recent business failures, notably in the banking sector, and globalization's long-term repercussions as the local economy combines with the global economy have caused corporate governance concerns in Ghana. U.T. and Capital Banks lost their Bank of Ghana licences that year. Poor corporate governance caused this, according Osei et al. (2019). Non-executive members with close ties to promoters and executives, a tiny board size, and a CEO who serves in multiple roles raise red flags.

Alternative, financial reporting quality may impact dividend policy via three routes. The extent to which financial reporting gives relevant information about a company's basic economics is its quality. First, it may affect dividends by solving free cash flow. Managers are known to scrimp on dividends to support value-degrading projects that benefit themselves (Koo and Kim, 2019). Financial reporting may improve this problem by boosting transparency of value-destroying initiatives and shareholders' capacity to engage with and monitor management (Biddle et al., 2009).

Corporate governance and financial reporting quality affect several organisational outcomes, which have been widely examined. Managers may not work hard, enjoy privileges, and make decisions based on their preferences rather than the company's best interests if ownership and control are separated, resulting in poor financial performance and firm value. The social, economic, and legal systems of each country affect how corporate governance and capital structure affect financial performance. Industries have variable returns due to market volatility, competition, and risk intensity (Alawattagama, 2018). To survive, all organisations should aim towards financial excellence. Evidence linking corporate governance and the quality of financial reporting to business performance is mixed. Furthermore, corporate governance and the quality of financial reporting impact various sectors in unique ways. This research explores how corporate governance and financial reporting affect GSE-listed companies' success.

### **1.1 Problem Statement**

A company's value and financial success rely on several aspects, including excellent corporate governance and accurate financial reporting. Ghana Stock Exchange (GSE) companies have poor financial performance measures, according to recent experiences (Attom and Hamza, 2021). The GSE delisted several companies. Corporate governance, capital structure, and financial performance vary by industry.

Poor corporate governance has led to financial problems and the failure of some Ghanaian companies (Akomea-Frimpong, 2022; Damoah et al., 2022). More importantly, most Ghanaian enterprises fail due to a shortage of capital (Akomeah et al., 2018; Kong, 2019; Horsfall, 2022). According to Mustapha and Lai (2017), companies' economic uncertainty, competition, and risk concentration impact risk and return, affecting financial performance by sector.

The effects of corporate governance and financial reporting quality on firm financial performance vary by industry type (Tshipa et al., 2018; Sibarani and Lusmeida, 2021; Zimmerman and Stone (2018)). Because most of this research was done in wealthy countries, contextual influences may alter outcomes. As a result, generalisations about the strength of the connection between corporate governance, financial reporting quality, and financial performance cannot be made from the findings of these studies; more research is always needed in a variety of settings to better understand the interplay of these factors and their effects. There hasn't been any study of the connection between good corporate governance, accurate financial reporting, and company success. Thus, the study analysed Ghanaian-listed corporations' corporate governance, financial reporting, and performance.

### **1.2 Research Objectives**

This study aims to examine the impact of corporate governance, and financial reporting quality on the financial performance of Ghanaian publicly listed firms. The study would focus on the following objectives in particular:

- i. „To examine the relationship between board size and financial performance of listed companies in Ghana“.
- ii. „To assess the impact of board independence on the financial performance of listed companies in Ghana“.
- iii. „To examine the relationship between audit committee size and financial performance“.
- iv. „To assess the relationship between financial reporting quality and financial performance among the listed companies in Ghana“.

### **1.3 Research Questions**

The following research questions are necessary to solve the research problem described above:

- i. „What is the relationship between board size and the financial performance of listed companies in Ghana?“
- ii. „What is the impact of board independence on the financial performance of listed companies in Ghana?“
- iii. „What is the relationship between audit committee size and financial performance?“ iv.  
„What is the relationship between financial reporting quality and financial performance among the listed companies in Ghana?“

#### **1.4 Significance of the Study**

This inquiry is needed since there is little data on how corporate governance impacts Ghana Stock Exchange-listed firms' financial performance. The study's findings may help academics and business executives researching Ghana Stock Exchange-listed companies' corporate governance and financial reporting.

This study may assist regulators evaluate publicly traded companies and provide advice. Financial performance and financial reporting quality are examined. This may increase firm survival and failures. This study may help other companies make sensible financial choices. Research helps finance executives build financing plans. Because the study's findings will assist them plan and control financial activity for organisations. It will educate investors on the connection between good corporate governance and accurate financial reporting and the bottom line. By offering a framework for future researchers, this study contributes to the body of knowledge on corporate governance, financial reporting quality, and financial performance.

### **1.5 Scope of the Study**

The research focuses on how company governance and financial reporting quality affect financial success. The research also examined all GSE-listed firms from 2015 through 2022. This analysis used secondary data from GSE-listed firms, corporate governance guidelines, SEC statutes, and GSE regulations. Thus, the study's usefulness rests only on the secondary data source's correctness, dependability, and quality.

### **1.6 Summary of Methodology**

This study used an explanatory research strategy to achieve its goals. Due to time and resource constraints, this analysis included 10 GSE-listed enterprises from 2010 to 2021. The sample was chosen via judgemental sampling, or purposive sampling. The target population's units' ability to easily obtain relevant data determined this sampling method. All variables for this research came from the chosen businesses' financial reports. This analysis uses panel data from 2010 to 2021.

### **1.7 Organisation of the Study**

Research follows this framework. The first chapter outlines the study's background, problem statement, goals, hypotheses, significance, and scope. Second chapter literature review comprises conceptual framework, theories, empirical research, capital structure, industry type, and business financial performance. The third chapter addresses research methods. Fourth chapter covers analytical and empirical outcomes. Fifth chapter concludes findings and recommendations.

## CHAPTER TWO

### LITERATURE REVIEW

#### 2.0 Introduction

This chapter discusses important research. Conceptual framework, theoretical review, and empirical review comprise it. The theoretical review evaluates relevant theories. The empirical review reviewed previous research that is relevant to this topic. Last, the conceptual framework showed how the research variables and objectives were examined.

#### 2.1 Conceptual Review

##### 2.1.1 Corporate Governance

Mensah and Adams (2014), Jensen and Meckling (1976), OECD (2004), and Aboakye-Otchere (2012) describe corporate governance. Mensah and Adams (2014) describe it as managing corporate activities to enhance stakeholder value and organisational goals. OECD (2004) describes the notion as a web of interdependencies between a company's leadership, board, shareholders, and other interested parties. CG includes how a business is managed and regulated to serve all of its stakeholders, according to the OECD.

Aboakye-Otchere et al. (2012) say CG practises increase a company's accountability and avert major disasters. Aboakye-Otchere et al. (2012) confirm Willis's (2005) goal of CG, which is to promote ethics, compliance with rules, efficiency, effectiveness, and the avoidance of failures and disasters.

Corporate governance involves particular and broad concepts (Scherer and Voegtlin, 2020; Solomon, 2020). Chan and Kogan (2016) state that shareholders, directors, management, auditors, and others operate under corporate governance constraints. The fundamental problem is how the company maintains honesty and transparency for capital allocation, market trust, and corporate

growth (Callahan and Soileau, 2017). To properly distribute company resources, examine specific and broad principles (Chan and Kogan, 2016).

All of the above possibilities contain the possibility for conflict between management and shareholders, or between corporate insiders and external stakeholders when kept separate. Corporate governance works when the board, management, investors, auditors, and employees work together. Ortega(2021) states that all corporate governance definitions focus on financial gain for the organisation and its shareholders. Ortega (2021) links corporate governance to financial success and excellent financial reporting.

### **Corporate Governance Principles:**

There are five different parts to the OECD Principles of Corporate Governance:

1. The rights of shareholders: The framework for corporate governance needs to ensure the protection of shareholder rights.
2. The handling of shareholders fairly: Investors of all types should be treated properly within the corporate governance structure, including minorities and overseas investors. Shareholders should have access to legal recourse in the event of a violation of their rights.
3. The role of interested parties: To ensure that firms and their stakeholders work together to generate economic growth, stable employment opportunities, and long-term financial viability, the law protects the rights of stakeholders, and that is why they must be given proper consideration within the corporate governance structure.
4. Transparency and openness: Every significant fact about the company, such as its finances, performance, ownership, and management, should be made public promptly and accurately, and this should be guaranteed by the corporate governance system in place at the organisation..

5. It is the board's responsibility under corporate law to set the company's long-term strategic course, to keep a close eye on how the firm is run, and to answer to the company's shareholders.

### **Corporate Governance Mechanisms:**

#### **Board Composition:**

The efficacy of the board's oversight and the company's overall direction are affected by the board's makeup (Naciti, 2019; Castellanos and George, 2020). According to Pfeffer (2019), corporate governance describes the role, composition, and responsibilities of a company's board of directors (BoD) in relation to a variety of organisational structures. By providing strategic direction and aiding in decision-making, the Board of Directors safeguards the interests of stakeholders (Baysinger & Butler, 2019). The Board of Directors is responsible for establishing policies and procedures for the company's management.

Since financial performance is of greatest concern to stakeholders, it has been the focus of most research on boards of directors and corporate governance (Torchia and Calabro, 2016). BoD interlocks boost performance in low-resource environments, according to research by Zona et al. (2018). Weisbach (1988) demonstrates how outside directors keep an eye on top brass. Terjesen et al. (2015) discovered that boards with more women on them had higher Tobin's Q and ROA. Brown and Caylor (2006) investigated the relationship between seven aspects of corporate governance and the prosperity of businesses. The academic literature is in agreement that the makeup of a company's board of directors (BoD) affects the company's bottom line (Duru et al., 2016).

#### **Audit Committee**

The Audit Committee serves as the formal liaison between the Board of Directors, the internal control system, and the external auditor (Puni and Anlesinya, 2020). With the goal of safeguarding investors and the general public, the Audit Committee "provides oversight functions of the

management concerning auditing, financial reporting, internal control, and risk management in organisations" (Bananuka et al., 2018). Financial reporting and regulatory methods are kept up to date, and information asymmetry is decreased (Mohammadi, Saeid, & Naghshbandi, 2021).

