CORPORATE GOVERNANCE AND FINANCIAL PERFORMANCE OF LISTED COMPANIES: A CASE OF AN EMERGING MARKET

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Abstract

Corporate financial performance (CFP) is a key benefit that comes with the adoption and implementation of a good corporate governance structure in organizations. The objective of this paper is to analyze the effect of the six (6) broad corporate governance structures (board composition, board committees, separation of CEO/chairman, size of board, number of board meetings held, and shareholder concentration) on CFP measured by ROA, ROE, EPS, and Tobin's Q among Ghanaian companies. The target population for the study was the companies that were listed on the Ghana Stock Exchange (GSE) for the period 2015–2020 and purposive sampling methods were deployed in the sample selection. The study found that using ROA as a performance indicator, corporate governance variables affected CFP by 18.95% whilst it influenced ROE by 29.71%. Additionally, corporate governance mechanisms impacted EPS by 52.53% when it was used as a performance indicator and 18.01% when Tobin's Q was the performance index. The paper concludes that companies that implement the corporate governance guidelines on best practices stand a better chance of enhancing CFP especially with performance targets that integrate shareholder value maximization.

Keywords: Corporate Governance, Corporate Financial Performance, Ghana Stock Exchange, Ghana, Performance Reporting

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1. INTRODUCTION

The call for the split of ownership from control of corporate entities has led to their expansion to companies more powerful and dominant. Today corporate entities have become global as they continue to increase their presence in many geographical areas in various sizes, capabilities, and influences with diffused share ownership. Indeed, there is a number of shareholders, business analysts, industry regulators, labor unions, employees, community organizations, and media organizations that continue to question the level of trust that are reposed in executives to exercise their stewardship in the governance of corporations on behalf of shareholders. The realization has come to the fore that the emergence of globalization has made governmental control on such powerful corporations inadequate (Rodriguez-Fernandez, 2016). Consistently, researchers and practitioners have made calls for executives to exhibit greater accountability in the governance of companies on behalf of their shareholders (Crane & Matten, 2007). Such calls have placed corporate governance on the highest pedestal in organizational management. Corporate governance has to do with the systems, mechanisms, processes, and structures that are used to control and direct companies (Dahya & McConnell, 2015). It refers

to the management of the relationship between the internal governance mechanisms of a company and the extent to which the members of the society conceive the scope of corporate accountability (Oana Pintea, Pop, Dan Gavriletea, & Sechel, 2020).

Since its establishment in 2001, the Securities and Exchange Commission (SEC) of Ghana in its capacity as the regulator has issued the Corporate Governance Guidelines on Best Practices for listed companies that recommend strategies for building internal corporate governance systems. The essence of the guidelines is to ensure that there is intensity in the monitoring of the corporate governance systems that are put in place by organizations, whiles reducing the agency problem and enhancing corporate financial performance (CFP). Ever since the introduction of the guidelines, there has not been any known research either by regulators, government, or academies, that have sought to analyze the effect of these recommended corporate governance mechanisms on CFP. This means that the need to research the effect of corporate governance and CFP is very crucial because it will reveal how these recommended structures of corporate governance have helped to minimize the agency problem through the alignment of the interest of executives to shareholders for better CFP (Anlesinya, Adepoju, & Richter, 2019).

In the last two decades, it has been established that better CFP is the main advantage of adopting a good corporate governance structure within organizations (Bauwhede, 2009). That is to say that a proper corporate governance mechanism requires a balance between an appropriate level of monitoring with robust CFP (Saidat, Silva, & Seaman, 2019). The organizations that consider it important to practice good corporate governance can provide a higher shareholder value as well as an increase in their cash flow whiles reducing their cost of capital (Rodriguez-Fernandez, 2016). On the contrary, those companies that have weaker corporate governance structures are unable to provide a sustained shareholder value and wealth because the corporate governance mechanisms that are in place are not adequate enough to ensure that executives are accountable for their stewardship. One of the main purposes of corporate governance mechanisms is that it provides assurances to investors that they will receive adequate returns on the money they invest in the organization (Shleifer & Vishny, 1997). When the mechanisms of corporate governance are not in existence or are not allowed to function properly where they exist, then potential investors will not like to invest in the business. More often than not, the existence of diverse and sometimes conflicting objectives within the organization especially between the managers and the shareholders leads to the development of several concepts and mechanisms aimed at ensuring that the cost that comes with such divergent interests are reduced (Anlesinya et al., 2019). The guidelines and legislation on corporate governance have primarily focused on monitoring the activities of companies. Some of these guidelines and regulations are the Sarbanes-Oxley Act in the United States, the Combined Code on Corporate Governance by Financial Reporting Council (2003) in the United Kingdom, Principle of Good Corporate Governance, and Best Practice Recommendations in Australia, and Corporate Governance Guidelines on Best Practices in Ghana. Corporate Governance Guidelines on Best Practices are adopted for corporate entities to guide and assure best corporate governance practices.

