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Impact of Corporate Governance Structure on Profitability of Quoted and Unquoted Firms in Ghana.

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ABSTRACT

This study examines corporate governance structures and financial performance of quoted and unquoted firms in Ghana. The sample consists of 30 quoted and unquoted companies. It covers the period 2010-2018. The objective of the study is to determine the effect of board structure on Return on Asset (ROA) of quoted and unquoted companies in Ghana, to determine the effect of board structure on Net Profit Margin (NPM) of quoted and unquoted companies in Ghana and to determine the effect of board structure on Gross Profit Margin (GPM) of quoted and unquoted companies in Ghana. The quantitative study applied the panel regression for its analysis. The study finds the gender diversity variable (Blau index) to have negative but significant relationship with performance measured by ROA. Gender diversity also records negative and significant correlation by NPM at above 0.005 significant levels. The study again finds CEO duality variable as having a negative but significant relationship with the companies' performance as measured by ROA. The CEO duality variable and performance are positively related but insignificant after being measured by GPM. CEO duality variable shows a negative and significant connection among NPM. Board size shows a negative but statistically significant at 0.006 using ROA. Board size has negative but significant connection with performance of the selected quoted and unquoted companies in Ghana using GPM and NPM. A major policy recommendation is that there should be an effective governance structure and function of board of directors for all corporate entities as board functions are statistically significant to the performance of companies. This will result into goal congruence and effective fiduciary and stewardship responsibilities and proactive steps to meet objectives of companies.

Keywords: gender diversity, boardroom, firm performance, quoted and unquoted firms.

Introduction

Corporate governance is the means of directing, coordinating, organizing and controlling corporate affairs to achieve sustainable performance (Puni and Anlesinya, 2020). Per Berger *et al.,* (2016), corporate governance (CG) outlines the structures that leads to an efficient use of resources and serves as a tool for imposing discipline within firms, enabling efficient operation, transparency, responsibility, and fairness, all of which are integral to profit maximization. Corporate governance (CG) is considered from the financial literature as an efficient control and management system which enables the share of responsibilities and rights of different people as well as compliance to the rules and procedures and other regulatory framework within which a company operates (Elshandidy & Neri, 2015). Globally, corporate scandals have become more common, such as Enron, WorldCom and Tycon. Effective structure of corporate governance is considered crucial to align shareholders and director's interest. The structures of corporate governance (CG) including management and board structures guide companies to effectively control, coordinate, direct and organise their affairs (Michael & Goo, 2015). The structures lead to efficient controls, management, monitoring of companies which is of a high importance in order to aim attention at understanding the overall objectives and strategies of a company (Chen *et al.,* 2019). The governance structures of companies were developed which are about how corporations can be managed and controlled in a way that minimizes issues related to conflict of interest and information asymmetry (Darko *et al.,* 2016). According to Abdul-Qadir & Kwambo (2016), CG is the framework which coordinates the activities of corporate bodies based upon acceptable standards such as reasonableness, straightforwardness, responsibility and obligation among the various parties involved in corporate affairs. The emergence of the worldwide economic meltdown has sparked several arguments and disagreements concerning the efficacy and frameworks of corporate governance throughout the world and heightened awareness of the subject of corporate governance (Mirchandani & Gupta, 2018). Corporate governance structures and standard practices enhance the performance and profitability of companies and benefit corporate bodies as they increase financial access, lower cost of capital, and improve performance which makes these bodies give better treatment to stakeholders (Elshandidy & Neri, 2015). Corporate governance (CG) structure is an essential component of attracting investors, whereas a poor corporate governance structure can lead to corruption (Eshun, 2020). Effective CG ensures that firms can utilize their resources effectively and ensures

accountability and transparency in corporate affairs so that rational investors can view the companies as the best place to continue investing to make higher returns (Faisal & Abdul, 2015). Performance of companies measures a firm's effectiveness and efficiency in maximizing wealth as well as sustaining the business which can be evaluated through the use of financial and nonfinancial indicators. The success of businesses rewards stakeholders tremendously and as a result, companies are required to implement effective CG structures and policies that will enhance their performances. This study seeks to ascertain how business management practices affect the financial health of both quoted and unquoted companies in Ghana.