It has been shown that an Audit Committee with a larger number of independent directors, many of whom have experience in finance or accounting, performs better (Amon and Appiah, 2017; Solimene et al., 2017). Capital market players may benefit from audits and the monitoring of financial reports (Lin, 2018). The committee also assesses the performance of the internal auditor and monitors the administration's compliance with the audit's recommendations. Swain, A., & Alzeban, M. (2015).

### **Ownership Structure**

Having a given number of shares in a corporation gives the holder of those shares various privileges and responsibilities inside that firm, as stated by Demsetz and Villalonga (2001). There must be at least one shareholder who owns and controls a sizable percentage of the company's shares for ownership concentration to exist.

A government, a foundation, an institution, another firm, a foreign investor, or even a family might be the company's majority shareholder. The primary shareholders of a company play a crucial role in the operations of the business by overseeing and approving management's decisions. The marginal cost of monitoring might vary greatly from one stakeholder to the next. The more one's stake in the company, the more input one has in management choices. (Rubin, 2007).

#### **2.1.2 Financial Reporting Quality**

The term "corporate financial reporting" is used to describe the process of voluntarily or mandatorily disseminating quantitative or qualitative data about a company's financial situation

(Mahdi Sahi et al., 2022). Hassan and Marston (2019) state that companies disseminate their financial data to the public via channels such as their websites, news releases, interim reports, seminars, and reports. To effectively communicate with outside investors and market participants, management must make financial information publicly available, which benefits both the organisation and its stakeholders.

Many studies, including (Gandolph, 2022), (Johnson and Chidi, 2021), (Saleh et al., 2022), and (Perera, Chand, and Mala, 2020), have shown that a variety of variables influence the quality of financial reporting. The operations of the organisation, the accounting rules used, and the quality of the decisions made all have a role. To paraphrase Martinez-Ferrero (2014), "financial reporting quality" refers to the reliability of the data provided by the financial reporting framework. Financial statements may be classified by their "financial reporting quality," as defined by Rathnayake, Rajapakse, and Lasantha (2019). The Financial Accounting Standards Board and the International Accounting Standards Board produced the Conceptual Framework for Financial Reporting, which outlines several aspects of advanced financial reporting that are universally recognised. High-quality financial reporting may be identified by its practicality, precision, clarity, consistency, and punctuality.

There is a distinction to be made between the core qualitative features and those that serve to enhance them. Each of these expressions is given a theoretical justification, elaborating on their relevance as qualitative qualities and outlining which characteristics are considered fundamental according to various frameworks.

### **Features of Financial Reporting Quality:**

#### **Relevance:**

Relevance may be thought of as synonymous with both usefulness and significance. A user's ability to develop opinions is reflected in how relevant a given piece of data is to them. Unfortunately, data from financial reports has the property of becoming relevant when it has the potential to influence consumers' economic actions. It's also helpful when users may utilise the data to assess, modify, and verify past and current occurrences. According to the idea (Cheung et al., 2010), the importance of making a decision stems from its practical significance. Fair value is one of the most important indicators of worth. Companies that publish their financials using Fair Value as their benchmark are seen as more reliable by investors (Herath & Albarqi, 2017). The amount of relevance may be gauged, in part, by looking at forward-looking data, business-related data and risks, and feedback provided by yearly reports; these reports also provide input on how key market events and large transactions impacted businesses (Herath and Albarqi, 2017).

**Reliability:**

The precision of financial reports is also significantly affected by reliability. Information lacking the quality of dependability is meaningless in the context of financial reporting. This standard is met when the content customers depend on is free of bias and material inaccuracies. The characteristics of trustworthy, verifiable, and impartial information are used to evaluate reliability (Soyinka et al., 2017). The main component of accounting information used to be reliability, which is a characteristic of financial reporting. Under the previous framework that the FASB utilised, representational fidelity, neutrality, and verifiability were the three components that made up reliability, which served as the key quality. Under the new framework, however, faithful representation takes the place of reliability as the primary and most important criterion. On top of that, completeness, neutrality, and accuracy are the three components that make up a faithful

depiction. In addition, FASB believes that dependability is one of the most important characteristics of accounting information (Azar, Zakaria, and Sulaiman, 2019).

### **Comparability:**

Comparability involves comparing and contrasting financial data to assess a company's financial health, liquidity, and performance. The word "comparability" suggests these statements may be compared. Users may compare their organisations against others operating at the same time as well as throughout time periods. For meaningful comparisons, Cheung, Evans, and Wright (2010) state that "Comparability requires that similar events in both scenarios will be recorded by identical accounting facts and figures." Accountants use a range of facts and statistics to quantify and understand event differences (Aifuwa, Embele, & Saidu, 2018). To demonstrate this, the financial statement notes should include accounting rule changes and their implications. In addition to this, the importance of being consistent in the application of accounting policies and principles should also be mentioned. In addition, the results of the present accounting period can be contrasted with the outcomes of earlier accounting periods. Last but not least, the presentation of financial index figures and ratios makes it possible to compare different firms.

### **Understandability:**

One of the most important characteristics of financial report data is its understandability. Effective communication is the key to achieving the quality of being easily understood. Thus, the quality will improve as end-user comprehension of the content improves (Cheung, Evans, and Wright, 2010). Like with many other qualitative aspects, it improves with more clarity and organisation in the presentation of data. Users can better understand their requirements with the help of well-structured annual reports (Beattie, McInnes, and Fearnley, 2004). Information is presented

effectively with the use of graphs and tables, and the terminology and technical language used is understandable.

### **Timeliness:**

Another qualitative trait that improves is timeliness. As demonstrated by the concept of timeliness, decision-makers must have access to pertinent information before its beneficial and illuminating effects are weakened. Timeliness is measured by the auditor's approval of the annual report after the fiscal year ends (Song and Zhou, 2021).

### **Faithful Representation:**

Representing and showing the genuine economic status of the provided financial data is the key idea behind this approach. Financial reporting of obligations and economic resources like transactions and occurrences depends on this idea. Furthermore, neutrality, which stands for objectivity and balance, is a subconcept of this quality. In light of the auditors' assessment, the study's authors concluded that investors could have greater trust in the annual report's depiction of economic events (Willekens, 2008). Annual reports help investors regarding corporate governance challenges (Amah and Ekwe, 2021). In addition, the annual report elucidates the company's use of accounting rules and explains its reliance on assumptions and estimations.

### **2.1.3 Financial Performance**

Definition and evaluation of performance are difficult (Taouab and Issor, 2019; Selvam et al., 2016). It is claimed that the measure used to evaluate business performance relies on the kind of firm being reviewed and the objectives to be achieved (Horsfall, 2022).

Organisational effectiveness is related to resource acquisition and managerial flexibility, which defines how much it can exploit those resources to get a market advantage (Chen and Wong, 2004).

Performance is financial or non-financial. Analysts use numbers-related criteria to assess a company's financial performance. Three categories assess firm effectiveness. First, a company's input-to-output efficiency. Second, it compares gross sales to operational expenditures to determine a company's profitability. In conclusion, the market premium shows how much a company's market worth exceeds its book value. 2001 (Walker).

The financial performance also assesses the condition of a company's finances as a whole over a certain time frame, allowing for comparison with other businesses in the same industry (Yahaya and Lamidi, 2015). The criteria for measuring quality financial reporting are that it improves an organisation's performance based on transparency, lowers the cost of preparation, increases the efficiency of investment decisions, lowers the cost of capital, increases comparability, decreases the need for further details, increases the disclosure of financial statements, and enhances measurement, recognition, understandability, reliability, and relevance. Reviewing financial accounts and computing ratios are two ways to gauge financial performance. Several accounting ratios are frequently used to evaluate corporate performance. The capacity to satisfy immediate financial commitments is indicated by liquidity ratios (Ouma, 2017). Ratios of efficiency show how well a company uses its resources. Financial leverage, often known as gearing ratios, is a measure of how long-term debt can be serviced.

A company's financial performance is a poor indicator of its ability to optimise major revenue stream returns. It shows the company's finances and choices. There are various ratios used to assess a corporation (Horsfall, 2022). Spira (2013) identified three accounting performance metrics: ROA, ROE, and ROI. Corporate efficiency is typically assessed using these. ROE has shown to be a successful technique, even if more sophisticated methods have arisen (Frykman and Tolleryd, 2012; Horsfall and Omah, 2022). It puts a premium on profits for stockholders, but this focus may

hide a number of problems. Companies may use financial engineering to mask their deteriorating fundamental performance by artificially maintaining a high return on equity. However, ROA prevents any potential distortions that might arise from using dishonest financial methods. Another popular financial performance metric is the so-called Tobin's Q ratio. The ratio is determined by subtracting the cost to replace a share from the current market price of the share.

### **Measures of Financial Performance:**

Return on Assets measures an organization's asset efficiency. A company's ROA is computed by dividing net income by total assets, including long-term investments and working capital. Cash, investments, PPE, machinery, receivables, intangibles, and other valuable assets are included.

The return on assets ratio compares a company's profitability to its total or net asset investment.

Net assets are the end result of a company's capital employed. The calculation for net assets is comprised of total assets less total liabilities, excluding loans from short-term financial institutions.

Net worth plus total debt is the same as capital employed (Pandy, 2004).

„Return on Assets (ROA) =  $\frac{\text{Net Profit} + \text{Interest (on Net Profit)}}{\text{Total Assets}}$ “.

Creditors and owners have provided the funding for the whole asset portfolio. ROI measures capital productivity. Business profitability from physical asset investment is measured by return on assets.

It examines all financial allocations without considering their origins (Pandy 1979, Nwanyanwu 2013).

Equity investment profit is measured by ROE. The most common measure for assessing owners' investment returns is return on net worth, according to Helfert (1991). To calculate the rate of return for shareholders, take the net income that was generated after taxes and divide it by the common equity. Companies' financial health is often measured by ROE. It links earnings to capital

invested by owners. It represents the idea that investors expect bigger profits with more money. Company performance is assessed using the most thorough methodology.

If all else is equal, firms with greater ROEs will have higher long-term stock values. This ratio may help managers, analysts, and creditors evaluate the company's strategy, from operations to investments to finance (Libby et al., 2001). ROE measures a company's profitability by reflecting shareholder capital. It's widely accepted as the most well-liked metric for measuring the success of businesses financially. As a ratio that bridges the gap between the income statement (net profit/loss) and the balance sheet, ROE is popular among investors. Return on equity's extensive usage and acceptance by analysts, financial managers, and shareholders may be attributed to its origins in structured financial ratio analysis, commonly known as Du Pont analysis (Mboroto, 2012).

