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Corporate Governance and Firm Performance: Evidence from the Insurance Sector of Ghana

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Abstract
The purpose of this study is to investigate the relationship between corporate governance and the financial performance of insurance companies in Ghana. The secondary data was collected from the national insurance commission and the primary data through the administration of interview questionnaires. Panel Data Methodology was used for the data analysis. The findings shows that large board size, board skill, management skill, longer serving CEOs, size of audit committee, audit committee independence, foreign ownership, institutional ownership, dividend policy and annual general meeting are positively associated with the financial performance of insurance companies in Ghana. The insurance companies are encouraged to adopt good corporate governance practices to improve their financial performance and also to protect the interest of the shareholders. Most importantly the regulatory authorities must ensure compliance with good governance and apply the appropriate sanctions for non compliance to help the growth and development of the insurance industry.

Key Words: Ghana insurance industry, Corporate governance, Firm performance

1. Introduction

Corporate governance has become a topical issue because of its immense contribution to the economic growth and development of nations. The absence of good corporate governance is a major cause of failure of many well performing companies. Existing literature generally support the position that good corporate governance has a positive impact on organisational performance; OECD (2009), ACCA, (2008), Gompers et al, (2003), Claessen et al, (2002) and others. The economic well being of a nation is the reflection of the performance of its companies. Thus the low level of development of developing nations is attributed to the low level of good corporate governance practices. As a result such countries have been identified by the World Bank and other writers as having inadequate capacity to effectively manage their resources. Hence the emphasis placed on good corporate governance in the existing literature as the most important problem facing the development of countries, such as Ghana.

Several studies conducted in the developed countries have confirmed the positive relationship between good corporate governance and organisational performance, (see Coase, 1937, Jensen and Meckling, 1976, Fama and Jensen, 1983, Harris and Raviv, 1988, Vishny and Shleifer, 1997, OECD, 2009). However, little research has been done on the subject in developing countries, and even less in Ghana, some recent studies notwithstanding, namely, Abor and Biekpe, 2007, Tsamenyi et al, 2007, Bokpin et al, 2009. And specifically no study has yet been undertaken on corporate governance and performance in the insurance industry. Despite the fact that insurance companies have witnessed such rapid expansion and assumed importance in the economy of Ghana as to make the need for such a study quite imperative.

The concept of corporate governance has been defined as “dealing with the ways in which suppliers of finance to corporations assures themselves of getting a return on their investment” (Shleifer and Vishny, 1997, p.737). It deals precisely with problems of conflict of interest, design ways to prevent corporate misconduct and aligns the interests of stakeholders using incentive mechanism (Shleifer and Vishny, 1997). Good corporate governance is a desired feature of a liberalized market to ensure the flow of both foreign and domestic capital for accelerated economic development. This is because it increases investor confidence and goodwill, ensures transparency, fairness, responsibility and accountability.

Gompers et al. (2003) maintained that good corporate governance increases valuations and boost the profitability of the firm. According to Claessen et al. (2002) better corporate frameworks benefit firms through greater access to financing, lower cost of capital, better performance and more favourable treatment of all stakeholders. Donaldson (2003) posit that good corporate governance is important for increasing investor confidence and market liquidity. According to Frost et al. (2002), improvements in corporate governance practices that contribute to better disclosures in business reporting in-turn can facilitate greater market liquidity and capital formation in emerging markets.

The insurance industry is an important component of the financial sector of the economy because of its financial intermediation role. They give protection to policyholders by guaranteeing the safety of their investments against accident and thereby promoting business activities in the country. As a result of the peculiar characteristics of the insurance industry and the significant contributions that is making to the development of the economy coupled with the non existence of such study, there is a strong ground to conduct this research. This article is organised in four parts: the introduction, review of relevant literature, followed by the methodology, discussion of the results and the conclusion.

2. Literature review

Corporate governance is seen as the whole set of measures taken within an enterprise to favour the economic agents to take part in the productive process, in order to generate some organizational surplus, and to set up a fair distribution between the partners, taking into consideration what they have brought to the organization (Maati, 1999). The literature is reviewed from four complementary theoretical perspectives.

2.1 Agency Theory

One of the theoretical principles underlining the issue of corporate governance is the agency theory developed by Jensen and Meckling (1976) resulting out of the separation of ownership and control. Investors have surplus funds to invest but due to technical constraints such as inadequate capital and managerial expertise to manage the funds, employ the services of managers to invest their funds in profitable ventures to generate good returns and the managers rewarded for their service. Agency problem however arise because the actions of managers do not always promote the interest of the financiers, some of their actions are very detrimental to the fortunes of the financiers. Thus agency problem as described by Jensen and Meckling (1976) focuses on the consumption of perquisites by managers and other types of empire building (La Porta et al., 2000).

It is interesting that, these managers often tend to entrench themselves in power. According to Shleifer and Vishny (1989), managers can expropriate shareholders by entrenching themselves and staying on the job even if they are no longer competent or qualified to run the firm. Managerial expropriation of funds can also take more elaborate forms than just taking cash out, such as transfer pricing (Shleifer and Vishny, 1997). Such transfer pricing, asset stripping, and investor dilution, though often legal, have largely the same effect as theft (La Porta et al., 2000). Additionally, managerial expropriation could also take the form of diversion of corporate opportunities from the firm, installing possibly unqualified family members in key managerial positions, or overpaying executives, using the profits of the firm to benefit themselves rather than return the money to the investors (La Porta et al., 2000). As a result of the interest of the opportunistic, self-interested managers, there was an agency loss which is the extent to which returns to the residual claimants, the owners fall below what they would be if the owners, exercised direct control over the company (Jensen and Meckling, 1976).

