

**CORPORATE GOVERNANCE AND CAPITAL STRUCTURE DYNAMICS IN THE
MANUFACTURING SECTOR IN GHANA**

By
KNUST

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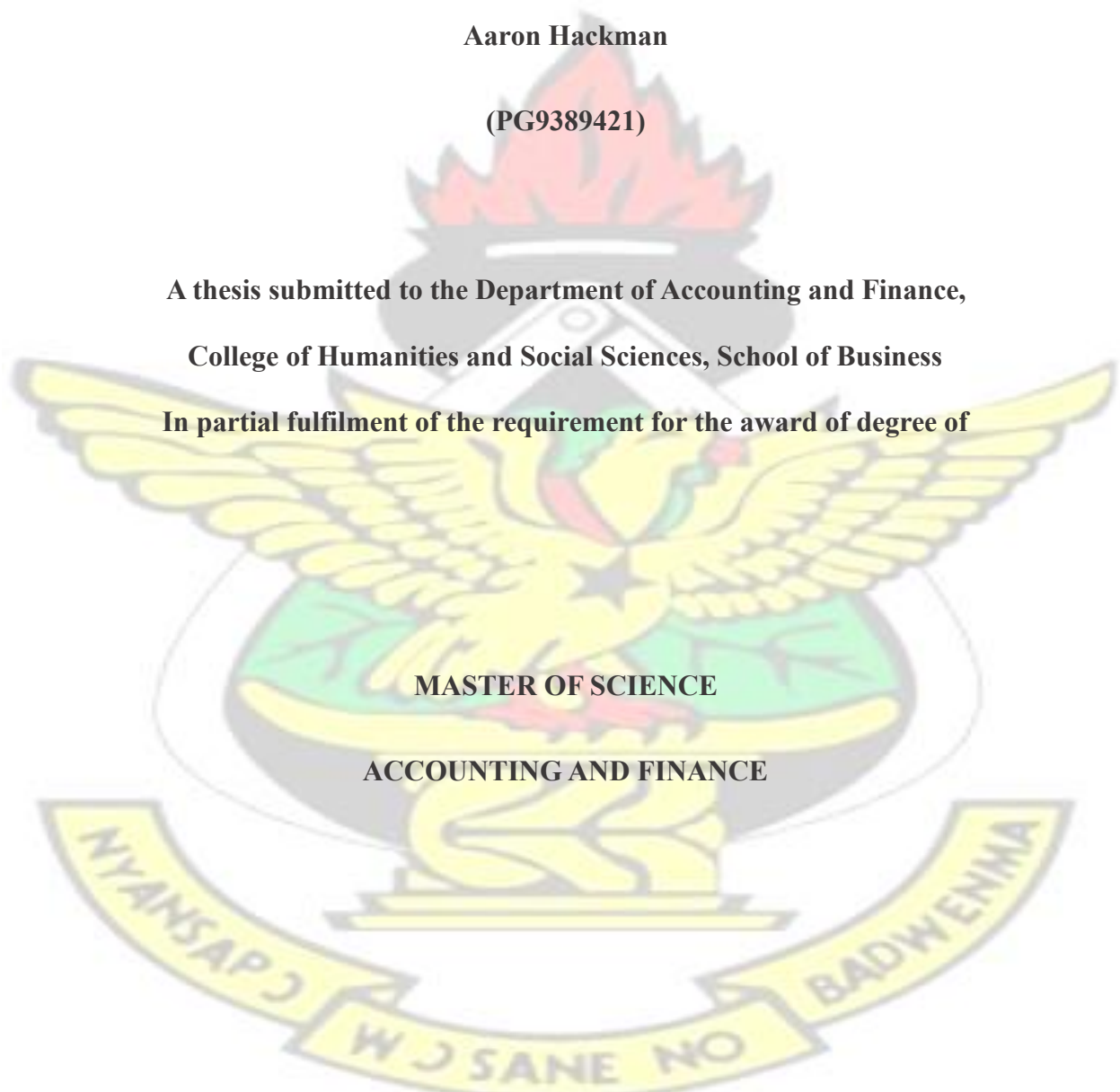
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DECLARATION

I hereby declare that this submission is my own work towards the MSc. Accounting and Finance and that, to the best of my knowledge, it contains no material previously published by another person, nor material which has been accepted for the award of any other diploma, degree or certificate, except where due acknowledgements have been made in the text.

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DEDICATION

I dedicate this work to the Almighty God who gave me the strength to finish it.

ACKNOWLEDGEMENT

I want to start by thanking my supervisor, Dr. K. Ankomah, for his tolerance, understanding, and commitment during this project. I sincerely appreciate the prayers, sacrifices, and unwavering support of my family, especially my wife, Mrs. Marian Yeboaba Hackman, and my lovely kids Reginald and Kayla Hackman.



ABSTRACT

Corporate governance and capital structure are two key concepts in any company. For this reason, corporate governance policies are structured and developed by regulators to enhance organizational outcomes. This study therefore assessed the impact of corporate governance on capital structure in quoted manufacturing firms in Ghana. The study specifically focused on the effect of board independence, gender diversity, board size and institutional ownership as corporate governance indicators on capital structure. Data were gathered from audited financial statements of Aluworks Limited, Benso Oil Palm Plantation Limited, Greatwall Plastic Company Limited, Dannex Ayrton StarwinPlc, Unilever Ghana Limited, Permafix Industries (GHANA), Tinatett Herbal Manufacturing and Marketing Company Limited, Latex Foam Rubber Products Limited, Fan Milk Limited and Camelot Ghana Limited, from 2010 to 2020. Based on Hausman Specification test, Random Effect Model was used for the estimations. All estimations were done with STATA, version 16.0. The study further revealed that board size has a significant positive impact on the capital structure at a 10% significant level. The results revealed that quoted manufacturing companies with more females on their boards significantly have lower capital structure dynamics. Board independence did not have a significant impact on the capital structure dynamics of quoted manufacturing companies in Ghana at a 5% significant level. institutional ownership has a significant positive impact on the capital structure at a 5% significant level. Thus, the quoted manufacturing company should have a reasonable board size, composed of more females with the right technical knowledge to improve capital structure dynamics.

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LIST OF ABBREVIATION

C G

Corporate Governance

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CHAPTER ONE

INTRODUCTION

Manufacturing companies play an important function in the growth and development of nations across the globe, most especially in developing nations (Yeboah, 2021; Frank, Dalenogare & Ayala, 2019). Manufacturing companies, for example, foster and empower the domestic economy, since the progress of a country's performance is heightened by the performance of its companies (Anwar & Abdullah, 2021). In Ghana, for instance, the manufacturing sector accounts for about 25.3% of the total gross domestic product (Ansong, Agyeiwaa & Gnankob, 2022). Despite the relevance of manufacturing companies to the growth and development of nations, companies in developing countries such as Ghana have subpar management, which drastically lowers their production which could be attributed to their governance system (Torku, 2020).

Corporate Governance (CG) has increasingly become a necessity for companies across the globe over the past few decades (Jensen, 2019; Hussain, Rigoni & Orij, 2018). The popularity and necessity of CG could be attributed to corporate fraud/corruption scandals, the enormous collapse of companies and fraudulent financial reporting that hit the globe (Jensen, 2019). For example, WorldCom (2002), Barings Bank (1995) and Parmalat (2003) are among the crises and scandals in the corporate world that brought a lot of attention to CG (Lien, 2022). CG encompasses the processes and structures in place to reduce agency issues brought on by the separation between the principal and the agents (Jensen, 2019). Keasey et al. (1997) argue that CG refers to the structures, processes, cultures and systems that engender the successful operation of organisations”.

Studies have shown that good CG can be beneficial to organisations in transition to the third world and developing countries such as Ghana (Bokpin & Arko, 2009). Corporate Governance

(CG) is concerned with the various governance systems used to control companies or organizations to maximize shareholders' wealth (Jensen, 2019). CG enhances the effective allocation of resources which enables organisations to reduce the cost of capital and helps to increase performance and maximise profit (Hermassi, Adjaoud & Aloui, 2017). The competency of the CG structure of an organisation can influence the general performance and growth of the company (Jensen, 2019). Also, CG structures and processes can impact the Capital Structure (CS) of companies (Metrick and Yasuda (2021).

Capital Structure (CS) is the combination of equity and debt used by organisations to fund their activities (Fredrick, 2018). CS is part of an organisation's financial structure that combines short- and long-term financing sources (Akingunola, Olawale, & Olaniyan, 2018). Myers and Majluf (1984) argue that CS deals with the combination of stock, debt, and hybrid securities that businesses choose to utilize to fund and publicize their operating activities. A company's CS can increase its value, increase shareholder wealth, and reduce the capital cost to the lowest possible level (Pratiwi, 2020). The risk of a firm going bankrupt is reduced by a correctly planned CS because the company wouldn't take on more debt than it could manage (Tamirat, 2018).

CS decision is vital to companies as it directly affects companies' performance most especially profitability (Pratiwi, 2020). The dynamics of CS are such that managers decide on the company's investment and finance policies to fund and optimize their operating activities (Matsa, 2018). For example, managers make decisions on how much money to raise externally by issuing equity or debt, how much money to invest in real assets, changes in cash balances, and dividends to debt and equity holders (Powell, 2018). Companies adjust their capital (debt) ratios ratio at a consistent pace in the presence of adjustment costs to remove divergences between their optimal and actual capital ratio (Powell, 2018). The prudent selection and usage of capital are therefore regarded to be among the crucial aspects of companies' financial

strategy (Matsa, 2018). The provision of quality legal protection and the availability of a developed capital market and financial intermediary within an economy can debt effectiveness (Adeleke, 2019).

CG may influence the nature of CS and the choice of decisions made by an organization. For instance, Bokpin and Arko (2009) observed that the size of the board correlates with the decision about CS in an organisation. Also, Hermassi et al. (2017) found that companies with robust CG have lower market leverage. Also, Liao et al. (2015) found that quality CG can promote financial leverage and a quick adjustment of that leverage towards the level of shareholder's desire.

Furthermore, Bajagai, Keshari and Bhetwal et al., (2019) found that gender diversity, board meetings, board composition and managerial shareholding have a significant and positive effect on capital structure. Though numerous studies have been conducted to explore the association between CG and CS in Ghana; a majority of the works have focused on the effects of CG on the performance of an organisation and the factors that influence capital structure. Few studies (such as Bokpin and Arko, 2009) have been conducted to explore the connection between CG and CS in Ghana.

This study is underpinned by the pecking order theory, agency theory and trade-off theory. The Agency theory was propounded by Jensen and Meckling in 1976 and hypothesized that managers are motivated to maximize their gains rather than the wealth of the shareholders. Therefore, using debt helps solve the agency issue because companies agree to make regular principal and interest payments. The Pecking order theory was propounded by Meyers and Majluf (1984) who argues that companies give much attention to financing options and fallback on equity financing as the last option. According to the authors, companies focused more on raising funds internally and they all possible internal sources are exhausted, the company may issue debt. Furthermore, the trade-off theory as propounded by Meyers (1984) asserts that

companies would choose to combine debt and equity financing to obtain a sense of balance between the advantages and the disadvantages of debt. However, organisations cannot continually make utilise debt to decrease the total cost of capital. It is from this background that this study endeavours to examine the effect of CG on the CS of quoted manufacturing companies in Ghana.

1.1 Problem Statement

Corporate Governance and CS are seen as crucial elements in boosting shareholder wealth and companies' productivity (Jensen, 2019; Hussain, Rigoni & Orij, 2018). A company's solid CS lowers the danger and likelihood of bankruptcy, and sound CG is a sign that investors will be able to receive their money back with the best possible rate of return (Hermassi, Adjaoud & Aloui, 2017). Jensen (2019), for example, argued that CG has a considerable effect on the prospect of economic growth because corporate governance policies may reduce the risk of investment, attract more investment and improve the performance of a company. On the other hand, Metrick and Yasuda (2021) emphasised that the effective selection and usage of capital is a significant component of companies' financial strategy.