## **2.2 Theoretical Review**

### **2.2.1 Agency Theory**

Smith (1776) proposed that non-shareholder management may not care about owners. An agency relationship is formed when a principal (the corporation) contracts another party (the agent) to act on the principal's behalf. If the principle and agent both want to maximise utility, the agent may not behave in the shareholders' best interests (Jensen and Meckling, 1976).

Berle and Means (1932) found that organisational groupings and individuals had different risk preferences and actions. For financial gain, the principle invests in a business and bears risk. However, managers (agents) enhance profits and minimise risk. Hence, there's friction between the agent and principal since they have different risk tolerances. Executives and managers whose actions encourage intrinsic drive, goal pursuit, and self-actualisation will find that their aspirations naturally line up with those of the company (Schillemans and Bjurstm, 2020).

The agency theory perspective worked well for this study. Linking to corporate governance, agency theory serves as a management check and balance (Jahja et al, 2020). The study took a step back and examined the variables from a purely objective vantage point thanks to its use of agency theory. Using agency theory, Tumbat and Grayson (2016) explored the dynamic between agents and principals. Bank performance was found to be negatively impacted by national corporate governance limits in research conducted by Feils et al. (2018) using agency theory. Cohen, Manion, and Morrison (2017) used agency theory to analyse what effect corporate governance has on small banks' performance financially. Academics also relate effective corporate governance, open financial reporting, and small bank performance. Corporate governance significantly affected bank profitability. Reporting and profitability were agency theory's main banking concerns.

### **2.2.2 Stewardship Theory**

Stewardship theory was created by Donaldson and Davis (1991) to examine corporate ownership and management. According to relational theory, stewards work together for the organization's benefit rather than their own. This approach stresses the relevance of institution success and main happiness. The agency theory separates CEO and chairman duties, but the stewardship theory merges them (Kyere and Ausloos, 2021; Wijethilake and Ekanayake, 2020). Stewardship theory states that directors should put shareholders' interests above their own to assist the firm succeed (Davis, Schoorman, and Donaldson, 1997). Stewardship theory is backed by empirical data (Martin and Butler, 2017; Tornyeva and Wereko, 2012; Almashhadani and Almashhadani, 2022).

This theory explains why stockholders of a publicly traded firm can sell their shares at any moment, and why a diversified investor may not be overly concerned with company-specific risk, but why corporate management would take on unusual risk in exchange for a sufficient return. This is because leaders of a company have too much invested in the company's continued existence for

them to just walk away from their obligations when times go tough. According to stewardship theory, when authority is transferred from shareholders to managers, the latter are better able to increase profits (Manna, Sahu, and Gupta, 2019). Due to their access to up-to-date operating information, competence in addressing various company challenges and risks, technical experience, and devotion to the firm, which indicates an intention to maximise shareholder returns, the stewardship model favours insider-dominated boards.

Using the stewardship theory, this study analyses the relationship between good corporate governance and accurate financial reporting as it relates to the financial success of publicly listed corporations. According to the premise, skilled executives owning a firm boost profitability.

Stewardship theory may also help companies gain public support by disclosing their economic and social success, which motivates management (Garcia-Lacalle and Torres, 2021). This affects the company's bottom line due to financial reporting quality.

## **2.3 Empirical Review**

### **2.3.1 Corporate Governance and Financial Performance of Listed Firms**

Ofoeda (2017) explores how corporate governance frameworks affect NBFIs profitability. The 2006–2014 study uses Bank of Ghana data. The regression equation is estimated using an adjusted standard errors model for correlated panels. This research examines corporate governance elements such as board independence, size, gender diversity, CEO duality and tenure, and board meetings. Size, independence, and frequency of audit committee meetings indicate effectiveness. NBFIs return on assets is also assessed in this research. Board, audit committee, and meeting frequency are strongly connected with profitability. Board features including membership, gender parity, meeting frequency, and audit committee autonomy adversely affect NBFIs performance. This study shows contradicting evidence on Ghanaian NBFIs corporate governance and economic

viability. According to studies, Ghana's NBFIs business is distinctive and may respond differently to corporate governance systems than other nations'.

Musah and Adutwumwaa (2021) examined how corporate governance arrangements affected rural Ghanaian banks' finances. 30 rural bank annual reports from 2010 to 2019 were examined. After Excel data was imported and encoded in STATA, descriptive statistics, correlation, and regression analysis were conducted. The significance level was low, yet having two CEOs was associated with greater ROA and ROE. More crucially, the data shows a link between board size and ROA and ROE, albeit not statistically. A rural bank's board autonomy may also predict its financial success. The study also indicated that rural bank boards with more women had worse return on assets and equity.

Puni and Anlesinya (2020) use accounting-based measures (return on assets, return on equity, and earnings per share) and a market-based indicator (Tobin's Q) to evaluate listed Ghanaian companies from 2006 to 2018. Corporate governance may be assessed by the number of board meetings each year, their frequency, shareholder concentration, and directorship. A panel regression model was used to analyse data from 38 publicly listed Ghanaian enterprises between 2006 and 2018 to determine how SEC of Ghana corporate governance indicators affected company performance. Annual reports of publicly traded corporations provided information. The analysis indicated that a board with insiders and outsiders improved the bottom line. Financial performance is strongly connected with board size, meeting frequency, and shareholder ownership concentration. Number of board committees, but not two CEOs, was associated with poor financial success.

Andoh, Abugri, and Anarfo (2023) compare commercial banks and other enterprises to see how various boards effect publicly listed company value. Generalised least square specifications and fixed and random effects models accommodate for heteroscedasticity and serial correlation in

regression estimation. This study controls for endogeneity and obtains credible results using lagged board variable models. While there are major distinctions, board features affect listed non-financial enterprises and banks similarly. Commonly, the size of the board of directors affects Tobin's Q non-linearly for both financial and non-financial organisations. Publicly listed non-financial firms and banks perform better with more non-domiciled board members. The percentage of board members with advanced degrees is negatively and statistically significantly correlated with company performance in both groups. Listed banks and non-financial companies respond differently to board composition and gender diversity changes.

Sarpong-Danquah et al. (2018) examined how corporate governance affects developing country manufacturing facility profitability. The research examines how gender diversity, board independence, and board size impact public Ghanaian manufacturing enterprises' bottom lines. Our panel regression model uses generalised least squares (GLS) to evaluate data from 11 publicly listed industrial businesses from 2009 to 2013. The analysis shows that corporate boards lack women. Empirical research shows that companies with more women and independent directors perform better than those with fewer women and greater centralization. However, board size does not affect ROE and ROA.

Baba (2022) examined ROE, ROA, Liquidity, Board Composition, Board Size, and CEO Duality. The research analysed 23 Ghanaian universal banks from 2014-2018, focusing on 8 indigenous banks. Correlation and regression study examined corporate governance and bank financial performance. There was a positive correlation between ROE and the number of board members, a negative correlation between ROA and having two CEOs, and a negative correlation between liquidity and having two CEOs.

Abang'a et al. (2022) examined how corporate governance affects Kenyan SOEs' bottom lines. The paper examines 45 Kenyan SOEs from 2015-2018 using balanced panel data regression analysis. According to the results of a panel research, there is a positive relationship between the CBR and board meetings, board competence, and gender diversity in corporate governance policies and practises (CBRR). The study also finds that CBRR is positively correlated with the number of independent non-executive directors, board size, board committees, and companies' public disclosures about their governance practises, but these correlations are not statistically significant.

Empirical research by Nasrallah and El Khoury (2022) examines the connection between corporate governance and the financial success of Lebanon's SMEs. The study included a questionnaire survey of 150 privately owned businesses. Incorporating Bundles after being inspired by Aguilera et al.'s (2008) research. These three elements are used to determine a score for corporate governance in "An Organisational Perspective to Comparative Corporate Governance: Costs, Contingencies, and Complementaries," which was published in *Organisation Science* (19), pages 475-492. To investigate the effect of a corporate governance (CG) score and its components on the financial performance (FP) of SMEs, as measured by return on assets (ROA) and return on investment (ROI), the authors use a 2SLS model with endogeneity correction and quantile regression. The statistics show that CG and FP feed into each other in a positive feedback loop. Investment in bolstering CG is common among high-performing companies since it contributes directly to higher FP. The research also reveals an unexpected finding: the strength of this connection varies with SME FP.

### **2.3.2 Financial Reporting Quality and Financial Performance**

Listed companies in Sri Lanka are the focus of an investigation by Rathnayake, Rajapakse, and Lasantha (2021), who look at the relationship between financial reporting quality and firm success.

Secondary data for this research were gathered over a six-year period (2013-2018) from the annual financial statements of publicly listed corporations. Thirty Sri Lankan listed firms were selected to reflect the breadth and diversity of the country's economy. This led to the collection of 180 different sizes. STATA's random effect model was used to test the hypothesis after a stratified random sampling technique was used to choose the sample. The link between Financial Reporting Quality and Return on Assets, Return on Equity, and Market to Book Ratio in all three regression models was statistically significant. There was no statistically significant correlation between Financial Reporting Quality and any of the separate financial performance metrics. Although prior research has shown a correlation between high-quality financial reporting and improved financial success, this study found no such thing in Sri Lanka.

To determine the impact of Financial Reporting Quality (FRQ), Ogbonnaya (2019) analyses the connection between the financial results of Manufacturing Companies in Nigeria and FRQ. The research looked at the years 2005-2014. Various factors were examined to determine their impact on FRQ, including earnings per share (EPS), market price per share (PPS), dividends per share (DPS), capital appreciation ratio (CAR), and price earnings ratio (P/E). Simple regression analysis was used to examine the annual financial statements of a sample of industrial firms.

Dechow's (1994) accrual method was used to model the reliability of financial reports. Regression study shows that FRQ is inversely related to DPS, CAR, MPS, and PER, and positively related to NAVP and EPS.