The remedies to this conception of the agency problem within corporate governance involves the acceptance of certain ‘agency costs’ involved either in creating incentives or sanctions that will align executive self interest with the interest of shareholders, or incurred in monitoring executive conduct in order to constrain their opportunism (Roberts, 2004). Thus principles of corporate governance are meant to control the internal and external entrenchment practices of executives through internal and external control mechanisms which either align the interest of executives with the shareholders or monitor them directly (Boyd, 1994; Gibbs, 1993; Hill et al., 1988; Walsh et al., 1990).

2.2 Stewardship Theory

The stewardship theory emerged as a result of the seminar work by Donaldson and Davis (1991). The theory is based on the assumption that the interest of shareholders and the interest of management are aligned therefore management is motivated to take decisions that would maximize performance and the total value of the company. The theory believes that there is greater utility in cooperative than individualistic behaviour and hence whilst the actions of management would be maximizing shareholder wealth, it would at the same time be meeting their personal needs. The managers protect and maximize shareholders wealth through firm performance, because by so doing, their utility functions are maximized (Davis et al., 1997). To achieve this goal congruent, the shareholders must put in place appropriate empowering governance structures and mechanisms, information and authority to facilitate the autonomy of management to take decisions that would maximize their utility as they achieve organizational rather than self-serving objectives. For CEOs who are stewards, their pro-organizational actions are best facilitated when the corporate governance structures give them high authority and discretion (Donaldson and Davis, 1991). Davis et al., (1997) identified five components of the management philosophy of stewardship as trust, open communication, empowerment, long-term orientation and performance enhancement.

2.3 Resource Dependency Theory

The resource dependency theory was developed by Pfeffer (1973) and Pfeffer and Salancik (1978) with the objective of emphasizing the important role played by board of directors in providing access to resources that would enhance the company’s performance and protect it against externalities. Companies require resources in areas of finance, human, technical, information, communication and technology to function properly and to achieve their objectives. Daily et al. (2003) posit that the accessibility to resources enhances organizational functioning, performance and survival. Hillman et al. (2000) argue that resource dependency theory focuses on the crucial role that the directors play in providing or securing essential resources to the company through their linkages to the external environment. They contend that, directors bring resources to the company in the form of information, skills, access to key constituents such as suppliers, buyers, public policy makers, social groups as well as legitimacy. Organizations depend on each other for business because they form the largest proportion of the organization’s customer base, meaning the actions of one organization can greatly influence the financial performance of the other either positively or negatively. Therefore the need for organizations to establish relationships at board levels. Johnson et al. (1996) agreed that the theory provides focus on the appointment of representatives of independent organizations as a means of gaining accessibility to resources critical to the organizations success.

According to Pfeffer and Salancik (1978) boards provide advice, counsel and know-how, legitimacy and reputation, channel for communicating information with external organizations, and preferential access to commitments or support from important actors outside the firm. The boards perform these functions through social and professional networking (Johannisson and Huse, 2000) and interlocking directorates (Lang and Lockhart, 1990). Abdullah and Valentine (2009) classified directors into four categories of insiders, business experts, support specialists and community influentials. Zahra and Pearce (1989) posit that the diverse background of the directors enhance the quality of their advice. The theory favours larger boards (Dalton et al., 1999; Booth and Deli, 1996; Pfeffer, 1973; Provan 1980).

2.4 Stakeholder Theory

Agency theory holds a contractual view of the relationship between managers and shareholders where the managers have the sole objective of maximizing the wealth of shareholders. Stakeholder theory considers this view to be too narrow since manager's actions have effect on other interested parties than just shareholders. The theory was developed by Freeman (1984) with emphasis on the need for managers to have corporate accountability to stakeholders instead of shareholders. Stakeholders are "any group or individual that can affect or is affected by the achievement of a corporation's purpose" (Freeman 1984, p.229). Donaldson and Preston (1995) defined stakeholders as identifiable groups or persons who have legitimate interest in an organization and these interests have intrinsic value. The theory is interested in how managerial decision making affect all the stakeholders and no one interest should be able to dominate the others (Donaldson and Preston, 1995). Stakeholder theory like the resource dependency theory, also proposed for the representation of the various interest groups on the organization's board in order to ensure consensus building and to avoid conflicts. The board therefore serves as arbitration over the conflicting interests of the stakeholders and brings about cohesion needed for the achievement of the organizational objectives (Donaldson and Preston, 1995).

In spite of the good intentions of the theory, it has been criticized for putting too much burden on managers by making them accountable to many stakeholders without specific guidelines for solving problems resulting from conflicting interests. This situation has given managers the discretionary powers to decide on whose interest to serve (Jensen, 2001). Jensen (2001) suggested that managers should pursue objectives that would lead to increasing the long-term value of the firm since this would not be attained by ignoring the interest of some of the stakeholders. Jensen (2001) also criticized the theory for adopting a single-valued objective of maximizing wealth of its stakeholders. According to him, the performance of an organization is not only measured by returns to the stakeholders but equally important is the management of information in the organization with particular reference to vertical communication, inter-personal relationships in the organization and the working environment. He refined the theory to "enlighten stakeholder theory" to take care of the shortcomings. With this, the company should take into consideration the interests and influences of people who are either affected or may be affected by company's policies and operations (Frederick et al., 1992). As a result of the complex nature of the stakeholder relationship and the need for the better management of the various stakeholders, Donaldson and Preston (1995) have concedes that stakeholder theory cannot be a single theory but categorized them into three different approaches of descriptive, instrumental and normative.