CG has a significant association with CS of corporate entities such as companies or firms (Pratiwi, 2020; Liao, Mukherjee & Wang, 2015). The strategic decisions made by the board of an organization such as a source of financing and cost of financing, among others, may be significantly influenced by good CG standards (Bajagai, Keshari & Bhetwal et al., 2019; Bokpin & Arko, 2009). As a result, factors affecting corporate governance, like the size of the board, composition, board abilities, and the CEO/Chair duality, may directly affect choices regarding CS or leverage (Bokpin & Arko, 2009).

Due to the significant association between CG and CS, studies have been conducted to examine the effects of CG on CS. For example, Bokpin and Arko (2009) carried out a study on ownership

structure, CG and CS decisions of listed firms in Ghana and found that board size has a significant relationship with the CS decision of firms. Again, Hermassi, Adjaoud and Aloui (2017) conducted a study aimed at examining the effects of CG on CS by focusing on observations made by firms between 2002 and 2011. It was discovered that companies with higher CG have reduced market leverage.

Also, Liao et al. (2015) conducted a study on CG and CS and discovered that greater financial leverage as well as a quicker rate of adjustment of that leverage toward the level that the shareholders' desire is linked to better CG as measured by a more independent board with a greater presence of outside directors and a CEO-chairman separation, combined with higher institutional shareholding. Furthermore, Bajagai, Keshari and Bhetwal et al., (2019) carried out a study on the effects of the structure of ownership and CG on CS among some selected companies in Nepal. The study discovered that gender diversity, board meetings, the composition of the board and managerial shareholding have a significant and positive effect on capital structure.

Undoubtedly, some studies have been conducted on the relations that exist between CG and capital structure. However, the majority of these studies concentrated on the impact of capital structure/CG on firm performance or the determinants of CS among firms. In Ghana, for example, few studies have been conducted on the association between CG and CS of companies. In light of this, this current study seeks to explore the effects of CG on the CS of quoted manufacturing firms in Ghana

1.2 Research Objectives

Generally, this study sought to explore the effects of corporate governance on the capital structure of quoted manufacturing firms in Ghana. The study will be guided by the following specific objectives.

1. To assess the impact of board independence on capital structure of quoted manufacturing companies in Ghana.
2. To explore the effect of gender diversity on capital structure of quoted manufacturing companies in Ghana.
3. To assess the impact of board size on capital structure of quoted manufacturing companies in Ghana.
4. To examine the impact of institutional ownership on capital structure of quoted manufacturing companies in Ghana

1.3 Research Hypotheses

The hypotheses that will be tested in this study are as follows:

1. H_0 : Board independence has no significant effect on CS of listed manufacturing companies in Ghana
 H_1 : Board independence has a significant impact on CS of quoted manufacturing companies in Ghana
2. H_0 : Gender diversity has no significant impact on CS of quoted manufacturing companies in Ghana
 H_1 : Gender diversity has a significant impact on CS of quoted manufacturing companies in Ghana
3. H_0 : Board Size has no significant impact on CS of quoted manufacturing companies in Ghana
 H_1 : Board Size has a significant impact on CS of quoted manufacturing companies in Ghana
4. H_0 : Institutional ownership has no significant impact on CS of quoted manufacturing companies in Ghana

H₁: Institutional ownership has a significant impact on the CS of quoted manufacturing companies in Ghana.

1.4 Significance of Study

The findings of the study will enable management and stakeholders of quoted manufacturing companies in Ghana to better understand the effect of CG on CS.

Also, the findings of the study will provide empirical support on the effect of CG components (including independence of the board, the size of the board, gender diversity and institutional ownership) on the CS of manufacturing firms in Ghana. Again, the study will reveal areas of CG where companies should place much emphasis to achieve optimal CS and improved performance.

Additionally, the outcome of the study will fill the gap in the literature and add to the body of knowledge on CG and CS. The study will thus contribute to the already existing literature that aims at examining the link that exists between CG and CS of companies, most especially quoted manufacturing companies in Ghana.

Finally, the study's findings will provide the basis upon which other students and researchers will conduct further studies.

1.5 Scope of the Study

The study focuses on the association between CG and CS of quoted manufacturing companies in Ghana. The scope of this study is limited to quoted manufacturing companies on Ghana's Stock Exchange. The study focuses on quoted manufacturing companies on the Stock Exchange of Ghana because of the availability of data. Quoted manufacturing companies on Ghana's stock exchange are closely controlled and have their financials closely examined;

hence secondary data from these companies are easily accessible and reliable. This current study focuses on the annual financial data set from 2010 to 2020 of quoted manufacturing companies on Ghana's Stock Exchange.

1.6 Organization of the Study

This study will be structured into five main chapters. Chapter one will present the background of the study, problem statement, objectives of the study, research questions, significance of the study, scope and limitation of the study as well as the study's organization. Chapter two will review the literature that is relevant to the study. The chapter will review the theories and concepts that are related to this study. Chapter three deals with methodological procedures and research design, which includes data collection, population and sampling, data collection procedure and analysis. Chapter four presents and discusses the empirical results of the study. The last Chapter, chapter five comprises the summary of the findings, conclusions and recommendations based on the study's findings

CHAPTER TWO

2.0 Introduction

This section focuses on the theoretical review, conceptual review and review of empirical studies that are related to this study. The chapter will also present the conceptual framework that guides this study. The study would review relevant theories and concepts that are based on the study's objectives to arrive at a conclusive analysis.

2.1 Theoretical Review

The research is underpinned by three theories. These are the agency theory, static trade-off theory and pecking order theory.

2.1.1 Agency Theory

In the 1960s and the 1970s, economists investigated how risk is shared among people and groups (Wilson, 2018). The literature discusses the risk-sharing problem as developing when the parties involved have different risk behaviours. The literature on risk sharing has been expatiated by the emergence of the agency theory which seeks to address the agency problem, which arises due to conflicting aims among parties and labour divisions (Ross, 2018). Agency theory was invented in 1976 by Jensen and Meckling. The common agency connection, whereby a person (the principle) assigns work to another individual (the agent), who completes it, is the focus of agency theory. To define this relationship, agency theory uses the idea of a contract (Jensen & Meckling, 1976). In agency interactions, there are two problems that agency theory aims to address. The first is the agency problem arises because of two main phenomena. In the first place, an agency problem may occur when there is a conflicting aim between the principal and the agent. Also, the agency problem may occur if the principal finds it difficult to confirm what the agent is doing (Nguyen et al., 2020). The issue here is that the principal can't be sure the agent did everything right. Risk sharing is the second issue, which arises when there is a divergent view between the principal of an organisation and the agent (Nguyen et al., 2020). Due to different risk tolerances, the principal and the agent may desire to proceed in separate ways, which is an issue.

However, agency theory examines the connection between incentives and self-interest and contends that the bulk of organisational life is motivated by self-interest (Nguyen et al., 2020). Agents or managers can censor the details they disclose to the principal or shareholders because of the conflicting aims that exist between the two. Due to this control over crucial information, the relationship between managers (agents) and shareholders is difficult (principals). The board of directors' responsibility is to establish itself as a dependable source for large corporate owners, which results in efficient management oversight (Aboagye & Otioku, 2015).

Agency theory has been explored since the early 1970s. It suggests that decisions on CS are influenced by agency costs. Managers are encouraged to lower agency costs and boost efficiency by adding risk associated with rising debt (and consequent bankruptcy risk) (Aboagye & Otieku, 2015). According to agency theory, managers may be persuaded to utilise less-than-ideal leverage because it places restrictions on their discretion (Jiraporn et al., 2017). The manager's intended degree of leverage is lower and it moves in inclination to the desired level of the shareholder, the more slowly the more severe the agency conflicts are (Ryoonhee, 2020). According to Michael Jensen's free cash flow hypothesis, a higher amount of debt forces company management to run the business effectively so that it can pay the debtholders' interest and principal on time (Ryoonhee, 2020).

Furthermore, the business's free cash flow decreases (M. Jensen defines free cash flow as cash flow above that needed to finance all programmes and projects which have positive net present values discounted at the applicable cost of capital) (Jiraporn et al., 2017). As a result, management's ability to mishandle money is reduced (Ezeani et al., 2022). This impact seems to be considerably more pronounced in emerging markets (Ryoonhee, 2020). On the other hand, because of informational inequalities and differences in the utility functions of stakeholders, debt level becomes a governance tool (Gaud, 2007). According to Detthamrong et al. (2017), enterprises with high predicted managerial agency costs benefit from actively monitored debt (syndicate loans). Because they are more likely to incur agency costs, lenders of both debt and equity capital seek higher returns from businesses with greater informational asymmetry (Ezeani et al., 2022). Companies with complicated products, such as high-tech corporations, organisations with less openness in financial accounting information, or businesses with lower levels of institutional ownership all have very high information asymmetry (Detthamrong et al., 2017).

However, by investigating how CG quality (such as the strength of shareholder rights) influences CS, the study establishes a relationship between agency costs and CS (Ehikioya et al., 2020). Companies that have a higher restriction of rights for shareholders may experience higher agency costs because managers can take advantage of the lax shareholder rights and substitute it with their desires instead of the interest of the shareholders. Agency conflict may occur due to the divergence of ownership and control (Ehikioya et al., 2020).

2.1.2 Static Trade-Off Theory

The basic argument of the trade-off theory is adopting the appropriate debt and equity financing to minimise capital cost (Chou et al., 2018). The tax benefit that a firm enjoys serves as the main advantage of debt financing. However, bankruptcy cost which is the return that a firm pays on its debt financing may be a downside of debt financing. Firms are partially financed by debt and equity (Chou et al., 2018). According to the trade-off theory, a firm may choose a mixed form of financing as a means of preserving the difference that may exist between the advantages and disadvantages of equity financing and debt (Ehikioya et al., 2020). Additionally, an increase in the level of debts will not decrease the capital cost because at certain points the cost of debts will overtake equity cost as a result of increased leverage, which raises the risk to creditors due to a rise in their necessary rate of return (BereBerga & Dovladbekova, 2019). Additionally, the riskier financial position of the investors and stockholders is a result of the growing debt. Consequently, up to a certain point, increasing debt can lower the cost of capital (Bere-Berga & Dovladbekova, 2019). After that point, though, the cost of capital will start to rise. To reduce their average cost of capital and boost market value per share, businesses typically combine loan and equity financing (Chou et al., 2018).

The static trade-off theory of a firm CS differs from industry to industry. Because the assets of these businesses may be used as collateral and are regarded as generally safe, these industries

tend to borrow more frequently than they use stock. With the use of the trade-off theory, Ezeani et al. (2022) found that there is a positive connection between a firm's profitability and leverage, whereas the size of a firm and the tangibility of its assets were found to correlate positively with the firm's leverage. The debt of the firm and leverage were shown to be positively connected in the short run under the static trade-off hypothesis, but their association was found to be negative in the long run, according to research by Khatib et al. (2019). Khatib et al. (2019)'s findings were further corroborated by Antoniou et al. (2020), who concluded that business size is positively connected with the leverage ratio. In those nations where bank lending was important, it was discovered that the tangible nature of assets was favourable. According to Choi et al. (2020), a corporation can have a larger tax shelter since high profitability increases the firm's ability to take on more debt. As a result, financial leverage and a firm's profitability have a positive relationship, according to the static tradeoff theory (Chou et al., 2018). Companies with greater physical assets will probably have more loan collateral. The company's assets will be seized in the event of default. However, the business will avoid bankruptcy (Zingales, 2018). Additionally, businesses with a lot of physical assets are more likely to take on debt and are less likely to default. Consequently, financial leverage and the tangible nature of assets have a positive relationship, as per the static tradeoff theory (Zingales, 2018). Due to their stronger access to the capital markets and perception of being "too big to fail," large companies typically hold more debt than smaller ones. Due to their considerable debt capacity, large companies seek debt funding (Wilson, 2018).

