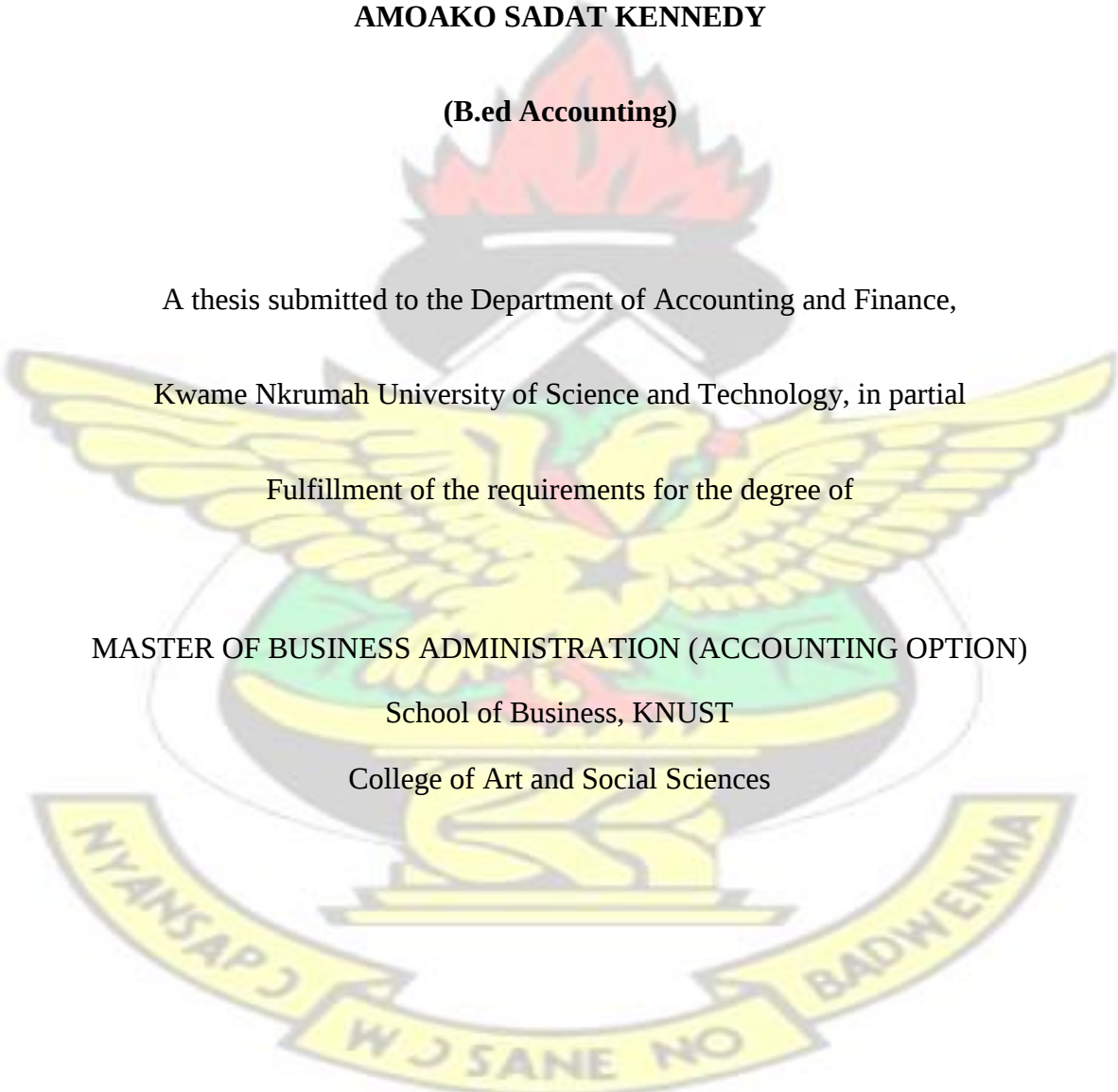


CORPORATE GOVERNANCE QUALITY AND FIRMS FINANCING

DECISIONS: EVIDENCE FROM LISTED FIRMS IN GHANA

BY



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DECLARATION

I hereby declare that this submission is my own work towards the MBA and to the best of my knowledge, it contains neither material previously publicized by another person nor material which has been accepted for the award of any other degree of the University, except where due acknowledgement has been made in the text.

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ABSTRACT

Firms financing behaviour can be affected by various factors among which corporate governance is one. Therefore factors that may affect capital structure of firms should be considered carefully.

The purpose of this study is to presents the relationship between corporate governance and capital structure of firms. A sample of fourteen (14) firms quoted on the Ghana Stock Exchange for a period of five years from 2006-2010 was selected.

Corporate governance measures employed include board size, board independence and CEO/Chair duality. Similarly, the influence of controlled variables such as firm size, age, growth and profitability on firms financing mechanisms is also investigated. The relationship between the dependent and independent variables were empirically tested using R-square, P-value and F-statistics.

Results reveal that corporate governance practices do matter and has important implications for determination of the firms financing policy.

DEDICATION

To my siblings, Osei Paul, Naomi Djaou and Dina Nsiah for the tender loving care you have shown me

KNUST



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I wonder if I can sufficiently express the enormous debt of gratitude which I owe in connection with the writing of this thesis.

In the highest esteem, I thank the almighty God for the strength, reign and his guidance over me throughout the vigorous years of my study, without him, nothing could have been accomplished.

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Finally, to all those whose contributions sneaked unrecognized, those who in diverse contributed to the writing of this piece, I say ayeekoo.

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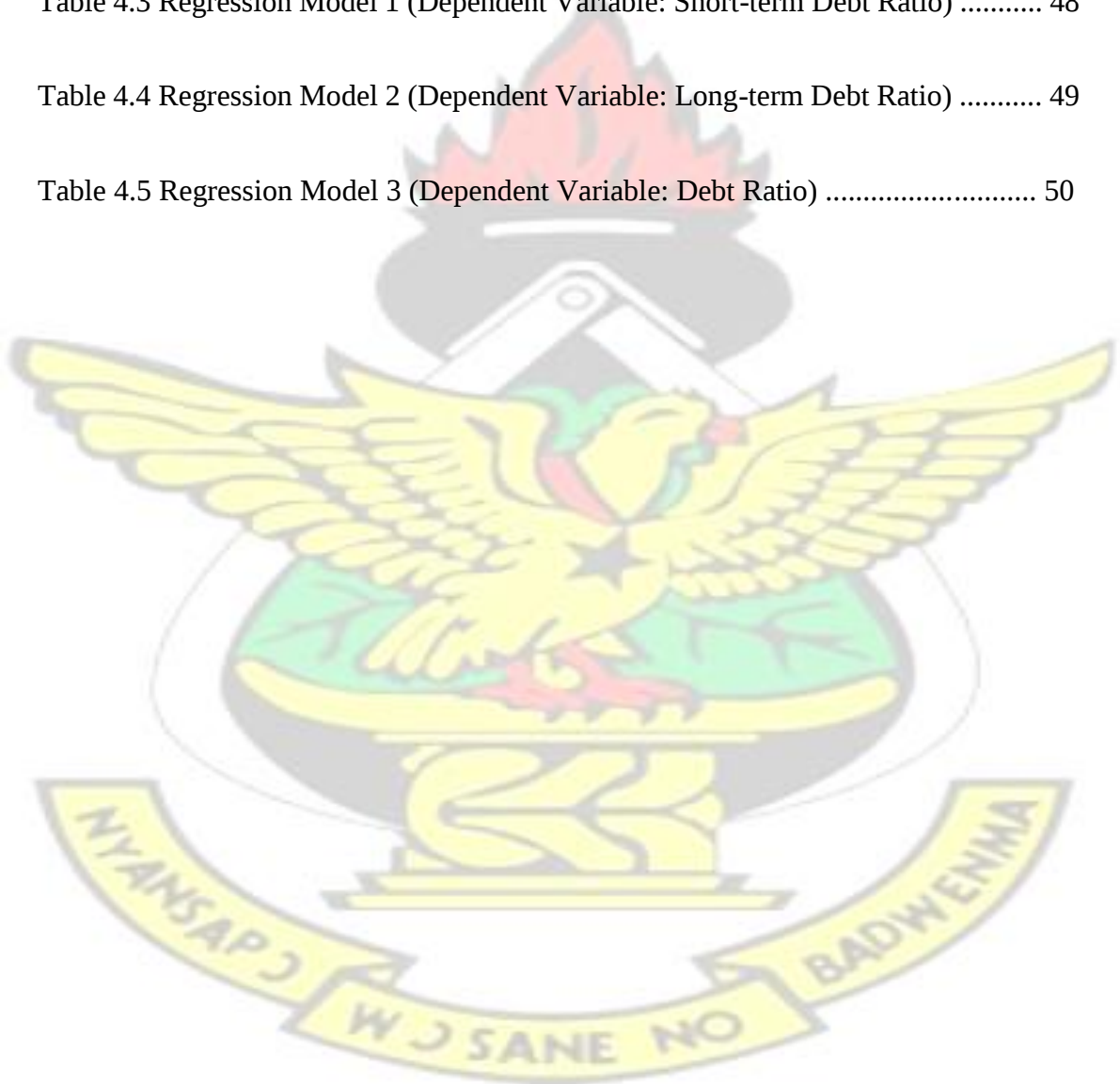
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CHAPTER ONE

GENERAL INTRODUCTION

1.0 INTRODUCTION

Chapter one throws light on the introductory part of the study. It gives vivid description on the background, problem statement, and objectives. Also dealt with is the scope, limitation and the study's significance. The last section describes how the whole study is structured.

1.1 BACKGROUND OF THE STUDY

Corporate governance reform has ranked high on policy makers' agenda in many countries since the late 1990s. New laws and regulations aimed at improving corporate governance have been introduced in many countries and particularly in several Asian countries in the aftermath of the East Asian financial crisis of 1997/1998 (IMF Working Paper, 2006). Firms require funds to finance their growth and investments in order to achieve business objective. These funds can be provided for through the capital structure decision.

The decision to raise external funds, whether to go for debt or equity financing is very important in firm's financing policy, due to the need to create shareholder value and also be able to respond to its corporate social responsibility. Financing is a significant managerial decision since it influences the shareholders' return and risk, and consequently, the market value of shares. Thus, firms need to choose a financial structure that best maximizes its value so that it will be able to adapt more easily to changing conditions. The capital structure of a firm is the judgment the firm makes as to the method of raising funds that maximizes its value. It is how a firm finances its

overall operations and growth by using different sources of funds. Thus it revolves around how to pay for investment and expenses by either using the firms existing capital, borrow or sells equity (Veda Kenichin, 2006). This means there are a lot of financing options available that firms can make a choice, whether to go for debt or equity. Equity financing is trading a percentage of the business for a specific amount of money such as common stock to enable the firm get the needed funds without taking on additional debt. Debt financing is basically money the firm borrows to run its operations, for example issuing of bonds. Most decisions in the areas of corporate finance are accompanied by financial structure decision. However, firms' choice of financing decision depends on the impact on the firm's total market value. A firm seeks to optimize its financial structure by choosing a combination of debt and equity that concurrently maximizes the average cost of capital. This means, in an attempt to set a financing decision that maximizes the overall market, firms differ in the way they deal with the issue of optimizing their financing requirements (Abor, 2007).

The collapse of giant firms like Enron and World Com and others across the globe resulting in losses of many investors, which was attributed to weak corporate governance has made corporate governance concept gained public interest, particularly, in emerging economies like Ghana. Corporate governance concept has been increasingly taken into consideration, hence, making it a popular management research topic. Sound governance practices in a firm boosts the confidence and goodwill of investors, since it is an indicator used by any prospective investor in deciding which firms to spread their investments. A survey by McKinsey and Co in 2002, shows that about 85% of investors in Asia said they were willing to pay a premium for a well-governed firm. Thus, sound corporate governance principles are the foundation upon which the trust of investors is

built. Corporate governance is focused on the principles of accountability, transparency, fairness and responsibility the firm's management. The institution of sound corporate governance measures in a firm aligns the values of all stakeholders and also ensures checks and balances by defining the roles of various stakeholders, increasingly, a typical feature of the modern firm. Claessens, S., Djankov, S., Fan, J.P.H. and Lang, L.H.P, (2002) maintain that better corporate frameworks benefit firms through greater access to financing, lower cost of capital, better performance and more favourable treatment of all stakeholders.

