Ownership Structure, Corporate Governance, and Firm Value: Evidence from Ghana

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Abstract— We use a sample of 100 firms in Ghana to study the effect of ownership structure on value during the region's financial crisis. The crisis negatively impacted firms' investment opportunities, raising the incentives of controlling shareholders to expropriate minority investors. Crisis period stock returns of firms in which managers have high levels of control rights, but have separated their control and cash flow ownership, are 10-20 percentage points lower than those of other firms. The evidence is consistent with the view that ownership structure plays an important role in determining whether insiders expropriate minority shareholders.

Keywords—Ownership structure, financial crisis

I. INTRODUCTION

Conflicts of interest between in-house (shareholders and control executives) and external investors are at the heart of the analysis of modern society in which the informants have property unrelated to the company [2] and [14]. These analyses suggest that the ownership structure of the company is a critical factor in the extent of agency issues between internal control and external investors, which has important implications for the company's valuation. Those who regulate the assets of the company may sell external investors by diverting resources for personal use or investing in charitable projects that bring private benefits. By providing private-sector resources, regulators have the ability to increase their current assets or current consumption without incurring the full cost of their activities. Or invest in-house resources in positive NPV projects to increase your future commercial cash flow

In general, incentives to internal control are declining to reallocate resources from feasible investment projects to internal cash flows and a return on investment. Although there is ample empirical evidence of the relationship between ownership structure and the value of society [24],[26] and [30] by examples, it has nevertheless been difficult to conduct irrefutable tests of this hypothesis.

The solution of serious problems was a serious problem, as ownership structure, investment opportunities and enterprise value could be jointly determined (eg [8], [18]) Many of the references to the relationship between the structure and value of the company's property are also problematic and could be tackled in a global context. Potential problems of such serious agencies [30],[31], and not as an independent document. Please do not revise any of the current designations.

II. LITERATURE REVIEW

Operational risk has been identified as a different risk category from market and credit risk by Basel II since 2001 [5]. Though Basel Committee on Banking Supervision has

come out with good approaches for the measurement of operational risk, their level of sophistication differs from bank-to-bank. This could be attributed to the fact that operational risk is considered the most complicated risk type in relation to risk identification, quantification and mitigation. Operational risk is uniquely dynamic and is influenced by many events like international business processes, regulatory landscape, customer preference, business growth and other external factors. The concept of risk management has never assumed a simple function for banks and those who fail to handle it well always have huge prices to pay. Currently, the awareness and reliance on regulatory compliance and risk management have become deeper, the neglect of which shall have a significant impact on the bank's ability to thrive competitively [18]. The risk function has taken a different turn from a number crunching function to a dynamic business enabler, with risks emanating from complex products, multiple channels, diverse workforce, diversified operations and regulatory compliance at both international and regional levels. This therefore calls for the need to place emphasis on proactive risk management rather than event-based response. The open truth is that banks consider risk management as their natural business, as such a comparative view of the operational risk management system between banks and the other economic sectors attests that the banks have more developed and refined risk management systems. There are several ways to effectively handle risk management, however many banks are still struggling when it comes to the handling of operational risk as a result of lack of resource, carelessness, over confidence, negligence or greed. Despite the unpredictable nature of some operational risk events, it could be overcome or limited through risk awareness, training and implementation of the right management system. The regulators of financial organizations such as banks have shown a greater concern and are pushing for a deeper level of insight and awareness by managers concerning risk management and the effectiveness of other control measures. In addition, compliance regulations like Basel II and SOX offer requirements to contain operational risk, mandating financial organization to identify, measure, evaluate and control such risk [1]. This has by far promoted an increased awareness for the valuing sound operational risk practices for internal capital assessment and allocation. To this it is undoubtedly clear that operational risk control is a prime concern and seen as a good management tool which updates itself with fearless procedures of cautiousness and regular improvements. One fact about operational risk is that it has the ability to influence credit ratings, share prices and the reputation of the organization. This makes it possible for analyst to factor it into the assessment of management, their technique and the overall execution of business. The past decade has witnessed more cases of financial scandal, fraud, and information technology failure and system

