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Do Company Directors Underestimate the Adoption of Corporate Governance Provisions? A Survey Approach*

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This paper examines whether company directors underestimate the adoption of corporate governance provisions within Ghanaian listed firms. Using a survey approach, the respondents, who were company executives and non-executive directors with knowledge of the Ghanaian Code and its provisions, regard the code as a benchmark for good corporate governance practices within Ghanaian listed firms. They also report some improvement in the standard of corporate governance in their companies since the introduction of the Code. Many of the company directors indicated their preparedness to comply with further corporate governance requirements, such as the adoption of a formal nomination committee something not been currently included in the Ghanaian Code. However, the directors noted that they receive inadequate support from the regulatory and institutional bodies for the implementation of the Ghanaian Code provisions. Many of the directors also supported the review of the Ghanaian Code by an independent committee. With regard to the adoption of the Ghanaian Code and its influence on firm performance, the respondents indicated that the adoption of the specific governance provisions in the area of chief executive officer (CEO)/chairman roles separation, having a balance of executive and non-executive directors on the board, the establishment of audit and remuneration committees, and the full adoption of the Ghanaian Code provisions were all influential in determining firm performance. They, however, did not support the adoption of the board size provision as influential to firm performance. This raises questions about the usefulness of the range of board size as recommended by the Ghanaian Code.

Keywords: agency theory, corporate governance, firm performance

Introduction

The purpose of this paper is to examine whether company directors underestimate the adoption of corporate governance provisions within the Ghanaian listed firms. In the developed countries such as the United Kingdom (UK), there have been progressive corporate governance reforms since the Cadbury Report (Cadbury Committee, 1992) with a particular focus on addressing the agency problems arising from the separation of ownership and control (Berle & Means, 1932) and the consequent misalignment of the interests of

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shareholders and managers. Grounded in the agency theory, the corporate governance reforms have identified a range of governance provisions aimed at realigning the interest of shareholders and managers in enhancing firm performance. In Ghana, the Security and Exchange Commission Ghana (SECG) in 2003 introduced corporate governance guidelines on best practices (hereafter the Ghanaian Code) that focus on the importance of board structure governance provisions (SECG, 2003). In this regard, firms were expected to adopt board structures in line with the Ghanaian Code recommendations beginning in the 2004 financial year.

Whilst there is no direct evidence in Ghana regarding directors' views on the adoption of the governance recommendations and their influence on firm performance, CBI/Touche Ross (1995) found that 90% of the directors surveyed in the UK listed firms thought that the Cadbury recommendations have had no positive impact on their firm performance. These findings are not supported by Jenkins-Ferrett (2001) whose opinion survey of the directors of South Africa (SA) listed firms (83%) rated corporate governance as *utmost important* to *important* in contributing to their firm performance. Moxey (2004) in assessing the UK listed firms' directors' opinions on corporate governance and wealth creation, however, reported that the response is skewed towards corporate governance having little influence on profitability, with 12% of respondents noting that the corporate governance does not influence profitability at all and with only 2% viewing it as influential. In the United States (US), and with the introduction of Sarbanes-Oxley Act (2002), Reed, Buchman, and Wobbekind (2006) asked financial executives of privately-held firms to identify other benefits that could be derived from the voluntary implementation of the act. They reported that privately-held firms get better financing options, better credit opportunities, and the opportunities to take the firm public following the implementation of some of the provisions of the act. This indicates that the cost of financing a particular firm's operations is expected to be lower and therefore will lead to better performance.

Metrick and Ishii (2002) and Klapper and Love (2004) argued that firm-level corporate governance quality matters more in countries with weak legal systems, suggesting that company directors in developed markets may underestimate the impact of the adoption of code provisions than directors in emerging markets with weaker institutional frameworks.

This paper contributes to the corporate governance discussion in the following ways. First, the paper presents evidence of the Ghanaian Code implementation issues and whether the adoption of the Ghanaian Code provisions influences firm performance.

Second, the relatively few studies that have attempted to investigate company directors' opinions on corporate governance and firm performance have examined the UK and the SA context. This study provides the first direct analysis of the directors' opinions on the adoption of corporate governance and its influence on firm performance in Ghana.

