

The Impact of Corporate Governance and Financial Disclosure on Financial Performance: A study of panel data from 18 Commercial Banks in Ghana



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ABSTRACT

The paper examines the impact of corporate governance and financial disclosure on the financial performance of banks in Ghana. Corporate governance was measured by three variables: board size, CEO duality, and board composition. Financial disclosure was also measured by timeliness, bank size, and quality of auditors. Financial performance, as the dependent variable, was measured by return on assets (ROA), and return on equity (ROE). The study used panel data from 18 commercial banks operating within the Ghanaian banking industry, both listed and unlisted, over a ten-year period (2009 to 2018). A random-effects regression model was used, and the results revealed that board size, timeliness, and quality of auditors were statistically significant and positively related to return on assets. Board composition, however, had a significant negative relationship with return on assets. There was no significant association between bank size and return on assets. Moreover, the findings of the study showed that board size and bank size had a positive and significant relationship with return on equity. Board composition and timeliness were however negative and statistically related to the return on equity. There was no significant nexus between the quality of auditors and return on equity. The study findings place emphasis on the combined effect of corporate governance and financial disclosure on financial performance, particularly within the banking industry in Ghana.

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INTRODUCTION

The influence of corporate governance and financial disclosure on corporate performance cannot be overemphasized especially considering the outbreak of high-profile corporate irregularities that have occurred across the globe in recent times.¹ Corporate governance is an effective way for the allocation of resources in achieving corporate goals and objectives.² The link between corporate governance and corporate performance is underpinned by different theories: stewardship, agency, resource

¹ Mohd-Hassan-Che Haat, Rashidah Abdul Rahman, and Sakthi Mahenthiran. "Corporate governance, transparency and performance of Malaysian companies." *Managerial Auditing Journal*, 23 no. 8 (2008): 744-778. <https://doi.org/10.1108/02686900810899518>.

² Sana Iqbal, Ahmad Nawaz, and Sadaf Eshan. "Financial performance and corporate governance in microfinance: Evidence from Asia." *Journal of Asian Economics*, 60 (2019) 1-13. <https://doi.org/10.1016/j.asieco.2018.10.002>

dependency, and stakeholders' theories.³ The agency theory,⁴ and the stewardship theory,⁵ postulate that, owing to the separation existing between ownership and control, there is the possibility of conflict of interest hence the need for corporate governance to provide solutions to the problems arising from the diverging interests.⁶

Financial disclosure is also an effective mechanism to distribute business information concerning past events, opportunities, and future growth to minimize information asymmetry and any possible agency conflict between investors and organisations.⁷ Moreover, disclosure improves corporate performance by providing users of financial reports a much clearer understanding of how exactly their resources are being effectively used, thereby making it more likely to attract large potential investors to increase the liquidity of the firm.⁸

Diverse schools of thought have been expressed as to whether corporate governance and corporate performance are positively related,⁹ or otherwise.¹⁰ Proponents share the view that corporate governance practices are considered an essential element in attracting investment capital, reducing risk for potential investors, enhancing the performance and competitiveness of corporate entities, as well as serving as a mechanism where agency conflicts can be solved, and management be inspired to work in the best interest of the company's shareholders and other relevant stakeholders.¹¹ Other researchers, however, hold a different opinion that the impact of corporate governance on firms' performance is uncertain, especially in countries having institutions that are very weak, as there may be an insignificant advantage of corporate governance which is voluntarily adopted. Again, the cost of

³ Zukaa Mardnly, Sulaiman Mouselli, and Riad Abdulraouf "Corporate governance and firm performance: an empirical evidence from Syria." *International Journal of Islamic and Middle Eastern Finance and Management*, 11 no.4 (2018): 591-607. <https://doi.org/10.1108/IMEFM-05-2017-0107> ; Rekha Pillai, and Husam-Aldin Nizar Al-Malkawi. "The relationship between corporate governance and firm performance: Evidence from GCC countries." *Research in International Business and Finance*, 44 (2018): 394-410. <http://dx.doi.org/10.1016/j.ribaf.2017.07.110>

⁴ Michael. C. Jensen, and William H. Meckling. "Theory of the Firm: Managerial Behavior, Agency Costs and Ownership Structure." *Journal of Financial Economics*, 3 (1976): 305-360. [Google Scholar]

⁵ Lex Donaldson, and James H. Davis. "Stewardship theory or Agency theory: CEO Governance and Shareholder Returns." *Australian Journal of Management*, 16 no. 1 (1991): 49-64. [Google Scholar]

⁶ Ghosh, "Corporate governance reforms and bank performance: evidence from the Middle East and North Africa.;" Iqbal et al., "Financial performance and corporate governance in microfinance: Evidence from Asia."

⁷ Mishari M.Alfraih, and Abdullah M. Almutawa. "Voluntary disclosure and corporate governance: empirical evidence from Kuwait." *International Journal of Law and Management*, 59 no.2 (2017): 217-236.

<http://dx.doi.org/10.1108/IJLMA-10-2015-0052>; Nadia Linciano, Caterina Lucarelli, Monica Gentile, and Paola Soccorso. "How financial information disclosure affects risk perception. Evidence from Italian investors' behavior." *The European Journal of Finance*, 24 no. 15 (2018): 1311-1332. <https://doi.org/10.1080/1351847X.2017.1414069>

⁸ Souhir Neifar, and Anis Jarboui. "Corporate governance and operational risk voluntary disclosure: Evidence from Islamic banks." *Research in International Business and Finance*, 46 (2018): 43-54. <http://dx.doi.org/10.1016/j.ribaf.2017.09.006>

⁹ Wakaisuka-Isingoma et al., "Corporate governance, firm characteristics, external environment and performance of financial institutions in Uganda.;" Hamutyinei-Harvey Pamburai, Eddie Chamisa, Cader Abdulla, and Colin Smith. "An analysis of corporate governance and company performance: A South African perspective." *South African Journal of Accounting Research*, 29 no.2 (2015): 115-131 <https://doi.org/10.1080/10291954.2015.1006482> ; Padmanabha-Ramachandra Bhatt, and R. Rathish Bhatt. "Corporate governance and firm performance in Malaysia. Corporate Governance." *The International Journal of Business in Society*, 17 no.5 (2017): 896-912. <https://doi.org/10.1108/CG-03-2016-0054>