Corporate Governance in Ghana

The Security and Exchange Commission (SEC) of Ghana refers to corporate governance as being the processes and practices which are used in managing and directing the affairs of corporate bodies and align corporate behaviours to stakeholder's accountability (Darko *et al.,* 2016). In Ghana the focus is however, more on the enactment of legislations than enforcement. The Ghana Securities and Exchange Commission in 2010 made the Code of Best Practices more effective by enforcing companies to comply with these practices in order to regain the confidence of rational investors. Corporate governance is therefore given much attention and applied in the affairs of organizations. Ghana is a country that is still developing and whose regulatory framework allows for companies operating in the nation to be registered and regulated by the Companies' Code 1963 (Act, 179). The code recognizes the need for adherence to corporate best practices and as such requires from companies operating in Ghana to comply with CG principles and mechanism. In the year 2003, there was an introduction of the first corporate governance code in Ghana. The SEC in Ghana was as well formed to regulate the operations of companies whose activities are related to stock exchange. The provisions of the Act is to enable companies operating in Ghana especially the limited liability companies to adhere to the mechanisms and practices of corporate governance.

Research Methodology

Study Design

The panel data approach shall be applied in the study as a result of its uniqueness and suitability for the study. This also enables a concurrent assessment of cross-sectional and time series data, which may be impossible using other methods. The ordinary least squares (OLS) were used to ascertain the correlation or significant difference between variables. To achieve this, the panel data includes a set of data within the specific period and cross-section

Target Population and Sample

The study considers both quoted and unquoted companies as registered under the Company Act 163 Act 179. This encompasses both domestic and foreign businesses. The target population for this study is large quoted and unquoted firms. However, thirty (30) of the firms from both quoted and unquoted companies are considered for data for the study. These are listed in table 1. below:

Table 1 Quoted and Unquoted firms in Ghana

Ghana Oil Company	Gridco
Transaction Solutions Limited (TRANSOL)	Clydestone Ghana
Guinness Ghana Ltd	Permafix Industries
Fan Milk Company Ltd.	Anglo Gold Ashanti
Azar Company Ltd	Unilever Ghana
Ecobank	United Bank for Africa
GCB Bank	Fidelity Bank
Republic Bank	Zenith Bank Ghana
Societe Generale	Agricultural Development Bank
Standard Chartered Bank	Pioneer Kitchenware
CAL Bank	Guaranty Trust Bank
PZ Cussons Ltd	National Investment Bank

Mechanical Loyld	Universal Merchant Bank
Sam Wood	Prudential Bank
African Champion Industries	Stanbic Bank

Sources of Data

The research used secondary data sourced from the Ghana Stocks Exchange and published annual reports of the quoted and unquoted companies which are derived from the website of the Ghana Stock Exchange, (www.annualreportghana.com). The data collected from this source include the size of the firms, the age, annual ROA, GPM and NPM from 2010 to 2018.

Variables for the study

Dependent variable

Return on Assets (ROA) is utilized as a dependent variable of the study. ROA indicates the competence of the executive to use the companies' resources economically to maximize owner's wealth. This also enables an assessment of management efficiency in utilizing the economic resources of the firms efficiently. The higher the ROA, the better as it shows that the firms are earning more income on less capital invested.

$$\text{ROA} = \frac{Profit\ After\ Tax}{Total\ Assets}$$

Net profit margin (NPM) is used as another dependent variable. NPM is measured as Sales dividing by Net profit before interest and taxes. It gauges the proportion of revenue that is used to generate net income or profit. Consequently, it is the companies' ratio of net profits to revenue.

Gross Profit Margin (GPM) on the other hand, is measured as the total gross profit over sales. **Independent variables:** The independent variables are board structure (board size and board gender diversity) and CEO duality. The study would adopt these variables based on the literature **(**Mirchandani and Gupta**,** 2018).

Board Size: Board size is estimated as the natural logarithm of the total members on the board of the firm based on prior studies. Board size is operationalized as "the total number of full-time directors with voting rights on the board". The researcher expects either a favourable or an unfavourable link among board size and performance.

Board gender diversity: Board gender diversity is an independent variable used in the study. The Blau Index is used to measure the diversity using the formular $1- \sum_{i=1}^{n} Pi^2$.