Some studies have established a conflicting relationship between corporate governance and financial performance (Anlesinya et al., 2019; Finegold, Benson, & Hecht, 2007; El Mir & Seboui, 2008; Cabrera-Suárez & Martín-Santana, 2015; Al-Ghamdi & Rhodes, 2015). A study by Bhagat and Black (2002) and Carcello, Hermanson, and Neal (2002) found that there is a positive relationship between corporate governance and financial performance whiles the study by Hutchinson (2002) found a negative relationship. On the other hand, other studies found that there is no relationship between corporate governance and CFP (Puni & Anlesinya, 2019; Appiah & Amon, 2017). Again, the researchers that have studied the effect of corporate governance mechanisms on CFP have concentrated on advanced and emerging economies such as the US, the UK, Australia, and Indonesia with little or no evidence from a developing country's perspective. Therefore, this paper focuses on establishing the effect of the six (6) broad corporate governance structures (board composition, board committees, separation of CEO/chairman, size of board, frequency of board meetings, and the concentration of shareholder) on CFP measured by ROA, ROE, EPS, and Tobin's Q among Ghanaian listed companies for the period 2015–2020.

The rest of the paper is structured as follows. Section 2 reviews the relevant empirical literature. Section 3 analyses the methodology that has been used to conduct empirical research on corporate governance and financial performance. Section 4 provides the results from the data analysis. The findings from the analysis are discussed with the relevant empirical literature in Section 5. Section 6 concludes the study and provides some recommendations.

2. LITERATURE REVIEW

The notion that corporate governance affects CFP is widespread but a review of empirical literature supporting the above presents contradictory findings. Some researchers found a positive relationship between corporate governance and CFP (Puni & Anlesinya, 2019; Appiah & Amon, 2017), whiles other researchers found a negative relationship, and yet some have indicated mixed findings. A study conducted by Hutchinson (2002) in Australia on the relationship between companies' investment opportunities, board composition, and CFP found that corporate entities with a larger number of inside directors on the board tend to attract more investment opportunities than companies with a higher number of outside directors. Though companies with insider directors draw investment opportunities, it was exposed that the oversight role played by outside directors in these high-performing companies was responsible for the higher CFP (Hutchinson, 2002). The negative association between investment opportunities and a higher proportion of outside directors contradicts the resource dependence theory (RDT) which suggests that outside directors use their reputational capital to

attract critical resources from the environment for firm performance (Hutchinson, 2002).

Furthermore, another study by Kyere and Ausloos (2021) on the limiting effect of the composition of board members on the agency theory showed that in the technological, engineering, and communication industries, the independent boards (that is boards with a higher number of independent outside directors) perform better than companies with a higher number of inside directors. The result is consistent with the agency theory's prescription which suggests that a higher number of outside directors will increase oversight role which will invariably reduce opportunism for corporate performance. The research explained that because the relationship between the composition of board members and CFP is not linear but curvilinear it will reach a point where 100% board independence will deliver negative financial performance because outside directors will not have the necessary information for effective decision-making (Oana Pintea et al., 2020; Saidat et al., 2019). Also, in another study by Tornyeva and Wereko (2012), it was established that there is a positive relationship between the composition of board membership and profitability and a negative relation with the risk-taking behavior of life insurance companies. Furthermore, O'Sullivan (2000) in a study with 402 listed entities in the UK found that outside directors encourage more intensive audits as a complement to their own monitoring role. Consistent with the above, Dechow, Sloan, and Sweeney (1996) explained that the companies with a larger number of outside directors on the board are less likely to be subjected to enforcement actions for violating the US Generally Accepted Accounting Principles (GAAP). Lastly, the companies that have a larger number of independent outside directors tend to have larger bond and credit ratings (Ashbaugh-Skaife, Collins, & LaFond, 2006).