¹⁰ Inessa Love and Andrei Rachinsky. "Corporate Governance and Bank Performance in Emerging Markets: Evidence from Russia and Ukraine." *Emerging Markets Finance and Trade*, 51 no. 2 (2015): 101-121. <https://doi.org/10.1080/1540496X.2014.998945> ; Henriëtte Scholtz, and Anna-Retha Smit. "Factors influencing corporate governance disclosure of companies listed on the Alternative Exchange (AltX) in South Africa." *South African Journal of Accounting Research*, 29 no. 1 (2015): 29-50. <https://doi.org/10.1080/10291954.2015.999471> ; Francisco J. López-Arceiz, Lourdes Torres, and Ana J. Bellostas. "Is online disclosure the key to corporate governance?" *Online Information Review*. (2019). Available: <https://doi.org/10.1108/OIR-06-2018-01> (Accessed 07/06/2019).

¹¹ Achim et. al., "Corporate Governance and Business Performance: Evidence for the Romanian Economy.;" Maali Kachouri, and Anis Jarboui. "Exploring the relation between corporate reporting and corporate governance effectiveness." *Journal of Financial Reporting and Accounting*, 15 no. 3 (2017): 347-366. <https://doi.org/10.1108/JFRA-06-2016-0053>

implementing corporate governance practices can be treated as an expense and will therefore reduce the profitability of the firms.¹²

Financial disclosure is an important complement to corporate governance practices as it plays a significant role in ensuring that transparent information is provided to the shareholders as well as all relevant stakeholders of organisations, thereby enabling organizations to have much visibility and promote greater control of the society in which they operate.¹³ Financial disclosure is regarded to be an essential mechanism for aligning conflicting interests to reduce agency problems arising from corporate governance practices.¹⁴ Likewise, corporate governance components, such as board independence, are also crucial to improving transparency and quality of information disclosure to stakeholders for corporate decision-making.¹⁵ Again, an effective board of directors can help to provide reliable and timely financial information to shareholders, and also ensure quality financial reporting.¹⁶ There is therefore the need to evaluate the influence of these two variables on corporate performance as they complement each other.

The objective of this study is to investigate the relationship among corporate governance, financial disclosure and financial performance of banks operating in Ghana. The study follows the research methodology and model used in the study by Agyei-Mensah, which investigated the impact of corporate governance, and financial reporting lag on the financial performance of firms listed in Ghana.¹⁷ Multiple regression models will therefore be used to examine the nexus among corporate governance, financial disclosure, and financial performance of banks. Corporate governance and financial disclosure will be used as the two independent variables, while financial performance will also be the dependent variable.

The study makes the following contributions to existing literature. Firstly, the failure of various corporate governance structures or mechanisms has often been considered among the main causes of corporate failures as it affects the going concern status of firms as evident in the collapse of some of the commercial banks within the country in recent times hence the need to also contribute to discussions concerning the effect of corporate governance mechanisms particularly relating to the banking industry in Ghana. Moreover, the inclusion of financial disclosure in the study is very imperative as the issue of proper financial disclosure was brought forth especially when some of the collapsed banks were reported to be doing favourably well a few years before their collapse. Furthermore, the performance of banks has a direct influence on the economic well-being of a country. For instance, they serve as an avenue through which central banks pursue their monetary policies, hence the need for the study to assess the performance of the banks in Ghana.

The scope of this study is mainly focused or targeted at the commercial or universal banks (both local and foreign owned) which are operating within Ghana and the study covers a ten-year period (i.e., 2009-2018).

¹² Love and Rachinsky. "Corporate Governance and Bank Performance in Emerging Markets."; López-Arceiz, Torres, and Bellostas. "Is online disclosure the key to corporate governance?"

¹³ López-Arceiz, Torres, and Bellostas. "Is online disclosure the key to corporate governance?";

¹⁴ Torchia, and Calabrò. "Board of directors and financial transparency and disclosure. Evidence from Italy."

¹⁵ Arunima Haldar, and Mehul Raithatha. "Do compositions of board and audit committee improve financial disclosures?" *International Journal of Organizational Analysis*, 25 no.2 (2017): 251-269. <https://doi.org/10.1108/IJOA-05-2016-1030>

¹⁶ Mishari M Alfraih, "The effectiveness of board of directors' characteristics in mandatory disclosure compliance." *Journal of Financial Regulation and Compliance*, 24 no.2 (2016): 154-176. <http://dx.doi.org/10.1108/JFRC-07-2015-0035>

¹⁷ Agyei-Mensah, "Impact of corporate governance attributes and financial reporting lag on corporate financial performance."

LITERATURE REVIEW

Theoretical Framework

A number of theories underpin the influence of corporate governance, and financial disclosure on corporate performance – agency, stakeholder, resource dependency, stewardship, transaction cost, signalling, capital need, political cost, and legitimacy theories.¹⁸

The **agency theory** proposes that the incongruence of interests between these two parties may lead to information asymmetries and the agents may be interested in accomplishing their own objectives.¹⁹ Good corporate governance and disclosure practices are considered effective methods of ensuring checks and balances to solve agency problems.²⁰ The **stakeholders' theory** expresses that, the firm comprises stakeholders working to give the needed resources and infrastructure for the firm to succeed.²¹ Management is compelled, in this manner, to account to these stakeholders by means of disclosure in order to have access to these essential assets and resources that may be in the control of the stakeholders. The **resource dependency theory** states that boards can assist firms to minimize dependence or gain resources.²² The theory is concerned with how firms ought to get involved in transactions or activities with factors which are external to them to assume control of resources which are not promptly accessible to them.

