KWAME NKRUMAH UNIVERSITY OF SCIENCE AND TECHNOLOGY

COLLEGE OF HUMANITIES AND SOCIAL SCIENCE
SCHOOL OF BUSINESS

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CORPORATE GOVERNANCE AND FINANCIAL PERFORMANCE: EVIDENCE FROM GHANAIAN MANUFACTURING INDUSTRY

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A THESIS SUBMITTED TO THE DEPARTMENT OF ACCOUNTING AND FINANCE, KWAME NKRUMAH UNIVERSITY OF SCIENCE AND TECHNOLOGY, SCHOOL OF BUSINESS IN PARTIAL FULFILLMENT FOR THE AWARD OF THE DEGREE OF

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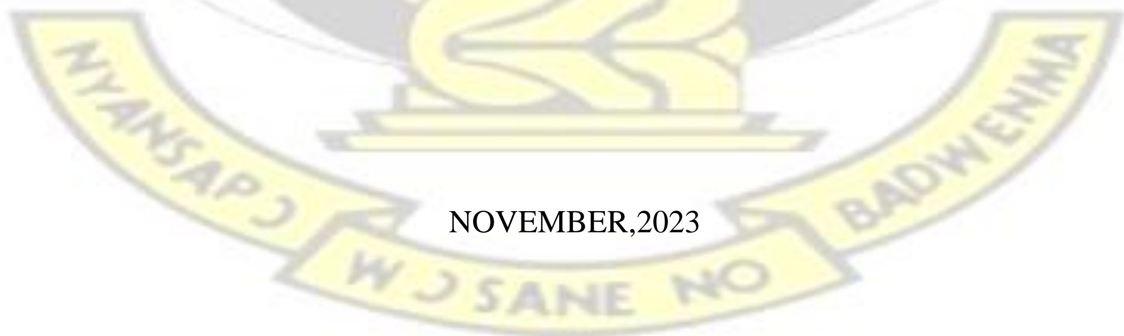

NOVEMBER,2023

DECLARATION

I hereby declare that this submission is my own work toward the award of the Master of Science in Accounting and Finance and that to the best of my knowledge, it contains no material previously published by another person, [illegible]ch has been accepted for the award of any other degree of the University, exc[illegible]knowledgement has been made in the text.

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DEDICATION

This thesis is dedicated to my late wife; Georgina Obeng Konadu

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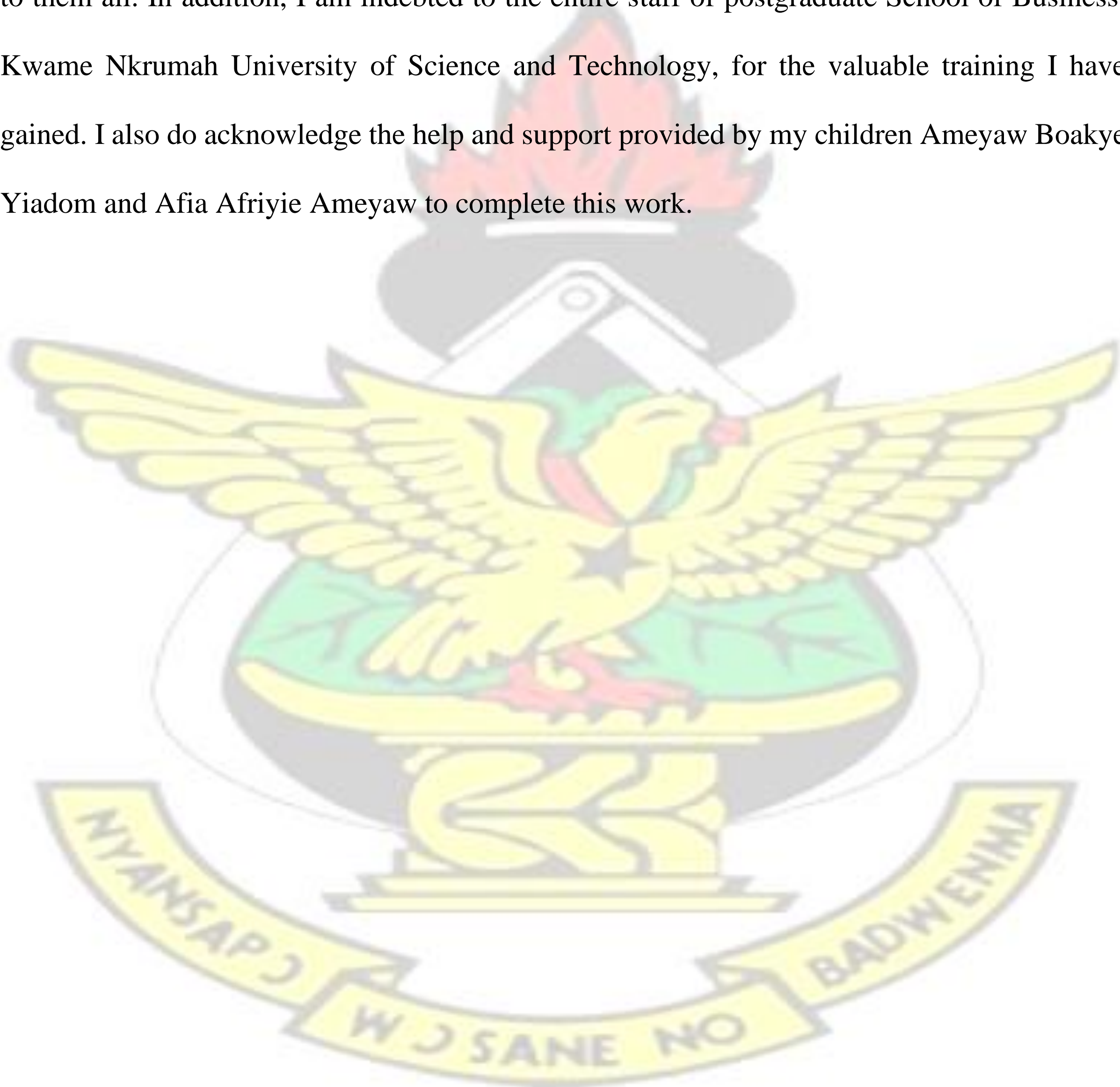
ACKNOWLEDGEMENT

I wish to express my sincere thanks to the Almighty God for seeing me through this study successfully. My gratitude also goes to my supervisor Dr. Akua Peprah for her guidance, direction and support throughout the study. I am grateful to the employees of selected listed companies for their time spent to provide me the needed information. Without their responses, I could not have been able to achieve the objectives of this study, I say a big "THANK YOU" to them all. In addition, I am indebted to the entire staff of postgraduate School of Business, Kwame Nkrumah University of Science and Technology, for the valuable training I have gained. I also do acknowledge the help and support provided by my children Ameyaw Boakye Yiadom and Afia Afriyie Ameyaw to complete this work.



ABSTRACT

Corporate success and sustainability depend on several factors aside factors like efficiency, innovation and quality management of internal activities. Corporate governance plays the most essential role in promoting business performance and sustainability since corporate laws are only meant for operational efficiency and transparency. Corporate governance controls operational activities, reduces errors in a firm and integrate organizational members towards effectiveness and consistency. Managers are expected to promote compliance among members within the firm so that performance can be enhanced through efficiency, consistency and effectiveness. The main objective of this study is to assess the impact of corporate governance on financial performance of Ghanaian manufacturing companies. With a specific focus on assessing size of the board, independence of the board, duality of the CEO impacts on manufacturing companies in Ghana financial performance. Quantitative research method was used in obtaining data from the financial statements of manufacturing firms; random and fixed-point panel regression was conducted using E-Views version 12 software. The results revealed that, size of the board was a significant determinant of performance. Independence of the board was a significant determinant of performance. Also, diversity of the board was a significant determinant of performance. On the contrary, size of the board was not a key determinant of performance. The study concludes that corporate governance practices impact on manufacturing firms. This study therefore recommends that business units should actively encourage corporate governance practices in order to ensure better performance to get the eyes of potential investors. The recommendation of the study is that management of manufacturing companies should actively encourage corporate governance practices in order to enhance financial performance.

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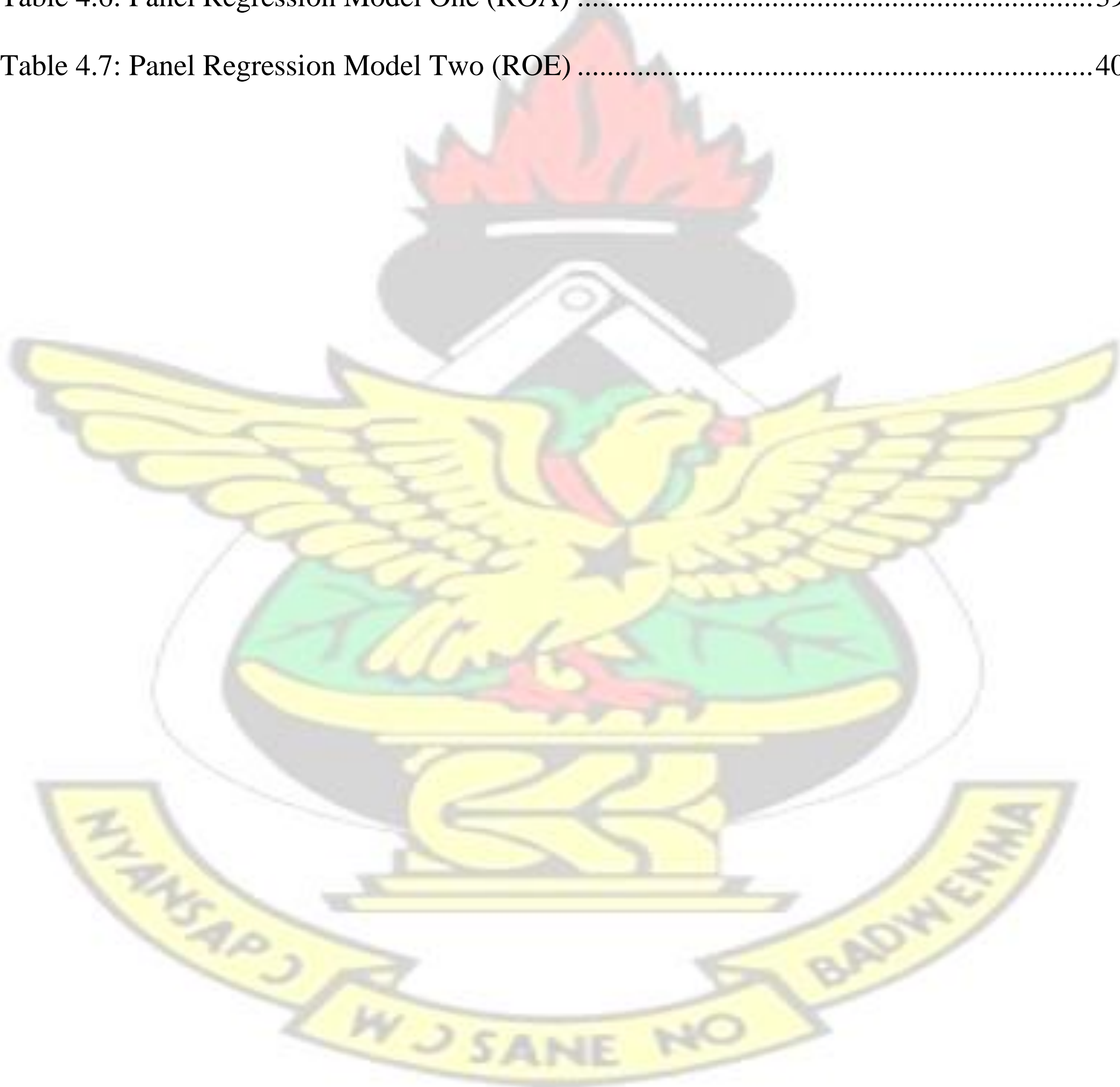

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LIST OF ABBREVIATIONS

ANOVA	Analysis of Variance
CEO	Chief Executive Officer
CSR	Corporate Social Responsibility
GMM	Generalized Moments Method
GSE	Ghana Stock Exchange
ICT	Information and Communication Technology
NEDs	Non-Executive Directors
NIM	Net Interest Margin
NPM	Net Profit Margin
NSE	National Stock Exchange
OECD	Organisation for Economic Co-operation and Development
OLS	Ordinary Least Squares
ROA	Return on Asset
ROCE	Return on Capital Employed
ROE	Return on Equity

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CHAPTER ONE

INTRODUCTION

1.1 Background of the Study

Corporate success and sustainability depend on several factors aside factors like efficiency, innovation and quality management of internal activities. Corporate governance plays the most essential role in promoting business performance and sustainability since corporate laws are only meant for operational efficiency and transparency (Di Biase and Honorato, 2021; Megeid, 2022). Corporate governance controls operational activities, reduces errors in a firm and integrate organizational members towards effectiveness and consistency. Managers are expected to promote compliance among members within the firm so that performance can be enhanced through efficiency, consistency and effectiveness (Ehikioya, 2009). Effective corporate governance promotes efficiency, transparency and ensures consistency in all operational activities (Arora and Bodhanwala, 2018).