disappointments [2]. It is possible that the era of greater dependence on technology, increasing level of competition and the fast pace of globalization have contributed to the reasons why the financial world is more exposed to operational risk. It therefore come as a right step when the Basel Committee on Banking Supervision handles operational risk as major principles for effective banking supervision by mandating supervisors to take on the verification of the risk management measures of banks to overcome operational risk.

Activities to be performed by people have inherent risk in them, and the more complex the activity looks the higher the risk involved. Internally, it is common to have cases of incorrect processing, wrong input of data into the system, omissions and other clerical mistakes and errors especially when staff members are inexperience, under pressure or working under stress condition. Aside those staff members who with a wrong intent to defraud or cause injury to the organization, most of the situations like errors, mistakes and other omissions and wrong inputs are not committed with the intent for personal gains [5]. In an instances where investigation prove that too many operational risk event occurred by employees were as a result of mistakes and errors but nothing like a deliberate action to wound the organization or a third party, it an indication that the employees need more training programs to upgrade their skills to better handle professional duties devoid of negligence. However, in a situation where investigation establish evidence that the employees had ill motive in the operational risk event caused, legal and punitive measures should serve as corrective steps to discourage the perpetrator and others from engaging in such vice in the future. The difficult challenge to deal with is how to convincingly determine whether action of employees was a fraud or a mistake as most of people risk could be a little complicated. Employees must also be given fair treatment so far as the labour laws and contracts are concerned, especially those relating to staff annual leave. This become very important as too much stress could result in too many errors and mistakes while on the job [3]. Another management strategy that could curb error and mistakes is the strategy of matching the skills of the employees to the right job description. The naked fact is that people with the right skills for the right job may be more competent and may not waste time on delivery.

III. SAMPLE SELECTION AND DATA SUMMARY

We are starting to collect World Bank financial data for all banks in Ghana. The banks, which then covered World Bank data, account for about 90 percent of the total number of banks in Ghana. We conclude with banks primarily engaged in financial services (standard classification codes SIC 6000-6999) and banks that are not publicly traded. This leads to the first sample of 100 banks. Then we compared this first example of bank and real estate data from [22], which uses various country analysts and manuals to determine the final cross-industry ownership of emerging market companies. Our measure of the level of discretionary ownership and management control is known as the "leverage of cash flow rights" and the relationship between control rights of the control group and their cash flow rights. The cash holdings of the administration must be lower than the control rights if indirect benefits are used lower than the total ownership or the higher voting shares in the ownership structure of the company. Despite its spread in other emerging markets [4].

IV. OWNERSHIP STRUCTURE, GOVERNANCE, AND FIRM VALUE

The control rights and cash flows of the management group include the direct and indirect participation of the company's executives and their family members and will be measured over the 2016-2017 period. The management group of Firm A is deemed to have indirect control via Firm B (or Nominee Account B) if one or more managers of Firm A (or their families) has an equity block holding in Firm B or is a top manager of Firm B. For some sample firms, it is not possible to observe the ultimate cash flow ownership of all of the firm's direct block holders, particularly when these block holders are private companies or nominee accounts. We require that the ultimate cash flow rights of at least 90 percent of a firm's blockholdings be observable in order for the firm to remain in the sample.

To control for other factors that might affect stock returns, we use a regression framework with several control variables that are plausibly related to differences in risk across firms. Firm size, measured as the market value of equity in U.S dollars using the prevailing exchange rate, leverage, measured as the ratio of total liabilities to total assets, and the book-to-market ratio, measured as the book value of equity divided by the market value of equity are obtained from Worldscope.