The **stewardship theory** views agents (management) as stewards who diligently work or manage the firm responsibly to maximize profit and shareholders' return.²³ It argues that shareholders' interests are maximized as managers are regarded as good agents who will perform their duties in line with the shareholders' interests. The **transaction cost theory** places emphasis on transaction costs rather than production expenses and considers the firm as an institution consisting of individuals with different perspectives and interests.²⁴ The **signalling theory** considers the important role of quality financial reporting and disclosure of information as a mechanism for addressing information asymmetry between managers and outsiders.²⁵

Capital needs theory postulates that, organisations with diverse opportunities in respect of their growth in the capital market may look for a source of funds externally to undertake their activities, which may be either by debt or equity.²⁶ Financial disclosure is enhanced as companies disclose information to these providers of capital in their quest to obtain external finance on the capital market. The **political cost theory** proposes that a firm operates in an environment based on explicit and implicit contracts with individuals and groups such as the government, special interest groups, employees, consumers, and the public at large. Political cost theory, therefore, refers to political costs that a firm

¹⁸ Giovana Bueno, Rosilene Marcon, Andre Leonardo Pruner-da-Silva, and Fabio Ribeirete, "The role of the board in voluntary disclosure." *Corporate Governance: The International Journal of Business in Society*, Vol. 18 no.5 (2018): 886-910. <https://doi.org/10.1108/CG-09-2017-0205>; Muttanachai Suttipun "The influence of corporate governance, and sufficiency economy philosophy disclosure on corporate financial performance: Evidence from Thailand." *Asia-Pacific Journal of Business Administration*, 10 no.1 (2018): 79-99. <https://doi.org/10.1108/APJBA-08-2017-0077>

¹⁹ Wakaisuka-Isingoma et al., "Corporate governance, firm characteristics, external environment and performance of financial institutions in Uganda."; Jensen and Meckling, "Theory of the Firm: Managerial Behavior, Agency Costs and Ownership Structure.";

²⁰ Hussein-A.-Hassan Al-Tamimi, "The effects of corporate governance on performance and financial distress: The experience of UAE national banks", *Journal of Financial Regulation and Compliance*, 20 no. 2 (2012): 169-181. <https://doi.org/10.1108/13581981211218315>

²¹ Daniya Abdulazeez, Leonard Ndibe, and A. M Mercy. "Corporate Governance and Financial Performance of Listed Deposit Banks in Nigeria." *Journal of Accounting & Marketing*, 5 no. 1 (2016): 1-6. <https://doi.org/10.4172/2168-9601.1000153>

²² Wakaisuka-Isingoma et al., "Corporate governance, firm characteristics, external environment and performance of financial institutions in Uganda."

²³ Abdulazeez, Ndibe, and Mercy. "Corporate Governance and Financial Performance of Listed Deposit Banks in Nigeria."

²⁴ Ghulam Abid, Binish Khan, Zeeshan Rafiq, and Alia Ahmed. "Theoretical Perspective of Corporate Governance." *Bulletin of Business and Economics*, 3 no.4 (2014): 166-175. [Google Scholar].

²⁵ Kachouri, and Jarboui. "Exploring the relation between corporate reporting and corporate governance effectiveness."

²⁶ Nermeen F. Shehata, "Theories and Determinants of Voluntary Disclosure." *Accounting and Finance Research*, 3, no. 1 (2014):18-26. <https://doi.org/10.5430/afr.v3n1p18>

is likely to incur as a result of attention from these relevant stakeholders and other pressure groups.²⁷ **Legitimacy theory** posits that there exists an implied social agreement between an organisation and society or the general public. Therefore, organisations must think about the privileges of the general society, and not simply the privileges of shareholders only; failure of which may bring about sanctions which may restrict the company's activities.²⁸

Empirical Review and Hypotheses Development

Empirical Review

This section reviews similar studies that have already been done in respect of how corporate governance and financial disclosure affect corporate performance.

A significant number of empirical studies have already looked at the relationship between corporate performance and corporate governance.²⁹ Several studies have also been undertaken on the nexus between financial disclosure and firms' performance.³⁰ Additionally, other researchers have also looked at the interrelationship between corporate governance and the disclosure of financial information.³¹

A considerable number of studies relating to the topic have been conducted in developed countries.³² Zagorchev and Gao examined how corporate governance affected the performance of financial institutions in the United States (US) between 2002 and 2009 and revealed that better corporate governance is positively related to the performance of financial institutions in the United States (US).³³ Orazalin et. al., also investigated the effect of corporate governance on the performance of Russian banks before, during, and after financial crises and it was revealed that there is a positive influence of corporate governance on the performance of banks before and after financial crises.³⁴

In respect of developing countries, a sizeable number of empirical studies have also been conducted in relation to the research topic.³⁵ Achim et al., assessed the impact of corporate governance on the business performances of listed corporations in Romania, and the results revealed a positive

²⁷ Larissa-von Alberti-Alhtaybat, Khaled Hutaibat, and Khaldoon Al-Htaybat. "Mapping corporate disclosure theories." *Journal of Financial Reporting & Accounting*, 10 no.1 (2012): 73-94. <http://dx.doi.org/10.1108/19852511211237453>

²⁸ Wan Fauziah Wan Yusoff, and Idris Adamu Alhaji. "Insight of Corporate Governance Theories." *Journal of Business & Management*, 1 no.1 (2012): 52-63. <http://dx.doi.org/10.12735/jbm.v1i1p52>

²⁹ Iqbal et al., "Financial performance and corporate governance in microfinance: Evidence from Asia."; Kowalewski, "Corporate governance and corporate performance: financial crisis (2008)"; Tamer-Mohamed Shahwan, "The effects of corporate governance on financial performance and financial distress: evidence from Egypt." *Corporate Governance*, 15 no. 5 (2015): 641-662. <https://doi.org/10.1108/CG-11-2014-0140>;

³⁰ Shakil Quayes, and Tanweer Hasan. "Financial disclosure and performance of microfinance institutions." *Journal of Accounting & Organizational Change*, 3 (2014): 314-337. <https://doi.org/10.1108/JAOC-12-2011-0067>; Helder-Ferreira Mendonça, and Claudio Oliveira de Moraes. "Central bank disclosure as a macroprudential tool for financial. Stability." *Economic Systems*, 42 (2016): 625-636. <https://doi.org/10.1016/j.ecosys.2018.07.001>