2.1.3 Pecking Order Theory

Due to the asymmetry of the data available to investors and their difficulty deciding between external and internal finance, Pecking Order Theory becomes crucial (Nguyen et al., 2020). Retained earnings, in Myers' (1984) opinion, are preferable to debt financing. In addition, debt

financing is preferable to equity financing because it has fewer costs than equity. According to this theory, organisations should prioritise using retained earnings as their primary source of funding before turning to debt financing and equity financing as their last resort (Nguyen et al., 2020). This theory explains how organisations make financial decisions at different levels of hierarchy. Retained earnings are an internal resource that organisations must use (Morellec et al., 2018). The advantage of employing retained earnings is that there was no cost associated with the floating and that no further or additional disclosure of any hidden financial information was necessary. If the organisation chooses to obtain funding from outside sources, it must adhere to a set procedure, including debt financing, the issuance of convertible instruments, the issuance of preferred stock, and eventually the issuance of common stock (Morellec et al., 2018).

Several benefits are associated with the pecking order theory. Some of these benefits include showing the desire of finance managers to protect the control of the company and minimise the cost of equity and agency issues (Khatib et al., 2019). This theory is useful in describing CS changes. It helps businesses to design a dynamic CS and takes managers' motivation into account (Ehikioya et al., 2020). Pecking Order Theory does have certain restrictions, though. One of the major weaknesses is its inability to recognise agency fees, the cost involved in creating new securities, the impact of taxes and the financial challenges of investment prospects (Khatib et al., 2019). Another weakness of the pecking order theory is that it neglects the issues that arise as a result of the choices by managers to build enough financial slack to protect them from market restrictions. It considers how financial slack will affect the company and whether there are projects with favourable NPVs (Morellec et al., 2018). Due to these drawbacks, the theory is referred to as an addition to static trade-off theory rather than a replacement. Ehikioya et al. (2020) indicated that the size of a corporation has a favourable effect on the leverage of the firm. Furthermore, they concluded that profitability and leverage are inversely related.

These results lend credence to Pecking Order Theory's underlying premises. The findings of Granado-Peiró & López-Gracia (2016) were in line with the argument made by the pecking order theory. The authors found that the size of a firm has a negative relationship with leverage.

2.2 Conceptual Review

This section will define the meanings of a basic concept concerning the objectives of the study so that readers can have a better idea of the work that has been done. The conceptual review would elaborate on CG and CS concerning the study.

2.2.1 Concept of Corporate Governance

The management, direction and control of a firm may be influenced by a set of procedures, practises, laws, and regulations referred to as corporate governance, which also aims to affect, either directly or indirectly, the organization's behaviour toward its stakeholders (PeiZhi & Ramzan, 2020). According to the International Finance Corporation, CG deals with systems and procedures used to direct and administer organisations (Rashid Khan et al., 2020). The OECD (2015) states that a series of communications that may occur among the management of a firm, board members, shareholders, and other stakeholders make up the internal mechanisms by which businesses are operated and governed (OECD, 2015). Along with providing the foundation for setting the company's goals, CG also provides the tools for accomplishing those goals and keeping track of performance. As well as allowing for effective monitoring and encouraging businesses to use their resources more effectively, effective CG is needed to provide good incentives to management and board to motivate them to pursue the objectives that are favourable to the firms and the shareholders (Nyakundi, 2017).

CG was later described as a network of interactions that are created between the management, shareholders, board of directors and stakeholders of an organisation (Akdogan & Boyacioglu 2018). A sufficient explanation of CG is provided by just four factors in the Russian Company

Governance Manual from 2004. It holds that good governance practises address a network of interconnected parties that is defined by policies and systems, parties with divergent interests, and the equitable distribution of rights and obligations, increasing long-term shareholder value and involving parties in the management and direction of the business (Zingales, 2018). Corporate governance, as defined by Detthamrong et al. (2017), is the system that governs how businesses are run. It covers all aspects of how a company runs and makes an effort to establish an institution that will operate in the form of a checks and balance system between directors, management, shareholders and, directors of a company.

Wilson (2018) asserts that the foundation of CG is a set of internal practises known as "CG Guarantor" that come from the Board of Directors. The board is therefore in charge of creating and promoting the organization's goals, mission, long-term strategy, management evaluation, succession planning, internal control systems for financial reporting, risk assessment, and risk mitigation. Wilson (2018) lists four ways that the board of directors benefits the company. They consist of approving and evaluating the business's strategic direction, making sure it has the proper systems in place for risk assessment and management, such as internal controls, monitoring performance concerning predetermined benchmarks, and ensuring the accuracy of financial performance data (Ryoonhee, 2020).

2.2.2 Elements of Corporate Governance

2.2.2.1 Board Size

One of the most significant influences on a company's financial decisions and approval of strategic decisions is the boardroom; it guarantees that the company functions effectively, competitively, and securely and obtains the crucial resources required to improve a firm's

operations (Ehikioya et al., 2020). The success of a company depends on an efficient boardroom. However, there isn't any explicit advice regarding the right boardroom size (Detthamrong et al., 2017). A sizable boardroom offers additional opportunities for communication with the outside world (Ehikioya et al., 2020). According to agency theory, a company with a sizable board is seen as having good governance, which makes it easier for the company to obtain outside funding. The cost of debt would be cheap because lenders perceive such companies as having an efficient monitoring mechanism if large boards seek larger debt to increase corporate value (Chou et al., 2018). Big boards want more debt to increase the value of the company (Chou et al., 2018).

2.2.2.2 CEO Duality

The two crucial decision-makers in a company with CEO duality will share the same traits and viewpoints. Due to executives' ability to manage information disclosure to directors and shareholders and to have an impact on business funding decisions, this can lead to agency issues and information asymmetry (Chou et al., 2018). The CEO's major role is to develop and carry out strategic decisions (decision management). On the other hand, the role of the boardrooms is to support and oversee the CEOs' decisions (decision control). Who will monitor the monitor? This could become a problem for the agency if the same person holds both jobs Abolagye and Otioku (2015). According to the report, managers should use more discretion in how they carry out their strategic decisions. This makes it easier for the company to protect itself from the unpredictable external environment, which improves its capacity to raise money (Antoniou et al., 2020).

When CEOs hold two positions, it means they serve as both the chairman and the M&A decision-maker (Antoniou et al., 2020). Regardless of the corporation's performance, they seem to stand to gain personally. Choi et al. (2020) assert that when the board of directors is more

active and influential than the CEO, there is effective oversight and, as a result, control over managerial strategic decisions. Contrarily, one study argues that CEO duality may make it easier to make poor decisions and reduce the effectiveness of board oversight (Choi et al., 2020). However, despite actions that management views as risk-taking, these choices deserve higher compensation.

2.2.2.3 Ownership Concentration

The belief is that ownership concentration reduces agency issues and strengthens the boardroom. According to agency theory, increased concentration of ownership results in more effective management oversight because tiny shareholder blocks may lack the motivation to do so (Choi et al., 2020). Additionally, concentrated ownership affords the best defence for the rights of shareholders when legal protection is relatively inadequate (BereBerga & Dovladbekova, 2019). Because the shareholders desire to maintain control over the company, businesses with a high concentration of ownership choose to utilise greater financial leverage than equity (Chou et al., 2018). Block-holders might be better able to make managers exert more pressure to reduce management opportunities (Bere-Berga & Dovladbekova, 2019). However, ownership concentration may transform the conflict between a manager and a shareholder into an interesting conflict between a large shareholder and a small stakeholder (minority and majority shareholder conflict). One argument against large block-holders is that they could abuse their enhanced power for their gain at the expense of other stockholders, which would be damaging to a company's valuation (Chou et al., 2018; Antoniou et al., 2020). Therefore, the acts of ultimate owners with excessive control powers that engage in expropriation have an impact on the CS (Antoniou et al., 2020).

2.2.2.4 Board Independence

According to agency theory, when independent outside directors are watching the boardroom, top managers typically face more intense oversight (Choi et al., 2020). Therefore, a more autonomous boardroom sends a message to the market that the company is being effectively supervised, increasing the company's creditworthiness in the eyes of fund providers. As a result, it would be simpler to raise long-term capital through debt financing (Choi et al., 2020). Additionally, businesses with more independent directors may have higher debts since they may have additional perspectives and expertise that open up new pathways between the business and its financial provider (Antoniou et al., 2020). As a result, it makes it easier for a business to take on more debt with better terms (Jiraporn et al., 2017).

2.2.2.5 Board Diversity

Board diversity is the heterogeneity of directors' backgrounds, including their ethnicity, experience, age, education, nationality, gender, and a variety of other characteristics (Jiraporn et al., 2017). In the current business climate, promoting boardroom diversity is a crucial component of CG practises since it gives the boardroom fresh perspectives and insights and strengthens the organization's ties to the outside world. The diversity of the board can be divided into two categories, according to Khatib et al. (2019): demographic diversity, which includes education, experience, and personal values; and cognitive diversity, which includes gender, race, ethnicity, and age. Research has focused primarily on the effects of boardroom diversity on firm performance (Detthamrong et al., 2017), risk management (Khatib et al., 2019), and leadership contribution, with very few attempts to examine the impact of board diversity (both cognitive and demographic) on CS (Ezeani et al., 2022).

2.2.3 Importance of Corporate Governance

Some businesses may consider CG to be an unneeded and costly activity. A proper CG system, on the other hand, provides numerous advantages. While CG can assist businesses, its importance is determined by how businesses use it (Jiraporn et al., 2017). As previously said, CG describes the rules, concepts, and regulations that businesses can use to control and lead themselves (Liao et al., 2015). CG is crucial for a variety of reasons. As previously noted, the demand for CG stems from previous high-profile failures. CG ensures that these businesses do not face challenges (Liao et al., 2015). The following are some of the implications of CG for the study, as stated below.

2.2.3.1 Minimizing agency problem:

When one entity works as another entity's agent, this is referred to as an agency. The management of a company operates on behalf of the shareholders, which is a sort of agency relationship (Nguyen et al., 2020). In rare cases, the board of directors may not act in the best interests of the shareholders. CG addresses this issue by ensuring that the objectives of both shareholders and management are aligned (Nguyen et al., 2020).

2.2.3.2 Mitigate risks:

CG also focuses on risk management for businesses. The audit committee or risk committee is one area that can help with this (Morellec et al., 2018). These committees are in charge of controlling and reducing a company's risks from a variety of sources (Morellec et al., 2018). CG guarantees that the risks that organizations confront are minimized by establishing such bodies.

2.2.3.3 Protect shareholders:

CG protects a company's other interests in addition to minimizing agency concerns (Nyakundi, 2017). Internal and external stakeholders may be included. CG establishes the relationship that businesses must maintain with their stakeholders. This ensures that each stakeholder's rights are clear for firms to fulfil (Nyakundi, 2017).

2.2.3.4 Attract investors:

CG provides a mechanism for best practices for businesses. This guarantees that a company's operations are efficient. As previously stated, it also safeguards the interests of shareholders and other stakeholders (PeiZhi & Ramzan, 2020). When looking for companies to invest in, investors will always choose those with solid corporate governance. CG might so attract new investors in this manner (PeiZhi & Ramzan, 2020).

2.2.3.5 Protect accountability:

A sound, transparent, and reliable financial reporting system is ensured by a good CG structure (Nyakundi, 2017). CG promotes accountability in a corporation in this way. This accountability can also help with the aforementioned issues, such as attracting additional investors or protecting stakeholders (Ryoonhee, 2020).

2.2.3.6 Ensure compliance:

Companies are intricate commercial frameworks. As a result, they must follow a variety of rules and regulations. CG is also relevant in this context since it guarantees that corporations meet their duties (Zingales, 2018). Compliance with laws and regulations is also part of the risk management process for a corporation. Companies can prevent unneeded complications by adhering to laws and regulations (Ryoonhee, 2020).