Corporate laws are meant to promote positive behaviours among members within the organization. Besides, corporate laws are meant to guide employee activities in order to achieve quality and better job performance (Shivani et al. 2017). Maier (2005) opined that, corporate governance defines the processes, standards, principles and guidelines that are meant to help manage and control human behaviour within an organization. Corporate governance ensures that internal activities are well conducted so as to achieve desirable outcomes (Frynas and Yamahaki, 2016). Stakeholders, e.g. employees, consumers, government or NGOs, are people or group who could either harm or promote the success of a firm (Nguyen et al., 2021). According to Freeman (1984) such group or individual person is very relevant in determining the overall performance of an organization.

In the perspective of corporate governance, stakeholder theory implies that an organization has the commitment to think about the interest the stakeholders. In contemporary firms, agency inconvenience may furthermore emerge when division among control and ownership of administrators and investors exists because of irreconcilable situation and insignificant arrangement among managers and stakeholders (Jensen and Meckling, 1976). Managers may tend to imperil the quest for proprietors as a result of their crafty demeanor. The significant understanding of Jensen and Meckling (1976) was to design the relationship between proprietors and managers like one between a principal and agent.

The proprietors hire the managers to complete the controlling obligations of a firm on the ordinary activity to amplify the company's riches, anyway each are self-entranced for own favorable circumstances, consequently irreconcilable situation develops. Since the controlling and management of the firms lies in the hand of the manager, have the amazing control of the firm, they sometimes pursue work for their own benefits and advantages rather than the proprietors. Corporate governance refers to the processes, practices, systems, policies, laws and procedures by which an organization is managed, monitored and controlled to achieve its objectives. It also includes managing co-investor performance and managing conflicts of interest among diverse corporate creditors (Megeid, 2022).

Corporate governance is a framework of rules, procedures, and decision-making models that govern the activities of a company (Palaniappan, 2017). It defines how decisions are made and how responsibilities are assigned among the company's stakeholders (Palaniappan, 2017). Another concept of corporate governance is that it promotes accountability (Psaros and Seamer, 2002). Corporate governance is the process by which shareholders motivate management to act in their best interests and provide investors with a degree of confidence (Rezaee, 2009).

According to Larcker et al. (2007), corporate governance is the set of mechanisms that separate ownership and control and influence managerial decisions.

A company's success or failure is tied to its board and management processes. Good corporate governance is crucial for financial performance and aligns the interests of management and stakeholders. Effective boards increase the likelihood that shareholders will monitor management's actions, protecting their investment. The size of the board depends on the number of directors and varies from company to company (Levine, 2004; Ghosh and Ansari, 2018; Di Biase and Honorato, 2021). One of the advantages of large boards is that they have access to more knowledge, skills and resources (Ahmadi et al., 2017). Board independence refers to a board where the majority of members are not related to the firm's top management; Carter et al (2003) argue that board independence is necessary for the board to act in the interest of shareholders. Board independence is identified when all or most directors participate in the firm solely as directors; according to Fakile and Adigbo (2019), independent non-executive directors are independent directors who participate in the firm solely as directors. Large independent boards are expected to make robust and better decisions than boards with higher number of internal directors; according to Shamharira et al. (2016), non-executive directors often objectively protect shareholders' interests and prevent or detect opportunistic behavior by directors.

Board meetings are an important part of the Board's work. These meetings take place at different times, such as once a year, every six months or quarterly (Hamad et al., 2021). At these meetings, directors discuss issues related to the well-being of the company, such as strategies to increase shareholder wealth, review the company's performance, and develop strategies and action plans (Hamad et al., 2021). The important issues are to be addressed faster and more quickly. When directors are not owners, principal-agent problems arise because

agents may put their needs ahead rather than satisfying the board members. The composition of the board of directors is very important and may vary depending on the number of family owners, institutional owners and foreign owners (Kruders, 2018; Wondem and Batra, 2019). Studies show that the board of SMEs is usually composed of family members (Kao et al, 2019). To this end, the current study is conducted to determine the impact of corporate governance on Financial Performance of listed Ghanaian Manufacturing Companies.

1.2 Problem Statement

Prior studies have produced diverse and incomplete results on how corporate governance impact on financial performance, leading to a need for re-examination (Ruparelia and Njuguna, 2016; Ghosh and Ansari, 2018; Di Biase and Honorato, 2021). Kasyoki (2016) for instance found that board size and stability significantly increased financial performance, with gender diversity showing a significant decrease. Kruders (2018) on the contrary showed that factors like CSR only influence ROA but not ROE and other financial performance proxies like Tobin's Q and NPM. According the author, CSR is a significant mechanism for enhancing ROA however, factors like board characteristics (size, diversity, independence and age) have a detrimental influence on the association of CSR and ROA. Atty, Moustafasoliman, and Youssef (2018) examined the relevancy of CEO duality and revealed that duality of CEOs are prone to an increased financial performance, i.e. ROA, ROE, and Tobin's Q as proxies.

Empirically, different studies have been reported with mixed and inconclusive reports. In addition, independent board members have a more active and comprehensive dialogue with more stakeholders (Strydom et al., 2017). Okolie and Uwejeyan (2022) as well sought measure this in the context of Nigeria firms to confirm the importance of board characteristics in promoting financial performance. Per the findings, whiles board independence and ownership were emerging as statistically significant variables to enhance performance, board size had no

significant influence. Abu et al. (2016) sought to measure the variable causing the weak performance of most Nigerian banks between 2005 and 2014. According to the results, foreign director as a characteristic of board of directors is a positive contributor to performance whereas independence, diversity and compositions of the board had not impact on performance.

Accordingly, Gatehi and Nasieku (2022) explored such characteristics focusing on non-financial institutions in Nigeria and discovered differing results. Board diversity rather had a statistically significant influence whereas other factors like the board size and independence emerged to have no statistical influence in terms of ensuring an increased performance of non-financial companies listed on the NSE. With respect to Oluwadamisi (2021), none of the variables for measuring board characteristics emerged as statistically significant on the performance among the agricultural companies in Nigeria. According to the author, some of the variables exhibited positive whilst others too exhibited negative effect but the ultimate outcome was none of them was significant. As such the size of the board is a key factor to drive financial performance of most companies as it is significantly correlated. The present study is aimed to address this issue. Moreover, the study also incorporates non-listed manufacturing companies in order to provide a comprehensive of the manufacturing sector of Ghana in terms of their corporate governance practices by focusing on the period ranging between 2010 and 2019.

1.3 Objectives of the Study

The main objective of the study is to determine Corporate Governance on Financial Performance in Ghanaian Manufacturing Industry. The study will address the following specific objectives.

1. To assess the effect of board size on financial performance

2. To determine the effect of board independence on financial performance
3. To determine the effect of board meeting on financial performance
4. To assess the effect of CEO Duality on financial performance

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1.4 Research Questions

1. What is the effect of board size on financial performance?
2. What is the effect of board independence on financial performance?
3. What is the effect of board meeting on financial performance?
4. What is the effect of CEO Duality on financial performance?

1.5 Significance of the study

It is imperative to reevaluate the operational efficiency of firms that are listed on the stock exchange whom are into manufacturing by taking into account the principles of corporate governance. The resulting findings of the study are anticipated to provide direction for policy formulation and practical measures. Without a doubt, the triumph or downfall of a company is inextricably linked to the role of the board and the management procedures that are in place. The outcome of the study will serve as a guide to enhance best practices. Good corporate governance is important because it is a key prerequisite for good financial performance and is recognized as an essential corporate governance mechanism that aligns the interests of management and all stakeholders. The characteristics of an effective board increase the likelihood that shareholders will monitor the actions of management, either directly, by voting on key issues, or indirectly through the board, thus protecting their investment at all times.

Management of listed companies particularly those in the manufacturing sector would be able to develop guidelines and action plans from the findings of this paper to enhance performance

of their firms. Moreover, the outcome of this study will enhance stakeholders and agency theories. These theories have been adopted and applied in the context of emerging economy context. The outcome would provide new insights into the applicability of these theories and add on the overall knowledge stock on corporate governance. Again, the outcome of this study would serve as a guide future researchers on determinants of corporate governance which could be used as a base to start a new project.

1.6 Scope of the Study

The primary objective of the study is to investigate the correlation between corporate financial performance and board characteristics of corporate governance in the Ghanaian manufacturing industry. Precisely, the impact of board size, board independence, board meeting, and CEO duality on financial performance will be gauged. The study will cover a time horizon spanning from 2010 to 2020. The research design will adopt a time series panel regression model. Geographically, the study will be confined to listed manufacturing firms in Ghana.

1.7 Limitations of the Study

The study determines corporate governance on financial performance in Ghanaian manufacturing industry. The study is limited to board size, board independence, board meeting and CEO duality. In addition, this study is limited to the characteristics and financial performance of manufacturing companies, and other aspects of corporate governance may need to be addressed in the future.

1.8 Overview of Methodology

Explanatory research design was employed in the study. The target population of the study comprised of listed manufacturing companies on Ghana stock exchange. Inclusion criteria are

data availability and relevance. The study made used of purposive sampling in selection of the manufacturing companies. The study was based on secondary data. The data covers the period 2010-2020. Data was analysed using EVIEWS software and Microsoft Excel. Mean, standard deviation, maximum number, minimum number, correlation and group regression were used to analyse the data.

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1.9 Organization of the Study

The study is structured into five (5) chapters, which are outlined as follows: Chapter one provides an introduction to the study, including the background, problem statement, objectives, significance, scope, and summary of methodology. Chapter two presents a comprehensive review of the conceptual, empirical, and theoretical literature. Chapter three outlines the research methodology that will be employed in the study. Chapter four presents the analysis and discussion of the study results. The final chapter (five) concludes the study by summarizing the findings, drawing conclusions, and providing recommendations for future research.

CHAPTER TWO

LITERATURE REVIEW

2.0 Introduction

This chapter comprises a comprehensive review of literature that is relevant to the study of board characteristics of corporate governance on financial performance. The review is divided into four distinct categories, namely: conceptual review, theoretical review, empirical review, and conceptual framework. Each of these categories provides a detailed analysis of the relevant literature, which will help to inform the research questions, hypotheses, and methodology of the study.

2.1 Conceptual Review

2.1.1 Corporate Governance

To date, the term 'corporate governance' has different definitions and there is no universally accepted meaning (L'Huillier, 2014). From a theoretical perspective, the concept is used/ defined differently (Thrikawala et al., 2014). For example, from the perspective of management theorists, corporate governance is defined as the structures and hierarchies that support and enable managers to increase efficiency and achieve better returns for shareholders (L' Huillier, 2014). Conversely, in terms of financial resources, corporate governance refers to the way in which investors manage and monitor a company to ensure that it achieves the required and/or expected return on investment (OECD, 2014). From the agency theorist's perspective, agency is defined as a structure where the board of directors controls the leader of the organization through an established institutional structure and a set of organizational functions (Yusof, 2016). Corporate governance denotes the processes, practices, systems, policies, laws and procedures by which an organization is managed, monitored and controlled to achieve its objectives. It also includes managing co-investor performance and managing conflicts of

interest among diverse corporate creditors (Ruparelia and Njuguna, 2016). Corporate governance is a framework and procedures that governs how a company operates. It defines how decisions are made and how responsibilities are assigned among the company's stakeholders (Palaniappan, 2017). Another concept of corporate governance is that structure promotes accountability (Wondem and Batra, 2019). Corporate governance is the process by which shareholders motivate management to act in their best interests and provide investors with a degree of confidence (Shamharir et al., 2016). According to Thrikawala et al. (2017), corporate governance is the set of mechanisms that separate ownership and control and influence managerial decisions.