The issue of corporate governance has been a key topic for active discussion because it provides investors and financial analyst with conceptual and analytical insights to make skillful decisions. The reason behind investors drive to offer valuable financing or pay a higher equity price for well governed firms. In developing economies like Ghana, public interest in the regulation of corporate governance has been maintained because of its significance in yielding economic value to the firm and as well, protects and maintains investors confidence. No wonder, corporate governance has now become a topical issue in Ghana. For instance, at the Annual General Meeting (AGM) of the Cocoa Processing Company (CPC), in the year 2008, shareholders of the company raised concerns about the payment of low returns on their Shares', accusing the directors of squandering their investments. Abor (2007), Firms in Ghana are characterized by large shareholder ownership structure, paving way for major shareholders to influence the firm's strategic decisions such as financing.

Many studies investigated the factors effective on firms capital structure following the seminal work on financial structure by Miller and Modigliani, published in 1959(Shah and Khan, 2007). Abor (2007), Kyereboah-Coleman (2007), Shah and Khan (2007),

and Cheng, Najar and Rajan (2008), however, identify that majority of the studies centred on advanced monopolies with no focus on developing countries. As a result, currently, relatively very little research exist on developing economies.

Therefore investigating the firm's corporate governance and its impact on capital structure decision of Ghanaian firms is crucial. Specifically, this study explores the effects of board independence, board size and chief executive officer's duality on financing decisions of Ghanaian listed firms over a five -year period (2006-2010) after controlling for size, age, profitability, growth and asset tangibility of the firms.

1.2 STATEMENT OF THE PROBLEM

Firms financing decision is really important to managers due to its effects on the firm's value. (Rajendran, 2012). It is about how a firm makes a choice between debt and equity to fund its operations. There are consequences in choosing either more debt or more equity. A wrong financial mix choice can end up in financial distress(Azerbaijani and San, 2012).

Key mechanisms that protect the interest of shareholders are known as corporate governance. The call for sound governance is seen by various reforms and structures designed domestically and worldwide. Better corporate framework has significant influence on the economy, through improved efficiency, protection of investors which in turns make the capital market become more develop for sustain economic growth (Spanos, 2005).

One key determinant of the firm's agency cost which can significantly affect firm's strategic decisions is the ownership structure. In Ghana, the corporate firm is characterized by large shareholders' paving way for the major shareholder to influence strategic decisions such as financing. Large shareholder's dominance may therefore have effect on capital structure decisions (Abor, 2007). Corporate governance and

capital structure work hand in hand to ensure the firm's effective decision making(Kim, 2011). Both corporate governance and capital structure has great influence over each other and various firm policies including research and development, investment and corporate market strategy. However, since a firm is represented by interest of various stakeholders; corporate governance has been a key topic of active discussion, especially, conflicts of interests between stockholders –debt holders and between stockholders-managers has received much attention from both academia and practices. Agency cost is one of the determinants of capital structure. As to how it influences capital structure decision has generated interest since Jensen and Meckling (1976). Empirical literature produce inconclusive results with regards to relationship between corporate governance and capital structure decisions of firm (Bodaghi and Ahmadpour, 2010). A thorough search in the Ghanaian literature shows that the available empirical works are centred on the impact of corporate governance on firm's performance or examines the effect of capital structure on firm's profitability. The fact remains that the relationship between corporate governance and firms financing decisions has not been fully explored, as only few studies discuss the said relationship (e.g. Abor and Biekpe, 2007). A study of the said relationship in Ghana is therefore crucial.

1.3 OBJECTIVES OF THE STUDY

The study's overall objective is to examine the impact of corporate governance mechanisms on financing choices of Ghanaian firms'. Specifically, it dwells on these objectives:

1. To find the nexus between board independence and financing decision.
(Accomplished in pages 48 and 54)
2. To examine the effect of board size on firms' finance decision. (Accomplished

in pages 47 and 54)

3. To explore the relationship between the CEO duality and finance decision.

(Accomplished in pages 49 and 54)

1.4 RESEARCH QUESTIONS

For a successful research and a more detailed study of the problem, it is necessary to formulate questions as a guide to arrive at a comprehensive conclusion for the study; the researcher therefore asked the following questions:

1. What is the nexus between board independence and financing decision?
2. What is the effect of board size on firms' finance decision?
3. What is the relationship between the CEO duality and finance decision?

1.5 JUSTIFICATION OF THE STUDY

Interest in firm's corporate governance practices increased, particularly, with regards to financing decisions, following the spectacular corporate failure during 2001-2002. Interestingly, from the context of an emerging market, particularly Ghana, this work is among the few studies on corporate governance particularly, in relation to firm's financing decision.

Besides, it would also provide vital data that can be used by policy makers and other stakeholders as well as help fill the research gap identified. The hope is that, the outcome would serve as an important reference material added to the very little empirical research from a developing economy such as that of Ghana. Thus, understanding the effects of corporate governance will guide policy discussions on the improvement in the country's corporate governance systems. The justification of this study is in no doubt, because in the contemporary Ghanaian society, firms corporate

governance practices have maintained public interest. This call is understandable for corporations to develop governance model that ensures transparency and accountability as well as aligning the values of all stakeholders with the view of improving firms performance.

Similarly, investigating the quality of corporate governance on firms financing choices can be useful to support potential investors and financial analyst with conceptual and analytical insights to make skillful decisions and as well, investor protection provided at the national level by the government is vital for rating the quality firm level governance in that country.

1.6 SCOPE OF THE RESEARCH

The study covers 14 firms listed on the Ghana Stock Exchange during a five-year period, from 2006 to 2010. The analysis would be based on the firm's annual reports on the above said period and as such, sample firms would therefore be selected based on the needed information available, and with respect to year of operation.

1.7 LIMITATIONS OF THE STUDY

The success chalked by the study is not without hindrances. To begin with, the study employs secondary data (Published Annual Information) which implies that the information has been published for purposes other than to solve the problem at stake; hence, this data does not meet certain specific needs. Besides, the sample size of this study is small and it is limited to firms listed in Ghana. Therefore, the findings cannot be generalized, as the sample selection was done by the required information available

and not by any probability means. As well, access to needed information in some establishments is a problem. Financial statement for some institutions for the period under review is not available. In addition, lack of resources on the part of the researcher in terms of financial and time constraints cannot be left out.

1.8 ORGANIZATION OF THE STUDY

The whole write up is sectioned into five chapters. Chapter one addresses the introductory part of the study where vivid description is done under the headings: background of the study, problem statement, study's objectives and research questions. Among them also include, the justification, scope and limitation of the study.

The succeeding chapter deals with the review of the various empirical and theoretical literatures on corporate governance and firms financing decisions which are relevant to the study.

This is followed by the third section which captures the research methodology, and the history of the Ghana Stock Exchange with definitions of key variables used in the study.

The remainder of the work is structured as follows: section four deals with the results of the study's empirical analysis and the concluding chapter, draws down the curtain on the whole write up of the study. It summarizes the findings of the study and also gives some recommendations and conclusions.

CHAPTER TWO

LITERATURE REVIEW

2.0 INTRODUCTION

This section deals with the review of the various theoretical and empirical frameworks. This includes the meaning of corporate governance, the concept of agency relationship and cost, corporate governance variables, measures of corporate governance quality, and empirical issues in corporate governance and firms financing decision. As well, concept of capital structure and empirical issues in corporate governance and firm performance is reviewed.

2.1 CORPORATE GOVERNANCE

The growth in the administration of modern entities has brought about the presence of absentee shareholders and the hiring of experts or professionals to act as agents to manage the firm's resources on behalf of the capital providers. This creates an economic relationship within the firm which in turn leads to divergent and sometimes conflicting objectives among the agents and the principals. Corporate governance is one of the concepts to ensure that the incremental cost which arises from the inefficiency of the relationships between an agent and a principal due to conflicts of interests within the firm is brought to the barest minimum (Kyereboah-Coleman, 2007).

Corporate governance deals with processes and structures which facilitate the creation of shareholder value through management of corporate affairs in such a way that ensures the protection of the individual and collective interest of all stakeholders

(Bodaghi and Ahmadpour, 2010). Corporate governance could be defined as 'the application of a set of powerful micro-policy instruments in an organisation to ensure

an efficient and effective use of resources in achieving the main objectives of its capital providers, succeed in the competitive market , as well as maximizing its positive influence on other stakeholders and at the same time , minimizing its negative impacts on them' (Castellini & Agyemang, 2012). From the definitions given above, the concept of corporate governance can be explained as the laid down policy structures that determines the firm's business direction to ensure that management takes performance improving measures to sustain competition, be able to adapt more easily to changing conditions as well as safeguard the interest of stakeholders. In the words of La Porta, Lopez-de-Silanes and Shleifer (2000) it refers to the set of mechanisms through which outside investors are protected against expropriation by insiders'. Insiders include managers, major shareholders as well as large creditors. Outsiders include equity investors, debt providers, and minority shareholders. In its broadest sense, corporate governance refers to a complementary set of legal, economic, and social institutions that protect the interests of a corporation's owners (Attiya Y. Javed and Robina Iqbal, 2007). As such, a country's corporate governance regime has deep implications for firm organisations, employment systems, trading relationships, and capital markets. Corporate governance refers to the quality, transparency, and dependability of the relationships between the shareholders, board of directors, management, and employees that define the authority and responsibility of each in delivering sustainable value to all the stakeholders.

A well defined corporate structures in a firm is an attempt to solve conflict of interest among principals and their agents. (Jensen and Meckling, 1976). This means corporate governance exists to provide checks and balances to shareholders and managers in order to mitigate agency problems. As a result, firms with good corporate governance

practices are supposed to have few agency problems. Therefore, as corporate governance has effect on agency problems, and agency problems have influence on capital structure decision, then it is argue that there is a relationship between corporate governance and capital structure decision. Thus, shareholders appoint board members and the board also appoints managers to see to the day to day affairs of the firm. This implies that, the directors and shareholders ensure that the firm is ran for the interest of stakeholders.

Interest in firm's corporate governance practices increased, particularly, with regards to financing decisions, following the spectacular corporate failure during 2001-2002.

As a result of these challenges, various measures have been taken across the globe. One of such measures is the Sarbanes-Oxley Act of 2002 to regulate and enhance corporate mechanisms as a means of solving these frauds with the view of maintaining public confidence. (Chen, Chiou and Kao, 2010 and Aguilera, 2005). According to the World Bank 1999 report, corporate governance practices can either be internal or external. The internal gives priority to the interest of shareholders' through the boards to monitor top executives whereas the external ensures that executives actions are in line with regulations that aligns stakeholders interest. Governance practices like board composition, board size and CEO/chair duality have important implication for firm's performance. Research shows that such relationship can either be positive, negative or neutral (Morch, Shleifer and Vishny, 1989, Lehman and Weigand, 2000, and Bolton and von Thadden, 1998).

2.2 THE CONCEPT OF AGENCY RELATIONSHIP AND COST

Among the crucial theories that has been extensively examined in the literature and has received supporting evidence is agency theory. The subject matter of how agency cost affects firms financing behaviour has received much attention since Jensen and Meckling's (1976) seminal work on theory of the firm. Agency cost is the incremental cost of having an agent makes decision on behalf of the principal. Thus, it arises from the inefficiency of the relationships between an agent and a principal as a result of conflicts of interests within the firm. Meckling (1976) describes agency relationship as a contract in which a principal appoints an agent to perform some service on his behalf, which involves delegating some decision-making authority to the agent.

This theory was initially applied to the link between managers and equity holders without explicit recognition to other parties having a vested interest in the firm. Subsequent studies gave considerable attention to all other parties who has a stake in the firm. This theory that aligns the values of all stakeholders is known as the stakeholder theory. It suggests that the purpose of a business is to provide as much value as possible for stakeholders. This means in order for the firm to succeed and be sustainable over time, executives must keep the interest of managers and all stakeholders align and going in the same direction. Thus the concern of the stakeholder theory goes beyond the relationship between managers and shareholders to incorporate all other parties with a stake in the firm.