Using (i) earnings quality, (ii) conservatism, and (iii) accruals quality as proxies, MartnezFerrero (2014) analyses the effect of financial reporting quality (FRQ) on company performance. Our goal is to investigate the connection between market value and book value. Using data from 1,960 non-financial international listed firms across 25 countries and Hong Kong's special administrative area

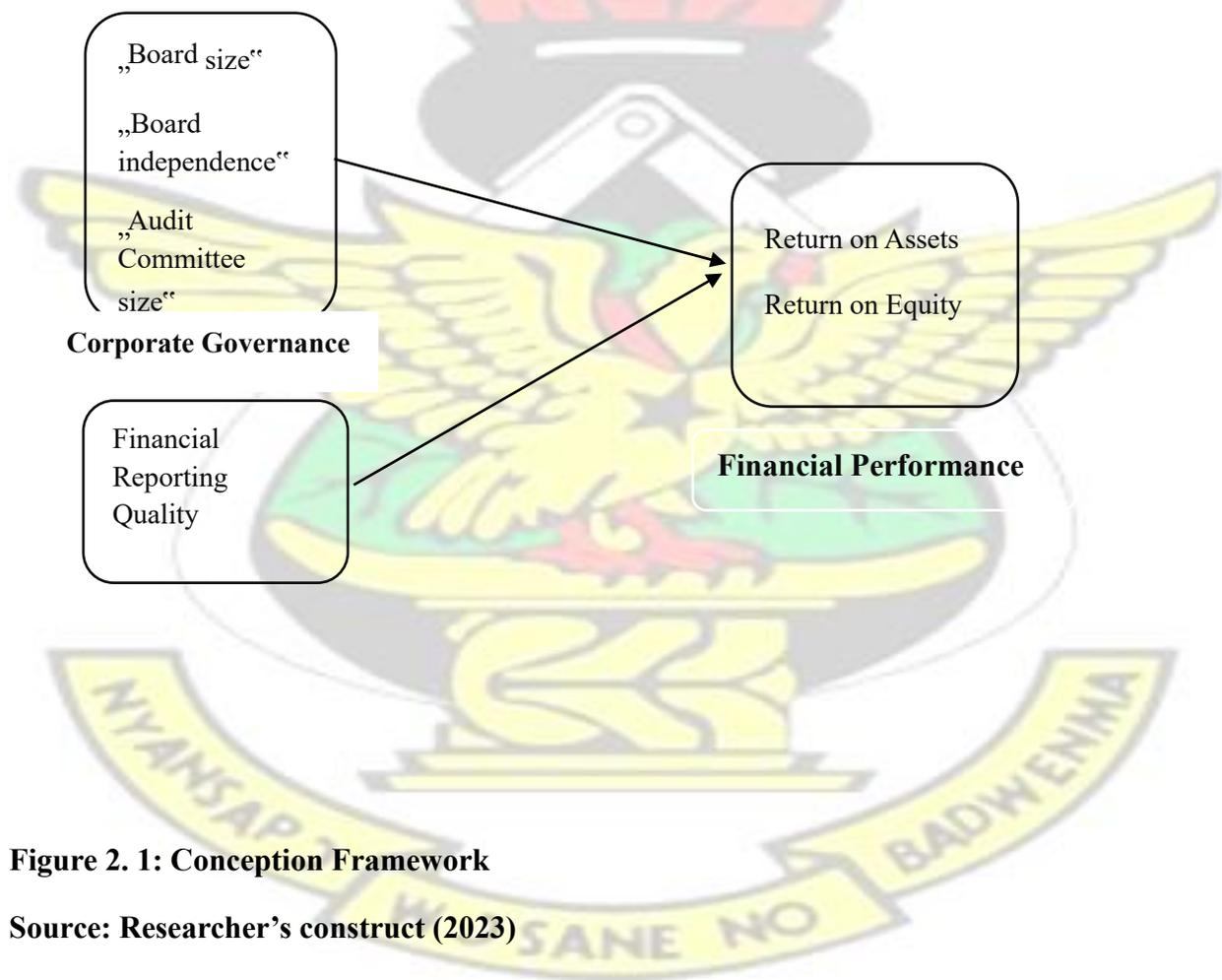
between 2002 and 2010, we tested our hypothesis. We highlight the favourable influence of financial reporting quality (FRQ) on financial performance using the GMM estimator created by Arellano and Bond (1991) on simultaneous equations for the panel data. Several FRQ surrogates, including earnings quality, accruals quality, accounting conservatism, and an aggregate measure of all three, corroborate this finding. This link is moderated by factors such as IFRS adoption, the country's accounting system, and the effect of economic cycles, according to empirical research.

Abd-Elnaby, Abd-Elkareem, and Adel (2021) examine the link between FRQ and FP. During the study period of 2014-2018, 61 Egyptian Stock Exchange-listed businesses were used as a cross-sectional sample. PLS and EGLS regression analysis are used to test the study ideas. The modified Jones model (1995) is used to determine FRQ as opposed to ROE and EPS, which are measures of a company's profitability. The results of this study suggest that FRQ boosts ROE at the price of EPS. As ROE grew and EPS shrank, this objective became more achievable. When FRQs are cut, ROE drops and earnings per share rise.

The impact of FRQ on financial performance is examined by Sohail and Aziz (2019) using three proxies: (i) conservatism, (ii) accruals quality, and (iii) earnings quality. The key goal here is to establish whether or not the market-to-market-to-book (MMTB) ratio is a valid indicator of the quality of financial reporting when evaluating a company's FP. The data required to validate the assumptions is provided by cement producing businesses in Pakistan and spans the years 2006 to 2017. By analysing panel data, we discover that FRQ has a beneficial and statistically significant impact on the bottom lines of businesses. Comparable results may be obtained from a weighted average of the quality of accruals, earnings, and accounting conservatism. According to the findings, moderating factors include corporate size, leverage, and working capital.

Salehi et al. (2018) studied the correlation between Earnings Quality (EQ) and stock price returns. From 2009 to 2014, data from 1680 firm-year observations of TSE-listed businesses were used to conduct a panel data analysis. Stock returns were shown to be positively related to EQ measures similar to those developed by Jones (1991) and Francis et al. (2005) using ordinary least squares regression analysis. Stock performance was not correlated with the quality of a company's disclosures, but we could not find any evidence that EM had any effect on stock performance.

## 2.4 Conceptual Framework



**Figure 2. 1: Conception Framework**

Source: Researcher's construct (2023)

The study is made up of three variables. Two are independent and the other is a dependent variable. The above structure demonstrates the relationship between a company's financial success and the quality of its corporate governance and financial reporting. The variables' values are listed in their respective cells below. There are a number of metrics that may be used to evaluate the quality of a company's management, including board diversity, audit committee size, and earnings management. Businesses are most successful when they generate a positive return on assets and return on equity.

## **2.5 Summary of Chapter**

In the literature study, the researcher looked at the relationship between corporate governance and financial reporting quality at various companies, with a focus on listed banks. The notion of agency served as the theoretical foundation for this investigation. Extensive studies have been conducted on the correlation between financial reporting quality and financial success, but none have been conducted using Ghana as a case study. Researching the relationship between corporate governance and financial reporting quality and how it affects financial performance is important since it will add to the current body of knowledge.

# KNUST

## **CHAPTER THREE**

### **METHODOLOGY**

#### **3.0 Introduction**

This chapter explains the methods and processes that were going to be employed to accomplish the study's goals. This chapter elaborated on the study's design by discussing the study's data kind and source, methodology, and model formulation. Information on the study's diagnostic tests and the variables that were employed were also provided.

#### **3.1 Research Design**

The word "research design" refers to a wide range of strategies, methods, and tools that guide the actual conduct of a study. (Ahmed, Hossain, & Adams, 2006; Amidu, Yorke, & Harvey, 2016) It lays out the steps that will be taken to collect data, analyse it, and report the findings. As a result, it serves as a valuable resource for academics (Appiah, Awunyo-Vitor, Mireku, & Ahiagbah, 2016). The success of a study depends on selecting a research strategy that is appropriate for its goals and methods. In this study, researchers used the quantitative approach rather than the qualitative or mixed methods that are also viable options. Armstrong et al. (2010) classify research methodologies as explanatory, exploratory, or descriptive based on how well they achieve the

stated aims of the study. The purpose of this explanatory study was to examine the relationship between the quality of corporate governance and financial reporting and the performance of publicly listed Ghanaian enterprises. Baksaas and Stenheim (2019) state that this strategy is effective for determining whether or not one variable causes another. According to Yang et al. (2018), a causal or explanatory research approach is recommended for this study since it seeks to understand the relationship between corporate governance and financial reporting quality and their impact on the financial performance of Ghanaian publicly listed firms. The effects of corporate governance on the profits of publicly listed firms in Ghana were investigated by Barth et al. (2008), who also utilised an explanatory research. Ntarmah and Dzomeku (2021) examined the impact of financial reporting quality on businesses' financial performance, whereas Lartey et al. (2020) utilised an explanatory design to investigate the connection between corporate governance and financial reporting quality and the financial performance of listed firms.

### **3.2 Data**

Primary data and secondary data are the two basic types of data sources, and both are crucial to any investigation. Primary data is information acquired for the project itself, as opposed to secondary data, which already exists from another source. Given the goals of this research, secondary data are more appropriate for testing the hypotheses presented in Chapter Two. Due to the difficulty of obtaining company-specific data, this is essential for understanding how weak corporate governance and financial reporting affect the bottom lines of Ghanaian public enterprises. Companies listed on the Ghana Stock Exchange (GSE) provided their yearly financial statements for analysis as the secondary data source. Researchers employed partial frontier approaches to eliminate outliers and exclude businesses without critical traits from their sample.

Because of limitations in the available data, this study was limited to those businesses that are listed on the GSEs.

The study team was only able to look at 10 firms listed on the GSEs between 2010 and 2021 because to budget and time restrictions. The sample was selected using a method known as purposeful sampling, or judgmental sampling. The units that make up the study population meet the requirements for having fast and easy access to the data (Brüggemann, Hitz, & Sellhorn, 2013; Burgstahler, Hail, & Leuz, 2006), hence a random sample was drawn from them. Companies whose estimates of the translog cost function for the Lerner index were missing, null, or negative were not included in the analysis. In order to satisfy this condition, you must provide data for at least 10 consecutive years. When we found outliers, the researcher winsorized the variable to the 99th percentile. Ten businesses that met all of the study's requirements and went public on the GSE between 2010 and 2021 were included. The selected firms' annual reports served as the only source of information for this study. This study employs a panel data methodology with a data pool spanning the years 2010 to 2021.

