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# The Impact of Good Corporate Governance Practices on Stakeholder's Satisfaction in Ghanaian Listed Companies

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## Abstract

*The purpose of this study is to examine the impact of good corporate governance practices on stakeholder's satisfaction among Ghanaian listed companies. The target population comprised of Chief Executive Officers (CEO) and Directors of listed companies.103 CEO and 97 Directors out of the 400 participants returned their questionnaires. The study adopted purposive sampling technique to select the listed companies whiles convenience sampling techniques were employed to select Chief Executive Officers and Directors.With the aid of SPSS the following statistics were used: descriptive statistics to have clear picture of study variables. Cranach's alpha to measures the internal consistency of the construct, Kurtosis and Skewness values to check the normality of each variable used and correlation analysis to measure the relationship between the variables and validated by Subject-completed Instruments The findings revealed that all the four construct of good corporate governance namely; transparency, accountability, fairness and responsibility had a significant and positive relationship with stakeholder's satisfaction. The research suggests that good corporate governance is not enough by having the right policies and procedures in place; it must be embedded into the culture of the organization from the very top down.*

**Keywords:** Stakeholders; Satisfaction; Performance; Governance; Practice

## Introduction

Corporate governance in Ghana does not have a long history. However, corporate governance has become a familiar term for everyone due to series of irregular accounting scandals all around the world revealed. Corporate governance is vital to the operations of firms and is relevant to stakeholders' interest. On a broader perspective, corporate governance as defined by Gillan and Starks (2000) as a system of laws, rules and factors that control operations of a corporation, that is it refers to the distribution of rights and responsibilities among different participants in the organisation such as the board of directors, managers, shareholders and other stakeholders. It equally spells out the rules and procedures for making decisions on corporate affairs. The core issue of governance of a corporation is how to ensure that managers will use the company's reserves in the interest of the shareholders. Because of the transparency required, the information asymmetries between the outsiders and insiders are more pronounced especially as it relates to the risks characteristics and the quality of the assets. Corporate governance mechanisms can be grouped into internal (e.g., the board) and external (e.g., the market for corporate control and the managerial labor market) corporate governance mechanisms. The directors of the board are responsible for the conduct of a firm's normal operation and are authorized to monitor the management (Conyon and Peck, 1998).

## Related literature review

A strong corporate governance system is the one that aligns managerial and shareholder interests and thus lead managers to maximize shareholder wealth. Managerial and shareholder interests are more likely to be aligned when it is easy to monitor managers and initiate proxy fights or hostile takeovers. Weak corporate governance systems allow managers to pursue their own goals. (Zandstra 2002).

## Good Corporate governance prerequisites

Prerequisites refer to the fulfillment of the pre-conditions in which depends the corporate governance success. The literature review reveals some selected prerequisites such as director's qualifications, preparation, skills, competencies and experience. (Zandstra 2002). There are four governance principles largely devoted: that the study emphasize on: responsibility, accountability, fairness and transparency (Jesover and Kirkpatrick 2005).

## Responsibility

Responsibility refers to the recognition of all stakeholders 'rights such as provided by law and the promotion of active cooperation between the company and main stakeholders to create wealth and sustainable enterprises (Sudarsono,Pratiwi and Suhendra 2006). In addition, responsibility implies that the board ensures corporate compliance with laws and regulations that reflect the values of the society( Organization for Economic Cooperation and Development, 2004). The responsibility can be practiced through the participation and the involvement of the stakeholders in strategic decision-making. The responsibility to the stakeholders enables the company to follow market and society trends and to have a thorough knowledge about the changing values of stakeholders.

## Accountability

This principle is defined as the predisposition of an organization to provide explanations and justifications for the key stakeholders, concerned by its judgments, intentions, acts and omissions, if they call to do so. (Arjoon, 2005).Indeed, the central issue in accountability is to determine the extent to which stakeholders have access to adequate, accurate, understandable, and up to date information's, on the basis of which they can act (Shearer, 2002).