The stakeholder theory has captured the attention of researchers and the literature on this aspect is built on the works of John and Senbet (1998). For example, in an effort to expand the scope of stakeholder theory, Jensen (2001) find a large number of parties having a stake in the firm. Jensen holds support to John and Senbet (1998) original

study that some decisions by management might have conflicting effects on other parties with a stake in the firm. This means management has a different objectives to pursue apart from the firm's prime objective. Jensen sees this as an important weakness of the stakeholder theory, since it contradicts the idea that a single-valued objective is a prerequisite for purposeful rational behaviour by any organisation and proposed enlightened stakeholder theory as the refinement of the former. According to Jensen, this enlightened stakeholder theory has these strengths: One, contrary to the former version with more than one objective; the refined form of the theory suggests that maximization of the firm's long-run value is the sole objective to be achieved by management. If the interest of any major shareholder is not protected, the objective of long-run value maximisation would not be achieved. Besides, it offers a simple criterion to enable managers to decide whether they are protecting the interest of all the stakeholders, invest a dollar of the firm's resources as long as that will increase by at least one dollar the long-term value of the firm. Jensen however, cautions that the criterion may be weakened by the presence of a monopoly situation or externalities (Jensen,2001).

Despite its appeal, the refinement stakeholder theory that Jensen proposed has not been subjected to much empirical evaluation. At least two factors might have contributed to the gap between theory and evidence. First, already alluded to, concerns the prevalence of externalities and monopoly situation. Secondly, the problems associated with getting an accurate measure of the long-term value of the firm (Sanda, A., Mikailu. S. A. and Garba, T, 2005). Literature search reveals that the alignment of manager-stakeholder interest can be dealt with by the use of both market and non-market mechanisms. The

managerial labour market and the market for corporate takeover tend to exert pressures both within and outside the firm in order to achieve such alignment of interest.

2.3 CORPORATE GOVERNANCE VARIABLES

Considerable studies have been devoted by Financial Economists on measures that could be used to give firm managers the right incentive to put forth appropriate effort and take decisions aligned with finance providers interests. Despite numerous empirical evidence, how to resolve the problem has not reached a consensus, resulting in a variety of measures designed to help minimize the cost associated with conflicting objectives among managers and finance providers. Corporate governance mechanisms reviewed in this study focus on board independence, board size, CEO duality, insider shareholding, ownership concentration, institutional ownership and audit committee.

2.3.1 Board Independence

One of the mechanisms proposed to help reduce the self-interest motivated actions among firm managers and finance providers is the composition of the board (Weisbach, 1988; Hermalin and Weisbach, 1991). John and Senbet (1998) states that the higher the number of non-executive directors accounts for the board, the higher its independence. This is measured by the ratio of non-executive directors to board size, thus, the higher the ratio, the more independent the board. However, empirical literature does not provide any conclusive evidence as to how it affects firm performance. The assumption is that directors from within the firm are well versed with firm's activities and for that matter be effective in exercising their oversight duties. However, a consensual view is that non-executive directors are also believed to act professionally by ensuring a fair returns on capital invested. (Fama, 1983). In support of this, Fama and Jensen (1983) extensively researched into this aspect, and find that

directors from within are well versed with the firm's affairs and will connive with executives to pursue self interest activities at the expense of shareholders. Comparatively, outside directors acting professionally as supervisors, can help deal with the conflict of interest among principal-agent contract. Beasley (1996) concludes that the ratio of independent directors in firms without financial scandals outweighs corporations which were found in the manipulation of financial reports, after examining board composition and its relationship with financial scandals. The effectiveness of the board largely rest on the optimal mix of inside and outside directors (Fama and Jensen; Baysinger and Butler, 1985; Baysinger and Hokinson, 1990), however, there is not enough literature on the determinants of optimal board composition. Research by Weisbach (1998), Rosenstein and Wyatt (1997) confirm that the higher the ratio of independent directors sitting on board, the better the firm's performance. Outside directors are in a better position to challenge the actions by managers. Perhaps it is in recognition of their role that the regulations in USA, requires that outside directors form at least two-thirds of the board; in the UK, a minimum of three outside directors is required (Bhagat and Black, 2001).

2.3.2 Size of the Board

Corporate governance advocates make mention of board size as another mechanism to help bring down to the minimum, the incremental cost which arises out from the inefficiencies of the principal-agent contract. Yermack (1996) reviewed the works of Monks and Minows (1995), and find that the larger the board the slower the decision taken which is a nuisance to change. The number of directors is assumed to have an influence on financing decision. However, there is no agreement over whether the board size (small or large) performs its responsibilities better. Yermack (1996) propose an

optimal board size of ten or fewer as ideal after undertaking an extensive examination on the impact of board size on firm performance, and find that, better performance is associated with smaller board size. This work by Yermack have important implications, since it needs an interplay of forces outside the market system in order to determine the size of the board (John and Senbet, 1998). Communication problems associated with large board size which slows the pace of reaching consensus on firm's strategic decision, couples with its high expenditure on monitoring expenses has also been seen for the support of smaller boards.

Besides, directors on large boards have different viewpoints and as such, deliberations take longer time which slows down the pace of decision making, consensus difficult to reach, in this case the efficiency goes down and even worsen when new directors are brought on board (Lipton and Lorsch, 1992). Bacon (1973) holds a reverse view, arguing that larger boards imply people with different background and viewpoints, which can not only be translated into quality of decisions but as well, neutralize their interest in decisions. Also, Zahra and Pearce (1989) and Kiel and Nicholson (2003) find that the performance of the firm is positively related to its board size.

Similarly, firms with lower cost of debt in financing are likely to have larger board size (Anderson, R., Mansi, S. and Reeb, D, 2004). Subsequent studies by (e.g. Wen, Y., Rwegasira, K. and Bilderbreek, J, 2002 and Abor, 2007) shows that board size relates positively with leverage. They argue that larger boards are effective in monitoring and have the power to influence management to adopt higher leverage in their financing options.

2.3.3 CEO Duality

A lot of concerns have been raised on whether the CEO position should be held distinct from the board chair or doubles as the chairman of the board? This proposition was first championed by Fama and Jensen(1983), arguing that when the power to take and as well control decisions is vested in one personality, it renders the board ineffective in exercising their monitoring role on actions by top management.

Since then, numerous studies have focused on the critical role of the board's ability to exercise its oversight responsibilities to monitor and remove poorly performing managers. Jensen (1993) notes that the absence of leadership independence renders it impossible for boards to react appropriately to top management actions. The board is the firm's apex decision making body, so if the chairman also holds the CEO's position, performing dual roles, it will in a way influence the firm's overall performance. Yermack(1996) examined the separation of the two positions and concluded that firms are more valuable when the two slots are held distinct from each other, since it creates a series of checks and balances to prevent an officer from exerting undue influence on the board's actions.

Also in support to this, studies by Brickley, J.A., J.L. Coles and G. Jarrell in 1997, reports that when CEO chairs the board, it results to leadership facing conflicts of interest and increasing cost associated with finance provider-manager contract. Therefore, higher levels of control by CEO may lead to self interest behaviour by top management. Subsequent research by (e.g. Rehman and Raoof, 2010, Saad, 2010, Vakilifard, Yanesari, and Ma'toofi, 2011) has also shown that when the two positions are entrusted in one personality, it influences firm's capital structure decision. In this regard, empirical studies (e.g. Dahya, 1996 and Lonie and Power, 2006) have shown

that when the two positions are held distinct, it creates series of checks and balances in the firm which in turn enhances shareholder value. Clearly, it implies that the two slots should not be entrusted in one personality to have the power to take decision and control it as well, as the right to ratify and monitor proposals. This makes it more difficult for officers in management to engage in any actions that will suit their own interest to the detriment of principals.

Forsberg (2004) observes that firms where the two slots are distinct from each other are more likely to employ the optimal amount of debt in their capital structures than firms where the CEO doubles as the board chairperson. Dahya (1996) confirm this notion, emphasising that CEO duality could bring about negative effects for firms' financing decision. The direction of impact of this variable on firm financing behaviour seems inconclusive. Ma'toofi (2011) report a positive relationship between CEO duality and leverage whilst Saad (2010) find a reverse association between CEO duality and firm's capital structure decision. Bodaghi and Ahmadpour (2010), concludes that CEO duality does not significantly influence corporate financing behaviour. However, the truth is that, when the two slots is entrusted in one person, it facilitates firms decisions and projects without delays. This present study also concludes that firms where the CEO doubles as the board chair creates a fertile ground for the agent to exert greater influence on the final outcome of the board's decisions and therefore paving way for the CEO to pursue self-interest behaviours.

2.3.4 Insider Shareholding

Researchers (De Angelo, H. and L. De Angelo, 1990; Mc Connell and Servaes, 1990; Loderer and Martin, 1997) studied on this aspect and had different conclusions. For instance, Mc Connell and Servaes (1990) report a significant relationship between

insider shareholder and strategic decisions of the firm. They argue that firm performance, according to convergence of interest hypothesis, the presence of insider shareholding could bring the interest of agents and absentee shareholders aligned to reduce the cost associated with principal agent contract. Kesner (1987), Oswald and Jahera (1991), Eng and Mack's (2003) confirm this notion, reporting a positive relationship between insider shareholding and firm performance. Holderness and Sheehan (1998) find that insider ownership relates positively with firm's capital structure decision. They report that higher insider ownership of the firm translates into financing decisions that maximizes the firm's overall market value. Because they are part of decision making and control, they can effectively monitor the firm's strategic decisions.

However, Loderer and Martin (1997) find a contradictory evidence to that of Oswald and Jahera (1991), reporting no significant relationship with insider shareholding and firm performance.

2.3.5 Ownership Concentration

Ownership concentration refers to the proportion of a firm's shares owned by a given number of the largest shareholders. At high levels of concentration, more pressure is put on management to engage in value-maximizing activities. Studying on how improved shareholder mechanisms (ownership concentration) affect firm financing taking into account its effect on corporate investment policy, John, Litov and Yeung (2008) find that the less protected the management of firm is, the lower the governance score it is assigned. Firms with strong shareholder rights rely more on equity to meet financing needs whereas firms with weak shareholder rights rely more on debt. Perhaps reflecting the cumulative outcome of the effect of governance mechanisms on

incremental financing decisions, find that firms with strong shareholder rights have lower leverage ratios (John, Litov and Yeung, 2008).

2.3.6 Institutional Ownership

Wharton C.G., Lorsch, J.W. and Hanson, L (1991) argue that institutional investors need not take active interest in the firms' corporate governance since they themselves have their primary fiduciary duty for their vested stake, which can result in conflicting objectives with their acting as owners. This implies that they need not have active role in the firm's strategic decisions. Contrary to this view, some studies report that wellgoverned firms have actually generated risk-adjusted excess returns for their shareholders and hence, if an institutional investor invests in such firms with high governance score, it will actually help its shareholders. For example, Shleifer and Vishny (1989) observe that institutional investors by virtue of their vested stake in the firm will act professionally to monitor corporate performance since they are part of the end beneficiaries. Ajinkya, B., Bhojraj, S. and Sengupta, P (1999) find a positive relationship between financial analysts' ratings of corporate disclosure practices and institutional stock ownership. Cremers and Nair (2005) argue that some institutional investors such as pension funds might have more incentives to monitor than others and act as more aggressive shareholder activists. The results of these studies show that if the corporate governance system in the firm succeeds, then the institutional investors must play an active role in the entire process. Overall, it is not clear from the current literature how the institutional ownership affects the strength of monitoring. The literature however, suggests that the nature of institutional investors might be important in determining their willingness to monitor. Ahmadpour and Bodaghi (2010),

institutional shareholding in a firm helps it to raise the needed funds at a lower cost, since institutional investors themselves act as a source of long term debt as they are willing to provide debt to a firm whose board they enjoy an influence.

Besides, they act as an effective monitoring device over the company's strategic decisions, to minimize self-interest actions by top management. This gives confidence to general public and other lenders- resulting in favourable terms of borrowing by the company. They therefore conclude that firms with higher institutional shareholding are likely to have a higher debt to equity ratio in their capital structure decision than firms with lower institutional ownership.

2.3.7 Audit Committee

Klein (1998) argues in favour of the need to set up committees on audit, remuneration and appointment. Additionally, accounting irregularities (scandals) reports by the US.Wall Street Journal in September, 1998, has maintained interest in the effectiveness of audit committee as part of a scheme of structures in the regulation of corporate governance. Audit committee can be explained as the operating committee of the board of directors charged with oversight of financial reporting and disclosure.