³¹ Akhigbe, et. al., "Additional evidence on transparency and bank financial performance."; Francis Aboagye-Otchere, Ibrahim Bedi, and Teddy Ossei Kwakye. "Corporate governance and disclosure practices of Ghanaian listed companies." *Journal of Accounting in Emerging Economies*, 2 no. 2 (2012): 140-161. <https://doi.org/10.1108/20421161211229817>; Kachouri, and Jarbouli. "Exploring the relation between corporate reporting and corporate governance effectiveness.";

³² Andrey Zagorchev, and Lei Gao. "Corporate governance and performance of financial institutions." *Journal of Economics and Business*, 82 (2015): 17-41. <http://dx.doi.org/10.1016/j.jeconbus.2015.04.004>; Nurlan Orazalin, Monowar Mahmood, and Keunjung Lee. "Corporate governance, financial crises and bank performance: lessons from top Russian banks." *Corporate Governance*, 16 no. 5 (2016): 798-814. <https://doi.org/10.1108/CG-10-2015-0145>; Hsin-Yu Liang, Liang-wei Kuo, Kam C. Chan, and Sheng-Hung Chen. "Bank diversification, performance, and corporate governance: evidence from China." *Asia-Pacific Journal of Accounting & Economics*. (2018): Available: <https://doi.org/10.1080/16081625.2018.1452618> (Accessed 07/06/2019)

³³ Zagorchev, and Gao. "Corporate governance and performance of financial institutions."

³⁴ Orazalin, Mahmood, and Lee. "Corporate governance, financial crises and bank performance: lessons from top Russian banks."

³⁵ Achim et. al., "Corporate Governance and Business Performance: Evidence for the Romanian Economy."; Bhatt and Bhatt "Corporate governance and firm performance in Malaysia. Corporate Governance."; Kamran Ahmed, and Rakib Khan. "Disclosure practices and governance quality: evidence from micro finance institutions." *Journal of Accounting & Organizational Change*, 12 no.3 (2016): 325-350. <https://doi.org/10.1108/JAOC-02-2015-0014>

correlation between corporate governance quality and business performance.³⁶ Bhatt and Bhatt also investigated the impact of corporate governance on the performance of 113 listed companies in Malaysia, and the results of the study showed that the firms' performance is positively and significantly associated with corporate governance.³⁷

A significant number of related studies have also been conducted in countries within the African continent.³⁸ Ojeka et al., investigated the relationship between financial reporting disclosures and the financial performance of 22 listed firms in Nigeria, which are into manufacturing and the results showed a significant association between financial reporting disclosure and financial performance among the manufacturing companies.³⁹ Kachouri and Jarbouï also investigated the nexus between corporate governance effectiveness and information transparency for Tunisian companies. Their results showed that corporate governance has a significant and positive influence on information transparency.⁴⁰

Additionally, in Ghana, a number of similar studies have also been conducted.⁴¹ Aboagye-Otchere et al., also examined the relationship between corporate governance and corporate disclosure among companies listed on the Ghana Stock Exchange and also concluded that the level at which listed companies disclose information was moderate.⁴² Agyei-Mensah investigated the impact of corporate governance, and financial reporting lag, on the financial performance of firms listed in Ghana from 2012 to 2014. The study revealed that financial reporting lag has a negative statistically significant relationship with the financial performance of the firms.⁴³

Notwithstanding the substantial number of studies conducted, none, to the best of the author's knowledge, has considered the combined impact of both corporate governance, and financial disclosure on the performance of corporate entities, particularly in Ghana. The combined influence that corporate governance and financial disclosure have on the financial performance of banks cannot be underestimated.⁴⁴ Hence, the need for this empirical study to be conducted to investigate this relationship.

Hypotheses Development

In line with the research objective and the number of studies that have been reviewed, the study suggests these hypotheses:

H1: The relationship among corporate governance, financial disclosure, and financial performance of banks, using ROA, is positive.

H2: The nexus among corporate governance, financial disclosure, and financial performance of banks, using ROE, is positive.

³⁶ Achim et. al., "Corporate Governance and Business Performance: Evidence for the Romanian Economy."

³⁷ Bhatt and Bhatt "Corporate governance and firm performance in Malaysia. Corporate Governance."

³⁸ Stephen Ojeka, Dick Oluoku Mukoro, and Clementina Kanu. "Does Financial Reporting Disclosures Enhance Firm Financial Performance in the Nigerian Manufacturing Companies?" *Mediterranean Journal of Social Sciences*, 6 no.6 (2015): 332-338. <https://doi.org/10.5901/mjss.2015.v6n6p332>; Kachouri, and Jarbouï. "Exploring the relation between corporate reporting and corporate governance effectiveness.;" Abdalrhman Alnabsha, Hussein A. Abdou, Collins G. Ntim, and Ahmed A. Elamer. "Corporate boards, ownership structures and corporate disclosures: Evidence from a developing country." *Journal of Applied Accounting Research*, 19 no.1 (2018): 20-41. <https://doi.org/10.1108/JAAR-01-2016-0001>

³⁹ Ojeka et. al., Does Financial Reporting Disclosures Enhance Firm Financial Performance in the Nigerian Manufacturing Companies?"

⁴⁰ Kachouri, and Jarbouï. "Exploring the relation between corporate reporting and corporate governance effectiveness."

⁴¹ Aboagye-Otchere, et. al., "Corporate governance and disclosure practices of Ghanaian listed companies.;" Tsamenyi, Enninful-Adu, and Onumah. "Disclosure and corporate governance in developing countries: evidence from Ghana.;" Agyei-Mensah, "Impact of corporate governance attributes and financial reporting lag on corporate financial performance."

⁴² Aboagye-Otchere, et. al., "Corporate governance and disclosure practices of Ghanaian listed companies."

⁴³ Agyei-Mensah, "Impact of corporate governance attributes and financial reporting lag on corporate financial performance."