## Fairness

The OECD (2004) considers the fairness through two different perspectives: protecting all the shareholders interests and ensuring equitable treatment of the stakeholders (Sudarsono et al. 2006). In fact, the board must ensure the fairness in the execution of contracts between the company and the resource providers (OECD, 2004). Practicing the fairness in decision-making and in dealing with stakeholders can increase the satisfaction of the latter. The study of Herrmann, Vaudaux, Pittet ,Auckenthaler ,Lew , Schumacher-Perdreau , Peters , and Waldvogel. (2001) showed that German customer perception of price fairness is positively correlated with their satisfaction. Strong, Kelly, Ringer, Richard and Taylor Steven (2001) suggest that empathy and the willingness of the company to treat fairly their stakeholders lead to the satisfaction of the latter.

## Transparency

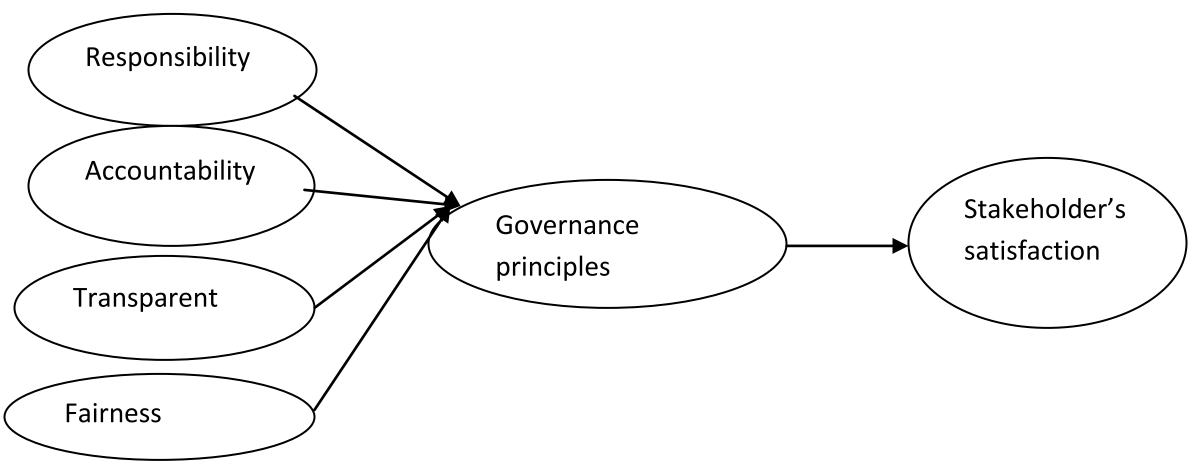
Transparency means that the company provides adequate disclosure and timely information to its stakeholders regarding its operations and activities (Pahuja and Bhatia, 2010). These information relate to the financial performance, the corporate governance, the ownership structure, the voting rights, the directors profiles, the key executives and their remuneration (Shafi, 2004). Strong et al. (2001) consider that the integrity of information and the timeliness of the communication are the key drivers of stakeholder's satisfaction. In the same direction, Gaa (2009) considers that the disclosure is an important aspect in the sustainability of the relationship between the company and its stakeholders.

## The link between of good corporate governance practices on stakeholder's satisfaction

Abubakar (2012) investigated the relationship between corporate governance and organizational performance.Interview questions were focused on the variables that could affect the performance of a firm; textbooks, journals and articles were used as secondary data to have a past insight on how organizational performance affects a firm. The research demonstrates that high governance risk correlates with lower performance, and robust governance is associated with more sustained performance. The findings indicated that one of the more difficult things in assessing the influence of corporate governance upon firm performance is to take into account the impact of changes in the market: at times of rapid expansion many companies will perform well, in times of recession most companies will find it more difficult to perform. Also Carrillo (2007) studied corporate governance: shareholders' interests' and other stakeholders' interests' reveals that Shareholders and Stakeholders interests are compatible and both contribute to corporate long term efficiency and progress. It is further argued that it is essential to achieve a wide consensus on how to control Management actions in support of Stakeholders interests. Besides, Wajdi (2012) examined the contribution of good governance practices to stakeholder's satisfaction. The survey of 52 Tunisian listed companies revealed that the corporate governance have a positive and partial impact on stakeholder's satisfaction.