### **3.3 Methods and Model Specification**

The study's goal is to draw connections between publicly listed companies in Ghana's financial performance and their corporate governance and financial reporting practises. According to prior research (Campbell and Mnguez-Vera, 2008; Charitou, Karamanou, and Lambertides, 2015; Chen et al., 2014), researchers used popular estimation methodologies, such as fixed effect and random effect regression models, to analyse panel data. The fixed effect model was used because it performed best in the Hausman test. From the model, the two objectives stated in chapter one are analysed using:

$$ROA_{it} = \beta_0 + \beta_1 BSIZE_{it} + \beta_2 BINDP_{it} + \beta_3 AUCS_{it} + \beta_4 FRQ_{it} + \sum_{c=1}^2 \beta_6 CONTROL_{it} + \varepsilon_{it} \quad (3.1)$$

$$ROE_{it} = \beta_0 + \beta_1 BSIZE_{it} + \beta_2 BINDP_{it} + \beta_3 AUCS_{it} + \beta_5 FRQ_{it} + \sum_{c=1}^2 \beta_6 CONTROL_{it} + \varepsilon_{it} \quad (3.2)$$

Where  $ROA_{it}$  and  $ROE_{it}$  are the return on assets and return on equity of firms  $i$  over the period  $t$ ,  $BSIZE_{it}$  is the board size of firms  $i$  over the period  $t$ ,  $BINDP_{it}$  is the board independence of firms  $i$  over the period  $t$ ,  $AUCS_{it}$  is the Audit committee size of firms  $i$  over the period  $t$ ,  $FRQ_{it}$  is the financial reporting quality of firms  $i$  over the period  $t$ . Also,  $CONTROL_{it}$  is the control variables thus firm size and leverage of firms  $i$  over the period  $t$ , and  $\varepsilon_{it}$  is the error term in the model.

### 3.4 Robustness Test

The authors employed a dynamic model to test for persistency in financial performance despite the presence of heteroscedasticity, endogeneity, serial correlation, and serial dependence. These researchers all advocate using a dynamic model to address these issues (Chen et al., 2014; Christensen et al., 2015; Cornett et al., 2008), and our strategy adheres to their suggestions. To estimate the dynamic model, the researchers relied on the generalised method of moments (GMM) estimator developed by Arellano and Bond (1991), which is both effective and trustworthy. Specifically, for the linear regression of the dynamic model represented in Eqns (3.1 and 3.2), the following equation was used:

$$ROA_{it} = \beta_0 + \beta_1 ROA_{it-1} + \beta_2 BSIZE_{it} + \beta_3 BINDP_{it} + \beta_4 AUCINDP_{it} + \beta_5 FRQ_{it} + \sum_{c=1}^2 \beta_6 CONTROL_{it} + \varepsilon_{it} \quad (3.3)$$

$$ROE_{it} = \beta_0 + \beta_1 ROE_{it-1} + \beta_2 BSIZE_{it} + \beta_3 BINDP_{it} + \beta_4 AUCINDP_{it} + \beta_5 FRQ_{it} + \sum_{c=1}^2 \beta_6 CONTROL_{it} + \varepsilon_{it} \quad (3.4)$$

### 3.5 Diagnostic Test

Endogeneity has been a problem in the literature on financial management, although Arellano and Bover's (1995) and Blundell and Bond's (2000) two-step system estimator technique may help.

This is accomplished by employing a two-step system GMM, which involves the incorporation of

a lagged dependent variable and the creation of instruments for endogenous variables. All conceivable endogenous variables' historical values serve as the instruments

(Kosmidou, 2012). The Hansen/Sargan test (Malik, 2011) is used to evaluate the robustness of multiple lags as an instrument, while the AR (1) and AR (2) (Phan et al., 2020) are used to assess first- and second-degree serial correlation, respectively.

Multicollinearity, which occurs when the independent variables are highly correlated, may also have an impact on regression results (Dayanandan, Donker, Ivanof, & Karahan, 2016). To determine multicollinearity, researchers use a VIF test, where a score of one indicates no correlation and a value of five or more indicates significant correlation (Elkins & Entwistle, 2018). A VIF over 10 is cause for concern since it indicates an excessively connected network and less reliable regression results. However, serial correlation might arise, which makes using a panel regression model to get regression estimates impractical. Serial correlation in regression residuals may be quantified using the Durbin-Watson statistic (Fakhfakh Sakka and Jarboui, 2016). The statistic ranges from zero to four, with a score of two indicating uncorrelation, values near zero implying positive autocorrelation, and values near four implying negative autocorrelation.

Variable Description	Variables	Operationalisation	Literature source
<b>Dependent variable</b>			
Return on assets		“Net income/total assets”	Saleh et al. (2020)
Return on equity		“Net income/shareholders’ equity”	
<b>Independent variable</b>			
Board size		“Number of board members squared”	Ahmed, Neel, and Wang (2013)
Board independence		“Proportion of non-executive directors out of total board size”	
Audit committee size		“Independent audit committee members to the total number of audit committee members.”	Ahmed, Neel, and Wang (2013)

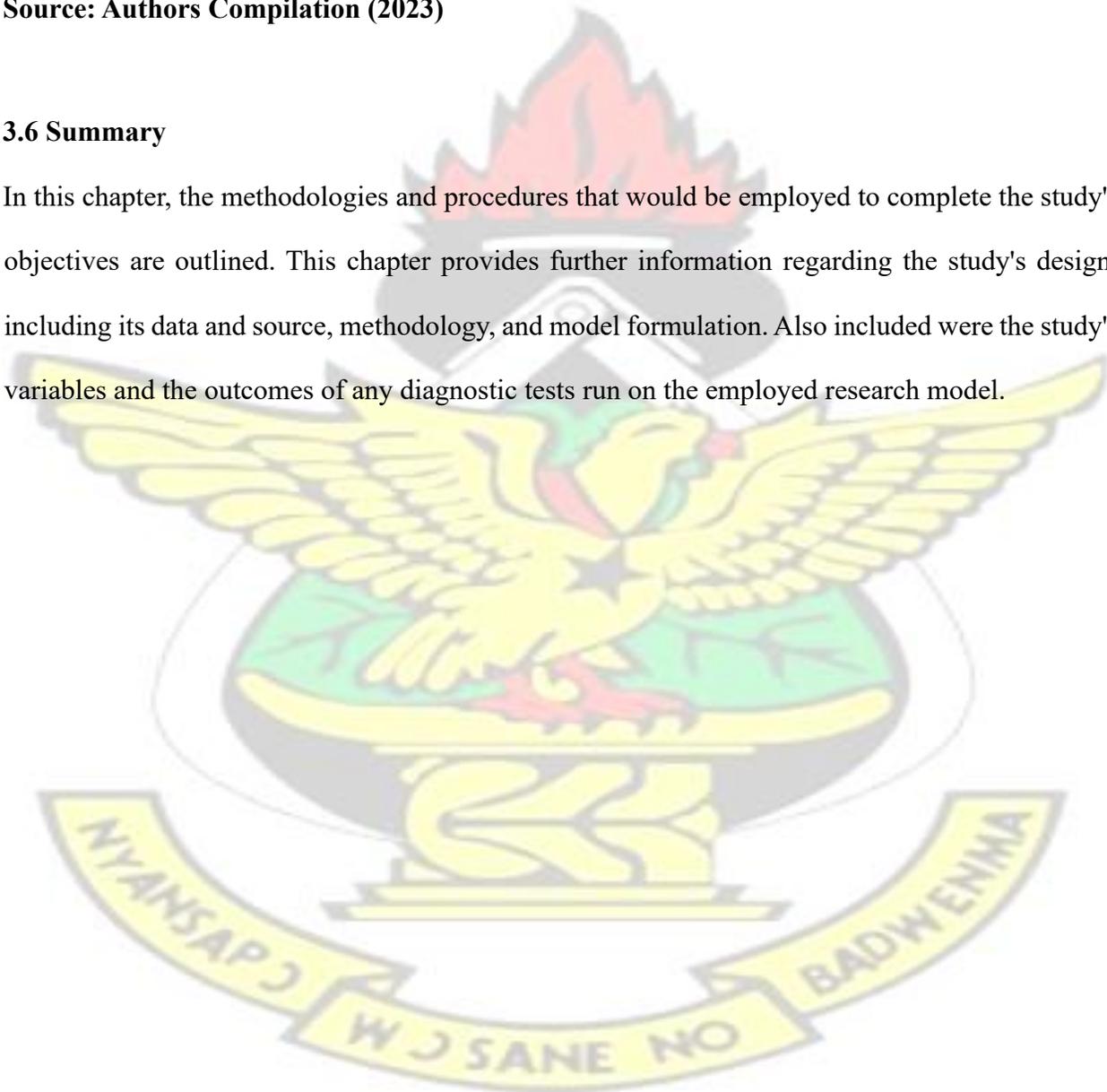
Financial Reporting Quality	“Dummy variable, where 0 means that the firm is not audited by any of the Big Four and 1 represents the firm is audited by the big four”	Ahmed, Neel, and Wang (2013)
Leverage	“Long-term debt divided by total assets of the firm”	Ahmed, Neel, and Wang (2013)
Firm Size	“Natural log the total assets”	

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**Source: Authors Compilation (2023)**

### 3.6 Summary

In this chapter, the methodologies and procedures that would be employed to complete the study's objectives are outlined. This chapter provides further information regarding the study's design, including its data and source, methodology, and model formulation. Also included were the study's variables and the outcomes of any diagnostic tests run on the employed research model.



## CHAPTER FOUR

### RESULTS AND DISCUSSION

#### 4.1 Introduction

This section presents and discusses the study's findings. This result consists of explanations of the variables and estimates based on a panel regression model. Following this, the data are interpreted and discussed in light of previous research and hypotheses.