⁴⁴ Akhigbe, et. al., "Additional evidence on transparency and bank financial performance.;"

METHODOLOGY

Research Design

Firstly, the study is a quantitative-based research since it involves the use of numerical data to assess the relationship among corporate governance, financial disclosure, and the performance of banks. Secondly, the study is more of experimental research as it proposes some hypotheses and makes use of variables to test the hypotheses to assess the effect of corporate governance and financial disclosure on banks' financial performance over a period. Moreover, in respect of the time horizon, the study involves data from a number of samples (banks) spanning from 2009 to 2018; thereby constituting panel data. Furthermore, with regard to the data type, the study used secondary data.

Data Source

Data were obtained from the published annual reports of the sample.

Sample Size and Sampling Technique

The study used a random sampling technique as each of the samples had an equal or non-zero chance of being selected from the population. The sample size of 18 was finally selected because they had sufficient available data over the number of years of study. The list of the banks used has been provided below.

No.	Name of Sample (Bank)	No.	Name of Sample (Bank)
1.	Access Bank Ghana Limited	10.	National Investment Bank Limited
2.	Agricultural Development Bank Limited	11.	Prudential Bank Limited
3.	Cal Bank Ghana Limited	12.	Republic Bank (Ghana) Limited
4.	Ecobank Ghana Limited	13.	Societe Generale Ghana Limited
5.	Fidelity Bank Ghana Limited	14.	Stanbic Bank Ghana Limited
6.	First Atlantic Bank	15.	Standard Chartered Ghana Limited
7.	First National Bank Ghana Limited	16.	United Bank for Africa (Ghana) Limited
8.	GCB Bank Limited	17.	Universal Merchant Bank
9.	Guaranty Trust Bank (Ghana) Limited	18.	Zenith Bank Ghana Limited

Table 1 - Sample Used

Frequency of Data

The study involves data from 18 different commercial banks from the 2009 to 2018 financial years. Some of the samples selected did not have sufficient data covering all the financial years considered for the study; thereby resulting in an unbalanced panel data. Eight (8) banks had sufficient data covering all the ten-year period; two (2) banks had data covering eight financial years; one (1) bank had data covering five financial years; four (4) banks had data covering four financial years; one (1) bank had data covering three financial years, and two (2) banks also had data covering two financial years. In all, a total of 124 annual reports were used.

Description and Measurement of Variables

Dependent Variable

Financial performance is the dependent variable for the study. Return on Assets (ROA) and Return on Equity (ROE) are two accounting ratios used to measure financial performance.

Return on Assets (ROA)

ROA measures how effectively an organization can use its assets to make profits during a given timeframe. It decides how productive an organization is compared with its all assets. It is an accounting measure which is normally used for the measurement of financial performance.

Past empirical studies employed ROA as the variable used for financial performance and accordingly this study adopts it as such.⁴⁵ For the purpose of measurement, Return on Assets (ROA) is computed by dividing profit after tax (or profit for the year) by total assets [i.e., $\frac{\text{Profit after tax}}{\text{Total assets}}$].

Return on Equity (ROE)

Return on Equity is a measure of how much return a company is able to generate on the capital invested by equity shareholders. It also measures the ability of management to generate income from the equity capital available to the company.

Prior studies used ROE as a measure of financial performance.⁴⁶ In this study, ROE was computed as profit after tax as a percentage of owners' equity [i.e., $\frac{\text{Profit after tax}}{\text{Total equity (Shareholders' fund)}}$].

Independent Variables

Two independent variables are used in this study: corporate governance and financial disclosure. Corporate governance was measured by: Board Size, CEO Duality, and Board Composition. On the other hand, financial disclosure was measured by: Timeliness, Bank Size, and Quality of Auditors.

Board Size (BDSIZE)

Board size, as a corporate governance attribute, is a key mechanism for monitoring managers, and a determinant of financial disclosure and firm performance.⁴⁷ Agency theory emphasizes that, bigger boards are likely to comprise people with greater diversity in terms of expertise and specialization, and are more effective in monitoring which can enhance the reputation of the firm through improved disclosures.⁴⁸ Conversely, bigger boards are likely to be related to inadequate monitoring and which in a way may affect the level of performance and disclosure adversely.⁴⁹

The study uses Board Size as a measure of corporate governance as adopted by other scholars in their respective studies⁵⁰ and it is measured in this study by the total number of people (including the board chair, executive and non-executive directors) on the board at the end of the financial year.

CEO Duality (CEOD)

CEO Duality can result in inadequate transparency, and this can negatively affect the interests of all stakeholders who are related to the firm in one way or the other.⁵¹ Agency theory envisages that role duality creates a strong individual power base for the CEO that would erode the effective control and supervising role of the board.⁵² Separating the positions of the board chair and CEO can improve the participation of stakeholders by enhancing fairness and equal opportunity regarding decision-making.⁵³

⁴⁵ Agyei-Mensah, "Impact of corporate governance attributes and financial reporting lag on corporate financial performance"; Liang, et. al., "Bank diversification, performance, and corporate governance: evidence from China."

⁴⁶ Love and Rachinsky. "Corporate Governance and Bank Performance in Emerging Markets."; Agyei-Mensah, "Impact of corporate governance attributes and financial reporting lag on corporate financial performance."

⁴⁷ Alfraih, "The effectiveness of board of directors' characteristics in mandatory disclosure compliance"; Alnabsha, et.al. "Corporate boards, ownership structures and corporate disclosures: Evidence from a developing country."

⁴⁸ Alfraih, "The effectiveness of board of directors' characteristics in mandatory disclosure compliance."

⁴⁹ Torchia, and Calabrò. "Board of directors and financial transparency and disclosure. Evidence from Italy"; Alnabsha, et.al. "Corporate boards, ownership structures and corporate disclosures: Evidence from a developing country."

⁵⁰ Juhmani, "Corporate governance and the level of Bahraini corporate compliance with IFRS disclosure"; Alnabsha, et.al., "Corporate boards, ownership structures and corporate disclosures: Evidence from a developing country."

⁵¹ Suttipun "The influence of corporate governance, and sufficiency economy philosophy disclosure on corporate financial performance."