## Research frame work

Fig1**: the link between of good corporate governance practices on stakeholder's satisfaction (Source Author)**




## Problem of the study

Poor corporate governance is one of the major factors that contribute to poor performance among the listed companies in Ghana. Weak corporate governance is as a result of weak internal control systems, excessive risk taking, override of internal control measures, absence of or non-adherence to limits of authority, disregard for cannons of prudent lending, absence of risk management processes, insider abuses and fraudulent practices remain a worrisome feature of the banking system (Soludo, 2004).However, it does not follow that those who have good governance processes will perform well or be immune from failure. Risk exists to some extent at the heart of any business. Risks are taken in the search for rewards. No system of corporate governance can prevent mistakes or shield companies and their stakeholders from the consequences of error. Corporate failures will occur." (Owen. J 2003).Good corporate governance is also no guarantee of success. It is a necessary but not sufficient foundation for success as many factors come to play most especially is strategic factors play important role in determining the eventual success or failure of an organization. It is in the light of the above debate, that this research work studied Good Corporate governance prerequisites among listed firms in Ghana. Finally, it went further to its effect on stakeholder's satisfaction.

## Purpose of the Study

The general purpose of the study is to access the impact of good corporate governance practices on stakeholder's satisfaction in Ghanaian listed companies. The specific research objectives of the study are;

- To investigate the association Responsibility and stakeholder's satisfaction
- To examine the relationship Accountability and stakeholder's satisfaction
- To investigate the relationship Fairness stakeholder's satisfaction
- To evaluate the relationship between Transparency and stakeholder's satisfaction

## Research Hypotheses

H1: The responsibility has a positive effect on the stakeholder's satisfaction.

H2: The accountability has a positive effect on the stakeholder's satisfaction

H3: The fairness has a positive effect on the stakeholder's satisfaction.

H4: The transparency has a positive effect on the stakeholder's satisfaction

## Methodologies

A quantitative and qualitative design survey method was used in the empirical segment of the study (Terre Blanche, Durrheim and Painter 2006).The suitable sampling technique for this study is non-probability technique using convenience sampling. This is due to the difficulty in determining the specific list of passengers.

## Participants

The target population comprised CEO and Directors of listed companies in Ghana. A sample of 200 respondents returned their questionnaires.

## Data collection

Data were collected through the use of a structured questionnaire. The questionnaire was divided into five sections. Section A elicited general and biographical information about respondents. Section B elicited information on Responsiveness. Section C sought information on Transparency. The questions in Section D elicited information on Accountability The section E sought information on Fairness. The questions in Section F elicited information on Stakeholders satisfaction. Likert scales anchored by strongly disagree (1) and strongly agree (5) were used.

## Data analysis

The data is collected and entered into a computer using SPSS. The following statistics were used: Supporting literature for measurement scales Assuring the validity and reliability of the measures required supporting literature to validate the scales which were used in the research constructs. . Values of Cronbach's alpha for the research dimension which measures the internal consistency of a construct. Descending means of the constructs service quality to determine the relative importance of each of the dimension Skewness and Kurtosis for research constructs to check the normality of each variable used in the research. And Pearson correlation (r) to determine the relationship between good corporate governance and stakeholders satisfaction. According to Sekaran (2003) the correlation between two variables is considered a perfect positive correlation when it is close to +1, or perfect negative correlation when it close to -1.

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**Table 2.** Supporting literature for measurement scales

| Dimension | scales |
|---|---|
| Responsiveness(RP) | [52,44] |

| | |
|---|---|
| Transparency (T) | [46,48] |
| Accountability (A) | [44,50] |
| Fairness (F) | [46,55] |
| Stakeholder Satisfaction (SS) | [45.55] |

All of the measurement scales used, as indicated in Table 2, were based on previous research. Assuring the validity and reliability of the measures required supporting literature to validate the scales which were used in the research constructs. Stakeholders satisfaction represented by Responsibility, accountability, fairness and transparency. The Good corporate Governance construct was measured using the scales and indices included in the work of (Jesover & Kirkpatrick 2005).The following variables to determine the construct of Good corporate were measurement scales adapted from previous studies.