3. Corporate Governance and Firm Performance

Previous studies (Rajan and Zingale, 1998; Brickly et al., 1994; Williams, 2000; Drobetz et al., 2003; Byrd and Hickman, 1992; Hossain et al., 2000; Rosenstein and Wyatt, 1990; Gemmill and Thomas, 2004; Weisbach, 1988) have established positive relationship between good corporate governance practices and firm performance. However, other studies (Bathala and Rao, 1995; Hutchinson, 2002) have established negative relationship. Nevertheless, other researchers (Park and Shin, 2003; Singh and Davidson, 2003) could not established any relationship. The inconsistencies in the research findings could be attributed to the restrictive nature of data. Despite these conflicting results, the literature generally attests that there is no doubt as to the importance of good corporate governance in enhancing firm performance. This fact is attested to by the particular attention being given to issues of corporate governance by governments, regional bodies, and private institutions. In the aftermath of the financial crises in 2007, OECD (2009) on the corporate lessons from the financial crises concluded that, the crises was largely due to failures and weaknesses in corporate governance arrangements which could not serve their purpose to safeguard against excessive risk taking by the financial institutions.

4. Hypotheses Development

The empirical literature on corporate governance and firm performance identified a number of characteristics of corporate governance which influence firm performance. Following is the discussion of some of these characteristics and the hypotheses to be tested.

4.1 Board Size

The number of directors constituting the board of a company can influence its performance positively or negatively. As noted by Jensen (1993) a value-relevant of corporate boards is its size. The problem, however, remains that, it is difficult to determine the optimal size of boards since a lot of factors are taken into consideration in choosing directors. Lipton and Lorsch (1992) argue that, an optimal board size should be between seven and nine directors to ensure better coordination, accountability, reduce free riding problem and faster decision making which enhances firm performance. This view is supported by other studies (Yermack, 1996; Sanda et a.l, 2005; Eisenberg et al., 1998) which indicated that the financial market value firms with relatively small board sizes. On the other hand, larger boards would offer the company the opportunity of pool of talents and wide range of expertise to help make better decision and difficult for powerful CEOs to dominate. However, Jensen (1993), and Lipton and Lorsch (1992) disagree and suggested that larger boards are less effective and easier for powerful CEOs to control. The discussion leads to the first hypothesis:

H_1: The size of the board of directors is negatively related to firm performance.

4.2 Board Independence

The mix of executive and non-executive directors constituting a firm's board is very important for its performance. The proportion of the directors would to a large extent determine the quality of decisions taken since objectivity would play a crucial role and whether the board can actually monitor and control the management. A board is seen to be more independent if it has more non-executive directors (John and Senbet, 1998). Executive directors are more familiar with the activities of the organization and therefore in a better position to monitor top management particularly if they perceived the opportunity to be promoted to positions occupied by incompetent executives. Similarly, non-executive directors may act as "professional referees" to ensure that competition among executive directors stimulates actions consistent with shareholder value maximization (Fama, 1980). Indeed, evidence from empirical studies (Byrd and Hickman, 1992; Brickley et al., 1994; Weisbach, 1988) strongly agreed to the crucial role of non-executive directors in monitoring management performance, offering invaluable advice to shareholders and protecting the interest of shareholders. According to Rosenstein and Wyatt (1990) financial markets usually respond positively to the announcement of the appointment of non-executive directors by showing an appreciable level of improvement in the performance of the company's shares. Though other studies (Hermalin and Weisbach, 1991; Bhagat and Black, 2002; Fosberg, 1989; Yermack, 1996; Klein, 1998; Agrawal and Knoeber, 1996) could not established any significant relationship between non-executive directors and firm performance, it is generally accepted that the effective performance of the board depends on having the right proportion of executive and non-executive directors on the board (Fama and Jensen, 1983; Baysinger and Hoskinsson, 1990; Pearce and Zhara, 1992). This leads to the second hypothesis:

H_2 : Non-executive directors have positive relationship with firm performance.

4.3 CEO Duality

CEO duality occurs when the two most powerful positions in the company, the chairman of the board and that of the CEO are combined and held by one person. Such situations concentrate too much power in the hands of one person leading to decisions that would not promote the interest of shareholders. Brickley et al. (1997) suggested that the combination of the two positions would bring about conflict of interest and higher agency cost. According to Jensen (1993) the apparent lack of independence in the leadership structure would make it difficult for the board to respond to top management failures. Again, Fama and Jensen (1983) posit that the concentration of decision making and decision control in one person would inhibit the effectiveness of the board in monitoring top management. Similarly, the empirical evidence on CEO duality is mix. Rechner and Dalton (1991) found positive relationship between combining the two positions because it speeds up the decision making process and remove unnecessary bureaucracy and hence stronger financial performance. On the other hand, Sanda et al. (2005) found positive relationship in separating the two positions. However, Daily and Dalton (1992) found no link between CEO duality and corporate performance. This leads to the third hypothesis:

H_3: The separation of CEO and board chairman positions has positive relationship with firm performance.

4.4 Board and Staff Skills Levels

The skill levels of directors and management is very essential for effective performance. They are responsible for the formulation, implementation and evaluation of corporate strategy. These functions have direct effect on the long-term survival of the company. According to Lybaert (1998) better corporate performance is as a result of proven positive relationship of higher levels of education among entrepreneurs and their willingness to use external information, develop networks, make use of consultants or develop more detailed accounting and monitoring. Another view expressed by Powell (1991) suggested that, there may be negative relationship between skill levels and firm performance due to the occupational and professional affiliations of highly qualified managers which may increase agency behaviour. Ideally, if directors and managers should demonstrate the outmost good faith and integrity required of them, then higher skill levels should bring about higher corporate performance. Hence the fourth hypothesis:

H_4 : The skill levels of board and staff have positive relationship with firm performance

