Constructive Bearing of Corporate Governance Mechanisms on Organizations: A Review of Corporate Governance Manual in Ghana

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ABSTRACT

The international standard on social responsibility, ISO 26000, describes organizational governance as a system by which an organization makes and implements business decisions in quest of its objectives. The corporate governance systems encompass management procedures that are geared towards delivering objective-based organizational performance, while considering the interests of stakeholders. The systems seek to ensure compliance of standards, regulations, and business rules to which organizations must observe and adhere to achieve the goal of the institution. In view of this, corporate governance manual provides a framework for directors, executives, and shareholders of organizations for protection and accomplishment. When the structures, practices, guidelines, regulations are strong, or stuck to, good governance would be upheld. In essence, the manual allows organizations to follow procedures that serve the needs of shareholders, management team, customers and other stakeholders responsibly and effectively, while meeting the organization’s short and long-term goals. It is generally associated with overarching principles such as fairness, independence, transparency, accountability, honesty and social responsibility. Corporate governance propels these principles into practice by making enhancements to internal controls and operational procedures to achieve organizational objectives.

Keywords: Corporate Governance; Mechanism; Framework; Ghana.
INTRODUCTION

The current trends in most countries especially in Ghana, has been that, citizens now put pressure on the government to be more transparent and accountable to the people. The most important support for promoting transparency and accountability is the issue of governance. Whenever there is a good governance, people’s hope for transparency and accountability rises and they tend to have trust in the system. Impliedly, good governance refers to the observance to the laid down procedures and processes in terms of policies, regulations, rules, structures and practices that leads towards achieving expected results (De Graaf and Herkströter, 2007). Where such rules, regulations, structures and practices are weak, or not adhered to, good governance ceases to exist. Although, good corporate governance brings about good governing structures and laid down policies and procedures, there are certain factors that impede the smooth running of promoting good corporate governance in the various public service organizations. The most influencing factor that impedes the smooth running of good corporate governance is lack of clearly defined interface between political holders and the Boards/Councils on one hand and political office holders and management of agencies on the other. In view of this, the government of Ghana has a corporate governance manual for governing boards/councils that governs Ghana public services. This policy document or manual governs all the public service institution in the country in respect of their governing structures, boards and councils. In lieu of this manual, most private organizations also conform to the standards set by the government because they are not isolated when it comes to corporate governance issues. SMEs in Ghana have now also see the need for proper laid down practices and structures in terms of governance issues to conform to the codes and ethics of corporate governance.

CORPORATE GOVERNANCE MECHANISMS IN GHANA

According to (Martin et al., 2016) corporate governance can be defined as a set of relationships between an organization’s management, governing body, owners and other stakeholders in which power is exercised in the management of economic and social resources for enhanced performance and sustainable development.

Importance of Good Corporate Governance

Corporate governance has been one of the most topical issues when it comes to corporate affairs and organizational success or failure stories. It is worthy to highlight some of the importance of good corporate governance and how it in achieving organizational results positively. The following are some of the importance of good corporate governance:

- Encourages global investors to invest in various sectors of the economy;
- Facilitates efficient and effective allocation of resources;
- Assures stakeholders, including the citizens that their welfare is of primary concern to the government and that both public and private services will managed efficiently and effectively;
- Creates an enabling environment where the citizens are empowered to voluntarily participate in governance so as to contribute towards national development;
- Assures stakeholders that those who mismanage or abuse the trust reposed in them shall be sanctioned in accordance with relevant laws, rules and regulations.

OVERVIEW OF CORPORATE GOVERNANCE FRAMEWORK IN GHANA

Public sector and public services mostly present a bureaucratic and challenging corporate governance architecture made up of the following: citizens, government, sector ministers, parliament, boards, management and other staff. The citizens are seen as the owners of the public service organizations. Government holds in trust the wealth of the citizenry. Sector Ministers have oversight responsibility of the sectors that they are in charge and reports directly to the parliament and the public. Parliament which are elected by the people (citizens) have a responsibility to be the legislatures and passes all the legislation instruments which underpins the operation of the framework, not excluding all the functions and responsibilities as well as the powers of the public services. Boards are then appointed by the President of the Republic of Ghana in consultation with the council of state. They are mostly responsible for the strategic goals, decisions and directions, setting targets as well as reviewing the performance of the management not excluding other functions which are set out for them to do.
Management and other staff mostly headed by the Chief Executive Officer (CEO) mostly appointed by the President of the Republic with the help and advice by the board. They are responsible for the implementation of all the strategic goals set by the board of directors of the organization.