2.1.2 Board Characteristics

The characteristics of the board of directors are the same as those of the board of directors, which is responsible for managing the firm as a whole. A company's success or failure is tied to its board and management processes. Good corporate governance is crucial for financial performance and aligns the interests of management and stakeholders. Effective boards increase the likelihood that shareholders will monitor management's actions, protecting their investment (Oluwadamisi, 2021). The size of the board depends on the number of directors and varies from company to company. The characteristics of an effective board increase the likelihood that shareholders will monitor the actions of management, either directly, by voting on key issues, or indirectly through the board, thus protecting their investment at all times (Oyedokun, 2019). Board size: The size of the board, which is determined by the number of directors, differs from one company to another. In the Netherlands, however, companies must have at least three board members. A larger board can impede the decision-making process,which can be disadvantageous (Oludede et al., 2016). Olabisis et al. (2018) argues that a smaller board can lead to faster and better communication, as well as more efficient problem-

solving. One of the benefits of having a larger board is that it can provide access to more knowledge, skills, and resources (Ahmadi et al., 2017). The board is responsible for overseeing the company's operations, and it must take into account the shareholders' interests. The board is appointed by the board of directors on behalf of the shareholders. Jensen and Meckling (1976), cited in Fakile and Adigbola (2019), argue that the larger the board, the more effective it is, which can help to reduce agency costs related to governance failures, leading to better financial performance. Shakir (2008) found a negative relationship between board size and firm performance, which Ehikioya (2009) argues that board size must be a determinant of firm performance for firm performance to be high. Adigbola (2019) supports the findings of Fakile and Adigbola (2019).

Board Independence: Board independence refers to a situation where the activities of the board are free from interference from the senior management. A board is independent when most of the members are not related or in position that will compel to them to be bias in favor of senior management. This feature is imperative once the interest of shareholders is at heart (Carter et al., 2003) argue that board independence is critical for the board to act in the best interest of shareholders. Board independence is established when all or most of the directors participate in the firm solely as directors. According to Fakile and Adigbo (2019), independent non-executive directors are directors who participate in the firm solely as directors. Large independent boards are expected to make robust and better decisions than boards with higher number of internal directors; according to Shamharira et al. (2016), non-executive directors often objectively protect shareholders' interests and prevent or detect opportunistic behavior by directors.

Gender diversity: Gender diversity implies that the proportion of women in the total number of board members over a given period of time; according to Carter et al (2003), women

directors are accepted and can participate equally in board decision-making because they are not part of the organisation's 'established' network. . Women in leadership positions have been found to be more attentive and loyal to the organization (Rynan and Haslam, 2005). According to critical mass theory, at least three minority leaders are needed to best fulfil their role of positively influencing, controlling and making strategic decisions in an organization (Sner and Karaye, 2014).

Board meetings: Board meetings is imperative in the composition of activities of the board. These meetings take place at different times, such as once a year, every six months or quarterly (Hamad et al., 2021). At these meetings, directors discuss issues related to the well-being of the company, such as strategies to increase shareholder wealth, review the company's performance, and develop strategies and action plans (Hamad et al., 2021). Some schools also noted that the meetings helped to strengthen relationships between directors. The literature on the impact of meetings on financial performance is mixed. Some researchers argue that the methods used to measure this relationship, such as least squares regression, do not take into account the effects of culture and other firm characteristics and may yield mixed results. According to Ntim and Osei (2011), the more frequent board meetings are, the greater the board's control and performance. Monitoring is better, according to the authors. They explain that a higher frequency of meetings allows managers to monitor the development of the organization and make informed decisions, leading to better decision making. This is corroborated by Al-Daoud et al. (2016), who explain that the frequency of board meetings improves the problem-solving process and allows important issues to be addressed faster and more quickly.

Board ownership: governance issues are the responsibility of the board. Directors act as representatives of the electorate (shareholders). When directors are not owners, principal-agent

problems arise because agents may put their needs ahead of the needs of board members. To avoid or mitigate this problem, the board usually also owns shares to invest in the company and its assets. In pursuing their own interests for an increased firm performance, they also improve the interests of other shareholders (Akinyomi, 2013). The definition of board ownership is determined by the number of shares owned and not owned by the board (Meyer and De Vet, 2013). The composition of the board of directors is very important and may vary depending on the number of family owners, institutional owners and foreign owners (Wu et al, 2017). Studies show that the board of SMEs is usually composed of family members (Kao et al, 2019).

2.1.3 Financial Performance

Financial performance is an important indicator of coordination and is generally considered to reflect the current state of the firm. Firms always focus on financial performance to achieve their objectives, as it explains how effectively they can coordinate resources, generate profit or profitability, and survive in the face of market competition (Hosny, 2017). Financial performance explains the financial capacity of a firm, especially cash flows (Noja et al., 2021). Investors, creditors and suppliers analyse a firm's financial performance before deciding to do business with it. Positive financial results increase creditor and investor confidence in the company and its performance. The performance of a company is influenced by a number of factors. The factors that affect the performance of a firm can be internal or external. External factors include economic growth and political stability, as pointed out by Hosny (2017). On the other hand, internal factors such as the liquidity of the firm, as highlighted by Muturi and Omondi (2013), and the effectiveness, efficiency, and adequacy of the firm's governance, as emphasized by Skandalis et al. (2008), also impact the performance of the firm.

A company's financial performance is defined in terms of the profitability of its assets (earnings before interest and taxes and total assets). In a market economy, a firm's performance is what management can achieve with the resources available to it (Rose and Hudgins, 2008). However, there is disagreement about what level of profit is an indicator of management performance; according to Rose and Hudgins (2008), the ultimate measure of performance is the level of net profit retained by shareholders. In other words, earnings after interest and taxes divided by total assets is the best performance indicator.

The financial performance of a company, which is the dependent variable in this study, is gauged by the changes in the exchange rate. A company's financial growth is indicated by its return on investment, assets, and value added, as noted by Oguda (2015). The primary goal of listed firms in the trade and services sector is to make a profit. To measure the performance and efficiency of firms, various indicators are used. Murthy and Mouritsen (2011) classify some of these indicators as follows: ROA; specifically measures a bank's ability to earn profits through the management of its assets, and ROE; is a balance sheet indicator that reflects the return on a firm's capital. It also measures the return on shareholders' savings. In this study, return on equity (ROE) is used to measure the financial performance of firms, while Khrawish (2011) and Oguda (2015) have also examined this variable as a proxy variable for financial performance. The financial performance of a company is determined by its financial position at a specific point in time, which includes capital inflows and outflows. This is measured by various indicators such as capital adequacy, liquidity, leverage, solvency, and profitability.

In addition, financial performance can be evaluated using indicators such as profitability, return on equity, liquidity, solvency, and sales growth, which are derived from financial statements (Aggarwal, 2013). Financial performance is the foundation of all businesses. Thus, improving financial performance is one of the many objectives of firms. Financial performance enables

companies to generate more cash flow, survive and grow even in difficult times. When a company's financial performance is good, it can keep pace with its competitors (Kakanda et al., 2016). Shareholders are interested in a company's financial performance because good financial performance ensures high returns for shareholders; according to Eluyela et al. (2018), good corporate governance is associated with good financial performance. However, it is also noted that there are controversies on this issue, as some studies show that corporate governance has a negative impact, while others do not. Financial ratios measure financial performance in different ways. ROA, ROCE and ROE are the most common indicators used to measure financial performance. All three methods are based on accounting. The second method is the Tobin-Q method, which is a market method based on accounting value and market value.

2.2 Theoretical Review

2.2.1 Agency Theory

In research and academia, agency theory is one of the widely and extensively used theory (Habbash, 2010). Since conflict about whose interest need to be satisfied is a common phenomenon in almost every organization, the theory although can be traced from the Adams Smith (1776) period, it is still considered critical in our contemporary world. Officially, the pioneers of the theory were Alchian and Demsetz (1972) and Jensen and Meckling (1976). Generally, the authors elaborated that agency is an entity that provides services on its own behalf. Hence, this is a contract in which the subject delegates to another person or agent the provision of services on its behalf and delegates to the agent certain decision-making rights. This also limit agents to mainly satisfy the interest of principals. It is based on the assumption of Fama and Jensen (1983) that there is an inherent conflict of interest between the agent and the principal.

Agency control in decision making is important when the party initiating and executing the important decision is not the principal rentier and thus does not suffer the main welfare consequences of that decision. In the absence of effective control procedures, these decision-makers may act against the interests of other stakeholders. When it comes to the management and control of decisions, individual decision-makers may be involved in some and not others. However, separation means that these decision-makers do not have exclusive rights to manage and control the same decisions. If both parties are focused on maximizing profits, it is reasonable to assume that the agent will not always act in their own interest. Principals can limit nonconformities from their own interests as long as appropriate incentives are provided to agents and paying monitoring costs to limit their unusual behavior (Jensen and Meckling, 1976) CEOs are often guided by self-interest or wealth and seek to maximize their own interests relative to those of shareholders. Modern businesses usually have shareholders whose participation on the control and management of the business is minimal. Instead, they hire managers to run the company on their behalf. These managers, or agents, are responsible for managing the company on a regular basis. The separation of ownership and control activates a conflict of interest between the principal and agent. According to agency theory, managers' act in their own self-interest and are self-centred, which means that they have little regard for the interests of shareholders. This negatively affects the overall value of the firm. When the interests of the individual and the interests of the firm are aligned, agency problems do not arise. However, if their interests diverge, it is rational for the agent to seek to maximise his own satisfaction at the expense of others.

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2.2.2 Stakeholder Theory

The stakeholder theory is an elaboration of the agency approach, where boards aim to advance the interests of shareholders. Yet, this limited perspective of shareholders has transformed, and

boards are currently required to work in a way that satisfy the interests of various stakeholders (Freeman et al., 2004). Practically, there is a discussion on whether a company's stakeholders should be viewed broadly or narrowly. Freeman (1984) advocates for a comprehensive outlook of stakeholders, which encompasses a vast number of actors and almost all categories of stakeholders. Bathula (2008), on the other hand, proposes a narrow view that stakeholders who voluntarily invest capital, human resources, funds or other elements of value in the firm bear some degree of risk. The stakeholder theory proposed by Jensen (2001), despite its attractiveness, has not yet been fully empirically evaluated. The gap between theory and evidence can be explained by at least two factors. The first, as already mentioned, is the link between externalities and monopoly power. The second is the problem of valuation, in particular the problem of accurately measuring the long-term value of firms.

Stakeholders are individuals or groups who have the potential to impact or advance the success of a firm. Examples of stakeholders include employees, consumers, governments, and NGOs (Frynas and Yamahaki, 2016). Freeman (1984) elaborated that stakeholder is a group or individual which can determine the success or failure of an organization. In the context of corporate governance, the stakeholder theory suggests that an organization is responsible for considering the interests of its stakeholders. Therefore, it is evident that not only the interests of investors are sufficient to guarantee the survival of a firm, but also the interests of stakeholders are essential to promote the success of organizations. Clarkson (1995) argues that there are two types of stakeholders: primary and secondary stakeholders. Primary stakeholders are groups or individuals who play a crucial role in the survival of an organization. They comprise of investors and shareholders, workers, clients and government. The subsequent instances will clarify the pivotal part of such stakeholders in organizations. A firm with workers, who do not have the incitement to give the entirety of their best to enhance the general performance of the firm, is progressively plausible to failure.

2.3 Empirical Review

This section presents examples of related studies on the topic under consideration.

2.3.1 Relationship between Board Size and Financial Performance

The size of the board affects the quality of directors and the board's ability to make optimal business decisions. However, the ideal size of the board of directors is still debated in the corporate governance literature. The literature debates whether the size of the board of directors is critical to corporate performance. A study by Lone et al. (2016) found a significant negative relationship between board size and corporate performance, as larger boards are inefficient in terms of communication, coordination and decision-making (Sadou et al., 2017). With respect to manufacturing companies, Palaniappam (2017) in India had discovered that board characteristics inversely relates to financial performance. Board size emerged as feature that had a high detrimental effect of financial performance proxies like Tobin's Q, ROA and ROE, followed by board meetings. The rest of the factors showed insignificant effect.

Furthermore, Assenga et al. (2018) focused on listed firms in Tanzania to check the effectiveness of board characteristics to financial health. According to the results, gender diversity exerted a positive influence where the remaining variables including non-executive directors, board size, and CEO duality exerted no statistical influence on performance. Okolie and Uwejeyan (2022) as well sought measure this in the context of Nigeria firms to confirm the importance of board characteristics in promoting financial performance. Per the findings, whiles board independence and ownership were emerging as statistically significant variables to enhance performance, board size had no significant influence. With respect to Nguyen et al. (2021) on Vietnamese companies, dual board is a negative contributor to the timeliness of financial reporting. Also, the age of the board contribute positively promote the timeliness of financial reporting as well as the board rotation. In conclusion, the study elaborated the

importance of board characteristics in promoting the timeliness and quality of financial reporting. Companies with a single board, younger chairman, and stagnant board composition may experience delays in financial reporting, which can negatively impact their reputation and financial performance. Also, Masum and Khan (2019) conducted a study in a different context and presented a conclusion that the most substantial factors that improves performance in an increasing rate are board ownership and foreign directors. Nevertheless, board size, independence and diversity are not statistically significant.

