



ELSEVIER

Contents lists available at ScienceDirect

Journal of Economics and Business



# Corporate governance and company performance across Sub-Saharan African countries



Gibson Munisi\*, Trond Randøy

Faculty of Economics and Social Sciences, University of Agder, Postbox 422, 4604 Kristiansand, Norway

## ARTICLE INFO

### Article history:

Received 13 February 2012

Received in revised form 22 August 2013

Accepted 27 August 2013

### JEL classification:

G32

G34

L22

L25

P21

### Keywords:

Corporate governance index

Company performance

Sub-Saharan Africa

## ABSTRACT

This paper examines the extent to which publicly listed companies across Sub-Saharan African countries have adopted “good corporate governance” practices. We investigate the association of these practices with companies’ accounting performance and market valuation. The findings indicate that companies across Sub-Saharan Africa have only partly implemented good corporate governance practices. We find a positive association between our constructed index of good corporate governance practices and accounting performance. However, we find a negative association between the corporate governance index and the market valuation. When the sub-indices are considered, we find that only the board of directors and the audit committee sub-indices are associated positively and significantly with accounting performance. However, we find that only the audit committee sub-index is associated negatively and significantly with market valuation.

© 2013 Elsevier Inc. All rights reserved.

## 1. Introduction

There is a common perception in the corporate world that the adoption of “good corporate governance” practices enhances company performance (Economist, 2010) and some research supports

*Abbreviations:* OLS, ordinary least squares; GMM, generalized method of moments; IFRS, International Financial Reporting Standards; ROA, return on assets.

\* Corresponding author. Tel.: +47 403 04 276; fax: +47 38 14 10 61.

E-mail addresses: [gibson.h.munisi@uia.no](mailto:gibson.h.munisi@uia.no), [demunisi@yahoo.co.uk](mailto:demunisi@yahoo.co.uk) (G. Munisi), [Trond.Randoy@uia.no](mailto:Trond.Randoy@uia.no) (T. Randøy).

0148-6195/\$ – see front matter © 2013 Elsevier Inc. All rights reserved.

<http://dx.doi.org/10.1016/j.jeconbus.2013.08.003>

the existence of such an effect in emerging markets (Klapper & Love, 2004). Based on this perception and/or the pressure to adopt such practices, sometimes formalized in terms of corporate governance codes, a growing number of companies in developing countries are implementing “good corporate governance” practices (Garay & González, 2008).

Historically, the recommended corporate governance practices or codes<sup>1</sup> were designed in developed countries. In order to attract capital from developed countries, companies from the developing world find it advantageous to mimic their corporate governance practices (Reed, 2002). However, the characteristics of developing countries, such as underdeveloped capital markets and weak legal systems, make their corporate environment fundamentally different from that in developed countries (Rabelo & Vasconcelos, 2002). This raises the following question: To what extent are the corporate governance practices that are advocated in developed countries applicable in developing countries? We address this issue by conducting company-level research on listed companies in Sub-Saharan African countries. In particular, we examine the association between corporate governance practices and company performance.

The motivation for studying company-level corporate governance in developing countries, such as those in Sub-Saharan Africa, is the assumed importance of good corporate governance for country-level economic development (Claessens, 2006). Our research is also motivated by the economic reforms undertaken by many Sub-Saharan African countries in order to attract foreign investment and mobilize domestic savings and investment, as these reforms have directly or indirectly attempted to improve corporate governance practices, which in turn can positively affect company performance. Furthermore, there is so far only a limited amount of empirical research on corporate governance practices across Sub-Saharan African companies (such as Nganga, Jain, & Artivor, 2003). The few existing studies that examine the link between corporate governance and company performance in Sub-Saharan African countries are single-country studies, limiting the generalizability of the findings. In this study, we utilize data from multiple countries to examine the association between corporate governance and company performance. To address this research issue, firstly, we identify the extent to which established norms of good corporate governance practices are used by companies listed on stock markets across Sub-Saharan African countries; secondly, we test the hypothesis that there is a positive association between good corporate governance practices and company performance.

Due to the lack of a reliable secondary data source, we utilize hand-collected data from the annual reports of the companies. We use the dynamic GMM to examine the association between corporate governance and company performance. We measure company performance by two alternative measures, namely accounting performance (ROA) and relative market valuation (Tobin's Q).

We find a positive association between corporate governance index and company accounting performance but a negative association between the corporate governance index and market valuation. Furthermore, we examine the association between various sub-indices of corporate governance and company performance. Of the five sub-indices we construct in this paper, we find that only the board of directors and audit committee indices are positively and significantly associated to the accounting performance. However, we find that the audit committee sub-index is associated negatively and significantly to the market valuation. This suggests that some features of the corporate governance index are more important than others in explaining the association between corporate governance and company performance in Sub-Saharan Africa. The findings of negative association between governance index and market valuation are contrary to the expectation. This calls for further investigation, however this is beyond the scope of this paper.

The paper proceeds as follows. Section 2 examines prior corporate governance research and its relevance to Sub-Saharan African countries. Section 3 defines our corporate governance index scores. Section 4 describes the different variables we use in the regression analysis. Section 5 describes the data and methodology, and the results are given in Section 6 and Section 7 concludes.

---

<sup>1</sup> These codes are considered to be formalized good corporate governance practices.

متن کامل مقاله

دریافت فوری ←

**ISI**Articles

مرجع مقالات تخصصی ایران

- ✓ امکان دانلود نسخه تمام متن مقالات انگلیسی
- ✓ امکان دانلود نسخه ترجمه شده مقالات
- ✓ پذیرش سفارش ترجمه تخصصی
- ✓ امکان جستجو در آرشیو جامعی از صدها موضوع و هزاران مقاله
- ✓ امکان دانلود رایگان ۲ صفحه اول هر مقاله
- ✓ امکان پرداخت اینترنتی با کلیه کارت های عضو شتاب
- ✓ دانلود فوری مقاله پس از پرداخت آنلاین
- ✓ پشتیبانی کامل خرید با بهره مندی از سیستم هوشمند رهگیری سفارشات