V. EMPIRICAL ANALYSIS

Our main hypothesis was that everything else was fine, companies with high control rights, but with limited financial rights, which show the most significant deterioration of the company during the year. The crisis. To support this assumption, Table I provides an unbiased comparison of the market results accumulated during the crisis for the high cash flow activity in the sample and the capital segment. Examples based on the control of administrative rights. / Family group. First, we divided companies into two groups, depending on whether the leverage effect of cash flow rights is greater than unity. Panel A of the table compares the summary statistics of these two groups of companies. The average return on the stock market accumulated for highly leveraged liquidity companies during the crisis was -56.2% compared to -46.5% for the low-leverage liquidity companies. (p value = 0.00). The table also showed that the leverage effect on cash flow rights is in line with the level of control rights. The group of free cash flows had an average of 43% in executive control rights and the average leverage of cash flow rights was 5.19. The corresponding values for the companies in the financial leverage group were low in terms of distribution rights, respectively, of 19% and 1.0. Finally, the companies in both groups had the same average size, but the companies in the high cash flow group had a slightly lower debt / capital ratio. The last result suggests that the risk differences derived from the differences in leverage probably do not explain our results. In general, objective evidence is in line with our main provision, since we found that companies with a significant leverage effect on cash flow rights were significantly worse during the stress period than companies with low leverage on rights cash flow.

A. Summary Statistics

The table reports mean values for summary statistics. The cash flow rights leverage dummy is equal to 1 if the firm has greater than 1 and 0 if it equals to 0.

Table 1 Summary statistics

Panel A: Full Sample			
	Cash Flow Rights Leverage	Cash Flow Rights Leverage	Difference (p-value)
	Dummy=1 (N=223)	Dummy=0 (N=577)	
Cumulative stock returns during crisis	-0.562	-0.465	-0.098 (0.000)
Management group control rights ownership percentage	43	19	23 (0.000)
Management group cash flow rights leverage	5.19	1	4.20 (0.000)
Market value of equity (GHC millions)	653	684	-30 (0.86)
Total liabilities to total assets ratio	0.51	0.55	-0.05 (0.04)
Beta	0.83	0.84	-0.01 (0.85)
Book-to market ratio	0.77	0.96	-0.20 (0.000)

Panel B of Table 1 presented results for subsamples based on our measures of the overall level of control rights held by the management group. Consistent with our hypothesis, the first two rows of the table showed that the negative effect on valuation of the separation of control rights from cash flow rights is present only in those firms with above-median management control rights ownership. Within the high management control rights subsample, firms for which the management group employs cash flow rights leverage to obtain its control have average cumulative stock returns that are 17.9 percentage points lower (p-value = 0.00) than those of firms with high management control in which managers hold only direct equity stakes. In contrast, the second row in

Panel B: Subsamples Based on management Group control rights

	Cash Flow Rights Leverage Dummy=1		Cash Flow Rights Leverage Dummy=0		Difference (p-value)
	N	Mean	N	Mean	Mean
Cumulative Stock returns during crisis					
High management group control dummy=1	181	-0.589	220	-0.410	-0.176 (0.000)
High management group control dummy=0	45	-0.450	350	-0.399	0.049 (0.50)
Management group is largest BH dummy= 1	210	-0.567	325	-0.444	-0.123 (0.000)
Management group is largest BH dummy= 0	11	-0.459	250	-0.435	-0.030 (0.70)

Panel B shows that cash flow rights leverage differences do not affect crisis-period stock returns when the management group has relatively low control rights. It is interesting to note that there are only 43 firms in which the management group has below-median control rights and uses cash flow rights leverage to obtain these control rights.

In the subsample of companies in which the management group is the primary owner of the block, the companies in which the management group uses the leverage effect of the cash flow rights to acquire its own control have an accumulated average share of 12.2 percentage points. lower (value p = 0.00) than that of a company without cash flow rights. The last series of Part C shows that the use of cash flow rights leverage does not affect the stock price during the crisis when the owner of an external block in the ownership structure of a company is bigger. A situation in which management may not have effective control over the business. However, 10 companies in the sample have proprietary structures to use cash flow rights only if the management group is not the primary owner of the control block.