CEO duality. A dummy variable is used to measure CEO duality. The dummy variable is coded as 1 if the CEO assumes the two major positions and plays the dual roles or 0 otherwise.

Control variables

Firm size and firm age were employed as the control variables that were chosen for this current study based upon literature from previous studies on the mechanism of corporate Vera (2008). Firm size was regarded as being one of the pertinent control variables in the present investigation, and it can be quantified using the natural logarithm of total assets.

Model Estimation

Following Bøhren and Strøm (2010), the researcher specifies the connection between corporate governance and bank performance:

Firm Performance ROAit = α + β1GENDERdiversityit+ β2BOARDSIZEit β3CEOdualityit +β4FIRMSIZEit + + β5AGEit + Ɛit……..(1)

Firm Performance NPMit = α + β1GENDERdiversityit+ β2BOARDSIZEit β3CEOdualityit

+β4FIRMSIZEit + + β5AGEit + Ɛit…….(2) Firm Performance GPMit = α + β1GENDERdiversityit+ β2BOARDSIZEit β3CEOdualityit

+β4FIRMSIZEit + + β5AGEit + Ɛit…….(2)

Where:

ROA = Return on Asset (firm financial performance, accounting-based)

NPM = Net Profit Margin (firm financial performance, accounting-based) GPM = Gross Profit Margin (firm financial performance, accounting-based) α = Constant, i = entity, t = time,

β = Regression coefficient (the slope, or the change in Y for any corresponding change in one unit of X). Ɛ = Within-entity error.

Econometric Model Specifications and Estimation Issues

The study considers major econometric estimation techniques namely pooled Ordinary Least Square and random and fixed effects in estimating the relationship between the variables. The researcher conducts the Hausman test and multicollinearity test. The Hausman test will be used to determine whether a stable or random outcome should be used. The Bruesch Pegan test should be applied using either the pooled OLS regression model or random effect.

Analysis of Data

Data was analyzed using the STATA software. The descriptive analysis was followed which the results were displayed in tables to show the Mean, Standard deviation, and Skewness among others.

RESULTS

Descriptive statistics

The outcomes are displayed in tables and the first table (table 2) displays the descriptive measurements of the variables in the research. The mean size of the board is 2. The board size of the selected quoted and unquoted firms shows a minimum of one (1) and a maximum of three (3) board members. A standard deviation of 0.4 agrees this reflection and is depended on the setting up in the corporate governance code in Ghana. The mean age of the selected firms is 3.525 years. The firms have been in operation for 2.5 to 4.8 years. The board size of the firms under study is calculated using the natural log of the number of players on the board. The CEO duality ranged from the least value of 0.67 to a maximum value of 2 with the mean value being 1.84. A standard deviation of 0.16 backs this observation. NPM compares Net profit to sales of a firm to measure profitability. Generally, higher NPM result is accepted. The result shows an average of -0.32 with the highest being 7.73 and the lowest being -128.26. There is a standard deviation of 7.89 of the observation. GPM is also used to measure profitability by comparing Gross profit to sales of a firm. The higher the GPM the better. The results indicate an average of 5.73 with a maximum of 722.6 and a minimum of -1.86. There is a standard deviation of 57.46 of the observation. The ROA measures net income after tax over total assets of the firm. On average, from 2010 to 2018, the value of ROA was 7.9%. The highest value was 17.6 and the lowest was -15.94. The result indicates that a gap in terms of accounting profitability among the firms which may be as a result of extraordinary losses experienced by some of the corporations in some specific years. The result also portrays that, while some of the firms are doing extremely well with higher return on asset of about 1700%, others are making abnormal losses of about 1500%. The normality test in the current study, including the skewness, kurtosis and Shapiro-Wilktest show that the variables are not normally distributed as depicted in Table 1. The author therefore takes the natural logarithm of such variables to eliminate the problem of normality.