In contrast to the above, there is also a number of studies that do not support the fact that there is a positive relationship between corporate governance and CFP. For example, a study by Hooghiemstra and van Manen (2004) came to the conclusion that generally there is satisfaction among stakeholders with the way outside directors operate and their contribution to CFP. In a further study, Haniffa and Hudaib (2006) expressed the view that justifies the non-positive relationship between corporate governance and CFP. They found that a high number of outside directors may lead to excessive monitoring and eventually be more harmful to organizations because they may suppress strategic actions, not be independent, and may not have the requisite business knowledge to be effective at leading the strategic direction of the company. Yermack (1996) was one of the early researchers who investigated the effect of board size and CFP. After sampling 452 firms in the US from 1984 to 1991, Yermack (1996) found that there is a negative relationship between board size and Tobin's Q. Consequently, Cheng (2008) revealed that there is lower variability between large boards and CFP and found that board size has a negative relationship with the variations in stock returns for each month, the returns on assets per year, Tobin's Q, accounting accruals, extraordinary items, and the amount of money spent on research and development (R&D). Several other studies in many jurisdictions also established a negative linkage between large boards and CFP (Saidat et al., 2019). For example, Conyon and He (2004) showed that publicly traded firms in the Netherland, the UK, France, Italy, and Demark with large boards are negatively correlated to CFP. A study by Wu (2004) found that where there are active institutional investors in the company, there is generally a tendency for the company to reduce the size of the board through the removal of inside directors.

With regards to the remuneration committee, there are some studies that have established a weak or no relationship between executive remuneration and CFP (Anderson & Bizjak, 2003). For example, studies were undertaken by Anderson and Bizjak (2003), and Vafeas (2003) found that there is a negative relationship when executive remuneration was correlated with CFP. In the case of Anderson and Bizjak (2003), it was revealed that the number of outside directors does not have any effect on the compensation for CEOs. The presence of the CEO on his or her own compensation committee did not have an association with higher levels of compensation or lower equity incentives. Furthermore, the study by Saidat et al. (2019) showed no relationship between the compensation for executives and CFP while in Japan, Kubo (2001) established a weak association between the compensation for executives and CFP. In their study, Baliga, Moyer, and Rao (1996) established a weaker effect of duality status on the long-term performance of companies, after controlling for the factors that have an impact on financial performance (Cabrera-Suárez & Martín-Santana, 2015). Dahya and McConnell (2005) on their part showed where there is separation in the titles of the CEO and the Board Chair; it does not have any association with the improvement of the performance of companies. Similarly, it has been concluded by several other studies that there is no significant relationship between the independent chairman and the performance of the company. There was also no evidence of a practical, systematic relationship between the company's financial performance and the structure of the board (Appiah & Amon, 2017; Kyere & Ausloos, 2021).

Yet many studies have shown mixed results between corporate governance and CFP. For example, in a study by Nuryanah and Islam (2011), they established that the variables for corporate governance except for board size, audit committee, and management ownership significantly explained the CFP in emerging markets where the capital market is under-developed and the regulatory framework is generally weak. The study employed the use of panel data of sampled Indonesia listed companies for the period 2002–2004. The independent corporate governance variables used in the research were board size, board led by an independent director, the composition of independent directors on the board, composition of independent director on the audit committee, size of the audit committee, size of the company, inside ownership, institutional ownership (related and unrelated parties, and outside ownership (Nuryanah & Islam, 2011). Tobin's Q was the performance variable used for this research. Similarly, Shan and Mclver (2011) established ownership concentration as a significant factor in determining performance in Chinese listed companies using Tobin's Q as

a performance variable. The characteristics considered for corporate governance are the number of independent directors and professional members on the boards of organizations as well as the level of concentration ownership of the ownership structure of the organization. From the empirical literature reviewed, the following hypotheses are formulated and tested in this study.

H1a: There is a positive influence of inside directors on CFP.

H1b: There is a positive influence of independent outside directors on CFP.

H2a: There is a positive influence of the audit committee on CFP.

H2b: There is a positive influence of the nomination committee on CFP.

H2c: There is a positive influence of the remuneration committee on CFP.

H3: There is a positive influence of separation of CEO and chairman on CFP.

H4: There is a positive influence of board size on CFP.

H5: There is a positive influence of increased frequency of board meetings on CFP.

H6: There is a positive influence of shareholder concentration on CFP.

3. RESEARCH METHODOLOGY

The following section presents the methodology that was used in the execution of the research. It provides the research design, model specification and variables, population and sample, and the data collection methods.

3.1. Research design

This study used the positivist approach to observe the key variables of corporate governance that contributed to CFP. The positivist approach led to the testing of how each of the corporate governance variables that are put in place to reduce the agency problem contributes to the CFP. The approach was then accomplished by establishing hypotheses (predictions) about indicators of corporate governance and analyzed their influence to ascertain whether there was evidence that supported CFP. The quantitative method was used in this study. The method of inquiry was non-experimental. The study then tested the influence of corporate governance on CFP for 20 listed companies from 2015–2020 on the Ghana Stock Exchange (GSE). In all, deductive logic was followed to conclude the research through analysis of the data collected.