Nwankwo and Uguru (2022) conducted a study to explore the impact of board characteristics on the profitability of listed service firms. The study used the generalized moments method (GMM) and least squares regression analysis to analyze the data. Their findings revealed that board characteristics, i.e. board size and composition, are significant and positive contributors to a significant impact on the profitability of listed service firms. Specifically, the size and profitability of service firms. This suggests that having a larger board and a diverse board composition can positively influence the profitability of service firms. However, the gender composition of the board had a non-significant negative effect on the profitability of listed service firms.

2.3.2 Relationship between Board Independence on Financial Performance

The presence of independent board members is expected to separate corporate governance from corporate management, preventing opportunistic behaviour by insiders (Kaur et al., 2017). In addition, independent board members have a more active and comprehensive dialogue with more stakeholders (Strydom et al., 2017). Okolie and Uwejeyan (2022) as well sought measure this in the context of Nigeria firms to confirm the importance of board characteristics in promoting financial performance. Per the findings, whiles board independence and ownership were emerging as statistically significant variables to enhance performance, board size had no

significant influence. Abu et al. (2016) sought to measure the variable causing the weak performance of most Nigerian banks between 2005 and 2014. According to the results, foreign director as a characteristic of board of directors is a positive contributor to performance whereas independence, diversity and compositions of the board had not impact on performance.

Accordingly, Gatehi and Nasieku (2022) explored such characteristics focusing on non-financial institutions in Nigeria and discovered differing results. Board diversity rather had a statistical significant influence whereas other factors like the board size and independence emerged to have no statistical influence in terms of ensuring an increased performance of non-financial companies listed on the NSE. With respect to Oluwadamisi (2021), none of the variables for measuring board characteristics emerged as statistically significant on the performance among the agricultural companies in Nigeria. According to the author, some of the variables exhibited positive whilst others too exhibited negative effect but the ultimate outcome was none of them was significant.

Considering the study by Megeid (2022), it is discovered that a robust corporate governance in an institution ensures persistent increase in companies' performance and limits errors in stating financial reports while ensuring accurate and quality results. Further, the author showed that variations in finances of a company is mainly triggered by the influence of financial decision making and CEO duality whereas board size and independence cause the other way round. As such with the exception of board size and independence, all the measures of corporate governance enable companies to ensure persistent increase in value creation. Di Biase and Honorato (2021) focused on the board characteristics of insurance company to reveal how they can impact on financial performance. Their results showed that the market performance of most insurance companies contributed positively by board composition and independence.

Again, Oludele et al. (2016) conducted a study to investigate the relationship between board independence and financial performance of listed manufacturing companies. The correlation results showed that there is a strong and significant relationship between board independence and financial performance. The coefficient β=0.193 is significantly different from zero, and p=0.016 is less than 0.05. This result indicates that there is a consistent difference between the financial performance of boards of directors and the financial performance of manufacturing companies listed on the Nigerian Stock Exchange. The results show that a one percentage point change in board independence leads to a 0.193 percentage point change in financial performance. This attests that there is a significant positive linear correlation between board independence and the financial performance of listed manufacturing companies.

2.3.3 Relationship between Board Meeting on Financial Performance

Board diligence in this context refers to the number and frequency of board meetings. Rao and Tilt (2016) found that board diligence has a statistically significant impact on organisational performance: a 10 per cent increase in enthusiasm leads to a 1 per cent increase in firm performance, while Pletzer et al. (2015) found a positive relationship between board meeting frequency and firm performance. Similarly, Irshad and Ali (2015) found that independent directors, board meeting frequency and board size have a positive impact on organisational performance as measured by Q ratio and return on assets (ROA).

Again, Palaniappam (2017) in India had discovered that board characteristics inversely relates to financial performance. Board size emerged as feature that had a high detrimental effect of financial performance proxies like Tobin's Q, ROA and ROE, followed by board meetings. The rest of the factors showed insignificant effect. Again, Borlea et al. (2017) explored the connection between board characteristics and firm performance. The research revealed that most boards have features such as balance between non-executive and executive directors,

managerial independence, and an emphasis on educational skills. However, most corporate governance systems lack advisory committees (e.g. nomination, remuneration and audit committees) to support board decision-making. Although there was no statistically significant relationship between board characteristics and Tobin performance, such as Q and return on investment, this finding is consistent with many studies in developing countries. This may be related to different weaknesses than in transition countries.

Similarly, Oyedokum (2019) employed data that comprises the report from commercial banks in Nigeria ranging from 2013 to 2017 to measure how board characteristics are imparting or elevating the performance of the institutions. With the findings, whiles board diversity was controlling the performance of the company in the positive direction, board member was in the other way round. Also, board size and board independence had no significant effect but the latter had a negative influence. Among Jordanian industrial and service companies, board involvement, foreign ownership and board duality exhibited a positive influence on their performance (Marashdeh, 2014). Also, board size and board ownership exerted negative influence.

Additionally, Ghosh and Ansari (2018) conducted a study to examine the link between board characteristics and financial performance in Indian cooperative banks. The study revealed that board size is an insignificant factor in terms of prompting bank performance and performance measures. However, when the banks were ranked by income, both board size and board diversity were significant in high-income regions, while in low-income regions only gender diversity affected performance. However, board diversity, especially gender diversity, is an imperative factor that impacts the performance of banks in low-income regions. In contrast, in high-income regions, both board size and board diversity play a significant role in determining bank performance. The study highlights the importance of board diversity in improving the

financial performance of Indian cooperative banks. The study also suggests that board size is not always a significant factor in determining bank performance, and that other factors, such as board diversity, should be considered when evaluating the performance of banks.

2.3.4 Relationship between CEO Duality on Financial Performance

The value of the shares depends on the long-term financial prospects of the company. Shareholders are therefore interested in dividends, but even more so in profitability and long-term financial prospects. Managers are hired on behalf of shareholders to run the company. However, if the manager does not hold shares in the company, he or she has no direct interest in the future profitability or shareholder value of the company. The manager has an employment contract and receives a salary. If he or she does not own shares, or if the remuneration is not linked to profitability or shareholder value, the main concern may be the CEO's level of remuneration and position in the company (Irshad and Ali, 2015; Babatunde and Ajide, 2020; Oziegbe and Cy, 2021).

Furthermore, Assenga et al. (2018) focused on listed firms in Tanzania to check the effectiveness of board characteristics to financial health. According to the results, gender diversity exerted a positive influence where the remaining variables including non-executive directors, board size, and CEO duality exerted no statistical influence on performance. With respect to Nguyen et al. (2021) on Vietnamese companies, dual board is a negative contributor to the timeliness of financial reporting. Also, the age of the board contribute positively promote the timeliness of financial reporting as well as the board rotation. In conclusion, the study elaborated the importance of board characteristics in promoting the timeliness and quality of financial reporting. Companies with a single board, younger chairman, and stagnant board composition may experience delays in financial reporting, which can negatively impact their reputation and financial performance.

Further, AlQudah et al. (2019) employed OLS regressions to determine how board characteristics is contributing performance in Jordan using 2013-2017 data. The study found that board size had a significant positive effect on financial performance. This suggests that busy managers may not have enough knowledge, experience, or time to improve their performance; Adebayo et al. (2022) conducted research to determine the impact of board composition on the financial performance of commercial banks in Nigeria. Their study found that the size of the board had a significant impact on financial performance, while the gender composition of the CEO and board did not have a significant effect. This suggests that the number of board members is more important than the gender diversity of the board in determining financial performance. Similarly, Fakile and Adigbole (2019) explored the association of board characteristics and financial performance of listed firms in the Nigerian information and communication technology (ICT) sector. Their analysis revealed that ROE is contributed positively and significantly by board independence whilst negatively by gender diversity. This implies that the independence of the board is more important than the size of the board or the gender diversity of the board in determining financial performance in the ICT sector in Nigeria.

The study conducted by (2018) explored the connection between board characteristics and the performance of listed commodity companies in Nigeria. The findings indicated at 95% confidence interval, board independence and board due diligence are positive contributors to performance whereas as 90% confidence interval, board size and composition emerged as additional significant variables in terms of ensuring an increased performance for commodity companies. The study concludes that holding regular board meetings and ensuring board independence are crucial in making timely decisions that impact the overall objectives of the firm.

With respect to the Colombo Stock Exchange, Somathilake (2018) revealed that merely the controlling variables such as size of the companies emerged as a positive contributor to firm performance. Besides, board characteristics such as board size emerged as a negative significant variables whiles board diversity, independence and training emerged as insignificant variables although they were either positive or negative Mititean (2022) attested that with the association of board characteristics and firm performance it is statically significant. However, whiles measures like board size, independence, and composition and CEO duality proved as positive factors; measures like board diversity remain significant in private companies and insignificant in public institutions. Also, board commitment emerged as a negative determinant.

Murhadi et al. (2021) conducted a study to examine the effects of board diversity, board size, and board independence on financial performance. The results showed that the prudence of female board members has a positive impact on the market value of the firm, but female board members are less likely to have good financial performance. The study found no significant relationship between board size and financial performance, but a larger number of board members was found to reduce the value of the company. Additionally, the study found that independent directors do not improve the financial performance of companies, and that the tendency of companies not to comply with the rules on the presence of independent directors may be a burden affecting the profitability of companies.

2.4 Conceptual Framework

The study proposes that board characteristics will relate to financial performance when firm size and leverage are controlled as indicated in the Figure 2.1