Table 2: Descriptive Statistics

Variable	N	Mean	SD	Min	Max	Skewness	Kurtosis	Shapiro Wilk-test
ROA	269		0.0791	.649	-15.94	17.60	0.00	0.00	0.243
GP margin	269		5.739	57.45	-1.86	722.6	0.000	0.000	.069
NP margin	269		-.320	7.89	-128.26	7.73	0.000	0.000	0.072
Board Gender	269		.134	.143	0	1.33	0.000	0.000	0.701
CEO Duality	269		1.842	.161	.667	2.00	0.000	0.000	.702
Board size	269		.4071	1.099	2.890	1.422	0.032	0.000	0.883
Firm Age	269		3.525	.587	2.484	4.804	0.514	0.000	0.972
Firm Size	269		2.089	.402	1.098	2.8900	.223	0.465	0.985

Note: Variables ROA, GP, NP.

Test for Multicollinearity

A check for multicollinearity amongst the variables was conducted in this section. This is necessary as the connection across the factors may influence the effectiveness of the forcasted coefficients. Table (2) uses Pearson's correlation matrix and revealed that, the age of the firm and CEO duality are absolutely associated with ROA though the association is weak. In the result, GPM, NPM, gender diversity, and firm size have weak and negative correlation with ROA. The results also show that, Board gender diversity as determined by Blau index has a weak and positive relationship with GPM. The NPM, CEO duality, firm age and firm size have negative correlation with GPM. The results also show that Blau index, firm size and firm age have weak and positive connection with NPM. The CEO duality has negative and weak correlation with NPM. The results are indication of no issue of multicollinearity within the independent variables. All of the factors that are independent are smaller than 0.5, according to the relation involving the parameters shown in Table 2 as an indication of not having multicollinearity problem. This indicates that the explanatory variables are not suffering from the problem of multicollinearity.

Table 3: Pearson Correlation for the dependents and independent variables for the study

Variable	ROA	GP margin	NP margin	Blauin ex	CEO duality	Board size	Firm age	Firm size
ROA	1.000							
GP margin	-0.457	1.000						
NP margin	-0.091	-0.0004	1.000					
Blauindex	-0.023	0.015	0.0689	1.000				
Duality	0.004	-0.0116	-0.076	-0.9861	1.000			
Board Size	-0.1903	0.1513	0.1801	-0.0382	0.135	1.000		
Firm Age	0.036	-0.1010	.079 0	.067	-0.079	0.043	1.000	
Firm Size	-0.010	-0.166	0.097	-0.003	0.025	-0.097	0.196	1.000

Note: Variables ROA (Return on Assets), GP (Gross profit margin), NP (Net profit margin).

Test for Hausman Specifications

The analysis model employed Gender diversity, CEO duality, Board size, firm size (FS), and Age on the main dependent variable (Return on Assets) of selected quoted and unquoted, was panel data regression. To enable the determination of appropriate models, a specification test was conducted. In determining whether FEM or REM is appropriate, the researchers conducted Hausman Specification Test. Fixed effect Model (FEM) is unrelated to the independent factor. The Random Effect Model (REM) relates to the parameters. REM is more appropriate in instances where the null hypothesis of the Hausman Test is dismissed whilst FEM, the null hypothesis is not refuted because is a better choice. In the Hausman specification test, the decision rule to accept the null hypothesis is when there is insignificant P-value of more than 0.05.

Table 4.: Hausman Test for Fixed or Random Effects (ROA)

	(b) **Fe**	**(B)** **Re**	**(b-B)** Difference	**sqrt (diag(V_b-V_B)) S.E.**
Gender diversity	.0057942	.0057942	0	0
CEO duality	-.0824357	-.0824357	0	0
Board size	-.1076465	-.1076465	0	0
fs	.0089517	.0089517	0	0
Age	.000698	.000698	0	0

Source: Quoted and unquoted firms in Ghana

Random effect correlates with the variables. Random effect is consistent. The results in table 4. show the data follows random effect model.

Table 5: Hausman Test for Fixed or Random Effects (GPM)

	(b) **Fe**	**(B)** **Re**	**(b-B)** **Difference**	**sqrt S.E.**	**(diag(V_b-V_B))**
Gender Div	-.1146285	-.1146285	0	0	
CEO Duality	-.1604816	-.1604816	0	0	
Board size	-.0270665	-.0270665	0	0	
Firm size	-.0136255	-.0136255	0	0	
Age	-.000366	-.000366	0	0	

Source: Quoted and unquoted firms in Ghana

The decision rule, for Hausman Specification test depends on the P- value. The results in table 5 show that fixed effect model is more preferred for the research in view of the fact that P-value is significant.