Third, the paper presents the first study of the directors' opinions that considers the board structure specific governance provisions as well as the full adoption of the Ghanaian Code provisions influence on firm performance, an approach which helps to determine whether the adoption of the full Ghanaian Code provisions is more influential than the selective adoption of the specific governance provisions. Prior studies do not address this problem.

The evidence suggests that the Ghanaian Code is a benchmark for good corporate governance practices. In Ghanaian listed firms, the standard of corporate governance has improved and the firms are prepared to comply with further corporate governance requirements. With the evidence of inadequate support received from the

regulatory and institutional bodies in the implementation of corporate governance, the paper finds support for the review of the Ghanaian Code by the independent committee.

Using the specific governance provisions, the company directors indicated that the adoption of the code provisions related to the chief executive officer (CEO)/chairman roles separation, having balance of executive and non-executive directors on the board, and the establishment of audit and remuneration committees were all influential to their firm performance. They, however, did not support the specific provision in relation to board size as influential to firm performance. Consistent with Jenkins-Ferrett (2001), 65% of the directors supported the full adoption of the Ghanaian Code provisions as influential to firm performance. This shows that the adoption of corporate governance provisions is not underestimated by company directors in emerging markets, which is not consistent with CBI/Touch Rosss (1995) and Moxey (2004).

The paper proceeds as follows. Section 2 discusses the literature in relation to the board structure provisions recommended by the Ghanaian Code and directors' opinions on corporate governance and firm performance. Section 3 presents data, sample, and the survey questionnaire. While Section 4 provides the survey results, some conclusions are drawn in Section 5.

Literature Review

This study provides company directors' opinions on whether the adoption of corporate governance provisions in Ghana influences firm performance. The Ghanaian Code, consistent with the agency theory, proposes board structure governance provisions designed to improve governance quality compared with the pre-Code period during which no specific governance provision was in place and therefore the quality of governance was lower. Nevertheless, Ocran (2001) reported that the concept of corporate governance has gained ground in Ghana and highlighted the importance of a fundamental framework for corporate governance. This suggests that the introduction of the Ghanaian Code in 2003 does provide consistent governance provisions for Ghanaian firms compared with the weaknesses found in governance prior to the publication of the Ghanaian Code (Adda & Hinson, 2006). In this case, this paper argues that the adoption of the Ghanaian Code suggests a move away from the existing weak governance provisions, something which should improve firm performance. In other words, the company directors who underestimate the impact of the adoption of the Ghanaian Code provisions will view it as not influencing their firm performance.

The specific governance provisions proposed by the Ghanaian Code are similar to those in the UK and SA. In Ghana, firms listed on the Ghana Stock Exchange (GSE) are expected to adopt board structure governance provisions consistent with the recommendations of the Ghanaian Code on a *comply* or *explain* basis as happens in the UK and SA. The main board structure governance provisions imposed on the Ghanaian listed firms include duality, proportion of non-executive directors, board committees, and board size. Major differences are that the Ghanaian Code does not recommend for the establishment of a formal nomination committee as in the case of the UK and SA. Whereas the UK and SA codes have been subjected to review several times by independent committees since its inception in 1992 and 1994, the Ghanaian Code has not been reviewed to date.

As CBI/Touche Ross (1995), Jenkins-Ferrett (2001), and Moxey (2004) whose opinions studies provide inconsistent results, very little is known about those responsible for the implementation of good corporate governance and their perception of its influence on firm performance. In particular, there have been two arguments for the adoption of corporate governance provisions: First, CBI/Touche Ross (1995) reported that

the UK Cadbury recommendations have had no positive impact on their firm performance; and second, Jenkins-Ferrett's (2001) findings suggest that company directors in SA rated corporate governance as *utmost important to important* in contributing to their firm performance.

Arguably, there is no available evidence regarding the company directors' opinions on the effective adoption of the Ghanaian Code provisions and its impact on firm performance other than Ocran (2001) who studied the state of corporate governance in Ghana prior to the code, but failed to ask directors whether implementing good corporate governance is influential to firm performance or not. Thus, given the two arguments as in CBI/Touche Ross (1995) and Jenkins-Ferrett (2001), this paper has two purposes: (1) to attempt to determine corporate governance implementation issues; and (2) to discover which argument above is more valid.