2.2.3.7 Improve efficiency:

CG also assists businesses in increasing operational and organizational efficiency (Ross, 2018). Many businesses have inadequate governance, which results in below-average performance. CG establishes the foundation for how a corporation does business, manages resources, innovates, and executes corporate strategies (Zingales, 2018). Through them, it also enhances a company's productivity.

2.2.3.8 Ensure corporate social responsibility:

Corporate social responsibility is one area that CG introduces. It typically refers to how businesses interact with the environment in which they operate (PeiZhi & Ramzan, 2020).

Corporate social responsibility allows businesses to evaluate the environmental impact of their operations. It also encourages sustainability and social responsibility (PeiZhi & Ramzan, 2020).

2.2.4 Need for Corporate Governance

The need for CG is highlighted by the following factors:

2.2.4.1 Wide Spread of Shareholders

Today, a corporation has a very big number of shareholders dispersed throughout the country and even the world, and the majority of them are disorganised and uninterested in the company's business operations (Rashid Khan et al., 2020). The concept of shareholder democracy must be put into practice through a code of conduct for CG because it is currently only permitted by law and the company's standards of engagement (Rashid Khan et al., 2020).

2.2.4.2 Changing Ownership Structure

In the modern period, institutional investors and mutual funds have largely replaced private individuals as the major shareholders in the large corporate private sector, changing the pattern of company ownership (Nguyen et al., 2022). The biggest issue facing corporate management now comes from these investors, who are obliging them to follow a set of CG rules to improve their reputation in society (Nguyen et al., 2022).

2.2.4.3 Corporate Scams or Scandals public confidence in corporate management

A certain code of ethics is necessary to safeguard stakeholder rights and shareholder holdings, as well as to aid the current business climate's concurrent controversial problems to be lessened (Nyakundi, 2017). Therefore, the necessity for CG is essential to restoring investors' faith in the corporate sector and promoting societal economic progress (Nguyen et al., 2022).

2.2.5 Principles of Corporate Governance

The fundamental principles of CG are described below:

2.2.5.1 Transparency

Transparency is the property of something that makes it simple to discern reality. In the context of corporate governance, it denotes the accurate, sufficient, and prompt disclosure to the stakeholders of pertinent information regarding the operating performance, among other things, of the corporate entity (Morellec et al., 2018). In actuality, transparency serves as the cornerstone of CG and fosters a high level of public trust in the corporate sector (Morellec et al., 2018). A corporation should publish pertinent information regarding corporate activities in top newspapers on a quarterly, half-yearly, or annual basis, for example, to provide transparency in corporate administration (Nyakundi, 2017).

2.2.5.2 Accountability

Accountability is the duty to defend the outcomes of choices made in someone else's best interests. Accountability in the context of CG denotes the duty of the Chairman, the Board of Directors, and the CEO to use the company's resources (over which they have control) in the company's and its stakeholders' best interests (Liao et al., 2015).

2.2.5.3 Independence

For a corporation to practise good corporate governance, the top management must be independent. To do this, the Board of Directors must be a powerful, impartial body that can make all corporate decisions based on sound business judgement (Morellec et al., 2018). Good CG is merely an ideal without an independent top management team (Liao et al., 2015).

2.2.6 Concept of CS

The method through which a bank finances its assets with a combination of equity, debt, or hybrid securities is known as a bank's CS (Donelli et al., 2016). Each bank must develop a balanced structure because, in practise, taking on too much debt entails financial risks. Progress in the corporate sector is necessary for economic growth. Money worries have surely been identified as a sudden driving force behind why commercial firms in developing nations struggle to get started or flourish. If banks in developing nations have grown to be a major force in giving family units benefits, dividends, and wages, then it is hoped that they will be able to finance their operations and develop over time (Donelli et al., 2016). The company's use of a variety of long-term financing sources is highlighted by its CS decisions. As a result, decisions on the CS must take into account the organization's overall finance plan, including its use of exchange credit (Ezeani et al., 2022).

The phrase "capital structure" has been defined in several different ways. The types of securities and the relative amounts that comprise capitalization are described by each of these definitions. It is a combination of many long-term funding sources, including retained earnings, equity shares, preference shares, debentures, and long-term loans. According to one of these definitions by Detthamrong et al. (2017), the study of CS aims explains the combination of securities and funding sources that businesses employ to finance actual investment. The company must invest to at least stay in operation, much less show some growth (Chou et al., 2018). Companies can either use internal financing resources, like retained earnings and public stock issues, or external financing resources, like loans or bonds, to pay for these initiatives (Detthamrong et al., 2017).

The interaction between different long-term funding sources, such as equity capital, preference share capital, and debt capital, is referred to as the "capital structure" (Bere-Berga & Dovladbekova, 2019). The CS of a corporation is its long-term financing, which is generally made up of long-term debt and equity. Deciding on the best CS is crucial for financial management because it directly affects the firm's worth. The capital structure, according to Chou et al. (2018), is the ratio between the firm's long-term debt and equity holdings.

While the actual level of a company's long-term permanent financing, which is represented by debt, preferred stock, and common stock equity, may change slightly over time, most businesses strive to maintain a financing mix that is close to a target capital structure. The basic goal of the capital structure, according to Jiraporn et al. (2017), is to contain the ideal ratio of debt to equity. A company's decision on its CS comprises selecting a target capital structure, determining the average maturity of its debt, and deciding which specific sources of financing it will utilise at any given time (Nguyen et al., 2020). Similar to operating decisions, managers should choose a CS that maximises the firm's inherent worth. The CS can be summed up as the combination of financial sources used to fund the operations of the firms, according to the

previous criteria. Companies may employ debt and equity as financial resources (Jiraporn et al., 2017).

2.2.7 Components of Capital Structure

There are two components of CS which includes, equity capital and debt capital. The aforementioned components are explained below;

2.2.7.1 Equity Capital

Equity share capital serves as a proxy for the company's ownership capital in the CS components (Nguyen et al., 2020). It is the company's permanent capital and cannot be removed at any moment. Owners take on the majority of the risk, but they also benefit from profits. They are only liable for the amount they contributed. Popular among investors are equity shares. With equity financing through common stock, the investor can modify their ownership stake in the business by selling or buying common stock from one or more people or entities for a predetermined sum of money (Nguyen et al., 2020). The sum that all common shareholders have invested in a corporation is known as common equity. The value of the common shares itself is among the most significant aspects of this. However, it also contains additional paid-in capital as well as retained earnings (Aboagye & Otioku, 2015).

A company's capital can be divided into two categories, according to Mujahid & Akhtar (2014): (1) contributed capital, which is the cash that was initially invested in the company in exchange for stock or ownership; and (2) retained earnings, which are profits from prior years that the company has kept and used to bolster the balance sheet or fund growth, acquisitions, or expansion. A company is referred to as "unlevered" if it doesn't employ debt financing. Due to this, there is what is known as "business risk," which is the risk that a company's common stockholders would face if it had no debt (Morellec et al., 2018). In other words, it is the risk that is inherent in the firm's operations and results from uncertainty over operating profit

projections and capital needs. In the absence of debt, a company's return on invested capital should be calculated using its return on equity (Novaes, 2013). Simply put, this means that a firm that is not leveraged will have its business risk determined by the standard deviation of its ROE (Morellec et al., 2018).

2.2.7.2 Debt Capital

In a company's capital structure, debt capital refers to borrowed funds that are being used for operations. According to Nguyen et al., long-term debt is often seen as the safest type because the corporation has years, if not decades, to come up with the principal while paying interest only in the interim (2020). Debenture capital is a type of loan capital that is included in CS components; holders of debentures are the company's creditors (Granado-Peiró & López-Gracia, 2016). For the benefit of investors, many debenture types are offered. Additionally, banks and other financial institutions offer long- and medium-term loans to organisations. Public deposits are any funds obtained by a non-banking corporation in the form of a deposit or loan from the general public, including employees, clients, and owners of the company, other than in the form of shares and debentures. Public deposits can be used as debt financing (Nguyen et al., 2020).

A company is said to be leveraged when it chooses to use debt financing for its operations because it is exposed to financial risk. According to Khatib et al. (2019), "financial risk" is the extra risk that the decision to use debt financing places on the common stockholders. Financial risk is the possibility that the company's earnings may not be as anticipated due to the financing strategy (Maganya, 2020). Additionally, the financial risk exists since the debt has a set financing requirement that must be satisfied when it is due for the shareholders to receive a part of the retained earnings. This obligation typically takes the form of interest (Khatib et al., 2019). Because different industries and lines of business have distinct operating characteristics, the

level of debt (financial leverage) that is acceptable for one can be extremely problematic for another (Granado-Peiró & López-Gracia, 2016).

2.2.8 Determinants of Capital Structure

As a tool for corporate governance, a capacity structure must now be considered in addition to the ratio of debt to equity and its well-known tax implications (Jiraporn et al., 2017). The firm's CS can secure a successful value-generation process through interaction with other CG tools by choosing how the generated value will be distributed in the future (Maganya, 2020). Risk, a company's size, age, asset structure, and profitability are some of the factors that determine the capital structure, as stated below:

2.2.8.1 Risk

Several scholars have stated that the operating risk indicator of income volatility has a detrimental effect on the leverage of the organisation (Myers, 1984; Nguyen et al., 2020; Novaes, 2013). Risky businesses should not borrow as much, *ceteris paribus*, according to Myers (1984), because a larger net income variation rate raises the likelihood of default. Given their increased risk of agency and bankruptcy expenses, firms with erratic earnings are encouraged not to fully take advantage of the tax benefits of debt (Novaes, 2013).

2.2.8.2 Size of the firm

Many academics have argued that business size and leverage have a favourable relationship (Nyakundi, 2017). According to Novaes (2013) and Nyakundi (2017), the ratio of direct bankruptcy costs to firm value declines as the firm value rises. These anticipated bankruptcy expenses may have little effect on large companies' borrowing decisions, allowing them to take on additional leverage (Liao et al., 2015). Smaller businesses, however, must contend with a

distinct reality when obtaining long-term finance. This is mostly caused by the high negative association between firm size and the likelihood of bankruptcy, not information asymmetry (Ehikioya et al., 2020). One argument is that relatively large businesses have a tendency to be more diversified, which makes them less likely to experience financial trouble (Liao et al., 2015). Ehikioya et al. (2020) contend that because large enterprises face less asymmetric information concerns, their transaction costs are lowered. This should result in larger companies favouring equity over debt more so than smaller companies. Smaller businesses frequently discover that disseminating asymmetric information is substantially more expensive, and as a result, bankers and lenders choose to supply less capital or capital at much higher costs (Chou et al., 2018).

2.2.8.3 Age of the firm

According to both the static trade-off theory and the pecking order hypothesis, age should have an impact on CS (Detthamrong et al., 2017). According to the former, long-term lenders can base their lending decisions on an older company's track record. Young businesses will therefore need to rely on short-term financing (Donelli et al., 2016). This notion is supported by the pecking order theory since an older organisation is more likely to have accumulated internally generated money, lowering the requirement for short-term external funding (Donelli et al., 2016). The corporation employs the natural logarithm of age to account for the probability of non-linearity because the marginal effect of a year more of experience should diminish with age (Choi et al., 2020).

2.2.8.4 Asset structure

The majority of CS theories contend that a firm's asset mix should play a significant role in determining its capital structure. The amount of a company's physical and general assets will have an impact on the company's liquidation value (Bere-Berga & Dovladbekova, 2019; Choi

et al., 2020). Since it is easier to determine the values of physical assets, a substantially higher proportion of tangible assets will raise the firm's liquidation value (Antoniou et al., 2020). Therefore, compared to intangible assets, tangible assets are more likely to be accepted as collateral. Funds granted to the borrower are constrained to a particular project by collateralizing debt. If a project doesn't have such a guarantee, the creditors may demand better conditions, which could force the company to pursue equity financing instead. Additionally, using actual assets as collateral discourages risk shifting because the company will find it challenging to move investments to more dangerous initiatives (Bere-Berga & Dovladbekova, 2019). As a result, a substantially higher percentage of physical assets ought to raise lenders' readiness to provide credit and boost business leverage (Khatib et al., 2019).