⁵² Juhmani, "Corporate governance and the level of Bahraini corporate compliance with IFRS disclosure"; Alnabsha, et.al., "Corporate boards, ownership structures and corporate disclosures: Evidence from a developing country."

⁵³ Alnabsha, et.al., "Corporate boards, ownership structures and corporate disclosures: Evidence from a developing country."

The study uses CEO Duality as a measure of corporate governance as adopted by various scholars.⁵⁴ CEO Duality is operationalized as a dummy variable that equals 1 if the Chief Executive Officer/Managing Director of the bank is also the Chairman of the Board of Directors, and 0 if otherwise.

Board Composition (BCOMP)

The quantity and time at which information is disclosed to stakeholders are influenced by the board of directors.⁵⁵ The composition of the board, usually measured as the proportion of independent or non-executive directors on the board,⁵⁶ therefore influences the level of disclosure and performance to a greater scope. Existence of independent directors is needed to supervise the activities of management to limit managerial opportunism, and ensure proper transparency and higher firm performance.⁵⁷ Prior empirical studies adopted Board Composition as a measure of corporate governance.⁵⁸ The composition of the board is measured in this study as the percentage of non-executive and/or independent directors out of the total number of persons on the board. In other words, board composition is calculated as the proportion of the board size that constitutes non-executive and/or independent directors of the bank.

Timeliness (TIME)

Timeliness is a significant component of financial disclosure as it decides the relevance of information and furthermore impacts the decision-making of the users of the financial report.⁵⁹ In rising economies, like Ghana, the provision of timely information is of more prominent significance.⁶⁰ Timeliness is of much essence to stakeholders because any delay might adversely affect the firm.⁶¹ More timely reporting, i.e., greater timeliness, enhances the credibility of management, attracts more long-term investors, promotes better corporate performance, and helps in the recognition of a company's true underlying value.⁶² The study uses Timeliness as a measure of financial disclosure as adopted by Haat et al., Ojeka et al., and Agyei-Mensah.⁶³ Timeliness is measured by calculating the number of days between the banks' financial year-end, and the date of the independent external auditor's report as provided in the annual reports of the banks.

⁵⁴ Juhmani, "Corporate governance and the level of Bahraini corporate compliance with IFRS disclosure"; Liang, et. al., "Bank diversification, performance, and corporate governance: evidence from China."

⁵⁵ Aboagye-Otchere, et. al., "Corporate governance and disclosure practices of Ghanaian listed companies."

⁵⁶ Alfraih and Almutawa, "Voluntary disclosure and corporate governance."

⁵⁷ Bueno, Marcon, Leonardo Pruner-da-Silva, and Ribeirete, "The role of the board in voluntary disclosure"; Alnabsha, et.al., "Corporate boards, ownership structures and corporate disclosures: Evidence from a developing country."

⁵⁸ Juhmani, "Corporate governance and the level of Bahraini corporate compliance with IFRS disclosure"; Alnabsha, et.al., "Corporate boards, ownership structures and corporate disclosures: Evidence from a developing country."; Suttipun "The influence of corporate governance, and sufficiency economy philosophy disclosure on corporate financial performance."

⁵⁹ Agyei-Mensah, "Impact of corporate governance attributes and financial reporting lag on corporate financial performance."

⁶⁰ Khasharme and Aljifri "The Timeliness of Annual Reports in Bahrain and the United Arab Emirates: An Empirical Comparative Study."

⁶¹ Agyei-Mensah, "Impact of corporate governance attributes and financial reporting lag on corporate financial performance."

⁶² Haat, Rahman and Mahenthiran. "Corporate governance, transparency and performance of Malaysian companies."

⁶³ Haat, Rahman and Mahenthiran. "Corporate governance, transparency and performance of Malaysian companies"; Ojeka et. al., "Does Financial Reporting Disclosures Enhance Firm Financial Performance in the Nigerian Manufacturing Companies?"; Agyei-Mensah, "Impact of corporate governance attributes and financial reporting lag on corporate financial performance."

Bank Size (BNKS)

Firm Size is one of the widely used variables in determining the extent of financial disclosure.⁶⁴ The gathering and disclosing of information may be very costly as it sometimes involves huge financial commitments. Larger firms are therefore able to produce comprehensive and in-depth information, for the purpose of financial disclosure, than firms which are smaller in size.⁶⁵ On the other hand, management of smaller organisations may be of the view that a more detailed disclosure of their operational and financial activities will position them at a competitive disadvantage in relation to the bigger firms within the same industry.⁶⁶ Ojeka et. al., empirically used firm size as a measure of financial disclosure and the study adopts it as such. The size of the firm (bank) is therefore measured by the logarithm of the total value of assets (both non-current and current) of the banks as stated in their financial statements.⁶⁷

Quality of Auditors (AUDQ)

An audit is very important as it can enhance the credibility of financial information.⁶⁸ External Auditors are broadly categorized into two groups: Big four and non-Big-four.⁶⁹ The Big-four comprises Deloitte & Touche, Ernst and Young, KPMG, and PricewaterhouseCoopers. Large auditing firms are less likely to be related to customers that reveal lower levels of information in their yearly reports.⁷⁰ Again, big audit firms can audit more efficiently and effectively and have more flexibility in arranging the audits so they can be finished on schedule.⁷¹ The study uses the Quality of Auditors as a measure of financial disclosure as adopted by Shahwan.⁷² The quality of auditors is also measured as a dummy variable that equals 1 if the bank is audited by the Big 4 auditors, and 0 if otherwise.

Model Specification

The study employed a multiple regression model to investigate the influence of the explanatory variables (corporate governance and financial disclosure) on the explained variable (financial performance). The multiple regression models with a constant (α), parameters (β), and error term (ϵ) were also expressed as follows:

The impact of Corporate Governance, and Financial Disclosure on Financial Performance (Return on Assets)

$$ROA_{it} = \alpha + \beta_1 BDSIZE_{it} + \beta_2 CEOD_{it} + \beta_3 BDCOMP_{it} + \beta_4 TIME_{it} + \beta_5 BNKS_{it} + \beta_6 AUDQ_{it} + \epsilon_{it} \dots \dots \dots (1)$$

The effect of Corporate Governance, and Financial Disclosure on Financial Performance (Return on Equity)

⁶⁴ Amr Ezat, and Ahmed El-Masry. "The impact of corporate governance on the timeliness of corporate internet reporting by Egyptian listed companies." *Managerial Finance*, 34 no.12 (2008): 848-867.