This implies that they have the responsibility for overseeing the corporation's system of internal controls over financial reporting process. Perhaps, it is the most reliable entity in safeguarding public interest. The independence of audit committee members is heightened with the view to enhance transparency which is a critical part of effective governance. Studies show that audit committee is one of the internal governance mechanisms for the improvement of quality financial management of a firm, and hence, its performance. Research shows that public confidence has been retrieved in financial reports after the establishment of audit committee (Wild, 1994). The way in which cash flow is allocated and more importantly, how the right to make decision and manage the

firm is dealt with must be examined by the audit committee. For instance, venture capitalists are particularly sensitive to how capital structure and financing contracts are laid out, so that optimal corporate governance can be guaranteed whilst incentives and checks for management behaviour are well established (Zingales, 2000). Audit report helps various parties that have a vested interest in the corporation to know the state of their stake, whether it is viable or have a guarantee security in the foreseeable future. Thus firms with the greatest financing needs in the future will find it the most beneficial to adopt quality governance mechanisms today. All these information are brought to light through audit report. Anderson (2004) studied on this governance aspect and found that entirely independent audit committee affects a firm's capital structure decision as the sampled firms' have lower debt financing costs.

2.4 MEASURES OF CORPORATE GOVERNANCE QUALITY

It refers to the standards set or the indicators that determine a firm's corporate governance. For a good governance model and its relationship on firm's financing decision needs an examination of how governance practices affect both shareholders and debt-holders. To the shareholder, sound corporate governance is measured in terms of its value to them whilst; a governance regime might not favour debt holders by encouraging value-enhancing risk-taking that leaves debt-holders with downside risk (Kose and Litov, 2008).

Corporate governance involves mechanisms that govern the actions of, and interactions between, firm managers, shareholders, board members, and stakeholders. The higher the quality of firms' level corporate governance, the quality the decision taken, in terms of financing. When the independence of outside directors is heightened they will act professionally on the job to improve the firm's performance. Weisbach (1998),

Rosenstein and Wyatt(1997) and Huson(2001) corroborate that the higher ratio of independent directors account for boards, the higher the quality of corporate governance score and the better the financing choice could be. Dominance of nonexecutive directors on the board speaks to the public that the firm is being monitored efficiently, and as well assurance to all having a vested stake in the firm about its viability in the foreseeable future. The impact of director's independence on board effectiveness with regards to board control is high, an indicative of active monitoring of management actions. The quality of corporate governance could also be viewed at from the angle of board size. Governance quality goes down in larger boards as Jensen (1993) finds that due to delays in reaching consensus on firms strategic decisions, the efficiency goes down which could worsen when addition directors are brought on board. Similarly, if the two slots are vested in one personality the board could lose its independence and monitoring power. This signals the absence of checks and balances in the firm creating a fertile ground for the officer to engage in self motivated actions, hence, corporate governance quality goes down; paving way for the CEO to influence the firm's financing decision. This means the two slots should be held distinct from each other. Studies by Forsberg (2004) shows that firms with a two-tier leadership structure have sound corporate governance and are likely to employ the optimal amount of debt in their financing decisions than firms with the CEO as chair.

With regards to insider shareholder and firms financing, by convergence of interest, higher ratio of insider ownership could align the interest of managers' and outside shareholders so that the cost associated with agents and finance providers due to conflict of interest within the firm is minimized. Hence corporate governance quality goes up

and the quality of financing decision taken is in the best interest of stakeholders. Kesner (1987) and Oswald, Jahera, Eng and Mak (2003) find that this aspect relates positively with firms financing decisions. Concerning audit committee, it enhances the board's independence and effectiveness in their oversight role. The institution of audit committee and setting up of specialized committees with different membership on separate critical areas of the firm's operations is perhaps the most reliable entity in safeguarding public interest, corporate governance is said to be high, which helps the firm to attract external financing. The presence of institutional ownership in a firm ensures effective and efficient monitoring of management over the company's strategic decision, particularly financing decision to prevent managers from pursuing actions that suit them. Thus, corporate governance quality is high when there is an active institutional ownership in the firms. This boosts confidence of the general public and other stakeholders the viability of the firm, and as well, controls these individuals through regulation or firm policy, and protects investors. It is for this reason that investors are more willing to offer valuable financing or pay a higher equity price for firms with better governance (Chen, Cheng and Wei 2009).

2.5 CAPITAL STRUCTURE DEFINED

The theory of capital structure has become the focal point in firms financing policy due to its influence on returns and risks to various stakeholders. The investment projects of a firm can be funded by either increasing owners' claims or creditors' claims. Owners claims increase when the firm raises funds by issuing common stock or using plough back earnings and that of creditors increase through borrowing. The various means of financing represent the firm's financial structure.

According to Myers (2001), capital structure is the combination of securities and financing sources used by firms to finance real investment. Most of the research on capital structure has focused on the proportions of debt versus equity observed on the right-hand side of corporations' balance sheets.

Capital structure decision is a decision that concerns the liabilities and stockholders' justness side of the firm's balance sheet. It is a judgment made by a firm as to the method of raising funds that best maximizes its value (Shari Waters, 2012). David Kurt (2011) explains that capital structure decision is one of the most fundamental issues managers have to face since its prime aim is to maximize shareholder value. Thus it can simply be explained as decisions which revolve around how to pay for investments and expenses by either using the firm's existing capital, borrow or sell equity. Firm's financing decision also involves determining the proper amount of funds to be employed as well as selecting projects and capital. Because all the functions of the company need to be paid for one way or another, it is up to the finance team to figure out how to pay for them through the process of financing (Veda Kenichin, 2006).

According to Veda Kenichin (2006) there are two ways of financing an investment: using the company's own money or by raising money from external funders: by taking on debt or by selling equity. Equity financing is trading a percentage of a business for a specific amount of money. This form enables the business to receive the needed funds without taking on additional debt. On the other hand, debt financing refers to money borrowed by the firm to finance its operations. This can either take the form of long-term, medium term or short-term depending on the type of loan the firm wants to contract.

Capital structure decision is very vital for any business organisation since such decision can be affected by various factors. It is a significant managerial decision which determines the return and risk of shareholders (Suleiman, 2001). The way in which cash flow is allocated (cash flow right) and more importantly, how the right to make decision and manage the firm (voting rights) is dealt with must be examined.

For instance, venture capitalists are particularly sensitive to how capital structure and financing contracts are laid out, so that optimal corporate governance can be guaranteed while incentives and checks for management behaviour are well established (Zingales, 2000). The need for additional capital calls for a new capital structure decision as to the quantity and method of financing as well as the analysis of the existing capital structure and factors which will govern the decision.

All decisions about capital structure boil down to how to spend money, and how to raise money. To do so the firm has to critically re-examine its goals both in the short and the long run. The overall goal is to maximize shareholder value so every decision must be put in that context. Modigliani and Miller (1998) report that firms need to find the right mix between long-term and short-term financing; perhaps financing doesn't matter, proving that the choice between debt and equity financing has no material effects on the value of the firm or on the cost or availability of capital. They assumed perfect and frictionless capital markets, in which financial innovation would quickly extinguish any deviation from their predicted equilibrium. This logic of Modigliani and Miller is now widely accepted. Nevertheless, financing clearly can matter because of taxes, differences in information and agency costs. Optimal capital structure theories differ in their relative emphasis on these factors. The trade-off theory emphasizes on taxes, the pecking order theory on differences in information, and that of cash-flow theory on agency costs.

Firms capital structure decision has become a growing area of management research and as such studies have produced a number of theories to explain the concept. However, the best that academics and practitioners have been able to achieve are prescriptions that satisfy short-term goals. This means no single theory of debt versus equity option is generally accepted as Modigliani and Miller (1998) unveiled.

2.6 EMPIRICAL ISSUES IN CORPORATE GOVERNANCE AND FINANCING DECISIONS

Previous studies on corporate governance indicate that it has effects on firms financing decision (Berger, P.G., Ofek, E. and Yermack, D.L., 1997; Friend and Lang, 1998). Abor(2007) reports that firms capital structure decision may be affected by the large shareholder dominance. Litov (2005) finds that firm's corporate governance correlates with its financing decision. Veliyath (1999) pinpoints that the board forms a link between owners and managers with the role of protecting shareholders stake. Taking oversight responsibility for managing and supervising, the board monitors managers' behaviours, make important decisions, appoint management team and ensures that top management adhere to the firms laid down structures. Although the board of directors is charged with monitoring management on behalf of shareholders, Fama and Jensen (1983) argue that they may have conflicting objectives. Inside directors who are also managers of the firm have incentive to pursue decisions that maximizes their self interest objective, whereas non-executive directors have incentive to act professionally, by making decisions that signal their abilities as efficient decision-makers to the labour market.

La Porta, R., Lopez-de-Silanes, F and Shleifer, A (1998) argue that firms with sound governance practices give assurance to investors that the business is viable and how

their vested interest are secured in the foreseeable future. This will not only create goodwill for the firm but also maintain trust and confidence of investors to continue to provide financial capital to the firm. This shows that firms in need of financing in the future will have to follow suit. Also, La Porta, R., Lopez-de-Silanes, F. and Shleifer, A. (1999); Himmelberg, C.P., Hubbard, R.G. and Love, I. (2002) pinpoint that firms with good growth opportunities need to raise external financing in order to expand and may therefore find it optimal to improve their governance mechanisms. Also, sound corporate framework and protection of the minority shareholder may bring down their costs of capital. Thus, firms with greater external financing needs are likely to have good system of governance (Durnev and Kim, 2005).

Stein (1988; 1989) contends that effective system of governance in firms results in effective allocation of resources in the most efficient manner to raise the firm's value. When a firm has more outside directors, it enhances the firm's ability to protect itself against uncertainties and this increases the firm's ability to raise external debt (Pfeiffer, 1973, Pfeiffer and Salancick, 1978). Chen (2008) reports that effective corporate structures heighten the firm's level of independence at the management level to take timely strategic actions, which in the end will improve shareholder value. Thus quality governance system results in an increase in firm value, profits, and lower capital expenditures. A number of studies suggest that good governance impacts positively on firm's financing. Hartford, J., Mansi, S. A. and Maxwell, W.F. (2008) suggest that a well governed firm makes efficient utilization of their scarce resources whereas, firms without laid down structures of governance waste their resources more quickly on non viable ventures.

Brown and Caylor(2006) find that better governed firms are associated with higher financial value. Institutional shareholders acting as a source of long-term debt to firm

helps it to raise needed funds which is more economical since they have the feeling of being part of the decision making body. They are therefore able to exercise effective monitoring on the actions of top management which in effect reduce to minimum, the cost associated with the finance provider – manager and self interest activities by management. This will positively influence capital providers and other stakeholders, as well as the general public in investing in the firm, enhance allocation of resources to improve firms overall market value (Kose and Litov, 2008).

Studying on how improved shareholder mechanisms affect firm financing taking into account its effect on corporate investment policy, Kose and Litov(2008) find that the less protected the management of a firm is, the lower the governance score it is assigned. Firms where board's independence is heightened resort to equity to meet additional capital needs whereas firms with weak shareholder rights rely more on debt. Firms with riskier investments policies would in equilibrium have lower levels of debt compared to firms with safer investments policies. Hence, better governed firms would choose lower debt levels than badly governed firms. Abor (2007) finds that CEO duality is related to firm's financing decision. According to agency theory, when the two slots is entrusted in one personality taking and controlling decisions simultaneously, the board loses its controlling power to reduce the cost associated with principal agent contract due to conflict of interest within the firm(Jensen and Meckling, 1978; Fama and Jensen, 1983; Patton and Baker, 1987). Empirical studies (Daily and Dalton, 1993and Dahya, Lonie and Power, 1996) report that CEO duality could bring about negative effects for corporate strategic decisions.

Forsberg's (2004), finds that firms with a two-tier leadership structure should be more likely to employ the optimal amount of debt in their capital structures than firms with a unitary leadership structure. He finds that firms with a two-tier leadership structure

have higher debt/equity ratios. This finding contradicts Abor (2007), who concludes that, firms with the one-tier or unitary board system may pursue high short-term debt. In addition the presence of outside block holders may reduce the costs associated with conflicting objective within the firm. Shleifer and Vishny (1988) reports that block holders have strong desire to control management than small shareholders, because the benefits of their monitoring are more likely to exceed their expenditure. Brickley, Lease and Smith (1988) find evidence that outside block-holders with no current or potential business ties to the firm are more likely to act professionally to reject actions that are disincentive to shareholder value. In support to this, Denis and Serrano (1996) conclude that firms with more outside block- holdings have better performance than those with les outside block holdings.

