ABSTRACT

The concept of corporate governance dates back to the emergence of capitalism and modern stock organizations, development of global trade, and enormous growth of multinational firms during the ‘industrial revolution’ in the early part of the nineteenth century (Erismann-Peyer, Steger & Salzman, 2008). It has recently received much attention as a result of the incidence of corporate frauds, accounting scandals, excessive compensation packages, insider trading, self-dealing, misleading disclosures, and possible civil and criminal liabilities of corporate organizations. Internal and external stakeholders of corporations are striving to strengthen their assessment of the soundness of corporate governance practices within corporate bodies (Mark, 2011). Also, many economies are increasingly designing reforms to corporate governance practices to enhance the entire standards of corporate governance and to provide corporate entities possible financial and investment benefits (Grimminger & Benedetta, 2013). However, there has been a spate of arguments about the ‘essential’ principles of effective corporate governance, in that this concept develops and expands, and it changes in accordance with new insights and challenges within the business community (Jacques du Plessis, Hargovan & Bagarić, 2011).

Issues of corporate governance are relevant to developing, transition and emerging-market economies, in view of the assertion that these countries lack vibrant, long-established financial institutions to deal with issues related to corporate governance (McGee, 2009). The widespread existence of small companies that do not have their shares listed, and of large family-owned, foreign-owned and or state-owned enterprises whose stocks are also not widely listed locally, is argued to be the obvious logic behind the absence of corporate governance issues in these economies (Oman et al., 2003). However, the view that issues of corporate governance are less relevant to countries with insignificant amount of large corporate organizations with widely traded stocks is neither here nor there (McGee, 2009; Berglof and Claessens, 2003; Oman, et al., 2003). Just as good public governance allows the citizenry to effectively ascertain whether their interests are being served, corporate organizations, irrespective of their sizes and locations, must also strive to strengthen their governance practices, so that their shareholders can make reasonable investment decisions. Currently, virtually all developing, transition and emerging-market economies are faced with one pressing concern: how to establish the groundwork for long-term economic performance and competitiveness in diverse ways. But the setting up of such foundation to embark on such tasks cannot be materialized without the existence of good corporate governance in these economies. This has currently, prompted governments, directors, corporate owners, corporate managers and other stakeholders in these economies to realize the relevance of effective corporate governance practice.

The significance of corporate governance for socio-economic development of Ghana is rapidly being favorably noticed by academics, business professionals, policymakers and regulators. The transfer of State-Owned Enterprises (SOEs) to private individuals mirrors this favorable notification. The recommendations of the companies code 1963 (Act 179), Securities Industry Laws, 1993 (PNDCL 333) as amended by the Securities Industry Act, 2000 (Act 590) as well as the listing regulations, 1990 (L.I. 1509) of Ghana Stock Exchange (GSE), all point to the fact that corporate governance is incrementally receiving the necessary attention in Ghana. Academics, policymakers, business professionals as well as regulators have the notion that the adoption of the recommended guidelines would serve as a significant step in influencing management and director behavior in regards to effective and efficient discharge of
their duties and responsibilities in enhancing shareholder interest (Moscu, 2013; Okpara, 2010; Ward, 2003).

The purpose of this study was to examine the driving forces of effective corporate governance practices within the context of Ghana. In order to retain theoretical flexibility, limit extraneous variation and sharpen external validity, the criterion-based sampling technique was employed to select four large corporate organizations listed on the Ghana Stock Exchange. Subsequently, in order to maximize a series of available information to the researcher, enhance data credibility and to offer a source of triangulation, a multi-method data gathering technique was applied in this study-archival record, interviews and observations. This study relied on theoretical propositions and the development of a case description for its analyses. With this, there was a descriptive framework for organizing the case study while following the theoretical propositions.