#### 4.2 Descriptive Statistics

Table 4.1 details a variety of financial performance and corporate governance criteria. Return on assets (ROA) is the first variable, and it has an average value of 1.592. This indicates that businesses, on average, get a return on investment of around 1.592%. The margin of error is between +7,000% and -3,700%. With a standard deviation of 2.117, the dispersion seems to be around average. There is a positive relationship between the average ROE and the first variable, with a ROE of 10.305%. This means that, on average, the companies in the sample generate a return of 10.305% on equity. The percentages are between +49.100% and -80.692%. The standard deviation of ROEs is 17.501, indicating a large variation amongst businesses. The average number of directors is 9.314 according to the BSIZE (board size) metric, which we previously discussed in the context of corporate governance metrics. Board sizes seem to vary widely between corporations, with some having as few as six members and others as many as fifteen thousand. The 1.713 standard deviation from the mean represents a substantial amount of spread.

**Table 4. 1 Descriptive Statistics**

Variable	Mean	Max	Min	Std. Dev	Observation
ROA	1.592	7.000	-3.700	2.117	119
ROE	10.305	49.100	-80.692	17.501	119
BSIZE	9.314	15.000	6.000	1.713	119
BINDP	0.528	0.857	0.000	0.200	119
AUCS	4.403	7.000	3.000	0.986	119
FRQ	0.891	1.000	0.000	0.313	119
FS	16.954	26.503	0.000	8.150	119
LEV	1.246	26.894	0.000	3.240	119

Source: Author Computation (2023) where “ROA return on assets, ROE is the return on equity, BSIZE is the board size, BINDP is the board independence, AUCS is the Audit committee size, FRQ is the Financial Reporting Quality, FS is the firm size, and LEV is the leverage.”

Companies in the sample had, on average, 52.8% independence on their boards of directors, as measured by the variable BINDP (board independence). Independent decision-making by boards of directors may range from a high of 0.857 to a low of 0.000. Spreading values rather widely, as shown by a standard deviation of 0.200. There are typically 4.403 AUCS, or audit committee size units, among all companies. Independence on the audit committee might vary from a high of seven thousand to a low of three thousand. The coefficient of dispersion, 0.986, suggests an acceptable range of values.

According to FRQ companies in the sample had an average financial reporting quality score of 0.891. The range from 1.00 to 0.00 represents varying degrees of accuracy in the reports. The standard deviation is around typical at 0.313. The mean value of the firm size (FS) variable in the sample is 16.954 units, indicating that the sample's enterprises are quite large. There is a vast variety of conceivable business sizes represented by the numbers ranging from 0.000 to 26.503.

There is a great deal of dispersion, as shown by a standard deviation of 8.150. Finally, the sample median LEV (leverage) is 1.246, indicating that the sample median leverage ratio is 1.246. The businesses' leverage varies widely, from a high of 26.894 to a low of 0.000. The standard deviation was 3.240, indicating a substantial amount of dispersion.

#### **4.3 Correlation and Multicollinearity**

Examining the correlation coefficients in Table 4.2 between a large number of variables allows us to investigate the possibility of multicollinearity. The correlation coefficients reveal a positive connection between ROA and ROE (0.254,  $p < 0.001$ ). There seems to be a positive association between the two measures of financial success, however it is only weak. While there is just a little link between BSIZE (board size) and ROA (0.063;  $p < 0.001$ ), there is a substantial negative correlation between BSIZE and ROE (-0.561;  $p < 0.001$ ). Based on these findings, it seems that a larger board size is related to a lower ROE but is less so to ROA.

The results show that ROA and BINDP (board independence) are somewhat correlated (0.038), whereas ROE and BINDP are highly correlated (-0.368,  $p < 0.001$ ). These findings suggest that an autonomous board is associated with a lower ROE and has a weaker association with ROA. There is a weak but non-significant relationship between AUCS (Audit committee size) and ROA and ROE (-0.060 and -0.044, respectively). These results suggest weak associations between audit committee autonomy and financial performance metrics.

Return on assets is significantly (0.415,  $p < 0.001$ ) correlated with Financial Reporting Quality (FRQ), but ROE is unrelated to FRQ. This suggests that higher standards of financial reporting are connected with a higher ROA, but that ROE is not always affected. There is a small positive association (0.022,  $p < 0.001$ ) between FS (firm size) and ROA, and a substantial negative correlation (-0.376,  $p < 0.001$ ) between FS and ROE.

**Table 4. 2 Correlation and Multicollinearity**

S/N	Variable	1	2	3	4	5	6	7	8	VIF
1	ROA	1								
2	ROE	0.254*** (0.001)	1							
3	BSIZE	0.063 (0.384)	-0.561 (0.001)***	1						1.094
4	BINDP	0.038 (0.600)	-0.368 (0.001)***	0.313 (0.001)***	1					1.283
5	AUCS	-0.060 (0.402)	-0.044 (0.536)	0.134 (0.194)	-0.004 (0.659)	1				1.006
6	FRQ	0.415 (0.001)***	-0.002 (0.384)	0.077 (0.453)	-0.149 (0.148)	-0.009 (0.598)	1			1.493
7	FS	0.022 (0.457)	-0.376 (0.001)***	0.116 (0.260)	-0.114 (0.269)	0.002 (0.573)	-0.074 (0.302)	1		1.362
8	LEV	-0.145 (0.042)*	-0.099 (0.168)	0.085 (0.411)	0.066 (0.521)	0.149 (0.147)	0.002 (0.679)	0.243 (0.001)***	1	1.182

Source: Author Computation (2023) where “ROA return on assets, ROE is the return on equity, BSIZE is the board size, BINDP is the board independence, AUCS is the Audit committee size, FRQ is the Financial Reporting Quality, FS is the firm size, and LEV is the leverage.”

These findings suggest that the correlation between ROA and ROE weakens with company size. Finally, there is a strongly negative relationship between LEV (leverage) and ROA (-0.145, p0.05), but there is no correlation between LEV and ROE. This indicates that when debt levels rise, returns on assets fall but returns on equity remain largely unaltered. The VIF values are provided to aid in determining the extent to which the independent variables exhibit multicollinearity. Multicollinearity is more likely to arise if the VIF value is greater than 5 or 10. There is no VIF value beyond the allowable range of 1.006–1.493 in this table. Consequently, the variables in the research do not present any issues of multicollinearity.

#### 4.4 Panel Regression

The coefficient has a standard error of -0.002783, whereas the intercept has a standard error of 0.001383. The t-statistic of -2.011868 for the intercept is statistically significant at the 5% level ( $p=0.0456$ ). This translates to a -0.002783 ROA (return on assets) if all other factors are held constant. The coefficient of BSIZE (board size) shows that for every one-unit increase in this independent variable, the ROI increases by 0.010578 percentage points. A statistically significant relationship ( $p<0.0005$ ) is shown by the t-statistic of 3.536427. The BINDP variable has a coefficient of 0.220002, with a standard error of 0.046179. With a t-statistic of 4.764143 ( $p<0.0001$ ), we find that there is a positive relationship between board autonomy and ROA. This points to a positive correlation between increased board autonomy and financial returns. AUCS (Audit committee size) has a coefficient of 0.034771 and a standard error of 0.014693. The t-statistic of 2.366564 indicates a positive relationship between audit committee independence and ROA at the 5% level of significance ( $p=0.0201$ ).

**Table 4. 3 Random Effect Estimation**

	Dependent variable: Return on Assets (ROA)		Variable	Coefficient
	Std. Error	t-Statistic	Prob.	
Intercept	-0.002783	0.001383	-2.011868	0.0456
BSIZE	0.010578	0.002991	3.536427	0.0005
BINDP	0.220002	0.046179	4.764143	0.0000
AUCS	0.034771	0.014693	2.366564	0.0201
FRQ	0.739271	0.345545	-2.139437	0.0350
FS	0.044508	0.043428	1.024874	0.3067
LEV	-0.773809	0.289934	-2.668913	0.0083

R-squared	0.238952	
Adjusted R-squared	0.212709	
Hausman Test		0.483
Durbin-Watson stat		0.683
Breusch-Pagan Test		0.529

Source: Author Computation (2023) where “ROA return on assets, ROE is the return on equity, BSIZE is the board size, BINDP is the board independence, AUCS is the Audit committee size, FRQ is the Financial Reporting Quality, FS is the firm size, and LEV is the leverage.”

The FRQ coefficient is 0.739271 and the standard error is 0.345545. Quality of financial reporting is inversely related to return on investment ( $p=0.0350$ ,  $t=-2.139437$ ). The coefficient for FS is 0.044508, while the standard error is 0.043428. No statistically significant correlation between business size and ROA was found ( $1.024874$ ,  $p=0.3067$ ) using the t-test. Standard error for LEV (leverage) is 0.289934, and the coefficient is  $-0.773809$ . Leverage was shown to negatively affect ROA ( $t=-2.668913$ ,  $p=0.0083$ , 1% significance level). With an R2 of 0.238952, we may deduce that the variables that are independent explain 23.9% of the variation in ROA. The adjusted R-squared score of 0.212709 reflects the complexity of the model in terms of the number of variables. The Hausman test result of 0.483 demonstrates that the random effects assumption is not violated, suggesting that the random effects model is accurate. The DurbinWatson test for autocorrelation in the model yielded a p-value of 0.683, indicating its absence. The model is not heteroscedastic, as shown by the Breusch-Pagan test result of 0.529.

**Table 4. 4: Random Effect Estimation**

Dependent variable: Return on Equity (ROE)				
Variable	Coefficient	Std. Error	t-Statistic	Prob.
Intercept	0.005050	0.003426	1.473982	0.1438

BSIZE	0.125846	0.056584	2.224042	0.0272
BINDP	0.031206	0.015405	2.025654	0.0441
AUCS	0.022470	0.008962	2.507172	0.0130
FRQ	0.046996	0.018927	2.483044	0.0148
FS	0.007817	0.004306	1.815235	0.0726
LEV	0.025811	0.022358	1.154409	0.2512
„R-squared“	0.143455			
„Adjusted R-squared“	0.053293			
„Hausman Test“				0.593
„Durbin-Watson stat“				0.382
„Breusch-Pagan Test“				0.493

Source: Author Computation (2023) where “*ROA* return on assets, *ROE* is the return on equity, *BSIZE* is the board size, *BINDP* is the board independence, *AUCS* is the Audit committee size, *FRQ* is the Financial Reporting Quality, *FS* is the firm size, and *LEV* is the leverage.”