Data, Sample, and the Survey Questionnaire

This study employs a questionnaire as the data collection method to examine the directors' opinions on corporate governance and firm performance. The respondents were executive and non-executive directors of the Ghanaian listed firms. Seventy directors were selected from 35 firms listed on the GSE as at the end of December 31, 2009. The main reasons for selecting respondents from firms listed on the GSE are that they are required to comply with the Ghanaian Code or provide explanation for non-compliance to their shareholders. In this case, the CEOs and the chairmen of the 35 listed firms were selected to represent the executive and non-executive directors.

Following the works of CBI/Touche Ross (1995), Jenkins-Ferrett (2001), Moxey (2004), and Reed et al. (2006), this paper directly developed the questionnaire based on the board structure governance provisions imposed on listed firms by the Ghanaian Code and piloted on the directors of three randomly selected listed firms. The questionnaire was posted and followed-up in the period of May 2011-October 2011. The following specific statements were asked of the respondents to complete in a survey, which are discussed in the results section:

- (1) Whether in their view they believe the following corporate governance implementation issues that:
 - (a) The Ghanaian Code is a benchmark for good corporate governance practices;
 - (b) The standard of corporate governance has improved in their companies since the introduction of the Ghanaian Code;
 - (c) Their companies are prepared to comply with further corporate governance requirements such as the establishment of a nomination committee if they have not done so;
 - (d) The current regulatory and institutional bodies are supportive enough to help implement the Ghanaian Code provisions;
 - (e) There is the need to review the Ghanaian Code by an independent committee.
- (2) Whether in their view the adoption of the following Ghanaian Code provisions is influential to their firm performance:
 - (a) Separating the roles of the CEO and the chairman;
 - (b) To have a balance of executive and non-executive directors on the board and at least one-third of independent non-executive directors;
 - (c) The establishment of audit and remuneration committees;
 - (d) To have total board members ranging from eight to 16.

(3) Whether they believe that the Ghanaian Code is only influential when it is fully adopted instead of specific governance provisions.

As a result, 43 out of the 70 executive and non-executive directors responded to the survey, a response rate of 61.43%. Tables 1-4 present the respondents' role, number of years in the role, and their knowledge with the Ghanaian Code provisions.

Table 1

What Is Your Role in the Company?

	Response (total)	Response rate (%)
Chairman	19	44.2
CEO	24	55.8
Total respondents	43	100.0

Table 2

How Long Have You Been in This Role?

	Response (total)	Response rate (%)
Less than 5 years	28	65.1
5-10 years	11	25.6
11 years or more	4	9.3
Total respondents	43	100.0

As can be seen from Tables 1 and 2, CEOs' response rate (55.8%) is higher than the chairman of the board (44.2%). While most of the respondents (65.1%) have been in their role for less than five years, only 9.3% of the respondents have been in their current role for 11 years or more.

Tables 3 and 4 indicate the respondents' knowledge regarding the existence of the Ghanaian Code and its specific provisions. The respondents were familiar with the existence of the Ghanaian Code and its specific provisions imposed on firms listed on the GSE.

Table 3

How Familiar Are You With the Ghanaian Code of Best Practices on Corporate Governance Published in 2003?

	Response (total)	Response rate (%)
Very familiar	11	25.6
Familiar	31	72.1
Not familiar	1	2.3
Total	43	100

Table 4

How Familiar Are You With the Provisions of the Ghanaian Code of Best Practices on Corporate Governance?

	Response (total)	Response rate (%)
Very familiar	11	25.6
Familiar	29	67.4
Not familiar	3	7
Total	43	100

Survey Results

The results and discussion of the responses related to the specific statements identified above are presented

in this section of the paper. Table 5 reports on corporate governance implementation issues in Ghana. The respondents were quite clear that the Ghanaian Code was a benchmark for good corporate governance practices for Ghanaian listed firms. Over 90% agreed that the Ghanaian Code was a benchmark for good corporate governance practices. This is not unexpected, since the Ghanaian Code is meant to be adopted by all listed firms regulated by the stock exchange. However, when the respondents were asked whether the standard of corporate governance has improved in their companies since the introduction of the Ghanaian Code, a little over 50% either strongly agreed or agreed with that statement with 20.9% responded that they disagreed with the statement. Although the respondents were rather definite that the Ghanaian Code was a benchmark, it should be noted that some of the companies had good corporate governance structures in place before the introduction of the Ghanaian Code and therefore did not make any difference.