The importance of monitoring by investment banks has also been recognized in literature. Shleifer and Vishny(1986) and Allen, Bernado, and Welch(2000) note that institutional investors are willing to extend financial resources to entity's that are viable. As a result, corporate strategic decisions can be tailored to attract institutional investors, who in turn may introduce corporate governance practices. Producing financial report certified by an independent third party is vital as it will maintain the trust and confidence of financiers and other stakeholders in making investment, credit and similar resource allocation decisions enhancing overall market efficiency (IASB, 2008).

2.7 CORPORATE GOVERNANCE AND FIRM PERFORMANCE

Better corporate framework ensures effective allocation and utilisation of the firms resources in the most efficient manner (Khanchel, 2007).

La Porta, R., Lopez-de-Silanes, F and Shleifer, A (1998) argue that firms with sound governance practices give assurance to investors that the business is viable and how their vested interest are secured in the foreseeable future. This will not only creates goodwill for the firm but also maintain trust and confidence of investors to continue to provide financial capital to the firm. This shows that firms in need of financing in the future will have to follow suit. Also, La Porta, R., Lopez-de-Silanes, F. and Shleifer, A. (1999); Himmelberg, C.P., Hubbard, R.G. and Love, I. (2002) pinpoint that firms with good growth opportunities need to raise external financing in order to expand and may therefore find it optimal to improve their governance mechanisms. Thus, firms with greater external financing are likely to have better corporate governance (Durnev and Kim, 2005). Stein (1988; 1989) contends that effective system of governance in firms results in effective allocation of resources in the most efficient manner to raise the firm's value. The resource dependence theory emphasizes that external directors enhance the ability of a firm to protect itself against the external environment, reduce uncertainty, or co-opt resources that increase its legitimacy (Pfeffer, 1973, Pfeffer and Salancick, 1978). Chen (2008) reports that effective corporate structures heightens the firm's level of independence at the management to take timely strategic actions, which in the end will improves shareholder value. Thus quality governance system results in an increase in firm value, profits, and lower capital expenditures. A number of studies suggest that good governance impacts positively on firm value. Hartford, J., Mansi, S.A. and Maxwell, W.F. (2008) suggest that well governed firms make efficient utilization of their scarce resources as compared to firms without laid down corporate structures. This means firms without laid down structures is conducive to mismanagement of the firms financial resources, which in effect weakens the firm's value. According to

Himmelberg, R.E., Hubbard, R.G. and Palia, D.(1999) the composition of the firm's assets also affects its contracting environment as it is easier, and harder to steal fixed assets(i.e. machinery and equipment) than "soft capital" (i.e. intangibles, research and development capital, and short-term assets such as inventories). Therefore, firms operating with higher proportions of intangible assets may find it optimal to adopt stricter governance mechanisms to signal to investors that they intend to prevent the future misuse of these assets. Thus, irrespective of the measure of governance it has a substantial impact on firm value through the firms usage of cash.

Brown and Caylor(2006) find that better governed firms are associated with higher financial value. Institutional shareholders acting as a source of long-term debt to firm helps it to raise needed funds which is more economical since they have the feeling of being part of the decision making body. They are therefore able to exercise effective monitoring on the actions of top management which in effect reduce to minimum, the cost associated with the finance provider – manager and self interest activities by management. This will positively influence capital providers and other stakeholders, as well as the general public in investing in the firm, enhance allocation of resources to improve firms overall market value (Kose and Litov, 2008). The less independent the firm management is, the lower the governance rating scored. This means firms with high board independence resort to equity to cater for additional capital requirements whereas firms that depend more on debt have weak shareholder rights.

Demirguc-Kunt and Levine, (1996) associate better governed firms' performance with improved macroeconomic growth.

The impact of corporate frameworks on financing decisions requires an analysis of how it affects both shareholders and debt holders. While the quality of corporate governance

is often defined in terms of its value to shareholders; a governance regime might be harmful to debt holders by encouraging value-enhancing risk-taking that leaves debt holders with downside risk (Kose and Litov, 2008). The insight of good corporate governance is a significant factor of the entire image of an institution, as it yields direct economic value to the organisation. The trustworthiness obtained by good governance measures also helps maintain the trust and confidence of investors both foreign and domestic to attract longer term capital. This will eventually encourage more established sources of financing and leads to developed market valuation.

Summary

There is no single model of corporate governance as governance practices vary not only across countries but also across firms and industry sectors. This implies that corporate governance comprises of a different set of indicators which face substantial measurement error. As such, having a broader set of indicators would have been appropriate but however, due primarily to data limitations, this work used governance aspects such as board size, board independence, CEO duality, as corporate governance variables with the expectation that corporate governance would relate positively to financing decisions of listed firms in Ghana.

CHAPTER THREE

METHODOLOGY AND PROFILE OF INSTITUTION

3.0 INTRODUCTION

This chapter describes the strategy adopted in collecting data, research variables used and the statistical techniques employed to report the results. Specifically, it throws light on the research design, sampling technique, sample size, research variable definition, data analysis model, and the organizational profile of the Ghana Stock Exchange.

3.1 RESEARCH DESIGN

Methodologically, this research work is a descriptive study, since it aims at establishing the effect of corporate governance variables' on firms' financing decisions. Therefore, mean comparison test along with regression model was used to examine the relationship between models. The researcher hopes that opting for this method will give more understanding to the relationship between corporate governance mechanisms and financing decisions of firms.

3.2 SAMPLE AND DATA

The sample frame consists of firms listed on the Ghana Stock Exchange over a five year period, from 2006 and 2010. Fourteen (14) firms were used for the study. Convenience sampling is used in this study due to the ease of getting the required information. As a result, the firms are selected based on data availability, and with due regard to year of operation.

Data is derived from the Ghana Stock Exchange websites, annual reports of sampled firms, and the Ghana Stock Exchange Publications during the period (2006-2010).

This implies that the study exclusively relied on secondary data.

3.3 DEFINITION OF RESEARCH VARIABLES

Capital structure variables have been used in this study as the dependent variables.

These are as follows :(1) short term debt (2) long-term debt (3) debt ratio

Additionally, this study captures size of the board, board independence, and whether the CEO doubles as the board chairperson or otherwise as the independent variables.

Following Abor (2007), other control variables deemed to bear link with higher governance rating like firm size, profitability, growth, age, and asset tangibility, were accordingly added and controlled. Table 3.1 reports the definition of these variables.

Table 3.1 Variable definitions and measurement

<i>Variable</i>	<i>Definition</i>	<i>Measurement</i>
ROA	Return on asset	Net profit as a % of total asset
SD	Short term debt	Short term debt divided by total equity
LD	Long term debt	Long term debt divided by total equity
DR	Debt ratio	Total debt divided by total equity plus total debt
BSIZE	Board size	Number of directors on board
BIND	Board independence	Ratio of independent members to total number of directors
DUALITY	Role of CEO	A dummy variable taking a value of 1 for firms with CEO as chair, and 0 otherwise
FSIZE	Firm size in terms of total assets owned	Natural log of total assets for firm
AGE	Age of the firm	The number of years it has been in operation as a listed firm
GROWTH	Increase in wealth or activity of the firm	Growth in sales for firm i in period t
AT	Asset tangibility	Plant, property and equipment for firm divided by total asset for firm

Source: Constructed From Corporate Finance:Principles&PracticeWebsite: 2010

3.4 DATA ANALYSIS MODEL

Examining the effect of sound governance structure on finance decisions of Ghanaian listed firms, various statistical methods is employed to compare the data collected. These methods include descriptive statistics and a panel data methodology. The panel data involves the pooling of observations on a cross-section of units over several time periods and facilitates identification of effects that are simply not detectable in pure cross-section or pure time-series studies. The panel regression equation differs from the regular time-series or cross-section regression by the double subscript attached to each variable. Its usage helps to explore cross-sectional and time series data simultaneously; and also takes into account the heterogeneity of firms in relation to possible explanatory variables (Ehikioya, 2009). The equation below defines the general form of the panel data ordinary least square (O L S) regression, which is given by;

$$Y_{it} = a + \beta X_{it} + \epsilon_{it} \quad (1)$$

The subscript_i represent the cross-sectional dimension and_t represents the time-series dimension. The variable Y_{it} , represents the dependent variable in the model, which is the firm's value. X_{it} contains the set of independent variables in the estimation model, a is taken to be constant over time t and specific to the individual crosssectional unit i . If a is taken to be the same across units, ordinary least squares (O L S) provides a consistent and efficient estimate of a and β . The model takes the following form;

$$SD_{i,t} = \beta_0 + \beta_1 BSIZE_{i,t} + \beta_2 BIND_{i,t} + \beta_3 DUALITY_{i,t} + \beta_4 FSIZE_{i,t} + \beta_5 ROA_{i,t} + \beta_6 GROWTH_{i,t} + \beta_7 AGE_{i,t} + \beta_8 AT + \epsilon_{it} \quad (2)$$

$$LD_{i,t} = \beta_0 + \beta_1 BSIZE_{i,t} + \beta_2 BIND_{i,t} + \beta_3 DUALITY_{i,t} + \beta_4 FSIZE_{i,t} + \beta_5 ROA_{i,t} + \beta_6 GROWTH_{i,t} + \beta_7 AGE_{i,t} + \beta_8 AT + \epsilon_{it} \quad (3)$$

$$DR_{i,t} = \beta_0 + \beta_1 BSIZE_{i,t} + \beta_2 BIND_{i,t} + \beta_3 DUALITY_{i,t} + \beta_4 FSIZE_{i,t} + \beta_5 ROA_{i,t} + \beta_6 GROWTH_{i,t} + \beta_7 AGE_{i,t} + \beta_8 AT + \epsilon_{it} \quad (4)$$

Where;

$SD_{i,t}$ = short term debt divided by total equity for firm i in period t

$LD_{i,t}$ = long term debt divided by total equity for firm i in period t;

$DR_{i,t}$ = total debt divide by total equity plus total debt for firm i in period t

$BSIZE_{i,t}$ = the total number of directors sitting on the board

$BIND_{i,t}$ = ratio of independent members to the total number of directors

$DUALITY_{i,t}$ = Dual role

$FSIZE_{it}$ = log of total sales for firm i in period t;

ROA_{it} = post-tax profits divided by the total asset for firm i in period t;

$GROWTH_{it}$ = growth in sales for firm i in period t'

AGE_{it} = Number of years the firm has been in operation as a listed firm

AT_{it} = Asset tangibility of firm i in period t' ϵ_{it}

= the error term

3.5 ORGANIZATIONAL PROFILE

In February 1989, a committee was formed, made up of ten (10) members headed by the Governor of the Bank of Ghana, began exploring an idea of implementing a national stock exchange. In July, 1989, the GSE was born and registered under Company's Code, 1963 (Act 179), as a private company. committee established the GSE in July, 1989 as a private company under the Ghana's Company Code, 1963 (Act 179), and was officially chartered in October 1990.

The first day of trading was November 12, 1990 during which shares of three listed firms traded hands (Otis, 2010). The GES is now the Ghana's principal stock exchange. The Stock Exchange Act of 1991 gave it a recognition as an authorized stock exchange, was converted into a public limited company in April, 1994.

After the inception of the GSE, its listings have been included in the main index, the GSE All-share Index. The performance the exchange has varied considerably. It was adjudged the 6th best index performing developing stock market in the year 1993 with a capital appreciation of 116%. It was again adjudged the overall best index performing stock market among all the developing economies in 1994, gaining 124.3% in the index level with a disappointing index growth of 6.3% in 1995. This trend was partly due to high rate of interest and inflation. In 1997 and 1998, the growth in index were 42% and 868.3% respectively. The market capitalization of the

GSE in October, 2006 was about GH¢111,500b (\$ 11.5b), that of 2007 was GH¢131,633.22b with the index appreciated by 31.84%. Firms quoted on the GSE increased to 13 in 1991; 19 in 1995; 32 in 2007 and now, it has around 35 listed companies on it. The criteria for listing include capital adequacy, profitability, spread of shares, years of existence and management efficiency. Currently, the manufacturing and brewing sectors take dominance on the exchange. A distant third is the banking sector while other listed companies fall into the insurance, mining and petroleum sectors.