Table 6: Hausman Test for Fixed or Random Effects (NPM)

	(b) Fe	(B) Re	(b-B) Difference	Sqrt (diag (V _bV_B)) S.E.
Blauindex	1.821625	1.821625	0	0
CEO duality	.652312	.652312	0	0
Board size	-.0325711	-.0325711	0	0
FIRMSIZE	-.0491248	-.0491248	0	0
FIRMAGE	1.579276	1.579276	0	0

Empirical Results

The connection among Board Structure and ROA using pooled OLS

The variables that measure board structure include Board gender diversity (Blau index), CEO duality (Duality) and Board size. The result from the table 4 shows a negative connection among gender diversity as determined by Blau index and ROA (Return on Assets) at less than 5% significant level. This means that the lower the Blau index the greater their successful businesses develop. However, the other variables seem to influence the dependent variables. CEO duality (Duality) variable has an adverse and substantive link with ROA-measured economic viability, suggesting that the lower the dualism, the more successful businesses will be. Board size of the selected quoted and unquoted businesses has an adverse coefficient and it is statistically significant at 0.006. The result shows that when a board has a lesser size, it tends to enhance performance. Firm age has positive and statistically insignificant connection with profitability determined by ROA. This implies that there is no connection among firm age and profitability determined by ROA. Firm size also has an adverse and statistically insignificant connection with profitability calculated by ROA. This also implies that there is no connection among firm size and profitability determined by ROA.

Table 7: The relationship between Board Structure and ROA using pooled OLS

ROA	Coef.	Std. Err	T	P>|t|	[95% Conf
Blauindex	-15.2299	5.056	-3.01	0.003	-25.1872
Dummy	-15.051	4.859	-3.10	0.003	-24.619
Board size	-.0941	.0343	-2.74	0.006	-.16141
Firm age	.057	.174	0.33	0.744	-.28672
Firm size	-.004	.035	-0.12	0.905	-.073
-cons	30.220	9.792	3.09	0.002	10.939

Source: Field data, 2023

The connection between Board Structure and GPM using pooled OLS

The variables that measure board structure as earlier indicated include Board gender diversity (Blau index), CEO duality (Duality) and Board size. The outcome from Table 7 shows a favourable but insignificant connection between gender diversity and GPM at a more than 5% significant level. CEO duality (Duality) variable also has a favourable and statistically insignificant connection with profitability measured by GPM, indicating that these variables have no connection with profitability determined by GPM. The board size of the selected quoted and unquoted businesses has an adverse, but it is significant at 0.000. The result shows that at a lower size of board, performance increases. Firm age has an adverse and statistically insignificant connection with profitability determined by GPM. This implies that there is no connection among firm age and profitability determined by GPM. Firm size also has an adverse and statistically insignificant connection with profitability determined by ROA. This also implies that there is no connection amongst firm size and profitability estimated by GPM.

Table 8: The relationship between Board Structure and GPM Using pooled OLS

GP margin	Coef.	Std. Err	T	P>|z|	[95% Conf	Interval
Blauindex	80.117	178.972	0.45	0.655	-272.283	432.518
Dummy	81.764	171.511	0.48	0.634	-255.944	419.474
Board Size	-.20283	.05066	-4.00	0.000	-.30213	-.10355
Firm age	-8.842	6.096	-1.45	0.148	-20.845	3.1610
Firm size	-8.462	9.458	-0.89	0.372	0.372	10.163
_cons	-112.465	348.468	-0.32	0.747	-798.609	573.678

Source: Field data, 2023

The Connection Among Board Structure and NPM Using Pooled OLS

The result from Table 6 depicts an adverse and significant correlation between the Blau index and NPM at above 0.005 significant levels. This indicates an inverse connection between the Blau index and the profitability of the firms measured by NPM. Moreover, the other variables do seem to influence the dependent variables. CEO duality variable has a negative and significant relationship between NPM at above 0% significance level. This is also an indication of an inverse connection between the duality and the profitability of the firms measured by NPM. Firm age has a negative and insignificant relationship with NPM. This means that, there is no connection amongst the Firm age and the profitability of the firms determined by NPM. Firm size has a positive and insignificant connection with NPM at an above 5% significance level. This suggests that firm size and profitability don't relate and cannot be a guarantee for the success of a business. Board size has a positive and insignificant correlation with NPM at an above 5% significance level. This means that no correlation exists between board size and profitability measured by NPM.