3.2. Model specification and variables

The independent variable in this research was corporate governance and the dependent variable was CFP. The indicators of corporate governance are the composition of the board, board committees (audit, nomination, and remuneration committee), separation of CEO and chairman, the board size, increased frequency of meetings of the board, and shareholder concentration. The indicators of CFP for the study were the indicators for the measurement of performance (ROA, ROE, and EPS), and market-based measure (Tobin's Q).

$$Y_{it} = \alpha + \beta_i X_{it} + U_{it} \quad (1)$$

where, the subscript i and t to represent the cross-sectional and time-series respectively. In the model above the dependent variable which is CFP is represented by Y_{it} whereas the explanatory variables are represented by X_{it}. The constant is represented by α while $\mu_{it} = \mu_i + v_{it}$ where μ_i refers to the specific effect of the company which indicates the unobservable individual effects and v_{it} is a random term. The coefficient of the explanatory variable is represented by β_{it}. In the model specification under consideration, Y_{it} measured CFP whilst X_{it} contains the set of corporate governance variables.

3.3. Population and sampling techniques

The population for the study was the various companies that are listed on the GSE for the period 2015–2020. The researchers utilized the purposive sampling method to select the companies for the study. This sampling method was appropriate for the study because the inclusion criteria were that 1) the company should be listed on the GSE as of 2015, and 2) the company should consistently be on the list from 2016 to 2020. Against this backdrop, purposive sampling was found ideal for selecting the desired companies for the research.

3.4. Data collection

The self-administered questionnaire was used in collecting primary data for the study. The secretaries of the companies as well as the chairmen of the board for the listed companies were used to establish the frequency of board meetings between 2015 and 2020. In order to determine whether or not the number of meetings recorded was correct, board secretaries' and chairmen's opinions were solicited through the questionnaire to ensure consistency. Furthermore, where is established that there are inconsistencies; follow-ups were made to clarify the inconsistencies. The data component of secondary information was extracted from the Corporate Governance Factbook (OECD, 2015) and listed companies from the website of the GSE from 2015–2020. Secondary data of independent variables (board size, directors within and outside the company, audit, nomination, and remuneration committees, separation of CEO and chairman, ownership concentration were extracted from the secondary information for the five years period of 2015–2020 in a tabular form. Dummy variables of 1 and 0 were used to analyze the effect of corporate governance on CFP. The number 1 for companies that have the audit, nomination, remuneration committees, CEO duality, and the number 0 the companies that do not have those committees. Likewise, secondary data on performance indicators (ROA, ROE, EPS, and Tobin's Q) for listed companies representing dependent variables from 2015–2020 were also tabulated. With a Cronbach's alpha of 0.991, it was evident that the instrument for data collection was highlighted as reliable.

4. DATA ANALYSIS

Data analysis was done using STATA to find the effect of corporate governance on CFP of the organizations listed on the GSE for the period 2015–2020.

4.1. Descriptive statistics

The summary statistics of the variables that were used to establish the effect of corporate governance practices on CFP shows that ROA has a mean of 3.5 and a standard deviation of 9.23 with a maximum of 39.32 and a minimum of -22.57. ROE and EPS have means of 9.88 and 0.13 and standard deviation of 23.81 and 0.59 respectively. Inside directors have a maximum of 7 members with a minimum of one member having a mean of 2.06 while outside directors have a mean of 6.46 with a maximum and minimum of 14 and 3 respectively. The number of board sizes ranges from a minimum of 5 to a maximum of 18 with an average of 8.5 while the frequency of board meetings averaged four with a maximum of 12 meetings a year and a minimum of two. The shareholder concentration averaged 18.14% with a minimum of 7.6% and a maximum of 23.4%.

4.2. Random effects model regression

The random effects model indicated by Table 1 below shows that there is a positive effect of inside directors on all CFP indicators (ROA, ROE, EPS, and Tobin's Q). Even though inside directors regressed positively to CFP, it showed a significant positive effect particularly on ROE and EPS with ROE being the most outperformed dependent variable at a statistically significant level of 0.01. The model further revealed that an increase of inside directors by one member increases ROE performance by about 4 units. With respect to *H1a*, even though inside directors had a positive effect on all 4 performance variables, only ROE and EPS performance measures were statistically significant. Based on this, *H1a* that there is a significantly positive influence of inside directors on CFP is accepted. Regarding that of outside directors, the results showed that aside from the positive and significant effect it had on Tobin's Q it negatively affected ROA, ROE, and EPS. An interesting feature worth noting was that outside directors had a negative effect on all accounting variables. Although the regression was positive and significant to Tobin's Q, the researcher concludes that *H1b* that outside directors have a statistically positive significant influence on CFP was not supported. Though the audit committee regressed positively and significantly to Tobin's Q, it did also related positively but not significantly to ROA, and ROE. Thus, the audit committee's effect on the accounting variables was statistically insignificant. Among the 4 performance indicators, Tobin's Q was the only dependent variable that was positively and significantly affected by the audit committee at the 0.05 confidence level. Despite having regressed negatively to EPS it was also statistically insignificant. Based on the result, *H2a* that there is a positive effect of the audit committee on CFP was accepted. The regression results further revealed that the nomination committee negatively affected all dependent variables namely ROA, ROE, EPS, and Tobin's Q with EPS being the most negatively affected variable at a negative and significant effect at 0.01 significance level. The expected positive direction of *H2b* however was not obtained. Thus, the hypothesis that there is a significant positive effect on CFP was not supported.