The coefficient has a standard error of 0.005050, whereas the intercept term has a standard error of 0.003426. The intercept is not statistically significant at the 5% level ( $p=0.1438$ ), as shown by the t-statistic of 1.473982. If we assume that every other variable is equal to zero, then our expected return on equity is 0.005050. The coefficient for BSIZE (board size) is 0.125846, indicating a positive relationship between board size and ROE. The t-statistic of 2.224042 indicates that this association is statistically significant at the 5% level ( $p=0.0272$ ). The BINDP (board independence) variable has a coefficient of 0.031206 and a standard error of 0.015405. Board independence is shown to positively affect ROE at the 5% level, as indicated by a tstatistic of 2.025654 ( $p=0.0441$ ). This demonstrates that a higher rate of return on equity is associated with giving the board greater authority.

The reported values for AUCS are a coefficient of 0.022470 and a standard error of 0.008962. At the 5% significance level ( $p=0.0130$ ), a t-statistic of 2.507172 suggests a positive relationship between audit committee size and return on equity. Standard error for FRQ is 0.018927 and the coefficient is 0.046996. The quality of financial reporting was shown to positively correlate with ROE ( $t=2.483044$ ,  $p=0.0148$ ), and the coefficient for firm size (FS) was 0.007817 ( $SE = 0.004306$ ). The t-statistic of 1.815235 at the 5% level of significance ( $p=0.0726$ ) demonstrates that ROE is not substantially affected by firm size. The standard deviation of LEV (leverage) is 0.022358, while the coefficient is 0.025811. The t-statistic of 1.154409 indicates that leverage has no effect on ROE at the 5% significant level ( $p=0.2512$ ).

R<sup>2</sup> for the independent variables was 0.143455, which means that they accounted for 14.3 percentage points of the variance in ROE. Degree of freedom penalises the amount of variables in the model, hence the corrected R-squared is 0.053293. Since the Hausman test resulted in a significance level of 0.593, the random effects model is likely to be correct. A Durbin-Watson statistic p-value of 0.382 suggests low model autocorrelation. The Breusch-Pagan test result of 0.493 indicates that the model is homoscedastic.

#### **4.5 Robustness Test**

In Model 1, Table 4.5 shows return on assets (ROA), whereas in Model 2, it shows ROE. GMM was used to estimate both models' dependent variables. The standard error is 0.0064 and the coefficient for ROA<sub>(it-1)</sub> in Model 1 (ROA) is 0.0206. The \*\*\* mark indicates 1% statistical significance for this coefficient. This shows that prior ROA values positively affect current ROA. Model 2 (ROE) employs the same lagged dependent variable, ROE<sub>(it-1)</sub>, and shows a positive effect on current ROE with a coefficient of 0.239 and a standard error of 0.0719. In

Model 1, board size has no impact on ROA, while in Model 2, it boosts ROE. Model 2 has a BSIZE coefficient of 0.0231 and a standard error of 0.0098. \*\* denotes 5% significance. This implies board size affects ROI.

**Table 4. 5 GMM Estimation Results**

Variables	Model 1 (ROA)	Model 2 (ROE)
$ROA_{it-1}/ROE_{it-1}$	0.0206*** (0.0064)	0.239*** (0.0719)
BSIZE	0.0446 (0.2110)	0.0231** (0.0098)
BINDP	0.267*** (0.0623)	0.0335* (0.0188)
AUCS	0.0131*** (0.0034)	0.267*** (0.062)
FRQ	0.0150 (0.0428)	0.0373** (0.0186)
FS	0.0335* (0.0188)	-0.0254*** (0.0067)
LEV	0.0145** (0.0055)	-0.0208** (0.0089)
AR (1)	0.113	0.372
AR (2)	0.374	0.438
p-Hansens	0.892	0.483
Hansen's $J \chi^2$	0.482	0.283

Source: Author Computation (2023) where “ROA return on assets, ROE is the return on equity, BSIZE is the board size, BINDP is the board independence, AUCS is the Audit committee size, FRQ is the Financial Reporting Quality, FS is the firm size, and LEV is the leverage.” The existence of BINDP (board independence) is good for both ROA and ROE. The BINDP coefficient in Model 1 has a 1% level of significance (\*\*\*), and its standard error is 0.0623.

Model 2 has a statistically significant coefficient of 0.0335 with a standard error of 0.0188 (\*).

Both metrics for measuring a company's financial health tend to rise as board independence increases. Model 1 shows that AUCIDP (Audit committee independence) has a positive and

statistically significant effect on ROA, with a coefficient of 0.0131 and a standard error of 0.0034 (0.0034). The correlation between AUC and ROE in Model 2 (0.267, 0.062) is statistically significant. Based on these findings, it seems that having a bigger audit committee leads to better financial performance.

Statistical significance between FRQ and ROA is not found in Model 1, but a positive and statistically significant association is shown between FRQ and ROE in Model 2. Significant at the 5% level (\*\*), the coefficient of 0.0373 for Model 2 FRQ has a standard error of 0.0186. This data suggests that Return on Equity (ROE) is related to reliable financial reporting. The positive effect of FS (firm size) on ROA in Model 1 is statistically significant at the 10% level (\*), with a coefficient of 0.0335 and a standard error of 0.0188. With a -0.0254 and a 0.0067 significance level, Model 2 demonstrates a negative impact of FS on ROE. Larger corporations, as seen by the statistics, have a higher ROA but a lower ROE. The correlation between LEV and ROA in Model 1 is positive and statistically significant (coefficient = 0.0145, standard error = 0.0055). A statistically significant negative correlation between LEV and ROE (-0.0208, 0.0089 standard error) is shown in Model 2. This evidence shows that when leverage is increased, ROA increases but ROE decreases.

The autoregressive (AR) terms of Models AR (1) and AR (2) do not show any signs of serial correlation. The AR (1) and AR (2) coefficients in both models point to a positive relationship between the lagging and current dependent variables. The p-Hansen test is used to examine the reliability of the GMM model's over-identifying restrictions. Since the p-Hansen values for both Model 1 and Model 2 are more than 0.05 (0.892 and 0.483, respectively), the null hypothesis of valid instruments and over-identifying limits cannot be discarded. The GMM model and the definition of the instrumental variables are bolstered by these results. The accuracy of the GMM's instruments is measured using Hansen's J2 test. Hansen's J2 values for both models are less than

0.05 (0.482 and 0.283, respectively), therefore we cannot rule out the possibility that the instruments are genuine. This lends further credence to the accuracy of the GMM estimate using instrumental variables.

## **4.6 Discussion of the Findings**

### **4.6.1 The Relationship between Board Size and Financial Performance**

Two financial performance metrics, return on assets (ROA) and return on equity (ROE), were shown to have a positive link with board size among Ghanaian publicly listed companies. Stronger corporate governance and decision-making procedures are linked to larger boards, which in turn leads to better financial performance, as proposed by the agency hypothesis. According to agency theory, boards with more members have a wider range of backgrounds, experiences, and opinions. This variety helps them keep an eye on and steer the company's management (Callahan and Soileau, 2017). Larger boards have a better chance of eliminating agency disputes and increasing financial performance because of their greater monitoring capabilities (Scherer and Voegtlin, 2020; Solomon, 2020).

In addition, boards with more members are more likely to include diverse perspectives and act independently when making decisions. This variety of opinions is beneficial to an organization's accountability and transparency (Chan and Kogan, 2016). Greater deliberation and more checks and balances may enhance governance practises when boards are larger. The agency hypothesis is supported by the findings of the regression models, which reveal statistically significant coefficients. Solomon (2020) argues that there is mounting evidence linking larger boards to improved financial metrics like return on assets and return on equity. This link suggests that larger boards may boost the profitability of Ghana's stock market companies.

#### **4.6.2 The Impact of Board Independence on the Financial Performance**

Independent boards have a positive impact on the financial performance of publicly listed companies in Ghana, according to the study's findings. These results provide credence to agency theory (Manu et al., 2019; Ullah et al., 2019), which suggests that independent boards are helpful in enhancing corporate governance, decreasing agency conflicts, and enhancing financial outcomes. Members of the board who have no links to the company or its management are considered "independent," allowing for objective debate. These independent directors provide a fresh perspective, a wealth of experience, and subject-matter knowledge (Manu et al., 2019). Due to their independence, they are able to effectively monitor the firm, identify and address any conflicts of interest, and safeguard the interests of the company's stakeholders and investors.

Based on the statistically significant coefficients, we may infer that financial performance indices like ROA and ROE increase when board independence rises. In light of these findings, it is recommended that publicly listed companies in Ghana increase the percentage of independent directors on their boards. There is a positive association between board independence and financial success, and independent directors are perceived to improve organisational transparency, accountability, and effective decision-making (Tshipa et al., 2018; Sibarani and Lusmeida 2021). The board's ability to keep an eye on management's work is bolstered by the members' wide range of expertise. Increased monitoring ensures management is looking out for everyone's best interests and fuels sustainable profits over the long haul. Independent directors are also essential because they question management's moves, provide fresh perspectives, and ensure that top executives are held to account. Responsible corporate governance is crucial to an organization's long-term performance, and their presence helps promote such culture (Tshipa et al., 2018).

### **4.6.3 The Relationship between Audit Committee Size and Financial Performance**

The findings support the theory that a more objective board of directors has the potential to boost a company's bottom line. Our findings are consistent with the agency theory's (Manu et al., 2019) emphasis on the need of an unbiased board of directors for effective corporate governance and decisions. The boardroom is stronger because to the independent directors' objectivity, range of perspectives, and depth of expertise. When there is no possibility of a conflict of interest, these safeguards ensure that the company and its stakeholders will reap the benefits of any decisions that are made. More board independence is correlated with improved financial metrics like ROA and ROE, as shown by the model's coefficients. A more autonomous board has been linked to better financial performance. The upward trend in this association might have several causes.