4.5 CEO Tenure

This is how long a CEO served in that position before removal or resignation from office. All other things being equal, the longer a CEO stays in office the better the corporate performance. This is because the CEO as the head of the executive needs the assurance of his job security to be able to take decisions that would enhance the performance of the firm. CEOs take strategic decisions that are short-term, medium term and long-term in nature. It is the long-term decisions that benefit the firm the most because the benefits would accrue over a long period of time and guarantee the long-term survival of the firm. However, if appropriate measures are not taken to monitor the CEOs, there is the tendency that they would become complacent and engage in activities to expand their control refers to as empire building. In such a situation the performance of the company would suffer at the expense of the CEOs personal interest. A long tenure of CEO not only gives job security but also influences CEOs investment decisions because they stand the chance to witness the results of their decision and hence are likely to be proactive and magnanimous in their decisions because of the psychological influence (Kyereboah-Coleman, 2007). Subsequently, the fifth hypothesis:

H_5 : Longer serving CEOs enhance firm performance

4.6 Audit Committee

Audit committees are sub-committee of the board of the company. It is a very important corporate governance mechanism with the objective of enhancing the credibility and integrity of financial information produced by the company and to increase public confidence in the financial statements. Audit committee is one of the committees recommended by the Cadbury committee to have oversight responsibility over management in the preparation of the financial statements. In order to ensure the independence of the audit committee, the committee must consist of only non executive directors and with a membership of not less than three members. The establishment of audit committee would lead to better corporate performance. This leads to the sixth and seventh hypotheses:

H_6 : The size of audit committee has positive relationship with corporate performance

H_7 : More non-executive directors on audit committees have positive relationship with corporate performance.

4.7 Foreign Ownership

Foreign ownership is expected to improve the corporate governance practices and performance of the company. These are investors who come to invest in the economy of another country for a good return on their investment and would therefore ensures effective monitoring of management to avoid any managerial expropriation. These investors may be coming from countries of best practices that uphold the tenets of good corporate governance and would like to replicate it where they invest. This would require more disclosure and transparency in the financial reporting. According to Stulz (1999) foreign institutional investors brings about lower agency cost. The institution of these stringent control mechanisms leads to higher firm performance. This lead to the eighth hypothesis:

H_8 : Foreign ownership is positively related to corporate performance.

4.8 Institutional Ownership

The nature of a company's ownership structure plays a significant role in influencing its performance. The company's share ownership structure could either be widely- dispersed as prevail in US and UK where shares of large number of publicly-traded firms are widely-held (Dennis and McConnell, 2003) or concentrated ownership where the firm's shares are owned by few largest shareholders, mostly by institutions. According to Krivogorsky (2006), more than 50% of shareholdings in listed industrial companies in Australia, Belgium, Germany and Italy are held by large blockholders. The presence of large shareholders in a firm's capital structure would greatly impact the firm's performance positively. This is because these shareholders are able to influence management decision and also have the resources to monitor management activity and the power to remove non-performing managers from office. According to Kyereboah-Coleman (2007) depending on the involvement and influence, institutional shareholding is a key signal to other investors of the potential profitability of the firm which could lead to increase demand for the firm's shares and improve its market valuation. From the foregoing, we expect positive relationship between institutional shareholding and firm performance. Hence, we test the following hypothesis:

H_9 : There is positive relationship between institutional shareholding and firm performance

4.9 Dividend policy

A firm's dividend policy gives an indication of how profit would be appropriated when declared. The profit could either be used to pay dividend to shareholders or retain for investment in the company. This is very important because when the company pay more of the profit in the form of dividend to the shareholders then they may have to raise funds from the financial market for investment. The dividend policy therefore helps investors to determine which company to invest. Companies with more generous dividend policy are likely to attract more investors and this would help improve their performance. The company internally would be performing well because of availability of funds through primary issue of equity shares and the shares would be actively traded on the stock exchange and improving the company performance in the market. This leads to our tenth hypothesis:

H_{10}: There is positive relationship between dividend policy and firm performance.

4.10 Annual General Meeting

Annual general meeting is the highest decision making body of the company and therefore offer the shareholders the opportunity to take part in the governing process of the company**.** It is a period of accountability by the directors of their stewardship to the shareholders and for the renewal of their mandate to continue in office. Major decisions are taken by the shareholders at the meeting which determine the strategic direction of the company. The annual general meeting serve as a monitoring mechanism and therefore enhance transparency of the company's operations. These processes would help improve the performance of the company. This leads to the eleventh hypothesis:

H_{11}: There is positive relationship between annual general meeting and firm performance.

5. Measuring Firm Performance

The key performance indicators chosen to measure performance of companies depend on the interest and justification of the analyst. Performance indicators normally include profitability, efficiency, leverage and liquidity. According to Bourne and Franco (2003) a good performance measure must have the fundamental characteristic of being a broad based measure, structured understanding of strategy, provide feedback and take action on results. The study is focus on those measures that are strategically important for the success of the company. In that direction, the study would measure the financial performance of the companies by looking at profitability (ROA and ROE) and corporate social responsibility (CSR).