The result also showed that the remuneration committee significantly and positively predicted ROE and positively but not significantly to ROA and Tobin's Q. Thus, supporting *H2c* even though it regressed negatively but not statistically significant to EPS. CEO duality related positively and significantly with ROA and ROE. CEO duality is also significantly and negatively related to EPS. However, CEO duality did not have a significant relationship with Tobin's Q. An important observation from the above result was that whilst the combination of the position of the CEO/chairman in one person positively affected accounting performance indicators, it negatively affected shareholder and market indicators respectively. Though CEO duality negatively affected EPS and Tobin's Q, its effect on the latter was statistically insignificant. From the above analysis, *H3* that there is a positive influence of separation of CEO and chairman on CFP was rejected. The results indicated that the regularity of board meetings did not significantly relate to ROA, EPS, ROE, and Tobin's Q. Thus, *H5* that the frequency of board meetings will significantly and positively relate to CFP was not supported. Finally, the result revealed that shareholder concentration-related significantly to ROE and EPS. However, no significant relationship was found between shareholder concentration and ROA and Tobin's Q. Thus, *H6* that shareholder concentration will relate positively to CFP was supported in this current study.

Using the ROA as the dependent variable, only CEO duality was significant at the 0.01 significance level and therefore has a positive effect on CFP. While audit committee, remuneration committee, and shareholder concentration all had a positive effect on the ROA, they were statistically insignificant. On the other hand, even though nomination committee, frequency of board meetings and outside directors negatively affected ROA, they were equally not significant. The R^2 shows that about 12% of the variation in ROA is explained by the variables of corporate governance. The Wald Chi^2 also showed significant effects at the 0.05 level of significance ($p = 0.015$). Taking ROE as a dependent variable, inside directors, remuneration committee, CEO duality, and shareholder concentration contributed positive and significant effects at 0.01 and 0.05 significant levels respectively with outside directors and nomination committee regressing negatively to CFP. From the regression model, when ROE was used as the dependent variable, an increase of one member to the nomination committee reduces CFP by about 12 units. In all, the R^2 shows that about 18% of the variation in ROE is explained by corporate governance variables. With the EPS as the index of performance, inside directors, nomination committee, CEO duality, and shareholder concentration are all statistically significant. Similar to the ROE as a performance indicator, inside directors and shareholder concentration positively affect corporate performance. Moreover, firms without nomination

committees also performed better than the ones with the committee. However, CEO duality had a negative effect on the performance of the organization. It is also instructive to note that even though the presence of an audit committee in a firm is statistically insignificant, it has a negative coefficient which is in contrast to results generated from the three other indices of performance.

The Tobin's Q index of performance has only outside directors and audit committee being significant. Both are significant at the 0.05 level and positively affect the performance of firms. It must be noted that the two variables are significant when the Tobin's Q is used and they were not significant when other indices of performance are used. On the whole, the frequency of board meetings is not significant notwithstanding the index of performance used. Also, the remuneration committee, CEO duality, and shareholder concentration are all significant at the 0.10 significance level. Similarly, firms with CEO duality performed better than firms that differentiated between the two. Shareholder concentration positively affects the performance of the firms. Table 1 provides the results of a random effects regression model.