2.2.8.5 Profitability

According to Myers and Myers' (1984) pecking order theory, businesses prefer internal financing to external debt and external debt to equity. Since a more prosperous company has more internal finance available to it, *ceteris paribus*, it will rely less on external financing to support its operations and investment prospects. Numerous writers have experimentally examined the inverse link between profitability and leverage, which is still nearly universally accepted as true for both small and large businesses (Choi et al., 2020; Donelli et al., 2016; Ezeani et al., 2022; Granado-Peiró & López-Gracia, 2016). Profitability has the single most detrimental impact on a company's debt-to-asset ratio, according to Ezeani et al. (2022).

However, there are some contradictory theoretical hypotheses regarding how profitability affects business leverage (Jensen, 1986). According to Jensen's (1986) model, businesses with high profitability are likely to be the focus of takeover attempts and a rise in leverage. Therefore, profitable acquired enterprises should have a larger debt-to-assets ratio, indicating a favourable correlation between profitability and firm leverage (Novaes, 2013).

2.3 Empirical Review

Liao et al. (2015) did a study on CG and capital structure, specifically utilising a qualitative method and descriptive analysis. The study discovered that quality CG encourages the independence of board members and separation between the CEO and the chairman. The study also indicated that quality CG encourages an increase in outside directors and larger institutional shareholding. Higher financial leverage levels and a faster rate of modification of leverage to favour the desires of the shareholders were also found to be associated with these factors. The study also showed that when beginning leverage conflicts with the intentions of the managers and shareholders, the impacts of CG on leverage modifications are more significant. The study by the authors was informative, however, because it took a qualitative method, researchers may be biased when transcribing the findings to come to a firm conclusion.

Bere-Berga & Dovladbekova (2019) used the descriptive design and the qualitative approach to evaluate the connection between CG and the CS of an organisation. The authors found that the CG index and market leverage have a negative connection, according to the study, meaning that debt levels decrease as CG levels rise. The study by the authors was insightful, but because it was qualitative, it was biased when it came to interpreting the findings and making a judgement.

Chou et al. (2018) used descriptive analysis, specifically utilising a quantitative method, and their study focused on CG and the dynamics of capital structure. The study highlighted that CG has a unique impact on the swiftness of the adjustment of capital structure. The study also suggests that although firms with inadequate governance and excessive leverage change slowly, this is because they are hesitant to reduce their leverage to the desired level to fend off potential raiders, particularly if they are under significant threat of takeover. The study concludes that organisations that do not have strong governance may slowly shift toward their desired debt

levels, however for various reasons, whether they are overleveraged or underleveraged. Although the study by the authors was insightful, the authors did not review theories and concepts to support the results and gain thorough knowledge to come to a definite conclusion.

Corsi & Prencipe (2020), who utilised descriptive analysis and specifically quantitative approaches to collect the data, concentrated on the effects of some CG characteristics on the CS of new technology-based companies (NTBFs) in terms of firm leverage. The research demonstrates that NTBFs with concentrated ownership signify a decrease in the firm's leverage. Manager shareholders also favour lowering the debt loads of their companies. However, independent directors' participation on the board appears to have a greater impact on NTBFs CS than board size does. Despite being insightful, the study lacked theoretical and conceptual examination to reach a firm conclusion.

Morellec et al. (2018) carried out a study on capital dynamics and corporate governance, specifically employing the quantitative method to obtain the data for this study. The study found that, although cost refinancing can explain the patterns seen in the data, the quantitative effects of the choices of debts are very narrow to clarify the decisions of financing. Additionally, the study showed that it is possible to produce CS that are compatible with the data by integrating the problems of agency within the model and providing the manager power to decide on the leverage. Specifically, it was suggested that an average agency cost of 15% of the total value of equity was required for the model to explain the time series of observed leverage ratios as well as the low-leverage conundrum. The data showed that the heights of agency conflicts match with frequently used proxies for CG, and the authors' calculations also revealed that the differences in agency costs among companies are significant. The study as it was carried out by the authors was intelligent, however, the study's conclusions lacked theoretical and conceptual basis.

Ehikioya et al (2020) explored the connection that exists between the corporate board and the CS of firms quoted on the Stock Exchange of Nigeria between 2015 and 2019. The authors made use of panel data from 93 firms and adopted the fixed effects regression. The authors discovered a positive connection between board composition and the duality of CEOs and the CS of listed firms in Nigeria. The study also found that the skill and gender of the board have a favourable relationship with capital structure, whereas board size had a small but negative impact on capital structure. Finally, the study shows that large organisations use more debt to finance assets whereas profitable listed firms in Nigeria use less debt, which is consistent with CS theories. The majority of financial statements by most corporations are selfadministered to meet the companies' goals and purposes while not positing true or accurate data, hence the panel data used for the study will not provide reliable data.

Choi et al. (2020) concentrated on CG and CS as the study used an instrumental variable approach and the two-step generalised technique of moments. According to the study, if a company has a high institutional ownership level, its debt level will be low. Therefore, institutional monitoring may take the place of external debt monitoring, encouraging businesses to use little leverage. The study also showed that a high debt level for a company corresponded to a high amount of institutional ownership. The study by the authors included some interesting findings, however, it lacked theoretical and conceptual analysis to back up the conclusions and provide a clear explanation.

More lately, Nguyen et al. (2022) examined a global dataset made up of 23,142 yearly observations from 3,270 firms within 59 countries from 2004 to 2014. The authors examined the nexus between the quality of national governance and that of corporate governance and the decisions about capital structure. The study found that the system governance among firms can influence managers to borrow more to meet the expected level of shareholders hence the forces can be weakened as the quality of national governance improves. Although the author's

investigation was sufficiently illuminating, a theoretical and conceptual analysis was lacking, making it difficult to grasp the work as a whole.

Ezeani et al., (2022) made use of the descriptive design and the qualitative approach to obtain data to explore the influence of the characteristics of the board on the dynamics of CS and the speed of adjustment. The results showed that companies alter their leverage more quickly when share-holders are much more involved in the CG than when share-holders are less involved. The study revealed that the characteristics of the board can also influence the structure of a firm's capital and the adjustment rate towards the attainment of the targeted leverage. The study by the authors was informative, however, because it took a qualitative method, researchers may be biased when transcribing the findings to come to a firm conclusion.

As the study made use of multivariate regression in a panel data framework, Nyakundi (2017) concentrated on the connection between CG and CS of companies registered on the Securities Exchange, Nairobi, Kenya. According to the study, the CS and the percentage of independent directors are both inversely correlated with the size of the board and the ration of equity to debt. Additionally, managerial ownership negatively correlates to CS while government ownership has a positive correlation, indicating that higher managerial ownership aligns managers' interests with those of outside shareholders and lessens the use of debt as a tool to address agency issues.

Jiraporn et al. (2017) focused their study's descriptive analysis, specifically employing qualitative methodology, on captain structure and CG quality. According to the report, organisations with inadequate governance have a lot more debt. Furthermore, the study suggests that leverage can take the place of CG in resolving agency conflicts. Once more, the study shows that important company decisions like CS decisions are significantly impacted by the overall effectiveness of corporate governance. Although the study was informative, the

qualitative data collection method led to bias on the part of the researchers when they attempted to translate the findings into a conclusive conclusion.

According to the findings of the authors' study, board members have a significant impact on managerial choices regarding how to raise money to boost a company's profitability. Additionally, because managers are self-interested in the operation of the company, there is always an agency problem that usually prevents them from choosing to use leverage or debt. To acquire a deeper grasp of the study, the majority of the authors did not use theoretical and conceptual reviews to support the study's conclusions. Again, the majority of them employed qualitative research methodologies in their investigations, which frequently led to bias on the part of the researchers when they transcribed the findings to get a definitive conclusion. These gaps are the backdrop against which the investigation is framed to draw an insightful conclusion.

2.4 Conceptual Framework

The connection between CG and CS provides the conceptual basis for this study. The study seeks to determine the relationship and the effect of CG on the CS of quoted manufacturing companies in Ghana. The conceptual framework is shown in Figure 2.1.

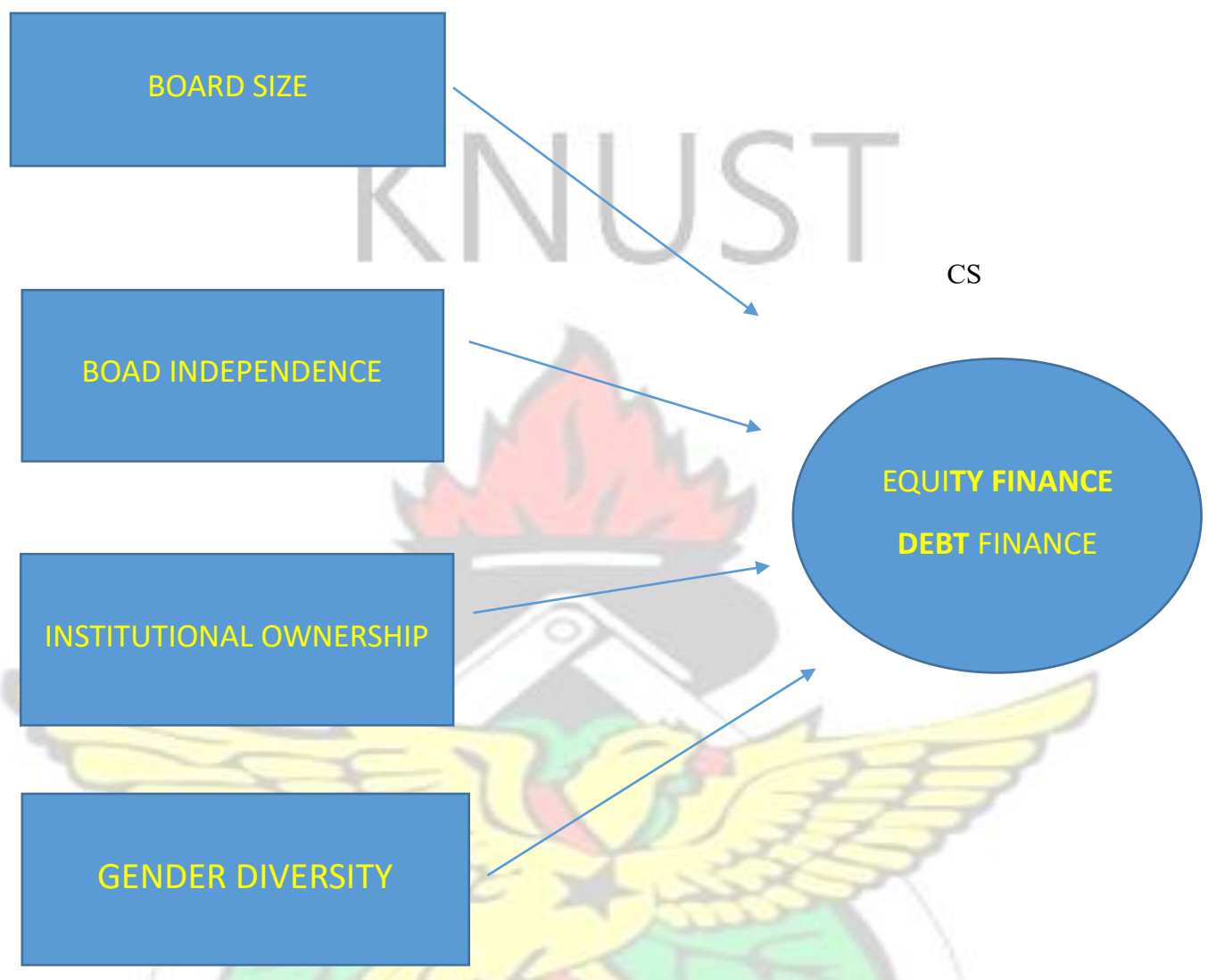


Figure 2.1 Conceptual framework showing the impact of CG and CS dynamics
CHAPTER THREE

METHODOLOGY

3.0 Introduction

The study employed methods and materials that are relevant to the work. The research methods and materials comprise research design, data type and sources, model specifications and estimation strategies.