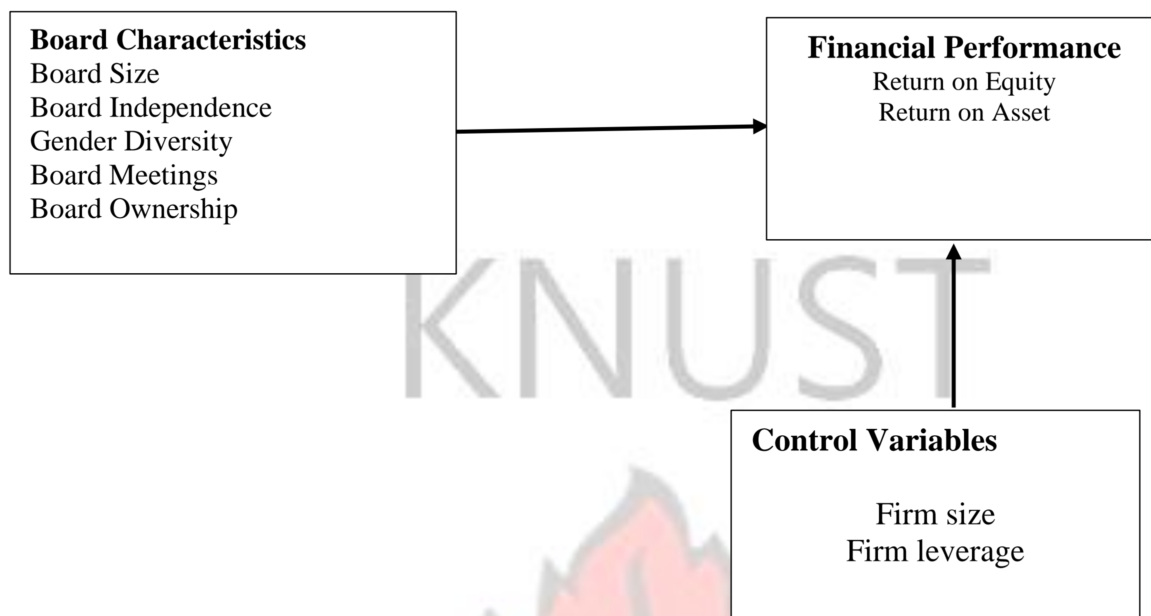


Figure 2.1 Conceptual Framework

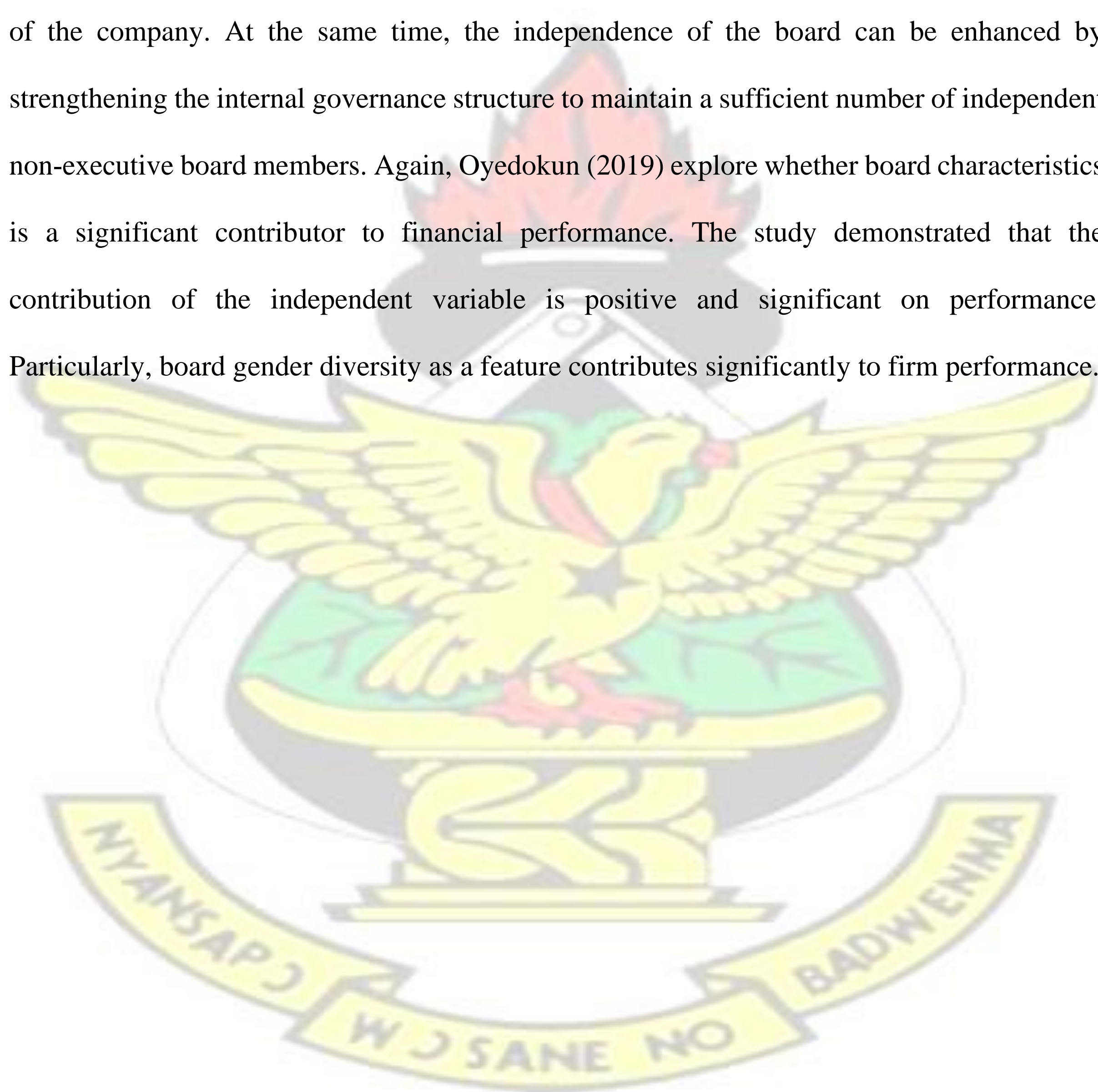
This study uses agency theory as a theoretical framework and provides an empirical framework to determine corporate governance on financial performance in Ghanaian manufacturing industry. Agency theory was developed by Jensen and Mechling (1976). They argued that corporate governance is based on conflicts of interest between owners (shareholders) and managers. These two groups have different interests and objectives. Shareholders want to maximise their profits and wealth. Their interests focus on the profits that the company pays them in the form of dividends and on the value of their shares. The value of the shares depends on the long-term financial prospects of the company. Shareholders are therefore interested in dividends, but even more so in profitability and long-term financial prospects. Managers are hired on behalf of shareholders to run the company. However, if the manager does not hold shares in the company, he or she has no direct interest in the future profitability or shareholder value of the company. The manager has an employment contract and receives a salary (Irshad and Ali, 2015; Babatunde and Ajide, 2020; Oziegbe and Cy, 2021). The size of the board affects the quality of directors and the board's ability to make optimal business decisions. However, the ideal size of the board of directors is still debated in the corporate governance literature.

The literature debates whether the size of the board of directors is critical to corporate performance. A study by Lone et al. (2016) found a significant negative relationship between board size and corporate performance, as larger boards are inefficient in terms of communication, coordination and decision-making (Sadou et al., 2017).

The presence of independent board members is expected to separate corporate governance from corporate management, preventing opportunistic behaviour by insiders (Kaur et al., 2017). In addition, independent board members have a more active and comprehensive dialogue with more stakeholders (Strydom et al., 2017). Board diligence in this context refers to the number and frequency of board meetings. Rao and Tilt (2016) found that board diligence has a statistically significant impact on organisational performance: a 10 per cent increase in enthusiasm leads to a 1 per cent increase in firm performance, while Pletzer et al. (2015) found a positive relationship between board meeting frequency and firm performance. Similarly, Irshad and Ali (2015) found that independent directors, board meeting frequency and board size have a positive impact on organisational performance as measured by Q ratio and return on assets (ROA).

Also, Palaniappan (2017) measured the financial effectiveness of Indian companies using board characteristics as independent variable. Per the results the contribution of the independent variable adversely affects financial performance. Thus, features like board size, independence and frequency of board meetings are negative contributors to proxies like Tobin's Q, ROA and ROE. Moreover, Masum and Khan (2019) explored the potential effect that emerges between board characteristics and firm performance. According to findings the effect is significant when board ownership and foreign directors are considered as proxies for board characteristics whereas with respect to board size, proportion of independent directors, and proportion of female directors the effect was not significant on firm performance.

Further, Di Biase and Honorato (2021) focus on the characteristics of corporate boards that have a significant impact on the financial performance of the insurance sector. The results show that board composition and board independence are the most important governance factors that can positively affect the market performance of insurance firms. These results suggest that insurers can improve their internal governance model by implementing effective board policies that ensure appropriate board composition and balance, thereby enhancing the intrinsic value of the company. At the same time, the independence of the board can be enhanced by strengthening the internal governance structure to maintain a sufficient number of independent non-executive board members. Again, Oyedokun (2019) explore whether board characteristics is a significant contributor to financial performance. The study demonstrated that the contribution of the independent variable is positive and significant on performance. Particularly, board gender diversity as a feature contributes significantly to firm performance.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CHAPTER THREE

RESEARCH METHODOLOGY

3.0 Introduction

The chapter presents methods and strategies adopted to explore the determinants of corporate financial performance relating to board characteristics of corporate governance in Ghanaian manufacturing industry. In particular this chapter covers the research design, the population, sample size and sampling, the sources of data, which incorporate primary and secondary data, the data collection instruments and techniques and research ethical.

3.1 Research Philosophy and Approach

Research philosophy deals with the source, nature, and development of knowledge. In simple terms, a research philosophy is a belief about the ways in which data about a phenomenon should be collected, analysed, and used. Although the idea of knowledge creation may appear to be profound, you are engaged in knowledge creation as part of completing your dissertation. There are three main research paradigms. Notably; positivists, constructivism and pragmatism. The is study adopted the positivist paradigm and quantitative research approach since the study requires numerical data and hypotheses testing.

3.2 Research Design

Research design deals with all the intended approaches and procedures that aid researchers in conducting a study on a phenomenon (Creswell, 2009). First, the paper followed the quantitative method to explore the determinants of corporate financial performance relating to board characteristics of corporate governance in Ghanaian manufacturing industry. Research had made it known that using quantitative methods offers a higher accuracy in the overall findings as it mitigate bias (Saunders, Lewis, and Thornhill, 2012; Singleton and Straits, 2018).

Also, in quantitative approach previous studies were easily replicated. Above all, quantitative approach was preferred once numerical data were used to carry out the study (Apuke, 2017).

3.3 Population and Data Sources

Population of study is defined as the entire individuals, elements or objects that are affected by the topic intended to study (Saunders et al., 2009). The target population of the study comprised of listed manufacturing companies on Ghana stock exchange. Fourteen (14) companies comprising both listed and unlisted manufacturing companies in Ghana based on data availability and accessibility. The data were obtained from the annual financial statements of the selected companies within the period covered in the study. data availability and accessibility were the two main criteria used to select the companies.

3.4 Sampling and Sample Size

Sampling deals with the selection of a portion of the target population to undertake a study. In research there are two major ways that a sample can be taken. The study used the probability sampling where the element is granted the opportunity to be selected while the alternative, non-probability sampling is on the basis of personal intuitions and judgments (Zikmund, 2000). Due to data availability and accessibility, the study made used of purposive sampling in selecting manufacturing companies. For the purpose of this study, data from some selected manufacturing companies in Ghana was used.

3.5 Model Specification

The model applied in the study was the ordinary least square regression (OLS). This model was used to discover a significant relationship between corporate governance practices and corporate financial performance as research variables. Multivariate regression analysis was used to establish relationships between several variables used in the study. The model is presented below:

$$Y = \beta 0 + \beta I \mathrm{X1} + \beta 2\mathrm{X2} + \beta 3\mathrm{X3} + \beta 4\mathrm{X4} + \beta 5\mathrm{X5} + \varepsilon$$

Where Y – dependent variable (Financial performance (ROE and EOA)

X1 – Board Size

X2 – Board Independence

X3 – Gender Diversity

X4 – Board Meetings

X5 – Board Ownership

Ɛ – Is the error term

β – Predictor variables coefficients

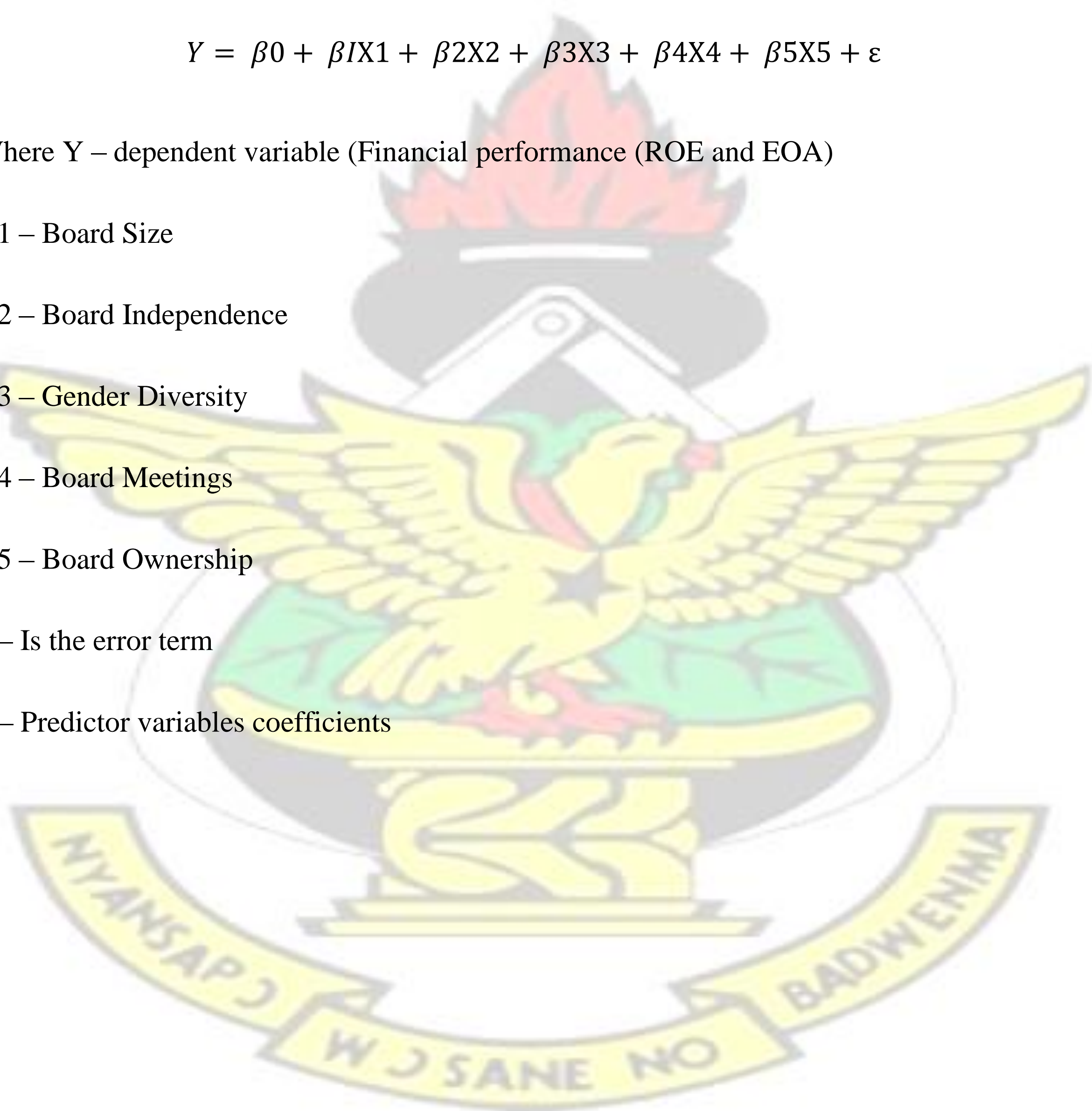


Table 3.1 Measurement of Variables

Variables	Types	Data Source	Measurement
Board Size	Independent	Secondary Data	Board Number in Total
Board Independence	Independent	Secondary Data	Percentage of non-executive directors
Gender Diversity	Independent	Secondary Data	Number of Female board members
Board Meetings	Independent	Secondary Data	Total Number of Meetings of the Board
Board Ownership	Independent	Secondary Data	Percentage number of shares owned by the management
Financial Performance	Dependent		
Return on Assets (ROA)	Dependent	Secondary Data	Earnings before interest and tax / Total Assets
Return on Equity (ROE)	Dependent	Secondary Data	Net Income (Net Profit after Interest and Tax) / shareholders fund or equity

Source: Author's compilations

3.6 Data Analysis Method

Data Analysis is systematic approach that comprises statistical application to describe and to analyze data. Analyzing data enables researches to present inductive inferences whiles doing away with errors from the data (Shamoo and Resnik, 2003). The main data analysis model employed for the study was pooled regression model. EVIEWS 10 was employed to measure the relevant data. Test results were presented in the form of mean values, standard deviation, minimum and maximum values, indicating the variables used in the study. A descriptive analysis was used to obtain key results, using tables and percentages. Regression analysis allowed the data to be presented in appropriate study statistics and in tabular form.

