EXPLORING THE BEST CORPORATE GOVERNANCE PRACTICES IN THE PUBLIC SECTOR ORGANIZATIONS IN GHANA: THE CHALLENGES, ISSUES, AND PROSPECTS

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Abstract

The study aims to explore the corporate governance practices in the public sector entities in Ghana to identify weaknesses for improvement based on appointments to the boards, conflicts between CEOs and the boards, etc. The results confirm structural weaknesses in corporate governance practices in the public sector entities in Ghana and require drastic improvement to be aligned with the advanced economies. Based on the findings, the study recomments that the President desists from appointing the CEOs and allows the boards to appoint the CEO.

1. BACKGROUND

The level of corporate governance practices in the public sector organizations in Ghana has become a topical issue and concern for practitioners and academics in recent times. The public sector is entrusted with the management of the economic resources in Ghana, making it the agents (i.e., government) and principal (i.e., the citizens of Ghana). But the contradictions in most corporate governance manual and practices is that government appointees who the government has delegated powers and management function account to the government, who is not the true owners of the economic resources in Ghana but the caretaker of the economic resources on behalf of Ghanaians. A need for proper accountability to the principal is paramount to the citizens of every country. The poor corporate governance structures in developing countries have made performance in the public sector ineffective, inefficient, and uneconomical (Uddin & Hopper, 2001, 2003; Rahaman & Lawrence, 2001) and, therefore, unable to have proper accountability to the principal or the citizens.

The role played by public sector organizations in society is very essential and pivotal to every society. In most jurisdictions, the public sector expenditure accounts for a significant part of the gross domestic product of every country. Therefore, establishing robust corporate governance structures in the public sector will create an environment of trustworthiness, transparency, and accountability needed to foster long-term investment, financial stability, and integrity, thereby supporting more robust growth and a more inclusive business society (Organisation for Economic Co-operation and Development [OECD], 2015). Bad management due to bad corporate governance has led to corruption, inefficiencies, and ineffectiveness in the public sector and, in some cases, outright intuitional failures (Collier, 2008; Dahlström & Lapuente, 2017; Moore, 2001). The adverse effect of bad corporate in the public sector has necessitated the International Monetary Fund (IMF) to develop a comprehensive long-term National Public Sector Reform Strategy (NPSRS) as one of the structural reform benchmarks of Ghana's three-year Extended Credit Facility programme, 2015–2018. The NPSRS aims to improve the performance of the public sector to be responsive to the needs of citizens and the private sector for sustained national development. Additionally, the public sector has also seen some initiatives to enhance corporate governance and control in the public sector organizations in Ghana, bypassing the State Interests and Governance Authority Act (SIGA) 2019 (Act 990). The purpose of Act 990 is to: 1) promote within the framework of government policy the efficient or, where applicable profitable operations of specified entities; and 2) ensure the specified entities adhere to good corporate governance practices.

2. THEORETICAL LITERATURE: THE STAKEHOLDER THEORY

The stakeholder theory is premised that organizations serve a broader social purpose than merely maximizing the shareholders' wealth, despite the reason for setting the organization being to create wealth for the owners (Rashid & Islam, 2013). The stakeholder theory assumed that public interest groups within and outside the organizations such as trade associations, employees, customers, shareholders, and competitors whose interests are equally important as that of the shareholders. The theory assumes that the organizations are social entities whose activities affect the welfare of the stakeholders, the action of the organization to achieve its objective affects the stakeholders and, therefore, the achievement of the organization should also affect the stakeholders (Albu & Girbina, 2015; Chen & Zhang, 2014; Donaldson & Preston, 1995). A successful organization is often judged by how much value it has added to the stakeholders (Al-Janadi et al., 2013) and it ensures the long-term sustainability of that organization. The stakeholders are instrumental to the organizational success and, therefore, the organization has moral and legal obligations to the stakeholders (Rashid & Islam, 2013). When stakeholders get what they want from the organization, they return to the organization to fulfill their obligations to the organization (Allegrini & Greco, 2013; Azam et al., 2011; Freeman, 2010; Kousalya et al., 2013). This is the reason behind corporate leaders' consideration of the welfare of their stakeholders when making corporate decisions. Allowing the stakeholders to participate in corporate decision-making enhances efficiency and reduces conflicts in the organization (Ayuso, et al., 2014; Basu et al., 2016; Mosunova, 2014). The stakeholders can only participate in the decision-making process only when the right information is available at the right time through adequate disclosures, quality, and transparent reportage to the stakeholders. The theory relies on two main assumptions. The theory assumes that stakeholder behaviours are important because they influence the types of governance structures adopted, particularly incentive mechanisms (Al-Ghamdi & Rhodes, 2015).

3. METHODOLOGY

This study is a qualitative research method involving a case study approach to delve deeper into issues, challenges and prospects of corporate governance in the public sector entities in Ghana. To achieve this purchase, the researcher conducted semi-structured interviews with board members of five public sector organizations at locations convenient to the participants and with the consent of participants to gather relevant data for this study. Data analysis is done using content and thematic analysis. Thematic analysis is a process of interpreting data collected systematically by identifying patterns that illuminate the description of the phenomenon (Tesch, 2013).