B. Multivariate Analysis of Ownership Structure and firm value during the crisis

To measure the impact of real estate structures on appraisals in times of crisis, we use a single indicator

variable for companies with financial leverage in the unit and dummy variables that are the same if average managers (or boss) have the right to control the most important clipboard. To test whether their own structures with a high degree of control by managers who do not have many cash flow rights have an incremental effect on stock performance during the crisis, we interact with the Stock Variable. an indicator of the leverage in variable cash flow rights that measures the degree of management control (Table 2).

Table 2 Multivariate Analysis of Ownership Structure and firm value during the crisis

	Full sample	High Mgmt. control=1	High Mgmt. control=0	Mgmt Largest BH=1	Mgmt Largest BH=0	Full Sample
Independent Variables	(1)	(2)	(3)	(4)	(5)	(6)
Cash flow rights leverage dummy	-0.116 (0.000)	-0.201 (0.00)	-0.025 (0.70)	-0.145 (0.00)	0.016 (0.90)	-0.008 (0.89)
High mgmt. group control dummy						0.103 (0.03)
High mgmt. control *CF leverage dummy					-0.192 (0.02)	
Mgmt largest BH dummy						

The results of our waste are listed in the table above. In a model (1), we only cover the indicator of greater leverage of cash flows per unit as a measure of ownership structure. The variable coefficient estimate is the indicator of financial debt - 0.116 ($p = 0.00$). The equivalent estimate shows that the results of liquidity market exchanges fell by almost 12 percentage points during the crisis compared to companies with no financial impact. The Rule of Law variable is also positive and significant (p -value = 0.00), indicating that companies located in countries with higher legal protection were better than those located in countries where the legal protection of shareholders' minority was weak. This result is in agreement with Johnson et al. (2000a), which believes that the overall performance of stock markets during the crisis is positively correlated with measures to strengthen the legal institutions of countries. This is also consistent with LLSV's (2002) finding that the value of society (measured by Tobin's Q) is positively related to the legal protection of a country. Firm size and beta coefficients are negative but not significant for the controlled variables.⁹ According to

Allayannis, Brown and Klapper (2002), the leverage ratio is also negative and statistically significant ($p = 0.00$), while the relationship between book value and market orders is positive and statistically significant ($p = 0.05$).

Finally, according to our hypothesis, the results suggest that inventory returns are lower during the crisis, because managers hire property structures that give them great control over society and reduce flow rights. money related to their control rights. Furthermore, we see that stock returns are higher when the management group has a significant share of the company's cash flows. These results complement those using static analysis to discover that the Tobin Q values in West African societies have a positive correlation with the property of cash flow and a negative correlation with separation and ownership control. Our results support the view that the rights of separation and control of cash flow are a determining factor for domestic incentives for the eviction of minority shareholders.

VI. CONCLUSION

Based on data from 100 companies in Ghana, we have found evidence that matches this vision. The cumulative revenues are the shares of companies in which managers and their family members have control rights and cash flows separated by patented pyramid structures, which are 12 percentage points lower during the crisis than other companies. In addition, we see that low ROI associated with pyramid ownership structures exists only in companies where the management group has a high degree of control. The poor performance of these companies increases by about 20 percentage points. Finally, we do not see indications for the period when companies with a separation between cash flow management rights and control rights are subject to performance changes compared to companies without such separation. Indirectly, the evidence is consistent with the fact that the ownership structure of the company plays an important role in determining the incentive to sell minority shareholders in times when investment opportunities have decreased. Our findings go into the specialty literature, exploring the relationship between ownership structure and business performance and involving decision makers in the ongoing debate about the role and appropriate design of governance and legal institutional issues in developing countries.

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