Table 9: The correlation among board Structure and NPM of quoted and unquoted firms using pooled OLS

ROA	Coef.	Std. Err	T	P>|z|	[95% Conf	Interval
Blauindex	-18.262	6.335	-2.88	0.005	-30.79	-5.727
Dummy	-18.592	6.029	-3.08	0.003	-30.522	-6.662
Firm age	-.2360	.2663	-0.89	0.377	-.7629	.2908
Firm size	.09051	.0612	1.48	0.142	-.0306	.2116
Board size	.53651	.4000	1.34	0.182	-.2551	1.328
_cons	35.463	12.16	2.92	0.004	11.401	59.525

Source: Field data, 2023.

Discussion

The study reveals a mixed result among board structure and firm performance to the extent that, gender diversity variables (Blau index) and CEO dummy record negative but significant relationship with performance measured by ROA. However, it also records negative and significant correlation between the Blau index and NPM at above 0.005 significant levels. This is an indication of an inverse connection between the Blau index and the profitability of the firms measured by NPM. Theoretically, agency theory, stewardship theory and resource dependency theory expect a positive connection between board structure and the financial performance of companies. This agrees with the current result through the use of ROA which is the main financial performance variable in this study. CEO duality (Duality) variable has an adverse and statistically significant connection with profitability estimated by ROA. Board size also shows a negative but statistically significant at 0.006. The study also indicates that board gender contributes significantly towards firms' financial performance. This is in tandem with the findings of (Nguyen *et al*, 2015). The result reveals a

favourable but insignificant connection between gender diversity and performance estimated by Gross profit margin (GPM). The CEO duality (Duality) variable and performance have a positive but insignificant relationship measured by GPM. The results imply that these variables have no relationship with profitability measured by GPM. Board size is significant at 0.000 but with a negative coefficient. The result also shows an adverse and significant connection between the Blau index and NPM at above 0.005 significant levels indicating an inverse relationship between the two variables. CEO duality variable shows a negative and significant relationship between NPM at above 0% significance level which indicates an inverse connection amongst the duality and the profitability of the firms measured by NPM.

Conclusion

This study applied the panel data regressions for thirty thirty (30) of the firms from both quoted and unquoted companies from 2010 to 2018 financial years. The thirty thirty (30) of the firms from both quoted and unquoted companies as used for the study had their financial statements for the period. This thesis examined empirically the consequences of theory of corporate governance and firm success for quoted and unquoted businesses in Ghana. The results of regression analysis showed that Board size and Board gender diversity and CEO duality are independent variables while Return on Assets (ROA), Net profit margin (NPM) and Gross profit margin are the dependent variables. Theories of corporate governance and other empirical studies support the findings of the research. The research demonstrates that ROA, NPM, and GPM were used to evaluate the real bond for the model under study on the success of listed and unquoted enterprises in Ghana. Board Size**:** Board size shows an adverse but statistically significant at 0.006. Board size has a negative but significant effect on the performance of the selected quoted and unquoted businesses in Ghana. The regression result further shows an adverse but significant connection between selected quoted and unquoted businesses in Ghana. Gender Diversity (Blau Index): Gender diversity variable (Blau index) records a negative but significant relationship with performance measured by ROA. Gender diversity also records negative and significant correlations by NPM at above 0.005 significant levels. The outcomes depict an inverse connection between the two variables. The outcomes further show a positive but insignificant relationship across the variables as measured using Gross profit margin (GPM). CEO duality. CEO duality variable is discovered to have an adverse but significant relationship with the companies' performance as measured by ROA. The CEO duality variable and performance are positively related but insignificant after being measured by GPM. CEO duality variable shows a negative and significant relationship between NPM at above 0% significance level which is an indication of an inverse connection across the duality and the profitability of the firms measured by NPM.

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