6. Methodology

The study employed combination of primary and secondary data to answer the research questions. The data was collected through the use of self-administered questionnaires and the financial statements of the companies for the period 2005-2009. The study used panel data framework which follows the one used by Abor and Biekpe, (2007). This involves the pooling of observations on cross-section of units over several time periods and provides results that are simply not detectable in pure cross-sections or pure time-series studies. An observation in panel data involves at least two dimensions; a cross-sectional dimension, indicated by subscript i, and a time series dimension, indicated by subscript t (Hsiao and Yanan, 2006). Attached to the variables in the model are double subscripts in order to differentiate them from regular time-series or cross section regression. The general panel data is of the form:

$$Perf_{it} = \alpha_i + \beta X_{it} + \delta W_{it} + kC_{it} + \mu_{it} \quad (1)$$

Where:

$Perf_{it}$ = performance of firm *i* in time *t*;
X_{it} = a vector of board factors of firm *i* in time *t*;
W_{it} = a vector of ownership variables of firm *i* in time *t*;
C_{it} = a set of control variables of firm *i* in time *t*;
μ_{it} = the error term

To ensure robustness of the model and to reduce specification bias, the model also includes control variables of size, age and asset tangibility. Since performance is a function of both board and ownership variables, the model is restated as;

$$Perf = \alpha + \beta(board) + \delta(ownership) + k(control\ factors) + \mu \quad (2)$$

(Insert Table 1: Variables, definition and measurement)

7. Empirical results

7.1 Descriptive Statistics

Table 2 report the descriptive statistics of the dependent and the independent variables of the study. On the average, most of the companies achieved return on asset of 8% with the maximum of 19% and minimum of 1% respectively. The mean value of the return on equity was 18%, maximum of 33% and minimum of 4%. In terms of CSR, the mean value was 26% meaning only about 5 companies in the last four years have a declared CSR policy. The board size of the companies ranges between a maximum of 11 and a minimum of 5 members with most of the companies having 7 members. Averagely, the boards are constituted by 6 non-executive directors and up to a maximum of 10 members and a minimum of 2 members. Most of the directors on the boards have either a degree or professional qualifications with the mean value of 7 directors, minimum of 5 and maximum of 11 directors respectively. On the average 8 members of management have degree or professional qualifications with a maximum of 15 members and a minimum of 4 members. The average number of years that CEOs stays in office is 7 years up to a maximum of 17 years and minimum of 3 years. The companies have on the average 5 members constituting the audit committee, maximum of 7 and minimum of 3 members. Out of the number, independent directors constitute 4 members on the average, maximum of 5 and minimum of 2 members. Foreign ownership constitutes 26% of ownership on the average meaning 74% of ownership is held by local investors. Institutional ownership represents 28% and 72% by individual investors. On the average 53% of the companies have dividend policy whilst 47% of them are without. Most of the companies, that is, 95% held regular shareholders annual general meeting in the last four years. The mean value of the size of the companies is 15.46, the maximum of 18.81 and the minimum of 10.70. The mean value of asset tangibility is 19% with the maximum of 50% and minimum of 14% respectively. The average age of the companies is 29 years, the maximum of 80 years and minimum of 7 years.

(Insert Table 2: Descriptive Statistics)

7.2 Regression Results

7.2.1 Board Factors

The regression results of the relationship between board factors and performance are shown in table 2. The results indicate a statistically significant positive relationship between board size and return on assets. This result is in sharp contrasts with the predicted negative relationship. Therefore, hypothesis one is rejected. This result means that larger boards are better, therefore the larger the board, the better the performance of the company. This position is premised on the assumption that larger boards are constituted with members from different backgrounds that brings to the board different skills and professional expertise. This would facilitate better decision making and place the board in a better position to monitor the activities of management. Yawson (2006) posits that because of the diversity of the directors of larger boards it enhances the knowledge base of the companies. According to Pearce and Zahra (1992) larger boards provide better access to their firm's external environment, risk reduction and acquisition of critical organisational resources needed for firm performance. This is because the directors are expected to be an important link between the company and their networks.

However, larger boards may experience agency and free-rider problem. According to Nanka-Bruce (2009, p.32),"agency problem increases with board size because of more conflicting groups representing their own diverse interests as free-riding also increases as some directors neglect their monitoring and controlling duties to other directors on the board". Gyakari (2009, p.98) also argue that "larger boards have larger financial cost implication since they consume more pecuniary and non pecuniary company resources in the form of remuneration and perquisites than small boards".

Several studies suggested that smaller boards are better because they may have little difficulties with communication and coordination. These studies (Hermalin and Weisbach, 2003; Yermack, 1996; Eisenberg et al., 1998; Loderer and Peyer, 2002; Conyon and Peck, 1998; Carline et al., 2002; Mak and Yuanto, 2002) have found negative relationship between board size and firm performance. However, Aggarwal et al. (2007) found no relationship between board size and firm performance. The question therefore arises as to what is the optimal board size? It is difficult to provide one solution to the question that would fit all companies. This is because companies have different needs and several considerations are made before appointing directors, for instance, issues of the diversity of the company's operations, skills requirement, shareholding structure, regulatory requirements, and size of the company among others would have to be taking into account. Studies such as Brown and Caylor (2004) suggested a board size of between 6 and 15 members whilst Jensen (1993) argues for 7 or 8 members. Lipton and Lorsch (1992) are in support of a board size of between 8 and 9. It would be ideal to have a board size of between 7 and 9 members to ensure efficiency of operations and for an improved performance.

The results indicate positive relationship between board independence and performance even though not statistically significant. This means that the appointment of more non executive directors to the board would lead to an improved performance. This evidence is in support of hypothesis two. This position is supported by previous studies (Aggarwal et al., 2007; Hossain et al., 2001; Nanka-Bruce, 2009; Kyereboah-Coleman, 2007; Rechner and Dalton, 1991; Pfeffer, 1972). The presence of majority non executive directors on the board strengthen the independence of the board that enable them to play their monitoring role effectively and ensures competition among the executive directors which promote firm value maximisation (Fama, 1980; John and Senbet, 1998; Baysinger and Butler, 1985; Rosenstein and Wyatt, 1990; Kaplan and Minton, 1994; Ho and Williams, 2003; Mangena and Chamisa, 2008). Scarborough et al. (2010, p.6) argue that "A board with outside members makes it more likely that the board is looking out for the interest of the shareholders". Since the non executive directors are not involved in the operational activities of the company, they would avoid issues of unresolved conflict of interest and therefore in a position to look at issues objectively and this would help improve performance (Lorsch, 1995). Scarborough et al. (2010, p.6) suggested that "Board of directors with conflicts of interest will not engage themselves broadly and exercise their legal authority if directors personal interests are at odds with their fiduciary duty to stakeholders". According to Scarborough et al. (2010) independent boards promote board activism because the directors would be able to challenge and criticise the decisions of the management. These objective criticisms ensure that management is taking the right decisions in the interest of stakeholders which translate into better performance.