**Principles of Good Corporate Governance**

There are set principles of good corporate governance which must be followed and adhered to by the various public service organizations and their boards or councils: rule of law; accountability; transparency; conflicts of interest; integrity; efficiency and effectiveness; social accountability; code of conduct; independence; and evaluation.

**Rule of Law:** principles of corporate governance indicate that, boards and councils shall at all times follow due process; which means that the rights of all the employees shall be upheld whenever there is an investigation into certain offences. The employee in question must be given a fair hearing and opportunity to also state the side of his/her story.

**Accountability:** it is the responsibility of the board/council members to render accounts of their stewardship to the appropriate authority. Any acts of omission or commission incurred will be the sole responsibility of the board/council because they are responsible for all the assets of the organization. They are accountable for all the properties and governs the properties and interest of the organization. They are also liable and accountable to the citizenry on the affairs of the organization in question since tax payers’ monies are used to run those public organizations.

**Transparency:** Board/council members must ensure there is openness in all their dealings. There must be a full disclosure with no secrecy in transactions which are handled by the board or council members on behalf of the others.

**Conflicts of interest:** the constitution of the Republic of Ghana makes it clear that “a public officer shall not put himself in a position where his personal interest conflicts or is likely to conflict with the performance of the functions of his office”. Guidelines on Conflict of Interest issued by CHRAJ provide public officials with adequate information to assist them identify, manage and resolve conflicts of interest.

**Integrity:** moral values and honesty is very key and one of the core values when it comes to holding public office. In this sense, board/council members must try as much as possible to do away with using information for their own benefits or portraying a double standardization. It is then imperative on the members to avoid illegal and fraudulent activities which can implicate them and bring disrepute to their personalities.

**Efficiency and effectiveness:** boards/council must make it a point to always produce results. They must be cost effective and efficient in allocation of resources where necessary in order to produce maximum results.

**Social Accountability:** board members and council members to adhere to international standards, practices and principles when appropriate with its responsibilities to take into accounts human rights; labor; environment, health and safety; and corruption. In this regard, they must be therefore apprehensive with further issues than only economic events; not be wholly fascinated in financial matters; be answerable to a wider clutch of stakeholders; and also diagnose that the accomplishment of their units goes further than broadcasting financial achievement.

**Code of Conduct:** boards/council shall enforce on themselves a Code of Conduct which shall outline the peculiar conduct of members; affiliation with the institute and its workforce members specifically; management; affiliation with stakeholders; appearance and active involvement at meetings by members; adherence to the oath of secrecy, oath of office and unauthorized disclosure of information. The codes and conduct shall have sanctions to make them effective and also issued by CHRAJ shall be a source of authority for members.

**Independence:** board members and council members must portray independence of minds in that no matter the circumstances and persuasion from external forces, they will not be influence in their decisions and thoughts. Members shall not under any circumstances be put under pressure to take decisions that benefit others than the organization. The only way the independency of members can be intact is when they stop seeking favors from individuals being it management or external persons.

**Evaluation:** in line with good corporate governance practices and principles, boards/council members on annual basis assess its performance and effectiveness as a team and that of individual members, not excluding the Chief Executive Officer.
Relationship among Board/Council, The Chief Executive Officer

The working relationship between the board and the CEO must be cordial in the sense that there must be mutual respect to enhance the growth and the success of the organization (Garg and Eisenhardt, 2017).

Members of the board and the CEO must cooperate in order to fulfill their mutual functions in the following areas: policy formulation and implementation; appointment/promotion of senior management; determination and advising on compensation; reviewing organizational structure; instituting internal control; strategy formulation and implementation; risk management; corporate oversight and internal control. Boards and councils mostly do not have executive powers to deal with certain matters unless they liaise with the CEO of the organizations or unless it is specified in the enabling Act and must act in good faith to allow the CEO exercise his/her administrative functions fully.