Table 1. Random effects model regression, corporate governance, and CFP

	ROA	***ROE***	***EPS***	***Tobin's Q***
Inside directors	0.7318	4.2257***	0.0932**	0.0146
	(0.6212)	(1.5490)	(0.0363)	(0.0182)
	[1.1780]	[2.7280]	[2.5675]	[0.8022]
Outside directors	-0.2761	-1.0778	-0.0220	0.0283**
	(0.4760)	(1.1869)	(0.0278)	(0.0139)
	[0.5800]	[0.9081]	[0.7913]	[2.0360]
Audit committee	0.3054	8.7973	-0.2050	0.1927**
	(3.0455)	(7.5943)	(0.1778)	(0.0891)
	[0.1003]	[1.1584]	[1.1530]	[2.1627]
Nomination committee	-4.0901	-12.2821*	-0.5124***	-0.0135
	(2.6444)	(6.5940)	(0.1544)	(0.0773)
	[1.5467]	[1.8626]	[3.3186]	[0.1746]
Remuneration committee	2.0850	12.2871**	-0.0436	0.0628
	(1.9385)	(4.8338)	(0.1132)	(0.0567)
	[1.0756]	[2.5419]	[0.3851]	[1.1076]
CEO duality	7.1755***	15.8925**	-0.3320**	-0.0757
	(2.5716)	(6.4125)	(0.1501)	(0.0752)
	[2.7903]	[2.4783]	[2.2118]	[1.0066]
Frequency of board meetings	-0.2940	0.4789	-0.0260	0.0078
	(0.5577)	(1.3908)	(0.0326)	(0.0163)
	[0.5271]	[0.3443]	[0.7975]	[0.4785]
Shareholder concentration	0.3074	1.2205**	0.0533***	0.0054
	(0.2282)	(0.5690)	(0.0133)	(0.0067)
	[1.3470]	[2.1450]	[4.0075]	[0.8060]
No.	145	145	145	145
Wald Chi^2	18.9544	29.7106	52.5320	18.0151
Prob > Chi^2	0.0151	0.0002	0.0000	0.0211
R^2	0.12	0.18	0.28	0.12

*Notes: Standard errors in parentheses. * p < 0.10, ** p < 0.05, *** p < 0.01, and t-values in brackets.*
Board size was removed due to collinearity.

5. DISCUSSION OF FINDINGS

This section discusses the findings of the study with the relevant empirical literature. The discussions are done in relation to the hypotheses of the study.

5.1. The effect of inside directors on CFP

H1a that there is a positive significant effect of inside directors on CFP was supported in the current study. This outcome was due to the fact that inside directors related significantly to ROE, and EPS, even though, statistically insignificant linkages were observed between ROA and Tobin's Q. The results indicate that the research question as to whether statistically, what is the influence of inside directors on CFP has been answered to suggest that there is a positive influence between inside directors and CFP. Empirically, evidence of the effect of inside directors on CFP shows a sharp division among the proponents of the theories of agency and stewardship in corporate governance, with others having a contrary view. Those who have pushed the stewardship research have established that where the majority of the members of the board are from within the company, there is a tendency for them to resist takeovers they consider to be hostile (Bhojraj & Sengupta, 2003; Brown & Caylor, 2006). Furthermore, Donaldson and Davis (1991) in their study found that the boards that have a higher number of inside directors tend to have a higher CFP. This is especially true when there is CEO duality.

5.2. The effect of outside directors on CFP

Conversely, outside directors showed a negative association with all dependent variables (ROA, ROE, and EPS) except Tobin's Q. The result, therefore, indicates that *H1b* which predicts that there is a significant positive influence of outside directors on CFP was rejected, and the research question as to whether statistically, what is the influence of outside directors on CFP was not answered. The result is a clear deviation from the theories of agency and resource dependency which prescribe the involvement of outside directors to reduce agency cost for the improvement of CFP. Theoretically, the agency theory argues that boards with a majority of outside directors are associated with lower agency costs because the composition allows for

the separation of decisions of management from decision control function (McColgan, 2001). The theory suggested that decision control functions are the prerogative of outside directors and when utilized well can result in the reduction of conflict of interest by the inside directors who in most cases have more information about the company than outside directors. The agency theory, therefore, connects board composition with the majority of outside independent directors to CFP. Some other studies have found a positive relationship between outside directors and CFP (Dahya & McConnell, 2005). In contrast, there are equal numbers of studies that have established a negative association between outside directors and CFP (Agrawal & Knoeber, 1996; Hooghiemstra & van Manen, 2004). Others too found no significant statistical relationship between the two variables (Weir, Laing, & McKnight, 2002; Haniffa & Hudaib, 2006). The result can be explained from two angles. First, outside directors negatively affecting all accounting performance measures indicates that their presence does not impact CFP. The possible explanation can be attributed to the independence of outside directors. Outside directors are expected to be independent to effectively supervise inside directors to prevent conflict of interest, opportunism, and the lowering of the agency cost.