4. FINDINGS

The key findings are obtained from the participants through the interviews and were analyzed to identify the thematic areas for this study.

4.1. Board size and board composition

There is no clear guideline for the board size in the corporate governance manual for public sector entities and the directors are appointed to the board without clear guidelines of the criteria used to select them for the board. Many corporate governance regulations stipulate several conditions needed to appoint a director to a board (i.e., composition) and the number of directors to be appointed (i.e., size), and the skills of the appointees (i.e., qualification). All these regulations are lacking in the corporate governance manual for the public sector in Ghana, contributing to the ineffectiveness of the public sector performance in Ghana. The outcome is consistent with Nana Yaw Simpson (2012) who opined that board structure and board size are not specified in the corporate governance manual for the reason that optimal board size and structure vary from entity to entity.

4.2. Checks and balance in the public sector

There is a weak system of checks and balances involving accountability, transparency, and public participation in corporate governance in the public sector. The corporate governance manual in Ghana spilled out how the board should account for their stewardship to the stakeholders of the public sector in Ghana. The data obtained from the participants revealed that annual statements are prepared and submitted to the Ministry of Finance following Financial Administration Act, 2003 (Act 654) and Financial Administration Regulation, 2004 (LI 1802). Article 41 of Act 654 states that within three months, or such other period as Parliament may by resolution appoint, after the end of each financial year, shall be prepared and transmitted to the Auditor-General, the Minister and the Controller and Accountant-General in the financial year, accounts which shall comprise:

- a balance sheet showing the assets and liabilities as at the end of the year,
- a statement of revenue and expenditure for the year,
- a cash flow statement for the year, and
- notes that form part of the accounts which shall include particulars of the extent to which the performance criteria specified in the estimate concerning the provision were specified.

The quality of the annual statement of accounts submitted by the public sector is not much to be desired. The Auditor-General reported financial irregularities amounting to GH¢3, 008,187,888.15 for the year ended 2019. The financial irregularities represent either losses that had been incurred by the state through the impropriety or lack of probity in the actions and decisions of the public officer or the savings that could be made if the public officials and organizations had duly followed the public financial management framework put in place to guide the conduct and safeguard national assets. There is the need to hold the perpetrator responsible through a surcharge by the Auditor General. The frequent revelation of Auditor-General report without holding perpetrators responsible for the financial irregularities has caused the Coalition for Democratic Governance (Citizen Coalition) to petition Mr. Johnson Akuamoah Asiedu, Auditor-General to surcharge persons and institutions implicated in the Auditor-General report on the public organizations.

4.3. Conflict between the CEO and the board

The study revealed that the politicization of appointments of CEOs and to the boards is the major cause of the CEO-boards conflicts. The normal practice is for the board to appoint the CEO but when the CEO is appointed by the President it bleeds conflict between the CEO and the board. This may create a personal antagonism that is commonly referred to as "who is who" between the CEO and the board. Whenever there is a conflict between the CEO and the board it affects the independence of the board to enforce accountability from the CEO. A case in point was the misunderstanding between the CEO and board on the allegation of corruption, award of contract, and construction without due process and prior approval from the Minister of Energy (i.e., the sector Minister) at the Ghana Cylinder Manufacturing Company in Ghana. According to the May 18, 2018, issue of graphic online, the CEO was accused by the board chairman of making baseless accusations, malpractices, and management.

4.4. Board appointment, responsibility, and tenure

The appointment of directors onto the board must be transparent in terms in terms of procedures and responsibilities for the board. Even though Article 70(1) (d) (iii) of the 1992 Constitution states "the President shall acting in consultation with the Council of State, appoint the Chairmen and other members of the governing bodies of public corporations". Most directors appointed to the board are non-executive directors (NED) without the relevant "soft" attributes. This outcome is consistent with the conclusion of Nana Yaw Simpson (2012) who averred that are no clear criteria for appointing members to the board and most often those appointed to boards are self-styled politicians.

5. CONCLUSION AND RECOMMENDATIONS

Corporate governance practice in public sector organizations is in its infancy when compared with colleagues in advanced countries. Most of the problems of bad corporate governance in the public sector are rooted in unclear and inadequate corporate governance provisions in Ghana. There is a need for clear and better corporate governance structures to protect and account better to citizens than what is currently prevailing now.

Secondly, the recent establishment of SIGA as an autonomous board to promote corporate governance practices in the Public Services Commission and to streamline corporate governance practices in Ghana is laudable. The autonomous board is essential to respond to the numerous requests from the public service However, there are keys that will make corporate governance practices in Ghana effective as in modern times. The areas that need modifications are:

- The guidelines should contain qualifications for the board of directors along with the duties and guidelines for professional conduct.
- Establishment of board committees, such as audit committee, remuneration committee, risk committee, etc.
- Composition of the board of directors and functions of board committees.
- The specific sanction for breaches for any breaches in corporate guidelines is to be enacted.

Last but not the least, the ownership policy in the public section: There is no clear and distinct policy on ownership in the public sector organization. Many appointees assume to be accountable to the president creating room for boot-licking. A clear ownership policy would clarify the responsibilities of the government towards minority stakeholders and major stakeholders such as employees, vendors, customers and communities to be accounted to.

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