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**Table 3. Values of Cronbach's alpha for the research dimension**

| Dimension | value |
|---|---|
| Responsiveness(RP) | 0,700 |
| Transparency(T) | 0,723 |
| Accountability (R) | 0,712 |
| Fairness (F) | 0.713 |

A reliability test was carried out using Cronbach's alpha, which measures the internal consistency of a construct. The recommended minimum acceptable limit of reliability measure, as reported by Sekaran, U (2003) is 0.60. As shown in Table 3, all the constructs passed the reliability test.

**Table 4. Descending means of the constructs service quality**

| Dimension | Mean | **Standard deviation** |
|---|---|---|
| Responsiveness(RP) | 4.297 | 0,798 |
| Transparency(T) | 4.934 | 0,734 |
| Accountability (A) | 4.043 | 0,767 |
| Fairness (F) | 4.087 | 0.700 |

The result shown in Table 4 indicates frequency and descriptive statistics used to determine the relative importance of each of the dimension. The service qualities shown in Table 4 have a mean above 4. Therefore it concludes that all of constructs are of significant importance to the study.

**Table 5. Skewness and Kurtosis for research constructs.**

| Dimension | **Skewness** | **Kurtosis** |
|---|---|---|
| Responsiveness(RP) | -0.32 | -0.6 |
| Transparency(T) | -0.213 | -0.8 |
| Accountability (A) | -0.32 | -0.6 |
| Fairness (F) | -0.211 | -0.7 |

**(Source field work, 2013)**

From Table 5, Responsiveness recorded -0.32 skewness and -0.6 kurtosis, Transparency resulted to -0.213 skewness and -0.8 kurtosis. Accountability scored -0.32 skewness and -0.6 kurtosis whiles Fairness recorded -0.211 skewness and -0.7 kurtosis. Kurtosis and Skewness values were used to check the normality of each variable used in the research. As shown in

Table 5, the values of Skewness and Kurtosis for each variable indicate that the research constructs fell within the acceptable range

This is confirmed by a study conducted by Hair.J, Babin, B, and Money. A and Samouel.P (2003) that skewness values larger than (+1) or smaller than (−1), indicate a substantially skewed distribution. Besides according to Hair. J, Anderson.R, Tatham.R and Black.W (1998) added that a curve is too peaked when the Kurtosis exceeds (+3) and is too flat when it is below (−3). This means Skewness values within the range of (−1) to (+1) and Kurtosis values within the range of (−3) to (+3) indicate an acceptable range.

Table 6. Demographic information

| VARIABLE | FREQUENCY | PERCENTAGE |
|---|---|---|
| Mining | 37 | 18.5% |
| Banking | 19 | 9.5% |
| Agro processing | 46 | 23% |
| IT solution | 16 | 8% |
| Pharmaceutical | 82 | 41% |
| **Respondent** | | |
| CEO | 103 | 52% |
| Directors | 97 | 48% |

Source field work 2013

As shown in Table the CEOs response rate (52%) is higher than the Chairman of the board (48%) by 4%.whiles respondent from the pharmaceutical sector recording the highest score of 41% and IT solutions the lowest score of 8%.Respondents where recruited from among the listed companies are; mining; 37 respondents (18.5%), banking; 19 respondent (9.5%),Agro processing;46 respondent (23%) IT solution;16 respondents (8%) and pharmaceutical; 82 respondents (41%)

## Correlations Analysis

Table 7; Correlations analysis

| | **RP** | **T** | **A** | **F** | **S** |
|---|---|---|---|---|---|
| **RP** | **1** | 014(.761) | .318(**).000 | 003(.655) | 0.12(**)0.02 |
| **T** | 014(.761) | **1** | .099(*).027 | .013(.771) | 0.43(**)0.01 |
| **A** | .318(**).000 | .099(*).027 | **1** | .120(.662) | 0.17(**)0.04 |
| **F** | 003(.655) | .013(.771) | .120(.662) | **1** | 0.42(.*)0.03 |
| **S** | .126(**).002 | 143(**).001 | 170(.118) | 042(.621) | **1** |