Most of the listed companies on the GSE are Ghanaian but there are some multinationals. Although non-resident investors can deal in securities listed on the exchange without obtaining prior exchange control permission, there are some restrictions on portfolio investors not resident in Ghana. The current limits on all types of non-resident investor holdings (be they institutional or individual) are as follows: a single investor (i.e. one who is not a Ghanaian and who lives outside the country) is allowed to hold up to 10% of every equity. Secondly, for every equity, foreign investors may hold up to a cumulative total of 74% (in special circumstances, this limit may be waived). The limits also exclude trade in Ashanti Goldfields shares. These restrictions were abolished by the Foreign Exchange Act, 2006 (Act 723). There is an 8%

withholding tax on dividend income for all investors. Capital gains on securities listed on the exchange will remain exempt from tax until 2015. The exemption of capital gains applies to all investors on the exchange. There are no exchange control regulations on the remittance of original investment capital, capital gains, dividends, interest payments, returns and other related earnings. The exchange holds trading every working day.

Pre-market sessions takes off at 9.30am and 10.00am and normal trading sessions between 10.00am to 15.00noon on all days of the week except Saturdays, Sundays and holidays declared by the exchange in advance.

All trading are agreed on the floor of the exchange except Anglo Gold shares which can be traded both through the GSE and over the counter after GSE trading hours. All out of hour's trade are subsequently reported to the GSE at the next trading session.

Potential changes at the exchange include the introduction of automated trading and the listing of some state banks. The Bank of Ghana plans the development of mutual funds, unit trusts and municipal bonds at a subsequent date. These changes are aimed at making the exchange more relevant, efficient and effective. The exchange was also involved in preparing the draft law on collective investment vehicles. The exchange is located in Accra.

(http://en.wikipedia.org/wiki/Ghana_Stock_Exchange).

The general information of the firms listed on the GSE, sampled for the study is illustrated in the table 3.2 below.

Table 3.2 General information of the sampled listed firms for the study

<i>Listed Company</i>	<i>Share Code</i>	<i>Classification</i>	<i>Issued Share (million)</i>	<i>Market Cap. (2010) (million)</i>
African Champion Industries	ACI	Manufacturing	32.44	2.60
Aluworks Ltd	ALW	Manufacturing	92.05	11.05
Ayrton Drugs Ltd	AYRTN	Pharmaceutical	215.00	34.40
Benso- Oil Palm Plantation	BOPP	Processing	34.80	26.10
CAL Bank	CAL	Banking and Finance	246.10	76.29
Camelot Ghana Ltd	CMLT	Printing	6.54	1.05
Cocoa Processing Co. Ltd	CPC	Manufacturing	1,100.83	22.02
Enterprise Group Ltd	EGL	Insurance	230.13	690.39
Fan Milk Ltd	FML	Food and Beverages	118.71	290.83
Ghana Oil Ltd	GOIL	Distribution	210.19	60.95
Mechanical Llyod Co. Ltd	MLC	Distribution	50.10	5.01
Produce Buying Company	PBC	Trading	480.00	96.00
State Insurance Company	SIC	Insurance	195.50	52.82
Sam-Woode Limited	SWL	Publishing	21.83	0.65

Source: Ghana Stock Exchange website: 2010

CHAPTER FOUR

FINDINGS, ANALYSIS AND DATA DISCUSSION

4.1 INTRODUCTION

In this chapter, the results and discussion of the study's findings based on research objectives and questions are dealt with. Regressions with panel corrected standard errors are used to model the data. Appropriate tables are presented to facilitate the discussion.

Table 4.1 Summary of Descriptive Statistics

Variable	Obs.	Mean	Std. Dev.	Minimum	Maximum
SD	70	12.251	95.5563	0.000	800.00
LD	70	7.55100	48.5901	0.029	407.930
DR	70	0.5629	0.27776	0.100	1.000
BSIZE	70	8.20	1.431	5.000	12.000
BIND	70	0.85300	0.0667	0.571	0.917
DUALITY	70	0.09	0.282	0.000	1.000
FSIZE	70	6.2888	1.4861	3.95803	8.80134
ROA	70	0.05954	0.1270	-0.342	0.655
GROWTH	70	0.16783	0.3903	-0.873	2.014
AGE	70	8.0000	6.04332	0.000	19.000
AT	70	0.3929	0.24336	0.1000	0.9000

Source: Constructed from the Financial Statements of Sample Firms (2006-2010)

4.2 DESCRIPTIVE STATISTICS

Results are reported using simple average and standard deviation. Main summary of descriptive statistics is shown in Table 4.1. It gives details of average indicators of dependent and explanatory variables computed from sampled firms' financial statements (governance data). The variables SD, LD and DR represent short-term debt, long-term debt and debt ratio respectively, and it explains the firm's debt level in relation to its total capital. SD has a mean value 12.251 and that of LD is 7.551, approximately 12% and 7.5% respectively. This suggests that the listed firms resort to short-term debt for financing their activities. This may be as a result of the less expensive and relatively low interest rate of SD as compared to the LD. Besides, problem of getting long-term credit facilities from the banks is also a factor, and as well, may partly attributed to the infant stage of the country's capital market.

The average debt to equity ratio is 0.563 which is 56% showing a quite good financial mix. Thus, DR component indicates that 56% of total capital is financed by debt capital. This is a clear indication that the firms are geared having a high percentage of total debt being short-term debt. Results reveal that board size has a mean value of 8%, and 12 directors as maximum which is a fairly good representation. This observation is in line with the Securities and Exchange Commission Corporate Governance guidelines on Best Practices as well as Lipton and Lorsch (1992) who considered a board size of eight-sixteen as ideal, and seven-nine respectively. This suggests that Ghanaian listed firms have board sizes considered ideal.

Board independence has a mean of 0.853 which indicates that for the sampled firms about 15% of boards of directors are made up of executive directors (i.e. those that are part of the management team), implying that the listed firms boards are likely to be more independent. CEO duality is another observation, it constitutes 9% which clearly

indicates that agency problems may not be a major issue among Ghanaian listed firms. As Brickley et al., (1997), concludes that when the two slots are vested in one personality, it results to self interest actions by management, hence, increase the inefficiencies involved in the principal-agent contract.

Size of the firm has an average value of 6.28. Return on asset shows an average rate of 0.06. This is approximately 6%, and it indicates the effectiveness and efficiency of the firm's investments in fixed assets to generate returns. Thus, per unit returns of a given asset, and the higher the ratio, the higher the ability and therefore an indicator of better performance. Thus, every GH¢ 1.00 of owners' capital invested yielded an average earnings of GH¢0.0 6 which suggest a reasonable good performance by the firms with regards to finance providers investment.

The mean age is 2.0 with a maximum of 19 for the period understudy. The average growth rate in sales is 0.168. This is approximately 16.8%, and it shows the average growth in investment of the firms during the period under consideration. Also, this value of 16.8% acting as an indicator, it means that the firms investment is viable in the foreseeable future. That of asset tangibility is 0.393 which is approximately 39.3%.

4.3 CORRELATION ANALYSIS

Table 4.2 illustrates the correlation of the covariates. From the table, it can be observed that there is nearly a perfect correlation between all the three debt ratios (i.e. the dependent variables) and a slightly weak correlation with the covariates: BIND, DUALITY, FSIZE, return on asset (ROA, growth in sales (GROWTH), the age of the firm (AGE), and asset tangibility (AT). However, board size exhibits relatively strong

correlation with LD, and SD but a slightly weak correlation with DR. AGE exhibits negative association with all the three capital structure decisions.

ROA has negative correlations with all the capital structure decisions. There is also a positive relation between capital structure decisions and FSIZE. This is as a result of effective and efficient monitoring of management to put forth appropriate effort and take decisions aligned with finance providers interests. BSIZE positively correlates with debt ratios indicating that firm's with larger board size adopts high debt policy. Duality exhibits negative correlation with both short term and long term debts but relates positively with debt ratio. BIND exhibits an inverse correlation with that of AGE and ROA. The rest of the covariates relate positively with all the three dependent variables. The highest correlation among the covariates is between AGE and BSIZE but the relationship is negative with a value of -0.642. This is followed by the correlation between dual role (DUALITY) and board independence (BIND) with a value of -0.559. Next comes the correlation between BIND and BSIZE, revealing positive correlation value of 0.513.

In addition, the correlation between FSIZE and BIND shows a positive value of 0.360, which is statistically significant. That of return on asset (ROA) and dual role (DUALITY) also shows a positive value of 0.236. AGE again shows a negative correlation value of -0.271 and -0.285 with board independence (BIND) and firm size (FSIZE) respectively. Similarly, asset tangibility (AT) exhibits negative and positive correlations of -0.383 and 0.413 with board size (BSIZE) and firm's age (AGE) respectively.

The lowest correlation among the covariates is between growth and board independence with a positive value of 0.001.

Table 4.2 Correlations of Covariates

	DR	ST	LD	BSIZE	BIND	DUALITY	FSIZE	ROA	GROWTH	AGE	AT
DR	1.000										
ST	0.218	1.000									
LD	0.198	0.999**	1.000								
BSIZE	0.190	0.337**	0.327**	1.000							
BIND	-0.007	0.125	0.117	0.513**	1.000						
DUALITY	0.134	-0.040	-0.038	-0.151	-0.559**	1.000					
FSIZE	0.174	0.136	0.138	0.360**	0.051	-0.036	1.000				
ROA	-0.208	-0.130	-0.124	-0.057	-0.118	0.236*	-0.059	1.000			
GROWTH	0.139	0.217	0.211	0.151	0.001	-0.028	0.116	0.169	1.000		
AGE	-0.011	-0.031	-0.021	-0.642**	-0.271*	-0.094	-0.285*	-0.038	-0.049	1.000	
AT	0.148	0.146	0.161	-0.383**	-0.106	-0.181	0.012	-0.142	-0.131	0.413**	1.000

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

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

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4.4 DISCUSSION OF REGRESSION RESULT

The Regression analysis is used to examine the influence of corporate governance variables on firms' financing choices measured by SD, LD, and DR. This work uses corporate governance practices as independent variable and the capital structure is considered as dependent variable. Results of the Ordinary Least Square regression are presented in tables 4.3, 4.4 and 4.5. The explanatory powers of the three regression models (i.e. the R-Square of the results) indicate that the control variables explain the dependent variables of the firms' determination respectively at 24.1%, 24.1%, and 29.6%.

4.4.1 Board Size (+)

Regression 1, 2 and 3 results reveal significant positive association with capital structure decisions and Bsize (i.e. all the three dependent variables). Tables 4.3, 4.4, and 4.5 illustrate the results in details. This result draws a contradictory evidence to prior research by Berger, Ofek and Yermack (1997), Eisenberg, Sundgren and Wells (1988), Singh and Davidson (2003) and Bodaghi and Ahmadpour (2010), who find a reverse association. They argue that firms with larger Bsize have low leverage. The reason being that, larger boards imply people with different background and viewpoints, which can not only be translated into quality of decisions but as well, neutralize their interest in decisions into strong pressure on management to employ lower leverage. Nevertheless, this significant positive relationship suggests that directors on large boards have different viewpoints and as such, deliberations take longer time which slows down the pace of decision making, consensus difficult to reach, in this case the efficiency goes down, resulting in high leverage. Again this result is consistent with prior research by Wen, Rwegesir and Bilderbeek (2002), Anderson (2004), Abor (2007), Rehman and Raoof (2010), Saad (2010), and Kajanathan (2012), who find similar evidence that larger boards are effective in monitoring and have the power to influence management to adopt higher leverage to raise firm's value.

Table 4.3 Regression Model 1 (Dependent Variable: Short-term Debt Ratio)

Variable	Coefficients	Std. Error	T	Sig.	95% Conf. Interval	
(Constant)	-186.996	99.093	-1.887	.064	-385.146	
BSIZE	21.510	5.841	3.683	.000	9.831	
BIND	-18.908	113.597	-.166	.868	-246.060	
DUALITY	26.466	24.428	1.083	.283	-22.381	11.154
FSIZE	-1.678	3.939	-.426	.672	-9.555	33.189
ROA	-44.534	43.401	-1.026	.309	-131.320	208.243
GROWTH	25.608	13.982	1.832	.072	-2.350	6.198
AGE	1.927	1.199	1.607	.113	-.471	42.252
AT	64.967	25.236	2.574	.012	14.505	53.567
						115.430

R Square: 0.241**F:**2.424**Sig:**0.024**4.4.2 Board Independence (-/+)**

Again regression outcome shows negative relationship with both short term and long term debts but exhibits a positive relationship with debt ratio. However, the relationship shows no evidence of significant influence on capital structure decisions. This positive relationship between BIND and DR is in support to earlier works by Rajendran (2012) who reports a similar relationship between board composition and firms' debt ratio.