<https://doi.org/10.1108/03074350810915815>

⁶⁵ Tsamenyi, Enninful-Adu, and Onumah. "Disclosure and corporate governance in developing countries: evidence from Ghana."

⁶⁶ Aboagye-Otchere, et. al., "Corporate governance and disclosure practices of Ghanaian listed companies."

⁶⁷ Ojeka et. al., Does Financial Reporting Disclosures Enhance Firm Financial Performance in the Nigerian Manufacturing Companies?"

⁶⁸ Haat, Rahman and Mahenthiran. "Corporate governance, transparency and performance of Malaysian companies."

⁶⁹ Khasharame and Aljifri "The Timeliness of Annual Reports in Bahrain and the United Arab Emirates: An Empirical Comparative Study."

⁷⁰ Alnabsha, et.al., "Corporate boards, ownership structures and corporate disclosures: Evidence from a developing country."

⁷¹ Khasharame and Aljifri "The Timeliness of Annual Reports in Bahrain and the United Arab Emirates: An Empirical Comparative Study."

⁷² Shahwan, "The effects of corporate governance on financial performance and financial distress: evidence from Egypt."

$$ROE_{it} = \alpha + \beta_1BDSIZE_{it} + \beta_2CEOD_{it} + \beta_3BDCOMP_{it} + \beta_4TIME_{it} + \beta_5BNKS_{it} + \beta_6AUDQ_{it} + \epsilon_{it} \dots \dots \dots (2)$$

RESULTS & FINDINGS

Preliminary Tests

This section presents the results of the preliminary tests performed in respect of the data for the study which comprise descriptive statistics and correlation analysis.

Descriptive Statistics

The table below presents the descriptive statistics for each of the variables in terms of the number of observations, mean, standard deviation, and minimum and maximum values.

Variable	Obs	Mean	Std. Dev.	Min	Max
Roa	124	0.0259156	0.0245885	-0.1023151	0.0742315
Roe	124	0.1874515	0.1405487	-0.2735124	0.4998434
Bsize	124	8.782258	1.737021	5	14
Ceod	124	0	0	0	0
Bcomp	124	0.6091572	0.1136616	0.2857143	0.8181818
Time	124	70.95968	23.15813	27	200
Bnks	124	9.266488	0.3938725	8.168998	10.02674
Audq	124	0.9435484	0.231728	0	1

Table 2 - Descriptive Statistics

Observations (Obs): The total number of observations for each of the variables used for the study.

Mean: The average or the midpoint for each of the variables.

Standard Deviation (Std. Dev.): The spread or dispersion of the values of each of the variables from the mean or the average value.

Minimum (Min): The lowest value for each of the variables in respect of their data used for the study.

Maximum (Max): The highest value for each of the variables in respect of their data used for the study.

Correlation Analysis

This preliminary test was performed to measure the strength or the degree of linear association between any two of the variables at a time. For better results, there should be a low correlation (i.e., less than 0.5) among the variables to be used for regression analysis. The results of the pairwise correlation analysis performed on the variables have been presented in the table below.

	Roa	roe	Bsize	Bcomp	Time	bnks	audq
Roa	1						
Roe	0.8577	1					
Bsize	0.1918	0.1954	1				
Bcomp	-0.2773	-0.3504	0.1082	1			
Time	-0.3225	-0.3224	0.0321	0.0522	1		
Bnks	0.3765	0.383	0.3249	-0.1586	0.0723	1	
Audq	0.146	0.1163	0.2328	-0.2404	0.0465	0.1727	1

Table 3- Correlation Results

Results from the sample indicate that, in absolute terms, except for return on assets (roa) which had a high correlation with return on equity (roe), i.e., 0.8577; the correlation among the other variables was generally low as they were all less than 0.5.

Regression Results

Model 1: The impact of Corporate Governance, and Financial Disclosure on Financial Performance (Return on Assets)

Roa	Coef.	St. Err.	t-value	p-value	[95% Conf	Interval]	Sig
Bsize	0.003	0.001	1.97	0.049	0.000	0.005	**
Bcomp	-0.046	0.018	-2.63	0.009	-0.081	-0.012	***
Time	0.000	0.000	-3.78	0.000	0.000	0.000	***
Bnks	0.007	0.005	1.42	0.157	-0.003	0.017	
Audq	0.027	0.011	2.55	0.011	0.006	0.048	**
Constant	-0.038	0.045	-0.86	0.388	-0.126	0.049	

*** $p < 0.01$, ** $p < 0.05$, * $p < 0.1$

Table 4 - Regression Results Table (Model 1)

Board size (bsize) was positively and statistically significant (at 5%) with return on assets. An increase by one person with respect to the number of persons constituting the board will lead to a 0.3% increase in return on assets. Bcomp, was also statistically significant (at 1%) but negatively related with roa. This means, 1% increase in the number of non-executive or independent directors on the board will lead to a 4% decrease in return on assets.

With respect to the financial disclosure variables, timeliness (time) was statistically significant and positively related to roa. An increase in the number of days (by one day) used by external auditors to sign the independent auditors' report will lead to approximately no significant effect on the return on assets. Bank size (bnks) was however statistically insignificant with return on assets. Lastly, the quality of auditors (audq) was statistically significant (at 5%) and had a positive relationship with return on assets. This means that, as banks are being audited by the big-4 auditors, it leads to a 2% increase in the return on assets by the banks.