** Correlation is significant at the 0.01 level (2-tailed).

**(Source field work, 2013)**

## Relationship between Responsiveness and Stakeholder's satisfaction

The Pearson correlation in Table 7 shows that there is a positive and significant relationship between responsiveness and stakeholder's satisfaction r = 0.02, p < .01). Therefore, the research hypothesis 1 is accepted and proven to be true. This means an increase in responsiveness level would increase stakeholder's satisfaction. This is in line with the research work conducted by Ajala (2012) which investigated the effects of responsiveness on stakeholder satisfaction on Nigerian banking sector. The study revealed a positive and significant relationship between the two variables on the sampled banks. This was confirmed by Lin (2007).The study investigated the extent of responsiveness on productive efficiency in a sample of 461 publicly listed manufacturing firms in China between 1999 and 2002. The result revealed that firm responsiveness is positively related to stakeholder's satisfaction.

## Relationship between Transparency and Stakeholder's satisfaction

The Pearson correlation in Table 7 shows that there is a positive and significant relationship between Transparency and stakeholder's satisfaction $r = 0.01$, $p < .01$). Therefore, the research hypothesis 2 is accepted and proven to be true. This means an increase in Transparency would lead to increase in stakeholder's satisfaction. This is in congruent with the research conducted by Pahuja and Bhatia (2010) to protect the interest of investors in India through the implementation of good corporate governance principles. This study examined the annual reports of 50 listed companies. The paper concludes that there is a significant positive relationship between transparency and stakeholder's satisfaction.

## Relationship between Accountability and Stakeholder's satisfaction

The Pearson correlation in Table 7 shows that there is a positive and significant relationship between Accountability and stakeholder's satisfaction $r = 0.004$, $p < .01$). Therefore, the research hypothesis 3 is accepted and proven to be true. That's mean any increase in Accountability will be followed by increase in stakeholder's satisfaction. This is in line with the study conducted Epstein and Birchard(1999) that Accountability allows the company to receive a better evaluation from outside and increases the stakeholder's confidence which can improve the reliability, the credibility and the reputation of the company in its environment (Epstein and Birchard,1999). Besides ,a study conducted in Germany by Walch and Wiedmann (2004) showed that stakeholders place a high value to the fact that the company "does not hide anything" and communicates openly about its financial condition and operations.

## Relationship between Fairness and Stakeholder's satisfaction

The Pearson correlation in Table 3 shows that there is a positive and significant relationship between Fairness and stakeholder's satisfaction $r = 0.003$, $p < .01$). Therefore, the research hypothesis 4 is accepted and proven to be true. This means an increase in the level of Fairness will be followed with increase in stakeholder's satisfaction. The result is supported by Smith (2010) after examining the contribution of fairness on performance concluded that there exist a strong and positive relationship between fairness and performance.

## Conclusion

The study explored the impact of good corporate governance practices on stakeholder's satisfaction in Ghanaian listed companies. The study, contribute to the current literature on corporate governance on performance. The results indicate a positive and significant relationship between the four construct of good corporate: responsibility, transparency, fairness and accountability on stakeholder's satisfaction The results indicates that the stakeholder's satisfaction is significantly related to all the pre-requisites; responsibility, transparency, fairness and accountability Therefore hypotheses H1,H2.H3,and H4 were confirmed.

## Recommendation

Management should ensure that the needs and interests of all stakeholders are taken into account in a balanced and transparent manner. Besides good corporate governance is not enough by having the right policies and procedures in place, it must be embedded into the culture of the organization from the very top down. Procedures and rules for decision making should be flexible enough to promote changes as and when the need arises. Besides, procedures and rules must promote transparency among employees of any level. Even though there is a need to separate owner and managers to avoid conflict of interest, the relationship between this two should be cordial as possible. Bad relationship between management and investors affect the smooth running of firms. Sound relationship promotes consistency and transparency towards shareholders. The quality and nature of these relationships has a strongly influence the long term financial interests of the organization. To promote accountability of resources, there is a need to establish frame work to encourage the efficient use of resources to the interests of individuals, corporations and society. A system to promote fairness is very important to all stakeholders to avoid bias towards one or more entities as compared to the others.

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