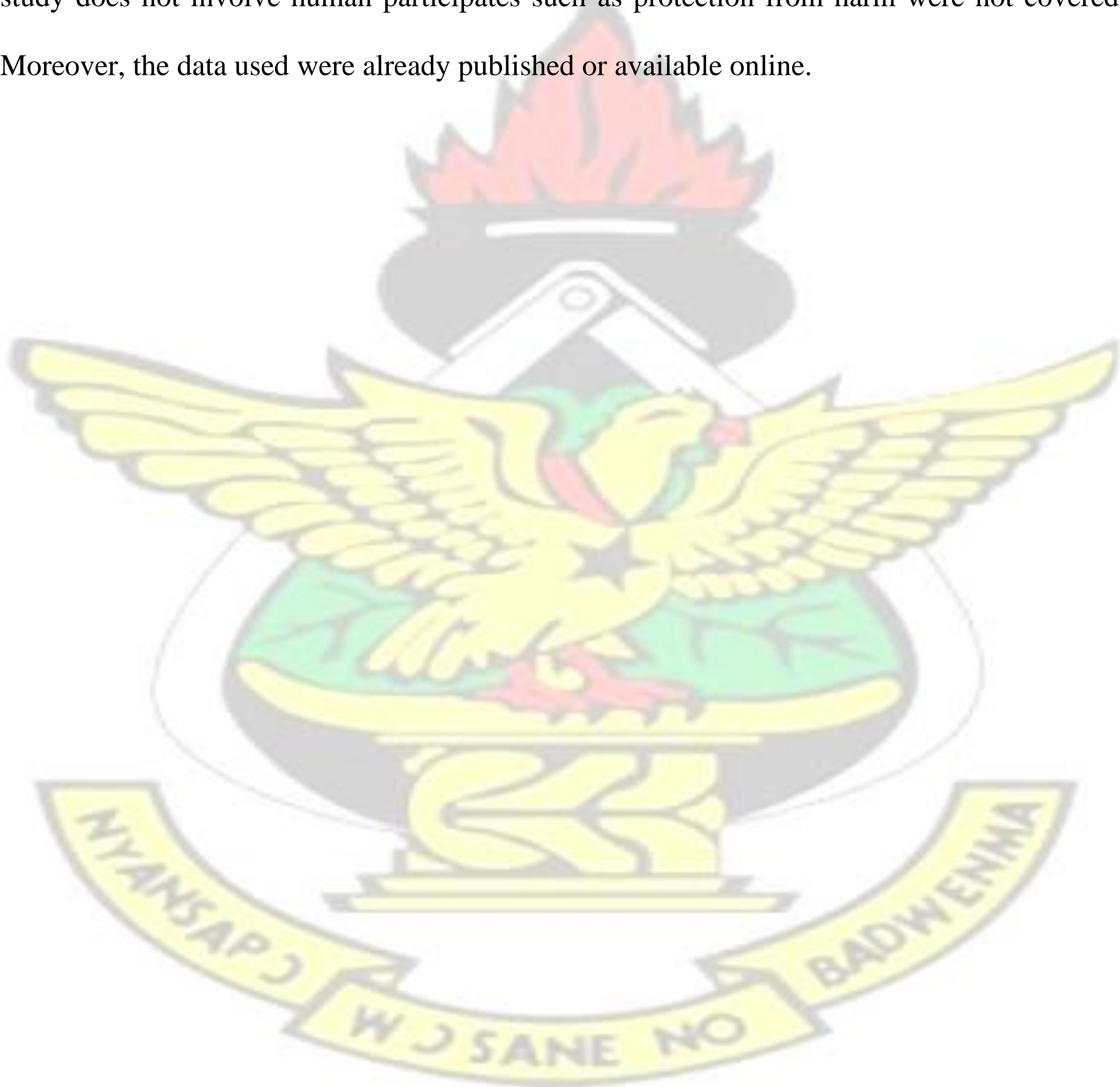
3.7 Validity and Reliability

The validity and reliability of the models were ensured by the use of diagnostic strategies such as: normality, heteroscedasticity and multi-collinearity, and autocorrelation tests. The degree of multi-collinearity of the variables was determined by means of correlation matrices and

inflation dispersion coefficients (Kothari, 2004). EVIEWS used to conduct the validity and reliability tests.

3.8 Ethical Consideration

This study has duly observed all the needed ethical considerations. Specifically, the respect for the participating firms, maintaining the integrity of the participating firms. However, since the study does not involve human participates such as protection from harm were not covered. Moreover, the data used were already published or available online.



CHAPTER FOUR

DATA ANALYSES AND DISCUSSIONS

4.0 Introduction

This chapter provides an overview of research on the relationship between corporate governance and financial performance in the Ghanaian manufacturing industry. The chapter is organized as follows: it begins with a descriptive analysis of the data, followed by trend analysis and diagnostic tests, such as the multicollinearity, heteroscedasticity, correlation, and normality tests.

4.1 Results on the Descriptive Statistics

Table 4.1: Descriptive Statistics

	Board Independence	Board Size	Board Diversity	Board Meetings	CEO Duality	ROE	ROA
Mean	0.38	6.02	1.24	3.59	0.50	5.40	5.40
Median	0.53	5.00	1.00	4.00	0.50	5.39	5.39
Maximum	0.72	9.00	3.00	5.00	1.00	6.51	6.51
Minimum	0.02	5.00	0.00	1.00	0.00	3.52	3.52
Std. Dev.	0.26	1.25	1.03	0.84	0.50	0.51	0.51
Skewness	-0.35	0.81	0.35	-1.11	0.00	-0.47	-0.47
Kurtosis	1.23	2.64	1.96	3.19	1.00	4.24	4.24
Jarque-Bera	21.17	16.31	9.14	29.06	23.33	14.26	14.26
Probability	0.000	0.000	0.010	0.000	0.000	0.000	0.000
Sum	53.76	844	174	503	70.00	756	756
Sum Sq. Dev.	9.94	219	149	99.79	35.00	35.00	36.28
Observations	140	140	140	140	140	140	140

Table 4.1 presented the descriptive statistical results on the variables used in the study. In relations to board independence of the manufacturing companies that were selected under the period of investigation the mean score was 0.38 with a standard deviation of 0.26. Also, the maximum score of the board independence for the selected manufacturing firms under study was 0.72 whilst the minimum value of board independence was 0.02. As well the median of the board independence was estimated at 0.53. Considering the board size, the mean scores

were 6.02 while the standard deviations were 1.25. The maximum score of the board size of the selected manufacturing companies within the period under consideration was 9.00 whereas the minimum score was 5.00. Yet the median for the size was similarly denoted at 5.00.

The mean value, with regards to board diversity was 1.24 with corresponding standard deviation value of 1.03, whereas the maximum value of the board diversity was 3.00 and with a minimum value of 0.00. Further, the median value of board diversity was 1.00. Also, the mean score for the number of board meetings of the manufacturing companies that were selected was 3.56 while the respective standard deviation was 0.84. The maximum score of the number of board meetings was 5.00 and the corresponding minimum score was 1.00 while the median was further observed at 4.00. Reflecting on CEO duality, the selected manufacturing companies under investigation within the study period were having a mean score of 0.50 and standard deviation of 0.50, a maximum score of 1.00 with a corresponding minimum score of 0.00 while the median value for CEO duality was 0.50.

With respect to ROE of the manufacturing companies that were selected under the period of investigation, the mean score was 5.40 and the standard deviation was 0.51. Also, the maximum score was 6.51 while the minimum score for ROE was 3.52. The median value for ROE of the manufacturing under study was 5.39. Again, relating to the ROA of the manufacturing companies under study within the period of investigation, the mean score was 5.40 whilst the corresponding standard deviation was 0.51. The maximum score for the ROA of the selected companies was 6.51 with a respective minimum score of 3.52 whereas the median score for ROA of the selected manufacturing companies was 5.39.

4.2 Diagnostic Test Reliability and Validity Test

Normality, Multicollinearity and Heteroscedascity test were used for validation, which was recommended by previous research due to the robustness. The details of the test have been presented in the next section.

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4.2.1 Test of Normality

The study adopted Jarque Bera statistical test for normality of the data as indicated in the Figure 4.1. The study found there is normal distribution of data in the model. The null hypothesis for the Jarque Bera test statistics have been rejected which supports the alternative hypothesis with the normal distribution. For instance, the found that skewness was 0 and kurtosis was less than >3.

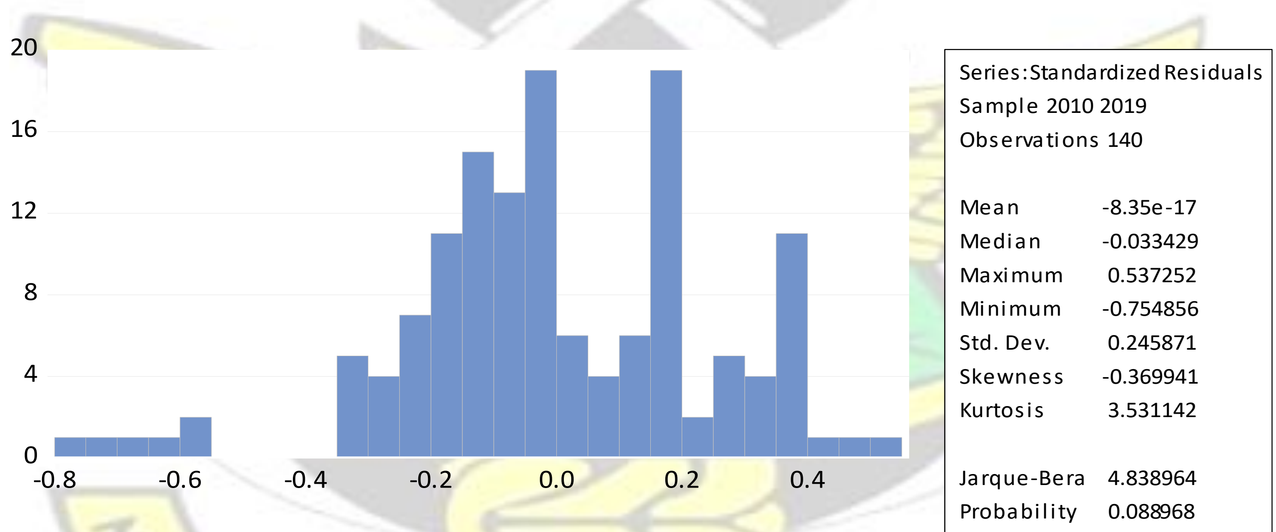


Figure 4.1 Jarque Bera

4.2.2 Test of Serial Correlation (Test of Multicollinearity)

The results for the Breusch-Godfrey serial correlation LM test as indicated in the Table 4.2 shows that, there is no problem of multicollinearity in the model. The null hypothesis for the

multicollinearity was rejected supporting the alternative hypothesis that there was no issue of multicollinearity.

Table 4.2: Breusch-Godfrey Serial Correlation LM Test

Breusch-Godfrey Serial Correlation LM Test:			
Null hypothesis: No serial correlation at up to 2 lags			
F-statistic	53.00770	Prob. F(2,132)	0.8590
Obs*R-squared	62.35796	Prob. Chi-Square(2)	0.1041

Source: Author's Estimation

4.2.3 Test of Heteroskedasticity Test: Breusch-Pagan-Godfrey

The results for the Heteroskedasticity test as indicated in the Table 4.3 shows that, there is no heteroscedasticity issue in the model. The null hypothesis for the heteroscedasticity was rejected supporting the issue of the alternative hypothesis that the model does not contain heteroscedasticity.