3.1 Research Strategy

Research strategy denotes the general methodology or holistic steps a researcher takes in conducting research work (Kumar, 2011; Leed & Ormrod, 2001). This study is purely quantitative; hence quantitative research approach was employed to assess the effect of CG on the CS of quoted manufacturing firms in Ghana. The quantitative research strategy uses post-positivist claims to collect data to develop knowledge about a given phenomenon (Creswell, 2003). Creswell further explained that quantitative research strategy explains a given phenomenon using a statistical approach or methods. With a quantitative research strategy, an explanation of a phenomenon is formulated into a relationship where one variable affects another variable.

The justification for utilizing a quantitative research strategy is that a quantitative research design helps to test for the authenticity of theories and hypotheses. The quantitative approach uses numerical data to ascertain the truthfulness of a theory of hypothesis. Thus, the hypothesis developed in chapter two of this study would be tested with the use of the quantitative approach. Also, a quantitative research strategy enhances the findings of a study which enables the findings to be generalised to from the sampled size to the entire research population. It is usually difficult for the researcher to attend to all the population involved in a study to time constraints and inadequate finances. It is thus, important for the researcher to a smaller group of the population from whom the findings of the study can be generalised to the bigger population. Again, the quantitative research approach has inherent flexibility and participatory nature, which makes it excellent for data collecting on the subject under consideration. Therefore, the adoption of the quantitative approach will enable the researcher to generalise the findings of this study.

3.2 Research Design

Based on the quantitative research strategy, the study utilized both descriptive and explanatory research designs to analyse the impact of CG on the CS of quoted manufacturing firms in Ghana.

Descriptive design was used because it helps the researcher accurately and systematically describe a population, situation or phenomenon of interest. Again, the descriptive research design helps to address questions relating to "what", "how", "why" and "when". Therefore, descriptive design is useful in describing a phenomenon in reality. This study employed a descriptive research design because it will enable the researcher to describe the nature of CG and CS among selected quoted manufacturing companies in Ghana.

Moreover, the study adopted an explanatory research design. Explanatory design dwells on the ideas and thoughts of the researcher to further investigate a theory or test a hypothesis. This design focuses on the causes and effects of a phenomenon. Explanatory research design is also employed because the approach is aimed at finding out why and how certain things happen. Hence with the use of an explanatory research design, this study will be able to establish the impact of CG on CS among selected quoted manufacturing companies in Ghana.

3.3 Study Population

Babbie (2007) defines a population as a group of people that is of interest to a researcher in aiding in generalization purposes. Also, Sidhu (2003) describes a population in research as a set of items or units with common features that are of interest to a study. The target population of this study comprises all quoted manufacturing companies on Ghana's Stock exchange.

Concerning this study, the target population comprises manufacturing companies quoted on Stock Market in Ghana. The study focused on manufacturing companies because these companies used more debt in their capital mix.

3.4 Sample and Sampling Technique

A sample represents a segment of a population that has features as the population as a whole (Bryman & Bell, 2003). Sampling is an inevitable element in research work, because it is almost impossible for researchers to engage with the population and obtain data due to financial and time constraints, as such it advisable for the researcher to focus on a relatively smaller part of the population. Alvi (2016), opined that a sample is a process whereby the researcher selects a representative portion that is investigated to obtain a fair knowledge of the whole. Hence, the researcher used the convenience sampling technique to aid the study.

The convenience sampling method is adopted in cases where the specific researcher population is known by the researcher (Henn et al., 2006). Convenience sampling is a kind of non-probability sampling in which members of the target population meet certain practical conditions, such as ease of access, geographic closeness, data availability, or desire to participate.

This study relied on data availability, as a major criterion for selecting the quoted manufacturing companies included in the study. The researcher focused on CG structures and CS of quoted manufacturing companies in Ghana's Stock Markets. The researcher considered all quoted manufacturing companies in Ghana; nonetheless, most of them did not have up-to-date audited financial statements for the period of consideration (2010-2020). The inclusion of all manufacturing companies meant the researcher had to wait until all audited financial statements for these firms are available but the research was not known when; hence the choice of 10 quoted manufacturing companies in Ghana throughout 2010-2020.

3.5 Data Types and Source

This study collected data from manufacturing firms quoted on the Stock Market in Ghana. Despite the fact that there are quite several quoted manufacturing firms on the Stock Exchange, most of them have inadequate data as not all audited financial statements were published on their websites. Therefore, this study focused on manufacturing companies quoted on Ghana's Stock Exchange that regularly issued audited financial statements. The quoted manufacturing companies included in this study are Aluworks Limited, Benso Oil Palm Plantation Limited, Greatwall Plastic Company Limited, Dannex Ayrton Starwin Plc, Unilever Ghana Limited, Permafix Industries (GHANA), Tinatett Herbal Manufacturing and Marketing Company Limited, Latex Foam Rubber Products Limited, Fan Milk Limited and Camelot Ghana Limited. The data from the firms were collected from 2010-2020. From the financial statements of these firms, this study computed several variables such as board independence, gender diversity, the board size, institutional ownership leverage, cost of capital, firm size and interest cover.

The collected data were screened to detect and correct any irregularities such as missing data and outliers. To detect any missing data and outliers, this study performed summary statistics on all the study variables. The summary statistics included mean observations, minimum and maximum observations, skewness and kurtosis. All outliers were detected by comparing the minimum, maximum and mean observation. Outliers were suspected when minimum, maximum and mean observations were far different. The study checked the data entered into Excel with the original data in the financial statements of the quoted companies. Through this, all outliers were corrected.

Through manual inspection of the database, missing data were identified. The study used mean observation of the neighbourhood figure to represent the missing observations. Specifically, the

mean observation of two years before and after the year that reported the missing data was used for the missing observation.

3.6 Data Analysis

Concerning this study, all of the models were estimated using STATA 13.0. STATA was employed in this study because it aids in the creation of codes or the usage of manus to do analysis. Also, STATA has a menu which offers an opportunity for the user to learn ways of performing a given analysis. Based on these advantages and others, helped in the estimation of the models.

3.7 Model Specification

Table 1: Measurement and Description of Variables

Categories	Variables	Description	Source
Dependent	Capital Structure	Total debt to total equity	Baker and Martin (2011)
Independent Variable	Board Independence	Number of independent members by number of members on board	Detthamrong et al., (2017).
	Gender Diversity	the ratio of male directors to female directors	Detthamrong et al., (2017).
	Board Size	Total number of directors on a board.	Detthamrong et al., (2017).

	Institutional Ownership	Stock held by firms rather than individual investors	Choi et al., (2020)
Control Variables	Interest cover	Earnings before interest and tax/ finance cost	Badertscher et al. (2014)
	Growth opportunity	Market-to-book value ratio	Badertscher et al. (2014)
	Firm Size	Size of firm	Li (2010)

Source: Field Data (2022)

3.8 VALIDITY AND RELIABILITY OF DATA

It must be noted that validity and reliability tests for secondary data are different from primary data. It is important for the researcher to test the validity and reliability of the instrument that will be used in gathering primary data. However, in the secondary data, the assumptions underlying a model are tested for validity and reliability before the model is used. In this study, the researcher pre-tested for the validity and reliability of assumptions underlying panel data, particularly fixed and random effect models. These assumptions include no normality problem and no problem of serial correlation. The researcher tested for normality of data, using Jarque Bera Test; and serial correlation using Wooldridge's test. The pre-test proved that the data were free from normality problems and serial correlation problem

3.9 Ethical Consideration

This section of the study focuses on the ethics of conducting research. An introductory letter was obtained from all the public universities included in the study. This letter was given to the

respondents as a formal introduction to the purpose for which the research was to be conducted. Furthermore, the research justified the relevance of the research to the participants before engaging them in the project. Additionally, a consent form was given to every respondent as a means of seeking their permission to be included in the study and also assuring the respondents of their privacy and confidentiality.

CHAPTER FOUR

RESULTS AND DISCUSSIONS

4.0 Introduction

This chapter presents the results and discusses the findings on the impact of board size, gender diversity, board independence and institutional ownership as a component of CG on CS of quoted manufacturing companies.

4.1 Summary statistics

The descriptive statistics of all the variables in this study have been presented in this section to set the foundation for further discussion. The summary of descriptive statistics is presented in Table 4.1

Table 4.1: Summary Statistics of the Study Variable

Variables		Mean	Std. Dev.	Min.	Max.
Capital Structure	Overall	3.503734	1.024265	1.783391	5.63479
	Between		0.4733856	2.909329	4.204056
	within		0.9195567	1.38282	5.970521

Board size	Overall	10	2.163076	7	13
	Between		0.246183	9.545455	10.45455
	within		2.150315	6.545455	13.45455
Gender Diversity	Overall	0.3622168	0.2969074	0.0141694	0.9966841
	Between		0.235481	0.0518865	0.6568129
	within		0.1943965	-0.1683928	0.8953836
Board independence	Overall	4.181818	0.9970766	2	6
	Between		0.2386063	4	4.818182
	within		0.9707997	2	6.181818
Ownership	Overall	0.4363636	0.4982036	0	1
	Between		0.3554637	0	1
	within		0.3653006	-0.3818182	1.254545
Firm size	Overall	16.30157	0.6020674	15.11842	17.45628
	Between		0.2515194	15.82561	16.65927
	within		0.5522925	15.06462	17.72503
Firm growth	Overall	9.560293	14.98398	-1.69469	120.8488
	Between		7.258317	3.558523	26.83587
	within		13.29172	-16.5538	103.5733
Liquidity	Overall	1.532423		0.8508854	2.824242
	Between		0.4059926	1.24159	2.077339
	within		0.2981903	0.9061671	2.326988
Tangibility	Overall	0.2914588	0.1710106	0.0772802	0.6034672
	Between		0.1302733	0.1220597	0.4757758
	within		0.117603	-0.0051774	0.5846868
Interest cover	Overall	16.13546	0.7517845	14.84727	17.78503
	Between		0.5655581	15.45625	17.01088
	within		0.5240883	14.99149	18.41844

Source: Data from the Selected manufacturing companies, 2010-2020, at a 5% significant level

From Table 4.1, CS has a mean value of 3.503734 over the period 2010-2020 and this is higher. This shows that the risk of a firm going bankrupt is reduced due to a correctly planned CS by not taking on more debt than it could manage in the company. Thus, CSdecision is vital to companies as it directly affects companies' performance most especially profitability (Pratiwi, 2020). However, CS varied more within the selected companies than between the selected companies from 2010-2020.

The results in Table 4.1 show that board size, gender diversity, board independence and institutional ownership had mean values of 10, 0.3622168, 4.181818 and 0.4363636 respectively over the period 2010-2020. However, the board size, board independence and ownership varied more within the selected companies than between the selected companies from 2010-2020. Also, gender diversity varied more between the selected companies than within the selected companies over the period 2010-2020.

From Table 4.1, firm size, firm growth, liquidity, tangibility and interest cover had mean values of 16.30157, 9.560293, 0.2914588, and 16.13546 respectively throughout 2010-2020. However, liquidity, tangibility and interest cover varied more between the selected companies than within the selected companies over the period 2010-2020. Also, firm size and firm growth varied more within the selected companies than between the selected companies throughout 2010-2020.

4.2 Impact of board size on CS dynamics of quoted manufacturing companies in Ghana

This section discusses the findings of research objective one, “to determine the impact of board size on CS of quoted manufacturing companies in Ghana. To do this, this study first performed the Pairwise correlation between the size of the board and CS of these listed or targeted firms using Bonferroni-adjusted significance level and the results are shown in Table 4.2

Table 4.2: Correlation coefficient Matrix for board size on capital structure

	Board Size	CS
Board Size	1.0000	
CS	0.1753	1.0000

Source: Data from the Selected manufacturing companies, 2010-2020, at a 5% significant level

From Table 4.2, it could be inferred that the size of the board has a weak positive correlation with the CS of quoted manufacturing companies in Ghana. However, their correlation is not significant at a 5% significant level, using a Bonferroni-adjusted significance level.