Table 4.3, 4.4, and 4.5 clearly illustrate the results in details. From the results, it could be deduced that directors that are not part of management support short-term debt policy. The explanation is that the firms find it a problem of getting long-term loans from the banks, as compared to short-term loan which is less expensive and relatively low interest rate. The negative relations with SD and LD clearly shares similar view to the findings in the Chinese case by (Wen, Y., Rwegasira, K. and Bilderbeek, J. 2002 as cited in Abor, 2007). This suggests that firms with outside directors dominance on board have high leverage.

Table 4.4 Regression Model 2 (Dependent Variable: Long-term Debt Ratio)

Variable	Coefficients	Std. Error	T.	Sig.	95% Conf. Interval	
(Constant)	-370.042	194.978	-1.898	.062	-759.925	19.842
BSIZE	42.308	11.493	3.681	.000	19.327	65.288
BIND	-42.964	223.516	-.192	.848	-489.913	403.984
DUALITY	52.267	48.066	1.087	.281	-43.846	148.381
FSIZE	-3.037	7.750	-.392	.697	-18.535	12.461
ROA	-80.381	85.397	-.941	.350	-251.144	90.381
GROWTH	48.954	27.511	1.779	.080	-6.057	103.966
AGE	3.861	2.359	1.637	.107	-.856	8.579
AT	133.167	49.655	2.682	.009	33.876	232.458

R Square: 0.296

F: 3.211

Sig: 0.004

4.4.3 CEO Duality (+)

The outcome of the regression results indicate that CEO duality relates positively with all the debt ratios (capital structure). The relationship with SD and LD are not significant but that of DR shows statistically a weak significance. This findings between CEO duality and capital

structure decision gives indication that when CEO doubles as the chairperson in a firm, it influences financing decision. The possible explanation of this observation is that the board is the firm's apex decision-making body, and for that matter must not be under the control of the CEO. Thus, if the two slots are entrusted in one person, it will pave way for the agent to influence the final outcome of decisions by the board. This affords the CEO as an agent, the opportunity to use the firms' free cash-flow to indulge in self interest motivated actions to the detriment of shareholders. This result lends support to Abor (2007), and Vakilifard & Ma'atoofi (2011) who find similar evidence. Again, the findings share similar view to Daliy and Dalton (1993), and Dahya, Lonie and Power (1996) earlier work. They conclude that when the two slots are vested in one personality, it negatively affects firm's performance. However, Bodaghi and Ahmadpour (2010), and Saad (2010) came into different conclusion and found a reverse evidence, arguing that CEO duality has no effects on firms financing behaviour.

Table 4.5 Regression Model 3 (Dependent Variable: Debt Ratio)

Variable	Coefficients	Std. Error	T	Sig.	95% Conf. Interval	
(Constant)	-.439	.589	-.746	.458	-1.616	.738
BSIZE	.075	.035	2.151	.035	.005	.144
BIND	.134	.675	.198	.844	-1.215	1.483
DUALITY	.335	.145	2.308	.024	.045	.625
FSIZE	.011	.023	.478	.634	-.036	.058
ROA	-.530	.258	-2.054	.044	-1.045	-.014
GROWTH	.120	.083	1.449	.153	-.046	.286
AGE	.008	.007	1.157	.252	-.006	.022
AT	.312	.150	2.083	.041	.013	.612

R Square: 0.241

F: 2.424

Sig: 0.024

4.4.4 Control Variables

Firm Size (-/+)

Firm size which indicates the transactional demand on the company shows negative relation with both short term and long term debt but relates positively with debt ratio. However, outcome reveals that firm size has no significant relationship with capital structure. This result may imply that large firms tend to employ low debt in their financing decisions and therefore borrow fewer debts as their operational size increases and may prefer issuing equity. Siregar and Utama (2008) come up with similar conclusion that firm size does not influence firms' financing decision. However, Bodaghi and Ahmadpour (2010) came into contradictory evidence and found that firm size relates positively, and has significant effect on corporate financing decisions.

They explained that the positive relationship suggest that large firms that are viable are capable of contracting credit facilities because of their credit worthiness.

Return on Asset (-)

Regression 1, 2 and 3 results indicate that profitability measured by ROA relates negatively with capital structure decisions. However, the relationship with SD and LD are not statistically significant but that of DR is significant. This suggests that an increase of 1% in profitability leads to 0.530 or 53% decrease in DR (leverage). This result supports Friend and Lang (1988), Kester (1986), Booth (2001), and Bodaghi and Ahmadpour (2010), who find significantly negative relation between profitability and debt ratio. They report that an increase in profits goes with the level of internal financing since firms that earns more income internally employ less amount of debt (gearing). Thus, higher profits goes with reduction in the firm's debt position. Results go contrary to Taub (1975) findings of a significant positive relation between profitability and debt ratio. Coefficients of SD and LD again point to the conclusion that short-term debts are cheaper and affordable, therefore employing large amount of it will raise

profit levels as compared to LD with high interest rate which in effect reduce firm's profitability.

GROWTH (+)

Regression analysis provides evidence of statistically an insignificant positive relationship with capital structure decisions. The positive relationship seems to suggest that for the sampled firms, more funds are raised internally to fund new investments. A possible explanation may be due the fact that if retained profits is exhausted and there is the need for additional funds, the firms go in for short-term debt since it is less expensive as compared to long term debt. Employing more amount of SD with relatively low interest rate results in an increase in sales level and hence an increase in profitability.

AGE (+)

The age variable depicts statistically insignificant positive association with all the finance decisions. The positive relationship seems to suggest that for all the sampled firms, as the company ages, the debt position increases.

Asset Tangibility (+)

Outcome of regression analysis denote a significant positive relations with all the three capital structure decisions. This suggests that when debt increases, asset tangibility also increases. In this regard, Leland (1994), Suhaila and Mahmood (2008) come up with similar findings, and report that the amount of fixed tangible assets is one of the variables effective on firms' financing decisions.

CHAPTER FIVE

SUMMARY OF FINDINGS, RECOMMENDATIONS AND CONCLUSIONS

5.1 INTRODUCTION

The insight of sound corporate governance is very vital to the entity's entire image as it yields direct economic value to the organisation. Therefore, investigating corporate governance and its effects on capital structure decision is very crucial. In this section, empirical results of the said relationship among firms listed in Ghana is presented. As well, conclusions drawn from the findings and recommendations stipulated by the research findings are also dealt with.

5.2 SUMMARY OF FINDINGS

5.2.1 Summary of Descriptive Statistics

The empirical results show that the firms are financially leveraged and they largely finance their activities through SD, with 56% of total capital being financed by debt capital. BSIZE has a mean value of 8%, and 12 directors as the highest. This gives an indication that the firms under consideration have board sizes considered ideal.

Results also indicate that about fifteen percent (15%) of the firms under consideration boards are composed of directors who are also managers, implying that the listed firms boards are likely to be more independent. The explanation is that there is non-executive directors dominance on the firms board which in turn make them highly independent. Firms CEO duality constitutes nine percent (9%), which clearly indicates that the issue of inefficiencies arising out from the relationship between finance providers and management due to conflicting objectives is likely to be minimal with the firms in Ghana. FSIZE gives an average value of 6.28. Return on asset (ROA), which is the profitability variable, shows approximately 6%, and that of growth is 17%, implying that there is 17% average growth in investment of the firms, and an indicator of better performance during the period under consideration.

5.2.2 The impact of board independence on financing decision

The outcome of the regression analysis reveals no evidence of significant influence on capital structure decisions. From the results, it could be deduced that directors that are not part of management support short-term debt policy which is relatively cheaper as compared to long term debt. The negative relations in both SD and LD suggest that firms with more outside directors on board experience high leverage.

5.2.3 The impact of CEO duality on financing decision

Again, regression results also indicate that CEO duality has no significant influence on capital structure decisions measured by SD and LD but exhibits a reverse relations with DR. This behaviour of positive evidence with CEO duality and capital structure decision is an indication that when the two slots are held by one person, it influences financing decision. The possible explanation of this observation is that when the two slots are held by one person, it gives the chairperson a greater influence on the final outcome of decisions by the board. This affords the CEO as an agent, the opportunity to use the firms' free cash-flow to indulge in opportunistic behaviour to the detriment of shareholders. This result may suggest that entrenched CEOs will prefer financing firm activities by issuing more equity on the stock exchange thereby employing low proportion of debt.

5.2.4 The impact of board size on financing decision

The results show that board size is positively and significantly related to capital structure decisions. This suggests that firms with large board size adopt debt financing policy to increase the firm's value. The explanation is that directors on large boards have different viewpoints and as such, deliberations take longer time which slows down the pace of decision making, consensus difficult to reach, in this case the efficiency goes down, resulting in high leverage.

5.2.5 The impact of control variables on financing decision

Results from control variables also share similar view to previous studies. Return on asset shows a negative relationship with capital structure decisions, implying that viable firms generate more funds internally to finance their activities rather than using debt policy. However, regression results produced evidence of significant relationship with only capital structure decision measured by debt ratio. This is in line with the pecking order theory that, “as priority, firms’ use funds from within before adopting debt”. Thus viable firms with high retained earnings use less debt since internal financing goes with higher profits than debt capital.

FSIZE in the model indicating the transactional demand on the company, shows no significant relationship with capital structure. This result may imply that large firms tend to employ low debt in their financing decisions and therefore borrow fewer debts as their operational size increase and may prefer issuing equity. Thus, increase in FSIZE decreases the firm’s propensity to use more debt.

Similarly, growth relates positively with capital structure decisions but produced no evidence of significant relationship with financing decisions. This suggests that for the sampled firms, more funds are raised internally to fund new investments and thus showing a fairly reasonable overall capital-mix. A possible explanation may be due the fact that if retained profits is exhausted and there is the need for additional funds, the firms go in for SD since it is less expensive as compared to LD. Therefore, an increase in SD which is cheaper results in an increase in firm’s activities and hence an increase in profitability. In the same vein, regression results provide an insignificant positive relationship between age variable and capital structure. The positive relationship seems to suggest that for all the sampled firms, as the company ages, short-term debt increases. Another observation is asset tangibility, and the

outcomes of regression analysis denote significantly, a positive relation with capital structure decisions. This means asset tangibility increases with debt levels.

5.3 CONCLUSIONS

The relationship between corporate governance and firms financing behaviour has been widely analysed for giant economies with very little work of the said relationship on developing economies. The current study empirically examines the relationship between corporate governance and firms financing behaviour by employing ordinary least square regression analysis of firms quoted on the Ghana Stock Exchange during a five-year period (2006-2010).

Results reveal that the firms under consideration have board sizes considered ideal, having about 8 as size of the board with majority of their members being outsiders and thus showing a fairly good representation. Firms with CEOs doubled as chairperson constitute 9%, thus only 9 occasions out of the 70 observations were the two positions held by one person. The findings also show that both BSIZE and CEO duality have effect on firms' capital structure. The relationship in both cases exhibit significantly, positive association with debt ratio. However, BIND indicates no evidence of significant effect on firms financing policy.

Clearly, corporate governance practices do matter and has important implications on the firms financing decisions. This is because findings document that traditional determinants of corporate governance like Bsize and CEO duality has significant influence on corporate financing decisions.