Table 5

*Directors' View on the Application of the Ghanaian Code of Best Practices on Corporate Governance
Published in 2002*

	Strongly disagree (%)	Disagree (%)	Neutral (%)	Agree (%)	Strongly agree (%)
Ghanaian Code is a benchmark for good corporate governance	0.0	0.0	9.3	58.1	32.6
It has improved the standard of corporate governance	0.0	20.9	27.9	30.2	20.9
Prepared to comply with further corporate governance	2.3	11.6	11.6	37.2	37.3
Regulatory and institutional bodies are supportive	0.0	21.0	37.2	30.2	11.6
Need to review the Ghanaian Code by an independent committee	0.0	2.3	16.3	37.2	44.2

As can be seen from Table 5, many of the company directors were prepared to comply with further corporate governance requirements such as the establishment of a formal nomination committee if they have not done so. Over 74% of the respondents agreed or strongly agreed with that statement, but they were divided on whether the regulatory and institutional bodies are supportive for the implementation of the Ghanaian Code provisions. Clearly, the failure of the Ghanaian Code to provide for the establishment of a nomination committee comparable to international best practices was confirmed by the company directors of their preparedness to comply with such provision. In addition, they provided evidence of not getting adequate support from those responsible for the introduction, enforcement, and implementation of good corporate governance in Ghana. As expected, over 81% strongly agreed or agreed that there was the need to review the Ghanaian Code by an independent committee, which is supported by what is practiced in the UK and SA. Arguably, the introduction of the Ghanaian Code has provided a consistent framework to which the Ghanaian firms are governed, but the codes need to be reviewed in order to fully meet the international best practices.

With regard to corporate governance provisions' impact on firm performance, company directors were asked whether in their view the adoption of the Ghanaian Code provisions in the area of separating the roles of the CEO and the chairman, having balance of executive and non-executive directors on the board, the establishment of audit and remuneration committees, board size, and the full adoption of the code are influential to their firm performance. Table 6 presents the results.

Table 6

Directors' View on the Voluntary Adoption of the Following Ghanaian Code Provisions' Influence on Firm Performance

	Strongly disagree (%)	Disagree (%)	Neutral (%)	Agree (%)	Strongly agree (%)
The separation of the roles of the CEO and the chairman	0.0	7.0	2.3	18.6	72.1
To have a balance of executive and non-executive directors on the board	0.0	4.7	11.6	18.6	65.1
The establishment of an audit committee	0.0	2.3	7.0	11.6	79.1
The establishment of a remuneration committee	0.0	2.3	9.3	18.6	69.8
To have a board size ranging from 8 to 16	0.0	69.7	14.0	14.0	2.3
The full adoption of the code provisions is only influential instead of the specific provisions	0.0	2.3	32.6	37.2	27.9

Obviously, company directors viewed the separation of the roles of the CEO and the chairman as influential to firm performance. As Table 6 shows, over 90% of the respondents strongly agreed or agreed that separating the two roles was influential to firm performance. The Ghanaian corporate governance framework regards duality as detrimental, because it could create power concentration in one person over board decisions. The low response (7%) that duality does not influence firm performance reported in Table 6 suggests that combining the two roles is generally perceived to be harmful to firm performance. These responses indicate that company directors do not underestimate the importance of separating the two roles.

The paper also finds evidence that having a balance of executive and non-executive directors on the board is influential to firm performance. As can be seen in Table 6, over 83% of the respondents felt that having a balanced board is influential to their firm performance. This indicates the importance of checks and balances as well as different expertise that non-executive directors provide over board decisions.

In terms of board committees, it was found that the establishment of audit and remuneration committees as recommended by the Ghanaian Code was influential to firm performance. In particular, and as one can see in Table 6, over 90% respondents either strongly agreed or agreed that the establishment of an audit committee is influential to their firm performance. Also, over 88% responded that they strongly agreed or agreed that the establishment of a remuneration committee was influential to their firm performance. This evidence suggests that the introduction of the Ghanaian Code has increased the awareness of the important role played by board committees. As indicated earlier, it is of the view of this paper that an independent committee should be constituted by the regulatory authorities to strengthen the Ghanaian Code in order to bring it in line with the international best practices. For example, the recommendation for the establishment of a nomination committee is important to include in the Ghanaian Code provisions for firms to adopt, which could enable them to recruit quality directors to serve on the board.