Table 4.3: Heteroscedasticity Test: Breusch-Pagan Godfrey

Heteroskedasticity Test: Breusch-Pagan-Godfrey			
Null hypothesis: Homoskedasticity			
F-statistic	4.807640	Prob. F(5,134)	0.1104
Obs*R-squared	21.29452	Prob. Chi-Square(5)	0.4707
Scaled explained SS	24.53002	Prob. Chi-Square(5)	0.9002

Source: Author's Estimation

4.2.4 Inter-Construct Correlation

As indicated in the Table 4.4 results obtained from the inter-construct correlation table shows that, there was an insignificant correlation between board size and return on equity ($r=0.144$, $p\text{-value} > 0.05$). Again, an insignificant correlation was found between board meetings and return on equity ($r=0.128$, $p\text{-value} > 0.05$). Also, an insignificant correlation was found between board diversity and return on equity ($r=0.027$, $p\text{-value} > 0.05$). Meanwhile, a significant correlation was found between CEO duality and return on equity ($r=0.216$, $p\text{-value} < 0.05$).

The study further found a significant correlation between board independence and return on equity (r=0.271, p-value < 0.05).

Table 4.4: Correlation Matrix

	Board Size	Board Meetings	CEO Duality	Board Diversity	Board Ind.	ROE	ROA
Board Size	1						
Board Meetings	-.239** .004	1					
CEO Duality	.137 .107	.296** .000	1				
Board Diversity	.402** .000	.211* .012	.235** .005	1			
Board Independence	-.064 .453	.478** .000	.496** .000	.304** .000	1		
ROE	.144 .091	.128 .139	.216* .010	.027 .749	.271** .001	1	
ROA	.193* .022	.114 .179	.211* .012	.115 .175	.287** .001	.859** 0.000	1

Moving on with return on asset in the Table 4.4, the study found that, board size is significantly correlated with ROA (r=0.193, p-value < 0.05). Furthermore, CEO duality is significantly correlated with ROA (r=0.211, p-value < 0.05). Again, a significant correlation was found between board independence and return on asset (r=0.287, p-value < 0.05).

However, an insignificant correlation was found between board meetings and return on asset (r=0.114, p-value > 0.05). The study further found that board diversity is insignificantly correlated with ROA (r=0.115, p-value > 0.05).

Table 4.5: Correlated Random Effects – Hausman Test

Test Summary	Chi-Sq. Statistic	Chi-Sq. d.f.	Prob.
Model One: ROA			
Period random	0.00000	5	1.0000

Model Two: ROE

Period random	0.000000	5	1.0000

To determine whether random or fixed effect model is appropriate for a study, a Hausman tests was conducted. The null hypothesis for the Hausman suggests that random effect model is inappropriate. As indicated in the two models above there are enough evidence to refuse the null hypothesis. Therefore the null is sustained, fixed effect panel models are most appropriate for the study.

Table 4.6: Panel Regression Model One (ROA)

Variables	Coefficient	Std. Err	t-value	Prob.
Board Diversity	-0.091354	0.048490	-1.883984	0.0617
Board Independence	0.525076	0.202327	2.595180	0.0105
Board Meetings	0.043034	0.059926	0.718118	0.4739
Board Size	0.098884	0.039999	2.472178	0.0147
CEO Duality	0.070316	0.099081	0.709682	0.4791
C	4.528569	0.338819	13.36573	0.0000
Effects Specification				
R-squared	0.128355	Mean dependent var		5.402566
Adjusted R-squared	0.095831	S.D. dependent var		0.510907
S.E. of regression	0.485810	Sum squared resid		31.62558
F-statistic	3.946463	Durbin-Watson stat		1.1400050
Prob(F-statistic)	0.002271			

As indicted in the Table 4.6 the study found that board diversity was a negative weak significant (Beta = -0.091354, T-value = -1.883984, P-value = 0.06) determinant of performance using ROA as an indicator. Again, board independence was a significant (Beta = 0.525076, T-value = 2.595180, P-value = 0.01) determinant of performance using ROA as an indicator. Also, board size was a significant (Beta = 0.098884, T-value = 2.472178, P-value = 0.01). However, the study found that board meetings was not a significant (Beta = 0.043034, T-value = 0.718118, P-value = 0.4739) determinant of performance using ROA as an indicator. Again, CEO duality was not a significant (Beta = 0.070316, T-value = 0.709682, P-value = 0.4791) determinants of performance using ROA as an indicator.

Table 4.7: Panel Regression Model Two (ROE)

Variables	Coefficient	Std. Err	t-value	Prob.
Board Diversity	-0.096961	0.048692	-1.991316	0.0486
Board Independence	0.556273	0.207114	2.685836	0.0082
Board Meetings	0.046633	0.061935	0.752933	0.4529
Board Size	0.100315	0.040113	2.500817	0.0137
CEO Duality	0.062505	0.099417	0.628709	0.5307
C	4.505905	0.344030	13.09741	0.0000
Effects Specification				
R-squared	0.155659	Mean dependent var		5.402566
Adjusted R-squared	0.061093	S.D. dependent var		0.510907
S.E. of regression	0.495055	Sum squared resid		30.63493
F-statistic	1.646029	Durbin-Watson stat		1.119654
Prob(F-statistic)	0.075776			

As indicted in the Table 4.7 the study found that board diversity was a significant (Beta =-0.096961, T-value = -1.991316, P-value = 0.048) determinant of performance using ROE as an indicator. Also, board independence was a significant (Beta = 0.556273, T-value = 2.685836, P-value = 0.008) determinant of performance using ROE as an indicator. Again, board size was a significant (Beta = 0.0100315, T-value = 2.500817, P-value = 0.013) determinant of performance using ROE as an indicator. However, the study found that board meeting and CEO duality (Beta = 0.046633, T-value = 0.752933, P-value = 0.452), (Beta = 0.062505, T-value = 0.628709, P-value = 0.530) respectively were not significant determinants of performance using ROE as an indicator.

4.3 Discussions of Result

The study aimed at investigating Ghanaian manufacturing companies' corporate governance on their financial performance. The results revealed that, the size of the board was a significant determinant of performance. Again, independence of the board was a significant determinant of performance. Moreover, diversity of the board was a significant determinant of performance. These results are empirically supported. For instance, agency theory was developed by Jensen

and Mechling (1976). They argued that corporate governance is based on conflicts of interest between owners (shareholders) and managers. These two groups have different interests and objectives. Shareholders want to maximise their profits and wealth. Their interests focus on the profits that the company pays them in the form of dividends and on the value of their shares. The value of the shares depends on the long-term financial prospects of the company. Shareholders are therefore interested in dividends, but even more so in profitability and long-term financial prospects. Managers are hired on behalf of shareholders to run the company. However, if the manager does not hold shares in the company, he or she has no direct interest in the future profitability or shareholder value of the company. The manager has an employment contract and receives a salary.

The size of the board affects the quality of directors and the board's ability to make optimal business decisions. However, the ideal size of the board of directors is still debated in the corporate governance literature. The literature debates whether the size of the board of directors is critical to corporate performance. A study by Lone et al. (2016) found a significant negative relationship between board size and corporate performance, as larger boards are inefficient in terms of communication, coordination and decision-making (Sadou et al., 2017). The presence of independent board members is expected to separate corporate governance from corporate management, preventing opportunistic behaviour by insiders (Kaur et al., 2017). In addition, independent board members have a more active and comprehensive dialogue with more stakeholders (Strydom et al., 2017). Board diligence in this context refers to the number and frequency of board meetings. Rao and Tilt (2016) found that board diligence has a statistically significant impact on organisational performance: a 10 per cent increase in enthusiasm leads to a 1 per cent increase in firm performance, while Pletzer et al. (2015) found a positive relationship between board meeting frequency and firm performance. Similarly, Irshad and Ali (2015) found that independent directors, board meeting frequency and board size have a

positive impact on organisational performance as measured by Q ratio and return on assets (ROA).

Also, Palaniappan (2017) measured the financial effectiveness of Indian companies using board characteristics as independent variable. Per the results the contribution of the independent variable adversely affects financial performance. Thus, features like board size, independence and frequency of board meetings are negative contributors to proxies like Tobin's Q, ROA and ROE. Moreover, Masum and Khan (2019) explored the potential effect that emerges between board characteristics and firm performance. According to findings the effect is significant when board ownership and foreign directors are considered as proxies for board characteristics whereas with respect to board size, proportion of independent directors, and proportion of female directors the effect was not significant on firm performance.

Further, Di Biase and Honorato (2021) focus on the characteristics of corporate boards that have a significant impact on the financial performance of the insurance sector. The results show that board composition and board independence are the most important governance factors that can positively affect the market performance of insurance firms. These results suggest that insurers can improve their internal governance model by implementing effective board policies that ensure appropriate board composition and balance, thereby enhancing the intrinsic value of the company. At the same time, the independence of the board can be enhanced by strengthening the internal governance structure to maintain a sufficient number of independent non-executive board members.

Again, Oyedokun (2019) explore whether board characteristics is a significant contributor to financial performance. The study demonstrated that the contribution of the independent variable is positive and significant on performance. Particularly, board gender diversity as a feature contributes significantly to firm performance. However the moderation and mediation

effect of board membership and board independence were negative on the relationship. In addition, Freihat et al. (2019) analyzed the impact of top managerial staff qualities on firm performance. The research outcome utilizing least squares regression test demonstrated that ownership concentration, executive meetings, and CEO duality, are positively significantly related to performance.

Then again, the research results uncovered that board size and board independence had an irrelevant relationship with Tobin's Q., likewise firms' size and firms leverage were insignificantly related to firm performance. The ownership fixation was the most significant factor that impacts the company's performance. As to executive meetings recurrence, the research demonstrated that there is an essential relationship with firm performance. This immediate proof on the relationship among executive meeting recurrence and performance proposes that boards that meet consistently are progressively dynamic in observing and accordingly propel the managers to work for the stakeholders' benefits and improving organizations' performance. As respects to CEO duality, the research showed that it has a positive significant association with firm performance. Focusing on board size and board independence the study results demonstrated that they both affect performance but this effect is not significant.

Furthermore, Kruders (2018) evaluated the characteristics of the board in terms of the impact of CSR on financial results. The findings showed that in general there is a positive impact of CSR on the ROA, although it is negligible for the ROE, the Tobin's Q and the NPM. Consequently, the results showed that organizations that are more seriously engaged in CSR activities have improved their profitability. In addition, the number of executives, gender, and diversity of value and age groups were found to moderate the effect of CSR on ROA. Independence of board has minimal impact. More so, Atty et al. (2018) explore the link

between the dual nature of the CEO and the company's financial performance in terms of ROA, ROE and Tobin's Q. They find a significant link in the dual nature of the CEO and the company's financial performance. They as well probe the impact of size of the CEO on these performance indicators and reveal a substantial and positive association. The results show that large boards are more effective in controlling financial performance. The empirical results show that there is a strong link among board residency and the performance indicators as well.

Adding up, Wondem and Batra (2019) studied the effect of corporate governance practices on the financial performance of public companies. The results showed that board gender diversity and private equity firm size are positively correlated with asset performance, and attendance at board meetings is positively, but not significantly, correlated with asset performance. Board size, meeting frequency, and governance practices are negatively correlated to asset performance. The paper also presents empirical results: equity returns are significantly and positively correlated with board meeting frequency, gender diversity and company size. And the frequency of direct board meetings is significantly correlated negatively with return on equity. However, there is no significant but negative correlation between ROE, size of board and governance of the board practices. State ownership is also positively correlated with profitability and return on investment.

Similarly, Hidayat and Utama (2016) measured the impact of board characteristics (which are in different proportions: family government employees, family directors, independent government employees, former government officials, and the size of the board) on the company's performance. The findings of this study suggest that the involvement of family members and family directors only has an impact on the value of Tobin-Q, while the involvement of independent directors can add value to both Tobin-Q and ROA. In addition, the study concludes that the participation of former government commissioners on the boards of

directors does not affect the company's performance. The study also found that the size of the board of directors is not linearly dependent on the company's performance, which is limited by Tobin-Q and ROA.

Again, Ghosh and Ansari (2018) studied how board characteristics of commercial banks in India are promoting financial performance. The empirical results showed that board size had no significant effect on bank performance and performance. Abu et al. (2016) conducted similar study in Nigeria and disclosed that independent directors has higher tendency in terms of promoting financial performance. However, factors including executive directors, independent non-executives directors and women directors had no significant effect in terms of promoting financial performance among banks in Nigeria.