The fundamental advantage of having independent directors is that their examination reduces the likelihood of agency conflicts arising between shareholders and management. They serve as a check on the actions of upper-level management, increasing openness and accountability across the company (Tshipa et al., 2018; Sibarani and Lusmeida, 2021). The better financial results are a direct result of the greater supervision and responsibility. Second, the quality of decisionmaking is improved by independent directors because of the variety of skills and experiences they bring to the table. Their unique perspectives and perspectives on the world help to strengthen debates and assessments of strategic options. Better-informed judgements are made as a result, decreasing the possibility of making mistakes or less-than-ideal decisions that might have a detrimental effect on financial performance (Tshipa et al., 2018). And when it comes to boosting trust and transparency among stakeholders, independent directors are crucial. Their membership on the board is indicative of their dedication to ethical business practises and sound company governance. As a result, the

company's image and ability to raise funds may benefit from the confidence it gains from investors and the market.

#### **4.6.4 The Relationship between Financial Reporting Quality and Financial Performance**

The findings demonstrate that improved financial reporting is beneficial for Ghanaian public companies. Consistent with information asymmetry and agency theories (Kyere and Ausloos, 2021) that emphasise the need of accurate and transparent financial reporting in increasing market efficiency and decreasing agency conflicts, our research supports these conclusions. High-quality financial reporting provides reliable information that can be relied on by investors and creditors. As a consequence, there is less of an information gap between management and outside parties, which boosts market efficiency (Wijethilake & Ekanayake, 2020). Strong coefficients in the data point to a correlation between improved financial reporting quality and metrics like return on assets and return on equity. This evidence shows that companies with more transparent financial reporting tend to do better.

There are a number of causes explaining the link between reliable financial reporting and prosperous outcomes. Good financial reporting improves the credibility of a company's financial accounts, which is the first advantage. As a result, financial performance may improve (Kyere and Ausloos, 2021; Akuffo, 2020) due to increased confidence, less information risk, and increased investment. Second, reliable financial reporting improves the quality of decisionmaking for all parties involved. It aids in creditors' and investors' evaluation of the company's financial health and future prospects, and it helps management make educated strategic decisions. Making more well-informed decisions increases productivity and profits (Puangyanee, 2018). Quality financial reporting also encourages responsible corporate governance. It lessens agency conflicts between management and shareholders by making it easier for stakeholders like the board, the auditors, and

the regulators to keep an eye on things. The improved financial results may be attributed in part to the new governance structure.

#### **4.7 Theoretical Implication**

The findings have several theoretical implications for the investigation of corporate governance and financial performance. To begin, there is evidence linking larger boards to greater financial performance, lending credence to the agency theory's arguments that larger boards lead to better corporate governance and decision-making. The results back up the theory that larger boards contribute to better financial outcomes since they have more members with unique skill sets, areas of expertise, and perspectives, as proposed by Chan and Kogan (2016). This highlights the significance of board composition and the need of having a sufficient number of independent directors on the board to ensure effective governance. Second, the positive impact of board independence on financial performance lends credence to the agency theory's emphasis on independent directors' role in mitigating agency conflicts and ensuring responsible decisionmaking.

Tshipa et al. (2018) and Sibarani and Lusmeida (2020) both found that having independent directors on the board increased transparency, accountability, and the quality of the organization's choices. This emphasises the importance of having a board of directors that is free from outside influences. Furthermore, the positive correlation between financial reporting quality and financial success is consistent with the theories of information asymmetry and agency, highlighting the significance of accurate and transparent financial reporting in increasing market efficiency and decreasing agency conflicts. Investment confidence, information asymmetry, and stakeholder decision-making are all boosted by high-quality financial reporting, as shown by these findings

(Wijethilake and Ekanayake, 2020). This highlights the need for businesses to ensure their financial reporting practises are accurate, comprehensive, and transparent.

#### **4.8 Managerial Implication**

Several significant management implications stemming from the analysis's conclusions apply to Ghana's listed enterprises. There is a positive association between the size of a company's board of directors and its financial performance, so it's worth considering for organisations looking to boost corporate governance and decision-making. Businesses with a more diverse board, with members from a variety of fields and perspectives, may have improved financial performance. In order to ensure that their boards are at a sufficient size, corporations should evaluate their current structures and consider adding independent members.

Second, the positive influence of board independence on financial performance emphasises the need of having a sufficient number of independent directors on the board. The hiring of independent directors who can provide objectivity and independence to board deliberations should be a top priority for every business. This might lessen the possibility of agency conflicts and boost confidence that the corporation is acting in the best interests of its stakeholders. Finding informed, impartial persons to fill board roles is essential for effective oversight and governance, thus this should be a top priority throughout the nomination and selection process. The positive relationship between financial reporting quality and financial performance suggests that businesses should place a premium on accuracy, completeness, and transparency in their financial reporting practises. To improve the accuracy of financial reports, businesses should adopt strong financial reporting systems, adhere to all applicable accounting standards, and strengthen internal controls. Investors and creditors will have more faith and confidence in the company as a result of having access to accurate and accessible data for decision making.

## 4.9 Chapter Summary

We examined the relationship between corporate governance practises and financial performance at publicly listed companies in Ghana. The findings indicated that a larger board was related with improved financial performance. Possibly owing to the broader range of expertise and perspectives afforded by a larger board, boards with a greater number of directors were associated with greater financial performance. Consistent with the principles of agency theory, the results show that larger boards do enhance corporate governance and decision-making. The findings also suggested that an independent board may have a positive effect on profits. When there are more independent directors, firms do better financially. The existence of independent directors, with their impartiality, variety of opinion, and specialised expertise, bolstered the efficiency of monitoring and accountability. The results supported the claim that independent directors enhance transparency, accountability, and decision quality in an organisation. Financial reporting quality was also shown to be significantly related to economic growth. Better financial results were seen for companies that reported their finances more accurately. Improved market efficiency and reduced information asymmetry were two outcomes of increased emphasis on financial reporting quality.

## CHAPTER FIVE

### SUMMARY, CONCLUSION, AND RECOMMENDATIONS

#### 5.1 Introduction

This thesis chapter concludes with a summary of the findings, conclusions, and recommendations. The research's suggestions and limitations are covered in the chapter. The chapter has four parts. The first part summarises the study's findings. It summarises the research. Second, the conclusion draws implications from the study's outcomes concerning its purpose. The chapter's conclusion offers relevant suggestions based on the study's key findings. The last section suggests further investigation.

#### 5.2 Summary

The study's goal was to dissect the connection between corporate governance and the financial health of publicly listed Ghanaian firms. Explanatory research was conducted using quantitative methods and panel data analysis. The secondary data came from Ghana Stock Exchange-listed firms' annual financial reports. Ten randomly selected firms were sampled from 2010 to 2021. A dynamic model checked resilience after random effect regression models evaluated the data. Several hypotheses were examined in search of an answer, including the existence of endogeneity, multicollinearity, and serial correlation. The literature operationalized ROA, ROE, board size, board independence, audit committee independence, financial reporting quality, leverage, and company size.

According to the statistics, listed Ghanaian enterprises with larger boards had better financial performance. The study also demonstrates that a company's profitability grow with a higher ratio of independent directors. Again, the study demonstrates that larger audit committees do better financially. These findings show that audit committee size, board independence, financial reporting

quality, and corporate governance improve financial performance for Ghanaian enterprises. Finally, the data show that firms with better financial reporting quality also have higher financial success.

### **5.3 Conclusion**

The study illuminates Ghana's publicly listed companies' financial performance and corporate governance. This study reveals that audit committee size, board independence, financial reporting quality, and board size matter. According to study, more skills, expertise, and perspectives strengthen company governance and decision-making, which boosts financial success. Larger boards may establish stronger control mechanisms, reducing agency disagreements and improving financial performance. The bottom line might be affected by independent board members. Independent directors with fresh perspectives, diverse talents, and particular expertise help boards monitor and make choices that benefit shareholders and stakeholders. They encourage transparency, accountability, and strong firm governance, which are crucial for long-term financial success. The study also demonstrates that a bigger audit committee improves financial performance. A bigger audit committee improves managerial oversight, organisational transparency, and ethics. Audit committee members' unique perspectives and experience improve decision-making and stakeholder confidence. Finally, the study links strong financial reporting to higher profitability. Financial reporting transparency decreases information asymmetry, improves market efficiency, and boosts investor trust. Quality financial reporting enhances resource allocation and financial results by enabling informed decision-making.

### **5.4 Recommendation**

The report makes various suggestions to improve corporate governance and financial performance of Ghanaian listed firms. First, corporations should consider expanding their boards to enjoy the

advantages. They may use board members' different talents, knowledge, and viewpoints to enhance decision-making and corporate governance. It's crucial to establish a balance and keep the board running efficiently. Second, corporations should hire more independent directors to emphasise board independence. Independent directors manage conflicts of interest and ensure decision-making neutrality. Organisational transparency, accountability, and responsible corporate governance may improve.

Third, organisations should prioritise financial reporting quality. This involves following accounting standards, presenting accurate and transparent financial accounts, and providing stakeholders with dependable information. Companies may improve financial performance through improving market efficiency, reducing information asymmetry, and inspiring investor trust. Finally, organisations should carefully examine audit committee size and makeup. Financial supervision and internal controls may be improved by suitably sized audit committees with different experience and viewpoints. This improves financial performance by promoting openness, responsibility, and good decision-making.

### **5.5 Suggestions for Future Research**

Based on this analysis of corporate governance and financial performance at Ghana's publicly listed companies, many research areas are suggested. Future research may examine how board participation affects a company's bottom line. This research focused on board size and independence, but other factors should be considered. Gender, race, and expertise diversity. The link between board composition and business governance and financial success may be instructive. Additional corporate governance mechanisms, such as CEO pay and ownership structure, should be assessed for financial effects. To better understand how corporate governance and financial

performance relate, analyse how these mechanisms interact with board traits and financial reporting quality.

Further research may examine how industry and macroeconomic factors affect company governance and financial performance. These characteristics may impact how successfully corporate governance practises influence financial performance. The numerous settings of this link are needed to understand its subtleties. Finally, research that examines corporate governance practises in different countries may illuminate the cultural and institutional factors that link excellent firm governance with financial performance. The findings from Ghana may be compared to those from other nations with various governance frameworks and economic situations to demonstrate the usefulness of context-specific governance practises.



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