5.4 RECOMMENDATIONS

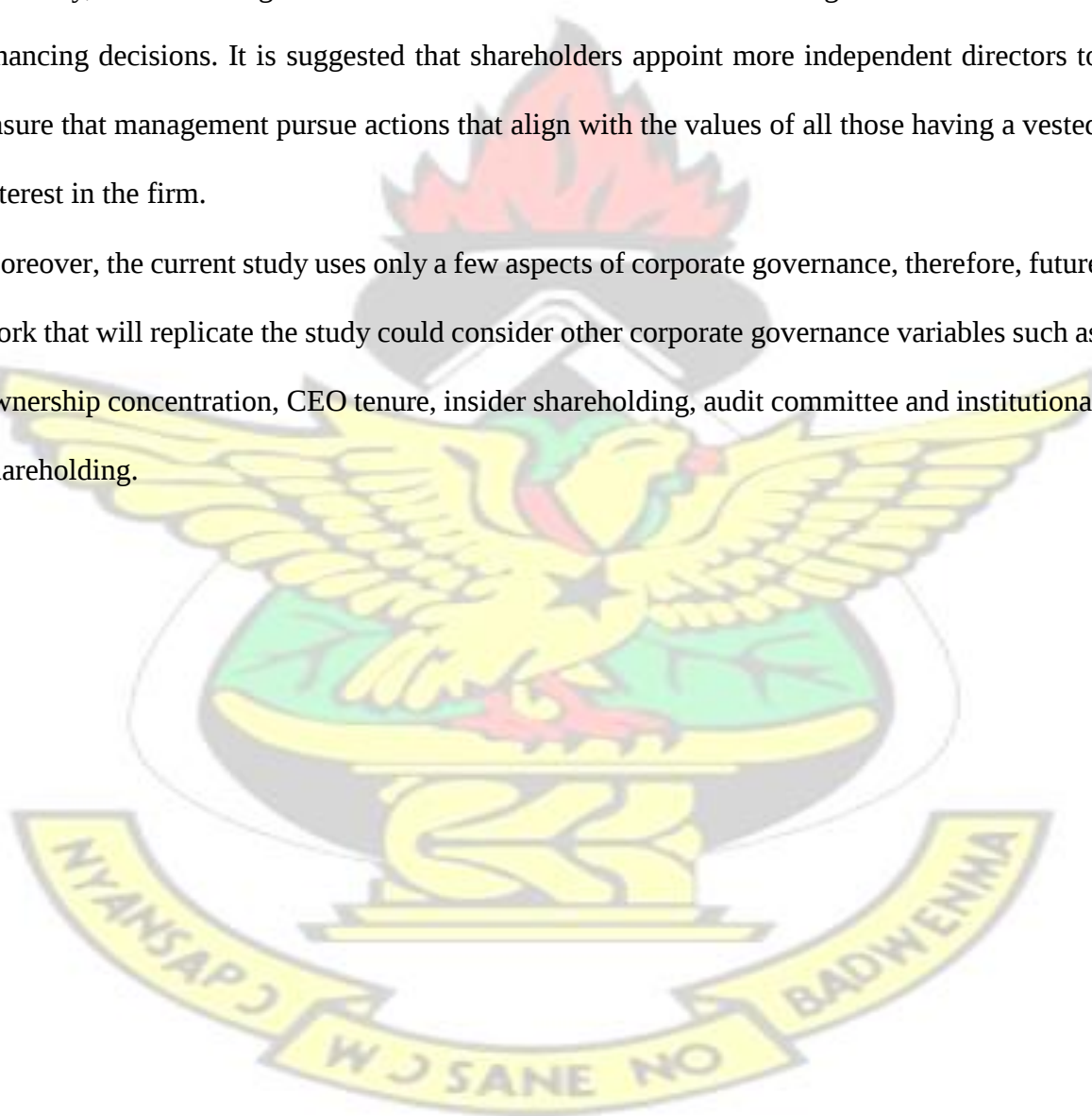
The study has brought to light some interesting findings in the subject area which calls for further research in the Ghanaian unlisted firms who observe corporate governance to fully appreciate the comparison between the listed and unlisted firms.

Research findings shows that CEO duality influences financing decisions. This is believed to be one of the contributory factors that undermines the boards ability to properly execute their oversight judgement on firms strategic decisions. Therefore, it is recommended that firms should have the two slots entrusted in different personalities as a way of making board effective in exercising their monitoring role to ensure that management takes performance improving measures rather than self motivated actions.

Similarly, it also emerged from the research that board size has significant influence on financing decisions. It is suggested that shareholders appoint more independent directors to ensure that management pursue actions that align with the values of all those having a vested interest in the firm.

Moreover, the current study uses only a few aspects of corporate governance, therefore, future work that will replicate the study could consider other corporate governance variables such as ownership concentration, CEO tenure, insider shareholding, audit committee and institutional shareholding.

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APPENDIX 1

FINANCIAL AND GOVERNANCE DATA ESTIMATED: GSE FACT BOOK, 2006 – 2010

FIRMS	INDEX	YEAR	DR	ST	LD	BSIZE	BIND	DUALITY	SIZE	ROA	GROWTH	AGE	AT
ACI	1	2006	0.5	0.693	0.137	5	0.8	0	5.43852	-0.163	0	14	0.9
ACI	1	2007	0.5	0.857	0	5	0.8	0	6.49085	-0.018	0.128	15	0.8
ACI	1	2008	0.3	1.349	0	6	0.833	0	6.4784	-0.079	-0.028	16	0.9
ACI	1	2009	0.4	0.594	0	6	0.833	0	6.59638	-0.052	0.312	17	0.8
ACI	1	2010	0.5	0.735	0	6	0.833	0	6.64989	-0.031	0.131	18	0.8
ALW	2	2006	0.6	1.405	0.216	9	0.889	0	4.7268	0.057	0	10	0.3
ALW	2	2007	0.9	4.099	1.905	9	0.889	0	4.75416	-0.097	0.065	11	0.5
ALW	2	2008	0.7	1.546	0.54	8	0.875	0	4.75684	-0.042	0.006	12	0.7
ALW	2	2009	0.8	2.293	0.682	7	0.857	0	4.53493	-0.134	-0.4	13	0.8
ALW	2	2010	0.5	0.769	0.257	7	0.857	0	4.40083	-0.133	-0.266	14	0.8
AYRTN	3	2006	0.2	0.186	0	9	0.889	0	6.9006	0.137	0	0	0.3
AYRTN	3	2007	0.2	0.191	0	9	0.889	0	6.97686	0.169	0.192	1	0.3
AYRTN	3	2008	0.1	0.121	0	9	0.889	0	7.07564	0.17	0.255	2	0.3
AYRTN	3	2009	0.1	0.084	0	9	0.889	0	7.19071	0.224	0.303	3	0.3
AYRTN	3	2010	0.2	1.13	0	9	0.889	0	7.09536	0.138	-0.197	4	0.3

BOPP	4	2006	0.1	0.047	0	9	0.889	0	3.95803	0.067	0	2	0.4
BOPP	4	2007	0.1	0.065	0	9	0.889	0	4.11777	0.042	0.445	3	0.3
BOPP	4	2008	0.1	0.096	0	9	0.889	0	4.31364	0.225	0.57	4	0.3
BOPP	4	2009	0.1	0.092	0	9	0.889	0	4.1932	0.075	-0.242	5	0.3
BOPP	4	2010	0.1	0.095	0	9	0.889	0	4.28704	0.112	0.241	6	0.2
4.29894													
CAL	5	2006	0.9	6.378	0	9	0.889	0		0.029	0	0	0.1
CAL	5	2007	0.9	6.724	0	9	0.889	0	4.45457	0.02	0.431	0	0.1
CAL	5	2008	0.9	8.479	0	9	0.889	0	4.64953	0.024	0.567	0	0.1
CAL	5	2009	0.9	6.901	0	9	0.889	0	4.852	0.02	0.594	0	0.1
CAL	5	2010	0.9	5.531	0	9	0.889	0	4.90102	0.018	0.119	6	0.1
6.18155													
CMLT	6	2006	1	1.492	1.983	7	0.714	1		0.655	0	7	0.8
CMLT	6	2007	1	2.909	7.845	7	0.714	0	6.27088	-0.008	0.228	8	0.8
CMLT	6	2008	0.9	0.132	0.216	7	0.857	0	6.31147	0.025	0.098	9	0.8
CMLT	6	2009	0.9	3.01	3.8	7	0.857	0	6.41151	0.032	0.259	10	0.7
CMLT	6	2010	0.9	4.238	0.808	7	0.857	0	6.57844	0.046	0.469	11	0.7
5.46305													
CPC	7	2006	0.8	2.506	1.253	9	0.889	0		0.01	0	3	0.6
CPC	7	2007	0.7	0.886	1.463	9	0.889	0	7.68431	0.006	0.664	4	0.6
CPC	7	2008	0.7	3.259	20.411	10	0.9	0	7.77374	0.007	0.229	5	0.7
CPC	7	2009	0.9	3.118	6.033	12	0.917	0	7.65841	-0.089	-0.233	6	0.6
CPC	7	2010	1	407.93	800	12	0.917	0	7.92494	-0.067	0.847	7	0.7
4.31188													
EGL	8	2006	0.4	0.443	0.324	7	0.857	0		0.097	0	14	0.1
EGL	8	2007	0.4	0.45	0.312	7	0.857	0	4.42623	0.081	0.301	15	0.1
EGL	8	2008	0.5	0.25	0.671	7	0.857	0	4.54797	0.103	0.324	16	0.2

EGL	8	2009	0.6	0.276	0.89	7	0.857	0	4.69648	0.05	0.408	17	0.2
EGL	8	2010	0.5	0.183	0.835	7	0.857	0	4.83422	0.073	0.373	18	0.1
									5.50836				
FML	9	2006	0.4	0.455	0.076	7	0.857	0		0.179	0	15	0.5
FML	9	2007	0.4	0.486	0.089	7	0.857	0	4.6135	0.184	-0.873	16	0.5
FML	9	2008	0.4	0.497	0.038	7	0.857	0	4.74069	0.215	0.34	17	0.5
FML	9	2009	0.4	0.419	0.038	7	0.857	0	4.9163	0.297	0.498	18	0.5
FML	9	2010	0.3	0.279	0.033	7	0.857	0	5.01609	0.283	0.258	19	0.5
									7.40906				
GOIL	10	2006	0.1	0.029	0.024	9	0.889	0		0.059	0	0	0.3
GOIL	10	2007	0.6	2.063	0.009	9	0.889	0	8.48642	0.05	0.195	0	0.3
GOIL	10	2008	0.8	2.401	0.489	9	0.889	0	8.64233	0.043	0.432	1	0.3
GOIL	10	2009	0.7	2.386	0.051	9	0.889	0	8.62484	0.053	-0.039	2	0.3
GOIL	10	2010	0.7	0.846	0.237	9	0.889	0	8.71127	0.061	0.22	3	0.3
									7.09785				
MLC	11	2006	0.4	0.73	0.165	8	0.625	0		0.048	0	12	0.3
MLC	11	2007	0.4	0.642	0.099	7	0.571	0	7.33659	0.051	0.733	13	0.4
MLC	11	2008	0.8	1.257	0.292	7	0.857	0	7.41321	0.073	0.193	14	0.5
MLC	11	2009	0.6	1.073	0.376	7	0.857	0	7.34561	0.056	-0.144	15	0.5
MLC	11	2010	0.5	0.846	0.237	7	0.857	0	7.45416	0.054	0.284	16	0.3
									8.39561				
PBC	12	2006	0.1	3.443	0	8	0.875	0		-0.1	0	6	0.2
PBC	12	2007	0.9	6.043	0.597	10	0.9	0	8.29029	0.013	-0.215	7	0.2
PBC	12	2008	0.9	0.714	1.036	10	0.9	0	8.39001	0.031	0.258	8	0.2
PBC	12	2009	0.9	6.665	0.868	11	0.909	0	8.64088	0.054	0.782	9	0.3
PBC	12	2010	0.9	5.796	0.359	11	0.909	0	8.80134	0.083	0.447	10	0.2

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SWL	13	2006	0.5	1.011	0	7	0.714	1	6.23792	0.214	0	4	0.2
SWL	13	2007	0.5	0.75	0.027	7	0.714	1	5.87363	0.149	-0.568	5	0.2
SWL	13	2008	0.7	1.406	0.386	8	0.75	1	6.3527	0.112	2.014	6	0.1
SWL	13	2009	0.7	1.264	0.345	8	0.75	1	6.42961	0.152	0.194	7	0.1
SWL	13	2010	0.7	1.481	0.393	8	0.75	1	5.6243	-0.342	-0.843	8	0.1
									7.64916				
SIC	14	2006	0.5	1	0.094	9	0.889	0		0.051	0	0	0.3
SIC	14	2007	0.5	0.846	0.068	9	0.889	0	7.72267	0.07	0.184	0	0.3
SIC	14	2008	0.5	0.758	0.054	9	0.889	0	7.76367	0.077	0.099	0	0.2
SIC	14	2009	0.5	0.845	0.53	9	0.889	0	7.75494	0.053	-0.02	1	0.2
SIC	14	2010	0.4	0.597	0.042	9	0.889	0	7.80647	0.046	0.126	2	0.2

KEY

LD= Long term debt

BSIZE= Board Size

BIND= Board Independence

Duality= Dual role of CEO

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SIZE= Firm's Size
ROA= Return on asset
Growth= Firm's growth
AGE= Firm's age
AT= Asset Tangibility
DR= Debt Ratio
SD= Short term debt