An independent board in exercising its oversight responsibility over management is able to replace poor performing CEOs (Weisbach, 1988). As a result the only way to maintain the CEO position is performance. According to Huson (2001) independent boards prefer recruiting from external to replace non performing CEOs rather than internal promotion. This would ensure that the CEO brings new ideas to improve the company's performance. However, other studies (Agrawal and

Knoeber, 1996; Conyon and Peck, 1998; Ezzamel and Watson, 2002; Weir and Laing, 2000; Haniffa and Hudaib, 2006) have found negative relationship between board independence and performance. Non executive directors may not have total commitment to the cause of the company because of other commitments. As a result, they may not be on top of issues affecting the company and this would limit their contribution to performance of the company. According to Baysinger and Hoskisson (1990) non executive directors are limited in scope and understanding when it comes to complexities involve in decision making because of their temporal position. Other studies (Kang and Shivdasani, 1995; Kesner, 1987; Zahra and Stanton, 1988) could not establish any relationship.

The results show a statistically significant and positive relationship between board skill and return on asset. This underscores the importance of directors' skills to the performance of the company. This support hypothesis four. The continue training and development of the directors to upgrade their skills to meet current challenges is essential to the performance of the company. According to Carter and Lorsch (2004) corporate boards many a times operate in a complex environment and face a number of dilemmas. As the heads of the company when they fail to discharge their duties efficiently as a result of poor skill, it would negatively affect performance. Several corporate failures have been attributed to the inability of boards to identify the problems early enough because they lack the requisite skills. In addressing this challenge, several institutions have designed specific courses for the training of directors, particularly in the area of risk management. According to Coulson-Thomas (2007, p.369) "if boards are to add more value, make a greater contribution to corporate growth and create a better tomorrow, they may need to challenge conventional thinking and question current practices". This can only be possible when the board acquired the necessary skills and expertise needed to provide and communicate clear direction, a distinctive vision, a compelling purpose, achievable goals and clear objectives (Coulson-Thomas, 2007). However, Abor and Biekpe (2007) found a negative relationship and Grace et al. (1995) found no association between the personal characteristics of non executive directors and firm performance.

Similarly, the study indicates a positive relationship between management skill and firm performance which is in support of hypothesis four. This result is consistent with the result of Abor and Biekpe (2007). The executive management is directly in charge of the day to day operations of the company and therefore responsible for the success or failure of the company. It is the responsibility of the board to recruit people with the requisite skills and the needed expertise to perform the job assigned to them. However, the responsibility rest with the company to continue training the executive management to be abreast with modern trends. This would ensure that they make effective contribution to the company's performance.

Also the result of the study shows that CEO tenure has a statistically significant positive relationship with return on asset. This is a confirmation of hypothesis five. Thus the longer the tenure of CEOs, the better the firm performance. This is because if the job security of the CEO is guaranteed then he/she would be prepared to take capital investment decisions that would have long-term effect on performance. It is also important that the board adopt a comprehensive approach in evaluating the performance of the CEO so that they do not concentrate only on the short term earnings of the firm but must look into the future the benefits the firm is likely to derive from decisions taken.

Furthermore, the control variable of firm size has positive relationship with performance though not statistically significant. This is an indication that bigger firms perform better than smaller firms. This is because they have access to more resources and would be in a better position to take advantage of investment opportunities compare to smaller firms. Asset tangibility also shows positive relationship with performance. Firms with bigger asset base are able to use them to generate more income than firms with smaller asset base. Organisational age has a positive relationship with performance, though not statistically significant. This means that, the older the firm the better the performance. This is as a result of resources and experiences accumulated over the years. Older companies may also be enjoying economic of scale which would improve their performance. The investor confidence and customer goodwill of older companies would be much higher than new companies.

(Insert Table 3: Board Factors)

7.2.2 Audit Committee Factors

The result of our study has shown a statistically significant positive relationship between the size of audit committee and performance. Therefore hypothesis six is accepted. The oversight responsibility of the audit committee over the financial reporting of the company ensures the integrity of the financial statements and enhances the transparency of the processes of preparing the financial statements. According to Kalblers and Forgarty (1993) the responsibilities of audit committee included oversight of financial reporting, external auditor and internal controls. Carcello and Neal (2000) suggested that audit committees through the effective performance of their monitoring function can give an assurance of the quality of financial reporting and corporate accountability. Braiotta (1999) argue that the size of the audit committee does not depend only on its responsibilities and authority but also the size of the board and the company. However, the size of the audit committee must be appropriate to include directors with the necessary qualifications.

Secondly, the results indicate a positive relationship between audit committee independence and performance which support hypothesis seven. This result should be expected because due to the sensitive nature of the committee's functions, it is important that, it is highly independent of management to ensure transparency and to be an effective monitor (Klein, 1998). Previous studies (Carcello and Neal, 2000; McMullen, 1996) have found evidence that companies with reliable financial information are likely to have independent audit committees. The independence of the audit committee would ensure that management would not engage in inappropriate methods of financial reporting. Klein (2002) argued that the problem of earnings management could be minimised if the audit committee is independent and hence improved transparency. The independence of the audit committee is however compromise when as a result of technical deficiency of the board, executive directors are included on the committee. To ensure the total independence of the committee, it should be composed entirely of non executive directors.