5.3. The effect of audit committee on CFP

The result from the study indicates that the audit committee positively affects ROA and ROE with Tobin's Q mostly affected positively with a coefficient of 0.1927 and significant at a 5 % level. Even though the audit committee impacted EPS negatively, it was statistically insignificant. The results, therefore, confirm the prediction of *H2a* that there is a significant positive influence of audit committee on CFP, and also answered the research question that statistically there is a positive influence between the audit committee and CFP. It is not surprising that in the Ghanaian situation audit committee has a positive impact on CFP because aside from the prescription put forward by the SEC code of good corporate governance, the rules on listing on the GSE has also made it obligatory for those companies that are listed to have an audit committee with the right composition and size. In such circumstances aside from making sure that the firm does not attract sanctions from the exchange for non-compliance, many listed companies on the exchange are subsidiaries of multinationals, and the implementation of the mandatory audit committee alludes to their advantage (Puni & Anlesinya, 2019; Rodriguez-Fernandez, 2016).

5.4. The effect of nomination committee on CFP

From the results, firms without nomination committees tend to perform better than those with nomination committees as shown by the negative coefficient. The above result is similar to the result revealed by studies that suggest that when outside directors are present on the board it has a negative effect on CFP. It can be deduced from the results that the presence of a nomination committee just like outside directors negatively affected CFP which points out the issue of independence of outside directors on the boards. Similar to outside directors, the nomination committee negatively affected CFP on all dependent variables with the EPS mostly affected negatively showing a coefficient of -0.5124 and a significant level at 0.01. The results revealed that the presence of the nomination committee does not contribute positively to CFP and hence the question of whether statistically what is the level of influence of the nomination committee on CFP has been answered to suggest that there is a negative effect between the nomination committee and CFP. The findings contravene the suggestion by the regulators to the effect that when there is the right composition of the nomination committees with outside directors, it introduces independence, skill, knowledge, and experience on the board which leads to the minimization of opportunism and high performance. In the Ghanaian situation, the presence of the nomination committee means nothing because outside directors who are the majority of this critical committee are not independent (Puni & Anlesinya, 2019; Anlesinya, Adepoju, & Richter, 2019). The result, however, is inconsistent with *H2b* which suggests that there is a significant positive influence of the nomination committee on CFP and confirms that the nomination committee among Ghanaian listed companies does not create value for the shareholders.

5.5. The effect of remuneration committee on CFP

Contrary to the nomination committee revealing negative effect on CFP, the remuneration committee exposed a positive effect on all dependent variables except EPS which revealed a negative effect but was statistically insignificant. Within the dependent variables which showed a positive effect, the ROE revealed a much more impressive positive and significant effect with a coefficient of 12.2871 at a 0.05 significance level than the rest. Since three independent variables showed a positive effect on CFP, though the ROA and Tobin's Q are not statistically significant out of the four, it can be concluded that the remuneration committee impacted positively on CFP. Consistently, the question of whether statistically, what is the influence of the remuneration committee on CFP has been answered to suggest that there is a positive influence between the remuneration committee and CFP. In other words, the presence of the remuneration committee is able to curb the incidence of executive "fat" pay by aligning compensation with performance. The result is also a confirmation of *H2c* which predict that there is a significant positive influence of remuneration committee on CFP and justifies the wisdom behind the prescription put forward by the regulators' good corporate governance (Puni & Anlesinya, 2019; Anlesinya, Adepoju, & Richter, 2019).

5.6. The effect of CEO duality on CFP

Further, from the regression model, the results revealed that CEO duality showed a positive effect on ROA, and ROE, at regression coefficient of 7.1755 and 15.8925 and statistically significant at 1% and 5% levels respectively. However, within the same results, CEO duality revealed a negative effect using EPS and Tobin's Q as dependent variables with EPS

revealing a significant effect with a coefficient of -0.3320 at a 0.05 significance level. Though the result was split between the positive effect of ROA and ROE and negative effect of EPS and Tobin's Q, the results revealed by Tobin's Q was insignificant, and therefore, looking at the above scenario, it can be concluded that the question of whether statistically, what is the influence of the separation of the CEO and chairman on CFP has been answered using ROA and ROE respectively to suggest that there exist significant positive relationships between CEO duality and CFP (Saidat et al., 2019). Apart from CEO duality which had a positive relationship with ROA and ROE, other independent variables (audit and remuneration committees, and shareholder concentration) showed a positive effect on ROA but were statistically insignificant. The result also indicated that using ROA as a dependent variable, predictor variables of the nomination committee, frequency of board meeting, and outside directors regress negatively to CFP. Similarly, the empirical literature on the issue of whether the separation of CEO and chairman position results in improved CFP is equally mixed and inconclusive. While Dayha and McConnell (2005) reported a negative relationship between CEO duality and the measures of accounting performance amongst companies in the banking industry in Australia; conversely, Prevost, Rao, and Hossain (2002) documented a statistically positive relationship between CEO duality and CFP. Chen (2008) found no evidence that suggests that CEO duality is associated with CFP. All these are indicative of the fact that the effect of CEO duality or CEO/chairman separation and CFP is far from settled. The inconclusiveness on the issue of CEO duality and CFP can be explained from the data set used in the analysis of performance measures. The result is consistent with similar evidence from researchers like Dayha and McConnell (2005), who found strong evidence in support of stewardship theory and little support to the agency prescription which embraces the theory of the separate positions. The result is therefore a rejection of the agency theory which predicts that there is a significant positive influence of separation of CEO and chairman on CFP. The result also suggests that in situations where there was the separation of the position of CEO/chairman, its effect on CFP was negative because the outside director chairman was not independent.