Interestingly, the board size ranging from the minimum of eight to a maximum of 16 members as provided by the Ghanaian Code was not supported by the company directors as influential to firm performance. In particular, and as Table 6 shows, 69.7% of the respondents disagreed that the recommended board size was influential to firm performance with only 16.3% agreed or strongly agreed with that statement. Arguably, the minimum of eight and the maximum of 16 board size recommended by the Ghanaian Code can be criticized, because the two are all even numbers. If the company directors complied with the board size of either eight or

16, and in the course of the board decisions of the votes tied, it would be very difficult for the board to arrive at a decision. In practice, and as argued in this paper, the strength of the board depends on the strength of the individual directors on the board, and the board size needs not to start at 8-16 members if they have the strength to fulfill their responsibilities.

In relation to the statement that the Ghanaian Code is only influential to firm performance when fully adopted instead of the selective adoption of the specific governance provisions was supported but not at the same rate as the specific governance provisions. Whereas 65.1% of the respondents strongly agreed or agreed that the full adoption of the Ghanaian Code was influential to firm performance as shown in Table 6, the specific governance provisions' influences on firm performance, except board size (16.3%), were rated much higher as in the case of CEO/chairman role separation (90.7%), balance of executive and non-executive directors (83.7%), and the presence of audit (90.7%) and remuneration (88.4%) committees. These responses are interpreted as a clear indication that not all corporate governance provisions contained in the Ghanaian Code are equally important to company directors as influential to their firm performance.

Summary and Conclusions

This paper was designed to examine whether company directors underestimate the adoption of corporate governance provisions within Ghanaian listed firms. Using the survey approach, and as in Ocran (2001), this paper reports that the respondents who were company executive and non-executive directors with a knowledge of the Ghanaian Code and its provisions see the code as a benchmark for good corporate governance practices within the Ghanaian listed firms. They also see some improvements of the standard of corporate governance in their companies since the introduction of the Ghanaian Code. Many of the company directors indicated their preparedness to comply with further corporate governance requirements such as the adoption of a formal nomination committee which has not been provided by the Ghanaian Code. However, the directors noted that they receive inadequate support from the regulatory and institutional bodies for the implementation of the Ghanaian Code provisions. Many of the directors also supported the review of the Ghanaian Code by an independent committee.

In Ghana, listed firms are expected either to comply with the Ghanaian Code provisions or to provide an explanation for non-compliance to shareholders. Using the specific governance provisions, the respondents indicated that the adoption of the code provisions related to the CEO/chairman roles' separation, having balance of executive and non-executive directors on the board, and the establishment of audit and remuneration committees were all influential to their firm performance. They, however, did not support the specific provision in relation to board size as influential to firm performance. As in Jenkins-Ferrett (2001), many directors supported the full adoption of the Ghanaian Code provisions as influential to their firm performance, which is not consistent with CBI/Touch Rosss (1995) and Moxey (2004).

These findings show that the adoption of corporate governance provisions is not underestimated by company directors in emerging markets as in the case of Ghana and is consistent with earlier findings by Jenkins-Ferrett (2001) for SA. The findings also support the view shared by Metrick and Ishii (2002) and Klapper and Love (2004) that corporate governance matters more in countries with weak legal systems.

In conclusion, this paper's assessment of the Ghanaian Code is that it has brought about a consistent governance framework in which the Ghanaian firms are governed. The appointment of an independent committee to review the Ghanaian Code, having effective regulatory and institutional bodies to support the

implementation of good corporate governance makes a good case for Ghanaian firms to move towards the effective adoption of the Ghanaian Code provisions.

The paper identifies a number of areas for further study. First, should the adoption of the Ghanaian Code provisions affect the agency costs of the Ghanaian listed firms? A deeper understanding of the potential agency costs from the move away to post-Ghanaian Code may provide important insights as to whether it increases agency costs or not. Second, the Ghanaian Code provisions are not imposed on non-listed firms. But, it is important to ascertain the views of directors of non-listed firms if they have voluntarily adopted some or all of the provisions and the benefits to their firms.

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