Model 2: The effect of Corporate Governance, and Financial Disclosure on Financial Performance (Return on Equity)

Roe	Coef.	St. Err.	t-value	p-value	[95% Conf	Interval]	Sig
Bsize	0.014	0.007	1.91	0.056	0.000	0.028	*
Bcomp	-0.377	0.099	-3.80	0.000	-0.572	-0.183	***
Time	-0.002	0.000	-4.16	0.000	-0.003	-0.001	***
Bnks	0.080	0.029	2.75	0.006	0.023	0.138	***
Audq	0.058	0.052	1.11	0.267	-0.044	0.160	
Constant	-0.365	0.264	-1.38	0.167	-0.881	0.152	

*** $p < 0.01$, ** $p < 0.05$, * $p < 0.1$

Table 5 - Regression Results Table (Model 2)

Board size (bsize) was positively and statistically significant (at 10%) with return on equity. This means an increase by one person in the number of persons forming the board of directors will lead to a 1.4% increase in return on equity. Bcomp, was also statistically significant (at 1%) but negatively related to roe. This means, 1% increase in the number of non-executive or independent directors on the board will lead to a 37.7% decrease in return on equity.

Moreover, with respect to the financial disclosure variables, timeliness (time) was statistically significant (at 1%) and negatively related to roe; suggesting that, an increase in the number of days (by one day) used by external auditors to sign the independent auditors' report will lead to a 0.2% decrease in return on equity. Bank size (bnks) was also statistically significant and positively related to return on equity; suggesting that a 1% increase in the size of the bank will lead to a 0.08% increase in return on equity. However, the quality of auditors (audq) was statistically insignificant with return on equity.

Summary of Findings

First, on the effect of corporate governance and financial disclosure on Return on Assets (as a measure of financial performance), board size, board composition, timeliness, and quality of auditors had a significant association with return on assets (ROA). Board size was positively related to financial performance, and this may be due to the benefits gained from different expertise and skills brought on board in terms of decision making as the size of the board increases. Board composition, however, had a negative relationship with financial performance. On the other hand, timeliness had a significant relationship with financial performance. Bank size had no significant relationship with return on assets. Lastly, the quality of auditors had a positive relationship with financial performance (return on assets). This finding is consistent with Yang and Chen who revealed a positive relationship between audit service quality and the performance of the accounting firms.⁷³ This may be due to the size, resources (both human and capital), and expertise available to these audit firms.

Furthermore, with the effect of corporate governance and financial disclosure on Return on Equity (also as a measure of financial performance), board size, board composition, timeliness, and bank size had a significant relationship with ROE. Board size was positively related to financial performance (ROE). Board composition had a negative relationship with return on equity. Additionally, timeliness had a significant (and negative) relationship with financial performance. This finding is consistent with the findings of the empirical studies of Ojeka et al., and Agyei-Mensah, where they both found a negative relationship between timeliness and the financial performance of firms.⁷⁴ Bank size had a positive significant relationship with return on equity. This result is consistent with the findings of other researchers who all found a positive and significant relationship between firm size and financial performance.⁷⁵ Quality of auditors (audq) had no significant relationship with financial performance (return on equity).

⁷³ Yi-Fang Yang, and Yahn-Shir Chen. "Quality moderates market competition: evidence of Taiwanese service industry." *International Journal of Quality & Reliability Management*, 33 no.9 (2016): 1332-1345.

<http://dx.doi.org/10.1108/IJQRM-08-2013-0133>

⁷⁴ Ojeka et. al., "Does Financial Reporting Disclosures Enhance Firm Financial Performance in the Nigerian Manufacturing Companies?" ; Agyei-Mensah, "Impact of corporate governance attributes and financial reporting lag on corporate financial performance."

⁷⁵ Jim Lee, "Does Size Matter in Firm Performance? Evidence from US Public Firms." *International Journal of the Economics of Business*, 16 no.2 (2009): 189-203. <https://doi.org/10.1080/13571510902917400> ; Paola Brighi, and Valeria Venturelli. "How do income diversification, firm size and capital ratio affect performance? Evidence for bank holding companies." *Applied Financial Economics*, 24 no.21 (2014): 1375-1392.

<https://doi.org/10.1080/09603107.2014.925064> ; Chinedu-Francis Egbunike, and Chinedu Uchenna Okerekeoti. "Macroeconomic factors, firm characteristics and financial performance, A study of selected quoted manufacturing firms in Nigeria." *Asian Journal of Accounting Research*, 3 no.2 (2018): 142-168. <https://doi.org/10.1108/AJAR-09-2018-0029>; Foo-Nin Ho, Hui-Ming Deanna Wang, Nga Ho-Dac, and Scott J. Vitell. "Nature and relationship between corporate social performance and firm size: a cross-national study." *Social Responsibility Journal*, 15 no.2 (2019): 258-274. <http://dx.doi.org/10.1108/SRJ-02-2017-0025>

RECOMMENDATIONS

Based on the findings of the study, the study recommends the following. Large board size is essential for the banks as it would lead to a positive effect on their return on assets and return on equity. External auditors should as much as possible complete their audit work on time to reduce the number of days, as delays may have adverse effects on the banks' financial performance. The banks should have their financial statements audited by the Big-4 audit firms.

The data for this study was obtained from commercial banks operating in Ghana only and so, the findings may not be appropriate for use by other countries. It is important that the scope of the data collection be expanded to other commercial banks in other African countries, or other financial institutions in Ghana, as this would help minimize the 'sample biases' and also result in more appropriate findings.

CONCLUSION

The study investigated the effect of corporate governance, and financial disclosure on the financial performance of banks in Ghana. It was found from the study that the size of the board is an important factor in enhancing the financial performance of the banks. CEO duality, on the other hand, has no impact on the financial performance of the banks. An increase in the number of non-executive directors out of the total number of people forming the board does not have a positive impact on the financial performance of the banks. Moreover, as the number of days between the banks' year-end and the date of the external auditors' report lengthens, it adversely affects the financial performance of the banks. Furthermore, the size of the banks positively impacts their financial performance in terms of the returns on their equity and not their ability to utilize their assets to generate profits. Lastly, when the banks are being audited by any of the Big-4 audit firms, it positively influences their financial performance in terms of their return on assets. However, their financial performance in terms of their ROE is not influenced by the fact that they would have their financial statements to be audited by the Big-4 auditors or otherwise.

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