Further, Gatehi and Nasieku (2022) however focused on non-financial listed companies in Nigeria and measure the contribution of board characteristics to financial performance. Per the findings, variables like board size and independence were not statistically significant board diversity (gender diversity) emerge as statistically significant in terms of their contribution as board characteristics proxies to financial performance. Oluwadamisi (2021) tried to attest that indeed the influence of the characteristics of board is significant on financial performance focusing on agribusiness firms in Nigeria. The independent variables were board characteristics (size, precision, independence and gender) and financial performance (dependent variable) was return on equity. The study concluded that the independent variables were not significant to the performance of listed Nigerian agricultural firms.

Once more, Megeid (2022) analyses characteristics of the board and financial decisions effect on financial decisions and the value of the firm. The results showed that an effective corporate governance structure (board characteristics) can reduce the likelihood of misstatements while improving the quality and reliability of financial reporting. The results show that financial

decision making and CEO duality have a positive effect on financial variation, while board size, independence, control variables and asset characteristics have a negative effect. Board size and independence are also found to have negative effects on financial market transformation. Thus, in order to ensure quality of financial reporting, directors are encouraged to provide additional insights and expertise about the company. It was also found that all the variables related to independence and control, except board size and independence, have a significant impact on firm value. The results show that larger companies have better internal control systems, tend to improve their financial reporting, have a higher reputation for financial reporting quality and have larger boards.

Similarly, Oyedokum (2019) employed data that comprises the report from commercial banks in Nigeria ranging from 2013 to 2017 to measure how board characteristics are imparting or elevating the performance of the institutions. With the findings, whiles board diversity was controlling the performance of the company in the positive direction, board member was in the other way round. Also, board size and board independence had no significant effect but the latter had a negative influence. Among Jordanian industrial and service companies, board involvement, foreign ownership and board duality exhibited a positive influence on their performance (Marashdeh, 2014). Also, board size and board ownership exerted negative influence.

Furthermore, Assenga et al. (2018) focused on listed firms in Tanzania to check the effectiveness of board characteristics to financial health. According to the results, gender diversity exerted a positive influence where the remaining variables including non-executive directors, board size, and CEO duality exerted no statistical influence on performance. Okolie and Uwejeyan (2022) as well sought measure this in the context of Nigeria firms to confirm the importance of board characteristics in promoting financial performance. Per the findings,

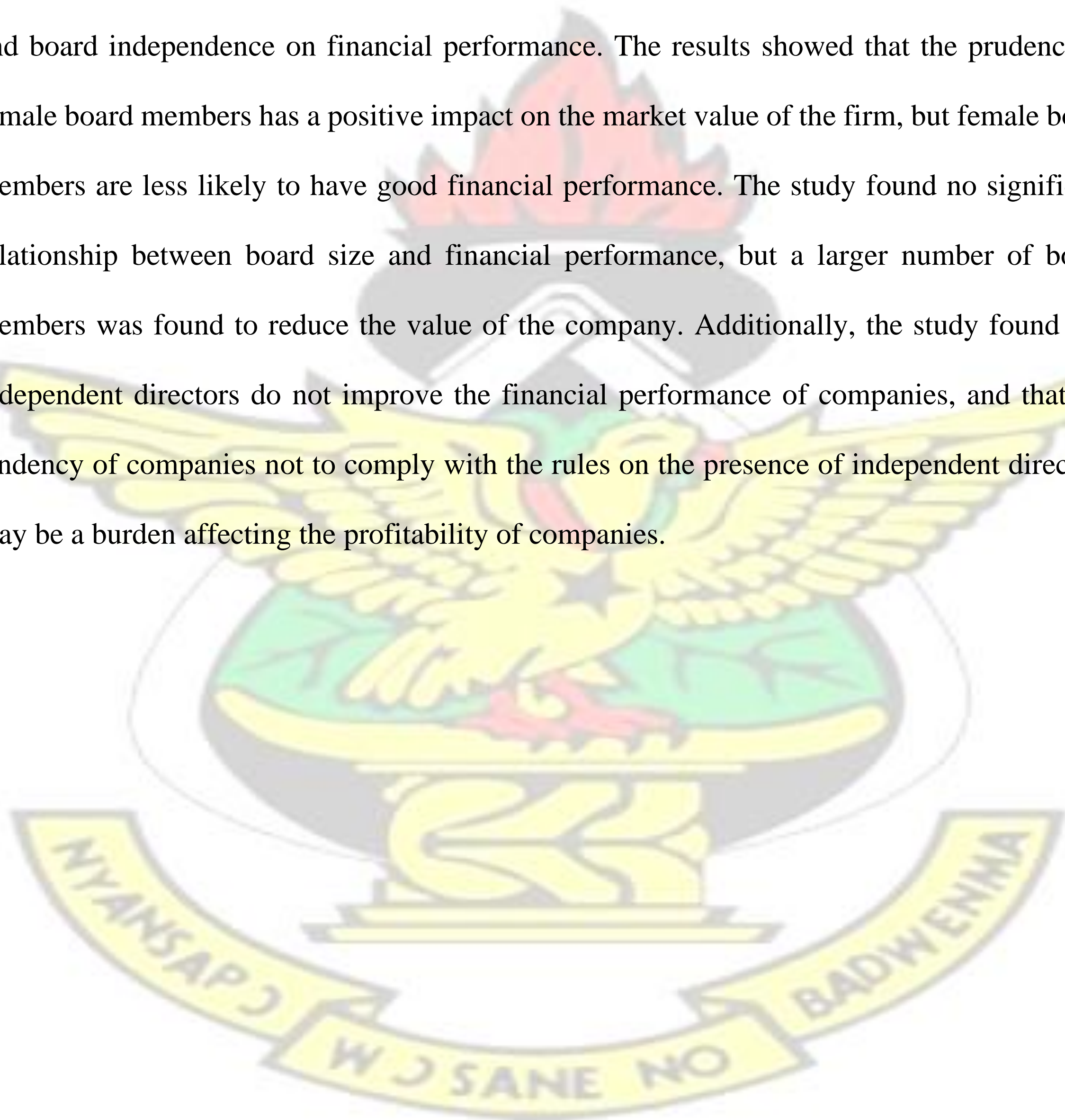
whiles board independence and ownership were emerging as statistically significant variables to enhance performance, board size had no significant influence. With respect to Nguyen et al. (2021) on Vietnamese companies, dual board is a negative contributor to the timeliness of financial reporting. Also, the age of the board contribute positively promote the timeliness of financial reporting as well as the board rotation. In conclusion, the study elaborated the importance of board characteristics in promoting the timeliness and quality of financial reporting. Companies with a single board, younger chairman, and stagnant board composition may experience delays in financial reporting, which can negatively impact their reputation and financial performance.

With respect to the Colombo Stock Exchange, Somathilake (2018) revealed that merely the controlling variables such as size of the companies emerged as a positive contributor to firm performance. Besides, board characteristics such as board size emerged as a negative significant variables whiles board diversity, independence and training emerged as insignificant variables although they were either positive or negative Mititean (2022) attested that with the association of board characteristics and firm performance it is statically significant. However, whiles measures like board size, independence, and composition and CEO duality proved as positive factors; measures like board diversity remain significant in private companies and insignificant in public institutions. Also, board commitment emerged as a negative determinant.

Again, Oludele et al. (2016) conducted a study to investigate the relationship between board independence and financial performance of listed manufacturing companies. The correlation results showed that there is a strong and significant relationship between board independence and financial performance. The coefficient $\beta=0.193$ is significantly different from zero, and $p=0.016$ is less than 0.05. This result indicates that there is a consistent difference between the

financial performance of boards of directors and the financial performance of manufacturing companies listed on the Nigerian Stock Exchange. The results show that a one percentage point change in board independence leads to a 0.193 percentage point change in financial performance. This attests that there is a significant positive linear correlation between board independence and the financial performance of listed manufacturing companies.

Murhadi et al. (2021) conducted a study to examine the effects of board diversity, board size, and board independence on financial performance. The results showed that the prudence of female board members has a positive impact on the market value of the firm, but female board members are less likely to have good financial performance. The study found no significant relationship between board size and financial performance, but a larger number of board members was found to reduce the value of the company. Additionally, the study found that independent directors do not improve the financial performance of companies, and that the tendency of companies not to comply with the rules on the presence of independent directors may be a burden affecting the profitability of companies.



CHAPTER FIVE

SUMMMARY OF FINDINGS, CONCLUSIONS AND RECOMMENDATIONS

5.0 Introduction

The summary of the key findings, conclusion and the recommendations on Ghanaian manufacturing company's financial performance in relation to specific aspects of corporate governance has been discussed in this chapter.

5.1 Summary of Findings

5.1.1 Panel Regression Model One (ROA)

The study found that board diversity was a negative weak significant determinant of performance using ROA as an indicator. Again, board independence was a significant determinant of performance using ROA as an indicator. Also, board size was a significant. However, the study found that board meetings were not a significant determinant of performance using ROA as an indicator. Again, CEO duality was not a significant determinant of performance using ROA as an indicator.

5.1.2 Panel Regression Model Two (ROE)

Moreover, the study found that board diversity was a significant determinant of performance using ROE as an indicator. Also, board independence was a significant determinant of performance using ROE as an indicator. Again, board size was a significant determinant of performance using ROE as an indicator. However, the study found that board meeting and duality of CEO, respectively were insignificant determinants of performance using ROE as an indicator.

5.2 Conclusions

The impact of corporate governance on financial performance of Ghanaian manufacturing companies was the main objective of the study. With a specific focus on assessing size of the board, independence of the board, duality of the CEO impacts on manufacturing companies in Ghana financial performance. Quantitative research method was used in obtaining data from the financial statements of manufacturing firms; random and fixed-point panel regression was conducted using EViews version 12 software. The study found that, using ROA as a proxy for financial performance, board size was a significant determinant of financial performance. Also, using ROE as a proxy, board size was a significant determinant of financial performance. Again, using ROA as a proxy for financial performance, board independence was a significant determinant of financial performance. Using ROE as a proxy, board independence was a significant determinant of financial performance. However, using both ROA and ROE as proxies for financial performance, CEO duality was not a significant determinant of financial performance. Further, using both ROA and ROE as proxies for financial performance, board meeting was not a significant determinant of financial performance. The study concludes that corporate governance has significant impacts on financial performance of manufacturing companies Ghana.

5.3 Recommendation

5.3.1 Recommendations for Industry or Practice

This study therefore recommends that business units should actively encourage corporate governance practices in order to ensure better performance to catch the attention of potential investors. The recommendation of the study is that management of manufacturing companies should actively encourage corporate governance practices in order to enhance financial performance. Boardroom downsizing is critical to the success and survival of listed companies

in Ghana. On the other hand, companies should take advantage of economies of scale and increase the scale of their operations by increasing liquidity and using it effectively.

5.3.2 Recommendations for Policy Markers

In addition, regulators, including government agencies, should foster and socialize corporate governance regulations and the relationship with business performance in various areas. Also, policy makers in the context of Ghana must ensure that industrial enterprises across the nation are more attentive to board characteristics to enhance their business performance. The study demonstrated their importance and, as in other developing countries, the board characteristics had a strong influence on company performance. Notwithstanding these benefits, there is still abroad insight that is yet to be establish on the ongoing debate between agency theory and stewardship theory. Governments should promote and support gender diversity by establishing guidelines that specify a minimum number of women on company boards. Women on the board can add value to the company through their values, experience and knowledge. The inclusion of women on boards encourages male members to play a more active role in improving performance.

5.3.3 Recommendations for Research

The size of the board should not be too large to enable the directors to effectively manage the affairs of the company. To maximise the benefits of board independence, companies should appoint independent directors who have experience in appointing inside directors. In addition, independent directors should perform their duties in accordance with applicable Ghanaian laws and regulations applicable to their work. Directors' attendance at board meetings should be monitored to determine the extent of their participation. The board should make strategic and informed decisions that will improve the performance of listed companies. Board meetings

should be scheduled so that, in practice, all board members can attend. Women should be encouraged to participate on the board.

5.4 Suggested Areas for Future Studies

This study has several limitations, as any empirical study can be considered as a guide for future research. First, because the data are based on board characteristics, female board members, participation in board meetings, in particular independent directors, attendance at annual meetings and the number of board meetings exceeding legal requirements were excluded from the study. Potential researchers may take measures regarding the presence of women in leadership positions, meetings of independent directors and annual general meetings for the purpose of the research, which may affect the performance of the enterprise. In addition, the study would examine the impact of certain leadership characteristics, such as the audit committee and other committees, on the overall performance of the company. Based on this model, further research could be conducted into other aspects of what audit committees do to better understand the company's financial performance. In addition, this study did not address all possible characteristics of governance, such as the dominance of major shareholders on the board, the involvement of sponsors and the institutional commitment to improve the company's financial performance. Finally, the study focused only on Ghanaian manufacturing companies. Future studies should take into account other countries, the differences between medium and large enterprises and the differences between private and public enterprises. This study has some limitations because it focuses on internal management structures and does not take into account external factors that may have a greater impact on a company's financial performance.

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