Unlike the public sector organizations which are guided and backed by the policies and manual discussed earlier, private organizations do not normally have a laid down policies and principles which must guide them in terms of corporate governance issues. However, Corporate Governance issues have become popular to an extent where most private organizations must conform to the public act and manual which serves as a guided principle to most organizations including private sectors like SMEs. In most private organizations like SMEs, there is always a thin line between the CEO and the Board Chairman of the organization since the CEO can play dual role (Duru et al., 2016).

THEORETICAL BASIS AND MECHANISMS OF CORPORATE GOVERNANCE

The conversion of ownership of companies, thus both public and private companies, from individual ownership to joint or communal possession has eventually impacted on the separation of powers between roles of ownership and where final decision-making rest. The leading separation of functions and roles leads to an unscrupulous attitude mostly from the managers.

Categorization of conflict amongst managers and stakeholders in the firm

a) **Agency conflicts:** separation of functions and roles between the managers and stakeholders mostly posed a challenge in the perfect running of the organization. The reason being that, each of them tries to maximize its wealth with no consideration to the other. However, it is the responsibility of the managers to ensure the organization runs in an efficient manner so as to maximize the wealth of the shareholders (Clarke and Friedman, 2016). Shareholders mostly feel managers are not working for their interest hence stampede them during decision making and this mostly causes conflict between managers and shareholders (Demski, 2003). When it comes to maximization of profit, managers mostly stand a better chance of maximizing their profits than shareholders between they hold much information than shareholders hence the problem of asymmetric information. Managers take the opportunity by hiding vital information from shareholders by picking projects which can generate income or gives much liquidity in the shortest possible time and also use the opportunity of lack of transparency to air and transcend information which can only serve their interest. In light of this De Haan and Vlahu, 2016; suggested a prototypical advancement model which enlarges the investment of a company hence increasing asymmetric information.

b) **Cognitive conflict:** most often than not, managers and other chief employees as well as stakeholders may come with an opinion or reject with regards to assessing a project viability and its success on the basis of same ideas and available information since they all have unique and different cognitive models. In a work done by Bedford et al., 2019, he tried to extricates ideas based on cognitive theories which alludes to the fact that, organizations are almanacs of knowledge, based on certain information which are available to them. Bedford et al., 2019, in their study indicated that, the opinions which led to the invention of cognitive model theory are four specifically: the alignment of the activity depends on the particular vision of managers; the formation of information is the foundation of all novelty and investment prospects; the harmonization in creating activities comprises transfer of knowledge. The main coordination problems are due to cognitive conflicts because people don’t share the same view; and the company operates not only to reduce conflicts of interest but also to reduce cognitive conflicts or the ones of ethics and values.

c) **Behavioral conflicts:** the use of behavioral theories has helped to come out with more reasonable alternative model. A study done by Clark et al., 2019 reveals that, there are several types of behavioral conflicts and they indicated by defining
one of such behavioral conflict called finance behavior. This was defined by the study as a constituent economic type which gears towards understanding of financial decisions. It becomes necessary at a certain point to defend people against their behavioral prejudices which can have negative impact on them like bullishness, hatred or dislike and compunction, sanguinity and the likes which are mostly connected to managers. In this regard, (Phillips et al., 2016) argue that, most supplementary cause of agency cost is as a result of behavioral biases.

In defining behavioral bias, reference is normally made to a standard “Ideal” behavior which usual agrees with faultless levelheadedness. (Phillips et al., 2016) continued to state that, individuals are not perfect as always in terms of rationality. Traditionally, behavior biases can be elucidated by various factors which are in relation to environment of the decision, and this seeks to breach the informational gaps or most often to administer consents.

**Categorization of Mechanisms of Corporate Governance**

Governance has been defined by most authors, but in the context of this study, the definition by (McCahery et al., 2016) is adopted. They defined governance as a framework to control possible schemas to disseminate information to appropriate participants in the organization. Another definition given by (Van Grembergen and De Haes, 2018) stipulated that corporate governance is a group of identified mechanisms which outlays the authorities, managerial influence on decision making, which governs the attitude of individuals and issue flexible space of managers and directors. Corporate governance also seeks to align the possibilities of potential growths within the organization. This is because once there are strict rules and policies created by corporate governance in place, managers will work in line with the said rules and procedures to enhance growth for the organization (De la Porte and Heins, 2016). This goes a long way to increase value, create and maximize shareholders values and it can help to curb potential agency conflicts. Corporate governance captures all mechanisms which are designed to regulate managers and CEO(s) which help to mitigate the problems that may arise due to conflict of interest.