5.7. The effect of frequency of board meetings on CFP

Furthermore, the results indicated that there is a negative relationship between frequency of board meetings and ROA and EPS; while it indicated a positive relationship between ROE and Tobin's Q. Though the results were split between ROA/EPS and ROE/Tobin's Q, the t-statistics showed that the negatively affected variables were significant than the positively affected variables, hence *H5* that frequency of board meeting will significantly and positively relate to CFP was not supported. Empirical literature that relates to the frequency of board meetings and CFP are equally conflicting and vastly concentrated in advanced economies like North America and Europe (Conger, Finegold, & Lawler, 1998; Carcello et al., 2002).

5.8. The effect of shareholder concentration on CFP

Evidence from the regression model reveals that shareholder concentration positively impacted all performance variables with ROE and EPS showing significant effect with coefficients of 1.2205 at 5% and 0.0533 at 1% level respectively. The result shows similarities between shareholder concentration and inside directors. The only difference was that whilst insider directors impacted positively on ROE and EPS at 0.01 and 0.05 significant levels, shareholder concentration impacted positively on ROE and EPS at 0.05 and 0.01 significant levels respectively. From the regression model, the question as to whether statistically, what is the influence of shareholder concentration on CFP has been answered to suggest that there is a positive influence between shareholder concentration and CFP. Furthermore, the result is a confirmation of *H6* that there is a significant positive influence of shareholder concentration on CFP. The Ghanaian evidence is not surprising because most listed companies are subsidiaries of multinational companies with shareholdings of the four owners of the 10 largest listed companies standing at 70% (The World Bank, 2005). With such blocking, the shareholding structure among Ghanaian listed companies monitoring by block shareholders is expected to be high to avert the issue of conflict of interest which increases the agency cost. It is, therefore, not surprising that companies with high shareholder concentration are performing better than their counterparts with diffused ownership. The situation is consistent with Gugler, Mueller, Yurtoglu, and Zulehner's (2003) research which established a positive association between shareholder concentration and CFP.

6. CONCLUSION

The objective of ascertaining whether the 6 corporate governance mechanisms initiated by the regulator have statistically influenced CFP among listed companies in Ghana has been extensively investigated and discussed. The study concludes that using ROA as performance indicator corporate governance variables affected CFP by 18.95% whilst it influenced ROE by 29.71%. Additionally, corporate governance mechanisms impacted EPS by 52.53% when it was used as a performance indicator and 18.01% when Tobin's Q was the performance indices. The study settled that firms implementing the Corporate Governance Guidelines on Best Practices stand a better chance of enhancing CFP especially with performance targets that integrate shareholder value maximization (EPS), but also question the effectiveness of some of the recommendations of the regulators because variable like outside directors and nomination committee which were expected to impact positively on CFP consistent with the agency view rather regressed negatively on CFP.

Based on the results, discussions, and conclusions the study recommends the following; the general view that the majority of outside directors' result in vigorous monitoring that leads to the reduction of the agency cost and CFP must be thoroughly investigated because it does not happen in all cases especially in developing countries where

the stock market is under-developed. Corporate governance practitioners, especially academics should depart from the over-reliance on underlining assumptions of the agency view which describes inside directors as selfish, untrustworthy, and associated with high agency cost as if that is the only underlining assumption of corporate governance to a more humanistic theory like the stewardship view of corporate governance which describes executives as a trustful, hardworking, and intrinsically motivated individual who seeks the welfare of the owner. The processes involved in the nomination of board members must be transparent enough so as to ensure that there is objectivity and independence to get directors who are ethical and competent on the board. In place of advocating for majority outside directors, because according to the agency theory it would intensify supervision over inside directors and would prevent opportunism thereby enhancing CFP, efforts must be placed on the dissemination of how inside directors should use their position of power to enhance shareholders value through the RDT. Shareholder activism through advocacy by shareholder associations and non-governmental organizations (NGOs) should be encouraged and intensified to raise awareness of the rights of the Ghanaian shareholders and other stakeholders.

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