The findings obtained from this study reveal that large shareholders play significant role in determining effective corporate governance in Ghana. Even though major shareholders are effective in addressing incentive problems; this situation tends to create problems with regards to the interests of small equity holders. One of the findings of this study has indicated that a vital issue that arises regarding corporate governance is the one of the weak small shareholders vis-à-vis major ones. This is consistent with the existing body of knowledge in the sense that, in developing economies, the matter of corporate governance typically involves the expropriation of small equity holders by major equity holders. Also, the findings highlight that an effective and efficient board is a vital driver in determining good corporate governance in Ghana. But this usually happens when controlling equity holders do not deal with aspects of control, which are vested in the board. In other words, when major equity holders fully involve themselves in corporate decision-making processes, boards appear to be mere counselors or advisors to management.

Further, the findings divulge that, at times, compliance with the various principles of corporate governance that have been prescribed regarding board composition does not certainly result in effective and efficient board with respect to board control function. However, evidence shows that with an absence of large shareholders who closely monitor and control the activities of management, a large number of independent NEDs on boards is useful in their control and monitoring role. Moreover, the findings regarding director independence bring about some challenges to the various principles of corporate governance, which recommend that NEDs must be independent. In circumstances where the controlling shareholder appoints the majority of directors, independence remains a problem or huge challenge. Also, director appointment by large shareholders also brings about a challenge in that; it raises the issue pertaining to criteria for appointments. This finding overtly demonstrates that the appointment procedure of directors is not guided by clear criteria. More so, it has been established that although Ghana has sufficient laws and regulations with respect to corporate governance, the major challenge is the absence of active devices for their effective enforcement.

On the basis of these findings, the study recommends auxiliary measures that can help enhance corporate governance practice in Ghana. First, measures should be put in place to safeguard minority shareholders. La Porta et al. (2000) have suggested six (6) legal protection forms termed as anti-director rights measured by the ‘anti-director rights index’. These are: 1) Permitting equity holders to mail their proxy votes to the company; 2) not requiring equity holders to deposit their shares before the annual general
meeting; 3) cumulative voting; 4) ensuring proportional representation of small/minority equity holders on boards; 5) the presence of a mechanism for oppressed small equity holders; and 6) allowing small equity holders to organize an extraordinary shareholders meeting. Second, the essence of considering the consequences of privatization on corporate governance, and the eventual position of large shareholders in the decision-making processes of organizations, call for a revision of Ghana’s principles of corporate governance to protect minority shareholders. It has been deduced that instead of privatization through strategic investors/capital providers to empower local shareholders, it undermines them, and eventually makes them vulnerable to the expropriation problem. The study recommends that future divestitures should also address the concerns of local shareholders.

Further, the issue of director independence has been identified as a pressing issue in Ghana. In order to curb this, the positions should be announced in public with all the requirements so that a person who considers him/herself qualified would tender his/her application. This means that directors will be recruited from the market by applying a free and fair mechanism of inviting applications from well-qualified people. This can be achieved through the establishment of a board nomination committee. The role of this committee is to select and nominate well-qualified individuals for directorship positions. This calls for a critical assessment of the expertise and competence of the individual. After the selections have been done, the candidates should be subject to shareholder-elections. This will ensure transparency in the selection of board directors.

Finally, without an effective enforcement of the rules and regulations in regards to corporate governance, it would be very difficult for developing and transition economies to develop strong and vibrant capital markets, which are currently regarded as important for sustainable economic development for countries (Shleifer & Vishny, 1986; Berglof & Claessens, 2004). On the basis of this issue, the recommended strategy to ensuring effective enforcement of existing laws and regulations is by recognizing that the structure and capacity of the laws, and legal and regulatory framework are essential components of the corporate governance structure. In achieving this, the following mechanisms have been suggested by this study: Improving the regulatory framework by making the laws accessible to all equity holders and the populace; fashioning out effective mechanisms for law enforcement as well as strengthening enforcement mechanisms (by providing training, logistics, equipments and so on); taking on alternative dispute resolution strategies; creating a conducive environment by keeping up the possible will to execute policies; creating an independent and intrepid judiciary; and encouraging the media to report issues of corporate governance and be more critical/judicious on issues of corporate governance.

**Keywords:** Corporate governance, developing countries, shareholder control, board control, Ghana