Our study describes two forms of mechanisms, namely: Internal mechanisms and External mechanisms.

**Internal Mechanisms:** this mechanism describes the internal means of the organization which motivates officers and managers to increase the wealth of the organization. It talks mostly of the internal structures like the audit committees, board of directors, auditors, ownership structures, joint monitoring and oversight responsibilities of the board.

Audit committees is seen as one of the most crucial internal mechanisms that is put in place to have an oversight responsibility over the audit department (Bananuka et al., 2018). They tend to look into the various activities of the audit department and help reduce the various common mistakes which can be created by the auditor.

Board of directors is the most powerful and important aspect of corporate governance which has been debated on over the past decade. It is seen as the top most internal mechanisms of corporate governance because it tends to separate the role of the managers and directors. It reduces the agency conflicts that may arise in the course of discharge of duties by managers. It purpose is to increase or maximize shareholders value and at the same time breaching the conflict between managers and shareholders, thus conflict of interest.

Auditors have also increasingly been one of the solid internal mechanism tools within corporate governance. Audit work seems to strengthen internal controls within an organization because it put pressure on managers to do the right things in terms of finance and accountability.

**External Mechanisms:** Aside the internal control systems set to take charge of the internal environment, another set of control mechanism for corporate governance is the external control mechanism and thus help the directive of possible conflicts that may results among shareholders and managers. External controls are mostly discharged through it market efficiency and they include the financial market; marketing of goods and services; and the labor market for managers (Funk and Hirschman, 2017).

**CONCLUSION**

Corporate Governance evolution has never been just chance or a common trend; it is rather a result-oriented tool that has help to reduce conflict of interest and above all separation of powers or ownership and decision. Issues of this nature are not only for the consumption or concern for managers and shareholders but rather a general concern which stems from a proper structure of organizations. It has been evidence from this study, corporate governance has certain principles which managers, shareholders and board members can use as a guide for efficient and smooth running of an organization. The practice of corporate governance in Ghana has been
phenomenal starting from the public sector to the private sectors. It is very clear that, corporate governance awareness should be expanded to build the relationship that exists between managers and all stakeholders including employees, customers, suppliers and shareholders. Shareholders most often wants to maximize their wealth and it can only be done properly if there is a good practicing corporate governance. Citizens in Ghana mostly wants to know what their monies which have been collected through taxes are used for. As a result of that, all citizens are interested in the happenings of the public organizations. Because of this, it has become an imperative on the government to put up policies that governs the structures of all the public sectors. One of the good policies that guides the public sectors as well as the private sectors is the corporate governance manual stipulated by the government. Managers and stakeholders mostly have different agendas and this causes conflicts among them especially the conflicts between managers and shareholders. When this happens, it therefore causes negative influence on the performance of the organization. The most common solution to curb this problem is a proper governance policies which are either internal control mechanism or external control mechanism. It is also worthy to note that, these mechanisms are not in itself a total guarantee of organizational efficiency. Notably, board efficiency and effectiveness depends on the size, it composition thus both internal and external members, and the chairman of the board. In situation where there is a dual direction, the chairman of the board will also serve as the CEO of the organization. The dual direction mostly can happen in private sectors but not the public sectors in Ghana. This is because, it is the government who appoints most of the CEOs and the board chairmen so there is always a likelihood of having separate individuals to occupy such positions. Our descriptive study also reveals that, private institutions try their possible best to conform the best practices of corporate governance to enhance effectiveness and efficiency. Boards’ members must also be experienced individuals who have expertise in the field where they have been appointed so their knowledge can help increase the wealth of the organization. Corporate governance in totality reduces agency conflicts and conflicts of interest that exist between managers and shareholders. To sum it all, organizations (public and private) maximizes the wealth of the organization when corporate governance issues are taken into consideration and adhered to. The study recommends that, private institutions like SMEs should have best practices and standards in respect to corporate governance issues so they can maximize the profitability of the firm and also resolve the various conflicts that exist between managers and shareholders.

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