(Insert Table 4: Audit Committee Factors)

7.2.3 Ownership Factors

The results show a statistically significant positive relationship between foreign ownership and performance. Therefore we accept hypothesis eight. This is a clear indication that foreign investors brings about improvement in the performance of the local companies. They bring in financial resources to support the capital base of the local companies which enable them to acquire the necessary assets and the human resources needed to boost their performance. The foreign investors depending on the ownership agreement may have representation in management and on the board through which they influence decision making. According to Pallathitta (2005) foreign ownership goes beyond financial contribution and extends to provision of managerial expertise and technical collaboration. With these the companies begins to do things differently which helps to increase the efficiency and effectiveness of the operational processes leading to improve performance. The foreign investors in their efforts to protect and safeguard their investment and to ensure better yield normally institute stringent monitoring measures that leave no room for poor performance. In a previous study, Djankov and Hoekman (2000) find a positive relationship between foreign ownership and the provision of generic and specific knowledge to the local company.

Also the presence of institutional ownership brings about an improvement in performance as indicated by the result of our study which shows a positive relationship between institutional ownership and performance. This support hypothesis nine. Institutional investors have the incentive to monitor the performance of management because of their economic interest and thereby reducing the information asymmetry associated with the separation of ownership and control. Several studies (Pallathitta, 2005; Short et al., 2002; Tong and Ning, 2004; Ozkan, 2006; Jensen, 1986; Pound, 1988) have emphasised the important role of institutional investors in monitoring management activities through their representation on the board. Institutional investors are also better informed when it comes to decision making because they are able to access information from different sources independent of the company. Institutional investors through their activities are able to increase the performance of the firm (Shleifer and Vishny, 1986; Barucci, 2005). However, Al-Najjar (2010) and Tong and Ning (2004) have found negative relationship between institutional shareholdings and firm performance.

Additionally, the result has shown positive relationship between dividend policy and performance supporting hypothesis ten. This position is supported by previous studies (Pruit and Gitman, 1991; Baker et al., 1985) which suggested profit as an indicator of dividend payment. If the dividend policy of the company is more align towards payment of higher percentage of profit to shareholders as dividend it would in a way motivate management to perform better because the payment of dividend would serve as information to the shareholders about the performance of management. The announcement of the payment of dividend would signal to potential investors about the future earnings of the company and they would be willing to invest in the company. This would improve the share price of the company and the shareholders stand to benefit from the appreciation in their share value. This would also make the company attractive to investors and makes it easy for the company to raise additional funds to support its operations and help improve its performance.

Again the result of the study shows a positive relationship between performance and annual general meeting confirming hypothesis eleven. This support the evidence of Dar et al. (2011) who finds positive relationship between return on equity and shareholders annual general meeting. Annual general meeting is the highest decision making body of the company where the directors present report of their stewardship on the principal activities during the year under review for assessment by the shareholders. According to Cordery (2005) annual general meeting is an accountability mechanism whereby the directors are held accountable to the shareholders. The directors therefore prove their accountability by reporting their achievements against key performance measures in both financial and non financial terms (Pitchforth, 1994). Annual general meeting as a key component of good corporate governance enhances the transparency process in the governance of the company. Shareholders take major decisions at annual general meetings such as the appointment and removal of directors, auditors as well as fixing their remuneration. As a result, it is only the competent directors who would remain in the helm of affairs of the company working diligently to improve the performance of the company.

(Insert Table 5: Ownership Factors)

8. Conclusion

The adoption of good corporate governance practices enhances transparency of company's operations, ensures accountability and improves firm's profitability. It also helps to protect the interest of the shareholders by aligning their interest with that of the managers. The study examined the relationship between corporate governance and the performance of insurance companies. The results show that generally corporate governance has positive impact on profitability. The factors of board size, board and management skill, CEO tenure, size and independence of audit committee, foreign and institutional ownership, dividend policy and annual general meeting, all have positive correlation with the performance of the insurance companies.

The findings show that the insurance companies must have the right board size which is highly independent from the management of the company and with the appropriate skills. This would ensure that the board is well diversified and have the competence to give the strategic direction of the company. Also being able to monitor management and ensure that internal controls are instituted and working. The annual reports and the financial statements of the companies are the main means of communication between the company and the stakeholders. Therefore the sensitive role of the audit committee by ensuring that the financial statements show the true position of the company's performance cannot be overemphasised. The audit committee must be well constituted to increase its independence and with the right size. Again the evidence shows that foreign and institutional shareholders bring a lot of advantages to the local companies that improve their performance. The companies should take measures to attract these all important segment of the investor population.

Furthermore, the result is an indication that the insurance companies are well positioned to support the economic growth and development of the country. With good corporate governance record, the companies would be able to generate more resources to create more employment opportunities, support businesses through prompt payment of accident claims, pay dividend to shareholders and generate more tax revenue to government. Again, through efficient management of their financial resources, they would be able to support the growth of investment in the economy through their financial intermediation role by channelling resources to the critical areas of the economy.

However, the study could not investigate other corporate governance characteristics due to data constraints. Therefore important factors such as insider ownership, remuneration committee, nomination committee, CEOs remuneration, capital structure, disclosure and frequency of board meetings among others could not be included. Again, since only two of the nineteen companies studied are listed on the stock exchange, we could not use market performance measures. Furthermore, the performance of a company is influenced by more factors than just good corporate governance. Issues of social, legal, economic and the political environment are equally important. It is therefore suggested that future research should consider some of these factors in exploring the impact of corporate governance on firm performance.