This study further estimated the effect of the size of the board on the CS of quoted manufacturing firms in Ghana through the use of random and fixed effect models since panel data was used in this study. However, the study performed the Hausman Specification test to choose the most appropriate model for the estimation and the results obtained are shown in Table 4.3

Table 4.3: Hausman Specification Test of Board size on Capital Structure Coefficients

Variable	(b) Fe	(B) Re	(b-B)	S.E
Board size	0.055112	0.0553469	-0.0002347	0.0023326
Firm size	1.432637	1.411303	0.0213338	0.0360656
Firm growth	0.0005494	0.0003052	0.0002442	0.001057
Liquidity	0.486484	0.4014109	0.0850731	0.0768917
Tangibility	1.688304	1.65856	0.0297433	0.1387866
Intcov	-0.3516115	-0.3239966	-0.0276149	0.0474411
Chi sq. = 4.26 p-value = 0.6418				

Source: Data from the Selected manufacturing companies, 2010-2020, at a 5% significant level

From Table 4.3, the results of the Hausman Specification Test show that the Random Effect Model is suitable for the estimation since the p-value (0.6418) is greater than 0.05. Therefore, Random Effect Model was used to estimate the effect of board size on the CS of quoted manufacturing companies in Ghana and the results are presented in Table 4.4.

Table 4.4: Impact of board size on CS of quoted manufacturing companies in Ghana

Variables	Coef.	Robust Std. Dev.	Z	P> z	(95% Conf. Interval)	
Board size	0.0553469	0.0283234	1.95	0.051	-0.0001659	0.1108596
Firm size	1.411303	0.0977071	14.44	0.000	1.219801	1.602806
Firm growth	0.0003052	0.0037492	0.08	0.935	-0.0070431	0.0076535
Liquidity	0.4014109	0.1969085	2.04	0.041	-0.0154774	0.7873445
Tangibility	1.65856	0.3677239	4.51	0.000	0.9378348	2.379286
Intcov	-0.3239966	0.0670383	-4.83	0.000	-0.4553893	-0.192604
CONSTANT	-15.92981	0.706827	-9.33	0.000	-19.27513	-12.58449
No. of obs.	110					
No. of groups	10					
Wald chi ² (5)	638.97					
p-value	0.0000					
r-sq. within	0.8539					
between	0.9033					
overall	0.8578					

Source: Data from the Selected manufacturing companies, 2010-2020, at a 5% significant level

Table 4.4 shows that the size of the board has a substantial positive effect on the CS of listed manufacturing companies in Ghana at a 10% significant level. The results show that the size of the board of the listed manufacturing firms significantly influences the CS of quoted manufacturing companies in Ghana. Thus, a unit increase in the board size of the quoted manufacturing companies increases the CS of the selected companies by 0.0553469 at a 10% significance level. This is because a company with a sizable board is seen as having good governance, which makes it easier for the company to obtain outside funding and hence increases the capital structure. This study is consistent with Jensen (2019) that the efficiency of board size as a company's CG structure has an influence on the overall performance and growth of the company and also has an impact on the CS of companies as well. Similarly, Bokpin and Arko (2009) found that board size has a statistically significant impact on the CS decision of

firms. However, the study is not consistent with Ehikioya et al (2020) that board size had a small but negative impact on capital structure.

Among the controlled variables, firm size, liquidity and tangibility have a significant positive impact on the CS of the quoted manufacturing companies at 1% and 5% significant levels respectively. However, interest cover has a significant negative impact on the CS of the quoted manufacturing companies at a 1% significant level.

Table 4.4 overall R-square of 0.8578 shows that explanatory variables used in this study explained 85.78% of the variation in CS. The model as a whole is statistically fit for predicting the impact of board size on CS (Wald $\chi^2=638.97$; $p=0.000$).

4.3 Impact of Gender Diversity on CS of quoted manufacturing companies in Ghana

This section focused on research objective two “to examine the impact of gender diversity on CS of quoted manufacturing companies in Ghana. To do this, this study first performed the Pairwise correlation between gender diversity and CS of these listed or targeted firms using Bonferroni-adjusted significance level and the results are shown in Table 4.5

Table 4.5: Correlation coefficient Matrix for Gender Diversity on capital structure

	Gender diversity	CS
Gender diversity	1.0000	
CS	-0.0810	1.0000

Source: Data from the Selected manufacturing companies, 2010-2020, at a 5% significant level

From Table 4.5, gender diversity has a weak negative correlation with the CS of quoted manufacturing companies in Ghana. However, their correlation is not significant at a 5% significant level, using a Bonferroni-adjusted significance level.

This study further estimated the impact of gender diversity on the CS of quoted manufacturing companies in Ghana using both fixed effect and random effect models since the data used is a panel. However, the study performed the Hausman Specification test to choose the most appropriate model for the estimation and the estimated result is shown in Table 4.6

Table 4.6: Hausman Specification Test of Gender diversity on Capital Structure Coefficients

Variable	(b) Fe	(B) Re	(b-B)	S.E
Gender Diversity	-0.3714403	-0.4550645	0.0836242	0.102971
Firm size	1.560689	1.550843	0.0098453	0.0379175
Firm growth	0.0025062	0.0030844	-0.0005782	0.0009346
Liquidity	0.436747	0.2172481	0.2194989	0.0937621
Tangibility	1.215466	1.268914	-0.0534474	0.1688395
Intcov	-0.5320474	-0.5447253	0.0126779	0.0492015

Chi sq. = 7.84 p-value = 0.2504

Source: Data from the Selected manufacturing companies, 2010-2020, at a 5% significant level

From Table 4.6, the results of the Hausman Specification Test show that the Random Effect Model is appropriate for the estimation since the p-value (0.2504) is greater than 0.05.

Therefore, Random Effect Model was used to estimate the impact of gender diversity on the CS of quoted manufacturing companies in Ghana and the results are presented in Table 4.7.

Table 4.7: Impact of Gender Diversity on CS of quoted manufacturing companies in Ghana

Variables	Coef.	Robust Std. Dev.	Z	P> z	(95% Conf. Interval)
Gender Diversity	-0.4550645	0.1392721	-3.91	0.001	-0.7280328 -0.1820962
Firm size	1.550843	0.1046753	14.82	0.000	1.345684 1.756003
Firm growth	0.0030844	0.0035122	0.88	0.380	-0.0037995 0.0099682

Liquidity	0.2172481	0.2068688	1.05	0.294	-0.1882074	0.6227036
Tangibility	1.268914	0.2501467	5.07	0.000	0.7786352	1.759192
Intcov	-0.5447253	0.0558017	-9.76	0.000	-0.6540946	-0.435356
CONSTANT	-13.55546	1.588398	-8.53	0.000	-16.66866	-10.44225
No. of obs.	110					
No. of groups	10					
Wald chi ² (5)	2020.22					
p-value	0.0000					
r-sq. within	0.8408	0.9232				
between	0.8541					
overall						

Source: Data from the Selected manufacturing companies, 2010-2020, at a 5% significant level

Table 4.7 shows that gender diversity has a significant negative impact on the CS of quoted manufacturing companies in Ghana at a 1% significant level. The results reveal that quoted manufacturing companies with more females on their boards significantly decrease the CS of quoted manufacturing companies in Ghana. This shows that a unit increase in the number of female board members in the manufacturing companies significantly reduces the CS by 0.4550645 at a 5% significant level. Khatib et al. (2019) noted that boardroom diversity is a crucial component of CG practises since it gives the boardroom fresh perspectives and insights and strengthens the organization's ties to the outside world. However, this study is not consistent with Ehikioya et al (2020) that board gender diversity has a favourable relationship with capital structure. Similarly, Bhetwal et al., (2019) carried out a study and found that gender diversity, board meetings, board composition and managerial shareholding have a significant and positive effect on capital structure.

Among the controlled variables, firm size and tangibility have a significant positive impact on the CS of the quoted manufacturing companies at a 1% significant level. However, interest

cover has a negative significant impact on the CS of the quoted manufacturing companies at a 1% significant level.

From Table 4.7, the overall R-square of 0.8541 shows that explanatory variables used in this study explained 85.41 % of the variation in CS. The model as a whole is statistically fit for predicting the impact of gender diversity on the CS of the quoted manufacturing companies in Ghana (Wald $\chi^2=2020.22$; $p= 0.000$).

4.4 Impact of Board independence on CS of quoted manufacturing companies in Ghana

This section focused on research objective three “to assess the impact of board independence on CS of quoted manufacturing companies in Ghana. To do this, this study first performed the Pairwise correlation between board independence and CS of these listed or targeted firms using Bonferroni-adjusted significance level and the results are shown in Table 4.8

Table 4.8: Correlation coefficient Matrix for Board Independence on capital structure

	Board independence	CS
Board independence	1.0000	
CS	0.0822	1.0000

Source: Data from the Selected manufacturing companies, 2010-2020, at a 5% significant level

From Table 4.8, board independence has a weak positive correlation with the CS of quoted manufacturing companies in Ghana. However, their correlation is not significant at a 5% significant level, using a Bonferroni-adjusted significance level.

This study further estimated the impact of board independence on the CS of quoted manufacturing companies in Ghana using both fixed effect and random effect models since the data used is the panel. However, the study performed the Hausman Specification test to choose the most appropriate model for the estimation and the estimated result is shown in Table 4.9

Table 4.9: Hausman Specification Test of board independence on Capital Structure Coefficients

Variable	(b) Fe	(B) Re	(b-B)	S.E
Board independence	0.0468636	0.0465915	0.0002721	0.0053585
Firm size	1.521338	1.495288	0.260501	0.0378921
Firm growth	0.0018419	0.0014845	0.0003574	0.0011416
Liquidity	0.4789315	0.3754451	0.1034864	0.0849691
Tangibility	1.282033	1.249423	0.0326092	0.1369569
Intcov	-0.4542881	-0.4224048	-0.0318833	0.0515241

Chi sq. = 5.28 p-value = 0.5089

Source: Data from the Selected manufacturing companies, 2010-2020, at a 5% significant level

From Table 4.9, the results of the Hausman Specification Test show that the Random Effect Model is appropriate for the estimation since the p-value (0.5089) is greater than 0.05. Therefore, Random Effect Model was used to estimate the impact of board independence on the CS of quoted manufacturing companies in Ghana and the results are presented in Table 4.10.

Table 4.10: Impact of board independent on CS of quoted manufacturing companies in Ghana

Variables	Coef.	Robust Std. Dev.	Z	P> z	(95% Conf. Interval)
Board independence	0.0465915	0.0465915	1.00	0.317	-0.0447516 0.1379346
Firm size	1.495288	0.1279134	11.69	0.000	1.244582 1.745993
Firm growth	0.0014845	0.0029153	0.51	0.611	-0.0042294 0.0071985
Liquidity	0.3754451	0.2224409	1.69	0.091	-0.060531 0.8114212
Tangibility	1.249423	0.293367	4.26	0.000	0.6744346 1.824412
Intcov	-0.4224048	0.0700292	-6.03	0.000	-0.5596596 -0.285101

CONSTANT	-15.20462	1.705088	-8.92	0.000	-18.54654	-11.86271
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No. of obs.	110
No. of groups	10
Wald chi ² (5)	2203.93
p-value	0.0000
r-sq. within	0.8417
between	0.9045
overall	0.8481

Source: Data from the Selected manufacturing companies, 2010-2020, at a 5% significant level

Table 4.10 reveals that board independence does not have a significant impact on the CS of quoted manufacturing companies in Ghana at a 5% significant level. This shows that the number of independent members by several members on the board does not influence the CS of quoted manufacturing companies in Ghana. This study does not support that of Corsi and Prencipe (2020) that board independence has an impact on capital structure. It found in their study that independent directors' participation on the board appears to have a greater impact on CS than board size does. Also, Nyakundi (2017) revealed that CS and the percentage of independent directors are both inversely correlated with board size and the debt-to-equity ratio. Moreover, Liao et al. (2015) found that an independent board with a CEO-chairman separation and more outside directors, along with a larger institutional shareholding, were found to be associated with better CG quality, according to the study. Higher financial leverage levels and a faster rate of adjustment of leverage toward the shareholders' desired level were also found to be associated with these factors. The study also showed that when beginning leverage is between the manager's intended level and the shareholders' desired level when the interests of managers and shareholders conflict, the effect of CG on leverage modifications is most significant.

