

APPENDIX

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Corporate governance mechanisms and firm performance in a developing country

Corporate
governance
mechanisms

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Abstract

Purpose – The purpose of this study is to examine the influence of corporate governance mechanisms recommended by the Securities and Exchange Commission (SEC) of Ghana on firm performance as measured by accounting-based ratios (return on assets, return on equity and earning per share) as well as market-based measure (Tobin's Q) among listed Ghanaian companies from 2006 to 2018. These mechanisms are: board composition (board size, inside directors and outside directors), board committees (audit, remuneration and nomination), chief executive officer (CEO) duality/separation, board meetings and shareholder concentration.

Design/methodology/approach – The study used panel regression analysis of data from 38 listed firms in Ghana from 2006 to 2018 to test how each corporate governance variable initiated by the SEC of Ghana contributed to firm performance. Data were extracted from the annual reports of listed companies.

Findings – The study found that the presence of both insiders and outsiders on the corporate board improved financial performance. Similarly, board size, frequency of board meetings and shareholder concentration/ownership structure generally had a positive impact on financial performance. However, the presence of board committees generally had a negative impact on financial performance while CEO duality had no impact on financial performance.

Practical implications – The study contributes to the understanding of how good corporate governance practices affect firm performance for both academics and particularly Ghanaian policymakers.

Originality/value – This study provided new findings to bridge the gaps in the general corporate governance literature relative to the lack of consensus on financial impacts of corporate governance mechanisms. The finding contributes to knowledge by providing new and original evidence that some current corporate governance mechanisms are not effective in minimizing the agency problem in a developing setting. Furthermore, the authors anticipate that the outcomes of this research, which so far is the most comprehensive study in the Ghanaian context in terms of the coverage of corporate governance mechanisms specified by the SEC of Ghana, can significantly shape corporate governance discourse, practices and policies in Ghana, particularly and in other developing countries generally to improve financial performance and corporate sustainability.

Keywords Corporate governance, Firm performance, Securities and Exchange Commission, Ghana

Paper type Research paper



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Board characteristics, ownership concentration and firms' performance

A contingent theoretical based approach

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Abstract

Purpose – The purpose of this paper is to extend the understanding and application of interactive ties creating value through board characteristics, ownership concentration and firms' performance by using a contingent theoretical-based framework based on the amalgamation of resource dependence theory, stakeholder theory, agency theory, stewardship theory and institutional theory in a country with weak political environment.

Design/methodology/approach – This study includes a sample of an unbalanced panel of 309 non-financial sector firms listed on Pakistan Stock Exchange (PSX) from 2006 to 2016. In order to address the issue of unobserved heterogeneity, simultaneous and dynamic endogeneity, the current study employed the technique Arellano-Bond dynamic panel data estimation under assumptions of GMM (Arellano-Bond, 1991).

Findings – The empirical results suggest that the presence of concentrated ownership moderates and helps to overcome the agency problems through different governance mechanisms (such as board size, independent directors and CEO duality). The larger boards are found to be beneficial whereas the higher representation of independent directors in the board is found to be detrimental for Pakistani firms.

Research limitations/implications – Limitations of the study are, first the current study has analyzed public-listed firms from the non-financial sector, and second the study has only focused on the financial aspect of the performance. The future research could include other proxies of corporate governance and ownership structure such as board diversity and meetings, audit committee and managerial ownership, etc.

Practical implications – The research also helps Pakistani policy makers in numerous ways. First, the current study confirms the monitoring and expropriation effect of ownership concentration in corporate governance and performance mechanism. Thus, the Security and Exchange Commission of Pakistan (SECP) should make such policies which protect the corporate board against the influence of concentrated ownership so that the interests of the minority shareholders are protected. Second, SECP should ensure that all the listed firms declare a comprehensive profile of their directors (such as academic qualification, age and experience) in their annual reports for the better understanding of the governance-performance mechanism.

Originality/value – The current study augments the emerging body of literature on corporate governance and firm performance mechanism through the amalgamation and testing of existing theories in an emerging economy like Pakistan by using wider and newer data set.

Keywords Firm performance, Board characteristics, Ownership concentration, Pakistan Stock Exchange (PSX)

Paper type Research paper

Introduction

The interlinkages among corporate governance and firm performance have been one of the most researched topics for last two decades which suggests that the corporate governance mechanism enhances firm performance by minimizing the agency conflicts between the owner and the managers (McCahery and Vermeulen, 2014). Hence, the efficiency of the firms heavily depends upon the alignments of interest between the shareholders and the managers. It is generally considered that corporate board characteristics and ownership concentration is indispensable facet of corporate governance mechanism. Because the effectiveness of the corporate board members plays a very pivotal and trailblazing role in guiding the management and scrutinizing their decision. The conspicuous features of the board of directors which sway firm valuation



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Descriptive Statistics

	N	Minimum	Maximum	Mean	Std. Deviation
Firm_Performance	84	-27.930%	59.900%	5.83523%	12.467684%
Board_Size	84	2	12	5.31	2.484
Board_Committees	84	5	10	6.21	0.746
Board_Meeting	84	12	75	25.42	10.658
Valid N (listwise)	84				

CORRELATION

		Firm_Performance	Board_Size	Board_Committees	Board_Meeting
Pearson Correlation	Firm_Performance	1.000	0.251	-0.280	-0.210
	Board_Size	0.251	1.000	-0.127	0.064
	Board_Committees	-0.280	-0.127	1.000	0.581
	Board_Meeting	-0.210	0.064	0.581	1.000
Sig. (1-tailed)	Firm_Performance		0.011	0.005	0.028
	Board_Size	0.011		0.124	0.282
	Board_Committees	0.005	0.124		0.000
	Board_Meeting	0.028	0.282	0.000	
N	Firm_Performance	84	84	84	84
	Board_Size	84	84	84	84
	Board_Committees	84	84	84	84
	Board_Meeting	84	84	84	84

Regression

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.	Collinearity Statistics	
		B	Std. Error	Beta			Tolerance	VIF
1	(Constant)	21.822	12.575		1.735	0.087		
	Board_Size	1.182	0.534	0.235	2.212	0.030	0.995	1.047
	Board_Committees	-3.009	2.183	-0.190	-1.378	0.172	0.835	1.575
	Board_Meeting	-0.140	0.152	-0.120	-0.924	0.358	0.643	1.568

a. Dependent Variable: Firm_Performance