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APPENDIX

Variable	Definition	Measurement
Firm Performance		
ROA	Return on Asset	Net profit as a percentage of total assets
ROE	Return on Equity	Net profit as a percentage of shareholders equity
CSR	Corporate Social Responsibility	CSR as percentage of net profit
Board Characteristics		
BOARDSIZE	Board size	Number of directors on the board
INDEPENDENCE	Number of non-executive directors on the board	Proportion of non-executive directors sitting on the board
CEO DUALITY	Role of CEO	A binary that equal one if the CEO is Chairman of the board and 0 otherwise
BOARDSKILL	Qualifications of directors	Number of directors with degree or professional qualification
MANAGEMENT SKILL	Qualifications of Management	Number of management members with degree or professional qualification
CEO TENURE	Number of years served	Number of years in the position
AUDIT COMMITTEE	Size and independence	Numbers of members and Affiliates of audit committee
FOREIGN OWNERSHIP	Foreign ownership	A dummy variable with one if it is a foreign firm and zero if it is a Ghanaian-owned firm.
INSTITUTIONAL OWNERSHIP	Shares held by institutions	Percentage of shares held by institutions
Control Variables		
SIZE	Firm size in terms of total assets owned	Log of total assets
AGE	Age of firm	Number of years between Observation year and year of incorporation.
ASSETS TANGIBILITY	Firms fixed asset base	Ratio of fixed asset to total assets

Table 1: Variables, definition and measurement

Summary Statistics (observations = 19)				
Variables	**Mean**	**Std. Dev.**	**Min.**	**Max.**
Performance Measures				
Return on Assets	0.08	0.04	0.01	0.19
Return on Equity	0.18	0.09	0.04	0.33
Corporate Social Responsibility	0.26	0.45	0	1
Board Factors				
Board Size	7.47	1.98	5	11
Board Independence	5.89	2.21	2	10
CEO Duality	0	0	0	0
Board Skill	7.42	1.95	5	11
Management Skill	7.74	2.88	4	15

CEO Tenure	7.05	3.27	3	17
Audit Committee Factors				
Size of Audit Committee	4.58	0.90	3	7
Audit Committee Independence	3.74	0.81	2	5
Ownership Factors				
Foreign Ownership	0.26	0.45	0	1
Institutional Ownership	0.2753	0.2764	0	0.8
Dividend Policy	0.53	0.51	0	1
Annual General Meeting	0.95	0.23	0	1
Control Factors				
Firm Size	15.46	1.96	10.70	18.81
Asset Tangibility	0.19	0.14	0.01	0.50
Organisational Age	29.11	19.04	7	80

Table 2 Descriptive Statistics

Independent Variables	Dependent Variables		
	Return on Assets (ROA)	Return on Equity (ROE)	Corporate Social Responsibility (CSR)
Board Size	0.687	0.399	-0.003
	0.014*	0.563	0.996
Board Independence	0.009	-0.243	-0.014
	0.911	0.304	0.945
Board Skill	-0.712	-0.235	-0.154
	0.008*	0.714	0.783
Management Skill	0.042	0.175	0.081
	0.138	0.044*	0.025*
CEO Tenure	0.02	-0.008	0.043
	0.046*	0.915	0.52
Firm Size	-0.01	-0.007	0.011
	0.128	0.709	0.502
Asset Tangibility	-0.024	-0.318	0.022
	0.737	0.031*	0.903
Organisational Age	-0.006	-0.016	0.002
	0.088	0.135	0.789
R	0.799	0.678	0.608
R-Squared	0.638	0.459	0.37
Adjusted R-Squared	0.349	0.027	-0.035
S. E. of Regression	0.192	0.552	0.482

* Indicate significance at 5% level

Table 3 Board factors

Independent Variables	Dependent Variables		
	Return on Assets	**Return on Equity**	**Corporate Social**
	(ROA)	**(ROE)**	**Responsibility (CSR)**
Size of Audit Committee	-0.024	0.123	-0.165
	0.044*	0.035*	0.045*
Audit Committee Independence	0.084	0.294	-0.065
	0.490	0.026*	0.068
Firm Size	-0.006	-0.008	0.011
	0.043*	0.622	0.441
Asset Tangibility	-0.330	-0.135	0.093
	0.010*	0.043*	0.033*
Organisational Age	-0.004	-0.004	0.011
	0.113	0.044*	0.127
R	0.382	0.580	0.535
R-Squared	0.146	0.336	0.286
Adjusted R-Squared	-0.182	0.081	0.012
S. E. of Regression	0.258	0.537	0.450

* Indicate significance at 5% level

Table 4 Audit committee factors

Independent Variables	Dependent Variables		
	Return on Assets	Return on Equity	Corporate Social
	(ROA)	(ROE)	Responsibility (CSR)
Foreign Ownership	-0.319	-0.871	-0.322
	0.015*	0.002*	0.032*
Institutional Ownership	-0.478	-0.841	-0.091
	0.08*	0.125	0.888
Dividend Policy	0.395	0.455	0.118
	0.016*	0.127	0.737
Annual General Meeting	-0.205	-2.276	0.782
	0.566	0.007*	0.038*
Firm Size	-0.024	-0.058	0.006
	0.036*	0.016*	0.812
Asset Tangibility	0.068	0.169	0.035
	0.442	0.336	0.87
Organisational Age	-0.012	-0.028	0.01
	0.030*	0.011*	0.379
R	0.771	0.844	0.571
R-Squared	0.595	0.713	0.326
Adjusted R-Squared	0.337	0.531	-0.103
S. E. of Regression	0.193	0.383	0.475

* Indicate significance at 5% level

Table 5 Ownership factors