Among the controlled variables, firm size and tangibility have a significant positive impact on the CS of the quoted manufacturing companies at a 1% significant level. Also, liquidity has a

significant positive impact on the CS of the quoted manufacturing companies at a 10% significant level. However, interest cover has a negative significant impact on the CS of the quoted manufacturing companies at a 1% significant level.

From Table 4.10, an overall R-square of 0.8481 shows that explanatory variables used in this study explained 84.81 % of the variation in CS. The model as a whole is statistically fit for predicting the impact of board independence on the CS of the quoted manufacturing companies in Ghana (Wald $\chi^2=2203.93$; $p=0.000$).

4.5 Impact of institution ownership on CS of quoted manufacturing companies in Ghana

This section focused on research objective four “to examine the impact of institutional ownership on CS of quoted manufacturing companies in Ghana. To do this, the study first performed the Pairwise correlation between institutional ownership and CS of the quoted manufacturing companies using Bonferroni-adjusted significance level and the results are shown in Table 4.11

Table 4.11: Correlation coefficient Matrix for institution ownership on capital structure

	Ownership	CS
Ownership	1.0000	
CS	0.1719*	1.0000

Source: Data from the Selected manufacturing companies, 2010-2020, at a 10% significant level

From Table 4.11, institutional ownership has a weak positive significant correlation with CS of quoted manufacturing companies in Ghana using Bonferroni-adjusted significance level.

This study further estimated the impact of institutional ownership on the CS of quoted manufacturing companies in Ghana using both fixed effect and random effect models since the

data used is the panel. However, the study performed the Hausman Specification test to choose the most appropriate model for the estimation and the estimated result is shown in Table 4.12

Table 4.12: Hausman Specification Test of Institutional Ownership on Capital Structure Coefficients

Variable	(b) Fe	(B) Re	(b-B)	S.E
Ownership	0.2302958	0.3039297	-0.0736339	0.0651534
Firm size	1.505236	1.483805	0.0214307	0.0471501
Firm growth	0.0020808	0.0028202	-0.0007394	0.0011834
Liquidity	0.4452556	0.2089982	0.2382574	0.095502
Tangibility	1.174757	1.236765	-0.0620083	0.1815021
Intcov	-0.5136942	-0.5282107	0.0145165	0.0559788
Chi sq. = 2.23 p-value = 0.8978				

Source: Data from the Selected manufacturing companies, 2010-2020, at a 5% significant level

From Table 4.12, the results of the Hausman Specification Test show that the Random Effect Model is appropriate for the estimation since the p-value (0.8978) is greater than 0.05. Therefore, Random Effect Model was used to estimate the impact of institutional ownership on the CS of quoted manufacturing companies in Ghana and the results are presented in Table 4.13.

Table 4.13: Impact of institution ownership on CS of quoted manufacturing companies in Ghana

Variables	Coef.	Robust Std. Dev.	Z	P> z	(95% Conf. Interval)
Ownership	0.3039297	0.1157227	2.63	0.009	0.0771175 0.530742
Firm size	1.483805	0.1171242	12.67	0.000	1.254246 1.713365
Firm growth	0.0028202	0.0037986	0.74	0.458	-0.004625 0.0102653

Liquidity	0.2089982	0.2055802	1.01	0.314	-0.1959315	0.609928
Tangibility	1.236765	0.260501	4.75	0.000	0.7261928	1.747338
Intcov	-0.5282107	0.0497929	-10.61	0.000	-0.625803	-0.4306185
CONSTANT	-12.99895	1.423086	-9.13	0.000	-15.78815	-10.20975

No. of obs.	110
No. of groups	10
Wald chi ² (5)	1072.94
p-value	0.0000
r-sq. within	0.8409
r-sq. between	0.9424
overall	0.8584

Source: Data from the Selected manufacturing companies, 2010-2020, at a 5% significant level

Table 4.13 reveals that institutional ownership has a significant positive impact on the CS of quoted manufacturing companies in Ghana at a 5% significant level. This shows that a unit increase in stock held by firms rather than individual investors significantly increases the CS by 0.3039297 at a 5% significant level. This study supports that of Choi et al. (2020) that a company with a high institutional ownership level and its debt level will be low and increase the capital structure. Therefore, institutional monitoring may take the place of external debt monitoring, encouraging businesses to use little leverage. They added that a high debt level for a company corresponded to a high amount of institutional ownership. Similarly, Nyakundi (2017) found that managerial ownership has a negative correlation with CS while government ownership has a positive correlation, indicating that higher managerial ownership aligns managers' interests with those of outside shareholders and lessens the use of debt as a tool to address agency issues.

Among the controlled variables, firm size and tangibility have a significant positive impact on the CS of the quoted manufacturing companies at a 1% significant level. However, interest

cover has a negative significant impact on the CS of the quoted manufacturing companies at a 1% significant level.

From Table 4.13, an overall R-square of 0.8584 shows that explanatory variables used in this study explained 85.84 % of the variation in CS. The model as a whole is statistically fit for predicting the impact of institutional ownership on CS of the quoted manufacturing companies in Ghana (Wald $\chi^2=1072.94$; $p= 0.000$).

In all, the study found that board size, gender diversity and institutional ownership as a component of CG influences CS of the quoted manufacturing companies in Ghana. This is evidenced in the study by Bere-Berga and Dovladbekova (2019) that the CG index and market leverage have a negative connection. Also, Chou et al. (2018) found that CG has a distinct effect on the speed of CS adjustment.

CHAPTER FIVE

SUMMARY OF FINDINGS, CONCLUSIONS AND RECOMMENDATIONS

5.0 Introduction

This study focused on the impact of CG on CS in quoted manufacturing companies in Ghana. This study focused on manufacturing companies quoted on Ghana's Stock Exchange that regularly issued audited financial statements. The quoted manufacturing companies were Aluworks Limited, Benso Oil Palm Plantation Limited, Greatwall Plastic Company Limited, Dannex Ayrton StarwinPlc, Unilever Ghana Limited, Permafix Industries (GHANA), Tinatett Herbal Manufacturing and Marketing Company Limited, Latex Foam Rubber Products Limited, Fan Milk Limited and Camelot Ghana Limited. The data from the firms were collected

from 2010-2020. From the financial statements of these firms, this study computed several variables such as board independence, gender diversity, board size, institutional ownership leverage, cost of capital, firm size, firm growth, tangibility, liquidity and interest cover making the findings, conclusions and recommendations.

5.1 Summary of Findings

The findings of this study are grouped into four based on the research objectives as follows;

5.1.1 Impact of board size on CS of quoted manufacturing companies in Ghana

The study revealed that board size has a weak positive correlation with the CS of quoted manufacturing companies in Ghana. However, their correlation is not significant at a 5% significant level, using a Bonferroni-adjusted significance level. The study further revealed that board size has a significant positive impact on the CS of quoted manufacturing companies in Ghana at a 10% significant level. The results show the board size of the listed manufacturing companies significantly influences the CS of quoted manufacturing companies in Ghana. Thus, a unit increase in the board size of the quoted manufacturing companies increases the CS of the selected companies by 0.0553469 at a 10% significance level when firm size, liquidity, tangibility and interest cover are controlled for.

5.1.2 Impact of Gender Diversity on CS of quoted manufacturing companies in Ghana

The study revealed that gender diversity has a weak negative correlation with the CS of quoted manufacturing companies in Ghana. However, their correlation is not significant at a 5% significant level, using a Bonferroni-adjusted significance level. It was observed that gender diversity has a significant negative impact on the CS of quoted manufacturing companies in Ghana at a 1% significant level. The results reveal that quoted manufacturing companies with

more females on their boards significantly decrease the CS of quoted manufacturing companies in Ghana.

5.1.3 Impact of Board independence on CS of quoted manufacturing companies in Ghana

The study revealed that board independence has a weak positive correlation with the CS of quoted manufacturing companies in Ghana. However, their correlation is not significant at a 5% significant level, using a Bonferroni-adjusted significance level. The study further revealed that board independence does not have a significant impact on the CS of quoted manufacturing companies in Ghana at a 5% significant level. This shows that the number of independent members by the number of members on board does not influence the CS of quoted manufacturing companies in Ghana

5.1.4 Impact of institution ownership on CS of quoted manufacturing companies in Ghana

The study revealed that institutional ownership has a weak positive significant correlation with CS of quoted manufacturing companies in Ghana using Bonferroni-adjusted significance level. The study reveals that institutional ownership has a significant positive impact on the CS of quoted manufacturing companies in Ghana at a 5% significant level. This shows that a unit increase in stock held by firms rather than individual investors significantly increases the CS by 0.3039297 at a 5% significant level.

5.2 Conclusions

This study assessed the impact of CG on CS on quoted manufacturing companies in Ghana. This study based on an appropriate model estimation based on Hausman Specification Test concludes based on the research objectives as follows;

Firstly, the study concludes that board size has a significant positive impact on the CS of quoted manufacturing companies in Ghana.

Secondly, the study concludes that gender diversity has a significant negative impact on the CS of quoted manufacturing companies in Ghana. Thus, as there are more females on board members significantly decreases the CS of quoted manufacturing companies in Ghana.

Thirdly, the study further concludes that board independence does not have a significant impact on the CS of quoted manufacturing companies in Ghana.

Lastly, the study concludes that institutional ownership has a significant positive impact on the CS of quoted manufacturing companies in Ghana.

In all, it could be said that board size, gender diversity and institutional ownership a component of CG influence the CS of the quoted manufacturing companies in Ghana.

5.3 Recommendations

This study based on the research findings makes the following recommendations to improve the CS of the listed manufacturing companies in Ghana. This study recommends that the 10 selected manufacturing firms should implement the following strategies to improve their CS operations.

Board size:

Considering the weak positive correlation between board size and the capital structure CS of quoted manufacturing companies, it is recommended for these companies to carefully evaluate their current board size, While the correlation is not significant at a 5% level, the significant positive impact at a 10% level suggests that increasing board size might contribute to positive changes in CS. However, this should be done cautiously, considering other contextual factors.

Gender diversity:

Despite the weak negative correlation between gender diversity and CS, the significant negative impact at a 1% level suggests that manufacturing companies with more females on their boards experience a decrease in CS. Companies may need to explore ways to enhance gender diversity without compromising CS. This could involve targeted efforts in recruitment, training, and mentorship programs to ensure a diverse but effective board.

Board Independence:

Given the weak positive correlation and the lack of significant impact on CS, companies may not need to focus solely on increasing the number of independent members on their boards to influence CS. However, a balanced approach to board composition, including independence, is still advisable for good governance practices and could indirectly contribute to positive changes in CS.

Institutional ownership:

The study highlights a significant positive impact of institutional ownership on CS. This suggests that manufacturing companies should consider strategies to attract more institutional investors. Companies may explore initiatives to build confidence among institutional investors, such as transparent reporting practices, effective communication strategies, and strong corporate governance structures.

5.4 Recommendations for Future Studies

This study recommends the following for future research on the impact of CG on CS of quoted manufacturing companies in Ghana. Thus, future studies should consider more than the 10 manufacturing firms in Ghana. It should however include other non-manufacturing firms. This will help generalize the impact of CG on CS on quoted manufacturing companies in Ghana.

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